Annual Report 2003

- Highest operating result (EBIT) in company history
- Combined ratio in property and casualty reinsurance 96.0%
- Investment volume +15.4%
- Return on investments > 5%
- Policyholders' surplus EUR 3.7 billion
- Return on equity 17.1%
- Further double-digit percentage increase in the dividend
- Free float almost doubled: 48.8%

hannover re®

Financial calendar 2004

29 March 2004	**Annual Results Press Conference**
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** Beginning 10.30 a.m. Hannover Congress Centrum Theodor-Heuss-Platz 1–3 30175 Hannover, Germany
12 August 2004	**Interim Report 2/2004**
11 November 2004	**Interim Report 3/2004**

CONTENTS

KEY FIGURES
of the Hannover Re Group

Figures in EUR million	2003	+/- Previous year	2002	2001	2000	1999
Gross written premiums	11 342.9	(9.0%)	12 463.2	11 507.5	8 320.5	6 706.3
Net premiums earned	8 155.6	+6.1%	7 688.2	6 496.1	5 210.2	4 179.9
Net underwriting result	(234.6)	(24.6%)	(311.1)	(878.2)	(449.2)	(394.7)
Net investment income	1 071.5	+15.4%	928.4	945.7	868.7	828.2
Operating profit (EBIT)	732.1	+55.5%	470.9	109.2	342.5	358.2
Net income (after tax)	354.8	+32.8%	267.2	11.1	364.9	201.6
Policyholders' surplus	3 680.4	+24.4%	2 958.5	2 896.5	2 400.2	2 045.1
Total stockholders' equity	2 404.7	+38.2%	1 739.5	1 672.0	1 573.4	1 235.7
Minority interests	491.8	+22.8%	400.4	307.8	294.1	294.8
Hybrid capital	783.9	(4.2%)	818.6	916.7	532.7	514.6
Investments (incl. funds held by ceding companies)	22 031.1	+8.5%	20 305.8	19 278.0	14 196.2	12 810.7
Total assets	32 974.7	(1.8%)	33 579.0	32 647.6	23 497.6	19 354.8
Value of in-force business (life/health)	1 361.1	+12.9%	1 206.0	1 048.0	874.0	609.0
Earnings per share (diluted) in EUR	3.24	+17.8%	2.75	0.11	4.13	2.29
Bookvalue per share in EUR	19.94	+11.4%	17.90	17.21	17.76	13.95
Dividend	114.6	+38.7%	82.6	–	100.0	71.5
Dividend per share in EUR	0.95	+11.8%	0.85	–	1.21 *	0.97
Retention	71.9%		65.3%	61.7%	63.7%	62.0%
Combined ratio (property and casualty reinsurance)	96.0%		96.3%	116.5%	107.8%	111.1%
Return on investment	5.1%		4.7%	5.7%	6.4%	6.9%
Net return on premium **	9.0%		6.1%	1.7%	6.6%	8.6%
Return on equity (after tax)	17.1%		15.7%	0.7%	26.0%	17.1%

Incl. bonus of EUR 0.08
** *Operating profit (EBIT)/net premiums earned*

On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.

Dear shareholders,
Ladies and Gentlemen,

It is my pleasant duty to report that your company has enjoyed another highly successful year. Following on from 2001, the most difficult year in our company's history, and the marked recovery already witnessed in the previous year, we succeeded in generating a new record result in 2003: despite a capital market climate that – while certainly less depressed than the year before – was by no means favourable, we achieved a hitherto unparalleled operating profit (EBIT). Even the protracted weakness of the US dollar, the currency in which roughly two-thirds of our gross premium income is booked, did not have a significantly detrimental impact on our result.

Our company recorded further improvements in rates and conditions for *property and casualty reinsurance*. In this highly positive environment, we achieved an excellent result and continued to optimise our market position. Most notably, we wrote more long-tail business since it was here that we observed the sharpest improvements in rates and conditions. In aviation reinsurance, on the other hand, we selectively scaled back our acceptances in response to declining prices in some areas. Independently of our normal cycle management, we used this "hard market" as an opportunity to screen our portfolio in light of long-term profitability considerations and reduce specific acceptances. We have christened this profitability initiative "More from less". As a further factor, effective 1 January 2003 we no longer accept the entire reinsurance volume of our HDI affiliates, but rather only the portion that we carry in our retention.

We were also highly satisfied with the development of *life and health reinsurance* in the year under review. Overall, following the expansionary phase of recent years, we consolidated our market position in this business group – in which we now rank among the three largest providers in the world. In major markets such as Germany we succeeded in establishing attractive new customer relationships. We showed a slight increase in our premium volume (adjusted for movements in exchange rates) and were able to increase the year-end result by more than half.

Growth in *financial reinsurance* far outstripped our expectations. Gross and net premiums climbed markedly, and we more than tripled the operating profit (EBIT) year-on-year as clients increasingly required tailored products in the hard market climate. An additional, non-recurring effect was the initial consolidation of Hannover Reinsurance (Dublin) Ltd. – formerly HDI Reinsurance (Ireland) Ltd. – which we received as a contribution in kind from our majority shareholder, Talanx AG, as part of our capital increase in June of the year under review. To sum things up, I believe that in this business group, too, we can be highly satisfied with the result.

Program business, the fourth pillar of our Group, made again a decisive contribution to the result in the year under review. Our new underwriting-oriented approach with its intensive focus on the quality of the business written is now making itself felt here – namely by scrutinising the gross profitability of individual programs with an eye to sustainability and basing the level of retained premiums on the quality of the business. This led to a further marked increase in the retention. Profitability, however, fell slightly short of the previous year due to a non-recurring special effect. Following the successful restructuring measures of recent years we are now firmly on the right track in program business, and in the future we shall therefore be able to translate our market leadership into commensurate profitability.

After equity markets had descended to new record lows in March, the mood on *financial markets* brightened appreciably as the year progressed. As anticipated, we were of course once again not entirely spared write-downs on our investment portfolio in the year under review. These write-downs were, however, markedly lower than in the previous year. The sharply higher prices recorded on stock markets from April onwards generated further book profits on our equity investments as at year-end. Returns on fixed-income securities, which account for the bulk of our asset portfolio, fell appreciably year-on-year, thereby limiting ordinary income from the (re)investment of funds. Our total asset volume, on the other hand, grew very strongly due to the favourable market climate in reinsurance business, and overall we were therefore able to generate significantly improved net investment income compared to the previous year.

The protracted weakness of the US dollar left its mark not only on premiums and losses in our four business groups but also on investment income. The US currency shed a full 21.1% of its value against our balance sheet currency, the euro, in the course of 2003. Up to two-thirds of our gross premium volume and investment income are generated in US dollars. Although favourable despite the adverse currency effects, both these key figures would thus have been even more impressive if exchange rates had remained stable. However, since it has long been our practice to match liabilities in foreign currencies with assets in the same currencies, the impact of exchange rate movements on our year-end result was not severe.

The *Hannover Re* share again increased sharply in value in the year under review, gaining around 14% over the course of the year. The bulk of the price increase was recorded towards the end of the year under review as we twice revised our profit forecast upwards and published very strong figures for the first nine months. We also have no reason to shun comparisons with our competitors. Adjusted for exchange-rate effects, we again outperformed our benchmark index, the unweighted "Reactions" World Reinsurance Index, in the year under review. All listed reinsurers worldwide are included in this index.

All in all, then, we are in every respect highly satisfied with the year under review. We can also look to the current year with considerable confidence. During the renewals in property and casualty reinsurance as at 1 January – the date when we normally write around two-thirds of our business – it became apparent that, on balance, further slight improvements in rates and conditions could be obtained. The so-called hard market is thus by no means a thing of the past. In the few lines of property/casualty reinsurance where prices have already begun to fall, we reviewed our acceptances and as part of our systematic cycle management we selectively scaled back our premium volume and moved capital into other lines. Overall, we again anticipate a profitability in virtually all segments of property and casualty reinsurance that is good if not very good. It is our assumption that this will be sustained in further renewal negotiations as the year progresses.

We also look to the *development of our investments* with confidence in 2004. With a positive underwriting cash flow, our asset portfolios are expected to show further sizeable growth in the course of the year. Assuming normal movements on the financial markets, our net investment income should therefore improve in the year under review. This is, however, conditional upon there being no need to take significant write-downs on our securities portfolio in 2004. In this respect, the universally anticipated interest rate increase on global bond markets will have to be monitored very closely.

Overall, in the current year we again expect to surpass the very good result of the year under review. This should be made possible by another strongly favourable underwriting result in all business groups as well as higher net investment income. This forecast assumes, of course, that major losses in property and casualty reinsurance remain in line with the multi-year average and that the capital market is spared any erratic fluctuations.

It remains our conviction that our long-term success and economic independence are founded upon above-average, sustained profitability. Our actions in the current financial year will therefore be guided solely by these tried and trusted maxims, not only as regards the underwriting of risks in the various business groups and lines but also in the diversification of our business and in our capital management. In the year under review, as we had done in previous years, we also adjusted our equity base with an eye to commercial necessities: we increased our stockholders' equity through a capital increase of EUR 530 million – with minimal dilution for existing shareholders. As an additional measure, we issued further subordinated debt in the amount of EUR 750 million in February 2004. Just as important, however, was the fact that in the troubled years of 2001 and 2002 we did not suffer any erosion of our stockholders' equity. Our efficient capital management is reflected in very good ratings from the key rating agencies for our industry – namely "AA-" from Standard & Poor's and

"A" from A.M. Best. These ratings are well above the market average. We thus have access to all segments of the worldwide reinsurance market and are in a position to optimally diversify our portfolio and manage it with an eye to profit maximisation.

I would like to join my colleagues on the Executive Board of Hannover Re in thanking you most sincerely for your loyalty and your trust. As has always been and will remain our common goal, we shall strive to live up to both in the years to come by consistently enhancing the value of your company.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl [1)2)] Hannover Chairman	Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Dr. Paul Wieandt [2)] Hof/Saale Deputy Chairman	Chairman of the Executive Board SchmidtBank AG
Herbert K. Haas [1)2)] Burgwedel	Member of the Executive Board of Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Karl Heinz Midunsky Munich	Corporate Vice President and Treasurer Siemens AG
Ass. jur. Otto Müller [3)] Hannover	
Bengt Pihl Mannheim (until 27 May 2003)	
Ass. jur. Renate Schaper-Stewart [3)] Lehrte	
Dipl.-Ing. Hans-Günter Siegerist [3)] Nienstädt	
Dr. Klaus Sturany [1)] Essen	Member of the Executive Board RWE Aktiengesellschaft
Bodo Uebber Berlin (since 25 September 2003)	Deputy Member of the Executive Board DaimlerChrysler AG Chairman of the Executive Board DaimlerChrysler Services AG (since 16 December 2003)

1) Member of the Standing Commitee
2) Member of the Balance Sheet Commitee
3) 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 Rückversicherung AG.

EXECUTIVE BOARD
of Hannover Re

Dr. Elke König

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

Dr. Wolf Becke

Life and Health markets
worldwide

Wilhelm Zeller
Chairman

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

André Arrago

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

Jürgen Gräber

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

Dr. Michael Pickel

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

Ulrich Wallin

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

THE HANNOVER RE SHARE

2003: Year 1 after the slump …

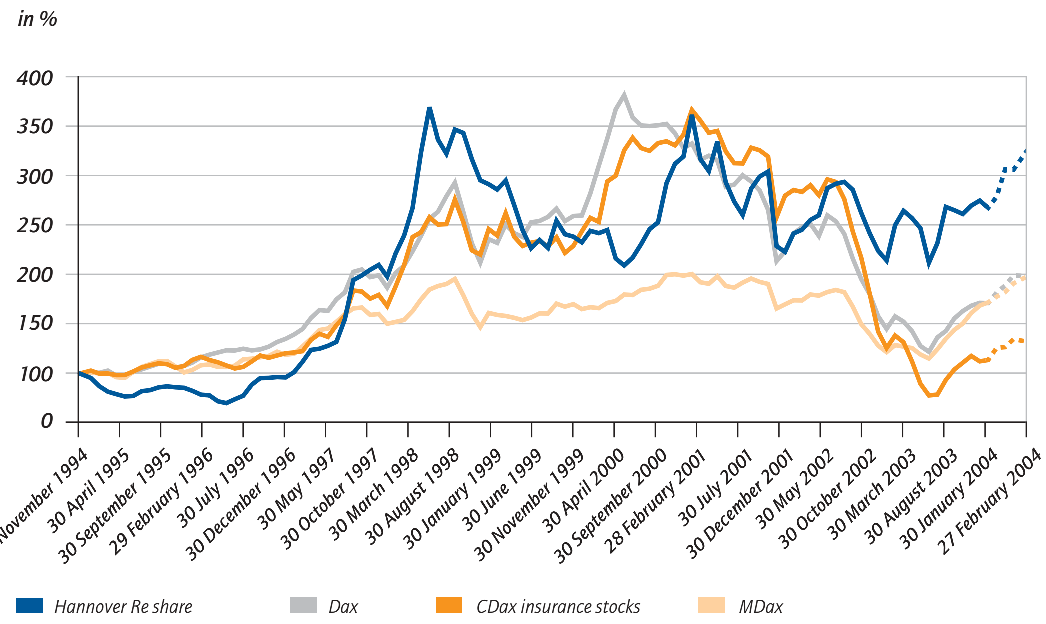
Marked improvement on capital markets

2003 was a good year for the capital markets. Following three periods of heavy losses and an absolute low of 2,202 points in the first quarter, the Dax closed up again for the first time – at 3,965 points – with growth of 37.1% as at year-end. By European standards Germany was thus the frontrunner. Only the considerably smaller financial marketplace of Vienna remained within range, closing with a gain of 34.7%. The Euro-Stoxx 50, which put on 15.7%, was left trailing far behind. The performance of German second-tier stocks was also particularly noteworthy, outshining even the very strong Dax: MDax (+47.8%), TecDax (+50.9%) and SDax (+51.3%).

… and insurance stocks are also moving higher

The German insurance industry is back on an expansionary course. With capital markets recovering somewhat in the year under review, (re-)insurers were again able to invest more heavily in equities. The German Insurance Association (GDV) reported a modest increase in the average equity allocation from 7% to 8%. Particularly for reinsurers, 2003 offered an unusually profitable economic environment. This trend is also evident in the industry index CDax for insurance stocks, which closed 12.3% higher at year-end and thus recovered sharply after the previous year, despite lagging behind the aforementioned German benchmark indices. The outcome of the 2003/2004 renewal phase in property and casualty reinsurance promises a continuation of this favourable trend.

Performance of the Hannover Re share compared with standard benchmark indices since stock market listing



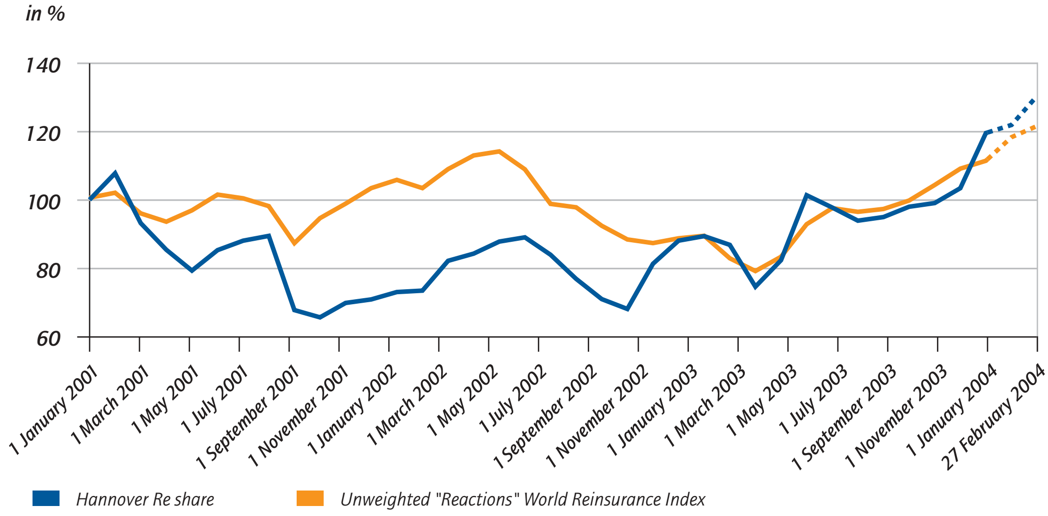
The Hannover Re share profited from the very favourable market climate …

In the course of 2003 our share, too, developed clearly favourably, putting on 14% relative to the beginning of the year to close at EUR 27.72 on 31 December 2003. Although the performance of the MDax was even better, our share thus kept pace by industry standards as reflected in the CDax for insurance stocks. A marked upswing was observed following the publication of each set of quarterly results. The capital market thus recognised our favourable, consistent earnings trend. Our share has surged particularly strongly in the current financial year after the release of our profit forecasts for 2004 and 2005, climbing to a closing price of EUR 30.70 on 11 February 2004.

We use the unweighted "Reactions" World Reinsurance Index to measure ourselves against reinsurers worldwide. Having outperformed the index at the outset of the three-year reference period, in 2001, our share fell behind the index as 2001 progressed – especially following the events of 11 September 2001. In the year under review, however, thanks to the outstanding development of our business, we were able once again to outperform the World Reinsurance Index. It is our stated aim to surpass our benchmark on a three-year moving average.

Hannover Re share moving closer to a fair valuation

The Hannover Re share in comparison with the unweighted "Reactions" World Reinsurance Index (performance in USD)



** 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.*

… and offers even greater potential as capital markets stabilise

Hannover Re share still has potential in hand

The good performance of the Hannover Re share during the past stock market year reflects the company's consistent profitability. Even in 2002 the share held its ground superbly in the face of adverse market trends and displayed exceptional stability. In 2003 the Hannover Re share moved appreciably closer to a fair valuation. The latest development in February 2004 has clearly demonstrated its potential: following publication of our profit forecasts for 2004 and 2005 the upside target has been raised significantly by numerous financial analysts.

Our quantitative strategic objectives help us – based on a system of management ratios – to steer and document the sustained growth in our company's value creation. One of our strategic objectives, for example, is to increase the operating profit (EBIT) and the earnings per share by a double-digit percentage margin each year. With earnings per share of EUR 3.24 in the year under review, we have been able to achieve this goal every year since our company was first listed – with the exception of 2001 (specifically: due to the terrorist attacks in New York and Washington, D.C.).

Following the sharp price increases of the past year some indices – particularly those comprised of second-tier stocks – seem to be in need of consolidation. The average 2003 price/earnings (P/E) ratio of the MDax, to which the Hannover Re share also belongs, was 22.6. At a price of EUR 30 the Hannover Re share, on the other hand, is trading at a P/E ratio of 8.5 on the basis of the consensus profit estimate for 2005. The considerable potential still inherent in our share is also clearly demonstrated by another key ratio: a leading European brokerage house calculates the average price/book value ratio for European reinsurers at 1.8, while the Hannover Re share – priced at EUR 30 – stands at just 1.5. Most analysts therefore put the fair value of our share currently at around EUR 35.

Our Investor Relations activities: securely established on a high level

More than 50 international roadshows and investor conferences

In the financial year just-ended we again conducted a diverse range of Investor Relations activities. In order to consistently enhance the level of awareness of our share, we took various opportunities to regularly inform capital market players on an up-to-date, comprehensive basis about Hannover Re's business development and activities. We enjoyed direct contacts with international investors, private shareholders and financial analysts at investor fairs and stock forums organised by various banks and shareholder associations as well as in numerous one-on-one meetings. Around 30 financial analysts and investors visited us in Hannover in the year under review, and we presented our company at more than 50 international roadshows and investor conferences worldwide. In this context we target not only the traditional marketplaces of Frankfurt, London and New York/Boston, but also include in our action plan the other European financial centres as well as the Midwest and the West Coast of the United States, Australia and new markets, e.g. in the Arab-speaking world. In addition, we conduct international telephone conferences with analysts, investors and the business press in connection with the publication of each quarterly report as well as on special occasions. Particularly in troubled times on the stock markets, our consistent, proactive Investor Relations activities have proven their worth. An international analysts' seminar held each year also forms part of our current standard repertoire. On 25 July in Berlin we welcomed around 40 international financial analysts and investors to our International Analysts' Day, an opportunity which we used to provide information on the topics "Analysing the Hannover Re balance sheet", "Hannover Life Re" and "Advanced Solutions". This information can of course be accessed at our website www.hannover-re.com.

Last but not least, our Investor Relations webpages offer you regular updates on all our IR activities, and interested readers can consult our new "IR Online Magazine" for the latest monthly insights into developments at Hannover Re, in the reinsurance industry and on the capital markets.

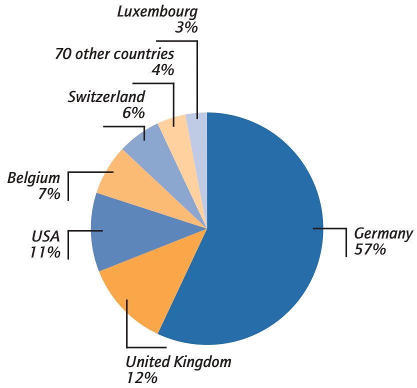
In June 2003 Hannover Re decided to implement a combined capital increase for cash and a contribution in kind in order to strengthen its capital resources. This measure increased our equity base by EUR 530 million and enlarged our underwriting capacity. Consequently, in the year under review we were able to fully participate in the hard, profitable reinsurance markets and raise our level of retained premiums in this profitable business.

Following our capital increase in June 2003 the number of Hannover Re shareholders grew from more than 25,000 to around 28,000. The placement of a 20.6% shareholding with institutional investors through our parent company Talanx AG in February 2004 boosted Hannover Re's free float by a further 24.8 million shares to its current level of 48.8% of the capital stock. The proportion of the free float attributable to institutional investors (corporate entities) increased substantially to 84%. The number of Hannover Re shareholders as at 27 February 2004 stood at 32,529. Both measures had an extremely favourable effect on the liquidity of our share. The average value of the shares traded doubled after the capital increase to roughly EUR 5 million and then tripled after the reduction in the share held by Talanx to more than EUR 15 million per day.

In September Hannover Re was awarded the title "Reinsurance Company of the Year 2003" by the highly reputed UK trade journal "Reactions". The selection was made by the magazine's readership, namely the employees of insurance and reinsurance companies around the world, insurance and reinsurance brokers as well as financial analysts, rating agencies and other service providers. Among the reasons for awarding Hannover Re with the prize, "Reactions" cited the consistently high return on equity generated by the company, the relative price stability of its share and its expert capital management – not least in view of the capital increase implemented in June of the year under review.

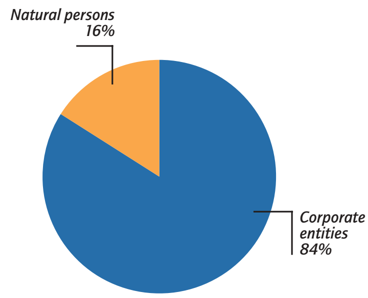
As an additional measure, the issue of further subordinated hybrid capital (a blend of equity and debt capital) in February of the current financial year enabled Hannover Re to optimise its capital base. With this transaction we made the most of the attractive interest rate environment and repurchased the outstanding US dollar bond at a very low exchange rate.

Shareholding structure by countries (as % of free float)



Hannover Re has responded to the growing importance of the German Corporate Governance Code by providing a detailed Corporate Governance section on its Investor Relations Internet pages. All information required pursuant to § 161 of the German Stock Corporation Act is published there. In addition, in the current financial year we are already fully implementing the financial reporting deadlines recommended by the Corporate Governance Code: the consolidated annual financial statements will be published within 90 days of the end of the financial year and the interim reports within 45 days of the end of the reporting period.

Shareholding structure by natural persons/ corporate entities (as % of free float)



The German Corporate Governance Code also provides for variable remuneration of management based on corporate performance. We live up to this standard with our virtual stock option plan for the Group's managerial staff worldwide, a scheme which we launched as long ago as 2000.

The opinions of our analysts

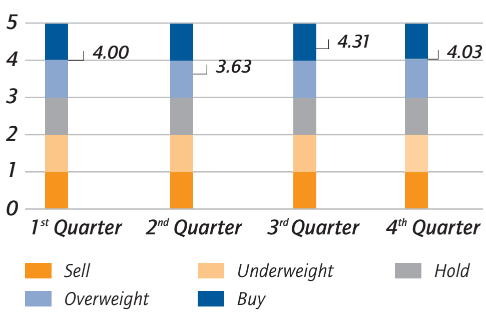
We see Hannover Re as the highest quality reinsurer in our universe. It is the only company that we feel espouses disciplined cycle management and has a track record to prove it. (...) Hannover Re is the only reinsurer in our universe to have not destroyed value with its underwriting activities over the past ten years.

Brian Shea
Merrill Lynch, London
March 2004

Flexible cycle management has enabled Hannover Re to exploit the hard market in non-life reinsurance more aggressively than its competitors (...). Long-tail business was expanded disproportionately strongly, and the company practises a conservative reserving policy. It is thus likely that the fruits of the business written during the present market phase will be harvested progressively for some years to come.

Thorsten Wenzel
DZ Bank, Frankfurt
January 2004

Analyst ratings of the Hannover Re share



Hannover Re has shown itself to be the most adept reinsurer at calling the cycle in our European universe, shrinking its book in soft markets while expanding aggressively during hard markets. The current hard market has been no different, with the group again making its way up the table and becoming part of the reinsurance "big league". The group has managed to retain an IFS rating in the AA- range, superior to most of its peers, which is a tribute to the way that the group manages its stringent capital base.

Paul O'Sullivan
ABN Amro, London
January 2004

Hannover Re is taking advantage of the current hard reinsurance market to strengthen underwriting discipline (the so-called "more-from-less" programme) while at the same time taking a cautious approach to reserving, and this is now filtering through to the company's earnings via the improved combined ratio (...). Management also appears to be delivering on its promise to reduce the company's reinsurance recoverables asset by 30% by the end of 2005 (...) This, combined with the company's strong earnings performance means that Hannover Re is moving swiftly along the roadmap agreed with S&P to remove the negative outlook on its AA- rating.

Gerald Farr, Michael Huttner
J. P. Morgan, London
November 2003

Rating	Amount	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Buy	63	9	12	22	20
Overweight	10	3	7	–	–
Hold	24	7	6	4	7
Underweight	4	1	3	–	–
Sell	11	–	4	3	4
Total	112	20	32	29	31

Share information

In EUR	2003	2002	2001	2000	1999	1998
Earnings per share (diluted)	3.24	2.75	0.11	4.13	2.29	1.94
Dividend per share	0.95	0.85	–	0.77 1)	0.68	0.65
Corporation-tax credit	–	–	–	0.36	0.29	0.08
Gross dividend	0.95	0.85	–	1.21 2)	0.97	0.73

1) On each fully paid-up no-par-value registered share for the year 2000
2) Incl. bonus of EUR 0.08

Commercial treatment: on the need to apply the "as-if-pooling" method under US GAAP cf. p. 16 et seq.

International Securities Identification Number (ISIN):	DE 000 840 221 5		
Stock exchange ID:	Share:	Investdata: Bloomberg: Reuters:	HNR1 HNR1 GY HNRGn.DE HNRGn.F
	ADR:		HVRRY
Exchange listings:	Germany Listed on all German stock exchanges and Xetra; Frankfurt and Hannover in official trading USA American Depositary Receipts (Level 1 ADR Program) OTC (over-the-counter market)		
Stock class:	No-par-value registered shares		
First listed:	30 November 1994		
Shareholding structure as at 31 December 2003:	Talanx AG: 71.8% (since 18 February 2004: 51.2%) Free float: 28.2% (since 18 February 2004: 48.8%)		
Capital measure of 12 June 2003:	Increase in common stock through a capital increase for cash against issuance of 9,716,392 new shares in conjunction with a capital increase against contribution in kind through issuance of 13,716,814 new shares to Talanx AG for shares in HDI Re (Ireland) Ltd. (with commercial effect from 1 July 2003).		
Common stock as at 31 December 2003:	EUR 120,597,134.00		
Number of shares as at 31 December 2003:	120,597,134 no-par-value registered shares		
Market capitalisation as at 31 December 2003:	EUR 3,342.95		
Highest share price on 9 December 2003:	EUR 28.30		
Lowest share price on 12 March 2003:	EUR 17.47		
Annual General Meeting:	2 June 2004, 10.30 a.m. Hannover Congress Centrum, Kuppelsaal Theodor-Heuss-Platz 1–3, 30175 Hannover, Germany		

STRATEGY
and self-image

We are guided by three maxims from which all others are derived:

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

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

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

Strategic objectives

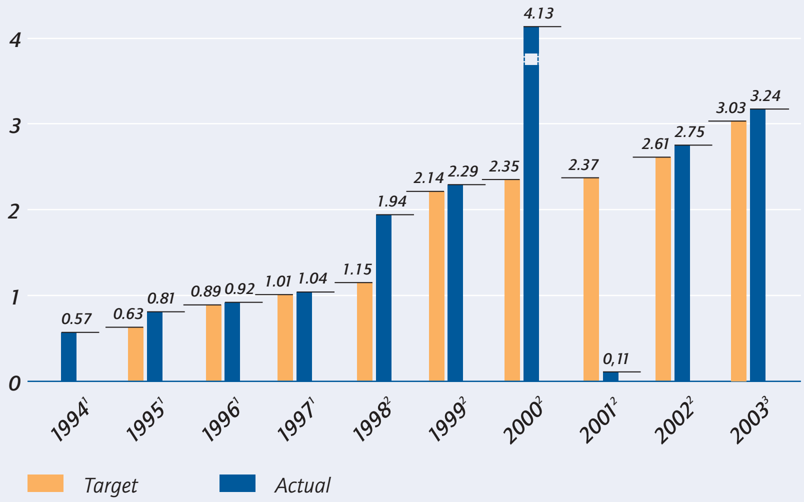
1. Profit target
   - Return on equity at least 750 basis points over and above the risk-free interest rate
   - Annual double-digit growth in
     - operating profit (EBIT)
     - earnings per share
     - operating (intrinsic) value creation (IVC)

2. Capital management
   - The target is a Standard & Poor's 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 3-year average. This facilitates
     - a sustained increase in the value of the shareholders' investment
     - the lowest possible costs of raising equity

Earnings per share

in EUR



¹⁾ DVFA-calculation method (without adjustment for amortisation of goodwill)
²⁾ Earnings per share calculated in accordance with US GAAP
(stock split of 15 July 2002 in ratio of 3 for 1 taken into account for all figures)
³⁾ Commercial treatment: on the need to apply the "as-if-pooling" method under US GAAP cf. p. 19 et seq.

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
   - Ongoing dynamic financial analysis for the purposes 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

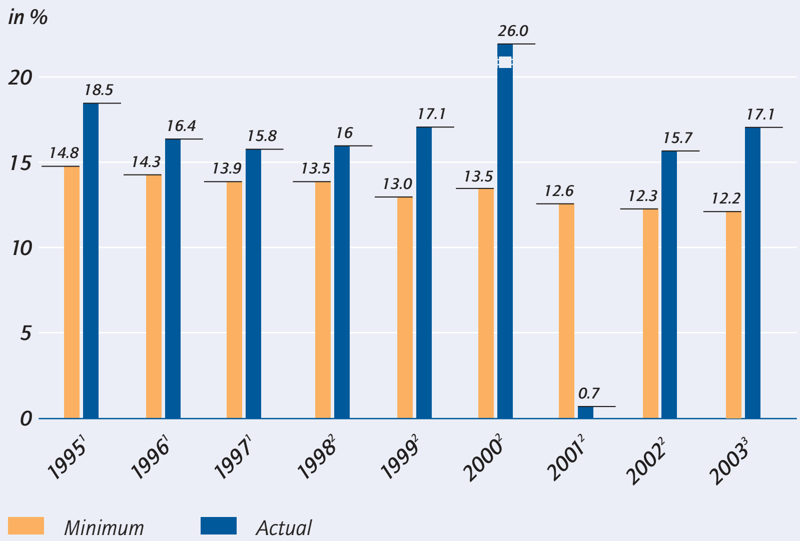
8. Human resources policy
   - Attractive jobs for ambitious, performance-minded employees who identify with our corporate objectives
   - Constant improvement of qualifications and motivation
   - Fostering of entrepreneurial thinking by delegating tasks, authorities and responsibility wherever possible

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, the definition and communication of business policy, the quality of employees and in the management of resources and processes
    - Attainment of optimal performance levels as regards both satisfaction among staff and clients and the business results

After-tax return on equity



[1] HGB-Basis
[2] Based on US GAAP
Target: 750 basis points in excess of the average five-year yield on 10-year government bonds
[3] Commercial treatment: on the need to apply the "as-if-pooling" method under US GAAP cf. p. 19 et seq.

THE HANNOVER RE GROUP

Our global presence

Europe

Hannover Rückversicherung AG
Hannover, Germany

E+S Rückversicherungs-AG
Hannover, Germany
(55.8%)

North America

Hannover Rückversicherung AG
Canadian Branch - Chief Agency
Toronto, Canada

Hannover Rückversicherung AG
Canadian Branch - Facultative Office
Toronto, Canada

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

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%)

Africa

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

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

%-figures = participation
You may find the addresses of our branch offices and subsidiaries on pages 130 to 132

E+S Reinsurance (Ireland) Ltd.
Dublin, Ireland
(55.78%)

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

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

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

Hannover Re Advanced Solutions Limited
Dublin, Ireland
(85.26%)

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 Rückversicherung AG Stockholm Branch
Stockholm, Sweden

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

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

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

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

Asia

Hannover Rückversicherung AG Seoul Representative Office
Seoul, Korea

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

Hannover Rückversicherung AG Shanghai Representative Office
Shanghai, China

Hannover Rückversicherung AG Taipei Representative Office
Taipei, Taiwan

Hannover Rückversicherung AG Hong Kong Branch
Hong Kong, China

Hannover Rückversicherung AG Malaysian Branch
Kuala Lumpur, Malaysia

Australia

Hannover Rückversicherung AG Australian Branch - Chief Agency
Sydney, Australia

Hannover Life Re of Australasia Ltd
Sydney, Australia
(77.89%)

MANAGEMENT REPORT
of the Hannover Re Group

Economic climate

First signs of economic upturn in Germany observed in the year under review

The state of the economy around the world was initially overshadowed by considerable uncertainty in 2003. Following stagnation in the first half of the year – attributable to the sharply higher price of oil, the war on Iraq, the respiratory disorder Sars and fears of further terrorist attacks – a gradual economic recovery set in as the year progressed. After several years of depressed equity markets this development also breathed life into capital markets. From the third quarter onwards the global economic climate began to brighten – albeit at first only hesitantly. Crucial factors for that were the expansionary direction of economic policy, especially monetary policy. Financing conditions for business improved as a consequence of consolidation efforts in the banking sector and rising stock market profits.

After showing initial weakness the USA proved to be the driver of growth in the year under review, not least thanks to the programme of tax cuts implemented by the Bush Administration. This gave a considerable boost to total economic output, exports and private consumption. However, the tax cuts also led to a sharp rise in US government debt.

In the Eurozone, too, economic activity gathered momentum in the second half of the year, albeit only on a very modest scale. While overall domestic demand remained weak, exports picked up appreciably. The German economy was initially flat. Although here, too, overall economic output moved slightly upwards from the middle of the year onwards; it had, however, sunk so low in the first two quarters of 2003 that the year as a whole recorded only zero growth. Private consumption was also not quite on a par with the previous year's level. Late in the year, however, early signs of a cyclical upswing began to emerge. After a poor first half-year exports gathered significant impetus in the second half of 2003. At the end of the year a process of economic recovery set in. Despite the upward revaluation of the euro even export-oriented businesses shared in the mood of growing optimism.

For the insurance industry the year under review gave greater grounds for satisfaction than 2002. Results in property and casualty insurance improved sharply in 2003 after a poor previous year burdened by natural hazard losses. In property and casualty reinsurance the so-called "hard market" with its associated favourable terms and conditions for reinsurers was sustained. Rates and conditions remained extremely attractive and continued to improve – particularly in the longer-tail lines of liability business.

The year under review once again witnessed numerous natural hazard losses. Although the number of natural catastrophes – at around 700 recorded loss events – was on a par with the previous year, the total economic losses and the insured losses both increased. Although only one-third of the loss events was attributable to windstorms and thunderstorms, they accounted for 75% of the insured natural catastrophe losses. Insurers incurred loss expenditure of more than USD 3 billion purely for the series of tornadoes that struck the Midwest of the United States in May 2003. The third quarter saw two further major losses, the hurricanes "Isabel" and "Fabian". In addition to natural catastrophes, 2003 was notable for other loss events such as power blackouts in the United States, United Kingdom and Italy – although the scale of these losses could not be compared with the impact of natural catastrophes.

Life and health insurance continued to prove a stable pillar of the global insurance industry in both the primary and reinsurance sectors. The German insurance industry was nevertheless tested by difficulties at a mid-sized insurer – a test which it passed with the transfer of its in-force business to the rescue company Protektor Lebensversicherungs-AG. In life (re-)insurance business the demand for products offering individual provision for dependents and retirement continued to grow due to the demographic trend in most insurance markets.

"As-if-pooling" accounting method

As part of our capital increase on 12 June 2003 our majority shareholder Talanx AG transferred its shares in Hannover Reinsurance (Dublin) Ltd. – formerly HDI Reinsurance (Ireland) Ltd. – to the Hannover Re Group effective 1 July 2003 as a contribution in kind against issuance of 13,716,814 new shares valued at EUR 310 million.

The effective commercial date of this transaction (1 July 2003) was deemed determinative for the first-time consolidation of the transferred company. It was therefore consolidated for the first time in the quarterly financial statements as at 30 September 2003 with effect from 1 July 2003. This accounting treatment was agreed with our auditors within the regular review of the consolidated financial statements for the third quarter.

As the year progressed, however, it became clear that under US GAAP the "as-if-pooling" accounting method would have to be applied to this transaction since Talanx AG – as the ultimate parent company of Hannover Re and Hannover Reinsurance (Dublin) Ltd. – formally exercised "common control" over both companies.

"As-if-pooling" is a US GAAP specialty (SFAS 141 App. D 11–18) applicable only to transactions between companies that are under common control. The most important implication is that Hannover Reinsurance (Dublin) Ltd. must be treated as if it had been part of the Hannover Re Group since the beginning of the financial year in which the transaction occurred. The disclosure for the previous year has to be adjusted according to this modified treatment – in other words, Hannover Reinsurance (Dublin) Ltd. must also be included here in order to ensure that the figures for the various accounting periods can be compared. Since the "as-if-pooling" method constitutes the formal implementation of the US GAAP standard, the certificate issued by our auditors is based upon these figures. In this context we would like to refer the reader to our comments in the notes to the financial statements contained in this annual report.

Application of the "as-if-pooling" method a consequence of the capital increase (contribution in kind)

From the company's perspective, however, the "as-if-pooling" method does not realistically reflect the economic situation of the Hannover Re Group in the year under review or the previous period. It means that parts of the capital increase received by the parent company (Hannover Re) as at 1 July 2003 have to be shown not as stockholders' equity but as profit. In our opinion, this distorts the representation of our company's performance.

In the light of these considerations, we are publishing the "as-if-pooling" figures pro forma in the consolidated financial statements and notes. However, the previous year is discussed in the management report solely with reference to the historically published figures, while the year under review is described on the basis of the figures that include Hannover Reinsurance (Dublin) Ltd. in the Group at book values as at 1 July 2003. In our assessment, this is the best way to reflect the economic reality of the transaction. What is more, it is also in line with the quarterly financial statements released to date and the published earnings forecasts.

Consequences of the "as-if-pooling" accounting method for the Hannover Re Group's statement of income and stockholders' equity

	1.1.–31.12.2003		
Figures in EUR million	**Commercial treatment**	**US GAAP "As-if-pooling" method**	**Difference**
Statement of income			
Gross written premiums	11 342.9	11 588.1	245.2
Net premiums earned	8 155.6	8 256.4	100.8
Operating profit (EBIT)	732.1	803.2	71.1
Net income	354.8	418.3	63.5
Earnings per share in EUR	3.24	3.60	0.36
Stockholders' equity			
Common stock	120.6	120.6	–
Additional paid-in capital	764.2	724.6	(39.6)
Other comprehensive income	(217.6)	(202.8)	14.8
Retained earnings	1 737.5	1 762.3	24.8
Total stockholders' equity	2 404.7	2 404.7	–

Business development

Best operating profit in company history

We can look back on a highly successful 2003 financial year: with EBIT of EUR 732.1 million we generated the best operating profit in the company's history (previous year: EUR 470.9 million). The net income of EUR 354.8 million also improved substantially on the previous year (EUR 267.2 million), producing earnings of EUR 3.24 (EUR 2.75) a share. All four of Hannover Re's business groups made a positive contribution to this highly gratifying performance.

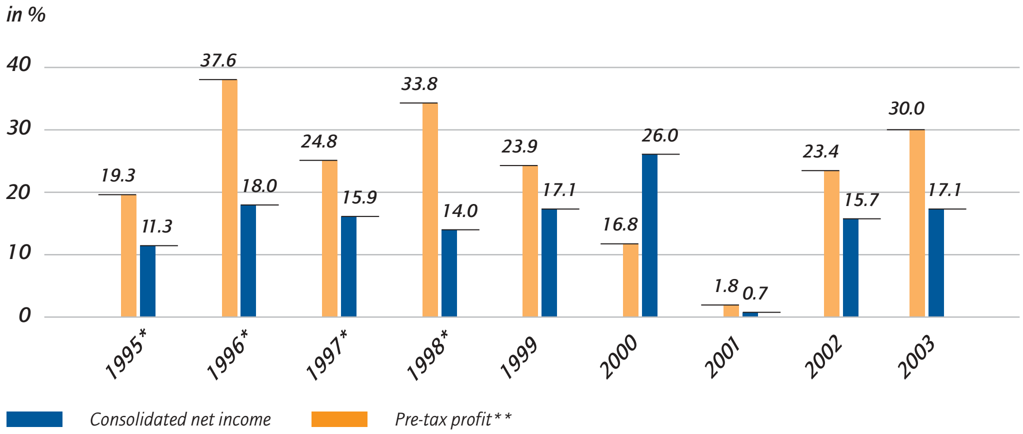
Gross premium income contracted by 9.0% year on year to EUR 11.3 billion (EUR 12.5 billion). Yet at constant exchange rates, i.e. without the euro's rise against the US dollar, gross premiums would have grown by 1.9%.

The "hard market" in property and casualty reinsurance was again sustained across virtually all lines of business and regions in the year under review. Although the gross premium volume contracted by 20.5% (adjusted for exchange-rate effects: -13.9%) compared to the previous year – owing to the restructuring of the relationship with the HDI companies and the strength of the euro – net premiums remained stable. Net income after tax was boosted by 8.3% over the previous year.

Gross premiums in life and health reinsurance contracted by 7.9%, although adjusted for exchange-rate effects they would have grown by 2.2%; net premiums declined by 9.6%. Life and health reinsurance also generated gratifying income: with a ratio of EBIT to net premiums earned of 3.2% (2.3%) we moved another step closer to our medium-term target of 5.0%.

Financial reinsurance was a driver of growth within the Hannover Re Group in the year under review, with gross premium income rising by 31.4% or as much as 48.5% adjusted for exchange-rate effects. It should be borne in mind, however, that this growth was to some extent promoted by the first-time consolidation of HDI Reinsurance (Ireland) Ltd. Net premiums earned climbed by 29.1% and net income for the year surged by 149.6%.

Return on equity



* Return on equity calculated in accordance with the German Commercial Code (HGB)
** After minority interests

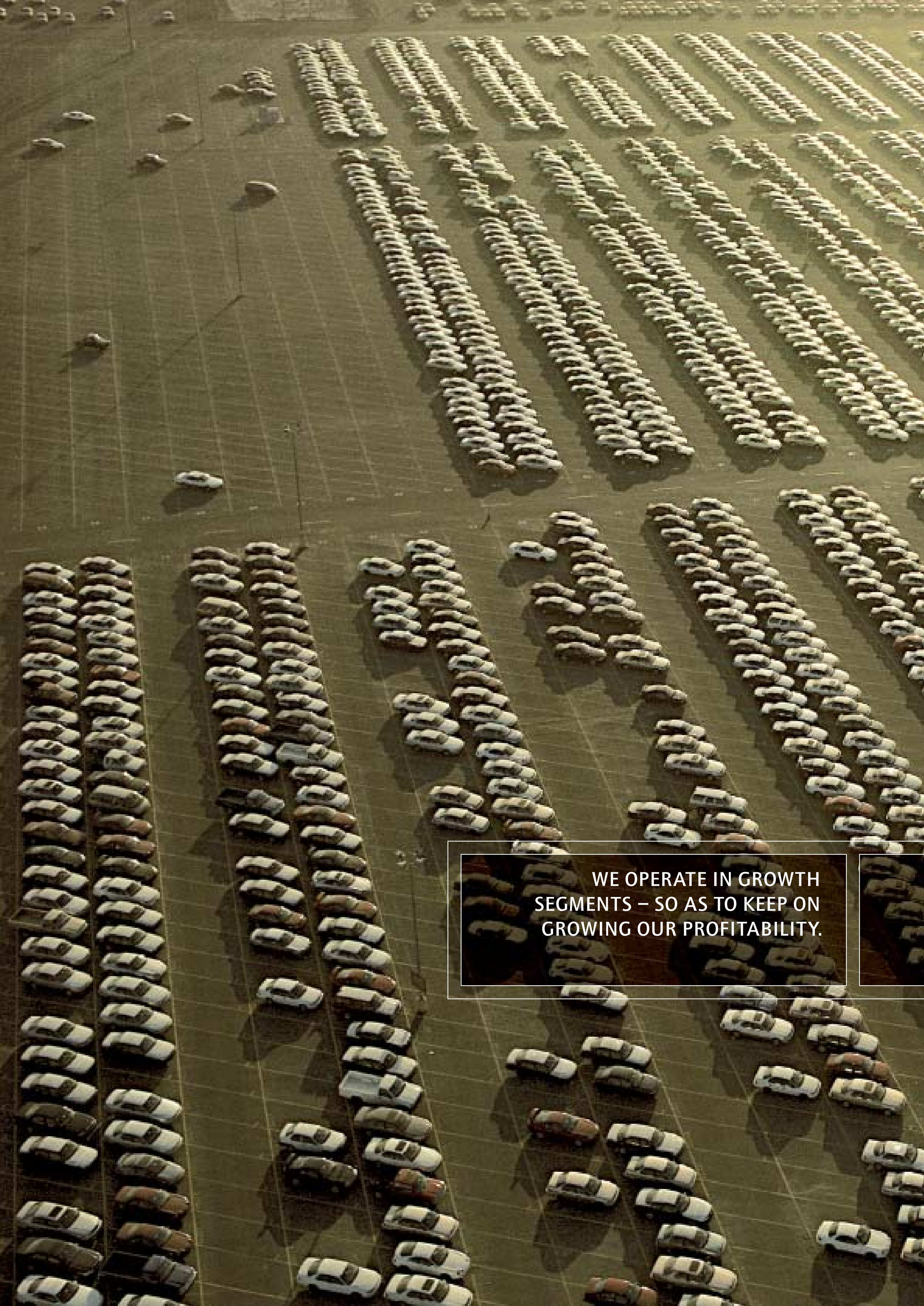
Program business similarly played its part in the Group's good overall performance: although gross premium income contracted by 3.0%, it rose by 15.4% after exchange-rate effects are factored out. Influenced by the changeover to an underwriting-oriented business model, net premiums also showed an above-average increase of 38.8% to reach EUR 1.2 billion. The level of retained premiums thus climbed to 46.4% (37.8%).

Ordinary investment income declined by 2.3% in the year under review to EUR 1,094.0 million (EUR 1,119.6 million). We again benefited from comparatively high interest on our premium deposits although we had to take write-downs on equities amounting to EUR 65.3 million – thereof EUR 46.0 million in the first quarter. Total write-downs on investments, however, were almost EUR 100 million lower than in the previous year. Extraordinary income was virtually balanced. Overall, net investment income thus grew by 15.4% to EUR 1,071.5 million (EUR 928.4 million). In step with the recovery on equity markets, we progressively raised our equity allocation to 6.5% (5.7%) by the end of the financial year.

In the year under review we made a number of significant course adjustments, including a restructuring of our business with the HDI companies. With effect from 1 January 2003 we no longer place HDI's entire reinsurance volume on the market, but merely assume the role of preferred reinsurer. We thus continue to enjoy preferential access to the attractive business offered by the HDI Group, but we are able to relieve our balance sheet of a sizeable portion of retroceded business by only accepting the share of HDI's reinsurance volume that we wish to carry in our retention. As additional steps taken in the year under review, we optimised our portfolio in the light of long-term profitability considerations and also scaled back specific acceptances. This initiative – which Hannover Re has dubbed "More from less" – is to be continued in 2004.

Last but not least, we boosted our stockholders' equity by EUR 530 million in June of the year under review through a combined capital increase for cash and a contribution in kind; reduced by the present value of future profits (PVFP) in the amount of EUR 116.4 million, our capital increased by EUR 413.2 million. The issuance of 9.7 million new shares as part of the capital increase for cash also served to enlarge the free float by around 40%, thereby significantly improving the liquidity of the share. Under the capital increase for a contribution in kind Hannover Re received Hannover Reinsurance (Dublin) Ltd. – formerly HDI Re (Ireland) Ltd. – against issuance of 13.7 million new shares. Thanks to the latter's strong profitability, our shareholders incurred only minimal dilution of their shares as a result of the capital increase.

Strengthening of stockholders' equity in June through combined capital increase for cash and contribution in kind

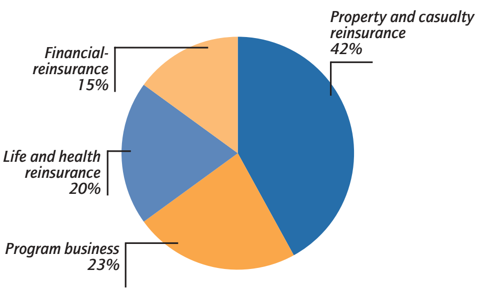

WE OPERATE IN GROWTH
SEGMENTS – SO AS TO KEEP ON
GROWING OUR PROFITABILITY.

Who could have predicted such a development 118 years ago? Back in 1886, the automobile sector in Germany was limited to wealthy customers and just a few vehicles. By 2003, the global market had grown to almost 59 million new vehicles. As the market has evolved, so the challenges facing property and casualty reinsurers have changed. Every day, we strive to find the right solutions for our clients.

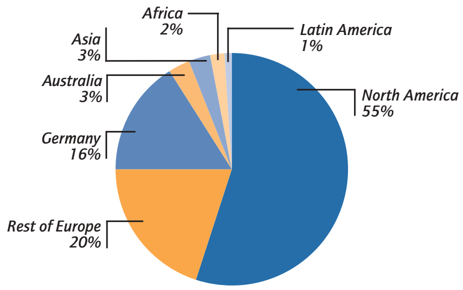
Our business groups

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

Gross premium by business group



Gross premium by region



Property and casualty reinsurance

Improvements in rates and conditions in almost all lines of business

The "hard market" in property and casualty reinsurance was sustained in the year under review. Rates and conditions again improved across virtually all lines of business. In the few areas where a flattening-off or even a decline could already be observed, the premium level nevertheless remained very high. Most notably, the longer-tail liability lines recorded further – in some cases even sharp – rate increases, while premiums in the property lines appeared to have reached the peak of the cycle and stabilised at this level.

In the year under review we again profited to the fullest extent from the cyclical nature of property and casualty reinsurance. As in the previous year, our acceptances were guided by strict profitability criteria and we increasingly added long-tail liability business to our portfolio. As part of our "More from less" initiative we relinquished business with below-average profitability and concentrated on the most attractive segments. We nevertheless substantially enlarged our net premium volume – adjusted for exchange-rate effects – and generated further growth in the hard market climate.

While gross written premiums in property and casualty reinsurance contracted in the year under review by 20.5% to EUR 4.8 billion (EUR 6.0 billion), this was in part due to the sharp rise of the euro, especially against the US dollar; with stable exchange rates the decline would have been only 13.9%. The proportion of the total gross premium volume attributable to property and casualty reinsurance in 2003 was 42.2% (48.3%).

Net premiums remained stable at EUR 3.5 billion. This corresponds to a significantly higher retention of 72.2% (62.7%). The quality of our portfolio is borne out by the gratifying combined ratio: at 96.0% it was 0.3 percentage points better than the previous year's very good figure of 96.3% despite the higher proportion of longer-tail business in our portfolio and our unchanged conservative reserving practice.

We still prefer to write non-proportional business in which – unlike in proportional reinsurance – we retain complete control over the pricing of the treaties. In the year under review we increased the proportion of our total property and casualty reinsurance portfolio accounted for by non-proportional treaties to 81% (69.8%) across all lines and regions.

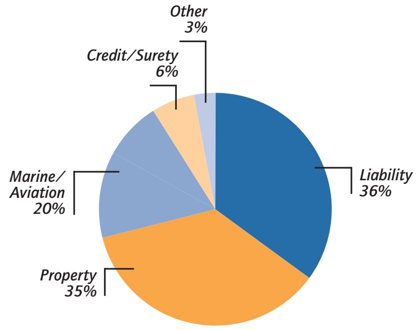
Following the disastrous flooding witnessed in Europe in the previous year, the burden of major losses was significantly lower in the year under review. The net expenditure of EUR 51.5 million (EUR 182.0 million) was well below the multi-year average. The proportion of major losses relative to net premiums in property and casualty reinsurance thus stood at 1.5% (5.2%). The largest recorded loss event was a series of tornadoes in the USA in May, costing Hannover Re a net burden of EUR 16.3 million.

On balance, we had no need to constitute additional reserves in either the property or liability lines in the year under review. This position was confirmed by both internal and external reviews of the loss reserves.

One of our commercial principles states that we use retrocession as a risk management tool. Since we have to date placed the entire reinsurance volume of the HDI companies and – which should be borne in mind – we have achieved a foothold in program business, our balance sheet shows relatively high recoverables. We are currently in the process of reducing this item by one-third relative to the position as at 31 December 2002. By year-end we had already achieved a reduction of 28.9% to EUR 4.4 billion (EUR 6.2 billion). As in the past, the quality of our retrocessionaires is beyond question. 94.3% of the companies from which we are due retrocession receivables are rated "BBB" or better by Standard & Poor's. We have not experienced any significant defaults in the past, nor do we have reason to anticipate any in the future.

Against this backdrop, we are highly satisfied with the performance of property and casualty reinsurance. We generated an underwriting profit of EUR 141.1 million (EUR 130.8 million). 2003 was also a satisfactory year as regards investment income; despite appreciably lower interest rates on capital markets it was only the exceptional write-downs on our equity and bond holdings in the first quarter that prevented an even more marked improvement on the previous year. Below the line we thus posted a record operating profit of EUR 465.9 million (EUR 305.6 million), the best in Hannover Re's history. Overall, we generated net income after tax of EUR 167.0 million (EUR 154.1 million). The property and casualty reinsurance business group thus contributed earnings of EUR 1.52 a share to the consolidated result, compared to EUR 1.59 in the previous year.

Breakdown of gross premiums by line of business



Lower burden of major losses in the year under review

Key figures for property and casualty reinsurance

Figures in EUR million	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	4 787.1	(20.5%)	6 020.0	4 938.5	3 385.4	2 613.6
Net premiums earned	3 500.0	0.1%	3 502.1	2 989.3	2 524.4	2 068.9
Underwriting result	141.1	7.9%	130.8	(481.3)	(206.4)	(228.5)
Operating result (EBIT)	465.9	52.4%	305.6	(40.6)	249.0	255.9
Net income/loss after tax	167.0	8.3%	154.1	(75.5)	266.5	128.0
Earnings per share in EUR	1.52	(3.8%)	1.59	(0.75)	3.02	1.46
Retention	72.2%		62.7%	67.8%	64.0%	62.0%
Combined ratio	96.0%		96.3%	116.5%	107.8%	111.1%

Germany

After German insurers had seen their business hard hit by extraordinary natural catastrophe events in 2002, the year under review progressed fairly inconspicuously and without significant major losses. Following massive underwriting deficits in the period 1999 to 2002 insurers were thus able, on average, to move back into profitability. The market recovery was particularly striking in motor third party liability and industrial fire insurance, primarily because various companies had completed their withdrawal from industrial business.

Satisfactory rates and conditions

German reinsurers continued to enjoy a hard market with satisfactory rates and conditions. We also profited from the difficulties affecting a number of competitors – even leading to their withdrawal in some cases –, developments which further reduced the capacity available on the market. Ultimately, though, it was thanks to the discipline exercised on the primary market that in most lines – following a protracted unhealthy price war – underwriting results returned to the black.

At our subsidiary E+S Rückversicherungs-AG, which operates exclusively in the German market, our policy of continuity is bearing fruit: E+S Rück is held in high esteem by its clients as a reliable partner. E+S Rück now ranks as the third-largest reinsurer in the world's second-largest non-life reinsurance market. It particularly concentrates on business with mutual insurance societies.

We benefited from the favourable development of original business as well as improving rates and conditions for reinsurance in our most important line, namely motor business. The performance of industrial fire business was also impressive in the year under review. Thanks to far-reaching portfolio rehabilitation in the primary sector and the absence of major losses, we generated a positive underwriting result.

Only one sizeable claim was incurred, a fire at a major enterprise in the steel industry, with a gross market loss of EUR 120 million (EUR 90 million net). Our gross share amounted to EUR 17 million; thanks to our own retrocession covers, the loss for our net account was a mere EUR 1.6 million.

In the year under review we further enlarged the share of non-proportional business in our German portfolio. In line with our strategic maxim of pursuing growth only in a hard market environment we also substantially boosted our premium income.

The rehabilitation of the primary market in credit and surety business around the world, including Germany, served to uncouple results from the continuing adverse credit cycle. The effect on reinsurers, who were all under enormous pressure to perform well, was clearly positive in the year under review. The remaining players profited from the hard market climate, which was additionally fostered by the withdrawal of two key providers in the credit line. This capacity shortage was only partially made good in the year under review by companies that rushed into the market to fill the gap. Against this backdrop we enlarged our market share in credit and surety reinsurance in a year characterised by an absence of spectacular major losses and a reduced burden of basic losses. Hannover Re thus consolidated its position as one of the world's three leading reinsurers in this line of business.

In marine and aviation reinsurance the year under review was probably the final year of the German Aviation Pool, since it is due to be dissolved in 2004. We were quick to respond by already stepping up our directly written share in the reinsurance of individual German airline fleets during the renewals conducted in the year under review.

We are also very pleased to report that as at 1 January 2004 we were able to add an additional company to E+S Rück's group of shareholders. Eight German mutual insurers are now E+S Rück shareholders and at the same time clients of E+S Rück.

Rest of Europe

United Kingdom and Ireland

On the insurance side the hard market has now reached its highest point. Rates in the motor sector began to flatten out after two years of increases. In the property lines rates and conditions in the year under review were at their highest level in decades, with a similar scenario on the market for professional indemnity covers.

The same was true of the reinsurance sector, in which very good market conditions prevailed in virtually all lines. Rates and conditions for non-proportional motor business, for example, continued to improve – irrespective of the fact that primary insurance rates flattened off at a high level. Reinsurance prices similarly picked up across a broad front in the liability lines.

In the year under review we again expanded our market position. Special emphasis should be made of the fact that we are a sought-after partner in long-tail liability business. This is due, amongst other things, to our excellent security and superb rating as well as the contraction in market capacity. We were thus able to consolidate our position in property business, while at the same time increasingly benefiting from the hard market in liability business – where a flight to quality could be observed very clearly.

Sought-after partner for long-tail liability business too

Our property business written on the London Market was affected by a series of tornadoes in the Midwest of the United States in the year under review. The loss burden – at EUR 16.3 million – was, however, comfortably within the multi-year major loss averages for a portfolio of this size.

We also write a significant portion of our marine and aviation business on the London Market. Despite facing more intense competition we stood our ground. Our underwriting policy remained focused on the middle and upper programme layers of non-proportional business, a segment in which we are one of the market leaders. Although we scaled back our exposure in some areas, most notably in aviation business, our market penetration continues to be optimal. In marine business, too, where we similarly rank as one of the major providers, we can look back on a highly successful year in which this line was spared any unusually large losses.

France, Benelux

In a business climate characterised by slow growth – estimates put economic growth at around 0.2% in the year under review – our French portfolio also enjoyed a good year in 2003. The only major loss was a fire at a production facility in December 2003, costing us net expenditure of EUR 7.8 million. The flooding in the south of France, which also occurred in December of the year under review, did not cause a significant strain on our account. A large share of the market loss was carried by France's state-run flood insurance scheme. The Benelux countries can look back on a rather unremarkable year in 2003.

We generated growth of around 10 percent in France in 2003, more than we had anticipated at the start of the year. The bulk of this growth derived from liability business, where further rate increases were observed, as well as from personal accident and fire business. Rates and conditions in natural catastrophe insurance, on the other hand, flattened out.

Although the available market capacity in France was only marginally affected by the exit or withdrawal of competitors, the corresponding impact in Belgium and the Netherlands was more appreciable. The consistent improvement in Hannover Re's market position in these countries is gratifying to report: we are now considered one of the three leading reinsurers in Belgium and the Netherlands, and in the year under review we profited from substantially improved rates and conditions in property and casualty reinsurance by concentrating on the property and motor lines.

Credit insurance in France benefited in the year under review from the portfolio rehabilitation measures taken by French insurers in this segment. In a very hard market clearly impacted by the withdrawal of two leading providers, we recorded a highly satisfactory result with no unusually large losses.

Successful year in France and the Benelux countries

All in all, Hannover Re can look back on a most successful year in France and the Benelux countries in 2003.

Italy

The general market conditions in the insurance sector improved in the year under review. Motor business, by far the largest line in property and casualty reinsurance, recorded an underwriting profit, while the other lines of private customer business were also in the black. Commercial and industrial insurance, on the other hand, failed to show any significant market hardening. General third party liability business in these segments remained largely unprofitable, despite a variety of rehabilitation efforts. The primary problem here is that claims inflation continues to outpace premium increases.

Italian insurers nevertheless find themselves in a hard market climate. Further rate increases were obtained in the year under review, accompanied by more precise specification of the individual scope of coverage and clearer definition of natural hazards exposures. These developments were made possible primarily by the shortage of market capacity brought about by the (partial) withdrawal of a number of significant players. There were no major losses to report in the year under review.

Northern Europe

As in previous years, market conditions in Northern Europe were not uniformly positive. Although rates and conditions for reinsurance protection varied considerably from country to country and cedent to cedent, it could generally be observed that supply substantially outstripped demand – a situation which the withdrawal of certain market players did little to change. Compared to the previous year, though, we can report a largely unremarkable year in Northern Europe.

Our most important market in this region is *Denmark*, which produces more than half of our total premium income. Our main lines here are fire and motor reinsurance, with a special focus on non-proportional business. We are the leading market provider of reinsurance for the country's mutual insurance societies. Our geographical proximity to Northern Europe gives us an edge in these markets. Overall, we were pleased with the development of the 2003 financial year.

Eastern Europe

Disproportionately strong growth is the hallmark of the insurance markets in Eastern Europe, both in the life and non-life sectors. With a number of Central and Eastern European countries in the process of joining the European Union, we anticipate harmonisation with EU directives and legislation – not only among the candidate countries but also among their neighbours.

We continued to enjoy a hard market phase in the reinsurance sector in the year under review, benefiting especially in liability business from the withdrawal of some competitors. We are active in the major markets of Eastern Europe as a leading provider in all lines. In *Russia* and *Ukraine* we significantly stepped up our presence, as was also the case in *Romania* – where our efforts were recognised with the title of "Reinsurance Company of the Year".

In a year largely spared significant losses we enlarged our premium volume by concentrating principally on increasing our shares in selected, profitable treaties. In Eastern Europe as in other markets we heavily emphasise non-proportional business in line with our global strategy. Our most important lines here continue to be motor and fire insurance.

North America

In the year under review – as in the previous year – the results posted by US property and casualty insurers were for the most part unsatisfactory. The forecast combined ratio of roughly 100% for the market as a whole was on average too high to generate double-digit returns on equity. Once again, a key factor here was the need to constitute additional reserves for earlier underwriting years, especially for asbestos-related claims. We estimate that industry-wide even more was spent on such measures in the year under review than in the previous year (approximately USD 20 billion), with over half the amount allocated to asbestos- and pollution-related claims.

As a consequence of this claims trend, rates and conditions in property and casualty insurance remained highly favourable; there could be absolutely no talk of a "return to the soft market" in the year under review. On the contrary, liability business saw double-digit increases in rates and substantially improved conditions. The advantageous premium level in the property lines was very largely sustained despite some modest reductions. Commercial property business even witnessed further sporadic improvements in rates and conditions.

For reinsurers the year under review was markedly more successful than the previous year. In the North American market this was borne out, inter alia, by an average combined ratio of slightly less than 100%. Although premiums recorded further double-digit growth, it was also evident that most market players took a disciplined underwriting approach in 2003. It was thus generally possible to maintain or even improve the advantageous rates and conditions prevailing for reinsurance business.

We continued to expand our market position in North America and rank as one of the six largest reinsurers in the region; it should be noted that three companies in this group – unlike ourselves – write their business almost entirely directly and not through brokers. We are now the largest reinsurer writing business solely through brokers. Over the past three years we have more than tripled our premium income in North America – a direct consequence of our anticyclical underwriting strategy geared to disproportionate growth in hard market phases.

The premium volume in property reinsurance grew by a mere 10% in 2003, however, as against growth of almost 20% in liability business. As part of our cycle management, we concentrated on expanding particularly attractive areas of liability business in the year under review, having prioritised our drive to push property business in the period up to and including the previous year. It is gratifying to note that our clients recognise our systematic approach to cycle management. This is illustrated, for example, by the excellent results that we achieved under the "Quality" criterion in an influential industry-wide survey of North American cedents.

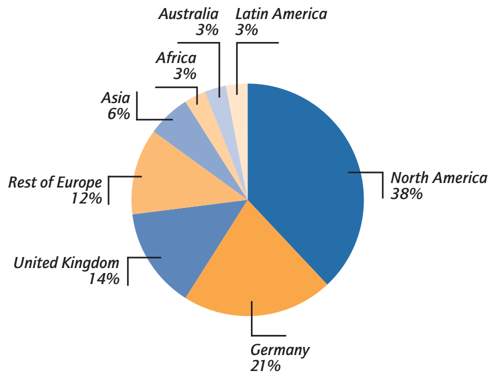
Industrial fire insurance continues to be our most important property line in North America, while liability business is dominated by commercial liability and professional indemnity insurance. We see the greatest scope for growth in professional indemnity, umbrella, excess and surplus lines as well as workers' compensation business. We were pleased to expand our clientele in the year under review through the addition of numerous mid-sized and smaller ceding companies which are now placing their reinsurance needs through brokers rather than by direct means.

Non-proportional reinsurance covers again accounted for the lion's share of our business in the year under review; they generated 67% of our premium income, compared with a market average of 45%. Measured in terms of the number of treaties, our preferred type of coverage already accounts for 92% of total business. We shall remain true to our strategy of systematically replacing proportional treaties over time with excess of loss covers.

Double-digit increase in rates and improved conditions

Numerous small and mid-sized natural catastrophe losses were reported. The bulk of this claims expenditure was carried by the insurers, however, since most losses did not exceed the contractually agreed priorities. Our account suffered only two natural catastrophe losses running into double-digit millions: a series of tornadoes in the Midwest in May 2003, costing Hannover Re EUR 16.3 million, and Hurricane "Fabian", which hit Bermuda in September. The latter is forecast to produce a maximum burden of EUR 12.6 million for Hannover Re. The other catastrophe losses and major claims in the year under review are all expected to remain within the single-digit millions at most.

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



Thanks to our conservative reserving policy and our reduced participation in the soft market years, we are pleased to report that we had no need to establish additional reserves for past underwriting years in the year under review. This is in stark contrast to many of our competitors. Nor has our exposure to the World Trade Center loss event developed unfavourably. As far as asbestos-related claims are concerned, we continue to profit from our relatively "tender age", as a consequence of which we only began to write significant volumes in the United States from the 1980s onwards; hence, our share in the industry's total asbestos losses is marginal.

A very hard market sets the tone in credit and surety reinsurance. The adverse developments of previous years – in part attributable to cyclical factors – led to a drastic tightening of reinsurance terms and conditions for ceding companies. Although a radical rehabilitation of credit and surety insurance appears to have been successful, capacity shortages still made themselves felt in the market – triggered primarily by the withdrawal of American reinsurers from surety business. The gaps were not entirely filled by new capacity, such as that provided by Bermuda-based companies. No conspicuous major claims were reported in the year under review and the burden of basic losses also declined, thereby enabling credit and surety reinsurance in North America to close with a significantly better result than in the previous year. In view of this favourable market situation we opportunistically stepped up the volume of our acceptances – especially in non-proportional business – in order to profit from the prevailing attractive market environment.

Rates and conditions in marine reinsurance were flat, albeit on a relatively high level. In this segment we continued to profit from the significant rate rises of the last two years as well as a reduction in the scope of cover. On the claims side, while 2003 recorded a normal frequency of small and mid-sized claims the year was spared any major losses. Capacities in all segments of marine reinsurance were adequate.

Established in 2001, our subsidiary Hannover Re (Bermuda) Ltd. writes a steadily growing share of the worldwide catastrophe reinsurance business accepted within the Hannover Re Group. The USA is by far the largest single regional market in this line. Both, there and globally, our company's participation in this business has proven an outstanding success. In a stable market climate Hannover Re (Bermuda) Ltd. generated gross premium income of EUR 150.2 million from natural catastrophe reinsurance in the year under review. It should be noted in this context that the bulk of the programmes and limits of indemnity are written on a non-proportional basis. Although rates in the USA fell by 5 to 10% in 2003, Hannover Re (Bermuda) Ltd. remained highly satisfied with the profitability of its market segment. On the American continent the company benefited especially from the fact that in 2003 most relevant natural catastrophe events did not exceed the insurers' retentions. As a further factor, the pressure exerted by the rating agencies and the relatively low levels of investment income had a disciplining effect on underwriting practice in the reinsurance market for catastrophe business.

Other international markets

Africa

On the African continent *South Africa* is by far Hannover Re's most important market. Having experienced considerable problems in recent years, most insurers in this market moved back into underwriting profitability in the year under review. For reinsurers, too, this is a favourable development.

The rest of the African reinsurance market also saw improvements in rates and conditions in the year under review, although we stand by our assessment that these are not sufficient in all areas. There are still local takers for proportional business that cannot be placed on the market with large international reinsurers. From now on, therefore, our underwriting policy is to accept only non-proportional covers or niche business – most notably the reinsurance of program business. However, the full effect of this policy will not make itself felt until the current year. As part of this reorientation we discontinued our activities in Mauritius and transferred the existing treaty relationships to Hannover Re Africa, Johannesburg.

The gross premium income booked by Hannover Re Africa contracted slightly year on year due to our systematic profitability orientation.

Latin America

In the year under review the region recovered from the severe crisis of recent years. Estimated economic growth of 1.1% is expected to be followed by a further 3.6% in the current year. The volume of insurance and reinsurance business in the major market of *Argentina* scarcely grew in euro terms due to the devaluation of the peso.

It remains the case that sufficient capacity is available on the property and casualty primary market in Latin America. Most notably, property business – to which Hannover Re attaches particular importance – was highly competitive in both the insurance and reinsurance sectors. Rates and conditions consequently deteriorated slightly, although our premiums remained on a very satisfactory level. There were no major losses to report from the region in the year under review.

As in previous years, industrial fire insurance was our principal business in 2003. We expect further very good results from Latin America in the year under review, and the company-wide application of our prudent underwriting policy has thus once again proven its worth.

Asia

By far Hannover Re's largest market in Asia is *Japan*. The renewals here were fairly unremarkable, although successful. In accordance with our strategy, we improved and extended our co-operation with target clients and thereby generated modest growth. In Japan Hannover Re enjoys the status of a so-called "core reinsurer" with four of the five most important insurance providers. For these and other clients we wrote both proportional and excess of loss covers.

Although Hannover Re did not suffer any significant reinsurance losses in Japan during the year under review, the *Korean* market had to absorb the effects of typhoon "Maemi" in 2003. This once-in-a-century event produced an estimated insured loss of USD 600 million. With a share of approximately EUR 6 million, Hannover Re's exposure was quite clearly disproportionately low.

Typhoon "Maemi" caused below-average losses for the Hannover Re Group

Business in *China*, *Taiwan* and *Hong Kong* remained difficult; the hard market has still not really taken hold in these countries. China is a target market for numerous international insurers and reinsurers, and the competition prevailing there is not always justifiable. In the year under review there were even signs of further deteriorations in rates and conditions, despite two significant losses in Hong Kong and Shanghai.

The state of reinsurance business in South and Southeast Asia was better, with no major losses and a satisfactory overall price climate in a generally unremarkable market.

Australia, New Zealand

The reinsurance market in Australia and New Zealand was highly satisfactory for our company in the year under review. We continue to see exceptionally good terms and conditions, which were sustained in 2003. The market underwent an appreciable adjustment following the elimination of a major insurance player in 2001. The results in both the liability and property lines reflected the very favourable terms and conditions, which improved again in 2003 compared to the previous year.

Reinsurers with excellent ratings reap disproportionately high rewards in Australia. The local insurance supervisory agency requires a higher level of capital resources from insurers in cases where business is placed with reinsurers that have inferior ratings. Hannover Re consequently profits from its outstanding "AA-" rating from Standard & Poor's, and with double-digit growth it reinforced its position as one of Australia's leading reinsurers in the year under review. We optimised our portfolio in 2003 with a shift in emphasis away from property lines in favour of longer-tail liability business.

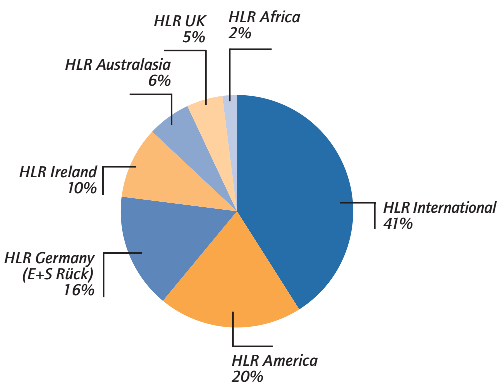
Significant claims were incurred only in January 2003, when a bush fire caused a loss of around EUR 2.5 million for Hannover Re.

Life and health reinsurance

Worldwide growth market

We are witnessing a steady rise in global demand for both risk-oriented covers – such as term life, disability and personal accident insurance as well as critical illness protection – and products such as endowment and annuity policies. There are three primary factors driving this trend: developments in the industrialised markets of Europe, North America, Australasia and Japan, growing prosperity in the emerging markets of Asia, Africa and Latin America as well as greater awareness of the need for individual provision for retirement and dependants among many population groups. It is for these reasons that life, health and personal accident insurance is a worldwide growth market, albeit with marked regional differences.

Breakdown of gross premiums by business centers (before consolidation)



As far as life and annuity products are concerned, a number of major markets – including for example the USA – are dominated by unit-linked product variants (particularly unit-linked annuity insurance), under which the investment risk is borne either entirely or largely by the customers themselves.

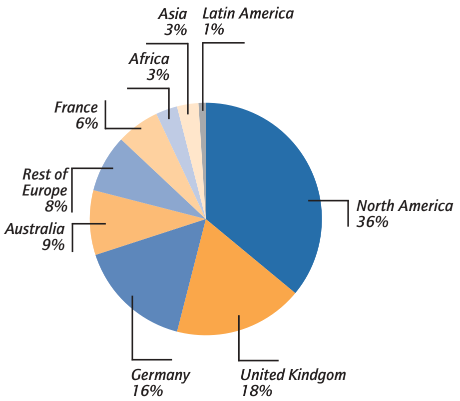
The more exacting standards imposed by insurance regulators requiring additional reserves for long-term guaranteed payments – considered to be so-called "embedded derivatives" – have also fostered this trend. Furthermore, the rating agencies have appreciably tightened up the capital adequacy requirements for guaranteed insurance benefits determined according to their capital models (with implications for insurers' capital adequacy ratios). In many markets this has now given life insurers strong incentives to modify their products and minimise guaranteed payment commitments.

Even in Germany the second half of 2003 witnessed an emerging debate about the long-term guarantees integrated into traditional life products such as endowment insurance to age 60 or 65, which has dominated the market for many decades. Similarly, the period of the guarantees is being reduced in the United Kingdom: under many critical illness policies it is already the case that unilateral premium adjustment options are available to the insurer after certain periods of time, e.g. every ten years.

Hannover Life Re – the life and health reinsurer

Operating under the Hannover Life Re brand we further stepped up our activities in the priority markets of Germany, the United Kingdom, France, Italy, South Africa, the USA, Malaysia, Australia, China and Japan. These ten markets account for more than 95% of our premium volume.

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



We are supported by a global network of seven licensed reinsurers as well as four branches of Hannover Re. Altogether, an average of 330 staff on all five continents were working for Hannover Life Re in the year under review.

In the international arena we have appreciably expanded our market position over the past two to three years through organic growth, and we now rank among the three most important life and health reinsurers in the world. We enjoy the status of either market leader or number two player in Germany, France, the United Kingdom, South Africa, Malaysia and Australia, while in the United States we are the largest specialty life reinsurer.

Hannover Life Re is the largest specialty life reinsurer in the USA

We attach special importance to Customer Relationship Marketing (CRM), under which we strive to offer our clients appreciable value-added and consolidate their loyalty within the framework of long-term partnerships. Launched in 1997, this concept has been implemented through the systematic use of measures from the field of CRM. They include, inter alia, the concept of Customer Lifetime Value, which we determine on an annual basis for all major clients.

CRM offers clients appreciable value-added

CHANGES IN LIVING CONDITIONS CALL FOR NEW CONCEPTS IN LIFE AND HEALTH REINSURANCE.

Life and good health are the most vital concerns for us all. In order to protect them, it is essential to develop appropriate insurance and reinsurance concepts that respond to changing living conditions. The scope of the challenge is multifaceted, involving the impact of lifestyle-related factors such as stress, scientific advances in the treatment of disease and increased longevity. A reinsurer seeking to be successful in this market must play a decisive role in shaping it.

Development of premium income

Consolidated gross premium income contracted slightly in the 2003 financial year to EUR 2.3 billion, compared to EUR 2.5 billion in the previous year. The substantial devaluation of certain foreign currencies – especially the US dollar against the euro – offset the modest premium growth (2.2%) in the original currency. The situation as regards net premiums earned was similar. These figures refer to premium income calculated in accordance with US GAAP, i.e. excluding the premium deposits for unit-linked life and annuity products.

As in the previous year, we pursued a centralised retrocession policy and limited our retrocessions to peak risks in life, disability and critical illness business as well as specific quota share treaties involving new business financing. The level of retained premiums stood at 85.1% (86.9%) in 2003.

The breakdown of the Hannover Life Re portfolio shifted further in the year under review towards the preferred lines of life, annuity and personal accident, which in sum now account for 80% (69%) of our total premium income. We terminated a number of health reinsurance contracts in the USA, thereby improving the line-of-business mix.

Key figures for life and health reinsurance

Figures in EUR million	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	2 276.3	(7.9%)	2 471.5	2 371.0	2 090.5	2 220.4
Premiums deposits	257.9	0.8%	255.8	289	404	–
Gross premium incl. premium deposits	2 534.2	(7.1%)	2 728.3	2 660	2 495	2 220
Net premiums earned	1 936.3	(9.6%)	2 142.3	1 740.3	1 592.3	1 485.0
Premium deposits	213.4	85.6%	115.2	129	131	–
Net premiums incl. premium deposits	2 149.7	(4.8%)	2 257.5	1 869	1 723	1 485
Investment income	179.4	(33.2%)	268.4	196.8	204.4	217.4
Claims expenses	1 270.4	4.2%	1 218.7	1 066	1 209	728
Expenses for benefit reserves	297.8	(48.1%)	574.1	298.0	37.5	496.1
Commissions	414.4	(8.5%)	453.0	460.3	411.3	391.1
Own administrative expenses	44.9	(20.7%)	56.6	32.5	56.9	49.7
Other income/expenses	13.8	(60.1%)	34.5	–	52	23
Operating result (EBIT)	61.0	25.8%	48.5	50.5	35.5	26.9
Net income after tax	46.6	55.2%	30.0	23.2	53.9	21.7
Earnings per share in EUR	0.43	37.9%	0.31	0.24	0.61	0.25
Retention	85.1%		86.9%	74%	76%	67%

Results

As far as the risk-oriented portion of our acceptances is concerned, accounting for a mere 25% of our total activities, the performance of life business is determined by the mortality while the disability, health and critical illness lines are crucially dependent on the morbidity. The mortality experience varied widely in the year under review: consistently favourable mortality results in all areas of Europe, Asia (with the exception of Japan) and Australia were partially offset by a below-average mortality experience with major risks in the USA and Japan. The morbidity experience gave grounds for satisfaction in virtually all markets, with especially favourable results recorded in the United States.

Traditionally accounting for the bulk of our acceptances in past years, too, 75% of the business written was attributable to financing-oriented transactions in the year under review. Critical performance factors here are the persistency of the business in force and – in the case of foreign acceptances – currency movements against the euro.

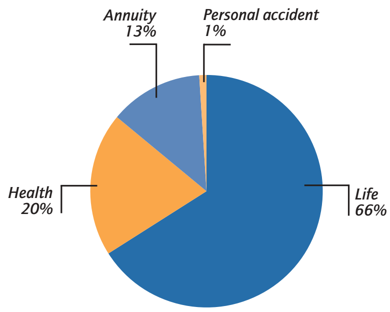
The credit risk in relation to the financial stability of the client in question also plays a vital role. Although we do not assume investment and/or interest-rate risks, the speed with which financing expenditures are amortised in some cases depends on the conditions on the capital markets.

These multiple risk factors are subjected to regular analysis and, where necessary and possible, adjustments are made in consultation with our clients for the purposes of a strategic coordination of interests. In the year under review there was no need to adjust our actuarial expectations in light of adverse developments. We were not affected by the difficulties facing a mid-sized German insurer which was rescued in the year under review by Protektor Lebensversicherungs-AG.

In the year under review, as in previous years, one of the principles of Hannover Life Re's underwriting policy in the US market was its absolute non-acceptance of mortality- and investment-related derivative risks. Specifically, these take the form of guaranteed death benefits under unit-linked annuity products in the USA. In contrast to other reinsurers, we do not believe that such risk constellations can be reinsured; this is because no internal risk control can be exercised and long-term safeguards at acceptable market prices are lacking.

No acceptance of mortality- and investment-related derivative risks

Breakdown of gross premiums by line of business



As at the middle of the year under review we closed our retrocession facility L4 and thus reimbursed the retroceded block of German unit-linked policies ahead of schedule.

Overall, Hannover Life Re boosted its operating profit (EBIT) by a substantial 25.8% to EUR 61.0 million in 2003. This was the best operating result in the company's history.

The net income after tax climbed by 55.2% to EUR 46.6 million. Leaving aside the exceptional 2000 financial year, which was influenced by tax effects, this, too, was a record result. Earnings per share amounted to EUR 0.43 (EUR 0.31).

Significantly higher operating profit (EBIT)

Development of the value of in-force business

Using an unchanged method approved by independent outside actuaries, we again calculated the value of in-force business in the year under review for all our business centers as at the balance sheet date.

This refers to the present value of future technical profit flows before taxes. It is arrived at after deducting the portfolio components attributable to retrocessionaires, leaving aside taxes on income but taking account of costs for solvency on the basis of local capital adequacy requirements.

The value of in-force business increased sharply by 12.9% to EUR 1.4 billion* (EUR 1.2 billion).

The table below shows the development of the value of in-force business over time at our seven business centers.

Development of the value of in-force business

Figures in EUR million	2003	2002	2001	2000	1999
Hannover Life Re Africa, Johannesburg	8.5	8.6	7	10	7
Hannover Life Re America, Orlando	196.3	170.3	130	120	95
Hannover Life Re Australasia, Sydney	96.6	79.3	78	76	61
Hannover Life Re Germany (E+S Rück), Hannover	214.3	226.7	194	172	74
Hannover Life Re International, Hannover	549.7	479.7	457	401	329
Hannover Life Re Ireland, Dublin	222.4	179.0	124	42	–
Hannover Life Re United Kingdom, Virginia Water/London	73.3	62.4	58	53	43
Total	1 361.1	1 206.0	1 048	874	609

Depending on the currency in question, the following risk discount rates were used. They are based on the return on 10-year government bonds plus at least 350 basis points:

Discount rates

Currencies	2003	2002
Euro	7.75%	7.75%
US dollar	7.75%	7.25%
Australian dollar	9.25%	8.75%
Pound sterling	8.50%	8.00%
South African rand	13.50%	15.50%

** Fully consolidated figures before deduction of minority interests*

We also performed extensive sensitivity analyses for all the business centers in order to identify the sensitivity of the calculated value of in-force business to changes in key influencing factors (such as the level of the discount rate, exchange-rate movements, changes in the mortality, morbidity and persistency of the in-force business).

The following table summarises the key figures determined for each business center:

Business Center	Discount		Mortality/ morbidity		Currency		Persistency of in-force business	
	-100 basis points	Previous year's discount rate	+ 10%	- 10%	EUR rises by 5%	Previous year's exchange rates	+ 10%	- 10%
Hannover Life Re Africa, Johannesburg	0.2	(0.5)	(15.7)	15.0	(0.4)	(0.6)	(0.7)	0.5
Hannover Life Re America, Orlando	12.5	6.1	(143.4)	138.9	(11.9)	41.4	(5.0)	5.0
Hannover Life Re Australasia, Sydney	3.5	1.7	(5.8)	5.7	(3.1)	(6.3)	(2.3)	2.8
Hannover Life Re Germany (E+S Rück), Hannover	12.4	2.4	(5.4)	5.3	(10.7)	11.3	(3.7)	4.1
Hannover Life Re International, Hannover	33.7	6.9	(18.0)	17.8	(29.7)	32.2	(13.0)	14.2
Hannover Life Re Ireland, Dublin	9.6	4.3	(34.4)	31.8	(3.7)	15.4	(4.2)	7.0
Hannover Life Re United Kingdom, Virginia Water/London	5.2	2.5	(8.9)	9.1	(4.0)	6.4	(3.5)	4.2
Total	77.1	23.4	(231.5)	223.6	(63.4)	99.8	(32.4)	37.8

The assumed changes in the incidence and lapse rates and in macroeconomic conditions used to calculate these figures are applied to all future years (e.g. a mortality increase of 10% in all subsequent years).

The table also reveals that exogenous parameters (interest rate level and exchange rates) adversely impacted the value of in-force business in the amount of EUR 115 million in the year under review.

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) recognised in accordance with US GAAP, a positive balance remains. This so-called non-capitalised portfolio value amounted to EUR 478.2 million (EUR 471.2 million) on a pre-tax basis as at 31 December 2003. The increase was only minimal in light of exchange-rate effects and the rise in interest rates.

Development of non-capitalised portfolio value

Figures in EUR million	2003	2002	2001	2000	1999
Portfolio value	1 361.1	1 206.0	1 048	874	609
Deferred acquisition costs	1 275.1	978.6	906	597	374
Unearned revenue reserves	392.3	244.0	179	–	–
Net acquisition costs	882.9	734.6	727	597	374
Non-capitalised portfolio value	478.2	471.2	321	277	235
Growth of non-capitalised portfolio value	7.0	150.2	44	42	90

The above table does not include the deferred acquisition costs for the life reinsurance portfolio of Hannover Reinsurance (Dublin) Ltd., the former HDI Reinsurance (Ireland) Ltd., which has been part of the Hannover Re Group since mid-2003.

With effect from the year under review, we have enhanced our disclosure compared to the previous year by recognising not only the deferred acquisition costs but also the unearned revenue reserve and contracts that do not have the character of insurance under US GAAP as defined by SFAS 113.

When evaluating the modest increase in the non-capitalised portfolio value in the year under review, it should be borne in mind that the significant devaluation of key currencies had an impact of around EUR 35 million on the non-capitalised portfolio value. Had it not been for this single effect the scale of the change would have been in line with multi-year expectations. The extraordinary increase in the previous year was due not only to particularly low discount rates but also to non-recurring special effects, such as the rehabilitation of US health business. It cannot therefore be expected on a regular basis.

Germany

Senior citizens' products offer good market prospects in Germany

In the German market, which is served by the business center Hannover Life Re Germany (E+S Rück), we stepped up our marketing activities and expanded our range of services. The written portfolio consists predominantly of financing transactions, although the proportion of risk-oriented covers has increased appreciably.

Several new customer accounts were acquired – especially with large mutual insurers – as numerous German life insurers restructured their reinsurance programmes.

A further focus of our activities was on the German senior citizens' market, which in our assessment offers considerable promise for the future.

Gross premium income contracted somewhat year on year. The bulk of our premiums derives from a number of high-volume financing transactions concluded for unit-linked life and annuity products. The underwriting experience in all risk components was similar to that of the previous year, thus producing a result slightly below the previous year's level.

Rest of Europe

United Kingdom

This important market is served by two of our business centers: as a locally licensed reinsurer Hannover Life Re UK writes traditional life and critical illness business, making systematic use of Hannover Life Re Ireland as co-reinsurer. Over the past ten years Hannover Life Re International has accumulated specialist experience as a provider of enhanced annuities, and it now handles several sizeable programmes of this type in the United Kingdom.

Against a backdrop of good results we boosted gross premiums to EUR 561 million; of this total volume, 41% was apportionable to business written by Hannover Life Re UK, while 59% was generated by enhanced annuities. The United Kingdom is thus our second-most important market after the United States. Hannover Life Re UK reported an operating profit (EBIT) of EUR 6.6 million, an increase of 24.1%. The performance of the annuity portfolio similarly lived up to our expectations.

Ireland

Our Irish subsidiary Hannover Life Re Ireland makes the most of the favourable business environment in Dublin and writes treaty business on a worldwide basis. Its main markets in the year under review were the USA, the United Kingdom, South Africa, and the Far East.

Gross premium income climbed by roughly 6.9% to EUR 327.6 million, while net premiums totalled EUR 264.8 million. The operating profit (EBIT) amounted to EUR 3.9 million on account of a more than satisfactory claims experience. Expenditure of around EUR 8 million was incurred in connection with the closure of two long-term interest rate swaps used to hedge the L4 facility. The result was thus markedly lower than in the previous year.

France, Italy, Spain and Arab countries

We continue to view the Romance-speaking countries, in which we principally concentrate on the bancassurance sector and large independent distributors, as priority markets. In our assessment, bancassurance business also offers potential in a number of Arab markets. In cooperation with a major commercial bank in Saudi Arabia we have developed life insurance concepts – so-called "Takaful" products – that conform to Islamic principles.

Good market potential in the bancassurance sector

The premium volume grew by 26.4% to EUR 220.6 million, with around 61.7% stemming from France, 24.1% from Italy and the remainder generated by Spain and Arab markets. The portfolio is superbly diversified from the underwriting standpoint, as a consequence of which results were again very good in the year under review.

North America

The North American market is served by our subsidiary Hannover Life Re America based in Orlando/Florida. The target clients are small and mid-sized life insurers active in niche segments of life, annuity and health business. We offer these companies a comprehensive range of reinsurance products, ranging from the acceptance of peak risks through underwriting services and audit programmes to the optimisation of solvency and liquidity.

In this context we also again concluded a number of block assumption transactions (BATs) in life business in the year under review. Under these transactions, we assume complete existing portfolios that are closed to new business against payment of a single commission.

In contrast to most other US reinsurers, we do not regard the 20 leading US life insurers as target clients. Similarly, when it comes to the reinsurance of unit-linked annuity policies we have consciously adopted a position that sets us apart from the market: we do not write covers for guaranteed benefit components under such policies.

We view the US senior citizens' market as a target market and have sizeable participations in the area of health riders, the results of which are characterised by considerable stability.

North America a target market for senior citizens' products

Owing to the fall of the US dollar against the euro our total portfolio of life business in force failed to grow and amounted to EUR 41.6 billion (in the original currency it increased by 25.6% to USD 52.4 billion). The gross premium volume declined by 35.9% in the course of the year to EUR 636.6 million (EUR 993.4 million), partly due to exchange-rate effects and partly because we took a conscious decision to withdraw from a number of sizeable health portfolios.

Hannover Life Re America posted substantially better results in the year under review, reporting an operating profit (EBIT) of EUR 18.0 million after a loss of EUR 2.7 million in the previous year.

Other international markets

Hannover Life Re Australasia is the largest life reinsurer in Australia

Australia and New Zealand

Our subsidiary Hannover Life Re Australasia operates in Australia and New Zealand. In the year under review it further consolidated its position as the Australian market's leading life reinsurer.

The bulk of the business written is risk-oriented, with concentrations in life, disability annuities and critical illness policies. Direct group life business is a particular speciality in which the company has made a name for itself as one of the leading providers of occupational pension schemes in Australia.

Gross premiums grew by 28.8% in the year under review to EUR 201.1 million (EUR 156.1 million). Profitability was again gratifying thanks to a favourable overall claims experience and a 20.8% increase in investment income. The operating profit (EBIT) climbed by 29.2% to EUR 12.2 million (EUR 9.4 million).

Africa

On this continent we concentrate on the English-speaking markets of southern Africa, i.e. sub-Saharan Africa, with a clear focus on *South Africa*. As the second-largest reinsurer in Africa, our subsidiary Hannover Life Re Africa in Johannesburg writes a risk-oriented portfolio of life and health business.

Since results in the previous two years – particularly in health business – had failed to meet our expectations, we decided to implement extensive portfolio rehabilitation. Gross premium income grew only slightly to EUR 67.5 million (EUR 63.3 million). Following a positive result in the previous year, the year under review closed with an operating loss (EBIT) of EUR 6.3 million.

Asia

The Asian markets are currently served by the two branches of Hannover Life Re International in *Kuala Lumpur* and *Hong Kong*. Our efforts to acquire new business in the year under review made considerable progress in the ASEAN markets of *Malaysia* and *Singapore* as well as in *China*, where we were able to conclude our first financing transaction with a major client.

The premium volume grew by 6.8% to EUR 47.0 million, with Hong Kong, Japan and Malaysia making the most prominent contributions. The claims experience varied widely in the year under review. As had also been the case in the previous year, an important Japanese life treaty unexpectedly produced an above-average number of claims which not only burdened us with regular losses but also compelled us to establish an additional premium deficiency reserve. The claims experience in Greater China, on the other hand, was very good, and in the ASEAN markets it was excellent.

In China our goal is to significantly expand our position in the medium term, and in the fourth quarter of 2003 we therefore decided to file a licensing application with the China Insurance Regulatory Commission (CIRC) for operation of a branch in Shanghai. We expect this branch to commence business activities in the first half of 2005.

Financial reinsurance

In financial reinsurance special importance attaches to the overall state of the insurance and reinsurance markets because we often reinsure our clients on the basis of their total business and not – as in other business groups – on the basis of individual lines.

We were therefore pleased to note that worldwide primary insurance rates and conditions across various lines remained on a high level in the year under review, with a trend towards further increases in liability business and initial erosion in the property sector. Some insurers were again faced with run-off losses in the year under review, principally from the very poor underwriting years of 1997 to 2000 and the wave of asbestos-related claims. Combined with generally lower investment income, and against a backdrop of substantial premium growth in the hard market as well as increased retentions, this served to put intense pressure on solvency margins. Rating agencies consequently responded with downgrades. By and large, the same scenario was true of the worldwide reinsurance industry. This situation generated stronger demand for financial reinsurance products.

Hard market boosts demand for financial reinsurance

In this environment we were able to further expand our market position in 2003. A number of market players appreciably scaled back their writing of non-traditional financial reinsurance business. Others are even in the process of winding up their portfolios. Only a small number of competitors, most of them based in Bermuda, are planning to expand in North America or Europe.

Key figures for financial reinsurance

Figures in EUR million	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	1 632.7	31.4%	1 242.6	1 740.6	870.2	508.6
Net premiums earned	1 563.4	29.1%	1 211.0	1 280.4	800.8	462.6
Operating result (EBIT)	148.2	209.9%	47.8	65.7	53.4	46.6
Net income after tax	99.1	149.6%	39.7	45.6	41.3	36.1
Earnings per share in EUR	0.90	121.7%	0.41	0.47	0.46	0.41
Retention	94.3%		95.2%	76.4%	92.4%	91.0%

On the financial reinsurance market the numerous bankruptcy scandals of recent years in the USA and Australia have focused the attention of auditors. Furthermore, the supervisory authorities in the major markets are considering implementing new guidelines intended to combat the misuse of such arrangements without curtailing the economically desirable, multi-faceted advantages offered by these products. In many countries we are cooperating with insurance regulators and leading accountancy firms on the preparation of such guidelines.

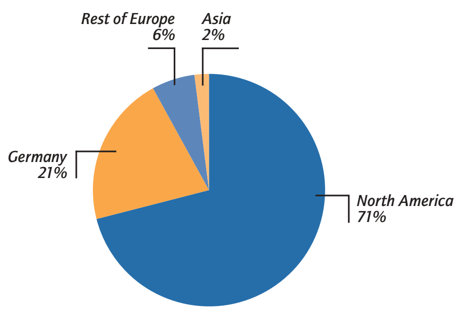
Many insurers in the European Union are currently preparing for the implementation of International Financing Reporting Standards (IFRS) in 2005. This will generally give rise to greater volatility in results. It is our assumption that the adoption of IFRS will be accompanied by a stronger demand for financial reinsurance products.

HELPING YOU REACH YOUR GOALS
MORE EFFICIENTLY.

People and businesses want to be successful. Yet long-term planning and sustained smoothing of results can only be achieved by the optimal selection and combination of various forms of protection and financing. Experienced professionals have to develop smart strategies for meeting key performance criteria. In this way, non-traditional reinsurance solutions can favourably shape corporate results and provide holistic balance sheet stabilisation – a major step on the way to success, we believe.

In global terms, we are one of the three largest providers of traditional financial reinsurance solutions. We operate under the brand name "Hannover Re Advanced Solutions" in order to underscore our expertise in the development of solutions individually tailored to clients' needs that is characteristic of our business group. In our largest market, the USA, we principally work with major brokerage houses and insurance groups with whom – in most cases – we maintain long-standing business relationships. At the beginning of 2003 we reinforced our local market presence by opening a new representative office in Chicago.

Geographical breakdown of financial reinsurance in % of gross premium income



In the United Kingdom we market our products largely through London-based brokerage firms. In the year under review we also stepped up our presence in our home market of Germany. The other markets on which we are represented are the rest of Europe, especially including the countries of Eastern Europe, Australia, Asia, Latin America, the Middle East and Africa.

In the year under review we stood by our customary conservative approach to the assessment of risks, and within this segment especially the timing, insolvency and underwriting risks. We restrict our market activities to financial reinsurance in the strict sense of the term and do not participate in capital-market-driven transactions. We do not accept loss portfolio transfers (LPTs) or take on financing projects, nor do we underwrite residual value insurance. While the years prior to 2002 saw vigorous demand for aggregate excess of loss treaties, the year under review was marked by a continuing trend towards financially oriented products such as capital-replacing proportional quota share arrangements.

Most of the business of Hannover Re Advanced Solutions is written by our Irish companies which can offer strong capitalisation, good ratings and – for many transactions – an accounting regime that has the edge over other countries. However, if the framework conditions of a specific transaction suggest it as appropriate, we also write business outside Ireland, for the most part in Germany. In the year under review we further strengthened our equity base and improved the portfolio diversification through integration of the contribution in kind – namely the former HDI Re (Ireland) Ltd. – received as part of the Hannover Re Group's capital increase in June 2003.

When it comes to providing our clients with flexible and individually tailored service, we are assisted by the fact that in our financial reinsurance acceptances we can draw on the know-how available from Hannover Re's traditional segments in the areas of actuarial analysis and underwriting expertise. Hannover Re Advanced Solutions makes deliberate, systematic use of these resources and integrates them into its decision-making. Along similar lines to other business groups, we achieve the desired risk diversification by spreading the geographical location and risk category of our acceptances, which may for example encompass both property and liability business.

No major losses were incurred in the year under review. Nor did the development of the poor underwriting years from 1997 to 2000 in the insurance and reinsurance sectors have any significant impact on financial reinsurance, since Hannover Re generally received additional premiums based on the claims experience of the affected treaties in these years.

The performance of financial reinsurance business was exceptionally gratifying in the year under review. Gross written premiums surged despite adverse exchange-rate effects, climbing 31.4% to EUR 1.6 billion (EUR 1.2 billion). It should, however, be borne in mind here that this growth was promoted inter alia by the first-time consolidation of HDI Reinsurance (Ireland) Ltd. Given stable exchange rates, especially as regards the US dollar against the euro, the increase would have been as much as 48.5%. This development was also reflected in the net premiums earned, which in the year under review amounted to EUR 1.6 billion (EUR 1.2 billion) in this business group.

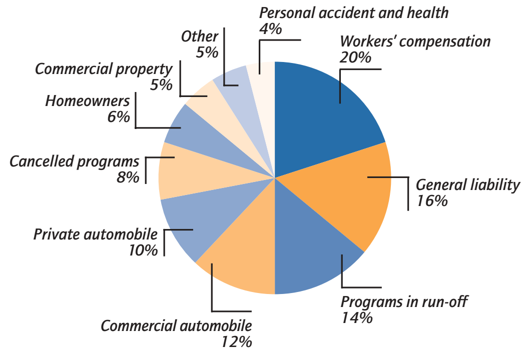
The operating profit (EBIT) rose to a record level of EUR 148.2 million, more than triple that of the previous year (EUR 47.8 million). Net income after tax also showed a triple-digit percentage increase of 149.6% to reach EUR 99.1 million (EUR 39.7 million), producing earnings of EUR 0.90 (EUR 0.41) a share for the business group.

Program business

Our US subsidiary Clarendon is the undisputed market leader in program business in the United States. Program business is a specialty form of primary insurance which concentrates on closely defined, homogeneous portfolios of niche risks (programs) that are not normally offered or adequately covered by traditional insurers. Another characteristic feature of this business group is that all major functions of the insurance business (from acquisition through the issuing of policies and premium collection to claims settlement) are outsourced. Clarendon has the required licences in all 50 US states and is the only company in the country to concentrate exclusively on program business. The individual contracts are written by around 55 managing general agents (MGAs) that have links with Clarendon.

The number of market segments in which double-digit rate increases could be obtained decreased in the year under review compared to the previous year. Nevertheless, it was generally possible to secure price increases across all lines that comfortably surpassed the claims trend of the business. The conditions of the contracts were also maintained on an attractive level for insurers, with no sign of concessions such as extensions of the scope of cover. The rehabilitation of Clarendon's portfolio had already been completed in 2002. At that time around 50% of all the programs were not renewed – accounting for roughly 30% of the gross premium volume – and more profitable business was written in their place. This restructuring paid off in the year under review: the "new" Clarendon again delivered satisfactory results, albeit somewhat lower than in the previous year.

Clarendon's gross written premiums by lines of business



Key figures for program business

in Mio. EUR	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	2 646.7	(3.0%)	2 729.1	2 457.4	1 974.4	1 363.7
Net premiums earned	1 155.9	38.8%	832.9	486.1	292.7	163.4
Underwriting result	20.0	(61.4%)	51.9	40.1	(7.4)	41.9
Operating result (EBIT)	57.1	(17.3%)	69.0	33.6	4.7	28.8
Net income after tax	42.2	(2.6%)	43.3	17.8	3.1	15.8
Earnings per share in EUR	0.39	(13.5%)	0.45	0.18	0.03	0.18
Retention	46.4%		37.8%	27.4%	14.5%	12.0%
Combined ratio	98.3%		93.8%	91.7%	102,5%	74.4%

THE ART OF SEEING RISKS AS OPPORTUNITIES – AND HOW TO MAKE THE MOST OF THEM.

Unusual risks offer unusual rewards. That is why program business writers design individually tailored insurance concepts with a profitable cost/risk ratio – even for segments whose earnings potentials are not normally recognised as such. By examining each risk on a detailed, individual basis, however, it is possible to write profitable business, e.g. in the insurance of works of art and valuable private collections.

A number of new players entered the market in the year under review, a development which intensified competition but did not adversely affect the quality of the programs. In program business as in other segments, the below-average investment income in the year under review promoted underwriting discipline in order to generate technical profits.

This observation is borne out by the experience of individual lines. Specifically, Clarendon covered risks in the following lines in the year under review: commercial automobile, general third party liability, workers' compensation, commercial property, personal accident and health, marine.

In the context of the restructuring activities of recent years Clarendon has succeeded in substantially boosting the profitability of its portfolio, most notably with the aid of a new business model. Based on the two business models used in the past, namely the fee-based ceded model and the retained model, we have created a third form that makes us less dependent on cyclical movements: by applying systematic underwriting methods and risk models when selecting business, Clarendon's so-called underwriting-oriented model enables us not only to generate fee income for our services but also to share in the technical profit. The significantly enhanced quality of the business under this new underwriting-oriented model has resulted in an optimisation of relations with the reinsurers of our programs.

Level of retained premiums significantly increased under underwriting-oriented model

Financial strength ratings are also important in program business: A.M. Best, the key rating agency for US business, confirmed Clarendon's rating of "very strong" ("A-").

Clarendon's results in 2003 were satisfactory. The low level of gross premiums, which was unchanged year-on-year at EUR 2.4 billion, was attributable principally to the weakness of the US dollar against the euro. Gross premium income would have recorded clear double-digit growth with better, stable exchange rates. The settlement of legal disputes with reinsurers arising out of old business adversely impacted the result, although it should be borne in mind that we are able to reclaim these expenditures from Clarendon's previous owners. Clarendon's contribution to Hannover Re's net income for the year thus amounted to EUR 37.3 million (EUR 45.1 million).

In addition to Clarendon, the London-based International Insurance Company of Hannover Ltd. (Inter Hannover) also transacts program business. Inter Hannover's main markets outside the United Kingdom are Ireland, Scandinavia, France, and Germany. Developments in these markets varied widely in the year under review: whereas in the United Kingdom and Ireland rates and conditions deteriorated slightly, the French and German markets were more or less static and in the Scandinavian countries further improvements in rates and conditions were obtained.

Inter Hannover's most important line is currently motor insurance. It also participates in both industrial and private property/liability insurance as well as in commercial and marine lines.

Inter Hannover enlarged its gross premium income by 6.6% to EUR 275.3 million in the year under review (EUR 258.2 million) and contributed EUR 8.5 million (EUR 7.0 million) to consolidated net income.

Taken together, the companies transacting program business within the Hannover Re Group generated gross premiums of EUR 2.6 billion (EUR 2.7 billion) in the year under review. With stable exchange rates the gross premium volume would have been 15.4% higher than in the previous year. The total contribution to consolidated net income amounted to EUR 42.2 million (EUR 43.3 million), corresponding to earnings of EUR 0.39 (EUR 0.45) a share.

Investments

Following three exceptionally weak stock market years, the major US equity indices developed favourably across a broad front in the year under review. On a US dollar basis both the Dow Jones (+ 25%) and the S&P 500 (+ 26%) gained considerable ground, although even they were clearly surpassed by the technology-driven NASDAQ index (+ 50%).

Until the middle of March, however, the prevailing downward trend had gathered further impetus in 2003. Financial markets in both the USA and Europe were very heavily influenced by events in Iraq. Only once hostilities had ended were market players able to turn their attention back to the cyclical recovery. The growing emergence of positive fundamentals, low key lending rates in the USA and the prospect of financial stimuli from the US government increasingly brightened the overall mood as the year progressed. In the lee of the US economic recovery European indices also showed significant improvement. The EuroStoxx 50 put on 15.7%, while Germany's leading index – the Dax – gained as much as 37.1%. Making allowance for movements on foreign exchange markets, this corresponded to increases of 38.3% for the EuroStoxx 50 and 64.0% for the Dax on a US dollar basis.

Parallel to this trend, volatility on equity markets in the USA and Europe increased sharply. During the summer investors shifted from bonds to equities, in some cases on a massive scale.

Between May and November, however, it became clear that the leading US index, the S&P 500, was unable to break out of its trading range between 950 and 1,050 and was instead tending to move sideways. This was all the more remarkable as corporate results in many sectors began to follow the improving cyclical indicators.

Overall, this development demonstrated that good news – while often reflected relatively quickly in equity prices – can only provide limited stimulus. It was only when signs emerged of the long-awaited improvement on the US labour market that equity markets received fresh impetus, pushing prices upwards again towards year-end.

By international standards, the key European exchanges were able to make up for their underperformance in 2002 relative to the bellwether US market.

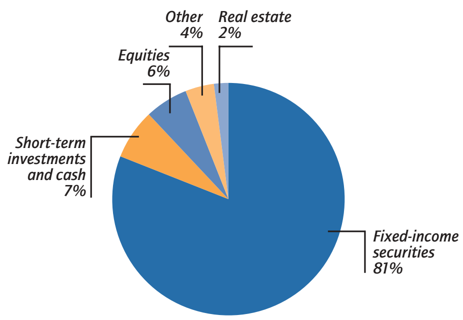
In the financial year just-ended we grew our total portfolio of self-managed assets (i.e. excluding funds held by ceding companies) by 13.0% to EUR 14.4 billion (EUR 12.7 billion). Several overlapping effects were at work here. The very good performance of our reinsurance business combined with the successfully implemented capital increase in the second quarter generated a high net cash inflow. The improvement on equity markets, on the other hand, had only limited implications for our valuation reserves due to our cautious weighting of this asset class. Nevertheless, as at year-end we again booked positive hidden reserves on equities of EUR 59.0 million. Owing to the volatility on bond markets, unrealised gains on fixed-income securities showed an overall decrease of EUR 125.0 million as at year-end. It should be borne in mind here that on balance price gains of EUR 140.8 million were realised within the year on equities and bonds.

Asset growth of 13 %

The euro appreciated in the course of the year against the majority of key foreign currencies for our company, and especially against the US dollar, which lost 21.1% of its value. Had it not been for the inhibiting effect of the US dollar's decline, the volume of our assets would have grown by as much as 23.3% to EUR 15.7 billion. Within the scope of our asset/liability management activities, the allocation of investments by currency is guided by the development of underwriting items on the balance sheet. This ensures extensive asset/liability matching, thereby keeping earnings-affecting currency fluctuations within manageable bounds. As at year-end 42.9% of our asset portfolio was held in US dollars, 36.9% in euros and 9.3% in pounds sterling.

Since we continue to view equity markets with caution, we again underweighted dividend-bearing securities in our portfolio and invested conservatively in the stock market. Our investment universe continues to consist of highly liquid Blue Chips listed on major indices (EuroStoxx 50, S&P 500, Nikkei). As at year-end a mere 6% of our investments were in listed stocks. We nevertheless shared in the stock market revival by tactically exploiting price fluctuations within the year.

Breakdown of investments



In accordance with the accounting principles prescribed by the Securities and Exchange Commission (SEC) for enterprises that draw up US GAAP-compliant financial statements, we test for impairment on a quarterly basis all securities listed at more than 20% under their book value. With an eye to our cautious positioning vis-à-vis the equity markets, we wrote these securities down to fair value almost without exception. Total write-downs on exchange-listed equities thus amounted to EUR 65.3 million in the year under review, compared to EUR 164.6 million in the previous year. We realised gains of EUR 67.6 million and losses of EUR 34.1 million on the sale of shares. The balance of unrealised gains on our equity portfolio totalled EUR 59.0 million (-EUR 141.3 million) as at the end of the reporting period.

We retained our long-term strategy for investing in alternative investments. New investments were made primarily in the areas of venture capital (USD 27.5 million and EUR 5.0 million) and distressed funds (USD 15.0 million). While capital calls and repayments from private equity funds were virtually balanced at EUR 31 million and EUR 33 million respectively, the value of the portfolio showed modest growth. A number of private equity partnerships made selective use of the recovery on capital markets to realise gains. Most notably, distressed securities funds – following an unusually strong rally in the lower segment of non-investment grade bonds – repatriated significant capital to investors in the course of the year. High-interest bond holdings and government bonds from emerging countries – with net growth in value of almost 19% over the year – similarly benefited from the increasing easing of tension on capital markets. The hedge funds held in the portfolio also turned in a strong performance, recording a gain of 26%.

In the spring of 2003 fears of deflation still held sway over the interest rate markets, subsequently causing rates to soar in May. The rapid rise in yields which set in around mid-June then reflected the thematic break with the deflation debate. Yields on 10-year US Treasury Bonds climbed to 4.6% by early September, before settling in a range between 4.0% and 4.5% at year-end. Yields in the Eurozone virtually tracked US yields, particularly in the second half of the year.

In June the US Federal Reserve Board cut the key lending rate for the last time to 1.00%, while the European Central Bank adopted a considerably more defensive posture with a reduction to 2.00%.

Our portfolio of fixed-income securities increased by 22.3% from EUR 9.5 billion to EUR 11.6 billion. We made extensive use of the general decline in yields as well as the diminishing yield advantage of corporate bonds over government bonds to realise gains of around EUR 164.0 million; net unrealised gains in our portfolio of fixed-income securities thus decreased from EUR 284.6 million to EUR 159.6 million. Fluctuations in market yields within the year were to a large extent optimally utilised through tactical duration management in the range dictated by underwriting liabilities. We were able to slightly improve the average quality of the securities as the year progressed. The proportion of securities rated "A" or better was on a par with the previous year at 91.1%. This high quality was also reflected in the markedly lower write-downs of EUR 29.7 million taken on fixed-income securities in the year under review.

New investments in the second half of the year were made primarily in medium- or long-duration instruments. In view of the high volatility and considerable uncertainty prevailing on credit markets, we maintained the high quality of the portfolio. Overall, though, we have purposefully preserved the flexibility of the portfolio's duration, i.e. somewhat shorter than neutral, in order to be able to respond to changes in the level of interest rates. In so doing, we consciously accept short-term losses on current interest.

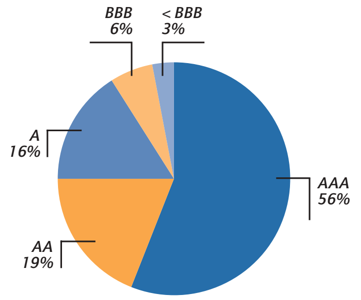
As at year-end 2003 we held a total amount of EUR 569.6 million in short-term assets, including overnight money and time deposits, and EUR 386.1 million in current assets.

The ordinary income of EUR 1.1 billion was virtually on a par with the previous year. This was due to the fact that the worldwide decline in bond levels in the year under review offset the absolute growth in investments. The contribution to ordinary income made by deposit interest income – at EUR 510.5 million – also remained relatively stable, since the funds held by ceding companies remained roughly on the previous year's level of EUR 7.7 billion.

In view of the continued uncertainty on capital markets, extraordinary income from investments showed a positive tendency in the year under review. We made the most of short-term opportunities on the bond market to realise profits. Total profits on disposals of EUR 255.3 million were generated in the year under review. This contrasted with realised losses on disposals of EUR 114.6 million. The positive balance of EUR 140.7 million thus improved on the previous year's figure of EUR 93.3 million. The lower write-downs on investments of EUR 99.3 million – attributable not least to the upbeat trend on equity markets and the high quality of our asset portfolio – had a clearly favourable impact on the investment performance.

Total net investment income increased from EUR 928.4 million to EUR 1,071.5 million, growth of 15.4% year on year. With stable exchange rates the investment income would have been substantially higher. In view of the volatile state of the markets in the year under review and irrespective of the currency effects, we are thoroughly satisfied with the income generated from our asset portfolio.

Rating of fixed-income securities



Risk report

Through their global activities all business groups of Hannover Re are exposed to a variety of risks that are inseparably linked to their entrepreneurial activities. The acceptance of risks and their professional management constitute our core business as a globally operating reinsurance company. This means that we do not in principle seek to avoid risks, but rather to enter into them on a pinpoint basis using advanced methods and procedures – provided the associated opportunities promise a commensurate increase in the value of the company. The risk management system is geared to the systematic identification, assessment, controlling and documentation of risks. Solvency II has given the issue of risk management a new, highly privileged status. Consequently, risk management assumes critical importance in the value-oriented steering of the Hannover Re Group.

Organisation of risk management

Central coordination of risk management with local responsibility

Risk management within Hannover Re is centrally coordinated, but based on local responsibility in the various areas of business. Local staff bear responsibility for risk monitoring and risk-policy measures within their specific areas and local risk controllers are charged – on the level of individual business groups – with identifying increased risk potentials as quickly as possible and initiating immediate counteraction. Centralised risk controlling steers the entire process and describes the risk situation of the entire Group across all business groups. The system of local responsibility ensures that we can identify and control risks as quickly as possible in order to effectively minimise the potential exposure to risk. Our risk reporting consists primarily of standard and ad hoc reports that are published online within a centralised risk information system. It provides decision-makers with up-to-date, comprehensive information about the degree to which a goal has been accomplished as well as with information on key changes in the market and the competitive environment. Constant monitoring of mission-critical factors ensures early detection of undesirable developments and facilitates implementation of appropriate countermeasures. In addition, an annual risk inventory is carried out in which all material risks are identified and evaluated. 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. Furthermore, the auditors examine whether the risk early-warning system integrated into the risk management system is capable of detecting at an early stage developments that could jeopardise the survival of the company.

Constant monitoring of mission-critical factors

Hannover Re's overall risk situation can essentially be described in terms of the following risk categories:

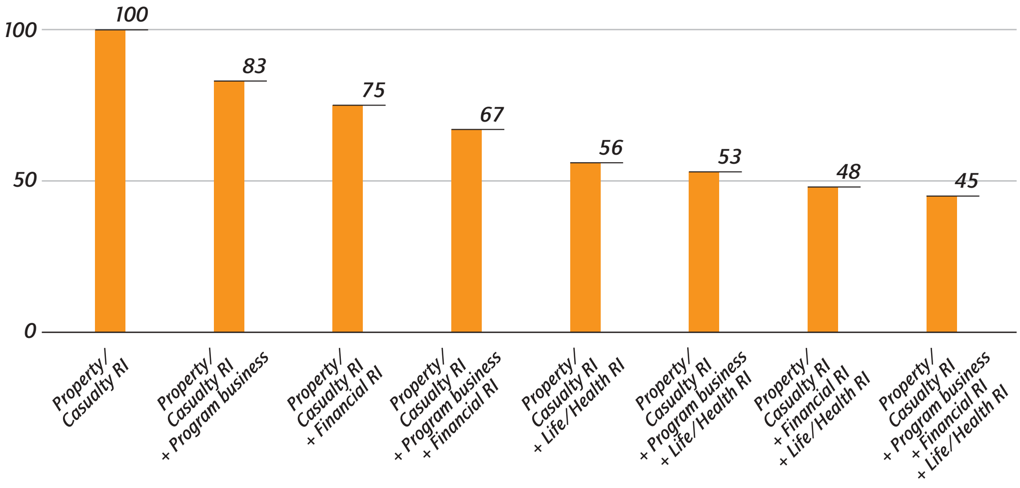
- global risks,
- strategic risks,
- operating risks, which we subdivide into
  - technical risks,
  - investment risks, and
  - operational risks.

Global risks

Global risks may result, for example, from changes in legislation and court practice, from political and social changes, from questions of liability or from natural catastrophes or environmental changes. Risks of this type can scarcely be reduced and there are limits to the extent to which they can be avoided because they are beyond the company's direct sphere of influence. Our risk management measures are therefore geared to identifying such developments as early as possible. We counter these potential risks, inter alia, by constantly monitoring claims trends and analysing claims and major losses. Our underwriting policy is regularly adjusted on this basis, e.g. through the use of appropriate contractual exclusions or through technical and geographical diversification of the portfolio.

With our strategy of diversifying our portfolio into four largely independent business groups we are able to generate maximum profit contributions while making optimal use – also from the security perspective – of stockholders' equity. It is thanks to this diversification that we can reduce the capital adequacy requirement for property and casualty reinsurance by around 50% in total through optimal risk spreading within the business groups.

Reduced capital adequacy requirements* in property and casualty reinsurance through diversification



** Rebased figures: Property and casualty reinsurance = 100*

Trends in the various national environments are monitored by our responsible local market representatives, whose market intimacy and experience ensure that significant changes can be identified. Global changes, on the other hand, are tracked centrally within our specialised service units. Group Legal Services, for example, investigates trends in court practice around the world, e.g. the underwriting implications of the EU's eastern enlargement, asbestos-related risks in Europe and legal decisions connected with the World Trade Center event. 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. Particularly significant events for Hannover Re in the year under review were the tornadoes in the US Midwest, typhoon "Maemi" in South Korea and hurricanes "Fabian" and "Isabel", which in September caused considerable damage in Bermuda and the East Coast of the United States respectively. Our burden of losses from these events amounted to EUR 41.8 million for gross account and EUR 37.4 million net. Using simulation models we analyse the increase in the frequency of natural catastrophes caused by global climate changes and in the extent of the resulting losses. On the basis of these analyses we determine the maximum exposure that we are prepared to accept for such risks within the Group and calculate our own reinsurance requirements.

Strategic risks

Strategic risks have a bearing on our corporate objectives. They derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating business environment. Value and cost drivers must be transparent if strategic corporate objectives are to be achieved. This is only possible with optimal organisational, decision-making and reporting structures. Risk management coordinates the activities and thereby supports the controlling of opportunities and risks. In order to survive in the fierce competitive environment we regularly review our strategy and adjust our structures and processes accordingly. Every three years we subject the assumptions underlying our corporate strategy to detailed scrutiny. The most recent strategy review, which was conducted in 2002, incorporated the views of employees from various levels within the Group both at home and abroad.

Technical operating risks

Every insurance company is faced with the problem of first having to collect fixed premiums from all policyholders and only later knowing the claims payments it will have to make. In other words, the technical risk is that the actual claims expenses can diverge from the expected amount and exceed the total available premium income (including security funds). Possible reasons here may be an incorrect risk assessment or risk spread, excessive interdependencies between risks or default on the part of retrocessionaires. Hannover Re uses various mechanisms – both for the portfolio as a whole and for specific business groups – to control technical risks.

Controlling of technical risks for both the overall portfolio and specific business groups

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. These reserves are established for claims that have been incurred and reported to the insurer, but whose amount has not yet been fixed and therefore cannot be paid yet. There are also claims which only materialise later and which the policyholder consequently reports to the insurer – and the insurer subsequently to the reinsurer – some time after they are incurred. Reserves also have to be constituted for these so-called IBNR (incurred but not reported) claims since often years or even decades elapse until the final run-off of such claims. This is especially true of liability claims. Uncertainties in reserving are thus unavoidable, not least because reinsurers find themselves at the end of the information chain and ultimately depend on the data provided by ceding companies. The IBNR reserve additionally established by the Hannover Re Group amounted to EUR 1,504.3 million in the year under review. The IBNR reserve is calculated according to a breakdown into risk categories and regions. The anticipated ultimate loss ratios are calculated in altogether 53 subsegments.

Recent years have witnessed an accumulation of lawsuits around the world due to bodily injuries resulting from the use of asbestos. Hannover Re's exposure to asbestos- and pollution-related claims is, however, relatively slight. We have only accepted business on the US market since the seventies, and even then very modest volumes only. In addition, we have already commuted numerous existing exposed treaties. In view of the increased risks related to asbestos and pollution claims we nevertheless further reinforced our reserves: in 2003 we boosted our own additional reserves by 20.7%. The relative level of these reserves is measured using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. As at the end of the year under review our survival ratio stood at 30.2 years – a figure which clearly demonstrates – also in comparison to our competitors – that our reserves are adequate. We do not therefore anticipate any significant risks in this area in future years.

Survival ratio of 30.2 years

Reserves for asbestos-related claims and pollution damage

	2003			2002		
	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years	Individual loss reserves in EUR million	IBNR reserves in EUR million	Survival ratio in years
Asbestos-related claims/ pollution damage	28.1	101.9	30.2	21.6	84.4	16.9

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 in the years 1993 to 2002 in the property and casualty reinsurance business group as well as the run-off of this reserve. This covers almost the entire loss reserves for the business group. The figures for the years 1993 to 1997 were compiled in accordance with the German Commercial Code (HGB), while the data from 1998 onwards are based on United States Generally Accepted Accounting Principles (US GAAP).

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.

In reinsurance business, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible to make an exact allocation of claims expenditure to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to major foreign currencies is also a significant influencing factor in this context. For Hannover Re the US dollar and the pound sterling (cf. section 7.7 in the Notes on the consolidated financial statement) are particularly important foreign currencies. The depreciation of these currencies against the euro compared to the previous year (USD -21.1% and GBP -8.7%) led to an appreciable decrease in the loss and loss adjustment expense reserve.

The table on the following page 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 preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

Net loss reserve and its run-off

Figures in EUR million	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 31.12.	2003 31.12.
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	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	6 584.9
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	5 667.7	
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	5 795.6		
Three years later	3 101.6	3 528.6	3 835.6	4 016.0	4 435.9	4 841.0	5 125.7	5 206.6			
Four years later	3 211.7	3 356.2	3 811.4	3 883.9	4 153.7	4 630.3	4 427.8				
Five years later	3 066.0	3 329.1	3 695.1	3 666.3	3 949.5	4 001.5					
Six years later	3 049.4	3 268.3	3 547.6	3 489.2	3 362.4						
Seven years later	2 990.8	3 177.8	3 417.5	3 003.0							
Eight years later	2 939.3	3 059.5	3 220.5								
Nine years later	2 830.3	2 922.4									
Ten years later	2 733.4										
Net run-off result of the loss reserve	753.1	813.2	737.1	1 301.7	1 487.0	1 000.6	1 268.5	955.7	1 072.2	178.4	
Of which currency exchange rate differences	114.2	12.1	180.3	16.2	(303.7)	(119.7)	(495.4)	(782.8)	(1 062.5)	(639.8)	
Net run-off result excluding currency exchange rate differences	867.3	825.3	917.4	1 317.9	1 183.3	880.9	773.1	172.9	9.7	(461.4)	
As percentage of original loss reseve	24.9	22.1	23.2	30.6	24.4	17.6	13.6	2.8	0.1	(7.9)	

The reserves in life and health reinsurance are always based upon the information provided by our clients. Actuarial analyses ensure that the actuarial bases (interest rate, biometrics, costs) used to determine the policy benefits for life and health contracts are appropriate and that the safety margins contained therein are adequately calculated. Furthermore, local supervisory authorities monitor the reserves calculated by ceding companies to ensure that they satisfy all local requirements with respect to actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse rate, etc.).

In order to assess the risk of losses exceeding premiums in property and casualty reinsurance we track, inter alia, the combined ratio over time. This analysis is performed both inclusive and exclusive of catastrophe losses.

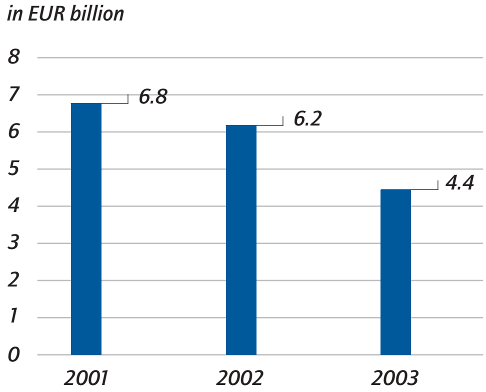
Combined and catastrophe loss ratio

Figures in %	2003	2002	2001	2000	1999	1998	1997*	1996*	1995*	1994*
Combined ratio	96.0	96.3	116.5	107.8	111.1	108.1	99.5	100.4	98.4	102.2
Of which catastrophe losses**	1.5	5.2	23.0	3.7	11.4	3.5	1.5	2.7	4.1	1.5

* *Based on figures reported in accordance with the German Commercial Code (HGB)*
** *Natural catastrophes and other man-made major losses > EUR 5 million gross for the share of the Hannover Re Group as percentage of net premiums earned*

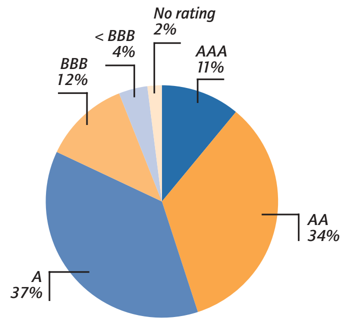
We do not fully retain the business that we accept, but retrocede portions as necessary. By systematically retroceding individual risks, exposed lines or blocks of business we are able to reduce and diversify the risk portfolio and stabilise the result. It is therefore particularly important to carefully select retrocession partners in light of credit considerations. Our assessment of the financial strength 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 acceptable to the Hannover Re Group with binding effect. 94.3% of our retrocessionaires have a so-called investment grade rating (AAA to BBB). A mere 5.7% 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, less than 7.8% of our accounts recoverable from reinsurance business were older than 90 days as at the balance sheet date.

Reinsurance recoverables on unpaid claimes



Despite the exacting credit standards that we impose on our retrocession partners and the low default rate of recent years, we have taken the additional risk-minimisation measure of consistently decreasing the level of reinsurance recoverables. Since 2001 we have reduced our recoverables by altogether 35.0%. What is more, the bulk of the recoverables existing as at 31 December 2003 are secured by deposits or letters of credit. Last but not least, it is often possible to offset recoverables against corresponding liabilities under the same business relationship, thereby significantly reducing the remaining risk.

Reinsurance recoverables by external rating classes in percent



Investment operating risks

Balance sheet controlling through asset/liability management

The overriding maxim of our investment strategy is capital preservation while taking due account of the security, liquidity, mix and spread of our asset portfolio. The principles of risk diversification and matching currency cover are applicable in this context. The goal of obtaining a high return on investments is subordinate to capital preservation. Risks in the investment sector consist most notably of market, credit and liquidity risks. The Hannover Re Group has adopted investment guidelines applicable throughout the Group. Compliance with these guidelines is constantly monitored. A further essential component of risk management is the strict separation of functions – i.e. keeping a distinction between trading, settlement and risk controlling. Risks in the investment sector are countered using a broad range of efficient management and control mechanisms geared to the rules adopted by the Federal Financial Supervisory Authority (BaFin). We control the liquidity risk, for example, by allocating a liquidity code to each security. The breakdown of assets across the various liquidity classes is then shown in the monthly investment reports and controlled on the basis of limits. Importance is also attached to the risk associated with our portfolio of participations. We use a tightly organised system to direct and monitor our participations, with plans drawn up and regularly reviewed for each unit.

Asset/liability management is particularly important in the reinsurance industry. We control assets and liabilities using an asset/liability management (ALM) approach with a sound scientific foundation which enables us to optimise Hannover Re's overall position with an eye to its financial risk/return target. The risk preferences defined by the Executive Board are taken into account. One component of risk management in this context is dynamic financial analysis on the basis of US GAAP. Depending upon the simulation results, the findings produced by these financial analyses enable us to prioritise risk-policy measures.

Based on the assumptions listed below, the fair value of our securities would develop as follows as at balance sheet date:

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices + 10%	92.6
	Stock prices + 20%	185.1
	Stock prices - 10%	(92.6)
	Stock prices - 20%	(185.1)
	Fair value as at 31.12.2003	925.6
Fixed-income securities	Yield increase +100 basis points	(411.9)
	Yield increase +200 basis points	(794.7)
	Yield decrease -100 basis points	444.1
	Yield decrease -200 basis points	917.2
	Fair value as at 31.12.2003	11 633.0
Exchange-rate-sensitive investments	Exchange rate change* +10%	(907.2)
	Exchange rate change* - 10%	907.2
	Fair value as at 31.12.2003	9 072.0

** Exchange-rate fluctuations of +/- 10% against the euro*

Rating structure of our fixed-income securities*

Rating	Government bonds		Securities issued by quasi-governmental entities		Corporate bonds		Asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	90.3	3 247.8	69.2	2 108.9	12.2	450.5	56.4	726.2
AA	7.1	255.5	26.6	809.8	20.2	742.7	26.8	345.3
A	0.6	21.5	3.5	107.5	44.9	1 654.9	8.8	112.8
BBB	1.7	61.8	0.4	12.6	16.5	606.7	0.7	9.5
< BBB	0.3	10.9	0.3	9.9	6.2	229.0	7.3	94.5
Total	100.0	3 597.5	100.0	3 048.7	100.0	3 683.8	100.0	1 288.3

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

Operational risks

Operational risks refer to the risk of direct or indirect losses attributable to the inadequacy or failure of technical systems, human error or organisational shortcomings. In particular, a failure of the data processing infrastructure and the associated unavailability of our IT applications constitutes a major risk for our company. We invest systematically in improving the security and availability of our information technology in order to minimise these risks. Group-wide guidelines direct staff in the handling of information and the secure use of information systems. A major integral component of our safeguards is the Internal Controlling System, which encompasses all harmonised and interlinked checks, activities, and rules. Adequate management of operational risks has also taken on additional importance in the light of supervisory developments. Within the framework of Solvency II it is to be anticipated that operational risks will in future have to be backed by stockholders' equity. The controlling of such risks will therefore become a crucial competitive factor.

Constant enhancement of IT security and availability

High employee satisfaction and low staff turnover minimise the risk of losing know-how. Reinsurance is a highly diverse financial service, the success of which is crucially dependent on the expertise, motivation and initiative of our staff. It is absolutely vital that we know the type of skills we will need in the future and understand how we can recruit, motivate and retain the right people. In order to accomplish these goals, we use advanced working-time models (e.g. telecommuting, part-time arrangements) as well as personnel development and training activities (e.g. management simulation game, executive coaching, techniques for identifying potential, personal discussions with employees) etc.

As a reinsurance enterprise we must be able to conduct projects in a professional and timely manner in order to realise new reinsurance products and concepts, offer services and meet legal requirements with a high quality standard. Multistage project management ensures that all projects are executed on time and on budget according to their prioritisation. The changeover to IFRS accounting standards is currently a major project at Hannover Re. The EU Council of Ministers adopted the Regulation on the Application of International Accounting Standards at the beginning of June 2002. This requires the application of international standards (IAS/IFRS) in the consolidated financial statements of capital-market-oriented enterprises. In July 2003 Hannover Re launched a project with the goal of presenting information on the reconciliation with International Financial Reporting Standards (IFRS) from the first quarter of 2005 onwards –

supplementary to the US GAAP consolidated financial statement – and subsequently preparing the first IFRS-compliant consolidated financial statements as at year-end 2005. These will replace the US GAAP financial statements.

An accounting system cannot be transformed to IFRS simply by modifying the existing IT landscape. A far-reaching change of this type also necessitates adjustments in our corporate processes. Not only that, we need to train our staff and implement the new standards and methods on a Group-wide basis. At the present moment in time, we do not expect any divergences from the planned timeframe and budget.

Assessment of the risk situation

No risks identified that could threaten the Group's existence

All in all, we do not currently see any indications of developments that could significantly impact Hannover Re's assets, financial position or net income. No risks can be discerned that could jeopardise the continued existence of the company.

Human resources

All activities and processes in our human resources management are closely dovetailed with the requirements of the Group's strategy. Using our holistic management system "Performance Excellence" we harmonise market requirements with the needs of our employees. In the year under review, as part of our Performance Excellence process, the area of Human Resources Management – along with other divisions of the company – was successfully certified by Deutsche Gesellschaft zur Zertifizierung von Managementsystemen (DOS) in accordance with DIN ISO 9001: 2000. An independent institution has thus given our human resources work a stamp of approval that is synonymous with reliability, confidence and quality. The certification attests to the fact that all processes, including personnel recruitment, development and administration, are based upon a system that constantly safeguards and at the same time continually optimises the existing standard.

The Group employed 1,972 (2,016) staff in 18 countries in the year under review, including 789 (750) at Home Office in Hannover. 60% of our employees work at permanent establishments abroad.

Breakdown of employees by country

	2003			2002
Country	Total	Male	Female	Total
Germany	789	384	405	750
USA	681	285	396	760
South Africa	138	66	72	153
Sweden	79	29	50	75
United Kingdom	72	34	38	69
Australia	40	18	22	43
France	36	16	20	33
Malaysia	31	14	17	31
Ireland	25	15	10	27
China	19	8	11	18
Mexico	18	11	7	18
Italy	11	5	6	8
Bermuda	8	5	3	7
Spain	9	3	6	6
Japan	7	5	2	6
Taiwan	2	1	1	5
Canada	6	2	4	6
Korea	1	1	0	1
Total	1 972	902	1 070	2 016

Human resources marketing

Implementation of professional personnel tools as part of a strategic management concept

Expert, dedicated and entrepreneurially-minded employees are our most important performance factor in addition to capital resources. In past years we have therefore devoted considerable energy to developing and implementing professional personnel management tools as part of our strategic management concept – not only at Home Office but throughout the Group. Management feedback, that is to say the appraisal of a manager's performance from the perspective of the employees whom he or she supervises, as well as the 270° feedback process, i.e. the appraisal of managerial staff from the perspective of their supervisor and colleagues within the framework of a competence analysis – all these are now tried and trusted instruments. Both systems – namely management feedback and the 270° feedback process – have now been cleverly combined in a new "blended" tool. The focus here is on objectivity and functionality. The various criteria used for systematic assessment are values (customer orientation, profitability, reliability), knowledge (languages, technical know-how) and skills (communication, readiness to take decisions, organisational talents). Overall, the blended tool is intended to enhance leadership attitudes and to successfully match positions with personal profiles. We use it to systematically check the quality of core competencies, determine training requirements and at the same time identify career opportunities as part of successor planning.

We also use a new technique for identifying potential within the scope of successor planning, namely the personnel development workshop. By means of this holistic approach we seek to pinpoint an employee's skills requirements and clarify personal development opportunities with an eye to professional and leadership qualities. This tool enables us to provide managerial staff with valuable pointers for the advancement of their employees.

Our goal is to enhance our status as an attractive international employer. We are constantly on the lookout for highly qualified young professionals and junior executives who are motivated to work together with us on this challenge. From the very outset this task is geared to continuity and cannot allow itself to be swayed by short-sighted considerations and labour market factors. We have commissioned internal and external studies to examine the appeal of our company as an employer and we have defined what we consider to be necessary action fields based on their findings.

In order to satisfy our constant need for motivated, well-educated university graduates we have developed marketing activities aimed at target groups and institutions of higher education. We currently maintain close contacts with all major universities in fields related to our work. By giving a diverse range of specialist presentations we recruit directly from among the students and have established lasting relationships with department chairs. We also attend university career fairs and relevant recruiting events. In our assessment, the doubling in the number of qualified applications received in recent years is in part due to these activities.

Global compensation – uniform worldwide guidelines

Our uniform global compensation model is based upon the job descriptions and evaluations drawn up in 2001. They facilitate comparison of specific positions and requirements and integrate all managerial posts into the Group's value system. At the same time, the uniform standard still allows the subsidiaries sufficient individual latitude to take account of local needs in the country concerned.

A second pillar of our compensation model is the system of target agreements for our managerial staff, which was also launched in 2001 on the basis of uniform global standards. With the implementation of Performance Excellence as our holistic management system, the agreements on targets were linked with the Performance Excellence criteria in the year under review. We have thus achieved a further milestone in the establishment of a uniform global management system.

The virtual stock option plan constitutes the third pillar of our compensation model. It is determined by the long-term development of the entire Group. Around 150 managerial staff around the world participate in the scheme. In this way, the long-term performance of the Hannover Re share is anchored as a major factor in our mindset and actions.

Electronic human resources management was further expanded with the enhancement of the "Employee Self-Service" facility and the launch of a "Manager Self-Service". Employee Self-Service gives staff online access to their employee leave account as well as information on time management, pay slips and event management.

Manager Self-Service enables managerial staff to view relevant data concerning the employees under their supervision online, which is a significant help to executives in carrying out their leadership tasks. Through the use of electronic systems we are able to cut costs in many areas and at the same time enhance the quality of human resources processes.

We have taken steps to make our company pension schemes even more secure. By taking out insurance protection outside the Group we have made sufficient provision for biometric risks and necessary pension adjustments.

Company pension schemes made even more secure

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 2003 financial year.

Our gratitude also extends to the employee council and the senior management committee at Home Office for their trusting cooperation.

Outlook

The rapid end to the Iraq war prompted an immediate recovery on capital markets in the year under review. In the current year too this optimism would appear to colour the mood on capital markets. Although the fundamentals remain flimsy, the majority of market observers evidently assume that a sustained cyclical recovery on the world's leading national economies is now possible.

The steady depreciation of the US dollar throughout 2003 was a consequence not least of the massive deficit in the United States. Given the impending presidential election in November, it is to be expected that the present Administration will again give massive support to the domestic economy in the current year – in other words, we do not anticipate a sudden sharp rise in the US dollar. Similarly, we do not see any prospect of a dramatic rise in US interest rates given the adverse economic impact such a move would likely have.

Increasing signs of an impending sustained recovery are now emerging from Japan. A somewhat more buoyant stock market is giving grounds for optimism. The yen will probably move more or less parallel to the US dollar, since neither of the two countries will be willing to jeopardise its domestic economic recovery.

For the first time in 11 years Germany assumed the mantle of world export leader in the year under review; as in the previous year, however, it proved impossible to kick-start domestic demand. Nevertheless, following a contraction of 0.1% in the year under review, the national economy is expected to record renewed modest growth of 0.7% for 2004. Contrary to expectations, the strong euro has not to date significantly damaged the export sector.

Although the state of the global economy is viewed somewhat more optimistically and despite the recovery on capital markets, insurers and reinsurers remain under pressure in the current year to generate good underwriting results. Against a backdrop of lower interest rates and reduced equity allocations, investment income cannot make up for poor underwriting profits. What is more, many market players are still suffering from the effects of the last soft market and it is still to early to foresee when the "payback" phase – during which insurers and reinsurers try to recoup past losses – will be completed. As at 1 January 2004, therefore, continuing rigorous underwriting discipline was observed on all major markets, thanks to which the good rates and conditions in property and casualty insurance and reinsurance were sustained – in some areas even improved. In life and health insurance and re-

Continued rigorous underwriting discipline on all major markets insurance, too, we anticipate very good growth prospects. The increased global demand for annuity and life insurance products is driven by the demographic trend and the resurgent economy in major markets.

Property and casualty reinsurance

Following the excellent performance of property and casualty reinsurance in the year under review, we expect to reap further fruits of the cyclical upswing in the current year. In 2004, our portfolio, which was substantially enlarged in the last three renewal phases against a backdrop of adequate rates and restrictive treaty terms and conditions, is again superbly positioned to profit from the continuing hard market.

Further improvements in rates and conditions across virtually all segments

In the treaty renewals as at 1 January 2004 approximately two-thirds of our treaties were renewed. We were again able to obtain improvements in rates and conditions across virtually all segments or at least maintain the very good premium level already attained. Slight premium erosion occurred in specific segments – typically those that had shown the strongest rate increases over the past two years. This was especially true of aviation fleet business, in which we systematically scaled back our involvement. On the other hand, we further enlarged our participation in North American liability business – a segment which again grew in profitability – principally on the basis of excess of loss treaties. Prices here continued to climb in 2004. We have observed further highly favourable developments in credit and surety business too, where the rate increases obtained in the year under review have been largely sustained in 2004.

In Germany we expect the hard market to continue in 2004, although early signs of more intense competition – attributable to rising reinsurance capacities in the property lines – can be discerned. No major changes are expected on the primary insurance market. The need to continue generating underwriting profits should ensure discipline among insurers and prevent significant softening of rates and conditions.

The other European markets also offer the prospect of favourable developments in 2004. In the United Kingdom, for example, we expect the reinsurance market for liability business to show further hardening. Double-digit percentage increases in reinsurance rates are anticipated for non-proportional motor business. Last but not least, rates in property business should remain at the present high level. In France further improvements in rates and conditions were obtained across large sections of the portfolio in the renewals as at 1 January 2004. This was true, inter alia, of motor business and general third party liability. In property reinsurance, on the other hand, rates declined slightly. The current hard market climate in Italy is likely to be sustained, and we therefore again anticipate adequate terms and conditions in the coming year.

We see scope for further consolidation in the North American insurance market since the attained returns on equity are still too low to satisfy investors. Nevertheless, the gratifying operating profits of the 2002 and 2003 underwriting years will probably serve to intensify competition, especially in the property lines.

It is likely that reinsurers, too, will have to gear up for more vigorous competition in property business in North America, primarily due to the relatively low claims expenditure incurred in the year under review and its tempting effect on certain market players. Liability business, however, is expected to develop in quite another direction. Ceding companies will continue to place their covers only with the best and most secure reinsurers, especially in view of the emerging need for some competitors to establish additional reserves for risks from past underwriting years. Competition in this segment is therefore likely to remain relatively restrained.

The bulk of renewals in a number of Asian markets take place as at 1 April of each year. In Japan we expect the situation to remain stable. The "established capacity" has contracted somewhat, and hence only minimal price erosion is to be expected for excess of loss and proportional treaties. We are planning to further enlarge our portfolio in Japan. In Korea the renewals of excess of loss business as at 1 April 2004 are likely to be favourable in the wake of typhoon "Maemi". Most notably, further hardening and higher retentions are expected in natural catastrophe business. In Taiwan, on the other hand, we scaled back our exposure as at 1 January 2004 in response to a rather soft market environment. At the same time, in South and Southeast Asia we successfully converted a number of our proportional treaties to excess of loss arrangements, and we remain highly satisfied with local market conditions.

Prospect of another excellent year for property and casualty reinsurance

Our Australian portfolio is expected to generate another very satisfactory result in 2004, since it became clear in the renewals as at 1 January 2004 that – despite the already achieved high level – further improvements in rates and conditions could be obtained, especially in liability business. We are still inclined to optimise our portfolio by enlarging the proportion of liability business. What is more, we are increasing our exposure with certain selected clients.

Property and casualty reinsurance should therefore enjoy another excellent year in 2004 – provided our account is spared extraordinary expenditure for major losses. This business group is expected to generate by far the largest contribution to net income.

Life and health reinsurance

Demand for solutions in the areas of both risk-oriented coverage and old-age provision is set to rise steadily in almost all developed markets owing to the demographic trend.

Increased new business in the area of unit-linked products, particularly unit-linked annuity insurance, is anticipated in the major insurance markets of the United States and Japan as well as in Continental Europe. There will be no change in the considerable importance attached to traditional products for risk-oriented protection such as term life insurance, disability covers and critical illness policies.

With its offices abroad on all five continents, specialist expertise in the field of financing-oriented life reinsurance and an experienced management team, Hannover Life Re is favourably placed to profit from the growth in the markets. As part of the process of enlarging our client base we anticipate particularly good progress in Germany.

Further double-digit growth planned in EBIT and net income

For 2004 we expect only marginal growth in gross premium income owing to exchange-rate effects. Profitability should, however, continue to improve; we anticipate double-digit growth in both the operating profit (EBIT) and net income. The value of in-force business is also expected to grow.

Financial reinsurance

We regard financial reinsurance as a growth segment within the Hannover Re Group and expect both premium income and profitability to record average increases of between 10 and 15% in the years to come. Growth in 2004 is likely to be somewhat smaller owing to the significant increase generated in the year under review.

At the beginning of this year Hannover Re Ireland and E+S Re Ireland relinquished their preferential tax treatment in Ireland. Instead of the previous rate of 10.0%, the companies will be subject to the normal tax rate of 12.5%. As a consequence of this change the premium tax of 1% currently due for American business will no longer be payable. This move will enhance our competitiveness on the US market.

Companies will come under increasing pressure to produce a consistently favourable performance. This is especially true of exchange-listed enterprises. Demand for the tailored solutions offered by financial reinsurance will therefore increase. Based on our vast experience, strong market position and the limited number of competing players, we look forward to a favourable development in this climate.

As in the past, the bulk of our clientele will be concentrated in the highly developed markets, especially the United States. Still, we also intend to systematically cultivate the emerging markets of Asia and Latin America and expand our portfolio in these regions. Our planned marketing activities will also pay closer attention to the countries of Eastern Europe.

Program business

The rate increases in program business will probably be less marked in 2004 than in the year under review owing to the emerging competitive pressure on the market. Nevertheless, the highly price-conscious reinsurance market coupled with the low current returns on capital markets will keep up the pressure on insurers needed to maintain rates and conditions at their present high level.

In Europe and South Africa we shall steadily extend our market position in program business through our subsidiaries Inter Hannover and Compass.

The overall result generated by our program business is expected to improve in 2004.

Overall business outlook

Overall result expected to develop favourably

Our largest business group, property and casualty reinsurance, continues to enjoy a highly attractive market environment in 2004. This assessment is equally true of broad sections of the primary market. During the January 2004 renewals it was very evident – even in those segments where sufficient market capacity was already available – that underwriting discipline did not break down and the advantageous rates and conditions for reinsurers were sustained. With this in mind, a downward slide into a soft market is unlikely to set in next year, even if the capital market continues its resurgence over the course of the year.

We therefore look to the future with considerable optimism. In accordance with our tried and trusted cycle management we have systematically scaled back our exposure in those few areas that have already seen deteriorations in rates and conditions. Our other three business groups are expected to develop as planned.

The anticipated positive underwriting cash flow should further boost the volume of assets. With interest rates remaining more or less unchanged and an at least neutral extraordinary income, we expect investment income roughly on a par with the 2003 financial year. Building upon the year under review, it is probable that we shall again cautiously increase our equity allocation. In the area of fixed-income securities we continue to set great store by the quality of our portfolio, and we are prepared to err on the side of caution and to sacrifice one or two percentage points of yield in the interests of flexibility and quality. We expect yields at the long end of the market to increase slightly in the course of the year, and it is therefore likely that we shall again slightly extend the duration of our bond portfolio – which stood at 3.7 years as at year-end 2003.

Further increase in profitability is the target

In view of the expected development of our business groups and the economic environment, we should again be able to significantly boost profits in the current year. We expect to generate consolidated net income of EUR 390 to 430 million in 2004, which will result in earnings of between EUR 3.20 and 3.60 a share. As always, this is subject to the proviso that the burden of losses remains within the normal bounds of the multi-year average and that there are no unexpectedly adverse movements on capital markets.

Proposal for the distribution of profits

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

Figures in EUR million	
Payment of a dividend of EUR 0.95 on each eligible no-par-value share	114 567 277.30
Profit carried forward to new account	432 722.70
Disposable profit	115 000 000.00

CONSOLIDATED ACCOUNTS
of the Hannover Re Group

CONSOLIDATED BALANCE SHEET
as at 31 December 2003

Figures in EUR thousand		2003	2002	2003	2002
Assets	Notes	Commercial treatment		US GAAP "As-if-pooling" method*	
Fixed-income securities – held to maturity	5.1	498 695	356 333	498 695	356 333
Fixed-income securities – available for sale	5.1	11 119 567	9 140 755	11 119 567	9 414 098
Equity securities – available for sale	5.1	925 595	717 745	925 595	722 754
Equity securities – trading	5.1	2 402	5 493	2 402	5 493
Real estate	5.1	230 591	265 858	230 591	265 858
Other invested assets	5.1	633 885	676 563	633 885	676 563
Short-term investments	5.1	569 592	874 027	569 592	982 416
Total investments without cash		13 980 327	12 036 774	13 980 327	12 423 515
Cash		386 134	671 866	386 134	672 844
Total investments and cash		14 366 461	12 708 640	14 366 461	13 096 359
Prepaid reinsurance premiums	5.2	566 920	739 487	566 920	743 398
Reinsurance recoverables on benefit reserve	5.2	206 717	489 784	206 717	489 784
Reinsurance recoverables on unpaid claims	5.2	4 396 564	6 179 896	4 396 564	6 181 645
Reinsurance recoverables on other reserves	5.2	41 528	41 902	41 528	41 902
Deferred acquisition costs	5.2	1 690 806	1 321 961	1 690 806	1 428 044
Accounts receivable		3 402 908	3 809 631	3 402 908	3 799 913
Funds held by ceding companies		7 664 683	7 597 206	7 664 683	8 359 107
Goodwill	5.4	203 619	233 883	203 619	233 883
Other assets	5.13	248 585	280 893	248 585	283 202
Accrued interest and rent		185 953	175 688	185 953	183 686
		32 974 744	33 578 971	32 974 744	34 840 923

On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.

Figures in EUR thousand		2003	2002	2003	2002
Liabilities	Notes	Commercial treatment		US GAAP "As-if-pooling" method*	
Loss and loss adjustment expense reserve	5.2	18 703 170	18 836 651	18 703 170	19 919 830
Policy benefits for life and health contracts	5.2	4 001 148	4 136 701	4 001 148	4 136 701
Unearned premium reserve	5.2	2 126 894	2 411 591	2 126 894	2 418 243
Provisions for contingent commission	5.2	130 265	143 120	130 265	145 300
Other technical provisions	5.2	9 089	7 870	9 089	7 870
Reinsurance payable		1 396 215	1 936 514	1 396 215	1 978 709
Funds held under reinsurance treaties		1 080 491	1 630 200	1 080 491	1 633 080
Contract deposits		474 526	184 884	474 526	184 884
Minorities	5.9	491 836	400 426	491 836	400 233
Other liabilities	5.13	365 095	480 540	365 095	481 509
Taxes	5.5	137 583	110 311	137 583	110 311
Provision for deferred taxes	5.5	869 857	742 078	869 857	741 983
Notes payable	5.8	666 328	698 792	666 328	698 792
Surplus debenture	5.8	117 597	119 831	117 597	119 831
Total liabilities		30 570 094	31 839 509	30 570 094	32 977 276
Stockholders' equity					
Common stock	5.9	120 597	97 164	120 597	110 881
Nominal value 120 597 Authorised capital 25 067					
Additional paid-in capital		764 199	374 451	724 562	514 688
Cumulative comprehensive income					
Unrealised appreciation/depreciation of investments, net of deferred taxes		157 569	43 127	160 862	43 930
Cumulative foreign currency conversion adjustment, net of deferred taxes		(352 502)	(100 276)	(340 938)	(92 086)
Other changes in cumulative comprehensive income	5.10	(22 685)	(54 295)	(22 685)	(54 295)
Total comprehensive income		(217 618)	(111 444)	(202 761)	(102 451)
Retained earnings					
Beginning of period		1 379 291	1 243 334	1 340 529	1 254 731
Net income		354 779	267 172	418 321	243 113
Dividend paid		(82 591)	–	(82 591)	(26 100)
Other changes		85 993	(131 215)	85 993	(131 215)
		1 737 472	1 379 291	1 762 252	1 340 529
Total stockholders' equity		2 404 650	1 739 462	2 404 650	1 863 647
		32 974 744	33 578 971	32 974 744	34 840 923

CONSOLIDATED STATEMENT OF INCOME
for the 2003 financial year

Figures in EUR thousand	Notes	2003	2002	2003	2002
		Commercal treatment		US GAAP "As-if-pooling" method*	
		1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	
Gross written premiums		11 342 857	12 463 227	11 588 058	12 766 069
Ceded written premiums		3 183 503	4 328 181	3 220 301	4 346 764
Change in gross unearned premiums		(345)	(410 963)	(121 563)	(412 480)
Change in ceded unearned premiums		(3 421)	(35 848)	10 206	(31 936)
Net premiums earned		8 155 588	7 688 235	8 256 400	7 974 889
Ordinary investment income	5.1	1 093 987	1 119 629	1 138 371	1 184 784
Realised gains on investments	5.1	255 330	201 907	255 330	202 151
Realised losses on investments	5.1	114 558	108 554	114 875	108 559
Unrealised gains and losses on investments	5.1	8 517	(7 090)	8 517	(7 090)
Other investment expenses/depreciations	5.1	171 790	277 542	171 855	386 167
Net investment income	5.1	1 071 486	928 350	1 115 488	885 119
Other technical income		8 227	21 475	8 227	21 481
Total revenues		9 235 301	8 638 060	9 380 115	8 881 489
Claims and claims expenses	5.2	6 671 694	5 988 555	6 727 735	6 232 972
Change in policy benefits for life and health contracts	5.2	297 797	574 123	297 797	574 123
Commission and brokerage	5.2	1 118 484	1 039 969	1 133 853	1 063 439
Other acquisition costs	5.2	2 912	35 911	3 413	36 612
Other technical expenses		95 438	123 495	95 438	123 495
Administrative expenses		212 062	258 767	212 236	258 767
Total technical expenses		8 398 387	8 020 820	8 470 472	8 289 408
Other income and expenses	5.15	(104 785)	(146 318)	(106 480)	(146 833)
Operating profit/loss (EBIT)		732 129	470 922	803 163	445 248
Interest on hybrid capital		54 793	57 548	54 793	57 548
Net income before taxes		677 336	413 374	748 370	387 700
Taxes	5.5	266 569	131 197	274 061	129 514
Minority interest		(55 988)	(15 005)	(55 988)	(15 073)
Net income		354 779	267 172	418 321	243 113

* *On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.*

Figures in EUR thousand	Notes	2003	2002	2003	2002
		Commercal treatment		US GAAP "As-if-pooling" method*	
		1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	
Other comprehensive income	5.10				
Net unrealised appreciation/depreciation of investments		114 442	11 963	116 932	12 795
Cumulative foreign currency conversion adjustments		(252 226)	(42 084)	(248 852)	(32 759)
Other comprehensive income		31 610	(38 402)	31 610	(38 402)
Total		248 605	198 649	318 011	184 747
Earnings per share	5.12				
Earnings per share in EUR		3.24	2.75	3.60	2.19

CASH FLOW STATEMENT
for the 2003 financial year

Figures in EUR thousand	2003	2002	2003	2002
	Commercal treatment		US GAAP "As-if-pooling" method*	
	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	
I. Cash flow from operating activities				
Consolidated net income (after tax)	354 779	267 172	418 321	243 113
Appreciation/depreciation	139 476	248 759	139 476	248 759
Net realised gains and losses on investments	(140 772)	(93 354)	(140 455)	(93 592)
Amortisation of investments	6 682	(5 296)	7 014	3 520
Minority interest	55 988	15 005	55 988	15 073
Changes in funds held	(629 214)	(1 374 919)	(739 175)	(1 514 522)
Changes in prepaid reinsurance premiums (net)	(25 002)	429 632	93 097	427 237
Changes in tax assets/provisions for taxes	206 461	55 681	213 954	50 155
Changes in benefit reserves (net)	501 944	532 739	501 944	532 739
Changes in claims reserves (net)	2 120 995	2 002 234	2 125 305	2 183 999
Changes in deferred acquisition costs	(305 194)	(208 275)	(358 144)	(313 069)
Changes in other technical provisions	(14 187)	55 790	(14 197)	57 055
Changes in clearing balances	(397 085)	(305 019)	(459 867)	(331 919)
Changes in other assets and liabilities (net)	(30 865)	(4 856)	(27 388)	(1 554)
Cash flow from operating activities	1 844 006	1 615 293	1 815 873	1 506 994
II. Cash flow from investing activities				
Fixed income securities – held to maturity				
Maturities	30 946	8 449	30 946	8 449
Purchases	(147 044)	(124 606)	(147 044)	(124 606)
Fixed income securities – available for sale				
Maturities, sales	5 233 955	4 941 360	5 405 279	5 247 903
Purchases	(7 975 451)	(6 020 990)	(8 010 692)	(6 100 584)
Equity securities – available for sale				
Sales	540 400	100 719	540 400	100 719
Purchases	(706 541)	(288 255)	(706 541)	(293 599)
Other invested assets				
Sales	48 279	19 397	48 279	19 397
Purchases	(48 331)	(138 497)	(48 331)	(138 497)
Affiliated companies and participating interests				
Sales	9 214	9 273	9 214	9 273
Acquisitions	(20 886)	(29 298)	(20 886)	(29 298)
Real estate				
Sales	609	28 372	609	28 372
Acquisitions	(764)	(2 536)	(764)	(2 536)
Short-term investments				
Changes	420 484	(239 162)	323 221	(330 536)
Other changes (net)	(25 256)	(67 844)	(25 506)	(67 844)
Cash flow from investing activities	(2 640 386)	(1 803 618)	(2 601 816)	(1 673 387)

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.*

Figures in EUR thousand	2003	2002	2003	2002
	Commercal treatment		US GAAP "As-if-pooling" method*	
	1.1.–31.12.	1.1.–31.12.	1.1.–31.12.	
III. Cash flow from financing activities				
Inflows from capital increases	219 590	–	219 590	–
Inflow from capital increase through contribution in kind	11 402	–	–	–
Net changes in contract deposits	294 123	(65 267)	294 123	(65 267)
Dividend paid	(82 591)	–	(82 591)	(26 100)
Changes in notes payable	30 087	(33 797)	30 087	(33 797)
Other changes	(11 010)	63 971	(11 010)	63 971
Cash flow from financing activities	461 601	(35 093)	450 199	(61 193)
IV. Exchange rate differences on cash	49 047	64 625	49 034	64 614
Change in cash and cash equivalents (I.+II.+III.+IV.)	(285 732)	(158 793)	(286 710)	(162 972)
Cash and cash equivalents at the beginning of the period	671 866	830 659	672 844	835 816
Change in cash and cash equivalents according to cash flow statement	(285 732)	(158 793)	(286 710)	(162 972)
Cash and cash equivalents at the end of the period	386 134	671 866	386 134	672 844
Income taxes	(43 982)	(29 233)	(43 982)	(25 853)
Interest paid	(48 673)	(107 039)	(48 673)	(107 039)

SEGMENTAL REPORT
as at 31 December 2003

In the following table we have allocated the underwriting assets and liabilities as at 31 December 2003 and 2002 to our business segments after eliminating intergroup transactions across segments.

Segmentation of underwriting assets and liabilities

Figures in EUR thousand	Property/casualty reinsurance			Life/health reinsurance		
	2003*	2002		2003*	2002	
		Commercial treatment	US GAAP "As-if-pooling" method**		Commercial treatment	US GAAP "As-if-pooling" method**
Assets						
Prepaid reinsurance premiums	99 122	94 365	94 365	2 555	1 523	1 523
Deferred acquisition costs (net)	197 078	250 988	250 988	1 344 206	963 961	963 961
Reinsurance recoverables on benefit reserves	–	–	–	206 717	489 784	489 784
Reinsurance recoverables on incurred claims and others	1 817 976	3 073 835	3 073 835	96 379	112 513	112 513
Funds held by ceding companies	176 330	252 479	252 479	3 257 988	3 329 560	3 329 560
Total underwriting assets	2 290 506	3 671 667	3 671 667	4 907 845	4 897 341	4 897 341
Liabilities						
Loss and loss adjustment expense reserve	8 396 999	8 954 985	8 954 985	929 396	934 142	934 142
Policy benefits for life and health contracts	–	–	–	4 001 148	4 136 701	4 136 701
Unearned premium reserve	939 942	1 124 308	1 124 308	21 868	21 522	21 522
Other technical provisions	93 987	110 872	110 872	24 002	20 437	20 437
Funds held under reinsurance treaties	559 333	986 831	986 831	216 185	343 819	343 819
Total underwriting liabilities	9 990 261	11 176 996	11 176 996	5 192 599	5 456 621	5 456 621

* *The figures for the commercial treatment and under the US GAAP "as-if-pooling" method are identical.*
** *On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.*

	Financial reinsurance			Program business			Total		
	2003*	2002		2003*	2002		2003*	2002	
		Commercial treatment	US GAAP "As-if-pooling" method**		Commercial treatment	US GAAP "As-if-pooling" method**		Commercial treatment	US GAAP "As-if-pooling" method**
	2 042	86	3 997	463 201	643 513	643 513	566 920	739 487	743 398
	44 780	25 604	131 687	104 742	81 408	81 408	1 690 806	1 321 961	1 428 044
	–	–	–	–	–	–	206 717	489 784	489 784
	506 510	632 218	633 967	2 017 227	2 403 232	2 403 232	4 438 092	6 221 798	6 223 547
	4 216 479	4 012 475	4 774 376	13 886	2 692	2 692	7 664 683	7 597 206	8 359 107
	4 769 811	4 670 383	5 544 027	2 599 056	3 130 845	3 130 845	14 567 218	16 370 236	17 243 880
	6 192 954	5 544 198	6 627 377	3 183 821	3 403 326	3 403 326	18 703 170	18 836 651	19 919 830
	–	–	–	–	–	–	4 001 148	4 136 701	4 136 701
	165 518	103 913	110 565	999 566	1 161 848	1 161 848	2 126 894	2 411 591	2 418 243
	18 851	19 681	21 861	2 514	–	–	139 354	150 990	153 170
	20 734	24 164	27 044	284 239	275 386	275 386	1 080 491	1 630 200	1 633 080
	6 398 057	5 691 956	6 786 847	4 470 140	4 840 560	4 840 560	26 051 057	27 166 133	28 261 024

SEGMENTAL REPORT
as at 31 December 2003

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance				Life/health reinsurance			
	2003	2002	2003	2002	2003	2002	2003	2002
	Commercial treatment		US GAAP "As-if-pooling" method*		Commercial treatment		US GAAP "As-if-pooling" method*	
Gross written premiums	4 787 119	6 020 029	4 787 119	6 020 029	2 276 319	2 471 500	2 276 319	2 471 500
Net premiums earned	3 499 993	3 502 073	3 499 993	3 502 073	1 936 309	2 142 270	1 936 309	2 142 270
Claims and claims expenses	2 976 907	2 722 079	2 976 907	2 722 079	1 270 385	1 218 683	1 270 385	1 218 683
Change in policy benefits for life and health contracts	–	–	–	–	(297 797)	(574 123)	(297 797)	(574 123)
Commission and brokerage and other technical expenses	285 862	543 154	285 862	543 154	427 836	478 322	427 836	478 322
Investment income	393 411	255 860	393 411	255 860	179 393	268 424	179 393	268 424
Administrative expenses	96 099	106 042	96 099	106 042	44 918	56 625	44 918	56 625
Other income and expenses	(68 686)	(81 080)	(68 686)	(81 080)	(13 766)	(34 464)	(13 766)	(34 464)
Operating profit/loss (EBIT)	465 850	305 578	465 850	305 578	61 000	48 477	61 000	48 477
Interest on hybrid capital	37 781	40 866	37 781	40 866	4 834	6 575	4 834	6 575
Net income before taxes	428 069	264 712	428 069	264 712	56 166	41 902	56 166	41 902
Taxes	215 281	97 642	215 281	97 642	10 410	9 755	10 410	9 755
Minority interest	(45 822)	(12 931)	(45 822)	(12 931)	798	(2 150)	798	(2 150)
Net income	166 966	154 139	166 966	154 139	46 554	29 997	46 554	29 997

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 19 et seq.*

Financial reinsurance				Program business				Total			
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
Commercial treatment		US GAAP "As-if-pooling" method*		Commercial treatment		US GAAP "As-if-pooling" method*		Commercial treatment		US GAAP "As-if-pooling" method*	
1 632 672	1 242 611	1 877 873	1 545 453	2 646 747	2 729 087	2 646 747	2 729 087	11 342 857	12 463 227	11 588 058	12 766 069
1 563 431	1 210 956	1 664 243	1 497 610	1 155 855	832 936	1 155 855	832 936	8 155 588	7 688 235	8 256 400	7 974 889
1 610 246	1 380 973	1 666 287	1 625 390	814 156	666 820	814 156	666 820	6 671 694	5 988 555	6 727 735	6 232 972
–	–	–	–	–	–	–	–	(297 797)	(574 123)	(297 797)	(574 123)
241 245	132 924	257 115	157 089	253 664	23 500	253 664	23 500	1 208 607	1 177 900	1 224 477	1 202 065
438 311	357 194	482 313	313 963	60 371	46 872	60 371	46 872	1 071 486	928 350	1 115 488	885 119
3 041	5 393	3 215	5 393	68 004	90 707	68 004	90 707	212 062	258 767	212 236	258 767
984	(1 034)	(711)	(1 549)	(23 317)	(29 740)	(23 317)	(29 740)	(104 785)	(146 318)	(106 480)	(146 833)
148 194	47 826	219 228	22 152	57 085	69 041	57 085	69 041	732 129	470 922	803 163	445 248
4 451	3 716	4 451	3 716	7 727	6 391	7 727	6 391	54 793	57 548	54 793	57 548
143 743	44 110	214 777	18 436	49 358	62 650	49 358	62 650	677 336	413 374	748 370	387 700
33 717	4 323	41 209	2 640	7 161	19 477	7 161	19 477	266 569	131 197	274 061	129 514
(10 964)	(92)	(10 964)	(160)	–	168	–	168	(55 988)	(15 005)	(55 988)	(15 073)
99 062	39 695	162 604	15 636	42 197	43 341	42 197	43 341	354 779	267 172	418 321	243 113

Contents

NOTES

1. General accounting principles

Hannover Rückversicherung AG (Hannover Re) belongs to Talanx AG, which in turn is wholly owned by 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. Under § 291 Para. 3 No. 1 of the German Commercial Code (HGB), amended version, the consolidated annual accounts of the parent company no longer release Hannover Re from its obligation to compile a consolidated financial statement.

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

SFAS 141 "Business Combinations" Para. 11 in conjunction with Appendix D 11 to 18 sets out standards governing the accounting of transfer transactions between entities under common control. This Statement requires that the assets and liabilities of the transferred entity be carried over with the book values at the transferring parent company. The consolidated financial statement of the acquiring entity is to be drawn up as if the transferred entity had already been part of the consolidated group since the commencement of the financial year. The comparative figures presented for previous reporting periods must also be adjusted according to this treatment. The consolidated financial statement was drawn up in accordance with these requirements, which we refer to in their entirety as the "as-if pooling" method, and supplemented with certain additional information (cf. p. 19 et seq. as well as sections 3 and 4 of these Notes). All figures provided in the Notes are based upon application of the "as-if pooling" method.

In April 2003 the Derivative Implementation Group (DIG) of the FASB issued SFAS 133 Implementation Issue No. B 36 "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments" (DIG B 36). The Statement defines standards for the accounting of "Modified Coinsurance" (Modco) and "Coinsurance With Funds Withheld" (CWFW) reinsurance contracts. It states that such contracts contain embedded derivatives that must be accounted separately from the underlying reinsurance arrangements at fair value. The changes in fair value between two accounting dates are to be recognised in the statement of income. SFAS 133 DIG B 36 was to be applied for the first time on 1 October 2003.

Hannover Re has applied these standards since the above date. The requirement affected a small number of contracts in life and health reinsurance. The application of DIG B 36 had no significant impact on the consolidated financial statement in the 2003 financial year. For further details the reader is referred to section 7.4 "Derivative financial instruments".

In the same month the FASB published SFAS 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". SFAS 149 supplements the relevant accounting standards set out in SFAS 133, insofar as such derivative instruments and hedging activities were not already covered by the rules published by the Derivative Implementation Group. This standard is applicable to all contracts concluded or modified after 30 June 2003.

In December 2003 the FASB issued FASB Interpretation No. 46 (FIN 46) (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46R), clarifying the consolidation of so-called "variable interest entities". The Standard sets out how an entity must analyse whether it controls another entity through means other than majority voting rights and hence whether it must consolidate the said other entity. The revised Interpretation supersedes FIN 46 "Consolidation of Variable Interest Entities", which was published in January 2003.

Hannover Re has applied the standards of FIN 46R to special purpose entities with effect from 31 December 2003. More detailed explanations are provided in section 5.1 on the securitisation of reinsurance risks. Hannover Re is currently reviewing the implications of FIN 46R for relations with companies that do not constitute special purpose entities.

In May 2003 the FASB published SFAS 150 "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This Standard governs the accounting treatment of certain financial instruments that issuers have hitherto classified as equity. SFAS 150 requires that certain stand-alone financial instruments with characteristics of both liabilities and equity be classified as liabilities. In most cases, the corresponding changes in fair value are to be recognised in the statement of income. The Standard may influence certain repurchase transactions involving equities as well as management ratios and key balance sheet figures.

The application of SFAS 150 did not have any impact on the consolidated financial statement in the 2003 financial year.

In March 2003 the EITF reached a consensus on the outstanding items of EITF 02-9 "Accounting for Changes That Result in a Transferor Regaining Control of Financial Assets Sold". EITF 02-9 requires that financial assets previously accounted by the transferor as sold be recognised at fair value insofar as it has regained control of such financial assets. The accounting treatment is the same as would be applied in the event of repurchase by the transferor. At the same time, the transferor must recognise a corresponding liability to the acquiror. In the event of a regaining of control the transferor may not realise any gains or losses. No bad debt provisions may be established for receivables as at the date when control is regained. The rules are to be applied from April 2003 onwards to all changes through which the transferor regains control over previously sold financial assets.

The implementation of the standards did not have any impact on the consolidated financial statement in the 2003 financial year.

In November 2002 the FASB published FIN 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness to Others – an Interpretation of FASB Statements No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34". The Interpretation clarifies the disclosures to be made by a guarantor in its financial statements with respect to obligations under guarantees that it issues. In addition, FIN 45 requires that at the time when a company issues a guarantee it 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 reader is referred here to our remarks in section 7.2 "Contingent liabilities"). The recognition provisions apply to guarantees and contingent liabilities entered into after 31 December 2002. They do not apply to guarantees given with a group of companies or by a group company to third parties on behalf of another group company.

The application of this Standard did not have any significant impact on the consolidated financial statement.

In July 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 to exit and disposal activities initiated after 31 December 2002.

The application of the Standard did not have any significant impact on the consolidated financial statement in the 2003 financial year.

All Statements of Financial Accounting Standards (SFAS) issued by the FASB on or before 31 December 2003 with binding effect for the 2003 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 for the most part drawn up as at 31 December. There is no requirement to compile interim accounts pursuant to ARB 51 Para. 4 for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement.

The annual financial statements of all companies were initially drawn up in compliance with the provisions of the respective national laws and then transformed to 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 nine German and seventeen foreign companies, as well as three foreign consolidated entities. Three German and three foreign companies were consolidated using the equity basis of accounting.

In the financial year HEPEP II Holding GmbH, HEPEP III Holding GmbH and HAPEP II Holding GmbH, all based in Hannover/Germany, were consolidated for the first time. The interests in these companies were held by Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover Euro Private Equity Partners III GmbH & Co. KG and Hannover America Private Equity Partners II GmbH & Co. KG, which were also included in the consolidated financial statement. The object of the companies is to build, hold and manage selected portfolios of assets.

Oval Office Grundstücks GmbH, Hannover/Germany, was also consolidated for the first time in the financial year. The object of the company is to purchase, manage and sell real estate. HDI Privat Versicherung AG and Hannover Re each hold interests of 50% in this company. It was consolidated using the equity basis of accounting.

As part of a capital increase against a contribution in kind, Talanx AG transferred its shares in HDI Reinsurance (Ireland) Ltd. to Hannover Re effective 1 July 2003. Further information is provided in section 4 "Major acquisitions/new establishments".

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.

Companies included in the consolidated financial statement

Name and registered office of the company (Figures in currency units of 1 000)	Participation in %	Capital and reserves		Results for the last financial year	
Affiated companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.0	EUR	596 851	EUR	21 730
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany [8]	89.0	EUR	20 990	EUR	(81)
HAPEP II Holding GMBH, Hannover/Germany [8]	89.0	EUR	19 012	EUR	(186)
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany [8]	77.9	EUR	4 191	EUR	(24)
HEPEP III Holding GmbH, Hannover/Germany [10]	77.9	EUR	2 009	EUR	(16)
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover/Germany	70.1	EUR	59 108	EUR	1 207
E+S Rückversicherungs-AG, Hannover/Germany [2]	55.8	EUR	459 281	EUR	39 000
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany [8]	54.9	EUR	24 134	EUR	8
HEPEP II Holding GmbH, Hannover/Germany [8]	54.9	EUR	16 593	EUR	(9)
Verbundene Unternehmen mit Sitz im Ausland					
Hannover Finance (Luxembourg) S.A., Luxemburg/Luxembourg [2]	100.0	EUR	9 698	EUR	7 869
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.0	GBP	109 352	GBP	(10)
Hannover Life Reassurance Company of America, Orlando/USA [2]	100.0	USD	84 958	USD	(1 401)
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	100.0	EUR	101 639	EUR	2 963
Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom [2]	100.0	GBP	33 074	GBP	980
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	100.0	EUR	647 472	EUR	142 961
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.0	EUR	536 952	EUR	46 430
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden [3] [9]	100.0	SEK	–	SEK	723
Hannover Services (UK) Ltd., Virginia Water/United Kingdom	100.0	GBP	635	GBP	169
International Insurance Company of Hannover Ltd., Virginia Water/United Kingdom	100.0	GBP	70 970	GBP	6 365
Hannover Finance, Inc., Wilmington/USA [1]	100.0	USD	400 773	USD	8 238

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 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	179 213	USD	10 815
Clarendon National Insurance Company, Trenton/USA	100.0	USD	518 515	USD	16 956
Clarendon Select Insurance Company, Tallahassee/USA	100.0	USD	27 121	USD	3 537
Harbor Specialty Insurance Company, Trenton/USA	100.0	USD	42 028	USD	6 313
Insurance Corporation of Hannover, Chicago/USA	100.0	USD	197 044	USD	11 302
Redland Insurance Company, Council Bluffs/USA	100.0	USD	26 500	USD	2 393
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.0	ZAR	343 191	ZAR	(39 118)
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	12 125	ZAR	2 333
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa	100.0	ZAR	32 977	ZAR	(2 195)
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa	100.0	ZAR	289 992	ZAR	259
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.0	MUR	39 897	MUR	(101 045)
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	100.0	ZAR	9 743	ZAR	(3 421)
Aviation Insurance Company Ltd., Johannesburg/South Africa [5]	31.3	ZAR	21 326	ZAR	3 970
HDI Reinsurance (Ireland) Ltd., Dublin/Ierland	100.0	EUR	226 844	EUR	104 091
Hannover Re Real Estate Holdings, Inc., Orlando/USA	94.0	USD	124 787	USD	4 951
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	94.0	USD	51 042	USD	1 966
Summit at Southpoint Corporation, Jacksonville/USA	94.0	USD	7 422	USD	338
Orange Avenue Corporation, Orlando/USA	94.0	USD	204	USD	(41)
WRH Offshore High Yield Partners, L.P., Wilmington/USA [1]	86.7	USD	48 828	USD	2 996
Penates A, Ltd., Tortola/British Virgin Islands [1]	86.1	USD	92 243	USD	3 386

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 [1]	85.3	EUR	797	EUR	218
Hannover Life Re of Australasia Ltd., Sydney/Australia	77.9	AUD	177 160	AUD	13 940
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	55.8	EUR	157 643	EUR	12 994
Associated companies resident in Germany					
Oval Office Grundstücks GmbH, Hannover/Germany	50.0	EUR	29 903	EUR	(24)
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	39.0	EUR	70 350	EUR	25 442
HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany [3]	25.0	EUR	106 971	EUR	37 543
Associated companies resident abroad					
ITAS Assicurazioni S.p.A., Trento/Italy	43.7	EUR	54 197	EUR	4 786
ITAS Vita S.p.A., Trento/Italy	34.9	EUR	52 410	EUR	2 087
WPG Corporate Development Associates IV (Overseas), L.L.C., Grand Cayman/Cayman Islands	26.8	USD	2 379	USD	(12)
Participations in Germany					
JM Management Consulting GmbH, Hannover/Germany [3]	74.0	EUR	47	EUR	(3)
Willy Vogel Beteiligungs GmbH, Hannover/Germany [3]	15.0	EUR	70 061	EUR	14 612
Internationale Schule Hannover Region, Hannover/Germany [6]	11.1	EUR	570	EUR	112
Participations abroad					
Mediterranean Re, PLC, Dublin/Ireland [2]	33.3	USD	3 927	USD	268
Special Risk Insurance and Reinsurance Luxemburg S.A., Luxembourg/Luxembourg [3]	18.2	EUR	291 230	EUR	(8 770)
HI Holdings, Inc., Honolulu, Hawaii [4] [7]	16.3	USD	17 348	USD	2 235
Inter Ocean Holdings Ltd., Hamilton/Bermuda [4]	10.0	USD	74 297	USD	2 451
Acte Vie S.A. Compagnie d' Assurances sur la Vie et de Capitalisation, Straßbourg/France [3]	9.4	EUR	6 914	EUR	8
Bulstrad Life Insurance, Sofia, Bulgaria	9.1	BGN	5 707	BGN	286

[1] *Figures as per US GAAP*
[2] *Provisional (unaudited) figures*
[3] *Financial year as at 31 December 2002*
[4] *Consolidated figures*
[5] *Financial year from 1 November 2001 to 31 October 2002*
[6] *Financial year as at 31 July 2003*
[7] *Voting shares: 16.26%*
[8] *Financial year as at 30 September 2003*
[9] *Inactive company*
[10] *Financial year as at 31 October 2003*

Capital consolidation

The capital consolidation is based upon the standards set out in SFAS 141. Under the "purchase method" of accounting, the purchase costs of the parent company are netted with the proportionate stockholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with 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. In the case of transactions between entities under common control, the assets and liabilities of the transferred entity are carried over with the book values at the transferring parent company, and no fair value or goodwill is recognised. Under SFAS 141 Para. 11 in conjunction with App. D the consolidated financial statement of the acquiring entity is to be drawn up as if the transferred entity had already been part of the consolidated group since the commencement of the financial year. In this context, transactions between the transferred entity and other group entities are to be eliminated as if they were intra-group transactions. The same applies to all previous reporting periods shown for comparative purposes ("as-if pooling" method). 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 55,988 thousand (previous year: EUR 15,073 thousand) in the 2003 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. Major acquisitions/new establishments

As part of a capital increase for a contribution in kind, Talanx AG transferred its shares in HDI Reinsurance (Ireland) Ltd. to Hannover Re effective 1 July 2003 against issuance of 13,716,814 new shares. Since this transfer constitutes a transaction between entities under common control, US GAAP required that the company be consolidated at the book values of Talanx AG as if it had already belonged to the Group at the commencement of the financial year. The previous year's figures presented for comparative purposes were also adjusted according to this treatment (on the "as-if pooling" method cf. section "Capital consolidation"). The consolidated financial data of the Group reported on this basis for the periods prior to the transfer do not necessarily reflect the assets, financial position and net income that would have been reported had it not been for the inclusion of HDI Reinsurance required by US GAAP. For this reason, we expanded the consolidated financial statement for the 2003 financial year and the previous year to include figures based on first-time consolidation of the company as at 1 July 2003 (commercial treatment). With effect from 8 December 2003 Hannover Re transferred its shares in HDI Reinsurance (Ireland) Ltd. to Hannover Reinsurance (Ireland) Ltd. as part of a capital increase for a contribution in kind.

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 and available-for-sale portfolio as at the balance sheet dates of 31 December 2003 and 2002

Figures in EUR thousand	2003		2002	
	Cost or amortised cost	Estimated fair value	Cost or amortised cost	Estimated fair value
Held-to-maturity				
Due in one year	67 169	68 408	30 608	31 382
Due after one through five years	114 953	123 384	173 937	187 824
Due after five through ten years	295 000	298 825	130 000	138 330
Due after ten years	21 573	22 831	21 788	24 057
Total	498 695	513 448	356 333	381 593
Available-for-sale				
Due in one year	1 375 756	1 382 997	1 512 288	1 522 222
Due after one through five years	6 212 600	6 280 794	4 383 705	4 518 495
Due after five through ten years	2 150 603	2 196 050	2 092 802	2 176 097
Due after ten years	1 235 717	1 259 726	1 164 692	1 197 284
Total	10 974 676	11 119 567	9 153 487	9 414 098

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

Figures in EUR thousand	2003			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity				
Fixed-income securities				
Debt securities issued by semi-governmental entities	145 896	8 718	–	154 614
Corporate securities	249 128	4 037	3 845	249 320
Asset-backed securities	103 671	5 843	–	109 514
Total	498 695	18 598	3 845	513 448

Figures in EUR thousand	2002			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity				
Fixed-income securities				
Debt securities issued by semi-governmental entities	145 689	11 042	–	156 731
Corporate securities	86 442	5 944	314	92 072
Asset-backed securities	124 202	8 588	–	132 790
Total	356 333	25 574	314	381 593

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

Figures in EUR thousand	2003			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Fair value
Available-for-sale				
Fixed-income securities				
Government debt securities of EU member states	1 490 422	15 622	3 247	1 502 797
US Treasury Notes	1 483 771	8 420	4 607	1 487 584
Other foreign government debt securities	318 673	4 612	458	322 827
Debt securities issued by semi-governmental entities	2 873 524	34 981	17 898	2 890 607
Corporate securities	3 114 644	97 006	24 835	3 186 815
Asset-backed securities	1 133 208	29 856	4 796	1 158 268
From investment funds	560 434	13 921	3 686	570 669
	10 974 676	204 418	59 527	11 119 567
Dividend-bearing securities				
Equities	220 587	21 397	17 174	224 810
From investment funds	644 842	53 885	100	698 627
Other dividend-bearing securities	1 138	1 020	–	2 158
	866 567	76 302	17 274	925 595
Short-term investments	569 592	–	–	569 592
Total	12 410 835	280 720	76 801	12 614 754
Trading				
Dividend-bearing securities				
Derivatives	–	2 480	78	2 402
Total	–	2 480	78	2 402

Figures in EUR thousand	2002			
	Cost or amortised cost	Unrealised gains	Unrealised losses	Fair value
Available-for-sale				
Fixed-income securities				
Government debt securities of EU member states	1 473 858	44 389	–	1 518 247
US Treasury Notes	1 020 114	27 769	–	1 047 883
Other foreign government debt securities	260 441	7 142	1 698	265 885
Debt securities issued by semi-governmental entities	2 366 346	86 143	3 062	2 449 427
Corporate securities	2 394 406	100 982	41 042	2 454 346
Asset-backed securities	1 104 945	32 595	15 044	1 122 496
From investment funds	533 377	22 929	492	555 814
	9 153 487	321 949	61 338	9 414 098
Dividend-bearing securities				
Equities	190 614	5 535	33 450	162 699
From investment funds	672 601	–	113 631	558 970
Other dividend-bearing securities	1 165	–	80	1 085
	864 380	5 535	147 161	722 754
Short-term investments	982 416	–	–	982 416
Total	11 000 283	327 484	208 499	11 119 268
Trading				
Dividend-bearing securities				
Derivatives	–	5 493	–	5 493
Total	–	5 493	–	5 493

Investment income

Figures in EUR thousand	2003	2002
Real estate	25 980	33 878
Dividends	27 664	59 039
Ordinary investment income on fixed-income securities	501 241	534 499
Other income	583 486	557 368
Ordinary investment income	1 138 371	1 184 784
Realised gains on investments	255 330	202 151
Realised losses from investments	114 875	108 559
Unrealised gains and losses	8 517	(7 090)
Real etate depreciation	18 697	7 982
Write-off on dividend-bearing securities	65 300	164 594
Write-off on fixed-income securities	29 685	25 639
Write-downs on participations	4 299	16 849
Other investment expenses	53 874	171 103
Total investment income	1 115 488	885 119

The other income includes interest on deposits of EUR 548.8 million (EUR 539.6 million).

Rating structure of fixed-income securities

Figures in EUR thousand	2003								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	71 556	165 926	246 077	13 563	–	–	–	1 573	498 695
Fixed-income securities – available-for-sale	6 461 711	1 987 441	1 650 632	677 067	56 870	180 350	8 239	97 257	11 119 567
Total fixed-income securities	6 533 267	2 153 367	1 896 709	690 630	56 870	180 350	8 239	98 830	11 618 262

Figures in EUR thousand	2002								
	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	5 534 004	1 792 576	1 270 317	467 316	54 465	175 158	4 969	115 293	9 414 098
Total fixed-income securities	5 705 073	1 916 667	1 326 108	472 429	54 465	175 158	4 969	115 562	9 770 431

Investments were held in the following currencies

Figures in EUR thousand	2003								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held-to-maturity	–	–	488 672	–	–	1 573	8 450	–	498 695
Fixed-income securities – available-for-sale	553 090	245 236	3 536 043	1 250 990	87 930	5 159 204	64 438	222 636	11 119 567
Equity securities – available-for-sale	18 960	2 292	690 299	12 779	10 953	178 363	11 423	526	925 595
Equity securities – trading	–	–	2 402	–	–	–	–	–	2 402
Other invested assets	55	–	427 062	7 130	829	414 944	11 932	2 524	864 476
Short-term investments, cash	86 853	36 636	160 028	65 559	20 753	401 547	100 888	83 462	955 726
Total investments and cash	658 958	284 164	5 304 506	1 336 458	120 465	6 155 631	197 131	309 148	14 366 461

Figures in EUR thousand	2002								
	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	3 173 518	1 087 029	31 947	4 290 067	20 227	212 018	9 414 098
Equity securities – available-for-sale	21 438	1 886	419 771	35 936	9 537	211 503	22 000	683	722 754
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	372 036	82 666	39 108	883 539	79 175	59 917	1 655 260
Total investments and cash	541 300	220 197	4 712 353	1 219 201	81 762	5 910 825	134 438	276 283	13 096 359

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	2003	2002
Real estate	230 591	265 858
Own-use real estate (other assets)	42 395	43 119

Cash equivalents

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

Securitisation of reinsurance risks

In December 2003 the FASB published the revised version of FIN 46 "Consolidation of Variable Interest Entities" (FIN 46R) addressing the consolidation of so-called variable interest entities. The revised interpretation supersedes FIN 46 "Consolidation of Variable Interest Entities" published in January 2003. 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. The term "variable interest" is defined in FIN 46R as a "contractual, ownership or other pecuniary interest in an entity that changes with changes in the entity's net asset value".

FIN 46R is to be applied for the first time with effect from 31 March 2004 to all relevant entities. As at 31 December 2003 we applied FIN 46R to all variable interests in special purpose entities. In addition, FIN 46R contains disclosure requirements with respect to existing relationships with variable interest entities that are to be satisfied even if such entities are not consolidated.

Within the scope of the portfolio-linked securitisation of certain reinsurance risks under transactions concluded in the years 1993 to 1999, Hannover Re retroceded business on a proportional basis to an insurance enterprise in the form of a special purpose entity that finances the business via the international capital markets. The company has been in the process of winding up since February 2003. This transaction falls within the scope of applicability of FIN 46R. Since Hannover Re's relations with the company do not constitute variable interests as defined by FIN 46R, the transaction does not give rise to a consolidation requirement.

The residual assets of the special purpose entity as at 31 December 2003 amounted to EUR 1.3 million and thus do not constitute a significant risk of loss for Hannover Re.

Since March 2002 Hannover Re has retroceded natural catastrophe risks (including hurricanes and earthquakes in the USA, windstorms in Europe and earthquakes in Japan) as well as worldwide aviation on a proportional basis to a special purpose entity that finances the business via the international capital markets. Hannover Re's relations with this entity do not constitute variable interests, and there is therefore no consolidation requirement.

This entity reported liable equity capital of EUR 182.4 million as at 31 December 2003. It is fully secured and thus does not constitute any risk of loss for Hannover Re.

Since November 2000 Hannover Re has held voting equity interests in as well as a share of the capital market bonds issued by a special purpose entity for the securitisation of reinsurance risks in France and Monaco. The total volume of the bonds issued stands at EUR 102.3 million. Based on its variable interests, the maximum risk of loss for Hannover Re from this transaction is EUR 15.7 million. Hannover Re is not the primary beneficiary in this relationship.

Since 2 November 2001 Hannover Re has held the equity of a special purpose entity for the purchase and handling of so-called "life settlements". The company's total financing volume amounts to EUR 269.6 million. The entire underwriting risk of the special purpose entity is borne by an insurance company. This cedent retrocedes part of the risk to Hannover Re. The contract has been terminated with effect from 31 December 2003. The special purpose entity is closed for the acceptance of new business and is currently in the process of winding up. The maximum risk of loss for Hannover Re from this transaction is EUR 20.6 million. Hannover Re is not the primary beneficiary in this relationship.

Investments

Within the scope of asset management activities Hannover Re has participated in numerous special purpose entities since 1988, which for their part transact certain types of equity and debt capital investments. The set of variable interests associated with such structures consists largely of participations sold on the capital market to numerous investors. On the basis of our analysis we came to the conclusion that although – from Hannover Re's perspective – relations exist in the form of variable interests, there are no grounds to consider the Group the primary beneficiary in any of these transactions. A consolidation requirement therefore does not exist.

Since May 1994, Hannover Re has participated in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as "disaster bonds" (or "CAT bonds"). Hannover Re's relations with these entities constitute variable interests. Hannover Re is not the primary beneficiary in any of these transactions, and there is therefore no consolidation requirement. The maximum risk of loss for Hannover Re resulting from these participations is EUR 48.5 million.

The extent of relations with entities other than those described above is presently being examined in the light of the scope of validity of FIN 46R. According to our current assessment, there is no requirement for consolidation. As things stand at this time, the total volume 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.

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	2003	2002
Balance as at 1 January	1 428 044	1 197 843
Currency exchange rate differences	(95 246)	(88 895)
	1 332 798	1 108 948
Changes	365 760	321 615
Currency exchange rate differences between valuation uat the average rate and the year-end rate	(7 752)	(2 519)
Balance as at 31 December	1 690 806	1 428 044

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 697.9 million (EUR 1,127.2 million). As at year-end 2003 the discounted provisions amounted to EUR 2,857.3 million (EUR 4,314.9 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	2003	2002
Reserve as at 31 December of previous year (gross)	19 919 830	19 904 943
Reserve as at 31 December of previous year (retro)	6 181 645	6 768 442
Reserve as at 31 December of previous year (net)	13 738 185	13 136 501
Effects of currency conversion as at 1 January of year under review	(1 701 102)	(1 553 930)
Net reserve as at 1 January of year under review	12 037 083	11 582 571
Change in additions to/departures from the consolidated group	–	4 963
Incurred claims and claims expenses		
Year under review	4 038 334	4 511 520
Previous years	2 689 401	1 721 452
	6 727 735	6 232 972
Less:		
Claims and claims expenses paid (net)		
Year under review	2 037 119	806 967
Previous years	2 341 387	3 198 517
	4 378 506	4 005 484
Effects of currency conversion at exchange rates on 31 December of year under review (net)	(79 706)	(76 837)
Reserve as at 31 December of year under review (net)	14 306 606	13 738 185
Reserve as at 31 December of year under review (retro)	4 396 564	6 181 645
Reserve as at 31 December of year under review (gross)	18 703 170	19 919 830

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

In accordance with SFAS 142 "Goodwill and Other Intangible Assets" scheduled amortisation is no longer taken on goodwill. Goodwill was tested for impairment in a two-step fair value process.

Development of goodwill

Figures in EUR thousand	2003	2002
Goodwill net as at 1 January	233 883	263 258
Currency exchange rate differences	(28 896)	(30 132)
	204 987	233 126
Additions	17	1 945
Disposals	565	–
Impairments	820	1 188
Goodwill net as at 31 December	203 619	233 883

The impairments reported in the financial year were primarily attributable to a company consolidated at equity and a subsidiary of Hannover Reinsurance Group Africa.

The disposals resulted from the sale of the shares held by Hannover Rück Beteiligung Verwaltungs-GmbH in E+S Rück to the Barmenia Group (see also section 6.1 "Transactions with related parties").

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

Figures in EUR thousand	2003	2002
Balance as at 1 January	14 621	17 015
Disposals	129	–
Amortisation	2 394	2 394
Balance as at 31 December	12 098	14 621

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

The disposals are attributable to the sale of the shares in E+S Rück.

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%.

German/foreign breakdown of reported tax expenditure/income

Figures in EUR thousand	2003	2002
Current taxes		
Germany	73 169	28 759
Outside Germany	32 823	5 677
Deferred taxes		
Germany	189 711	201 037
Outside Germany	(21 642)	(105 959)
Total	274 061	129 514

Deferred tax assets and deferred tax liabilities of all Group companies

Figures in EUR thousand	2003	2002
Deferred tax assets		
Tax loss carry-forwards	31 244	40 622
Loss and loss adjustment expense reserves	207 378	98 624
Policy benefits for life and health contracts	37 689	115 497
Other provisions	87 899	102 075
Valuation differences relating to investments	15 000	79 107
Deposits	175 530	76
Other valuation differences	8 461	31 454
Total	563 201	467 455
Deferred tax liabilities		
Loss and loss adjustment expense reserves	32 118	93 821
Policy benefits for life and health contracts	107 205	66 919
Other technical/non-technical provisions	14 905	1 715
Equalisation reserve	645 590	442 713
Deferred acquisition costs	491 648	426 003
Accounts receivable/reinsurance payable	14 792	13 228
Valuation differences relating to investments	107 205	131 802
Other valuation differences	19 595	33 237
Total	1 433 058	1 209 438
Deferred tax liabilities	869 857	741 983

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	2003	2002
Profit before income taxes	748 370	387 700
Expected tax rate	40%	40%
Expected expense for income taxes	299 348	155 080
Change in deferred rates of taxation	(3 781)	8 523
Taxation differences affecting foreign subsidiaries	(122 235)	(46 370)
Other	100 729	12 281
Actual provision for income taxes	274 061	129 514

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 1,970 (1,900). Of this number, 789 were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad.

	2002	2003				
Personnel information	Average	31.3.	30.6.	30.9.	31.12.	Average
Number of employees (excluding board members)	1 900	1 958	1 990	1 960	1 972	1 970

2003							
Nationality of employees	US	German	South African	UK	Irish	Other	Total
Number of employees	734	674	136	85	19	324	1 972

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	2003	2002
a) Wages and salaries		
aa) Expenditures on insurance business	87 106	96 222
ab) Expenditures on the administration of investments	9 636	9 225
	96 742	105 447
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	11 255	11 356
bb) Expenditures for pension provision	12 601	12 013
bc) Expenditures for assistance	271	2 851
	24 127	26 220
Total	120 869	131 667

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 2,903 thousand.

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. The provisions for pensions in Germany were calculated according to uniform standards defined by Talanx AG.

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 6.75%
- Rate of compensation increase: 3.0% to 5.5%
- Projected long-term yield on plan assets (US plans): 8.0%
- Indexation: 2.0%

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	2003	2002
Change in projected benefit obligation		
Projected benefit obligation at the beginning of the reporting year	54 024	48 289
Currency exchange-rate differences	(1 121)	(895)
Service cost	2 914	3 002
Interest cost	2 798	2 853
Actuarial gain/loss in the reporting year	2 302	(2 182)
Deferred compensation	404	326
Benefits paid during the year	(1 338)	(1 380)
Business combinations, divestitures and other activities	(798)	(353)
Projected benefit obligation at the end of the reporting year	54 581	54 024
Fair value of plan assets		
At the beginning of the year	3 742	3 775
Currency exchange rate differences	(651)	(578)
Business combinations, divestitures and other activities	–	(174)
Return on plan assets	140	(166)
Employer's contributions	267	982
Benefits paid	(2)	(97)
At the end of the year	3 496	3 742
Funded status of plan		
Unrecognised net obligation	–	560
Unrecognised actuarial gain/loss	1 538	(1 015)
Unamortised prior-service cost	1 001	1 215
	(537)	2 790
Accrued pension liability	51 622	47 492
Net periodic pension cost of the year		
Service cost		
Year under review	2 914	3 002
Amortisation for previous years	3	20
Interest cost	2 798	2 853
Expected return on plan assets	(170)	(328)
Recognised net actuarial loss	16	11
Amortisation of net obligation	560	457
Total	6 121	6 015

5.8 Surplus debenture and loans

Loans

On 31 March 1999 Hannover Finance Inc., Wilmington/USA, issued subordinated debt in the form of a floating-rate loan in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009.

In order to hedge against the risk of interest rate changes associated with this loan, the 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 annual interest rate arising after allowance is made for the interest rate swap amounts to 6.69% until 31 March 2009.

Hannover Re repurchased a large portion of the debt in the 2004 financial year. For further information the reader is referred to section 7.5 "Events subsequent to conclusion of the financial year".

In order to further safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional 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.

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 major 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.

The common stock was strengthened in the 2003 financial year through a capital increase for cash. On the basis of the capital increase for cash 9,716,392 new shares were issued, thereby raising the common stock to EUR 120,597,134.00. The capital stock is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 25,067 thousand is available with a time limit of 13 November 2007. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares. In addition, conditional capital of up to EUR 48,500 thousand is available. It can be used to grant shares to holders of convertible and warrant bonds and has a time limit of 13 November 2007.

Consolidated statement of changes in stockholders' equity

Figures in EUR thousand	2003							
	Balance as at 1 January	Capital-increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer*	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	110 881	9 716	–	–	–	120 597		
Additional paid-in capital	514 688	209 874	–	–	–	724 562		
Cumulative comprehensive income	(102 451)	–	(11 951)	–	(88 359)	(202 761)		
Retained earnings	1 340 529	–	–	–	–	1 340 529		
Net income	–	–	–	418 321	–	418 321		
Dividends paid	–	–	–	(82 591)	–	(82 591)		
Other changes	–	–	–	(2 366)	88 359	85 993		
Total	1 863 647	219 590	(11 951)	333 364	–	2 404 650	491 836	2 896 486

** The cumulative currency exchange-rate effects from previous years in the amount of EUR 88.4 million hitherto recognised under retained earnings will in future be shown under comprehensive income. The exchange-rate effects in question derive largely from the translation of foreign financial statements into Euro.*

Consolidated statement of changes in stockholders' equity

Figures in EUR thousand	2002						
	Balance as at 1 January	Capital-increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	96 516	14 365	–	–	110 881		
Additional paid-in capital	529 053	(14 365)	–	–	514 688		
Cumulative comprehensive income	(44 085)	–	(58 366)	–	(102 451)		
Retained earnings	1 254 731	–	–	–	1 254 731		
Net income	–	–	–	243 113	243 113		
Dividends paid	–	–	–	(26 100)	(26 100)		
Other changes	–	–	–	(131 215)	(131 215)		
Total	1 836 215	–	(58 366)	85 798	1 863 647	400 233	2 263 880

5.10 Other comprehensive income

The changes of EUR 31.6 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 Rückversicherung AG adopted on 27 May 2003, the company was authorised until 31 October 2004 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 2003.

5.12 Earnings per share

The basic earnings per share and the fully diluted earnings per share as at 31 December 2003 shown in the statement of income are calculated as follows on the basis of the year-end result:

	2003			2002		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Weighted average of issued shares		116 224 758			110 880 742	
Basic earnings per share	418 321	116 224 758	3.60	243 113	110 880 742	2.19
Dilution through payment of outstanding capital	–	–	–	–	–	–
Fully diluted earnings per share	418 321	116 224 758	3.60	243 113	110 880 742	2.19

In accordance with the "as-if pooling" method, our calculation of the earnings per share is based on the assumption that HDI Reinsurance (Ireland) Ltd. already belonged to Hannover Re at the beginning of the previous year. The weighted average number of shares was therefore increased by 13,716,814 with effect from the beginning of 2002.

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	2003	2002
Securities payable	3 345	8 565
Own-use real estate	42 395	43 119
Other non-technical contracts	45 391	22 079
Present value of future profits on acquired life reinsurance portfolios	12 098	14 621
Fixtures, fittings and equipment	18 809	21 986
Other intangible assets	29 392	30 717
Interest and rent payable on investments	2 528	1 025
Tax refund claims	37 581	58 933
Other	57 046	82 157
Total	248 585	283 202

Other liabilities

Figures in EUR thousand	2003	2002
Provisions for pensions and similar obligations	54 442	45 613
Liabilities from derivatives	48 196	96 132
Interest	32 144	25 270
Deferred income	16 458	17 662
Costs of the annual financial statements	3 803	4 844
Liabilities to trustees	19 826	24 004
Loans	88 230	115 248
Interest on additional tax payments	–	7 023
Liabilities due to banks	4 502	5 775
Other	97 494	139 938
Total	365 095	481 509

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	2003	2002
Other income		
Exchange gains	318 844	64 377
Other interest income	6 089	4 297
Income from services	6 079	12 869
Sundry income	30 385	38 157
	361 397	119 700
Other expenses		
Exchange losses	304 114	116 379
Other interest expenses	57 771	62 341
Depreciation	18 393	9 631
Expenses for services	16 140	18 206
Expenses for the company as a whole	25 433	16 698
Separate value adjustments	33 105	41 584
Goodwill impairments	820	1 188
Sundry expenses	12 101	506
	467 877	266 533
Total	(106 480)	(146 833)

6. Related party disclosures

6.1 Transactions with related parties

SFAS 57 defines related parties inter alia as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself.

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

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

As at 31 December 2003 Hannover Re held 55.78% of the shares of E+S Rück through Hannover Rück Beteiligung Verwaltungs-GmbH (HRBV). With effect from 31 December 2003 1% of the shares in E+S Rück was sold to the Barmenia Group, as a consequence of which Hannover Re's shareholding through HRBV was reduced from 56.78% to 55.78% in the financial year.

As part of a capital increase for a contribution in kind Hannover Re increased its capital stock to EUR 120,597,134.00 through issuance of 13,716,814 new, no-par-value registered shares – each with an interest of EUR 1.00 in the capital stock. The new shares were taken up by Talanx AG and carry dividend rights with effect from 1 January 2003. Talanx AG transferred its shares in HDI Reinsurance (Ireland) Ltd. (HDIRI) to Hannover Re as a contribution in kind with commercial effect as at 1 July 2003. By means of a resolution dated 8 December 2003 HDIRI was transferred to Hannover Reinsurance (Ireland) Ltd. as part of a capital increase for a contribution in kind within the scope of restructuring activities.

Hannover Re and E+S Rück each hold limited partnership interests of EUR 25.0 million in Hannover Euro Private Equity Partners II GmbH & Co. KG (HEPEP II KG). The object of the company is to build, hold and manage a portfolio of passive investments, especially by entering into participations in companies with a similar business objective. The investments consist of equity and quasi-equity participations primarily in Europe in the form of private equity pools, parallel investments and secondaries. Capital calls in the financial year were paid in proportion to the interests.

Hannover Re and E+S Rück each hold limited partnership interests of EUR 25.0 million in Hannover Euro Private Equity Partners III GmbH & Co. KG. The object of the company is the same as that of HEPEP II KG. Capital calls in the financial year were paid in proportion to the interests.

Hannover Re holds a limited partnership interest of USD 75.0 million in Hannover America Private Equity Partners II GmbH & Co. KG. E+S Rück holds an interest of USD 25.0 million in this company. The object of the company corresponds to that of HEPEP II KG, with the difference that it is intended investments should be made largely in the USA. Capital calls in the financial year were paid in proportion to the interests.

Capital increases were implemented at Hannover Finance (UK) Ltd. (HF UK) on 24 June 2003 and 17 December 2003 through issuance of common stock to Hannover Re in the amounts of GBP 2.8 million and GBP 3.3 million respectively. HF UK used these funds to increase the capital of Hannover Life Reassurance (UK) Ltd. (HLR UK). Hannover Re granted a loan of GBP 1.0 million to HLR UK for a term until 20 December 2030 and at an interest rate of currently 5.4%.

In the financial year E+S Rück acquired a bearer bond of Talanx AG in the amount of EUR 40.0 million with a term until 8 July 2013 and a coupon of 5.43%.

In accordance with a resolution of 19 May 2003 Hannover Re's interest in Hannover Reinsurance Group Africa (Pty) Ltd. was increased from 96.85% to 100% through acquisition of the remaining shares.

In 2002 Hannover Re – along with HDI Privat Versicherung AG – acquired an interest of 50% in Oval Office Grundstücks GmbH (OOG) and in the financial year it contributed EUR 1.1 million as part of capital measures. By a partners' resolution of 21 February 2003 the partners individually committed themselves to contribute up to a total of EUR 31.7 million in additional cash payments to the company's equity capital.

In the financial year Hannover Re repaid ahead of schedule the loans taken out from Hannover Re (Bermuda) Ltd. (EUR 200.0 million) and E+S Rück (EUR 250.0 million).

Hannover Re acquired the property and casualty portfolio of the Insurance Corporation of Hannover. E+S Rück is involved in the transfer of the portfolio through internal retrocession arrangements.

As part of a portfolio withdrawal Hannover Re transferred treaties in the area of life and health reinsurance to Hannover Life Reassurance Company of America for regional handling.

Ampega Asset Management GmbH manages the investments of Hannover Re and those of 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 the Hannover Re Group 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 2,786 thousand was paid to the Executive Board and EUR 446 thousand to the Supervisory Board in the year under review. Former members of the Executive Board and their surviving dependants received EUR 823 thousand, and a liability of EUR 9,970 thousand was shown as at year-end.

The total compensation received by the members of the Executive Board included variable components of EUR 1,424.2 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	ISIN	Transaction date	Number of securities	Price in EUR
André Arrago	Purchase	Share	DE 000 840 221 5	27.3.2003	3 000	18.22

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 2003 the total holding amounted to 0.027% of the issued shares, i.e. 32,601 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 0.55% of the capital stock as at the balance sheet date. The value of these stock options was EUR 662 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 and Deputy Chairman 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 1.1.2003	Addition	Repayment	Position as at 31.12.2003	Interest rate in %
Executive Board	92	–	4	88	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 6.66 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 3.33 cents by which the earnings per share exceeds the target performance the basic number of stock options is increased by 10%, while for each full amount of 6.66 cents by which the earnings per share falls short of the target performance it is reduced by 10%. These figures are based upon the amendment of § 3 Para. 1 of the Conditions for the Granting of Stock Options adopted by a resolution of the Supervisory Board on 11 April 2003 following the stock split of 15 April 2002.

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 reference price, i.e. the share price at the beginning of the year in which the stock option is 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.

The waiting period for 40% of the stock options granted in 2000 first expired in the financial year. Since the current stock market price of the Hannover Re share did not reach the reference price in all four exercise periods, it was not possible to determine a concrete value for each stock option. For this reason no option rights were exercised.

The existing option rights were valued on the basis of the Black/Scholes option pricing model using a trinomial tree method.

As at 1 January 2003 the existing number of stock options stood at 1,097,235 with an average exercise price of EUR 25.50 each. In accordance with the resolution of the Supervisory Board dated 11 April 2003 a further 710,429 option rights were granted at an average exercise price of EUR 23.74 each.

134,165 option rights lapsed in the financial year at an average exercise price of EUR 25.19.

The total number of stock options existing as at year-end stood at 1,673,499. The average exercise price per option amounted to EUR 24.78. Of this total number, 394,734 option rights could be exercised at an average exercise price of EUR 25.50.

Development of the stock option scheme

	2003		2002	
Stock options	Number	Average exercise price in EUR per option	Number	Average exercise price in EUR per option
Total options existing at 1 January	1 097 235	25.50	1 138 005	25.50
Granted	710 429	23.74	–	–
Exercised	–	–	–	–
Lapsed	134 165	25.19	40 770	25.50
Total options remainingf at 31 December	1 673 499	24.78	1 097 235	25.50
Exercisable at year-end	394 734	25.50	–	25.50

The calculations were based on the year-end closing price of the Hannover Re share as at 30 December 2003 of EUR 27.72, volatility of 43.0%, a dividend yield of 2.88% and risk-free interest rates of 4.26% for the 2000 allocation year and 4.42% for the 2002 allocation year.

On this basis provisions of EUR 1,116 thousand for the 2002 allocation year and EUR 3,486 thousand for the 2000 allocation year were established for the stock options existing as at 31 December 2003.

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.

Hannover Re has also provided security for subordinated debt in the amount of EUR 350 million issued by Hannover Finance (Luxembourg) S.A.

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

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 1,664.2 million (EUR 1,491.9 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,950.5 million.

Outstanding capital commitments with respect to special investments exist in the amount of EUR 62.8 million for E+S Rückversicherungs-AG and EUR 115.4 million for Hannover Re. These involve primarily private equity funds and venture capital firms in the form of private limited companies.

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 25.7 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 meet 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

The accounting of the "Modco" and "CFW" reinsurance treaties, under which security deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, must comply with the standards of SFAS 133 DIG B 36. The derivatives embedded in such host contracts are to be reported separately from the underlying reinsurance arrangements at fair value (cf. section 1 "General accounting principles").

A small number of treaties in life and health reinsurance meet criteria which require the application of SFAS 133 DIG B 36. Under these treaties the interest-rate risk elements are clearly and closely linked with the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract is concluded and its value then fluctuates over time according to changes in the credit spread of the securities.

The application of DIG B 36 had no significant impact on the consolidated financial statement in the financial year. The fair values of the embedded derivatives were recognised in the investments as at the balance sheet date and to this extent increased the investment income. The pre-tax effect on the investment income amounted to altogether EUR 3.3 million as at the balance sheet date. Of this amount, EUR 2.8 million before tax was attributable to the cumulative adjustment based on first-time application of the standard as at 1 October 2003 with tax expenditure of EUR 0.5 million, and the investment income after tax was therefore increased by EUR 2.3 million under the first-time application. In the course of the fourth quarter the fair value of the embedded derivatives further increased by a total of EUR 0.5 million before tax.

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.

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

2003 in TEUR	1 to 5 years	6 to 10 years	Total
Interest rate swaps	–	317 208	317 208
Currency swaps	3 977	(860)	3 117

The fair value of derivatives used in cash flow hedges totalled -EUR 41.2 million. Derivatives recognised in the trading portfolio had a fair value of EUR 2.4 million.

Ten contracts matured in the year under review; this gave rise to profits on disposals of EUR 0.9 million and losses on disposals of EUR 0.1 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

In a press release dated 18 February 2004 we announced that we had successfully placed subordinated debt in the amount of EUR 750 million on the European capital markets through our subsidiary Hannover Finance (Luxembourg) S.A. The bond was placed predominantly with institutional investors in Europe.

The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly Euribor + 263 basis points.

As part of the transaction Hannover Re bought back by 25 February 2004 under a tender offer altogether 92.5% of its USD 400 million subordinated debt issued in 1999 by Hannover Finance Inc., Wilmington, USA, so as to take advantage of the currently highly advantageous EUR/USD exchange rate. Given the fact that Hannover Re will also repay the surplus debenture of approximately EUR 120 million due in November 2004, the net interest burden will only marginally increase.

In a press release dated 18 February 2004 as well as an announcement pursuant to §§ 21, 22, 24 WpHG Talanx AG provided information about the sale of an interest in Hannover Re in the amount of 20.6%, equivalent to roughly 24.8 million shares, to institutional investors. This transaction increases the free float of the Hannover Re share from 28.2% to 48.8%.

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

7.6 Rents and leasing

Leased property

Summary of leasing commitments

Figures in EUR thousand	Payments
2004	6 142
2005	5 777
2006	5 428
2007	5 133
2008	5 144
Subseqent years	55 752

Operating leasing contracts produced expenditures of EUR 5,563 thousand in the 2003 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, a lease agreement for business premises was concluded in the financial year with a term of 20 years. The lease ends on 29 August 2023. The rent instalments are fixed for the lease term, although adjustments in line with changed market conditions are possible at contractually agreed times.

In 2002 Hannover Reinsurance Africa Ltd. concluded a sale-and-lease-back contract for land and business premises for a period of eight years. SFAS 13 requires that this be recognised as an operating lease.

Rented property

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

Figures in EUR thousand	Payments to be received
2004	11 057
2005	10 425
2006	9 733
2007	8 580
2008	8 332
Subsequent years	14 341

Rental income totalled EUR 15,265 thousand in the 2003 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

	2003	2002	2003	2002
1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.12.	31.12.	31.12.	31.12.
AUD	1.6788	1.8497	1.7473	1.7405
CAD	1.6290	1,.6385	1.5905	1.4835
GBP	0.7070	0.6502	0.6899	0.6279
MYR	4.7741	3.9754	4.3033	3.5911
SEK	9.0710	9.1450	9.1326	9.1504
USD	1.2610	1.0415	1.1342	0.9453
ZAR	8.3282	8.9550	8.5030	9.8562

Hannover, 23 March 2004

Executive Board

Zeller   Arrago   Dr. Becke

Gräber   Dr. König   Dr. Pickel   Wallin

AUDITORS' report

We have audited the consolidated financial statements of Hannover Rückversicherung AG for the business year from January 1 to December 31, 2003, comprising the balance sheet, income statement, statement of changes in stockholders' equity and statement of cash flow as well as the notes to the financial statements, in accordance with the Accounting Principles Generally Accepted in the United States of America (US GAAP). The preparation and content of the consolidated financial statements 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 accounting and consolidation principles used and significant estimates made by the legal representatives 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 the Accounting Principles Generally Accepted in the United States of America.

Our audit, which also extends to the group management report prepared by the Executive Board for the year from January 1 to December 31, 2003, 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. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1 to December 31, 2003, satisfy the conditions for releasing the company from its obligations under German law to compile consolidated financial statements and a group management report.

Hannover, 24 March 2004

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 regularly supervised the management of Hannover Rückversicherung AG (Hannover Re), the parent company of the Hannover Re Group, during 2003 on the basis of detailed written and verbal reports from the Executive Board. The Supervisory Board held a total of five meetings – each lasting several hours – in which the necessary resolutions were adopted. The Standing Committee and the Balance Sheet Committee formed in the previous year (both committees within the meaning of § 107 Para. 3 German Stock Corporation Act) met on three and two occasions, respectively. 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 and expected figures for the Group with regard to the growth in premiums and the burden of major losses 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 responsibilities placed upon us by the company's Articles of Association.

As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the implementation of a capital increase at Hannover Rückversicherung AG from authorised capital. This was composed of a capital increase for a contribution in kind by the majority shareholder, Talanx AG, in the amount of EUR 310 million and a capital increase for cash, representing altogether 10% of the issued share capital and each excluding pre-emptive rights of existing shareholders. The capital measure was intended to safeguard an adequate capital base for the anticipated business growth and to preserve the company's excellent ratings. During the preparations for the Annual General Meeting the Supervisory Board was concerned with an extensive revision of the company's Articles of Association aimed at incorporating the latest developments into their wording and increasing their practical relevance. The Articles of Association had last undergone a thorough revision in the run-up to the company's going public in 1994. Within the scope of various specialist analyses the Supervisory Board received information about the company's risk management and retrocession strategy as well as the development of particularly significant business segments, such as US liability business. The Supervisory Board also stayed informed of significant legal actions involving the Hannover Re Group, most notably those arising out of insurance and reinsurance contracts. The Supervisory Board again devoted considerable attention to the issue of Corporate Governance.

The Supervisory Board continued to keep a close eye on the development of the Group's principal subsidiaries and participations. In this context, the primary focus in 2003 was on a retrospective review of the last two major acquisitions, namely the portfolio of Skandia International in 1997 and the Clarendon Insurance Group, New York, in 1999. With respect to the acquisition of Skandia International, the Supervisory Board confirmed to its satisfaction that the portfolio – at the time purchased for a price of roughly EUR 128.5 million (book value as at 31 December 1997) with permanent establishments in Stockholm, Mexico, Paris, Madrid and London – constitutes a successful and highly profitable investment from today's perspective.

The Chief Executive Officer of Clarendon described to the Supervisory Board the company's market situation, business strategy and structure. With premium income of around USD 2.6 billion Clarendon is the undisputed market leader in the program business segment. Having experienced some temporary difficulties, the company is now operating profitably and in the medium term expects to generate an annual profit in the order of USD 70-100 million.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover, was mandated to audit the consolidated financial statement and the Executive Board's report for the Hannover Re Group 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 a meeting attended by the auditors. The auditors' report was distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results.

The Executive Board's report on the company's relations with affiliated companies has likewise been examined by KPMG DTG and was 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."

With effect from the conclusion of the Annual General Meeting on 27 May 2003 Mr. Bengt Pihl stepped down from the Supervisory Board as a shareholders' representative. The Supervisory Board thanked Mr. Pihl for his constructive efforts and his contribution to the development of the company. At the request of the Executive Board the Hannover County Court, which is competent in this matter, appointed Mr. Bodo Uebber as a member of the company's Supervisory Board effective 25 September 2003 pursuant to § 104 Para. 2 Sentence 1 German Stock Corporation Act (AktG).

As of 1 September 2003, Mr. André Arrago and Mr. Ulrich Wallin were appointed as full members of the Executive Board. Dr. Elke König was also appointed as a full member of the Executive Board as of 1 January 2004.

Hannover, 25 March 2004

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 – on a lasting basis – the goal of strengthening and consolidating the trust placed in the enterprise by present and future shareholders, business partners, clients, employees and the general public.

In Germany, the German Corporate-Governance Code enshrines the basic principles. It has been formulated and is regularly updated by a Government Commission appointed by the Federal Government. Amongst other things, this Code sets out in practical terms standards of conduct for Supervisory and Management Boards and defines duties of disclosure with respect to shareholders.

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 has always been and continues to be firmly enshrined in our corporate philosophy. Major elements of the requirements of the Code have thus long been "lived" as part of 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 as well as through 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 measurement of value creation (adjusted operating result after tax less the cost of capital) is performed Group-wide on a uniform basis using the Intrinsic Value Creation (IVC) method which we developed and which is specially tailored to the characteristic features of an international reinsurer
- The Executive Board receives variable compensation linked to the growth in the company's value (stock option plan)
- 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 further stepped up our Investor Relations activities:

- We organised a total of six international telephone conferences for analysts and institutional investors. Our presentations were transmitted live over the Internet concurrently with these telephone conferences
- Our analyst conferences, the press briefing on the annual results, the speech given by the Chairman of the Executive Board at our Annual General Meeting as well as the telephone conferences are recorded and can be accessed online via video/audio streaming
- Around 50 roadshows and investor conferences were held at various international financial marketplaces
- In the course of roughly 30 visits we conducted personal discussions with international analysts and investors
- In what has already become a regular fixture, a seminar was held for analysts and investors in Berlin in order to meet the demand for additional, more detailed background information

In December 2003, the Executive Board and the Supervisory Board of Hannover Re revised the Corporate Governance principles of Hannover Re that had been originally defined in December 2002. In this context Hannover Re again decided to extensively adopt the recommendations and suggestions of the Code – which was also amended in 2003 – in its own Corporate Governance principles. The idea of Corporate Governance was also incorporated into Hannover Re's Code of Conduct, which was defined for the first time. It is composed of mandatory rules intended to help all company employees handle the ethical and legal challenges of their day-to-day work. All these activities take place against the backdrop of our self-image guided by internationally valid "best practice" standards. In addition, the Supervisory Board performed for the first time – also with considerable success – the efficiency audit of its work that is prescribed by the German Code. With our Corporate Governance principles we have created a state-of-the-art company-specific set of rules encompassing an entire system of responsible enterprise management and supervision oriented towards value creation.

The required disclosure regarding the recommendations of the German Corporate Governance Code that have still to be implemented by Hannover Re is provided in the following declaration of conformity:

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

The "German Corporate Governance Code" (DCGK) was first published on 26 February 2002. This report is based on the amended version of the Code dated 21 May 2003 and published in the electronic Federal Gazette on 4 July 2003. The Code sets out major stipulations governing the management and supervision of German listed companies. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. To this end, the Code defines standards of good, responsible, efficient and transparent enterprise management and supervision. From the very outset, Hannover Re has followed the deliberations of the Government Commission on the "German Corporate Governance Code" and the diverse public debates on this issue supportively and with considerable interest.

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. Hannover Rückversicherung AG only diverges from the German Corporate Governance Code in three respects that are explained below.

Individualised specification of compensation received by the Executive Board and Supervisory Board

(Code Items 4.2.4 Sentence 2 and 5.4.5 Para. 3, Sentence 1)

The compensation received by the members of the Executive Board and the Supervisory Board is supposed to be reported in the notes to the consolidated financial statements on an individualised basis and broken down into its constituent elements. Hannover Re is of the opinion that the legal protection of rights of personality should take precedence over the disclosure and transparency interests of investors. For this reason, as has been the case to date, a summary presentation of the compensation and its constituent elements is provided in the notes to the consolidated financial statements. This disclosure enables our shareholders to fully assess the appropriateness of the total amount of compensation.

Separate specification of compensation received by the chair and members of the committees of the Supervisory Board

(Code Item 5.4.5 Para. 1, Sentence 3)

The compensation received by the Chairman and Deputy Chairman of the Supervisory Board as well as by the chair and the members of its committees is supposed to be detailed separately. Hannover Re has not made separate disclosure for the chair and members of the committees up to now. In the future, however, Hannover Re intends to comply even more closely with the Code. It is therefore envisaged that arrangements in accordance with the German Corporate Governance Code will be proposed to the next Annual General Meeting on 2 June 2004.

Publication deadlines for the annual report and the interim reports

(Code Item 7.1.2, Sentence 2)

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. As already explained in last year's declaration of conformity, owing to some special features of international reinsurance business and the associated regulatory frameworks we marginally exceed the recommended periods at present. We by no means, however, use the full scope of the deadlines permitted by law. By further optimising our reporting processes, it remains our expectation that we shall achieve compliance with the deadlines for the 2004 financial year.

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

Hannover, 25 November 2003

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GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. 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.

Coinsurance Funds Withheld (CFW): coinsurance transaction under which the ceding company retains a portion of the original premium at least in the amount of the ceded reserves. As with a → ModCo transaction, the interest payment to the reinsurer represents the investment income from the underlying securities portfolio.

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: portfolio- and risk-auditing activity generally performed as part of a capital market transaction or in the case of mergers and acquisitions, covering inter alia an examination of the financial, legal and tax situation.

Earnings per share, diluted: ratio, 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.

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.

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

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. In contrast, companies and securities with non-investment-grade ratings are by definition associated with speculative elements and therefore entail a significantly higher risk.

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

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

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.

Modified Coinsurance (ModCo): reinsurance transaction under which the ceding company retains a deposit in the form of securities that serve to collateralise the ceded reserves. This consequently gives rise to a commitment to render payments to the reinsurer at a later point in time. The payments comprise a proportionate share of the gross premium as well as the income from securities.

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.

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

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

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

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

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

Rating: 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.

Special Purpose Entity (SPE): legal structure with specific characteristics not bound to a particular form of organisation. It is used to perform defined activities or to hold assets.

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

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

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

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 entity not bound to a particular form of organisation for which the traditional consolidation concept based on voting interests does not suffice to determine who exercises control or in which the equity providers do not participate in the economic risks and profits. The definition is broader than the originally used term → Special Purpose Entity (SPE).

Volatility: measure of the variability of stock prices, interest rates and exchange rates. Standard practice is to measure the volatility of a stock price by calculating the standard deviations of relative price differences.

INDEX OF KEY TERMS

YOUR OPINION
matters to us

Dear Readers,

Since we strive every year to optimise our annual report we would be very pleased to hear your views. We would therefore ask you to return the feedback sheet by fax (+49/5 11/56 04-16 48) or complete it online at www.hannover-re.com/media center/publications

- The structure of the annual report is reader-friendly.

  Agree ☐ ☐ ☐ ☐ ☐ ☐ Do not agree

- The content is easy to navigate.

  Agree ☐ ☐ ☐ ☐ ☐ ☐ Do not agree

- Topics are dealt with thoroughly.

  Agree ☐ ☐ ☐ ☐ ☐ ☐ Do not agree

- I would like to know more about the following topics:

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