# Annual Report | 2004

- Good result despite exceptionally high incidence of natural catastrophes
- Combined ratio in property and casualty reinsurance 97.0%
- Investments +12.3%
- Return on investments 4.8%
- Policyholders' surplus +14.5%
- Return on equity 12.5%
- Book value per share +6.3%
- Dividend +5.3%

hannover re®

# STRATEGIC BUSINESS GROUPS

hannover re

## Property and Casualty reinsurance

hannover re

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

## Life and Health reinsurance

hannover life re

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

## Financial reinsurance

hannover re Advanced Solutions

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

## Program business

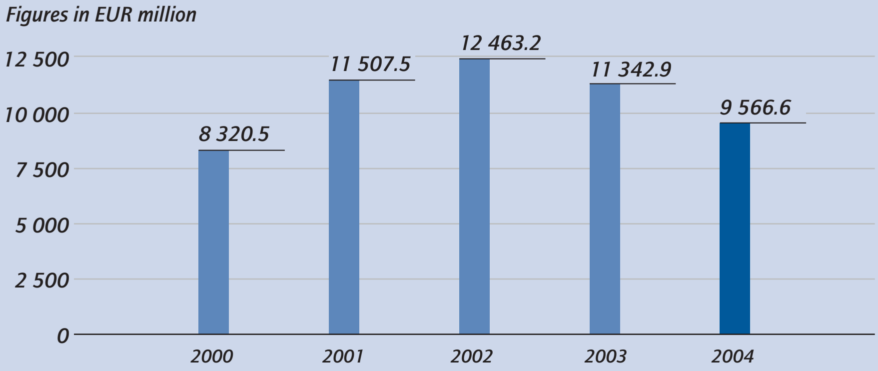
hannover insurance

- Clarendon Insurance Group, New York
- Insurance Corporation of Hannover, Chicago
- Inter Hannover, London
- Compass Insurance, Johannesburg

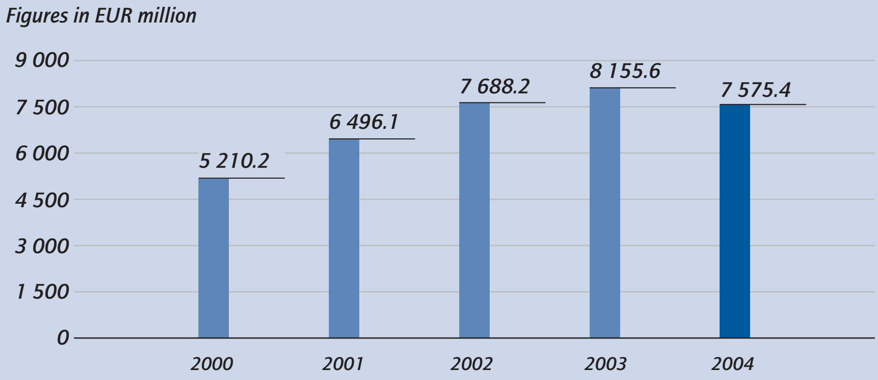
# CONTENTS

# AN OVERVIEW

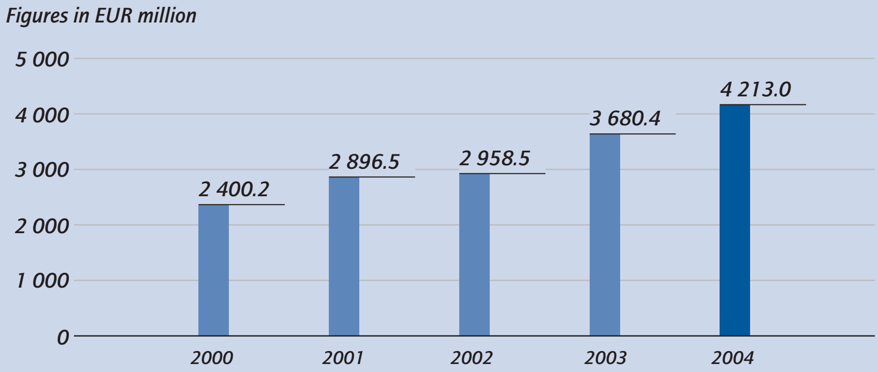
Gross written premiums



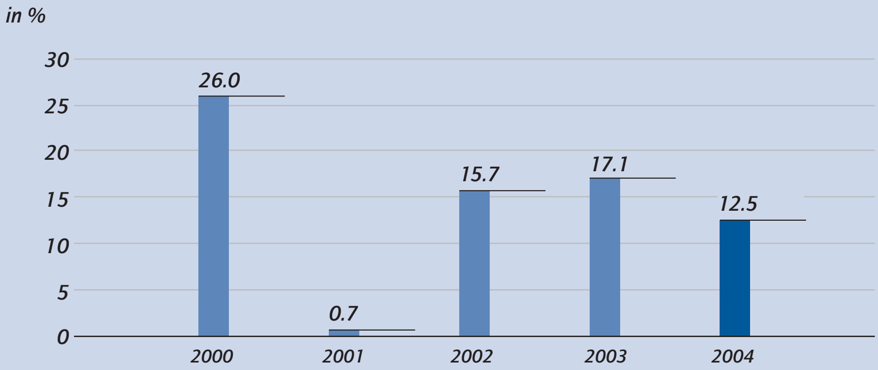

Net premiums earned




Policyholders' surplus




After-tax return on equity



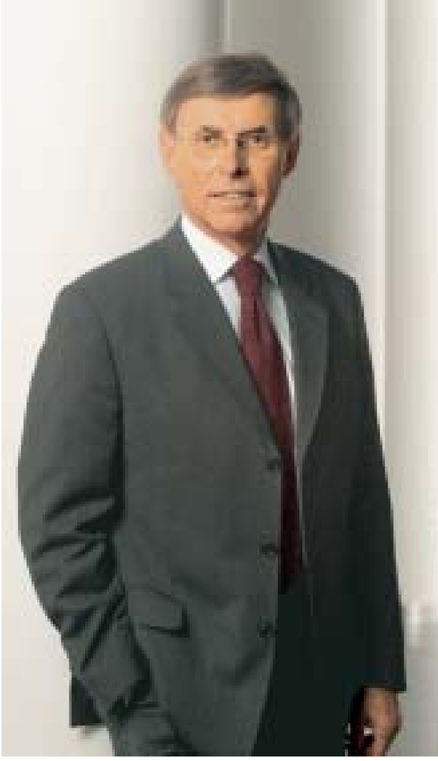
# KEY FIGURES

| Figures in EUR million | 2004 | +/- Previous year | 2003 | 2002 | 2001 | 2000 | More on page |
|---|---|---|---|---|---|---|---|
| **Results** | | | | | | | |
| Gross written premiums | 9 566.6 | (15.7%) | 11 342.9 | 12 463.2 | 11 507.5 | 8 320.5 | 19/78 |
| Net premiums earned | 7 575.4 | (7.1%) | 8 155.6 | 7 688.2 | 6 496.1 | 5 210.2 | 19/78 |
| Net underwriting result | (399.3) | +70.2% | (234.6) | (311.1) | (878.2) | (449.2) | 78 |
| Net investment income | 1 116.7 | +4.2% | 1 071.5 | 928.4 | 945.7 | 868.7 | 20/78 |
| Operating profit (EBIT) | 577.6 | (21.1%) | 732.1 | 470.9 | 109.2 | 342.5 | 19/78 |
| Net income (after tax) | 309.1 | (12.9%) | 354.8 | 267.2 | 11.1 | 364.9 | 19/78 |
| | | | | | | | |
| **Balance sheet** | | | | | | | |
| Policyholders' surplus | 4 213.0 | +14.5% | 3 680.4 | 2 958.5 | 2 896.5 | 2 400.2 | |
| Total stockholders' equity | 2 556.7 | +6.3% | 2 404.7 | 1 739.5 | 1 672.0 | 1 573.4 | 20/108 |
| Minority interests | 535.0 | +8.8% | 491.8 | 400.4 | 307.8 | 294.1 | 71/108 |
| Hybrid capital | 1 121.3 | +43.0% | 783.9 | 818.6 | 916.7 | 532.7 | 20/107 |
| Investments (incl. funds held by ceding companies) | 24 735.8 | +12.3% | 22 031.1 | 20 305.8 | 19 278.0 | 14 196.2 | 53/70 |
| Total assets | 35 372.0 | +7.3% | 32 974.7 | 33 579.0 | 32 647.6 | 23 497.6 | 70 |
| | | | | | | | |
| Value of in-force business (life/health) | 1 495.2 | +9.9% | 1 361.1 | 1 206.0 | 1 048.0 | 874.0 | 38 |
| | | | | | | | |
| **Share** | | | | | | | |
| Earnings per share (diluted) in EUR | 2.56 | (21.0%) | 3.24 | 2.75 | 0.11 | 4.13 | 13/109 |
| Book value per share in EUR | 21.20 | +6.3% | 19.94 | 17.90 | 17.21 | 17.76 | |
| Dividend | 120.6 | +5.3% | 114.6 | 82.6 | – | 100.0 | 68 |
| Dividend per share in EUR | 1.00 | +5.3% | 0.95 | 0.85 | – | 1.21 [1] | 13 |
| | | | | | | | |
| **Ratios** | | | | | | | |
| Combined ratio (property and casualty reinsurance) | 97.0% | | 96.0% | 96.3% | 116.5% | 108.4% | 22 |
| Retention | 77.6% | | 71.9% | 65.3% | 61.7% | 63.7% | |
| Return on investment | 4.8% | | 5.1% | 4.7% | 5.7% | 6.4% | |
| Net return on premium [2] | 7.6% | | 9.0% | 6.1% | 1.7% | 6.6% | |
| Return on equity (after tax) | 12.5% | | 17.1% | 15.7% | 0.7% | 26.0% | 14/20 |

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

"Tomorrow's success will hinge on the course that we chart today. We are well prepared for the risks and opportunities that lie ahead in the coming years. What is more, we shall never lose sight of our common interest and goal of consistently enhancing the value of your company."

(from the Letter from the Chairman of the Executive Board)



Wilhelm Zeller
Chairman of the
Executive Board

Dear shareholders,
Ladies and Gentlemen,

2004 has gone down as the presumably most expensive year of natural disasters ever recorded in insurance history. The four severe hurricanes in the Caribbean and in the United States were alone enough to place a massive strain on reinsurers and – quite literally – left our plans in a spin. Japan was also hard hit by several typhoons, and then at the end of the year we witnessed a strong earthquake under the Indian Ocean, with a resulting tsunami that triggered a human tragedy of almost unimaginable dimensions. In view of the devastating images that we all have seen, it is difficult to turn one's mind back to hard economic figures. Nevertheless, initial market estimates suggest that insurers and reinsurers will pay out an amount in the order of EUR 30 billion for natural catastrophe losses in the year under review.

So what did all these natural disasters in 2004 mean for Hannover Re? They prevented your company from achieving another record result: due to the extraordinarily large losses of more than EUR 300 million in the third quarter attributable solely to the hurricanes in the Caribbean and in the USA, we were compelled to revise our original profit forecast in October. Yet, as late as August on the occasion of the telephone conference held with analysts to discuss the financial statements for the first half-year, I had been asked whether we ought to raise our profit forecast in view of our excellent performance. Pointing to the uncertainties of the remaining hurricane and typhoon season in the Caribbean and Far East I rejected this suggestion. At the time, though, I too had not envisaged losses on such a heavy scale. Nevertheless, in the light of this vastly above-average burden of natural catastrophe losses, a none-too-friendly capital market and the persistent weakness of the US dollar, it is with some pride that I can report a good business performance. Even in this difficult market climate, we achieved the target we had set for ourselves of generating a return of at least 12% after tax on the capital that you provided. Together with the Supervisory Board, we shall therefore propose to the Annual General Meeting that an increased dividend of EUR 1.00 be distributed.

I would now like to describe the development of our portfolio broken down into our four strategic business groups:

In *property and casualty reinsurance*, our oldest and largest business group, almost all segments continued to offer attractive opportunities for writing profitable business. The year under review again saw no ”softening”, i.e. there was no deterioration in rates and conditions in the hard market. The anticipated price erosion in natural catastrophe reinsurance failed to materialise due to the hurricanes in the Caribbean and the typhoons that affected Japan. These favourable market conditions, combined with a number of strategic moves on our part, ensured that in property and casualty reinsurance we were very largely able to cushion the exceptionally high major loss expenditure of EUR 287 million.

True to our ”More from less” initiative we again analysed our portfolio in the year under review with an eye to long-term profitability considerations and relinquished treaties that failed to meet our profitability standards. We replaced high-volume but frequently low-margin proportional business with more profitable non-proportional arrangements. As our shareholders, you know that we are guided solely by profit – not volume – targets. For this reason, too, we are not concerned about the appreciable decline in our gross premium income, not least because it is in large measure due to the sustained weakness of the US dollar. Far more significant is the fact that – despite the exceptional loss burden suffered in property and casualty reinsurance – we were still able to boost net income for this business group by more than 50%.

*Life and health reinsurance* similarly developed very favourably again in the year under review. In this business group we rank among the world’s five largest providers. Following the expansionary phase of recent years we now have consolidated our market position at a high level. Gross premium income in 2004 was slightly lower than in the previous year, a reflection not only of adverse exchange rate movements but also of the elimination of a major business relationship in the United Kingdom. Yet, in the year under review we made a number of important new moves in the direction of profitable growth: in core markets such as Germany and the United Kingdom we were successful in developing new products and in establishing as well as expanding attractive customer relationships. Special products for senior citizens, a sector of the population that has been especially neglected in Germany compared to other countries, is a promising market for the future in which we are positioning ourselves.

Following its vigorous growth of recent years our third business group, *financial reinsurance*, is now experiencing a period of consolidation. We strengthened our market position as one of the world’s three leading providers. Overall, the year under review developed satisfactorily for this business group. In view of the softer demand for capital-replacing proportional quota share arrangements and the continuing weakness of the US dollar, our premium income is sharply lower.

It was only our fourth business group, *program business*, that delivered a wholly unsatisfactory performance in 2004. For the first time since our 1999 acquisition of the US market leader in program business, Clarendon Insurance Group, the company reported a loss. The four severe hurricanes that hit Florida – an event with a statistical return period in excess of once in a century – produced the worst possible scenario for Clarendon. This is because Florida, a state where Clarendon has been active for many years in windstorm-exposed homeowners' insurance business, was affected by every single hurricane. If, instead of four hurricanes, there had been only a single event – even with a far higher insured loss – or, if the hurricanes had been spread more across various US states, the burden incurred by Clarendon would have been considerably lower.

I am largely satisfied with developments on the financial markets: most notably, write-downs on securities were substantially lower than in the previous year. Ordinary *investment income* fell slightly short of the previous year's figure. Positive underwriting cash flows did not fully offset the low level of interest rates throughout the portfolio. On balance, net investment income was modestly higher.

The *Hannover Re share* recorded another, albeit modest, increase in value in the year under review. The price rose by 3.7% over the course of the year, and the performance including the dividend amounted to 7.3%. Once again, therefore, we have no reason to shy away from comparisons with our competitors. Adjusted for exchange-rate effects, we thus outperformed our benchmark, the unweighted "Reactions" World Reinsurance Index (which includes all listed reinsurers worldwide), by 8.5 percentage points in 2004.

What should we expect from the *current financial year*? The treaty renewals in property and casualty reinsurance as at 1 January 2005 – the time of the year when roughly two-thirds of our portfolio is renegotiated - demonstrated that market conditions remain very favourable. The so-called hard market will be sustained in 2005: stable rates and conditions were obtained in almost all segments. In certain segments – most notably in casualty business – it was even possible on average to secure further slight improvements.

Turning now to the development of our investments in 2005, I am confident that with the anticipated positive underwriting cash flow our asset portfolios will continue to grow. If interest rates show the modest increase that is generally expected, investment income should continue to rise. Overall, it is our assumption that net investment income will improve on the previous year – a promising foundation then for a successful financial year. Provided there are no adverse movements on capital markets and as long as major losses remain within the bounds of the multi-year average, we anticipate a very good overall result for the current financial year: net income is forecast to be in the region of EUR 430 to 470 million, an increase of roughly 50% on the year under review.

I would like to close with a brief word on our strategic orientation: it is my firm conviction that our long-term success and economic independence are founded on above-average and sustained profitability. It is for this reason that our mindset and our actions in 2005 will again be focused exclusively on profitability considerations. This is the only maxim that guides us as we write our business, invest our assets and conduct our capital management activities.

It may be noted in this context that the difficulties in which certain highly reputed players within our industry once again found themselves in the year under review clearly show how past success counts for little. Tomorrow's success will hinge on the course that we chart today. Let me assure you: we are well prepared for the risks and opportunities that lie ahead in the coming years. What is more, we shall never lose sight of our common interest and goal of consistently enhancing the value of your company.

On my own behalf and that of all my colleagues on the Executive Board, I would like to express my deepest appreciation for the trust that you place in us.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

# SUPERVISORY BOARD
## of Hannover Re

| | |
|---|---|
| Wolf-Dieter Baumgartl [1) 2)]<br>Hannover<br>Chairman | Chairman of the Executive Board<br>Talanx AG<br>HDI Haftpflichtverband der<br>Deutschen Industrie V.a.G. |
| Dr. Paul Wieandt [2)]<br>Hof/Saale<br>Deputy Chairman | Chairman of the Management Board<br>Resba GmbH |
| Herbert K. Haas [1) 2)]<br>Burgwedel | Member of the Executive Board<br>Talanx AG<br>HDI Haftpflichtverband der<br>Deutschen Industrie V.a.G. |
| Karl Heinz Midunsky<br>Munich | Former Corporate Vice President and Treasurer<br>Siemens AG |
| Ass. jur. Otto Müller [3)]<br>Hannover | |
| Ass. jur. Renate Schaper-Stewart [3)]<br>Lehrte | |
| Dipl.-Ing. Hans-Günter Siegerist [3)]<br>Nienstädt | |
| Dr. Klaus Sturany [1)]<br>Dortmund | Member of the Executive Board<br>RWE Aktiengesellschaft |
| Bodo Uebber<br>Stuttgart | Member of the Executive Board<br>DaimlerChrysler AG |

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

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

# EXECUTIVE BOARD
## of Hannover Re

**Dr. Wolf Becke**

Life and Health markets 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

**Jürgen Gräber**

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

**Wilhelm Zeller**
Chairman

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

**Dr. Elke König**

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

**Ulrich Wallin**

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

**André Arrago**

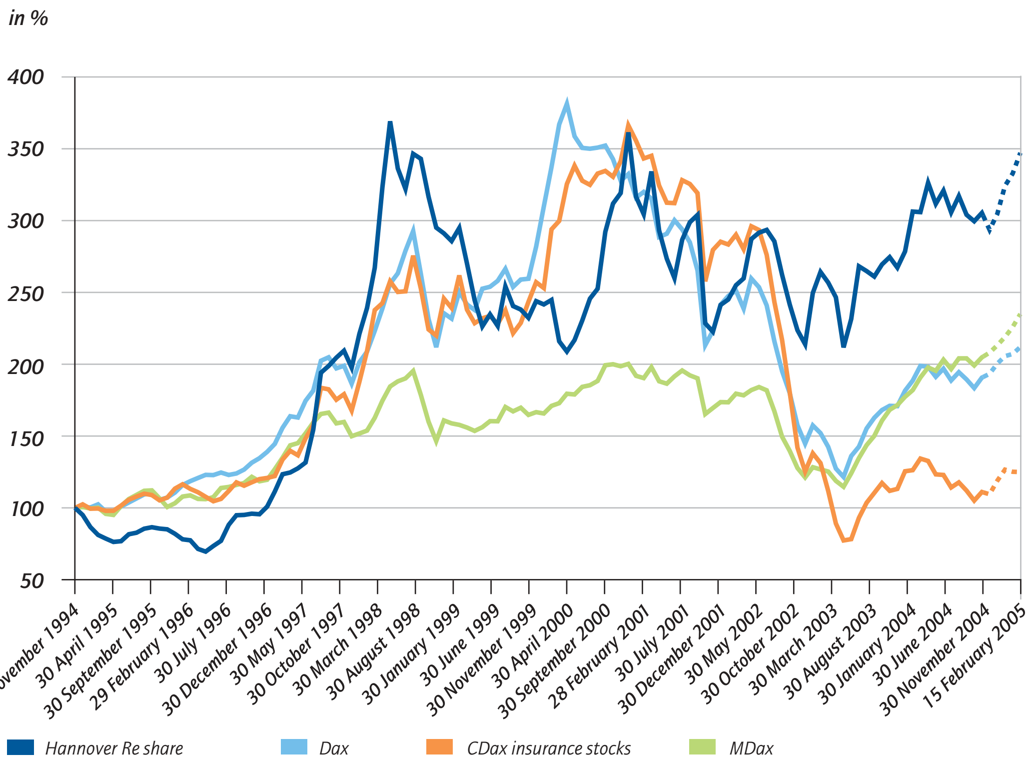
Property and Casualty Treaty Reinsurance Arab, European Romance and Latin American countries, Northern and Eastern Europe, Asia and Australasia

# THE HANNOVER RE SHARE

## A year with no clear trend

Considerable volatility with no clearly discernible trend was the hallmark of global equity markets in 2004. Insurance stocks, in particular, failed to generate any significant gains throughout the year. This was due to the steady rise in the price of oil and various other fundamental factors that had a depressive effect on the economy on the one hand, and to terrorism concerns and natural catastrophes on the other hand. Ultimately, however, the markets experienced a year-end rally that promised some hope for the current year. The major German and European indices fared somewhat better, closing 2004 for the most part in positive territory: Dax (+7.34%), MDax (+20.28%), TecDax (-3.94%), SDax (+21.56%) and EuroStoxx 50 (+7.31%).

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



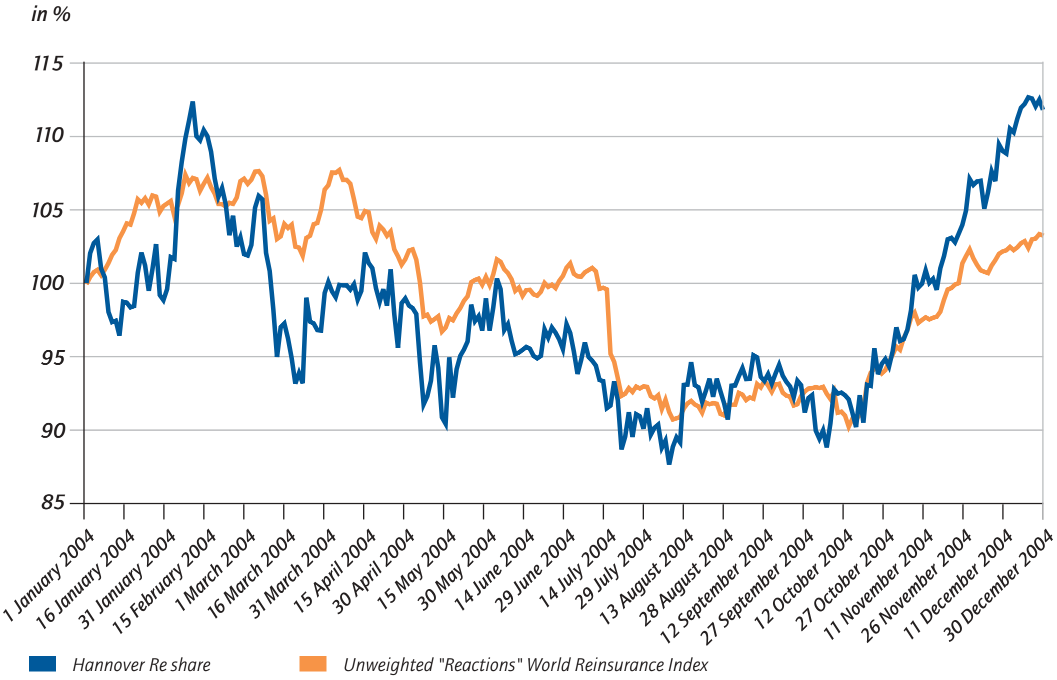

## Our share: Difficult climate for insurance stocks

Our share showed similarly marked inconsistencies in the course of the year, although it closed with a gain of 3.72% at a price of EUR 28.75 as at 30 December 2004. Including the dividend this corresponded to a performance of 7.30% for the year. Although the Hannover Re share thus lagged considerably behind the MDax, it held its ground very well by industry standards. We outperformed the industry index CDax for insurance stocks by 9.24 percentage points. This is all the more remarkable when we think of the barrage of bad news suffered by the industry in the year under review, which on occasion sent our share, too, on a downward slide: reserving problems at a number of our competitors, lawsuits filed in the USA by New York Attorney General Eliot Spitzer and a whole string of natural catastrophes in the Caribbean, the United States and Asia. Caught up in the wake of these events, our share fell to its lowest point of the year on 25 October 2004 at EUR 24.63.

In a three-year comparison our share surpassed our internal benchmark, namely the unweighted "Reactions" World Reinsurance Index, by a comfortable 85 percentage points. Yet, taken in isolation the year under review was also clearly favourable with an outperformance of 8.45 percentage points.

Internal benchmark surpassed by 85 percentage points in a three-year comparison

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



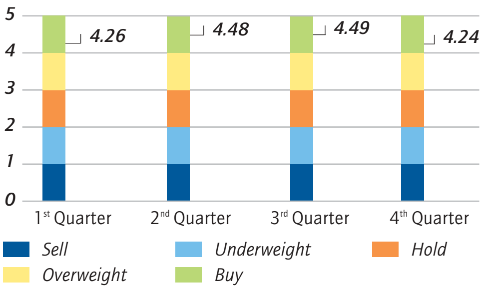

*The unweighted "Reactions" World Reinsurance Index combines all listed reinsurers worldwide. Our strategic objective is to achieve an increase in the share price which on a three-year moving average surpasses the performance of this benchmark.*

## Further intensification of our Investor Relations activities

Having already established our Investor Relations activities at a high level in 2003, we continued to build on these standards in the year under review. We used our personal contacts with international investors, financial analysts and private shareholders to raise Hannover Re's public profile. In the year under review we organised 22 international roadshows in all the world's major financial centres, participated in 24 investor conferences and invited 36 investor delegations to Hannover Re's offices. What is more, in July we hosted an international seminar for investors in London that was attended by a record number of more than 60 financial analysts and institutional investors.

In addition to these activities we attach considerable importance to keeping all our shareholders and analysts constantly updated on significant news affecting Hannover Re. Upon publication of each quarterly financial statement as well as on special occasions we hold telephone

**Analysts' opinions of the Hannover Re share**




| Opinion | Number | Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|
| Buy | 81 | 18 | 19 | 23 | 21 |
| Overweight | 35 | 9 | 9 | 10 | 7 |
| Hold | 17 | 5 | 2 | 3 | 7 |
| Underweight | 5 | 2 | 1 | 1 | 1 |
| Sell | 1 | – | – | – | 1 |
| **Total** | 139 | 34 | 31 | 37 | 37 |

Free float and liquidity: HNR1 flying high

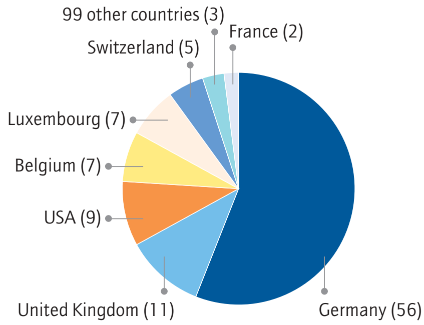
conferences with international analysts, investors and journalists representing the business press. On 6 December 2004 we relaunched Hannover Re's Internet presence with a more modern design and enhanced functionalities. We are now able to provide you with even more detailed and transparent information about our company and our Investor Relations activities.

The placement of 20.6% of our stock with institutional investors by our majority shareholder Talanx AG in February 2004 has since almost doubled Hannover Re's free float by a further 24.8 million shares to its current level of 48.8% of the capital stock.

The volume of shares traded daily increased in a 12-month comparison by more than two-and-a-half times from EUR 4.0 million to EUR 10.3 million. The number of Hannover Re shareholders as at 31 December 2004 stood at 40,511.

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


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



## Share information

| In EUR | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Earnings per share (diluted) | 2.56 | 3.24 | 2.75 | 0.11 | 4.13 |
| Dividend per share | 1.00 | 0.95 | 0.85 | – | 0.77 [1)] |
| Corporation-tax credit | – | – | – | – | 0.36 |
| Gross dividend | 1.00 | 0.95 | 0.85 | – | 1.21 [2)] |

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

| | |
|---|---|
| International Securities Identification Number (ISIN): | DE 000 840 221 5 |
| Ticker symbols: | Share: Investdata: HNR1<br>Bloomberg: HNR1.GY<br>Reuters: HNRGn.DE<br>HNRGn.F<br><br>ADR: HVRRY |
| Exchange listings: | Germany<br>Listed on all German stock exchanges and Xetra;<br>Frankfurt and Hannover in official trading<br><br>USA<br>American Depositary Receipts (Level 1 ADR Program),<br>OTC (over-the-counter market) |
| Stock class: | No-par-value registered shares |
| First listed: | 30 November 1994 |
| Shareholding structure as at 31 December 2004: | Talanx AG: 51.2%<br>Free float: 48.8% |
| Common stock as at 31 December 2004: | EUR 120,597,134.00 |
| Number of shares as at 31 December 2004: | 120,597,134 no-par-value registered shares |
| Market capitalisation as at 31 December 2004: | EUR 3,467.2 million |
| Highest share price in 2004: | EUR 30.65 |
| Lowest share price in 2004: | EUR 24.63 |
| Annual General Meeting: | 14 June 2005, 10:30 a.m.<br>Hannover Congress Centrum<br>Kuppelsaal<br>Theodor-Heuss-Platz 1–3<br>30175 Hannover, Germany |

# STRATEGY
## and self-image

We are guided by three maxims from which all further strategic objectives and principles 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.

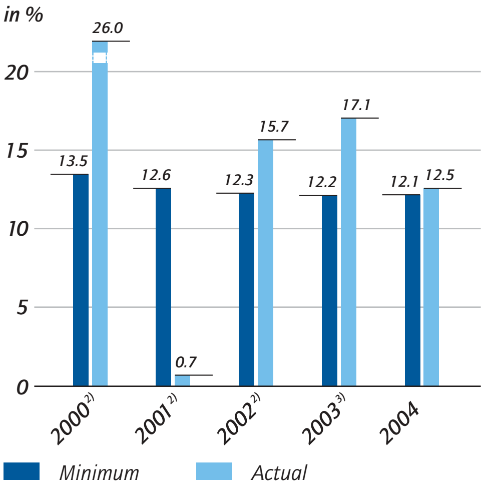
Economic independence:
For us this means financing growth with self-generated profits and avoiding difficulties that would necessitate contributions by shareholders.

## Strategic objectives

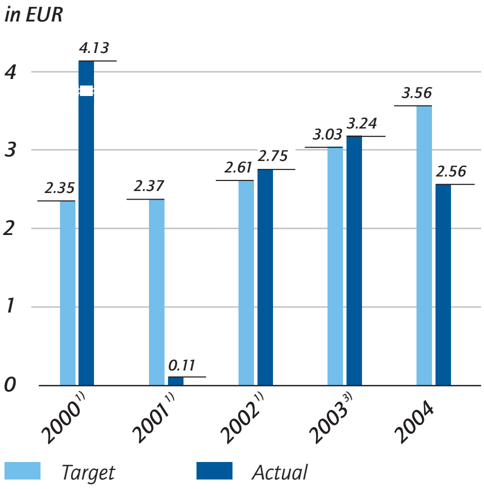
1. Profit target
   - Return on equity at least 750 basis points over and above the risk-free interest rate
   - Annual double-digit growth in
     - operating profit (EBIT)
     - earnings per share
     - operating (intrinsic) value creation (IVC)

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)

**After-tax return on equity**




**Earnings per share**




1) Earnings per share calculated in accordance with US GAAP (stock split of 15 July 2002 in a ratio of 3 for 1 taken into account for all figures)
2) Minimum 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. 18 of the annual report

3. Share price
   - Price development surpassing the performance of the weighted ABN Amro Rothschild Global Reinsurance Index* on a moving three-year average. This facilitates
     - a sustained increase in the value of the shareholders' investment
     - the lowest possible costs of raising equity

## Strategic principles

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

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

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

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

8. Human resources policy
   - Attractive jobs for ambitious, performance-minded employees who identify with our corporate objectives
   - Constant nurturing of skills 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 action fields

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 to satisfaction among staff and clients in order to achieve the best possible business results

** Effective as of 1 January 2005*

# THE HANNOVER RE GROUP

## Our global presence

### America

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

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

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

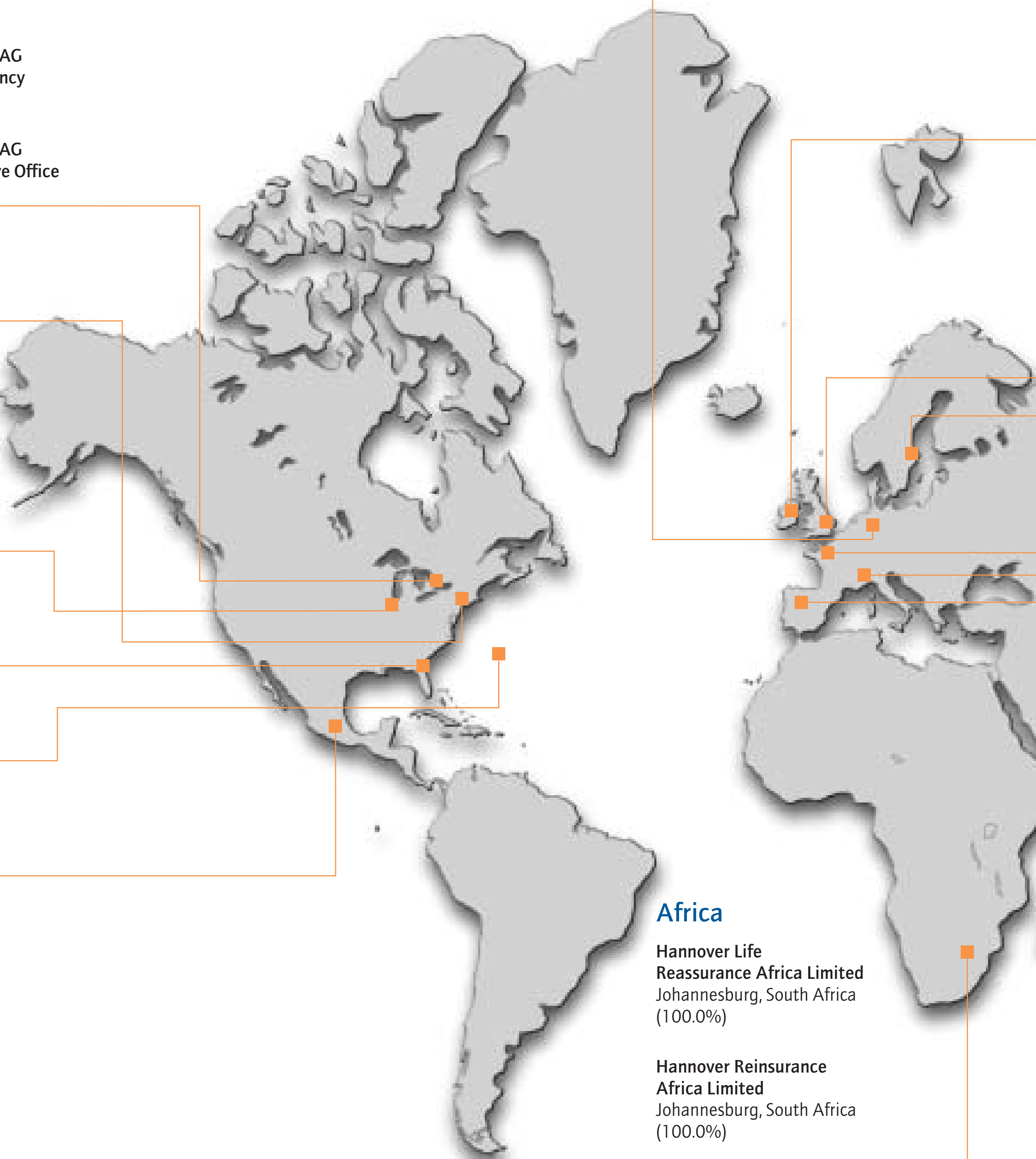
**Insurance Corporation of Hannover**
Itasca/Chicago, USA
(100.0%)

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

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

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

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



### Europe

**Hannover Rückversicherung AG**
Hannover, Germany

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

### Africa

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

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

**Compass Insurance Company Ltd.**
Johannesburg, South Africa

%-figures = participation
You may find the addresses of our branch offices and subsidiaries on pages 128 to 130

**E+S Reinsurance (Ireland) Ltd.**
Dublin, Ireland
(55.8%)

**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%)

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

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

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

**Hannover Rückversicherung AG**
**Stockholm Branch**
Stockholm, Sweden

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

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

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

**Hannover Re Services Italy Srl**
Milan, 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
(77.9%)

## "As-if-pooling" method

The business figures for 2003 are presented in two forms in the present annual report: firstly, in accordance with the "as-if-pooling" method, and secondly, in accordance with the "commercial treatment". The reason for this is as follows:

As part of our capital increase of 12 June 2003 our majority shareholder Talanx AG transferred its shares in what is now 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. Contrary to this commercial treatment, however, under US GAAP the "as-if-pooling" accounting method has 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 always been part of the Hannover Re Group. The disclosure for the previous period has to be adjusted according to this modified treatment – in other words, Hannover Reinsurance (Dublin) Ltd. must be included effective 1 January – in order to ensure that the figures for the various accounting periods can be compared. In our assessment, this heavily distorts the representation of the Hannover Re Group's economic performance in the 2003 financial year. 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 refer the reader to our comments in the notes to the financial statements contained in this annual report.

## Economic climate

In the first three months of the year under review the global economy experienced a vigorous upturn, only to lose impetus again as early as the second quarter. There were three factors in this slowdown: firstly, the sharp rise in crude oil prices; secondly, the flagging stimuli from US monetary policy, and thirdly, the restrictive fiscal measures taking hold in China, the world's other economic powerhouse. The latter instituted a set of administrative rules intended to slow down the overheating economy. The skyrocketing price of oil – which peaked at record levels in late October – was reflected in modest levels of private consumption around the world, thereby depressing economic activity.

Global equity markets were highly volatile with no clear trend emerging in the course of the year under review. The first hikes in key interest rates by the US Federal Reserve Board initially failed to impact global interest rates and no significant increases had been observed by year-end.

Economic activity in the Eurozone got off to a brisk start in the year under review, but lost considerable impetus as the year progressed. Corporate spending was slow to pick up, and private demand also failed to support the economy.

The German economy was nevertheless able to consolidate its position somewhat in the first half of 2004, although domestic demand was not strong enough to induce a more lively upswing. Although the global economic climate was relatively muted, Germany profited in some respects with exports – already at a high level – growing by a further 10% in 2004. Germany was thus again the world's number one exporter. Overall, economic growth in the order of 1.7% was generated – the first appreciable gain in three years.

## Business development

There can be no doubt that the year under review was one of the most eventful in recent memory: all four of our business groups had to cope with exceptional events, most notably the four hurricanes in the Caribbean and the United States with associated heavy losses for the insurance and reinsurance industries. Many market players spoke of the heaviest year of losses in reinsurance history. Market estimates put the strains from natural catastrophe events alone at around EUR 30 billion.

This record burden of catastrophe losses was cushioned in property and casualty reinsurance by the very favourable rates and conditions prevailing in our most important markets. However, since we also had to absorb strains in program business we were compelled to revise our original profit targets in October 2004 as a consequence of the hurricane losses.

Whereas in the previous year we had generated the best operating profit in the company's history (EUR 732.1 million), EBIT stood at just EUR 577.6 million in the year under review – a decline of 21.1%. Net income contracted by 12.9% to EUR 309.1 million (EUR 354.8 million), thereby marginally surpassing our adjusted profit target and producing earnings of EUR 2.56 (EUR 3.24) per share.

Gross premium income was again lower than in the previous year, decreasing by 15.7% to EUR 9.6 billion (EUR 11.3 billion). The persistent weakness of the US dollar was also a factor here. Had it not been for this effect gross premiums would have fallen by just 11.1%. Further reasons for the decline were the now completed restructuring of the business relationship with our affiliated HDI companies as well as our "More from less" initiative, under which we are systematically replacing high-volume, low-margin proportional business with lower-volume, but more profitable non-proportional treaties.

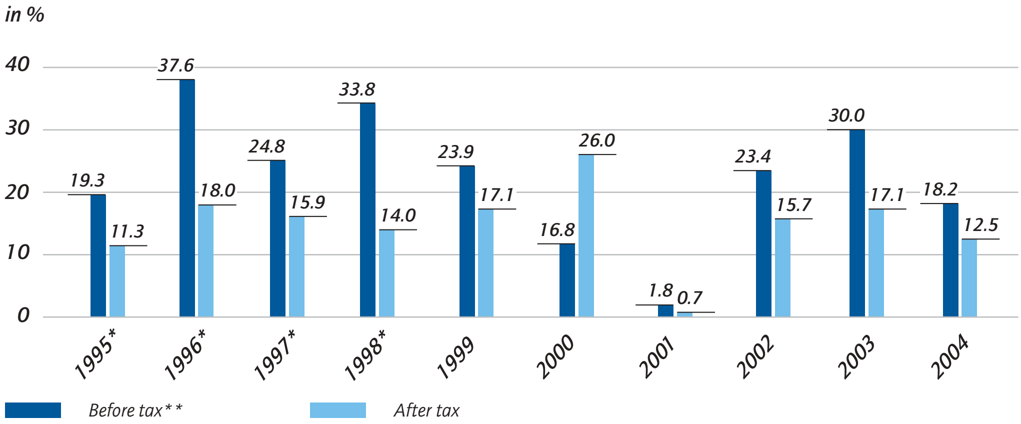
Gross premiums in property and casualty reinsurance contracted, in part due to the strength of the euro, by 14.4% (adjusted for exchange-rate effects: -11.1%) to EUR 4.1 billion on account of the aforementioned reasons. Net premiums remained virtually stable at EUR 3.5 billion (EUR 3.5 billion) due to a higher retention. Once again it was evident that the quality of the business written – not the premium volume – is the decisive factor. In view of the strong profitability in the market we boosted the net income after tax by an excellent 54.9% year-on-year to EUR 258.6 million – despite the heavy burden of catastrophe losses. The numerous major losses had another effect on the insurance industry: they served as a reminder that losses actually occur – even in the so-called hard market that continued to prevail in property and casualty reinsurance across virtually all lines and regions in the year under review.

Record burden of major losses absorbed in property and casualty reinsurance

In life and health reinsurance the gross premium volume contracted by a modest 4.4% to EUR 2.2 billion (EUR 2.3 billion). Adjusted for exchange-rate effects the decline would have been a mere 0.8%. The discontinuation of a major customer relationship was a further reason for the decrease. Net premiums climbed slightly by 1.0% to EUR 2.0 billion (EUR 1.9 billion) thanks to a somewhat higher retention. Life and health reinsurance also produced highly gratifying income. We are well on course to achieve our medium-term goal of generating a net return on premium of at least 5.0% by 2006. This ratio stood at 4.7% in the year under review, compared to 3.2% in the previous year. The increase in net income of 7.4% to EUR 50.0 million (EUR 46.6 million) was similarly pleasing.

Financial reinsurance had its share of ups and downs in the year under review, most notably in connection with the New York Attorney General's probe into financial reinsurance practices. In our assessment, we have every reason to approach these investigations in a relaxed frame of mind, since our underwriting guidelines have long addressed the issues that provoked the bulk of the scepticism towards financial reinsurance. What is more, the protracted hard market in recent years and the associated opportunities for our clients to strengthen their own equity resources have caused demand for solvency-supporting coverage solutions to diminish. Following several years of vigorous growth gross premium volume in financial reinsurance consequently shrank by 27.6% to EUR 1.2 billion (adjusted for exchange-rate effects: 22.6%). Net premium earned showed a parallel contraction of 22.9%, while the level of retained premiums remained virtually unchanged. The net income of EUR 89.0 million fell 10.1% short of the previous year (EUR 99.1 million).

Return on equity




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

Slight increase in net investment income

Program business was hardest hit by the four hurricanes in Florida and closed the year with a deficit for the first time. Gross premium income contracted by 20.3% to EUR 2.1 billion, influenced in part by exchange-rate effects – without which the decrease would have been just 13.0%. Net premiums declined by a somewhat less marked 18.4% to EUR 943 million (EUR 1.2 billion). The business group showed a net loss of EUR 88.5 million, compared with net income of EUR 42.2 million in the previous year.

On the capital markets 2004 was a largely satisfactory year. In particular, write-downs on equities were considerably lower than in the previous year (EUR 65.3 million) at EUR 13.3 million. The ordinary investment income of EUR 1.0 billion fell slightly short of the previous year. Positive underwriting cash flows failed to fully offset the lower level of interest rates throughout the portfolio. Interest on our premium deposits accounted for a disproportionately large share of the income. In the past the interest rates on these premium deposits had often been fixed on a relatively high level by today's standards. Extraordinary income, i.e. the balance of profits and losses on disposals, improved somewhat on the previous year to EUR 161.2 million (EUR 140.7 million). Overall, net investment income was a modest 4.2% higher than in the previous year at EUR 1.1 billion (EUR 1.1 billion). We raised our equity allocation in the course of the year to 7.0% (6.5%).

With the placement of subordinated debt in the amount of EUR 750 million by our Luxembourg subsidiary at a very attractive interest rate – a facility which the rating agencies recognise as equity –, we were able to further strengthen our capital position in February of the year under review. Parts of the proceeds were used to almost entirely buy back outstanding debt in the amount of USD 400 million taken out by our US financing company. In addition, we repaid the surplus debenture that became due in November 2004. Combined with the equity that accumulated from retained earnings, we were again successful in further enhancing our capitalisation and thereby stabilising our ratings. In the course of the year, therefore, both Standard & Poor's (AA- "very strong") and A.M. Best (A "excellent") upgraded their rating outlook from "negative" to "stable".

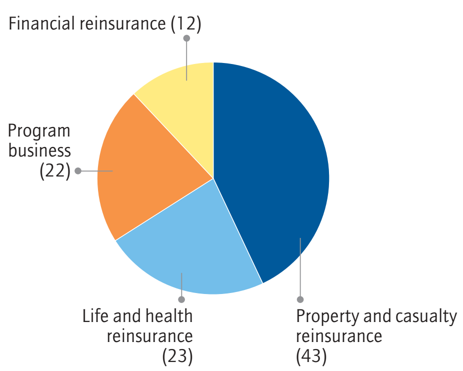
The feedback that we received in the year under review from our clients and other market players regarding our market presence and business model were also highly favourable. In 2004 Hannover Re was crowned "Reinsurance Company of the Year" by the trade magazine "The Review". Hannover Re is thus the first reinsurer to have received this distinction on three occasions – following on from 1998 and 2001.

Similarly, we were chosen as the best reinsurer overall on the US market – our largest and most important single market – in the 2004 Flaspöhler broker survey.

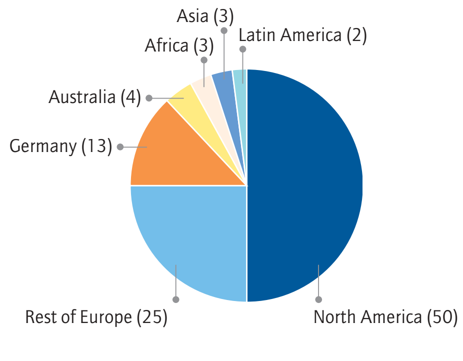
## Our business groups

We conduct operations in altogether four strategic business groups: property and casualty reinsurance, life and health reinsurance, financial reinsurance and program business. In addition to the following explanatory remarks on the business development, the segmental report provided on pages 76 to 79 of the annual financial statements shows the key balance sheet items and profit components broken down into each business group.

**Gross premium by business group in %**




**Gross premium by region in %**

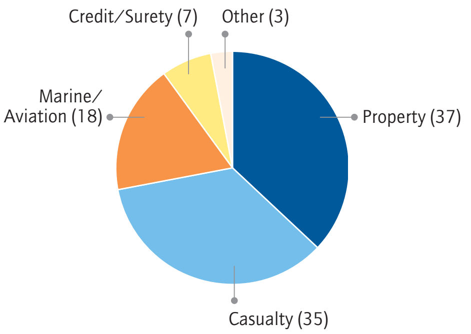



## Property and casualty reinsurance

Generating 42.9% of our gross premium income, property and casualty reinsurance remains our largest business group. In the year under review the "hard market" climate once again prevailed: rates and conditions continued to be favourable, and in some lines further improvements were obtained. This was especially true of the longer-tail casualty lines. In marine insurance, too, gratifying rate increases were observed in those segments that had been hit by the repercussions of hurricane "Ivan". Only in some property lines and in aviation business could a certain softening in rates be detected.

Hannover Re again profited to the fullest extent from these advantageous market conditions in the year under review. As always, we wrote our business in compliance with strict profitability criteria. We continued to optimise our portfolio as part of the "More from less" initiative and replaced low-margin proportional business with more profitable non-proportional arrangements. The latter also enable us to keep a considerably tighter grip on the pricing of the treaties. It was therefore gratifying to note that the share of our total property and casualty reinsurance portfolio attributable to non-proportional business increased to 83% (81%). This regrouping of our portfolio, however, combined with the restructuring of the business accepted from our HDI affiliates and the weakness of the US dollar, also caused premium income in property and casualty reinsurance to contract sharply in the year under review.

**Breakdown of gross premiums by line of business in %**




Gross written premiums in property and casualty reinsurance contracted by 14.4% in the year under review to EUR 4.1 billion (EUR 4.8 billion). At constant euro exchange rates – especially against the US dollar – the decrease would have been just 11.1%. The decline was also attributable to the reorganisation of our business relationship with our HDI affiliates. In view of the good quality of the business written and our improved capital position we substantially increased the level of retained premiums to 85.6% (72.2%). Net premiums remained virtually unchanged, falling by 0.8% to EUR 3.5 billion.

After the relatively light burden of major losses recorded in 2003, the year under review will probably go down as the most expensive year for natural disasters in the history of the insurance industry. Provisional market estimates suggest that the insurance sector will be paying out around EUR 30 billion to settle major claims. The burden of losses incurred by Hannover Re in the year under review was also correspondingly high: compared with just EUR 51.5 million in the previous year, major loss expenditure in property and casualty reinsurance totalled EUR 287.2 million in the year under review. The proportion of major losses relative to net premiums thus stood at 8.3%, a figure many times higher than in the previous year (1.5%). The four severe hurricanes in Florida alone cost our company EUR 194.3 million. The disastrous flooding suffered in South Asia on 26 December 2004, a tragic event with a death toll of almost 300,000, produced a strain of EUR 29.1 million for our company. This relatively slight loss burden was attributable to the very low insurance density in the affected regions. On the whole it is therefore no surprise that the combined ratio – after allowance is made for additional major claims – was somewhat higher than the previous year (96.0%) at 97.0%. This is nevertheless a highly satisfactory figure in view of the disproportionately heavy loss expenditure, and it clearly demonstrates that we were able to further enhance the quality of our property and casualty reinsurance business in the year under review.

Key figures for property and casualty reinsurance

| Figures in EUR million | 2004 | +/- previous year | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Gross written premiums | 4 099.9 | (14.4%) | 4 787.1 | 6 020.0 | 4 938.5 | 3 385.4 |
| Net premiums earned | 3 471.7 | (0.8%) | 3 500.0 | 3 502.1 | 2 989.3 | 2 524.4 |
| Underwriting result | 104.9 | (25.7%) | 141.1 | 130.8 | (481.3) | (206.4) |
| Operating result (EBIT) | 483.3 | +3.8% | 465.9 | 305.6 | (40.6) | 249.0 |
| Net income/loss after tax | 258.6 | +54.9% | 167.0 | 154.1 | (75.5) | 266.5 |
| Earnings per share in EUR | 2.14 | | 1.52 | 1.59 | (0.75) | 3.02 |
| Retention | 85.6% | | 72.2% | 62.7% | 67.8% | 64.0% |
| Combined ratio | 97.0% | | 96.0% | 96.3% | 116.5% | 107.8% |

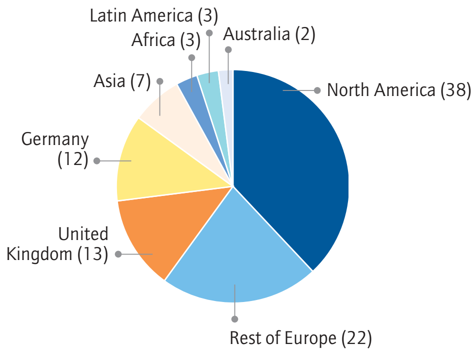
We use retrocession as a risk optimisation tool, i.e. we pass on parts of the risks that we cover to other (re-)insurers. As at year-end the volume of recoverables stood at EUR 4.2 billion. This figure represents a sharp reduction of 38.4% compared to the highest level of EUR 6.8 billion in 2001. Our retrocession recoverables also decreased again relative to the previous year (EUR 4.4 billion). We continue to attach the utmost importance to the quality of our retrocessionaires: more than 90% of the companies with which we maintain business relations have received an investment grade rating of "BBB" or better from Standard & Poor's.

Thanks to our conservative reserving policy we had no need to constitute additional reserves in either the property or the casualty lines in the year under review.

Despite the heavy burden of major losses incurred in the year under review, we are very satisfied overall with the development of property and casualty reinsurance. Our business performed superbly in all segments and in large measure made up for the reduced profit due to the natural catastrophe losses. Although the underwriting profit was significantly lower year-on-year at EUR 104.9 million, investment income increased by 18.9% to EUR 467.6 million (EUR 393.4 million) – despite declining interest rates – thanks to the strong underwriting cash flow and the associated high level of additions to our asset portfolio. Below the line this was reflected in a 3.8% higher operating profit (EBIT) of EUR 483.3 million (EUR 465.9 million). Net income surged by a substantial 54.9% to EUR 258.6 million (EUR 167.0 million). The property and casualty reinsurance business group thus contributed earnings of EUR 2.14 per share to the consolidated result, as against EUR 1.52 in the previous year.

Sharply improved net income despite heavy major loss expenditure

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




## Germany

The year under review progressed highly successfully in our domestic market for both insurers and reinsurers alike. Scarcely any appreciable major losses were recorded in Germany. The claims situation in industrial fire insurance, including business interruption cover, was very relaxed, prompting sharply fiercer competition. In motor insurance, too, competition in the private customer segment was stepped up through tariff cuts. Overall, most insurers were able to post an underwriting profit for the second year in succession following the years of heavy losses from 1999 to 2002.

On the reinsurance side adequate rates and conditions were again obtained in the year under review, and there was no softening in the hard market.

In addition to these favourable market conditions, we profited from our excellent financial strength as well as from the business difficulties experienced by one reinsurer and the withdrawal of another competitor.

Despite initial softening tendencies on the primary insurance market, we were able to write profitable business in two key segments: thanks to the fundamental rehabilitation of industrial fire business on the insurance side this line has also taken a very favourable turn for reinsurers. This is also true of our largest line of business, motor third party liability insurance. Rates and conditions were more than adequate in both segments and the situation as regards major claims was favourable. Against this backdrop we generated a positive underwriting result in this business.

Our subsidiary E+S Rückversicherung AG, which operates exclusively in the German market, is highly valued as a reliable partner thanks to its financial standing and continuity. E+S Rück ranks third in the German market, the second-largest non-life market in the world. Along with newly acquired business we were also able to expand our position with some of our long-standing accounts, thereby enlarging our market share still further. A special highlight was the addition of another highly reputed mutual insurer to the group of E+S Rück's shareholders.

Survey of German clients finds praise for E+S Rück's outstanding performance

What is more, in the year under review we surveyed the satisfaction levels of our German clients with the products, services and personnel of E+S Rück. The outcome was excellent: in virtually every category E+S Rück received praise for providing outstanding service.

In cooperation with a number of primary insurers we were also able to successfully launch innovative, jointly designed personal accident products with assistance benefits on the German market in 2004. This was made possible through signing a cooperation agreement with a renowned provider of assistance services, which offers an extensive range of assistance to our clients' policyholders who might find themselves needing help as a consequence of an accident.

The major loss experience in Germany was very positive in the year under review, with just two major claims reported: in January the "Pride of America" vessel sank at dock during construction work in Bremerhaven, while August saw a spectacular motor third party liability claim on the Wiehltalbrücke motorway bridge near Gummersbach. These two claims produced a total net loss of EUR 10.4 million for our company.

In credit and surety insurance it was finally possible to uncouple underwriting results from the protracted adverse credit cycle. Insurers achieved low loss ratios through continued adherence to a restrictive underwriting policy. This pleasing state of affairs was also reflected on the reinsurance side. The remaining established reinsurers wrote higher shares. E+S Rück cemented its position as the third-largest provider in the year under review.

In view of the favourable market climate E+S Rück substantially increased its market share in credit and surety reinsurance. Yet, here too, we were guided by our "More from less" standards, in accordance with which we concentrated exclusively on profitable business. No appreciable major claims were incurred in credit and surety reinsurance.

Marine and aviation business developed satisfactorily in the year under review. The market environment in marine (re-)insurance was to a very large extent stable. The market was characterised by relatively constant rates and conditions and no major losses other than the "Pride of America" claim. In aviation reinsurance rates fell sharply. This segment, too, was virtually spared any major claims. Following the winding up of the German Aviation Pool we were able to significantly enlarge our share of aviation business in the German market.

## Rest of Europe

### United Kingdom and Ireland

Rates in the primary insurance sector came under pressure towards the end of the year under review, and it can therefore be assumed that the hard market in the United Kingdom has already passed its peak. This is particularly true of the property lines, but it also applies to casualty insurance – and here most notably professional indemnity and directors' and officers' covers.

The development of the reinsurance market, however, again gave grounds for satisfaction. Although rates in property business were flat, they remained at a high level. In the casualty lines it was even possible to secure further improvements in rates and conditions.

Against this attractive backdrop we expanded our position in the reinsurance market in the year under review, especially in long-tail casualty lines. In view of the contraction in available market capacity and our very good ratings, we were a sought-after partner in this area for ceding companies.

True to our "More from less" initiative we scaled back our proportional portfolio with an eye to the softening in the primary sector. At the same time we stepped up our acceptances of non-proportional business. In addition, we were successful in acquiring numerous smaller companies as new clients.

Our property business written on the London Market was impacted by several major loss events in the year under review. Most notable here were the four hurricanes in the USA as well as a gas explosion at a petrochemical liquefied gas plant in Algeria.

The London Market is also a prominent centre for the underwriting of marine and aviation risks. Aviation business, in particular, was affected by declining insurance and reinsurance rates as well as surplus capacities in the reinsurance market. In light of this market softening we wrote risks very selectively and scaled back our volume. Premium income in aviation business consequently contracted, although the current rate level still remains adequate. Hannover Re continues to be one of the leading reinsurers in this line. There were no major claims in the year under review.

In marine business, too, we rank as one of the foremost reinsurers on the London Market. A number of players in the primary sector have either withdrawn or been taken over, although on the other hand some new companies also entered the fray.

In marine reinsurance our primary concern was to consolidate our portfolio. First and foremost, we sought to defend the good rate level – an endeavour in which we were very largely successful. We again focused on writing profitable non-proportional business, especially middle and upper programme layers. By far the largest loss event for marine business was hurricane "Ivan", the third of the four hurricanes to make landfall in Florida in the year under review. The damage to the oil platforms in the Gulf of Mexico produced the largest insured loss ever recorded in offshore business. Thanks to our selective underwriting policy, this portfolio nevertheless closed with an underwriting profit. Non-proportional marine business continued to develop profitably despite the loss expenditure associated with hurricane "Ivan". What is more, the downward trend in primary insurance rates was halted and reinsurance conditions further improved as a consequence of this loss.

Non-proportional marine business develops profitably despite loss expenditure associated with hurricane "Ivan"

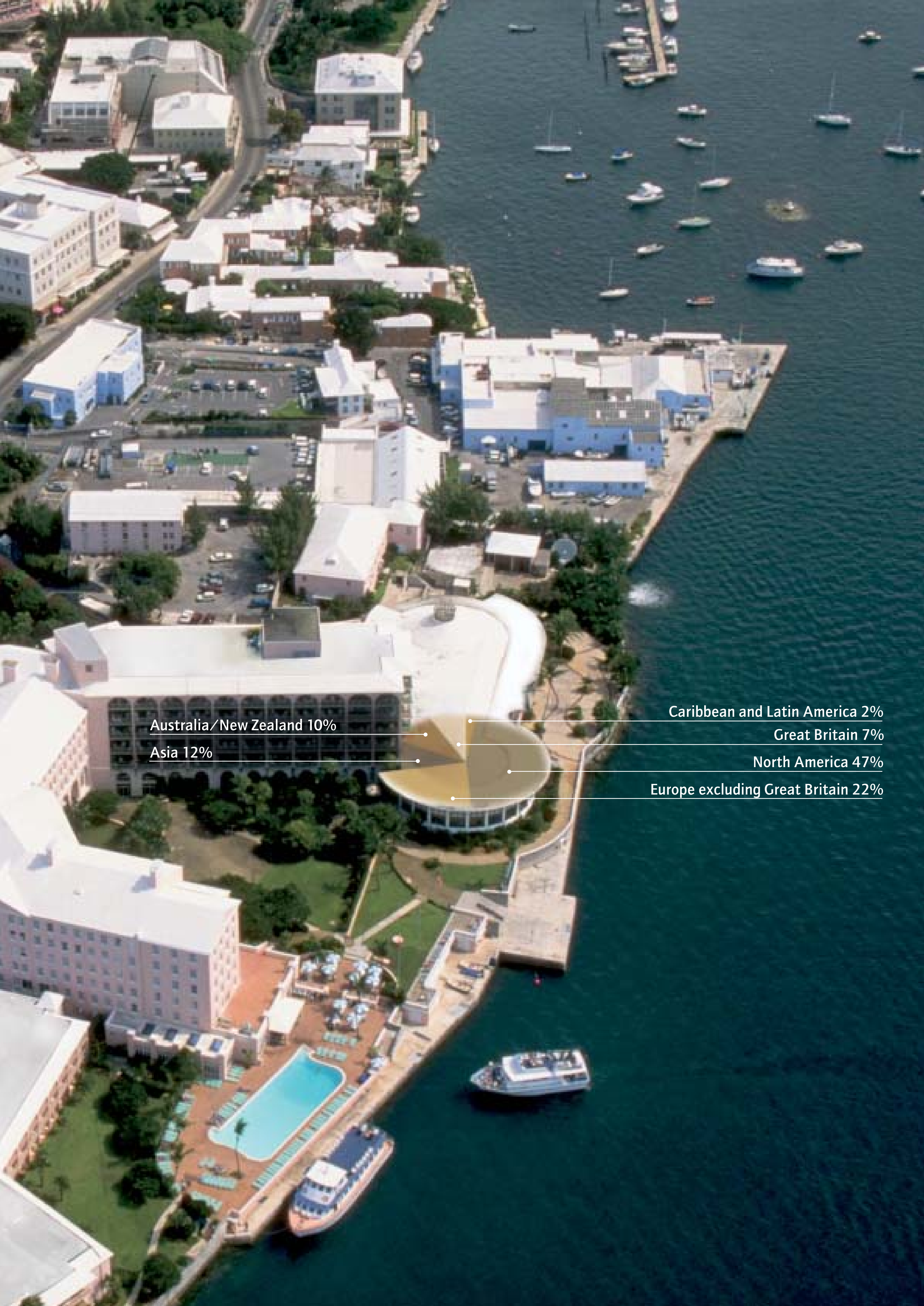
### France, Benelux

Since 2004 the French insurance market has been subject to closer regulatory supervision. Insurers and reinsurers are now obliged to provide the state insurance regulator (CCAMIP) with a detailed report on the structure of their reinsurance. In this way the agency is seeking, inter alia, to exert a greater influence on the controlling of risks, including, for example, accumulations.

# Property and casualty reinsurance

We have concentrated our know-how in catastrophe reinsurance at Hannover Re (Bermuda) Ltd. Almost two-thirds of the catastrophe covers in the Hannover Re Group's property and casualty reinsurance business group – the bulk of the portfolio derives from North America – are already written here.

The graph shows the regional breakdown of gross premium income in catastrophe business in the year under review.


Caribbean and Latin America 2%
Australia/New Zealand 10%
Great Britain 7%
Asia 12%
North America 47%
Europe excluding Great Britain 22%

Business results in Europe highly satisfactory

The reinsurance market in France found itself facing more intense competition from new Bermuda-based providers in the year under review. Yet no significant price erosion was observed. Although windstorm business saw some modest reductions in rates, they remained stable in other lines. Hannover Re asserted its position in the market and was very largely successful in preserving the rate level.

The most spectacular major loss in the French market was the collapse of a section of the terminal roof at the Charles de Gaulle Airport outside Paris. Hannover Re's exposure in this case, however, was not appreciable. A more sizeable loss event for our company was the crash of a Flash Airlines plane in January 2004, although this, too, did not significantly impact the business result. Rates in travel accident insurance climbed as a consequence of this loss.

In the Benelux countries we were successful in enlarging our market share – most strikingly in motor third party liability business. We wrote increased shares with existing accounts and acquired new clients. Here, too, with an eye to our "More from less" initiative aimed at enhancing profitability, we scaled back our proportional property treaties and continued to expand our non-proportional portfolio.

Credit and surety insurers recorded very low loss ratios due to light basic losses and the absence of major claims. In the year under review it was finally possible to uncouple underwriting results from the persistent adverse credit cycle affecting the banks. In the reinsurance sector the dramatic tightening of conditions has thus entirely proven its worth. In this segment, too, new Bermuda-based providers forced their way into the market, albeit without triggering appreciable pressure on terms and conditions.

All in all, we were highly satisfied with our business results in France and the Benelux markets.

### Italy

The phase of consolidation initiated in the Italian primary insurance market around a decade ago is slowly drawing to an end. In the year under review only a few companies were taken over by larger – usually foreign – insurance groups. In the future, therefore, insurers will tend to run higher retentions and the demand for reinsurance protection will decline.

Notable features of the reinsurance market in Italy were difficulties affecting two of our competitors and a reduction in the number of providers on the market. For Hannover Re, therefore, new opportunities to write attractive business opened up. We continued to regroup our portfolio in the year under review, replacing proportional acceptances with non-proportional arrangements. In this context we concentrated on companies that do not belong to groups and are therefore able to take their own decisions on reinsurance coverage. This gives us more space to manoeuvre on the pricing side. Overall, we continued to write business very selectively in Italy. Motor third party liability business, in which rehabilitation efforts have now been completed, has returned to underwriting profitability. No major claims occurred in the year under review, so that we are highly satisfied with the business development.

### Northern Europe

As in previous years, market conditions in this region were not uniformly positive. Fierce competition was a hallmark of some areas of the primary insurance market in the year under review. In the reinsurance market we noted higher retentions across the board. Hannover Re ranks among the most prominent reinsurers in Northern Europe. Thanks to our expertise and very good rating, we are a sought-after partner and were able to enlarge our market share.

Denmark is our largest market in Northern Europe. Our main lines here are fire and motor reinsurance. We are the market leader in providing reinsurance for the country's mutual insurance societies.

The Danish market suffered a sizeable loss with an explosion at a fireworks factory. Overall, though, our business in Northern Europe developed satisfactorily.

### Eastern Europe

Eastern European markets again recorded considerably above-average growth in the year under review. The accession of several Central and Eastern European countries to the European Union added a further boost to the economic mood.

Rate movements in the individual countries varied. Following higher premiums in recent years, rates in property insurance were stable in the Czech Republic and Slovakia. The pricing climate in Poland, Russia, Ukraine and Romania was competitive.

On the reinsurance side the hard market was sustained, although initial softening tendencies could be observed. In this region, too, we focus on writing non-proportional business. In the year under review we analysed our portfolio in light of strict profitability criteria and relinquished business that offered insufficient returns. The premium volume was slightly enlarged.

Leaving aside two fire losses in Russia and a number of other claims, the year under review was spared sizeable loss events. We were therefore able to generate an underwriting profit and in Eastern European markets, too, we can feel highly satisfied overall with the business development.

## North America

Despite the accumulation of hurricane losses in the third quarter of 2004, American insurers found themselves in a largely favourable situation in the year under review: the sharp rise in insurers' capital resources was sustained in 2004. The combined ratio again improved slightly on the previous year and moved below 100%. Had it not been for the effects of the four hurricanes, the combined ratio would have made far greater progress towards the 90% mark. Rate increases, however, were by no means the general rule any longer in the primary insurance market. Overall, though, most US insurers are comfortably poised to tackle the challenges of a softening market.

One event that occurred in the year under review was of special significance not only to the North American market: the investigation conducted by New York Attorney General Eliot Spitzer. The presentation of the findings that emerged from these investigations into business practices on the primary insurance market reached its peak in mid-October in a lawsuit filed against the world's largest insurance broker. In connection to this a number of reinsurers also found themselves facing investigations into how they conduct their business with brokers. Yet it quickly became clear that Spitzer's allegations were first and foremost a matter concerning the primary insurance sector.

The mood on the reinsurance market was really upbeat in the year under review: no substantial deteriorations in rates were observed. Particularly in casualty business, rates and conditions continued to be highly satisfactory and indeed, further improvements were even obtained. Overall, the reinsurance market still found itself under pressure to achieve combined ratios significantly under 95% in order to generate returns on equity in the order of 15%. Although these efforts did not prove uniformly successful across the market, the combined ratio for the market as a whole – despite the hurricane losses – made further progress towards this target.

Significant enlargement of our market share in North America since 2001

Since 2001 Hannover Re has considerably enlarged its market share in North America. This has not gone unnoticed by ceding companies and brokers. In a study conducted by the highly reputed US Flaspöhler Research Group we emerged as the best reinsurer overall on the North American reinsurance market. Hannover Re has explicitly been given a recommendation as a reinsurer by 93.5% of the more than 200 brokers participating in the survey. This favourable assessment by the brokers is particularly valuable because in the American market almost 70% of reinsurance business is handled through these intermediaries rather than directly between insurer and reinsurer.

True to our anticyclical underwriting strategy of disproportionately strong growth in a hard market, we have significantly enlarged our premium volume in recent years – not only in relative but also in absolute terms. In the year under review, as part of these moves, we again expanded our portfolio, inter alia in attractive areas of casualty business. The dramatic double-digit – in some cases even triple-digit – rate increases of recent years in the casualty sector were not sustained to the same extent in the year under review, although further rises were still the general rule.

In areas that no longer offered such attractive business prospects, such as industrial property insurance lines, we scaled back our involvement and increasingly reweighted our portfolio in favour of more profitable non-proportional programmes at the expense of proportional covers.

As a further step, we analysed the rate movements and claims trends in all segments and parted with business in those segments that no longer satisfied our profitability criteria. These include, inter alia, property risks of large enterprises, treaties in the energy sector and directors' and officers' liability covers.

Price erosion in catastrophe reinsurance halted by the four hurricanes

Based on our very good ratings and our business partners' positive assessment of our financial strength, we are one of the few reinsurers to be approached for placement of long-tail casualty risks. In the year under review we were thus once again able to write such reinsurance treaties highly selectively and acquire attractive business.

Thanks to our conservative reserving policy and our reduced participation in the soft market years, we again had no need to establish significant additional reserves for past underwriting years.

On the claims side the year under review was overshadowed by the damaging hurricanes in Florida, which caused a market loss of USD 23.3 billion and thus became the most costly natural catastrophe losses in the history of the insurance industry. Despite these strains, US property lines still showed a profit overall.

Credit and surety reinsurance offered attractive opportunities following the withdrawal of numerous US reinsurers. We enlarged our market share despite growing competition from Bermuda; in so doing, we adhered strictly to the profitability criteria that guide our underwriting policy. No significant loss events were recorded. All in all, the result in credit and surety reinsurance continued to improve thanks to a reduced loss ratio.

The market environment in marine reinsurance was very largely stable, although rates in some lines showed initial signs of softening. Only in offshore business did rates deteriorate sharply as the year progressed – a trend that was abruptly halted by the losses inflicted by hurricane "Ivan". Triggering business interruptions in oil production in the Gulf of Mexico, this event caused the largest insured loss of all time in marine and offshore business.

Given the four severe hurricanes in the third quarter, natural catastrophe reinsurance suffered such a heavy burden of losses that this sector closed with a deficit in the United States. However, these events also served to halt the price erosion that had begun to creep into this segment.

## Other international markets

### Latin America

The state of the primary insurance markets in this region remained unchanged from the previous year: property business was fiercely competitive in both the insurance and reinsurance sectors. Rates and conditions consequently showed further slight deterioration. Our withdrawal from proportional business was reflected in sharply reduced premium income. Mexico, Argentina, Colombia and Venezuela continue to be Hannover Re's most important markets. Motor business remains the largest segment in these markets. Since we adhere to a prudent underwriting policy in this region, too, and given the absence of major losses, we were highly gratified by the performance of our Latin American portfolio – both on the treaty side and in facultative business.

### Africa

On the African continent South Africa is Hannover Re's most important market. We are represented in Johannesburg by our subsidiary, Hannover Re Africa.

The South African insurance market posted good results in the year under review, despite marked softening tendencies in property business. Reinsurers, on the other hand, are adopting a relatively disciplined approach.

We generally write our reinsurance business in South Africa as excess of loss covers, accepting only specialty business on a proportional basis. In the other African markets we adhere to a highly selective underwriting policy. In compliance with our exacting quality standards and our Group-wide "More from less" initiative, we withdrew from low-margin, large-volume proportional reinsurance business. This led to an appreciable premium reduction in our South African portfolio, especially in fire business. There were no significant major losses in the African countries.

In last year's annual report we announced that Hannover Re Africa's results would improve as a consequence of the revised underwriting policy and the company's repositioning. This confidence was entirely justified: the combined ratio for 2004 stood at 95.3%, compared to 107.1% in the previous year.

### Asia

Hannover Re's largest market in Asia is Japan by far. We enjoy the status of a so-called "core reinsurer" with most of the major insurers. For these and other clients we wrote both proportional business and excess of loss covers. Natural catastrophe reinsurance, which is written primarily on a non-proportional basis, is our most important single line here and was further expanded in the year under review.

Substantially improved results at Hannover Re Africa due to repositioning

In Japan the bulk of commercial business is reinsured by the private sector, whereas private natural perils business is reinsured by a government-run consortium. Since the typhoons predominantly affected less industrialised regions, the strains incurred by reinsurers were correspondingly modest. Only typhoon "Songda" caused a significant loss of EUR 11.6 million for our account.

The area of South and Southeast Asia was struck by the severe undersea earthquake off the coast of Sumatra in the year under review. A seismic tidal wave, known as tsunami, devastated the coastlines of several countries. Since the insurance density in these markets is extremely low, however, the losses for the insurance industry were relatively slight. Hannover Re incurred loss expenditure of EUR 29.1 million.

Business in Taiwan and Hong Kong, where we concentrated increasingly on excess of loss covers, developed satisfactorily. Following the failure of a number of market players, our clients attach even greater importance to financial strength considerations – with the result that in this region, too, we are a sought-after reinsurance partner.

China remains a target market for the international insurance and reinsurance industry, and the competition is correspondingly intense. Our premium volume is not particularly significant at present, and we intend to wait for more attractive market conditions.

Overall, we are satisfied with the development of our Asian business.

### Australia, New Zealand

The reinsurance market in Australia and New Zealand again developed highly satisfactorily. Although early signs of a softening in the hard market could be detected in the year under review, rates remained at a very high level. As a reinsurer we are enjoying a very favourable market climate; our required margins were satisfied in most lines of business.

Reinsurers with very good ratings are highly sought-after in Australia, and Hannover Re was able to profit accordingly.

Our aim in the year under review was once again to enlarge our share of profitable, non-proportional business – a goal which we succeeded in achieving. The loss events recorded in the Australian market had only minimal implications for our company, and we were therefore very satisfied overall with our portfolio in this region.

## Life and health reinsurance

Growth impetus generated by stronger demand for retirement provision products

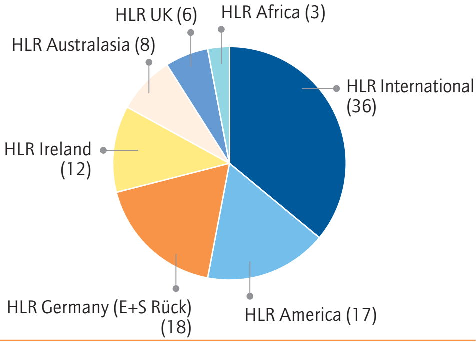
In all developed markets and indeed in a growing number of emerging markets issues surrounding individual provision for retirement and dependants are assuming ever-greater prominence. This trend can be attributed to the combination of declining birth rates and longer life expectancy. It is becoming increasingly clear that traditional contribution-based systems of state provision can no longer be funded as a consequence of these massive shifts in the age structure, and there will therefore be a growing need to fall back on models oriented towards the private sector.

In Germany changes in tax law towards downstream taxation of retirement income that came into effect on 31 December 2004 fuelled a veritable surge in demand for retirement products that far outstripped the so-called "Eichel boom" of 1999. Compared to previous years many life insurers report growth of 50% to 100% in their new business.

In the coming decades, too, this will give rise to a favourable environment for life insurers that will generate increased demand for individual products tailored to a particular life situation. Life insurers will have to broaden their product range to include offerings designed to preserve living standards in the third phase of people's lives.

All in all, it is our expectation that life insurance is set to become a worldwide growth industry uniquely equipped to master the biometric factors of mortality, morbidity and – increasingly – longevity.

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



## Hannover Life Re – the life and health reinsurer

The reinsurance of life, health, annuity and personal accident insurances (the latter to the extent that they are transacted by life insurers) is brought together in our life and health reinsurance business group, which we operate worldwide on a uniform basis under the proprietary brand name of Hannover Life Re.

We live up to our clients' expectations regarding local service and short chains of communication by means of our decentralised corporate structure. With 18 subsidiaries, branches and service offices we are present on all five continents with a staff of 380.

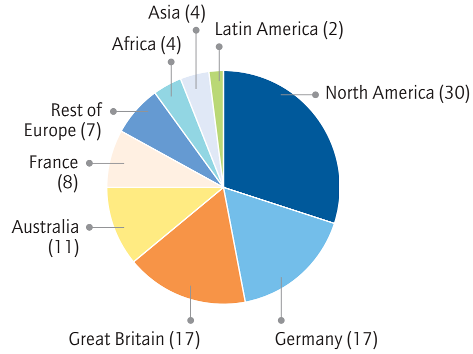
All underwriting decisions of Hannover Life Re are taken on the basis of our General Underwriting Guidelines. Our underwriting policy, which is clearly defined in these guidelines, is conservative and geared to generating stable, long-term earnings. Above all, it avoids derivative risks on the casualty side of the balance sheet. For this reason we do not participate in the reinsurance of derivative components of unit-linked US annuity policies, an area that has attracted negative headlines of late. Our exposure to longer-term US term life policies, the reserving of which has been dominated by "Regulation XXX" since 2000, is also minimal.

In the year under review we participated for the first time in a customer survey conducted by the US Flaspöhler Research Group among European life reinsurers: the study confirmed that Hannover Life Re has now established itself as a leading provider in Europe. Of the 15 European reinsurers included in the survey, we received particularly good marks for our security, financial strength and customer orientation.

Hannover Life Re established as a leading provider in Europe

Customer Relationship Management continues to be of essential importance to our worldwide marketing activities. We value long-term client loyalty and emphasise business relationships that generate profits for insurer and reinsurer alike.

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




## Development of premium income

Consolidated gross premium income contracted by 4.4% year-on-year to EUR 2.2 billion (EUR 2.3 billion). This was due, on the one hand, to the weakness of various foreign currencies – first and foremost the US dollar and other currencies pegged to it – and, on the other hand, to the loss of new business from a major account in the United Kingdom. At the same time, however, we also acquired new accounts in the German market.

We further scaled back our retrocessions in the year under review. The level of premiums retained by Hannover Life Re consequently climbed to 90.2% (85.1%) in 2004, and the net premiums earned of EUR 2.0 billion were slightly higher than in the previous year.

Following additional withdrawals from health business in South Africa, the portfolio mix shifted in the year under review further towards the preferred lines of life, annuity and personal accident, which in sum now account for 85% (80%) of our total premium income.

Key figures for life and health reinsurance

| Figures in EUR million | 2004 | +/- previous year | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Gross written premiums | 2 176.5 | (4.4%) | 2 276.3 | 2 471.5 | 2 371.0 | 2 090.5 |
| Premium deposits | 311.4 | +20.8% | 257.9 | 255.8 | 289 | 404 |
| Gross premiums incl. premium deposits | 2 487.9 | (1.8%) | 2 534.2 | 2 728.3 | 2 660 | 2 495 |
| Net premiums earned | 1 956.3 | +1.0% | 1 936.3 | 2 142.3 | 1 740.3 | 1 592.3 |
| Premium deposits | 267.2 | +25.2% | 213.4 | 115.2 | 129 | 131 |
| Net premiums incl. premium deposits | 2 223.5 | +3.4% | 2 149.7 | 2 257.5 | 1 869 | 1 723 |
| Investment income | 246.8 | +37.6% | 179.4 | 268.4 | 196.8 | 204.4 |
| Claims expenses | 1 212.6 | (4.6%) | 1 270.4 | 1 218.7 | 1 066 | 1 209 |
| Expenses for benefit reserves | 253.8 | (14.8%) | 297.8 | 574.1 | 298.0 | 37.5 |
| Commissions | 546.2 | +31.8% | 414.4 | 453.0 | 460.3 | 411.3 |
| Own administrative expenses | 55.1 | +22.6% | 44.9 | 56.6 | 32.5 | 56.9 |
| Other income/expenses | (18.4) | 34.0% | (13.8) | (34.5) | – | (52) |
| Operating result (EBIT) | 90.9 | +49.1% | 61.0 | 48.5 | 50.5 | 35.5 |
| Net income after tax | 50.0 | +7.4% | 46.6 | 30.0 | 23.2 | 53.9 |
| Earnings per share in EUR | 0.41 | | 0.43 | 0.31 | 0.24 | 0.61 |
| Retention | 90.2% | | 85.1% | 86.9% | 74% | 76% |

The effects of the tsunami that struck South and Southeast Asia on 26 December 2004 were only marginal for international life reinsurers owing to the low insurance density in these countries.

In the Asian region itself the burden of losses for our portfolio is estimated to be in the order of EUR 1.2 million. We do, however, anticipate some expenditure from various European markets in connection with tourists who were also affected by this event. The amount is unlikely to exceed EUR 4.0 million.

## Results

Hannover Life Re's performance is primarily determined by four factors:

- Development of the biometric risks of mortality, morbidity and longevity
- Development of the risk associated with the persistency of the business in force and the credit risk
- Ordinary and extraordinary investment income
- Our own administrative expenses

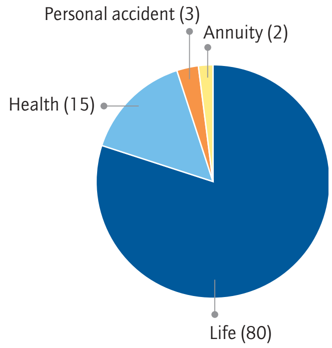
Since we are heavily involved in the area of international financing transactions – under which we finance new business acquisition costs (generally for larger portfolios of individual life policies) –, the risk associated with the persistency of the in-force reinsured portfolios as well as the credit risk attached to the cedent are of considerable importance to our company. Our experience here was especially gratifying in the year under review: lapse rates for all major customer relationships were in line with (or better than) the actuarial expectations. The credit status of our clients continues to rate as good to very good: none of our cedents experienced any financial difficulties.

The biometric risks of mortality and morbidity developed highly satisfactorily overall, albeit subject to considerable regional variation.

The mortality experience in Europe, South Africa, Australia and Asia was significantly below our expectations. Japan showed a marked improvement compared to the previous two years – while in the USA our relatively small portfolio of conventional life business recorded slightly increased mortality rates.

With respect to morbidity – which has a bearing on the critical illness, health and disability lines – a positive experience was observed in all markets. Even Australian disability pension business – which for competitive reasons traditionally shows only marginal profitability – was in satisfactory shape for the first time in many years.

**Breakdown of gross premiums by line of business in %**




The longevity risk, which in our portfolio is of greatest relevance to enhanced annuities in the United Kingdom, is monitored particularly closely. Furthermore, we review the risk situation for all treaties on a regular basis by performing detailed actuarial analyses.

Based on a prudent investment policy built around first-rate bonds of short- to medium-term duration we were willing to accept a slightly lower return in the year under review so as to be better equipped for a possible upturn in interest rates. Extraordinary investment income was scarcely realised in the year under review: the balance of extraordinary profits and losses on disposals was a mere EUR 3.5 million.

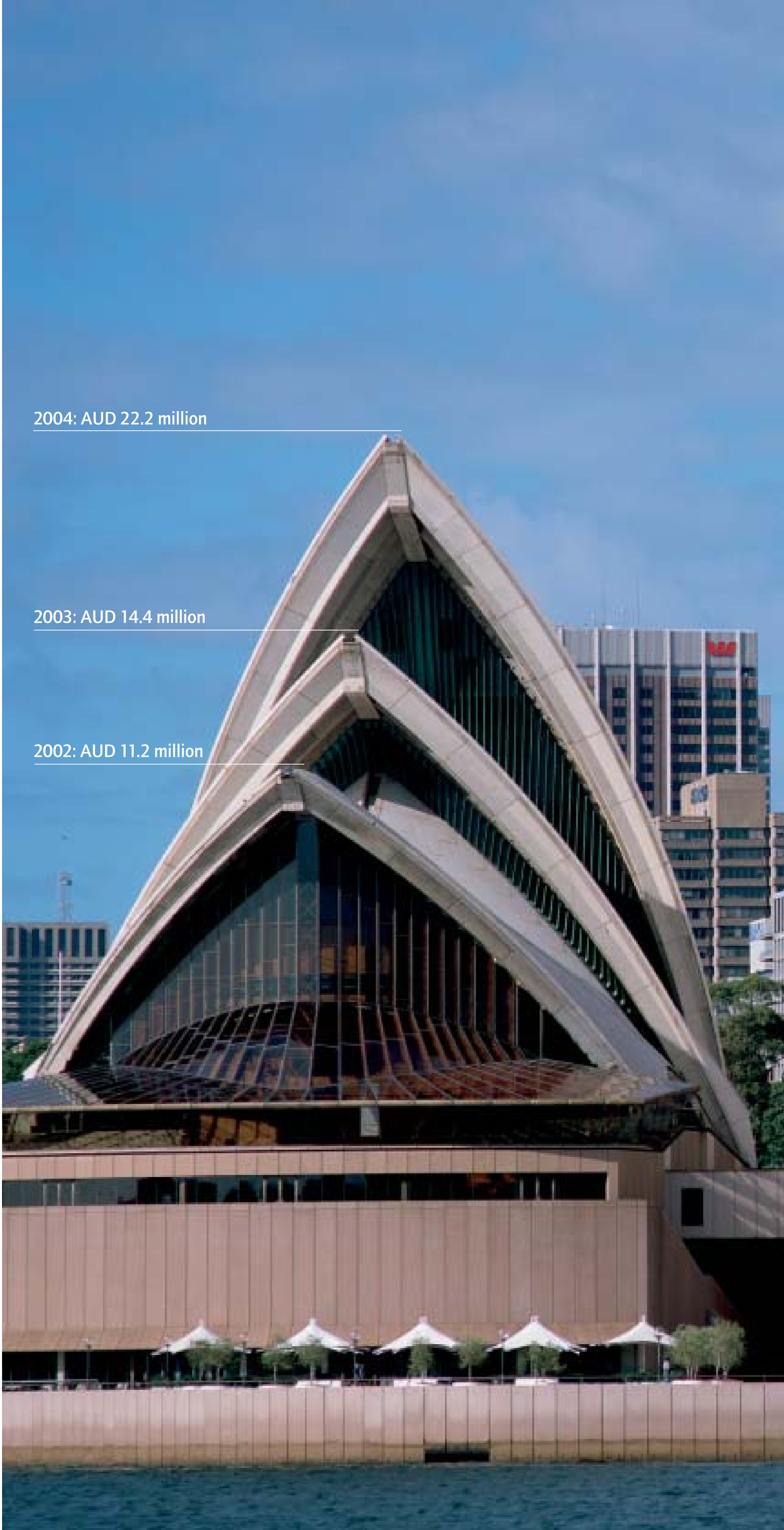
A large portion of our assets is attributable to funds that for regulatory reasons are deposited with ceding companies. In all such cases we received the contractually agreed return, which is geared to the actuarial interest rate of the reinsured policies; we do not carry any investment risk (market risk) in this regard.

The hallmark of Hannover Life Re's cost situation is a lean infrastructure in Hannover and at the local offices abroad. The expense ratio amounted to 2.8% of gross premiums earned – a figure substantially below that of comparable competitors.

Overall, Hannover Life Re generated another significantly improved operating profit (EBIT) of EUR 90.9 million in the year under review. This represents an increase of 49.1% compared to the previous year and is a new record level. The net return on premium, calculated as a quotient of the operating profit (EBIT) and net premiums earned, thus stood at 4.7%. The net income after tax climbed by 7.4% year-on-year to EUR 50.0 million. This was equivalent to earnings of EUR 0.41 (EUR 0.43) per share.

Operating profit (EBIT) reaches new record level

## Life and health reinsurance




Our Sydney-based subsidiary Hannover Life Re Australasia is the largest reinsurer on the Australian continent.

The net income shown in the graph highlights the company's gratifying profit trend.


ALEXANDER

## Development of the value of in-force business

The development of the value of our in-force business has been a consistent feature of our reporting for some years now. While the calculation method used has been refined over time, it has not changed fundamentally. The value of in-force business still refers to the present value of future technical profit flows before taxes. It is determined by the actuaries at our business centers and externally verified by highly respected actuarial consultants.

The calculation comprises the following elements:

- portfolio components attributable to retrocessionaires are deducted
- costs for solvency are taken into account on the basis of local capital adequacy requirements
- minority interests are not deducted
- the figures used are before taxes

Value of in-force business reflects the earnings potential of our long-term proportional portfolio

The value of in-force business reflects first and foremost the profitability of our long-term proportional business. This includes not only long-term life and annuity business, but also health business – insofar as this involves financing transactions – and long-term personal accident business.

At the suggestion of our external consulting actuaries, the calculation of the value of in-force business also includes short-term business for the first time this year. The value of in-force business for Hannover Re and E+S Rück thus makes allowance for the income anticipated in the current year from already renewed short-term proportional business. It remains the case that non-proportional business is excluded from the value of the in-force portfolio.

80% of the value of in-force business derives from financing transactions. In these instances it is calculated on the basis of transaction-specific projections, which are even drawn up for individual underwriting years in the case of substantial arrangements.

The remaining value of the in-force business is attributable to a large number of non-financing transactions. The future impairment of this subportfolio was calculated by modelling clusters of similar business.

The key assumptions underlying the value of in-force business were reviewed, but they are consistent with the corresponding assumptions made in previous years.

### Assumptions used to calculate the value of in-force business

| Parameter | Assumption | Reason |
|---|---|---|
| Administrative expenses | • Full-cost method for run-off of the portfolio<br>• No inflation of future administrative expenses | • Going-concern hypothesis<br>• In the past always offset by increased efficiency |
| Future mortality experience | • Allowance made for future mortality improvements only in the United Kingdom and to a minimal extent in the USA | • Conservative assumption |
| Investment income | • Simplified model of future investment income | • High proportion of deposited reserves<br>• Conservative investment policy (predominantly fixed-income securities of top-rated issuers) |
| Cost of capital | • Internal risk-oriented capital model of Hannover Re or local capital requirements | • Internal capital model ensures risk-adequate capital allocation to preserve a "AA-" rating |
| Risk discount rate | • For the most part use of the existing model (risk-free interest rate + risk premium of 350 basis points, adjusted to the relevant interest rate level)<br>• Risk-adequate differentiation for ten financing transactions | • Risk premium from the CAPM approach for insurance companies<br>• Focus will increasingly be on analyses of the risk associated with future payment flows from the various transactions |

The table below shows the development of the value of in-force business over time at our seven business centers. The total value of in-force business showed highly satisfactory growth of around 10% to reach EUR 1,495.2 million.

### Development of the value of in-force business

| Figures in EUR million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Hannover Life Re Africa, Johannesburg | 14.9 | 8.5 | 8.6 | 7 | 10 |
| Hannover Life Re America, Orlando | 166.7 | 196.3 | 170.3 | 130 | 120 |
| Hannover Life Re Australasia, Sydney | 94.1 | 96.6 | 79.3 | 78 | 76 |
| Hannover Life Re Germany (E+S Rück), Hannover | 271.1 | 214.3 | 226.7 | 194 | 172 |
| Hannover Life Re International, Hannover | 583.0 | 549.7 | 479.7 | 457 | 401 |
| Hannover Life Re Ireland, Dublin | 268.2 | 222.4 | 179.0 | 124 | 42 |
| Hannover Life Re UK, Virginia Water/London | 97.2 | 73.3 | 62.4 | 58 | 53 |
| Total | 1 495.2 | 1 361.1 | 1 206.0 | 1 048 | 874 |

Of the total value of in-force business, EUR 351.5 million was attributable to new business – which includes new reinsurances taken out in the year under review as well as cessions in the 2004 underwriting year under previously concluded reinsurances. This allocation is made possible by the large proportion of treaties booked on the basis of underwriting years. We work with assumptions in those cases where we do not have detailed information broken down by underwriting years. The negative net underwriting result attributable to new business amounted to EUR 251.8 million, leaving a total new business value of EUR 99.7 million.

The risk discount rates determined in accordance with the method described above for the major currencies were as follows:

### Discount rates

| Currencies | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|
| Euro | 7.25% | 7.75% | 7.75% | 8.50% |
| US-Dollar | 7.75% | 7.75% | 7.25% | 8.50% |
| Pound sterling | 8.25% | 8.50% | 8.00% | 8.50% |
| Australian dollar | 9.25% | 9.25% | 8.75% | 9.75% |
| South African rand | 12.50% | 13.50% | 15.50% | 16.25% |

The following table shows the outcome of sensitivity analyses performed for all business centers. It indicates the extent to which the value of a business center's in-force portfolio would change if, for example, a 10% higher mortality were to be applied in all future years.

The table below 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 rate | +10% | -10% |
| Hannover Life Re Africa, Johannesburg | 0.6 | (0.5) | (6.3) | 5.8 | (0.7) | (1.2) | (0.9) | 1.7 |
| Hannover Life Re America, Orlando | 9.3 | – | (88.4) | 81.5 | (8.3) | 13.6 | (18.2) | 18.3 |
| Hannover Life Re Australasia, Sydney | 3.9 | – | (5.8) | 6.0 | (4.0) | 3.4 | (2.3) | 2.9 |
| Hannover Life Re Germany (E+S Rück), Hannover | 18.6 | (10.8) | (18.5) | 18.1 | (14.3) | 2.0 | (5.2) | 5.4 |
| Hannover Life Re International, Hannover | 37.0 | (26.9) | (67.4) | 67.4 | (31.3) | 6.5 | (18.0) | 19.2 |
| Hannover Life Re Ireland, Dublin | 8.5 | 0.4 | (13.9) | 10.1 | (5.4) | 8.8 | (5.1) | 5.6 |
| Hannover Life Re United Kingdom, Virginia Water/London | 6.4 | (1.6) | (8.3) | 7.6 | (4.9) | – | (3.3) | 3.3 |
| Total | 84.3 | (39.4) | (208.7) | 196.5 | (68.9) | 33.1 | (52.9) | 56.3 |

These sensitivity analyses reveal that exogenous parameters (exchange rates and discount interest rate) roughly balanced each other out; had the exchange rates and the interest rate level of various currencies that determine the risk discount rates remained unchanged from the previous year, the value of in-force business would have been EUR 6.3 million lower.

Some elements of the future technical profit flows included in the value of in-force business are already recognised under US GAAP, for example the amortisation of deferred acquisition costs (DAC). If, therefore, in addition to the net income calculated under US GAAP allowance is to be made for the value creation expressed in the growth of the value of in-force business, the latter needs to be adjusted by factoring out certain components. With this in mind, for a number of years now we have been calculating the so-called non-capitalised portfolio value on a pre-tax basis. Amounting to EUR 496.8 million as at the balance sheet date, the table below shows its composition and development in recent years:

Development of non-capitalised portfolio value

| Figures in EUR million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Value of in-force business | 1 495.2 | 1 361.1 | 1 206.0 | 1 048 | 874 |
| Deferred acquisition costs | 1 364.2 | 1 275.1 | 978.6 | 906 | 597 |
| Unearned revenue reserve | 365.9 | 392.3 | 244.0 | 179 | – |
| Net acquisition costs | 998.3 | 882.9 | 734.6 | 727 | 597 |
| Non-capitalised portfolio value | 496.8 | 478.2 | 471.2 | 321 | 277 |
| Growth of non-capitalised portfolio value | 18.6 | 7.0 | 150.2 | 44 | 42 |

## Germany

Our activities on the German life insurance market, which is served by our subsidiary E+S Rück, were influenced by three main factors in the year under review:

Talanx AG, our majority shareholder, strengthened its presence in the bancassurance sector through the acquisition of a sizeable financial services group in Northern Germany. Cooperation with the other life and personal accident insurers within the Talanx Group, which concentrate on business with unit-linked life insurance policies and over-the-counter sales through two leading banks, was expanded.

We acquired new customer relationships with German mutual insurers: E+S Rück is a preferred partner for this group of clients.

We are devoting special attention to the newly emerging senior citizens' market and are taking a proactive role in marketing and sales solutions. With this in mind we have participated in a specialised marketing company.

Gross premium income grew by 11.1% compared to the previous year to reach EUR 404.7 million; the underwriting result was strongly positive thanks to a favourable claims experience and good persistency of the in-force reinsured portfolios.

## Rest of Europe

### United Kingdom

This market is served primarily by our local subsidiary Hannover Life Re UK based in Virginia Water near London. The company concentrates on risk-oriented products such as term life policies and critical illness covers. Very little disability business is written; instead, smaller annuity policies from the bancassurance sector are accepted and administered for the insurers concerned.

Hannover Life Re International has operated as a specialist reinsurer of deferred annuity programmes for more than ten years

Hannover Life Re Ireland is systematically deployed in the role of co-reinsurer for most high-volume quota share arrangements with major UK life insurers. This model optimises the necessary solvency capital for the ceding company and the reinsurer.

For more than ten years now Hannover Life Re International has also operated as a specialist reinsurer for various enhanced annuity programmes. Premiums contracted in the year under review following the discontinuation of new business under a major account as at the end of 2003. In the autumn of 2004, however, a successor company was established for which we function as lead reinsurer.

Gross premiums amounted to EUR 367.8 million; the risk experience for mortality and morbidity was highly satisfactory. The run-off of the former market leader's terminated portfolio of enhanced annuities is progressing profitably and according to plan.

Hannover Life Re UK reported an operating profit (EBIT) of EUR 10.2 million, corresponding to a return of 12.9% on the company's net premiums earned. Net income totalled EUR 7.0 million (+59.0%).

### Ireland

Our subsidiary Hannover Life Re Ireland writes treaty business on a worldwide basis, predominantly in the USA, Canada, South Africa and the UK. In many instances the company is able to make the most of the favourable regulatory environment in Ireland to offer clients bespoke and financially optimised solutions.

Hannover Life Re Ireland developed very favourably in the year under review. Gross premium income grew by 5.9% to EUR 346.9 million, while net premiums earned amounted to EUR 291.0 million (+9.9%).

The operating profit (EBIT), which in the previous year had been burdened by a special effect in the investment sector, normalised at EUR 15.0 million – a gain of 284.6%. Net income totalled EUR 13.5 million.

### France, Italy, Spain and Arab countries

In these markets, where we are represented by our life branch in Paris and service offices in Milan and Madrid, we have been active for many years in the bancassurance sector and in the area of independent distributors.

The premium volume from these regions amounted to EUR 204.8 million. Against the backdrop of another favourable claims experience results were most attractive.

### Scandinavia, the markets of central Eastern Europe and Israel

Responsibility for these markets rests with our life branch in Stockholm, which concentrates on risk-oriented business, bancassurance and European financing transactions with Swedish life insurers.

As at 1 January 2004 we assumed a modest reinsurance portfolio of terminated international contracts from a major Finnish life insurer.

Gross premiums from this region climbed to EUR 40.5 million, with 67.6% of this amount deriving from Scandinavian cedents focusing predominantly on Swedish business. Results were highly gratifying.

## North America

In the North American market we are positioned as a reinsurer of small and mid-sized US life insurers through our subsidiary Hannover Life Re America based in Orlando/Florida. We focus on specialty products for the senior citizens' market, Latin American risks and block assumption transactions (BATs) in life and annuity business. Hannover Life Re America's underwriting office in New York concentrates on covers from the areas of group life insurance and occupational pension schemes.

We stood by our cautious underwriting policy of the previous years and declined to accept unit-linked annuities with derivative components.

In the year under review we again completed a number of block assumption transactions. Working in consultation with our clients we prefer those transactions that trigger only a minimal flow of liquidity.

Our total portfolio of life business in force grew by 7.9% to EUR 44.9 billion. Gross premiums contracted – in part due to exchange-rate effects – to EUR 513.3 million and net premiums earned fell to EUR 228.0 million. As in previous years, intensive use was made of intergroup retrocessions to Hannover Life Re International, Hannover, and Hannover Life Re Ireland, Dublin.

Hannover Life Re America specialises in the acquisition of block assumption transactions (BATs)

Following the previous year's record level of EUR 18.0 million, Hannover Life Re America's results normalised in the year under review. The operating profit (EBIT) of EUR 17.8 million was entirely in line with our expectations. Net income amounted to EUR 10.2 million.

## Other international markets

### Africa

On the African continent we write risk-oriented life, critical illness and disability business from the markets of southern Africa through our Johannesburg-based subsidiary Hannover Life Re Africa. The focus is on South Africa, which contributes more than 71% of this region's premium volume. The company cemented its position as Africa's second-largest life reinsurer in the year under review.

Towards the middle of the year we concluded a sizeable block assumption transaction with a prominent South African life insurer that is one of the market leaders for term life policies.

We further scaled back the health portfolio by means of a substantial portfolio withdrawal and thus forged ahead with our envisaged portfolio optimisation in South Africa. As planned, the portfolio mix shifted in favour of the preferred lines of life and critical illness, which now account for 69.6% of the total portfolio.

Gross premiums recorded gratifyingly vigorous growth of 49.2% to reach EUR 100.7 million, an impetus that also carried over to the operating profit. EBIT moved back into positive territory at EUR 1.5 million, following an operating loss of more than EUR 6 million in the previous year.

Hannover Life Re Africa defends its position as Africa's second-largest life reinsurer

### Asia

The Asian markets, served by our branches in Kuala Lumpur and Hong Kong, exhibited a dynamic growth momentum in the year under review.

Gross premium income surged by EUR 51.2 million – a rise of 8.9% deriving largely from the markets of Hong Kong, Japan and Malaysia. The claims experience throughout the region was satisfactory; most notably, the mortality risk in Japan improved considerably in the year under review compared to the preceding two years.

## Financial reinsurance

Financial reinsurance, which we transact under the Hannover Re Advanced Solutions brand, is predominantly written by three companies based in Ireland. They are appropriately capitalised by market standards and can draw on many years of experience as well as considerable expertise.

The graph shows the geographical breakdown of the gross premiums written by the three Irish companies.


North America 62%
Germany 32%
Great Britain 2%
Asia 2%
Rest of Europe 2%

### Australia and New Zealand

Our Sydney-based subsidiary Hannover Life Re Australasia bears responsibility for the markets of Australia, New Zealand and Oceania. With a market share of 25% to 30% it has long enjoyed the role of market leader in Australia, a position which it successfully defended in the year under review.

The company operates primarily as a risk-oriented reinsurer in the life and critical illness lines as well as in Australia's important disability pension sector. It additionally writes a sizeable portfolio of biometric risks associated with occupational pension schemes, which it also administers for the fund trustees.

Gross premiums grew by 19.7% to EUR 240.7 million. Thanks to a highly gratifying claims experience in the life and critical illness lines as well as a markedly improved experience in the traditionally difficult disability pension line, the company reported an impressive underwriting profit. However, a non-recurring charge of around EUR 4 million was taken as a consequence of the reorganisation and simplification of a quota share retrocession treaty. The resulting operating profit (EBIT) amounted to EUR 13.8 million (EUR 12.2 million).

## Financial reinsurance

Financial reinsurance is transacted under the Hannover Re Advanced Solutions brand

The difference between financial reinsurance and property/casualty reinsurance can be traced principally to the reinsurance needs of the individual client. Whereas in property and casualty reinsurance the emphasis is on the risk transfer between insurer and reinsurer in the context of a single portfolio or segment, in financial reinsurance our clients typically seek to optimise their entire book of business. These frequently highly specific requirements call for solutions that are specially tailored to the particular client.

When it comes to underwriting the risks, however, financial reinsurance uses the same actuarial models and similar methods and resources to those found in traditional property and casualty reinsurance. For organisational purposes many reinsurers therefore include it within this business group. For Hannover Re, however, financial reinsurance constitutes a separate business group that we have established under the brand Hannover Re Advanced Solutions. By taking this approach we believe that we have created optimal transparency for our clients and shareholders.

Three issues dominated market events in financial reinsurance in the year under review. Firstly, some cedents were still struggling with run-off losses from the underwriting years 1997 to 2001. Our company was not, however, significantly impacted thanks to additional premiums based on the claims experience that formed an integral part of our covers. These run-off losses were combined with sustained premium growth in the hard market and further increases in the level of retained premiums. As a result the solvency margins of many insurers and reinsurers – despite improved equity positions – continued to come under some pressure. This served to steady demand in financial reinsurance, without entirely making up for the decline in solvency-stabilising products such as surplus relief covers.

The second major theme in the year under review was the preparations made by European insurers for the implementation of International Financing Reporting Standards (IFRS). These will give rise to greater volatility in the results reported in our clients' balance sheets. The resulting increased capital requirement is already reinvigorating the debate surrounding and the demand for cost-effective financial reinsurance solutions.

Yet it was the investigations launched by New York Attorney General Eliot Spitzer and the US stock exchange regulatory agency, the Securities and Exchange Commission (SEC), that grabbed most of the headlines. The practices of a number of financial reinsurers came under close critical scrutiny. In a letter to our clients we explained that we had not been – nor are we – active in any of the potentially problematic areas touched upon by the Attorney General's Office. In this respect our underwriting guidelines satisfy even the most exacting standards.

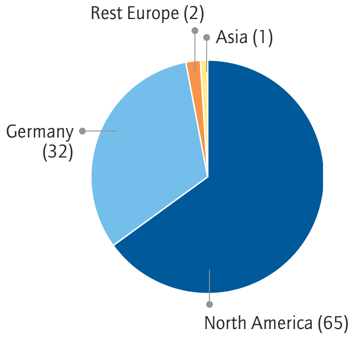
Despite the persistent weakness of the US dollar and the roughly two-thirds of our premium volume deriving from the American market – these two effects combined had a markedly adverse impact on total premium in the segment – we consolidated and further expanded our market position. Particularly vigorous growth was generated in Europe. In this context we stood by our historically conservative underwriting policy – in terms of the concepts, types of risk and level of risk transfer. In the latter case we continue to specialise in the low-risk sector, meaning that we prefer to write covers that represent a significantly lower risk transfer than traditional property and casualty reinsurance covers. Our accustomed conservative assessment of underwriting, timing and insolvency risks remains unchanged.

## Key figures for financial reinsurance

| Figures in EUR million | 2004 | +/- previous year | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Gross written premiums | 1 181.8 | (27.6%) | 1 632.7 | 1 242.6 | 1 740.6 | 870.2 |
| Net premiums earned | 1 204.7 | (22.9%) | 1 563.4 | 1 211.0 | 1 280.4 | 800.8 |
| Operating result (EBIT) | 132.6 | (10.5%) | 148.2 | 47.8 | 65.7 | 53.4 |
| Net income after tax | 89.0 | (10.1%) | 99.1 | 39.7 | 45.6 | 41.3 |
| Earnings per share in EUR | 0.74 | | 0.90 | 0.41 | 0.47 | 0.46 |
| Retention | 93.3% | | 94.3% | 95.2% | 76.4% | 92.4% |

We are one of the world's three largest providers of traditional financial reinsurance solutions. With our brand name Hannover Re Advanced Solutions we highlight our expertise in developing the individually tailored customer solutions that are the hallmark of our business group. Based on our considerable experience, technical expertise, minimal fluctuation and not least our proven financial business success, we are able to cultivate numerous long-term client relationships in the United States, by far our largest market. We work together with the major brokerage houses, with whom we similarly maintain long-standing business relations.

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




For the most part we service our business contacts in the United Kingdom through Lloyd's and London-based brokerage firms. In Germany we are represented by E+S Rück. In the rest of Europe we have been able to significantly enhance our awareness level – as was clearly borne out by the growth figures in the year under review – through targeted marketing activities, especially in the countries of Eastern Europe. On the Australian market we still felt a certain caution among ceding companies as an after-effect of the insolvency of a major insurer, in connection with which financial reinsurance had come in for some criticism. In Asia, on the other hand, we made some advances.

In the USA financially oriented products such as surplus relief covers were written less often than in the previous year because cedents' own capital resources have improved significantly. Demand for catastrophe excess of loss covers, on the other hand, increased appreciably. On a worldwide scale we are seeing a balanced mix in demand for aggregate XL (e.g. stop loss), spread loss and quota share arrangements. We have tapped into this demand to build a balanced international portfolio – admittedly with a certain unavoidable US bias – that is diversified not only geographically but also by lines of business (e.g. property and casualty).

## Our Irish companies

The bulk of our financial reinsurance business 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, we also write business in Germany if the framework conditions of a specific transaction suggest this would be appropriate. The integration of Hannover Re (Dublin) Ltd. into our portfolio has clearly benefited our market position.

There were no major consolidation measures to report in the year under review. One sizeable European competitor withdrew, while a number of companies – especially the newly established players based in Bermuda – entered the market. Major claims were incurred most notably in connection with the four hurricanes in the Caribbean and the USA. In addition to the losses inflicted in other lines, these events left their mark on the financial reinsurance business group in an amount running into the single-digit million euros.

Satisfactory year for financial reinsurance

All in all, the performance of financial reinsurance was satisfactory in the year under review. Gross written premiums were substantially lower – falling by 27.6% to EUR 1.2 billion (EUR 1.6 billion) – in part because of adverse exchange-rate movements. At constant exchange rates the decline, which was further attributable to the reduced demand for surplus relief treaties, would have been 22.6%. Net premiums earned presented the same picture, contracting by an appreciable 22.9% to EUR 1.2 billion (EUR 1.6 billion). The retention of 93.3% was virtually unchanged from the previous year (94.3%). The operating profit (EBIT) dipped by 10.5% to EUR 132.6 million (EUR 148.2 million). The net income of EUR 89.0 million fell short of the exceptionally good level achieved in the previous year (EUR 99.1 million). This business group thus contributed earnings of EUR 0.74 (EUR 0.90) per share.

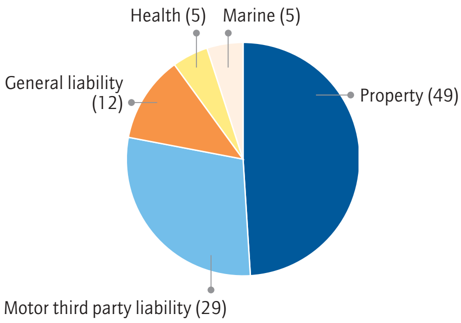
# Program business

Program business is a specialty form of primary insurance which concentrates on closely defined, homogeneous portfolios (programs) of niche risks that are not normally offered or adequately covered by traditional insurers. Major functions of the insurance business (from acquisition through the issuing of policies and premium collection to claims settlement) are normally outsourced and handled by specialised managing general agents (MGAs).

A further feature of this business group is the often very high percentage of proportional reinsurance. This is due to the fact that many programs come into being through a reinsurer's relations with an MGA and the reinsurer itself wishes to write a large portion of the business – although it is not licensed to transact primary insurance.

Hannover Re's activities in program business are conducted principally through four subsidiaries. By far the largest share of the total portfolio is written by our US subsidiary Clarendon Insurance Group, Inc., New York, the market leader in program business in the United States. We are further represented by the American company Insurance Corporation of Hannover (ICH), Chicago, the UK-based International Insurance Company of Hannover Ltd. (Inter Hannover), Bracknell/London, and Compass Insurance Holdings (Pty) Ltd., Johannesburg, South Africa.

Clarendon's gross written premiums by lines of business in %




Key figures for program business

| Figures in EUR million | 2004 | +/- previous year | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|
| Gross written premiums | 2 108.2 | (20.3%) | 2 646.7 | 2 729.1 | 2 457.4 | 1 974.4 |
| Net premiums earned | 942.7 | (18.4%) | 1 155.9 | 832.9 | 486.1 | 292.7 |
| Underwriting result | (135.7) | (777.5%) | 20.0 | 51.9 | 40.1 | (7.4) |
| Operating result (EBIT) | (129.3) | (326.5%) | 57.1 | 69.0 | 33.6 | 4.7 |
| Net income after tax | (88.5) | (309.8%) | 42.2 | 43.3 | 17.8 | 3.1 |
| Earnings per share in EUR | (0.73) | | 0.39 | 0.45 | 0.18 | 0.03 |
| Retention | 40.3% | | 46.4% | 37.8% | 27.4% | 14.5% |
| Combined ratio | 114.4% | | 98.3% | 93.8% | 91.7% | 102.5% |

## Clarendon Insurance Group, New York

Clarendon has the required licences in all US states and is one of the few companies in the country to concentrate exclusively on program business. The individual contracts are written by around 50 managing general agents (MGAs) that have links with Clarendon.

Rates were favourable in the year under review. The combination of a hard market in primary insurance, the relatively manageable number of competitors in this business group and the small number of new players ensured that program insurers enjoyed a strong market position. The price increases obtained were generally better than the claims trend of the business. Contract conditions were also maintained on the current highly attractive level for insurers.

Following the successful rehabilitation of Clarendon's portfolio and the restructuring activities carried out in recent years, the strategic objective in the year under review was to move forward with our new, so-called underwriting-oriented business model. The goal is to generate technical profits independently of fee income by consistently achieving a combined ratio of less than 100% for the entire portfolio even before reinsurance.

Clarendon especially hard hit by the four hurricanes

## Program business

The bulk of our program business is written by our subsidiary Clarendon Insurance Group in New York, the undisputed market leader in the United States.

The graph provides a breakdown of Clarendon's total gross written premiums of EUR 2.3 billion by lines of business.


Property 49%
Motor liability 29%
General liability 12%
Health 5%
Marine 5%
SAMSUNG

Within the Hannover Re Group Clarendon was especially hard hit by the four hurricanes in Florida. Multiple loss events on this scale in this region – remembering that Clarendon writes property insurance exclusively in Florida – were the worst possible scenario that the company could have faced. Had there been only one event – albeit with higher insured losses – or several hurricanes in other US states, the burden incurred by Clarendon would have been considerably lower. In this situation, however, the net loss amounted to EUR 90 million and the gross burden even surpassed EUR 300 million. There were also additional premiums that had to be paid for the reinstatement of reinsurance covers. In the year under review Clarendon consequently posted its first deficit since its acquisition by Hannover Re in 1999.

Hurricane losses incurred by Clarendon

| | | Loss in EUR billion | | Program business in EUR million | |
|---|---|---|---|---|---|
| **Hurricane losses** | **Date** | **Economic** | **Insured** | **Gross** | **Net** |
| Charley | 09.08. –14. 08. | 17.6 | 6.3 | 128.4 | 45.1 |
| Frances | 24.08. – 09.09. | 6.9 | 3.9 | 108.9 | 15.4 |
| Ivan | 02.09. – 24.09. | 16.2 | 9.5 | 31.8 | 14.1 |
| Jeanne | 13.09. – 29.09. | 5.3 | 3.6 | 57.0 | 15.4 |
| Total | | 46.1 | 23.3 | 326.1 | 90.0 |
| As percentage of premium income | | | | 15.5 | 9.5 |

Clarendon will profit from the sustained very hard market climate by renewing profitable programs and entering into new programs. In the year under review new programs were written, inter alia, in the homeowners, workers' compensation, professional indemnity and municipal casualty segments as well as in marine business. Clarendon is supported in its approach by very good financial strength ratings. A.M. Best, the key rating agency for US business, gives Clarendon a rating of "excellent" ("A-").

Clarendon posts disappointing business results due to strains associated with the four hurricanes

The business results posted by Clarendon in the year under review were disappointing – principally due to the strains associated with the four hurricanes in Florida. Gross premium income contracted by 22.8% to EUR 1.8 billion (EUR 2.4 billion). The decrease was in part so dramatic because of the weakness of the US dollar against the euro – at constant exchange rates the decline would have been 15.1%. Strengthening of the loss and loss adjustment expense reserves, a move that further reinforced the confidence level of the reserves, was another factor here. This produced additional strains running into the mid-range double-digit millions in the fourth quarter of the year under review. Overall, therefore, Clarendon recorded a net loss after tax of EUR 91.4 million, compared with net income of EUR 37.3 million in the previous year.

## International Insurance Company of Hannover, London

London-based Inter Hannover enjoyed a satisfactory year overall in its main markets of the United Kingdom, Ireland, Scandinavia, France and Germany. It generated gross premium income of EUR 258.4 million (EUR 275.3 million) and contributed EUR 6.6 million (EUR 8.5 million) to consolidated net income.

Taken together, the companies transacting program business generated gross premiums of EUR 2.1 billion (EUR 2.6 billion) in the year under review, a decline of 20.3%. At constant exchange rates, especially as regards the US dollar against the euro, the reduction would have been significantly less marked at 13.0%. Owing to the large loss posted by Clarendon, the total strain on consolidated net income amounted to EUR 88.5 million, contrasting with a contribution of EUR 42.2 million in the previous year. This corresponded to earnings of EUR -0.73 (EUR 0.39) per share.

## Investments

Beyond the general conditions described as part of the economic climate, capital markets were characterised by rising stock indices in the USA and steady growth in European equity prices.

From the outset of 2004 the issue of interest rate rises dominated expectations among players on the bond markets. By the middle of June 10-year US yields had initially climbed to roughly 4.9%. Furthermore, on 30 June 2004 the US Federal Reserve Board initiated a change of course in monetary policy, hiking the prime rate by altogether 125 basis points to 2.25% by year-end. Yields in the Eurozone fell markedly with a base rate of 2%. With interest rates moving in different directions in the USA and the Eurozone, the yield gap between 10-year government bonds in the respective markets widened to more than 60 basis points.

The second half of the year saw erratic movements on the foreign exchange markets. The euro appreciated against the US currency to USD 1.3640 by year-end, boosting the annual average exchange rate to USD 1.2474 (USD 1.1342).

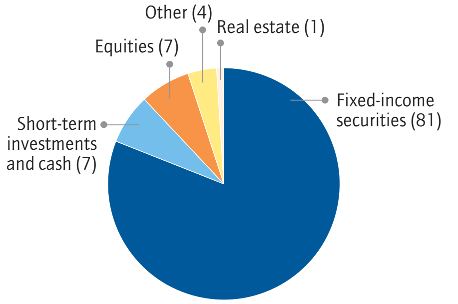
We used the modestly positive development of the equity markets to realise profits and reposition ourselves tactically. As at year-end we then slightly scaled back the weighting of our stock portfolio.

In the year under review we grew our total portfolio of self-managed assets (i.e. excluding funds held by ceding companies) by 9.8% to EUR 15.8 billion (EUR 14.4 billion). This was attributable to a strong cash flow from our reinsurance business despite the hurricane season. Had it not been for the inhibiting effect of the US dollar's downward slide, the volume of our assets would have increased by as much as 13.3% to EUR 16.3 billion.

Total portfolio of assets enlarged

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 liabilities side of the balance sheet. This ensures extensive currency matching of assets and liabilities, thereby keeping earnings-affecting currency fluctuations within manageable bounds. As at year-end 39.4% of our asset portfolio was held in US dollars, 43.3% in euros and 6.8% in pounds sterling.

**Breakdown of investments in %**




Our portfolio of fixed-income securities increased by 10.3% from EUR 11.6 billion to EUR 12.8 billion. We used the decline in yields in Euroland and the continued diminishing yield advantage of corporate bonds over government bonds to realise price gains of EUR 82.6 million on balance. The opposite movement on USD markets to some extent offset the aforementioned positive effects, with the result that net unrealised gains in our portfolio of fixed-income securities remained virtually on a par with the previous year at EUR 159.4 million (EUR 159.6 million). In view of the extremely low interest rate level and the very tight spreads we emphasised short durations and high quality. Caution was the hallmark of our investment policy in the area of fixed-income securities in the year under review. The quality of the securities remained on a high level since greater exposure in this area appeared inadvisable in light of the risk/yield ratio on the credit markets. Our primary focus was on government bonds and liquid issues of sovereign entities as well as jumbo mortgage bonds in Europe. In addition, our duration management had a defensive posture, enabling us to respond appropriately at short notice to movements in interest rates. New investments were made primarily in short- or medium-duration instruments.

Average quality of fixed-income securities slightly improved over the course of the year

We were able to slightly improve the average quality of our fixed-income securities as the year progressed. The proportion of securities rated "A" or better – at 92.5% – was marginally higher than in the previous year (91.1%). This high quality was also reflected in the markedly lower write-downs of EUR 4.1 million taken on fixed-income securities in the year under review.

As at year-end 2004 we held a total amount of EUR 549.2 million in short-term assets, including overnight money and time deposits, and EUR 480.8 million in current assets. Funds held by ceding companies climbed by EUR 1.3 billion to EUR 9.0 billion.

The equity holdings in our portfolio increased by 19.5% to EUR 1.1 billion (EUR 0.9 billion). This corresponded to an equity allocation of 7.0% (6.5%).

Equity investments were made predominantly in index-tracking investment instruments from the Eurozone and the USA. By using targeted option strategies we exploited market volatilities for the purposes of portfolio optimisation.

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 taken on exchange-listed equities in this way amounted to EUR 13.3 million in the year under review, compared to EUR 65.3 million in the previous year. The balance of unrealised gains on our equity portfolio totalled a gratifying EUR 85.4 million (EUR 59.0 million) as at the end of the reporting period. We realised net gains of EUR 67.7 million on the sale of shares in the year under review.

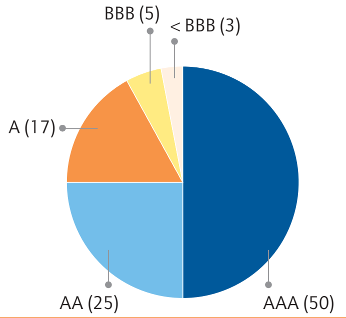
An amount of EUR 283.2 million was invested in alternative investments, including for example private equity funds and emerging market funds. The fair value of the portfolio showed modest growth.

The ordinary income of EUR 1.0 billion fell slightly short of the previous year (EUR 1.1 billion). This was due to the fact that the decline in average yields over recent years continued to be reflected in the portfolio and more than offset the absolute growth in the asset volume. The contribution to ordinary income generated by deposit interest – at EUR 432.5 million – was lower than in the previous year and thus similarly reflected the yield trend in Europe.

We made the most of opportunities on the bond and equity markets to realise profits. Total profits on disposals of EUR 217.6 million were generated in the year under review. This contrasted with realised losses on disposals of EUR 56.4 million. The positive balance of EUR 161.2 million thus improved slightly on the previous year's figure of EUR 140.7 million. The lower write-downs on investments of EUR 24.7 million (EUR 99.3 million) – attributable not least to the moderately upbeat trend on equity markets and the high quality of our asset portfolio – had a clearly favourable impact on the investment performance.

The total net investment income of EUR 1,116.7 million increased by 4.2% compared to the previous year (EUR 1,071.5 million). At constant exchange rates it would have been substantially higher. In view of the volatile state of the markets in the year under review, we are nevertheless thoroughly satisfied with this performance.

**Rating of fixed-income securities in %**




# Risk report

Our business consists of the systematic acceptance of underwriting risks. In our understanding, the concept of risk has both positive and negative connotations (opportunities and dangers). We assume our business partners' risks on the basis of advanced methods and procedures, although only if the associated opportunities promise a commensurate increase in the value of the company. A professional set of tools for the appropriate controlling of risk acceptances is therefore indispensable for our company.

## Organisation of risk management

Risk management at Hannover Re is characterised by central process coordination and local risk responsibility in the various areas of business:

- Local staff bear primary responsibility for the monitoring of risks and risk-policy measures within their specific areas.
- Local risk controllers are charged – on the level of specific business groups –with aggregating and controlling individual risks and, where necessary, initiating appropriate risk-minimisation measures.
- Centralised risk controlling steers the entire process and describes the risk situation of the entire Group across all business groups.

Our internal risk reporting consists primarily of standard and ad hoc reports that are made available to decision-makers within a central risk information system on a periodic basis or, where necessary, immediately. Constant monitoring of mission-critical factors ensures early detection of undesirable developments and facilitates implementation of appropriate countermeasures. In addition, an annual risk inventory, in which all risks or risk groups that could potentially jeopardise the company's survival are thoroughly analysed and quantified, ensures that the risk portfolio is up-to-date. Regular process-independent controlling of the entire risk management system ensures that developments which could threaten the company's continued existence are detected at an early stage.

Annual risk inventory ensures that the risk portfolio is up-to-date

We have categorised the Hannover Re Group's risks as follows:

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

## Global risks

Global risks derive, inter alia, from:

- developments in legislation and court practice, including questions of liability,
- political and social changes,
- environmental changes.

Risks of this type can be reduced only to a limited extent, nor can they necessarily be avoided because they are beyond our direct sphere of influence. Our risk management measures must therefore ensure that unfavourable developments, in particular, are identified as early as possible and appropriate actions taken. We counter these potential risks, inter alia, by means of the following measures:

- Diversification of our portfolio into four largely autonomous business groups. In this way we reduce the capital adequacy otherwise required in property and casualty reinsurance by altogether around 50%. At the same time we achieve optimal risk spreading.
- Constant monitoring of claims trends (e.g. electromagnetic fields, toxic mould, silica, biotechnology, pharmaceutical risks as well as analyses of claims and major losses). Our underwriting policy is regularly adjusted on the basis of these analyses, e.g. through the use of appropriate contractual exclusions or through technical and geographical diversification of the portfolio.
- Analysis of the findings of worldwide scientific research studies into possible changes in the risk situation associated with natural catastrophes (e.g. storm frequencies and intensities due to climate change) and their implications for potential losses. To this end we use recognised simulation models and also employ our own scientists, who control the quality of licensed models and develop our own tools. The most significant events for Hannover Re in the year under review were the hurricanes "Charley", "Frances", "Ivan" and "Jeanne" (Caribbean and USA) as well as typhoon "Songda" (Japan). Our burden of losses from these events amounted to EUR 676.6 million for gross account and EUR 295.9 million net.
- Tracking of relevant trends in court practice around the world (antitrust and regulatory law, casualty issues, corporate compliance) and changes in relevant accounting standards (US GAAP/IFRS) by specialised service units within Hannover Re.

## Strategic risks

Strategic risks derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating business environment. Ongoing monitoring of mission-critical parameters and regular review of our underlying assumptions are therefore essential. The following components are crucial to our long-term success:

- optimal diversification,
- systematic cycle management,
- efficient capital management and risk-optimised investments,
- opportunistic use of retrocessions,
- low administrative expenses,
- internationally optimised tax policy.

## Technical operating risks

Technical operating risks are of special importance to reinsurance enterprises. They derive principally from the possibility that payment flows vital to the insurance business may deviate from the expected amounts. Possible reasons here may be incorrect pricing assumptions, inaccurate estimations of the claims experience and an associated failure to establish adequate reserves or shortcomings in accumulation control.

One of the tools used to monitor the risk of losses exceeding premiums in property and casualty reinsurance is tracking of the combined ratio over time (both inclusive and exclusive of catastrophe losses).

Combined and catastrophe loss ratio

| Figures in % | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997* | 1996* | 1995* |
|---|---|---|---|---|---|---|---|---|---|---|
| Combined ratio | 97.0 | 96.0 | 96.3 | 116.5 | 107.8 | 111.1 | 108.1 | 99.5 | 100.4 | 98.4 |
| Of which catastrophes losses** | 8.3 | 1.5 | 5.2 | 23.0 | 3.7 | 11.4 | 3.5 | 1.5 | 2.7 | 4.1 |

* *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 a percentage of net premiums earned*

The loss reserves in property and casualty reinsurance are determined by specially trained insurance actuaries at Hannover Re. Their calculations are also regularly checked by external actuaries and auditors. In addition to the losses reported to us by our clients, we establish additional reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBNR (incurred but not reported) reserve for claims that have probably already occurred but have not yet been reported to us. The latter, which are especially relevant in the liability lines, are calculated using recognised actuarial methods. The IBNR reserve established by the Hannover Re Group amounted to EUR 1,781.3 million in the year under review. It is calculated according to a breakdown into risk categories and regions. The anticipated ultimate loss ratios are determined in altogether 53 sub-segments with the aid of statistical run-off triangles and actuarial methods. Asbestos- and pollution-related claims constitute a special issue in IBNR reserving. In this area years or sometimes even decades may elapse between causation of the loss and reporting of the claim. Hannover Re's exposure to asbestos-related claims and pollution damage is relatively slight. In view of the increased risks associated with these claims, we nevertheless maintained our reserves on a high level. The ratio of our additional reserves to the reported reserves increased by more than 20%. 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 29.7 years.

Reserves for asbestos-related claims and pollution damage

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | 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 | 21.6 | 96.3 | 29.7 | 28.1 | 101.9 | 30.2 |

The reserves in life and health reinsurance are always based upon the information provided by our clients. These reserves are reviewed on the basis of secure biometric actuarial bases with statistically adequate safety margins. Biometric risks lie in the miscalculation of probabilities, e.g. of death, disablement or longevity. For example, the morbidity risk (e.g. in the case of health, critical illness or disability risks) is estimated and monitored through actuarial studies of the morbidity experience. Furthermore, local supervisory authorities ensure that the reserves calculated by ceding companies 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.).

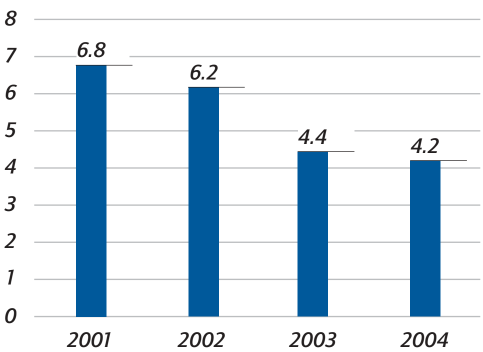
Risk limitation through retrocession

Retrocession is another key tool for risk limitation. The business that we accept is not always fully retained, but instead portions are retroceded as necessary. Assumed risks are examined in order to determine the extent to which they spread the overall risk in the portfolio in question. The levels of retained premiums are determined on this basis and our retrocession arrangements structured accordingly. It is therefore particularly important to carefully select retrocession partners in light of credit considerations. Our Security Committee classifies the reinsurers acceptable to the Hannover Re Group with binding effect. 94.4% of our retrocessionaires have a so-called investment grade rating (AAA to BBB), and 88.8% thereof are rated "A" or better. The average default rate over the past three years was 0.7%. Less than 8% of our accounts receivable from reinsurance business were older than 90 days as at the balance sheet date.

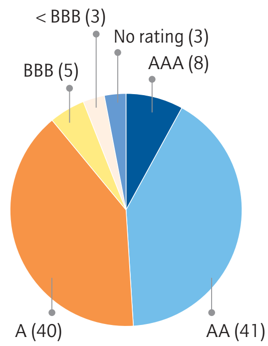
45.7% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities. Since 2001 we have – as an additional step – consistently reduced the level of recoverables by altogether 38.4%.

**Recoverables**

*in EUR billion*




**Recoverables split by external rating classes in %**




## Investment operating risks

The overall success of a reinsurance enterprise is determined by two main components: the "underwriting result" and the "investment income". The profit-oriented steering of the Hannover Re Group's business activities thus gives rise to the following subtasks:

- steering of the underwriting portfolio (liability management)
- steering of the investment portfolio (asset management)

- linking and matching of these two subsegments through asset/liability management.

The consistent principle underlying our investment activities is the goal of generating an optimal contribution to the business result. For us this means:

- We strive for stable, plannable and tax-optimised income while at the same time preserving the high quality standard of the portfolio.
- It must be ensured that the Hannover Re Group is liquid and solvent at all times.
- Our investment policy is governed by the principle of risk diversification.
- Currency exposures are managed according to the principle of matching currency cover.

Risks in the investment sector consist most notably of market, credit and liquidity risks. The Hannover Re Group has adopted detailed investment guidelines applicable Group-wide, compliance with which is constantly monitored. On the basis of an asset/liability management approach and making allowance for the overall entrepreneurial risk, the basic parameters for the weighting of assets are defined in the investment guidelines valid throughout the Group.

### Weighting of major asset classes*

| Asset classes | Parameter as per investment guidelines | Position as at 31.12.2004 |
|---|---|---|
| Bonds (direct holdings and investment funds) | At least 50% | 80.8% |
| Listed equities (direct holdings and investment funds) | At most 17.5% | 7.0% |
| Real estate | At most 5% | 1.7% |

**Calculated on a fair value basis*

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between portfolio management, settlement and risk controlling. Risk controlling – which is organisationally and functionally separate from portfolio management – bears responsibility for monitoring all risk limits, evaluating financial products and verifying that all transactions are effected in line with market conditions. In this respect our management and control mechanisms are geared to the rules adopted by the Federal Financial Supervisory Authority (BaFin).

Currency exposures are largely avoided because we adhere systematically to the principle of matching currency cover. We use short-call and long-put options as well as swaps to partially hedge portfolios against price, exchange and interest rate risks. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with such transactions.

Currency exposures restricted according to the principle of matching currency cover

The following tables illustrate the possible effects of price, default and liquidity risks as well as risks from fluctuations in payment flows to which the company – subject to the assumptions set out below – is exposed as at the balance sheet date.

Rating structure of our fixed-income securities*

| Rating | Government bonds | | Securities issued by semi-governmental entities | | Corporate bonds | | Asset-backed securities | |
|---|---|---|---|---|---|---|---|---|
| | in % | in EUR million | in % | in EUR million | in % | in EUR million | in % | in EUR million |
| AAA | 88.0 | 3 449.7 | 59.5 | 1 840.1 | 9.9 | 419.8 | 66.2 | 1 039.7 |
| AA | 9.9 | 389.3 | 34.8 | 1 076.9 | 21.4 | 903.7 | 29.2 | 457.9 |
| A | 0.3 | 12.7 | 3.5 | 108.2 | 49.8 | 2 109.9 | 0.5 | 7.9 |
| BBB | 1.4 | 56.3 | 1.8 | 56.9 | 13.4 | 567.5 | 0.4 | 6.7 |
| < BBB | 0.3 | 11.0 | 0.3 | 8.1 | 5.5 | 231.8 | 3.7 | 57.9 |
| Total | 100.0 | 3 919.0 | 100.0 | 3 090.2 | 100.0 | 4 232.7 | 100.0 | 1 570.1 |

** Securities from investment funds were allocated to the appropriate categories with their specific rating.*

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

| Portfolio | Scenario | Portfolio change based on fair value in EUR million |
|---|---|---|
| Equities | Stock prices +10% | 110.8 |
| | Stock prices +20% | 221.5 |
| | Stock prices -10% | (110.8) |
| | Stock prices -20% | (221.5) |
| | Fair value as at 31.12.2004 | 1 107.5 |
| Fixed-income securities | Yield increase +100 basis points | (384.7) |
| | Yield increase +200 basis points | (736.2) |
| | Yield decrease -100 basis points | 417.9 |
| | Yield decrease -200 basis points | 868.9 |
| | Fair value as at 31.12.2004 | 12 839.2 |
| Exchange-rate-sensitive investments | Exchange rate change* +10% | (894.7) |
| | Exchange rate change* -10% | 894.7 |
| | Fair value as at 31.12.2004 | 8 946.5 |

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

## Operational risks

Operational risks are generally defined as the risk of losses occurring because of

- inadequacy or failure of internal procedures
- human error or system failure
- external events (e.g. legal risks)

The most important operational risks include:

- risks of business interruption and system failure
- process management risks
- risks of fraud

The availability of applications, protection of confidentiality and integrity of its data are of vital importance to Hannover Re. The global sharing of information, increasingly via e-mail, also exposes us to attack from computer viruses. We invest systematically in the security and availability of our information technology in order to maintain and enhance the current high level of security. For example, the existing contingency and disaster recovery plans are presently being updated and tested under real conditions. Group-wide coordination is the responsibility of the Corporate Information Security Officer appointed in the year under review.

High level of security further enhanced to protect confidential data

Breaches of antitrust law can lead to not inconsiderable fines and damage the company's image. Particularly for staff who come into contact with cedents or other reinsurers, systematic training sessions were held in the year under review in order to avoid conduct that might breach antitrust provisions. What is more, a detailed guideline was drawn up with Group-wide validity setting out a code of conduct for all employees in accordance with antitrust law. On the basis of this guideline Internal Auditing will also include relevant antitrust issues within the scope of its audits. The company's offices abroad have similarly been instructed to adopt appropriate local guidelines. In this way we ensure that actions throughout the Group comply with antitrust provisions.

### Assessment of the risk situation

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 report

Like all other organisational units within our company, the Central Division of Human Resources Management constantly seeks to analyse and enhance its value contribution to the Hannover Re Group. Using our holistic management system "Performance Excellence" (PE) we continuously review the value-added contribution made by our core processes and measures to the entire Hannover Re Group and determine key figures that facilitate transparent and goal-directed steering of our personnel management policy. In accordance with our decentralised PE approach we have thus been able to simply, but efficiently dovetail the strategy of our Central Division with the overall Group strategy.

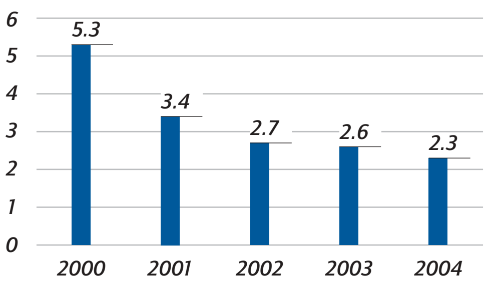
The Group employed 2,035 (1,972) staff in 18 countries as at 31 December 2004, including 826 (789) working for the Hannover Re Group in Germany.

Breakdown of employees by country

| | 2004 | | | 2003 |
|---|---|---|---|---|
| Country | Total | Male | Female | Total |
| Germany | 826 | 400 | 426 | 789 |
| USA | 588 | 255 | 333 | 681 |
| South Africa | 235 | 104 | 131 | 138 |
| United Kingdom | 82 | 41 | 41 | 72 |
| Sweden | 79 | 33 | 46 | 79 |
| Australia | 45 | 19 | 26 | 40 |
| France | 37 | 19 | 18 | 36 |
| Ireland | 33 | 19 | 14 | 25 |
| Malaysia | 30 | 14 | 16 | 31 |
| Mexico | 19 | 10 | 9 | 18 |
| China | 14 | 5 | 9 | 19 |
| Italy | 12 | 5 | 7 | 11 |
| Bermuda | 11 | 7 | 4 | 8 |
| Spain | 9 | 4 | 5 | 9 |
| Japan | 6 | 4 | 2 | 7 |
| Canada | 6 | 1 | 5 | 6 |
| Taiwan | 2 | 1 | 1 | 2 |
| Korea | 1 | 1 | – | 1 |
| **Total** | 2 035 | 942 | 1 093 | 1 972 |

**Staff turnover at Home Office**

*in %*




The staff turnover of 2.3% (2.6%) – measured in relation to the average workforce of 810 employed at Home Office in Hannover – dropped to its lowest level in years. Along with the current state of the labour market, there can be no doubt that the credibility of our management culture and our systematic approach to personnel development are positive influencing factors in this regard.

## Personnel development

Employee skills and motivation are constantly fostered

Our personnel development work is founded upon the Hannover Re Group's corporate strategy, and in particular the "Human Resources Management Policy" defined therein: "For a globally operating financial services provider with a professional clientele, employee skills and motivation are performance factors that rank alongside capital resources. Our human resources and managerial development activities are aimed at consistently promoting the expertise and motivation of our staff."

The overriding goal of our human resources development is to ensure that the Group continues to function and remain competitive within a constantly changing environment. The following measures enable us to achieve this objective:

- needs-oriented enhancement of employee skills,
- agreement of challenging and responsible duties,
- attracting and retaining high-performance, motivated staff ,
- preparing managerial staff for their tasks and equipping them with the necessary skills,
- establishing an entrepreneurial mindset at all levels.

For us, human resources development begins with our personnel marketing activities and the selection process prior to recruitment. Personnel development supports every member of staff, starting with their job familiarisation, through all positions and levels of their career with the Hannover Re Group. In this context we see personnel development as an interplay between management, staff and Human Resources. To this end our Personnel Development team provides a range of development tools that are used by management and employees in consultation with personnel advisors and developers. Needless to say, the personnel development tools employed by the Hannover Re Group are constantly reviewed and regularly expanded and optimised according to company and market requirements.

## Web-assisted human resources management continues to take great strides

Having successfully implemented specialist software for, inter alia, salary accounting and applicant management some time ago, we shall in future apply such technology to the area of personnel development, too. Central data input in this module will enable us – while maintaining the greatest possible objectivity – to bring together the various personnel development tools and obtain a comprehensive overview of employee skills. This systematic identification of potential junior managers within the company facilitates structured, fair and efficient successor planning.

The "Employee Self-Service" and "Manager Self-Service" facilities are used by employees and management as support tools for updating and accessing data.

Hannover Re's Applicant Management System was also optimised with the aid of electronic data processing. Thanks to our innovative "eRecruiting" approach more than half of all applications were received online in the year under review – and the tendency is rising. The online application form already available in the Internet was improved such that all data are now transferred directly to an applicant database, thereby substantially cutting administrative expenses.

Our staff evaluate their employer:

- Does my company recognise my individual performance?
- Am I proud to tell others that I work here?
- Do the members of staff care about each other?

How better to answer these questions than through an independent survey carried out among the workforce? Within the scope of the study "Germany's best employer 2004", conducted by a highly reputed Cologne research and consulting institute in cooperation with the business magazine Capital, staff from more than 100 companies were surveyed in 2004. With an overall mark of 2 Hannover Re ranks among Germany's most popular employers. This score

Hannover Re ranks among Germany's most popular employers

was based, in part, on the findings of the employee survey with regard to quality criteria such as credibility, respect, fairness, pride in one's work and company as well as team orientation; the results of this anonymous survey accounted for two-thirds of the total score. The rating also included a so-called "culture audit", in which the programmes, concepts and activities that make up our personnel development work were evaluated. Hannover Re was one of the few companies to participate in this study by way of a comprehensive survey, in which a response rate of 75.6% was achieved. Our Group received an impressive mark from its workforce: 92% of respondents rated their company as a very good employer, nine out of ten staff are proud to tell others that they work here and a further 90% closely identify with the company: today, they would again choose to work for Hannover Re and would recommend the company as an employer to a good friend.

### Global Performance Bonus – employees also share in the company's success

The Group Performance Bonus (GPB) enables not only the Executive Board and senior management but also – for the first time – a significantly extended group of staff to participate to a greater extent than before in the company's success and profit from the favourable performance of the Hannover Re Group. For this purpose a new variable component was introduced that allows the annual salary to be reduced by a maximum of 0.85 monthly salary payments and increased by a maximum of 1.7 monthly salary payments. The benchmark used in the calculation is the earnings per share – and hence the performance of the entire Group.

### Word of gratitude to all our staff

In the year just-ended our staff again pursued their company's ambitious goals with exceptional dedication and to a considerable extent achieved these objectives. We would like to thank all our staff as well as the employee council and the senior management committee most sincerely for their efforts.

## Outlook for 2005

The crucial factors for the global economy in the current year will be movements in the price of crude oil and other raw materials, the US dollar's performance against other key currencies and the approach to monetary policy adopted by the major economic powers.

As far as monetary policy is concerned, the US Federal Reserve Board is likely to further tighten the reins. The interest rate level still appears to be very low in view of the cyclical risks. Furthermore, a more restrictive fiscal policy will probably become the reality in China. In Euroland, however, pressure on the European Central Bank to postpone the turnaround in interest rates is growing as economic activity flattens out.

All in all, the world economy is expected to experience a slowdown in 2005, although this is not tantamount to a downturn. Growth in domestic demand and capital spending, including in the hitherto disappointing Eurozone, will be of critical importance. The situation here will be complicated by the fact that as energy costs increase real incomes are slow to rise, a state of affairs that is hardly likely to really drive consumption.

The economic picture in Germany will probably improve only hesitantly. Although capital spending will rise, the increase will be far less marked than was the case in previous upswings. Private consumption also promises a modest revival. Overall, though, growth is likely to remain on the weak side.

## Property and casualty reinsurance

In the treaty renewals as at 1 January 2005 – the date when almost two-thirds of our portfolio was renegotiated – it became clear that ceding companies are looking even more closely at a reinsurer's rating than was the case in the past. Especially when it comes to writing casualty business, a very good rating is absolutely indispensable. Only around 10% of reinsurers still satisfy this requirement: with ratings of "AA-" from Standards & Poor's and "A" from A.M. Best, Hannover Re is one of them; the outlook for both ratings is described as "stable".

Although a considerably softer market had already been expected in the year under review, there are still few signs of this materialising in 2005. Whilst we continue to assume that the hard market has reached its peak, a virtually unchanged attractive market climate is anticipated for the current year. Rates are also supported by the very low interest rate level prevailing around the world, which compels insurers and reinsurers to focus on a solid underwriting policy. Stable rates and conditions were preserved in most segments. In some lines, including for example hurricane- and flood-battered catastrophe business, it was even possible to obtain further modest improvements.

Price erosion was observed in those areas that had recorded the sharpest rate increases in recent years, e.g. aviation fleet business: in view of these circumstances we wrote our business highly selectively and systematically reduced our share. The situation in marine reinsurance proved to be better than originally anticipated. Price erosion in the offshore segment was halted following the losses inflicted by Hurricane "Ivan" in the Gulf of Mexico.

In credit and surety reinsurance the situation remains positive. Profitability has fallen off somewhat, but is still on a high level. Particularly in North America, this line will experience another hard market in 2005. In Germany the primary sector is showing early signs of increased competition. Pointing to the very good rehabilitation successes achieved in recent years, many cedents believe that the time has now come to roll back the improved conditions obtained by reinsurers. Consequently, the reinsurance market is also likely to see slight tendencies towards softening.

Attractive market climate expected to remain unchanged in property and casualty reinsurance

The treaty renewal season for property/casualty business in Germany passed off highly successfully; the price structure exhibited unexpected stability. Adequate terms and conditions enabled us to substantially expand our position in this market, where we rank as one of the three leading reinsurers. We made the most of the advantageous market environment and therefore expect to show a good result, provided – as in the year under review – we are spared any unusual incidence of major losses.

In the countries of Northern Europe, too, the current year promises to develop favourably. It is our assumption that primary insurance rates in the United Kingdom will come under pressure and conditions – especially in property business – will gradually deteriorate. The reinsurance market will be impacted accordingly. Given our focus on non-proportional business, however, the effect on our portfolio will be less severe. Due to difficulties affecting a competitor we will be able to enlarge our market share. Competition is intensifying in France following the entry of new Bermuda-based reinsurers into the market. The pressure on prices there is growing, especially in catastrophe business. In Italy we do not currently anticipate any general deterioration in reinsurance conditions.

The reinsurance market in North America will not be able to entirely resist the softening tendencies on the original market. A "soft landing" is nevertheless anticipated. We expect to generate further profitable business, especially in the casualty lines where we are a sought-after partner for long-tail business due to our excellent rating. Even as the market softens this is likely to lend stability to our portfolio structure. In catastrophe reinsurance, where the hurricanes halted any price erosion, rates are stable.

Treaty renewals in the Asian markets take place predominantly as at 1 April. An exception here is Taiwan, where most treaties were renegotiated as at 1 January. Rates on the original market here deteriorated. We responded by further scaling back our acceptances – especially proportional covers – in this market. Rates and conditions for catastrophe business in Japan are likely to improve for windstorm risks, while they are expected to remain stable for earthquake risks. All in all, reinsurers continue to enjoy a gratifying business climate.

Business in Australia is developing very favourably. Here, too, some treaties were renewed as at 1 January; no tendencies towards a softer market can be observed as yet. We are particularly pleased with the situation in casualty insurance, where rates and conditions are again comfortably adequate.

Overall, despite a certain tendency towards softer markets, property and casualty reinsurance should continue to fare well in the year under review. Premium income is forecast to rise. Provided the burden of major losses does not exceed the multi-year average of around 5% of net premiums, we are looking forward to a very healthy profit contribution well in excess of the previous year.

## Life and health reinsurance

Increased pace of growth on the German life and health reinsurance market

Especially in European markets, life and health reinsurance is expected to generate vigorous new business in the current year. The most notable growth is anticipated in unit-linked life insurance (Germany) and the traditional products of term life and critical illness (United Kingdom). After enjoying a boom year in 2004, the German market will likely be somewhat calmer, although the overall pace of market growth will surpass the average level of recent years.

The European bancassurance sector offers outstanding potential; we traditionally concentrate on Romance-speaking markets, although our activities have now been extended to cover the Scandinavian countries and some markets in Southeast Europe. To a growing extent we are supporting moves by Northern European insurance groups to enter the Baltic markets, and we therefore expect our business in Eastern Europe to expand sharply in the coming years.

In the USA we shall press ahead with our successful niche strategy focussed on high-value financing transactions, the steadily growing senior citizens' market and Latin American risks. We are monitoring with considerable interest developments in regulatory rules governing the establishment of adequate reserves for longer-term US term life policies with guaranteed premium levels. In our assessment this is an area where a substantial risk potential will build for the US life reinsurance market over the next ten years. According to the analyses of expert market watchers, by 2014 – compared to the position as at 31 December 2003 – the capacity required to secure reserves amounting to more than USD 50 billion needs to be tripled. Taking into account new business written in the year under review and subsequent years, this amount will probably run into the triple-digit billions. The market participants are working intensively on capital market solutions so as to cope with this challenge in the coming years. We are only very minimally affected by the problem, however, since in past years too we largely avoided this business.

We are seeking to further expand the good market position that we have now attained in

South Africa, principally by focusing on conventional individual life business. In the Asia-Pacific region the most attractive growth opportunities are offered by Malaysia, Thailand and Japan. Bancassurance continues to grow in Japan: as part of extensive market deregulation banks are progressively being permitted to market life and annuity products. This process, which will primarily benefit the Japanese subsidiaries of foreign life insurers, is to be completed by 2007. Attractive business opportunities are also opening up for reinsurers in this context.

We are systematically moving forward with the licensing procedure for a branch office in China. Based on close, trusting contacts with the Chinese regulatory authority, we expect to commence business operations in the first half of 2006 at the latest.

All in all, double-digit increases in premium volume and net income are forecast for the current year. What is more, we are optimistic of achieving further appreciable growth in the value of in-force business – a key figure that reflects the future earnings potential of our portfolio.

## Financial reinsurance

Further very attractive net income after tax expected

Major trends in financial reinsurance are expected to be sustained in 2005. Most notably, clients will have to devote time to their preparations for the changeover to IFRS accounting standards, and increased volatility of results should cause demand for financial reinsurance products to rise. We intend to press ahead with the enlargement of our portfolio outside the USA and to selectively pursue further growth there. Last but not least, it is our view that the hurricanes in the Caribbean and the USA as well as numerous other natural disasters will likely prompt an expansion of catastrophe business within the financial reinsurance segment. Demand for surplus relief covers, on the other hand, will continue to decline.

For Hannover Re, this means stable or slightly lower gross and net premiums in this business group for the current year. Net income after tax will probably contract somewhat due to portfolio shifts towards European and non-US business with a reduced risk exposure, but it should still be highly gratifying.

## Program business

Clarendon should profit from the favourable market environment

On the basis of closer cooperation with Managing General Agents (MGAs) who have highly developed expertise in their particular markets, Clarendon should profit from the presently favourable market climate in 2005. What is more, our second company in the USA, ICH, will step up its cooperation with MGAs specialising in smaller niche programs.

Rates for some areas of homeowners' business should increase as a consequence of the hurricanes in the Caribbean and the USA. Generally speaking, though, in all our program business markets it is to be anticipated that rates in the primary sector will come under some pressure in the current year due to noticeably fiercer competition.

We therefore expect to generate somewhat higher net premiums in program business, while gross premium income will remain roughly unchanged. Subject to a normal claims experience and provided there are no unusual movements on capital markets, results should move comfortably back into positive territory in 2005.

## Overall business outlook

The 2005 financial year has got off to a highly auspicious start. We still see attractive opportunities in property and casualty reinsurance, and the hard market continues to prevail. In the treaty renewals as at 1 January 2005 we obtained advantageous rates and conditions, especially in the casualty lines and natural catastrophe reinsurance. Although price erosion could be detected in some lines, particularly in those that had seen the greatest rate increases over the past few years, there has been no softening of the hard market in 2005. Indeed, it can be assumed that even in 2006 the very favourable terms and conditions in casualty business will be sustained. At least adjusted for exchange-rate effects, the total portfolio is expected to generate premium growth.

Substantially higher profitability anticipated in 2005

The anticipated positive underwriting cash flow will likely lead to further growth in the total asset volume. If interest rates rise slightly investment income should also increase again. We shall maintain our equity allocation on its present level of roughly 7%. In the area of fixed-income securities we continue to attach the utmost importance to the high quality of our portfolio.

In view of the expected development of our business groups and the economic climate, we are optimistic that we can substantially increase our profitability. We expect to generate consolidated net income of EUR 430 to 470 million in 2005, or earnings of between EUR 3.60 and 3.90 per share. As always, this projection is subject to the proviso that major loss expenditure remains within the bounds of the multi-year average and there are no unexpected downturns 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 | Proposal for the distribution of profits |
|---|---|
| Payment of a dividend of EUR 1.00 on each eligible no-par-value share | 120 597 134.00 |
| Profit carried forward to new account | 402 866.00 |
| Disposable profit | 121 000 000.00 |

# CONSOLIDATED ACCOUNTS
of the Hannover Re Group

# CONSOLIDATED BALANCE SHEET
## as at 31 December 2004

| Figures in EUR thousand | | 2004 | 2003 | |
|---|---|---|---|---|
| Assets | Notes | | Commercial treatment | US GAAP "as-if-pooling" method* |
| Fixed-income securities – held to maturity | 5.1 | 470 254 | 498 695 | 498 695 |
| Fixed-income securities – available for sale | 5.1 | 12 341 748 | 11 119 567 | 11 119 567 |
| Equity securities – available for sale | 5.1 | 1 105 014 | 925 595 | 925 595 |
| Equity securities – trading | 5.1 | 2 482 | 2 402 | 2 402 |
| Real estate | 5.1 | 205 755 | 230 591 | 230 591 |
| Other invested assets | 5.1 | 615 216 | 633 885 | 633 885 |
| Short-term investments | 5.1 | 549 187 | 569 592 | 569 592 |
| Total investments without cash | | 15 289 656 | 13 980 327 | 13 980 327 |
| Cash | | 480 810 | 386 134 | 386 134 |
| **Total investments and cash** | | 15 770 466 | 14 366 461 | 14 366 461 |
| Prepaid reinsurance premiums | 5.2 | 489 085 | 566 920 | 566 920 |
| Reinsurance recoverables on benefit reserve | 5.2 | 95 004 | 206 717 | 206 717 |
| Reinsurance recoverables on unpaid claims | 5.2 | 4 162 630 | 4 396 564 | 4 396 564 |
| Reinsurance recoverables on other reserves | 5.2 | 9 903 | 41 528 | 41 528 |
| Deferred acquisition costs | 5.2 | 2 024 630 | 1 690 806 | 1 690 806 |
| Accounts receivable | | 3 122 762 | 3 402 908 | 3 402 908 |
| Funds held by ceding companies | | 8 965 291 | 7 664 683 | 7 664 683 |
| Goodwill | 5.4 | 196 673 | 203 619 | 203 619 |
| Other assets | 5.13 | 342 889 | 248 585 | 248 585 |
| Accrued interest and rent | | 192 618 | 185 953 | 185 953 |
| | | 35 371 951 | 32 974 744 | 32 974 744 |

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 18 and the explanations provided in the "Capital consolidation" section of the Notes.*

| Figures in EUR thousand | | 2004 | 2003 | |
|---|---|---|---|---|
| **Liabilities** | **Notes** | | **Commercial treatment** | **US GAAP "as-if-pooling" method*** |
| Loss and loss adjustment expense reserve | 5.2 | 18 246 946 | 18 703 170 | 18 703 170 |
| Policy benefits for life and health contracts | 5.2 | 5 253 328 | 4 001 148 | 4 001 148 |
| Unearned premium reserve | 5.2 | 1 825 886 | 2 126 894 | 2 126 894 |
| Provisions for contingent commission | 5.2 | 172 201 | 130 265 | 130 265 |
| Other technical provisions | 5.2 | – | 9 089 | 9 089 |
| Reinsurance payable | | 1 707 775 | 1 396 215 | 1 396 215 |
| Funds held under reinsurance treaties | | 955 636 | 1 080 491 | 1 080 491 |
| Contract deposits | 5.3 | 1 503 020 | 474 526 | 474 526 |
| Minorities | 5.9 | 535 004 | 491 836 | 491 836 |
| Other liabilities | 5.13 | 464 529 | 365 095 | 365 095 |
| Taxes | 5.5 | 142 209 | 137 583 | 137 583 |
| Provision for deferred taxes | 5.5 | 887 398 | 869 857 | 869 857 |
| Notes payable | 5.8 | 1 121 335 | 666 328 | 666 328 |
| Surplus debenture | 5.8 | – | 117 597 | 117 597 |
| **Total liabilities** | | 32 815 267 | 30 570 094 | 30 570 094 |
| Stockholders' equity | | | | |
| Common stock | 5.9 | 120 597 | 120 597 | 120 597 |
| Nominal value 120 597<br>Authorised capital 60 299 | | | | |
| Additional paid-in capital | | 724 562 | 764 199 | 724 562 |
| Cumulative comprehensive income | | | | |
| Unrealised appreciation/depreciation of investments, net of deferred taxes | | 170 496 | 157 569 | 160 862 |
| Cumulative foreign currency conversion adjustment, net of deferred taxes | | (413 259) | (352 502) | (340 938) |
| Other changes in cumulative comprehensive income | | (2 890) | (22 685) | (22 685) |
| Total comprehensive income | | (245 653) | (217 618) | (202 761) |
| Retained earnings | | | | |
| Beginning of period | | 1 762 252 | 1 379 291 | 1 340 529 |
| Net income | | 309 140 | 354 779 | 418 321 |
| Dividend paid | | (114 567) | (82 591) | (82 591) |
| Other changes | | 353 | 85 993 | 85 993 |
| | | 1 957 178 | 1 737 472 | 1 762 252 |
| **Total stockholders' equity** | | 2 556 684 | 2 404 650 | 2 404 650 |
| | | 35 371 951 | 32 974 744 | 32 974 744 |

# CONSOLIDATED STATEMENT OF INCOME
## for the 2004 financial year

| Figures in EUR thousand | Notes | 2004<br>1.1.–31.12. | 2003<br>Commercial treatment<br>1.1.–31.12. | 2003<br>US GAAP "as-if-pooling" method*<br>1.1.–31.12. |
|---|---|---|---|---|
| Gross written premiums | | 9 566 566 | 11 342 857 | 11 588 058 |
| Ceded written premiums | | 2 142 847 | 3 183 503 | 3 220 301 |
| Change in gross unearned premiums | | 195 087 | (345) | (121 563) |
| Change in ceded unearned premiums | | (43 436) | (3 421) | 10 206 |
| **Net premiums earned** | | 7 575 370 | 8 155 588 | 8 256 400 |
| Ordinary investment income | 5.1 | 1 036 615 | 1 093 987 | 1 138 371 |
| Realised gains on investments | 5.1 | 217 628 | 255 330 | 255 330 |
| Realised losses on investments | 5.1 | 56 408 | 114 558 | 114 875 |
| Unrealised gains and losses on investments | 5.1 | 8 669 | 8 517 | 8 517 |
| Other investment expenses/depreciations | 5.1 | 89 769 | 171 790 | 171 855 |
| **Net investment income** | 5.1 | 1 116 735 | 1 071 486 | 1 115 488 |
| Other technical income | | 859 | 8 227 | 8 227 |
| **Total revenues** | | 8 692 964 | 9 235 301 | 9 380 115 |
| Claims and claims expenses | 5.2 | 5 795 631 | 6 671 694 | 6 727 735 |
| Change in policy benefits for life and health contracts | 5.2 | 253 796 | 297 797 | 297 797 |
| Commission and brokerage | 5.2 | 1 624 099 | 1 118 484 | 1 133 853 |
| Other acquisition costs | 5.2 | 13 371 | 2 912 | 3 413 |
| Other technical expenses | | 57 601 | 95 438 | 95 438 |
| Administrative expenses | | 231 075 | 212 062 | 212 236 |
| **Total technical expenses** | | 7 975 573 | 8 398 387 | 8 470 472 |
| Other income and expenses | 5.15 | (139 813) | (104 785) | (106 480) |
| **Operating profit/loss (EBIT)** | | 577 578 | 732 129 | 803 163 |
| Interest on hybrid capital | | 67 320 | 54 793 | 54 793 |
| Net income before taxes | | 510 258 | 677 336 | 748 370 |
| Taxes | 5.5 | 141 364 | 266 569 | 274 061 |
| Minority interest | | (59 754) | (55 988) | (55 988) |
| **Net income** | | 309 140 | 354 779 | 418 321 |

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 18 and the explanations provided in the "Capital consolidation" section of the Notes.*

| Figures in EUR thousand | | 2004 | 2003 | |
|---|---|---|---|---|
| | Notes | 1.1.–31.12. | Commercial treatment 1.1.–31.12. | US GAAP "as-if-pooling" method* 1.1.–31.12. |
| **Other comprehensive income** | 5.10 | | | |
| Net unrealised appreciation/depreciation of investments | | 9 634 | 114 442 | 116 932 |
| Cumulative foreign currency conversion adjustments | | (72 321) | (252 226) | (248 852) |
| Other comprehensive income | | 19 795 | 31 610 | 31 610 |
| **Total** | | 266 248 | 248 605 | 318 011 |

| | | | | |
|---|---|---|---|---|
| **Earnings per share** | 5.12 | | | |
| Earnings per share in EUR | | 2.56 | 3.24 | 3.60 |

# CASH FLOW STATEMENT
## for the 2004 financial year

| Figures in EUR thousand | 2004 | 2003 | |
|---|---|---|---|
| | | Commercial 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) | 309 140 | 354 779 | 418 321 |
| Appreciation/depreciation | 58 341 | 139 476 | 139 476 |
| Net realised gains and losses on investments | (161 220) | (140 772) | (140 455) |
| Amortisation of investments | 6 467 | 6 682 | 7 014 |
| Minority interest | 59 754 | 55 988 | 55 988 |
| Changes in funds held | (1 745 627) | (629 214) | (739 175) |
| Changes in prepaid reinsurance premiums (net) | (125 630) | (25 002) | 93 097 |
| Changes in tax assets/provisions for taxes | 29 470 | 206 461 | 213 954 |
| Changes in benefit reserves (net) | 1 501 725 | 501 944 | 501 944 |
| Changes in claims reserves (net) | 512 873 | 2 120 995 | 2 125 305 |
| Changes in deferred acquisition costs | (381 755) | (305 194) | (358 144) |
| Changes in other technical provisions | 71 131 | (14 187) | (14 197) |
| Changes in clearing balances | 474 004 | (397 085) | (459 867) |
| Changes in other assets and liabilities (net) | (354) | (30 865) | (27 388) |
| Cash flow from operating activities | 608 319 | 1 844 006 | 1 815 873 |
| | | | |
| **II. Cash flow from investing activities** | | | |
| Fixed-income securities – held to maturity | | | |
| Maturities | 67 221 | 30 946 | 30 946 |
| Purchases | (36 081) | (147 044) | (147 044) |
| Fixed-income securities – available for sale | | | |
| Maturities, sales | 6 045 988 | 5 233 955 | 5 405 279 |
| Purchases | (7 702 911) | (7 975 451) | (8 010 692) |
| Equity securities – available for sale | | | |
| Sales | 988 074 | 540 400 | 540 400 |
| Purchases | (1 114 453) | (706 541) | (706 541) |
| Other invested assets | | | |
| Sales | 100 045 | 48 279 | 48 279 |
| Purchases | (66 190) | (48 331) | (48 331) |
| Affiliated companies and participating interests | | | |
| Sales | 23 850 | 9 214 | 9 214 |
| Acquisitions | (18 697) | (20 886) | (20 886) |
| Real estate | | | |
| Sales | 32 | 609 | 609 |
| Acquisitions | (832) | (764) | (764) |
| Short-term investments | | | |
| Changes | (4 030) | 420 484 | 323 221 |
| Other changes (net) | (27 091) | (25 256) | (25 506) |
| Cash flow from investing activities | (1 745 075) | (2 640 386) | (2 601 816) |

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 18 and the explanations provided in the "Capital consolidation" section of the Notes.*

| Figures in EUR thousand | 2004 | 2003 | |
|---|---|---|---|
| | 1.1.–31.12. | Commercial treatment<br>1.1.–31.12. | US GAAP "as-if-pooling" method*<br>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 | 1 034 285 | 294 123 | 294 123 |
| Dividend paid | (114 567) | (82 591) | (82 591) |
| Changes in notes payable | 329 819 | 30 087 | 30 087 |
| Other changes | (15 004) | (11 010) | (11 010) |
| **Cash flow from financing activities** | 1 234 533 | 461 601 | 450 199 |
| | | | |
| **IV. Exchange rate differences on cash** | (3 101) | 49 047 | 49 034 |
| | | | |
| **Change in cash and cash equivalents (I.+II.+III.+IV.)** | 94 676 | (285 732) | (286 710) |
| Cash and cash equivalents at the beginning of the period | 386 134 | 671 866 | 672 844 |
| Change in cash and cash equivalents according to cash flow statement | 94 676 | (285 732) | (286 710) |
| **Cash and cash equivalents at the end of the period** | 480 810 | 386 134 | 386 134 |
| | | | |
| Income taxes | (54 694) | (43 982) | (43 982) |
| Interest paid | (95 278) | (48 673) | (48 673) |

# SEGMENTAL REPORT
## as at 31 December 2004

In the following table we have allocated the underwriting assets and liabilities as at 31 December 2004 and 2003 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 | |
|---|---|---|---|---|
| | 2004 | 2003* | 2004 | 2003* |
| **Assets** | | | | |
| Prepaid reinsurance premiums | 77 944 | 99 122 | 1 429 | 2 555 |
| Deferred acquisition costs (net) | 199 195 | 197 078 | 1 719 298 | 1 344 206 |
| Reinsurance recoverables on benefit reserves | – | – | 95 004 | 206 717 |
| Reinsurance recoverables on incurred claims and others | 1 492 976 | 1 817 976 | 89 731 | 96 379 |
| Funds held by ceding companies | 161 804 | 176 330 | 5 706 555 | 3 257 988 |
| **Total underwriting assets** | 1 931 919 | 2 290 506 | 7 612 017 | 4 907 845 |
| **Liabilities** | | | | |
| Loss and loss adjustment expense reserve | 8 820 198 | 8 396 999 | 1 053 719 | 929 396 |
| Policy benefits for life and health contracts | – | – | 5 253 328 | 4 001 148 |
| Unearned premium reserve | 917 664 | 939 942 | 26 046 | 21 868 |
| Other technical provisions | 106 654 | 93 987 | 33 294 | 24 002 |
| Funds held under reinsurance treaties | 557 880 | 559 333 | 153 396 | 216 185 |
| **Total underwriting liabilities** | 10 402 396 | 9 990 261 | 6 519 783 | 5 192 599 |

** The figures for the commercial treatment and under the US GAAP "as-if-pooling" method are identical.*

| Financial reinsurance | | Program business | | Total | |
|---|---|---|---|---|---|
| 2004 | 2003* | 2004 | 2003* | 2004 | 2003* |
| | | | | | |
| 1 797 | 2 042 | 407 915 | 463 201 | 489 085 | 566 920 |
| 14 828 | 44 780 | 91 309 | 104 742 | 2 024 630 | 1 690 806 |
| – | – | – | – | 95 004 | 206 717 |
| 508 314 | 506 510 | 2 081 512 | 2 017 227 | 4 172 533 | 4 438 092 |
| 3 084 639 | 4 216 479 | 12 293 | 13 886 | 8 965 291 | 7 664 683 |
| 3 609 578 | 4 769 811 | 2 593 029 | 2 599 056 | 15 746 543 | 14 567 218 |
| | | | | | |
| 4 834 860 | 6 192 954 | 3 538 169 | 3 183 821 | 18 246 946 | 18 703 170 |
| – | – | – | – | 5 253 328 | 4 001 148 |
| 58 305 | 165 518 | 823 871 | 999 566 | 1 825 886 | 2 126 894 |
| 24 491 | 18 851 | 7 762 | 2 514 | 172 201 | 139 354 |
| – | 20 734 | 244 360 | 284 239 | 955 636 | 1 080 491 |
| 4 917 656 | 6 398 057 | 4 614 162 | 4 470 140 | 26 453 997 | 26 051 057 |

# SEGMENTAL REPORT
## as at 31 December 2004

### Segmental statement of income

| Figures in EUR thousand | Property/casualty reinsurance | | | Life/health reinsurance | | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | | 2004 | 2003 | |
| | | Commercial treatment | US GAAP "as-if-pooling" method* | | Commercial treatment | US GAAP "as-if-pooling" method* |
| Gross written premiums | 4 099 973 | 4 787 119 | 4 787 119 | 2 176 545 | 2 276 319 | 2 276 319 |
| Net premiums earned | 3 471 703 | 3 499 993 | 3 499 993 | 1 956 277 | 1 936 309 | 1 936 309 |
| Claims and claims expenses | 2 648 706 | 2 976 907 | 2 976 907 | 1 212 618 | 1 270 385 | 1 270 385 |
| Change in policy benefits for life and health contracts | – | – | – | (253 796) | (297 797) | (297 797) |
| Commission and brokerage and other technical income/expenses | 629 680 | 285 862 | 285 862 | 572 230 | 427 836 | 427 836 |
| Investment income | 467 605 | 393 411 | 393 411 | 246 830 | 179 393 | 179 393 |
| Administrative expenses | 88 457 | 96 099 | 96 099 | 55 065 | 44 918 | 44 918 |
| Other income and expenses | (89 161) | -68 686 | -68 686 | (18 448) | (13 766) | (13 766) |
| **Operating profit/loss (EBIT)** | 483 304 | 465 850 | 465 850 | 90 950 | 61 000 | 61 000 |
| Interest on hybrid capital | 45 167 | 37 781 | 37 781 | 6 127 | 4 834 | 4 834 |
| **Net income before taxes** | 438 137 | 428 069 | 428 069 | 84 823 | 56 166 | 56 166 |
| Taxes | 145 819 | 215 281 | 215 281 | 23 661 | 10 410 | 10 410 |
| Minority interest | (33 695) | (45 822) | (45 822) | (11 154) | 798 | 798 |
| **Net income** | 258 623 | 166 966 | 166 966 | 50 008 | 46 554 | 46 554 |

** On the need to apply the "as-if-pooling" method under US GAAP cf. management report p. 18 and the explanations provided in the "Capital consolidation" section of the Notes.*

| Financial reinsurance | | | Program business | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| 2004 | 2003 | | 2004 | 2003 | | 2004 | 2003 | |
| | Commercial treatment | US GAAP "as-if-pooling" method* | | Commercial treatment | US GAAP "As-if-pooling" method* | | Commercial treatment | US GAAP "as-if-pooling" method* |
| 1 181 847 | 1 632 672 | 1 877 873 | 2 108 201 | 2 646 747 | 2 646 747 | 9 566 566 | 11 342 857 | 11 588 058 |
| 1 204 682 | 1 563 431 | 1 664 243 | 942 708 | 1 155 855 | 1 155 855 | 7 575 370 | 8 155 588 | 8 256 400 |
| 1 182 572 | 1 610 246 | 1 666 287 | 751 735 | 814 156 | 814 156 | 5 795 631 | 6 671 694 | 6 727 735 |
| – | – | – | – | – | – | (253 796) | (297 797) | (297 797) |
| 247 756 | 241 245 | 257 115 | 244 546 | 253 664 | 253 664 | 1 694 212 | 1 208 607 | 1 224 477 |
| 347 596 | 438 311 | 482 313 | 54 704 | 60 371 | 60 371 | 1 116 735 | 1 071 486 | 1 115 488 |
| 5 411 | 3 041 | 3 215 | 82 142 | 68 004 | 68 004 | 231 075 | 212 062 | 212 236 |
| 16 092 | 984 | (711) | (48 296) | (23 317) | (23 317) | (139 813) | (104 785) | (106 480) |
| 132 631 | 148 194 | 219 228 | (129 307) | 57 085 | 57 085 | 577 578 | 732 129 | 803 163 |
| 5 805 | 4 451 | 4 451 | 10 221 | 7 727 | 7 727 | 67 320 | 54 793 | 54 793 |
| 126 826 | 143 743 | 214 777 | (139 528) | 49 358 | 49 358 | 510 258 | 677 336 | 748 370 |
| 22 885 | 33 717 | 41 209 | (51 001) | 7 161 | 7 161 | 141 364 | 266 569 | 274 061 |
| (14 905) | (10 964) | (10 964) | – | – | – | (59 754) | (55 988) | (55 988) |
| 89 036 | 99 062 | 162 604 | (88 527) | 42 197 | 42 197 | 309 140 | 354 779 | 418 321 |

# NOTES
## 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). All Statements of Financial Accounting Standards (SFAS) issued by the FASB on or before 31 December 2004 with binding effect for the 2004 financial year have been observed in the consolidated financial statement.

In November 2003 and March 2004 the EITF reached a consensus on some parts of EITF Issue 03–1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF Issue 03–1 discusses the meaning of other-than-temporary impairment and provides guidance for its application to certain investments that fall within the categories of "available-for-sale" and "held-to-maturity" pursuant to SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" as well as to equity investments carried at cost in accordance with the "cost method" of accounting. The standard requires certain quantitative and qualitative information (inter alia regarding unrealised losses) for investments allocated to these categories. The recognition and measurement guidance in EITF Issue 03–1 has been delayed until publication of further implementing guidance. Hannover Re is currently exploring the implications of EITF Issue 03–1 for the consolidated financial statement.

In December 2004 the FASB published SFAS 123 (revised 2004) "Share-Based Payment" (SFAS 123R). SFAS 123R provides rules for the accounting of transactions in which a company issues its own equity instruments as compensation for goods or services. In addition, SFAS 123R provides rules for the accounting of transactions in which a company incurs liabilities from the procurement of goods or services, the amount of which depends on the fair value of its own equity instruments or which can be paid for through the issuance of its own equity instruments. This standard does not give rise to any significant implications for the consolidated financial statement. The reader is referred to our remarks in section 6.3 "Stock appreciation rights".

In December 2003 the FASB issued FASB Interpretation No. 46 (FIN 46) (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46R). Hannover Re has applied the standards of FIN 46R to special purpose entities since 31 December 2003 and to all other companies with effect from 31 March 2004. The application of FIN 46R did not result in the additional consolidation of entities above and beyond the group of consolidated companies described herein. More detailed explanations are provided in section 5.1 on the securitisation of reinsurance risks.

The application of this standard did not have any significant impact on 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 it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key elements subject to such assumptions and estimates include, for example, the impairment of conditional reinsurance commitments, the impairment of participations in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to payments rendered to employees. The actual amounts may diverge from the estimated amounts.

Amounts indicated in brackets refer to the previous year.

## 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. There has been no change in the group of consolidated companies compared to the situation as at 31 December 2003. 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 conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 21 May 2003 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 |
|---|---|---|---|
| **Affiliated companies resident in Germany** | | | |
| Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany | 100.0 | EUR 589 539 | 24 539 |
| Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany [1] | 94.3 | EUR 37 211 | (84) |
| HAPEP II Holding GmbH, Hannover/Germany [1] | 94.3 | EUR 30 332 | (149) |
| GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft Hannover/Germany | 70.1 | EUR 60 013 | 1 214 |
| Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany [1] | 63.8 | EUR 7 924 | (25) |
| HEPEP III Holding GmbH, Hannover/Germany [1] | 63.8 | EUR 2 315 | (22) |
| E+S Rückversicherung AG, Hannover/Germany [2] | 55.8 | EUR 464 281 | 44 000 |
| Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany [1] | 54.9 | EUR 30 064 | 33 |
| HEPEP II Holding GmbH, Hannover/Germany [1] | 54.9 | EUR 22 233 | (20) |
| **Affiliated companies resident abroad** | | | |
| Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg | 100.00 | EUR 7 931 | (1 767) |
| Hannover Finance (UK) Limited, Virginia Water/United Kingdom [2] | 100.00 | GBP 111 093 | (9) |
| Hannover Life Reassurance Company of America, Orlando/USA [2] | 100.00 | USD 85 884 | (5 242) |
| Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland | 100.00 | EUR 110 872 | 10 731 |
| Hannover Life Reassurance (UK) Ltd., Virginia Water/United Kingdom | 100.00 | GBP 36 930 | (886) |
| Hannover Re (Bermuda) Ltd., Hamilton/Bermuda | 100.00 | EUR 932 766 | 73 520 |
| Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland [3] | 100.00 | EUR 277 212 | 35 369 |
| Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland | 100.00 | EUR 550 099 | 58 647 |
| Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden [4] [5] | 100.00 | SEK – | (2 804) |
| Hannover Services (UK) Ltd., Virginia Water/United Kingdom [2] | 100.00 | GBP 686 | 50 |
| International Insurance Company of Hannover Ltd., Virginia Water/United Kingdom [2] | 100.00 | GBP 73 475 | 2 293 |
| Hannover Finance, Inc., Wilmington/USA [6] | 100.00 | USD 400 773 | 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 | 186 909 | 8 452 |
| Clarendon National Insurance Company, Trenton/USA | 100.0 | USD | 421 403 | (109 212) |
| Clarendon Select Insurance Company, Tallahassee/USA | 100.0 | USD | 30 300 | 3 296 |
| Harbor Specialty Insurance Company, Trenton/USA | 100.0 | USD | 40 177 | (20 543) |
| Insurance Corporation of Hannover, Itasca/USA | 100.0 | USD | 198 700 | 5 186 |
| Redland Insurance Company, Council Bluffs/USA | 100.0 | USD | 26 915 | 828 |
| Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa [2] | 100.0 | ZAR | 404 405 | 101 812 |
| 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 Company Ltd., Johannesburg/South Africa [2] | 100.0 | ZAR | 45 792 | 11 328 |
| Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa [2] | 100.0 | ZAR | 43 411 | 10 428 |
| Hannover Reinsurance Africa Ltd., Johannesburg/South Africa [2] | 100.0 | ZAR | 375 986 | 87 543 |
| Lireas Holdings (Pty) Ltd., Johannesburg/South Africa [2] | 100.0 | ZAR | 25 708 | 17 225 |
| Hannover Re Real Estate Holdings, Inc., Orlando/USA [6] [2] | 94.0 | USD | 128 487 | 3 700 |
| 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 [6] [2] | 94.0 | USD | 52 819 | 1 777 |
| Summit at Southpoint Corporation, Jacksonville/USA [6] [2] | 94.0 | USD | 7 637 | 215 |
| 5115 Sedge Corporation, Chicago/USA [6] [2] | 94.0 | USD | 2 109 | 159 |
| Penates A, Ltd., Tortola/British Virgin Islands [6] | 88.1 | USD | 79 437 | 7 361 |
| WRH Offshore High Yield Partners, L.P., Wilmington/USA [6] | 86.7 | USD | 49 056 | 3 703 |
| Hannover Re Advanced Solutions Ltd., Dublin/Ireland [7] | 85.3 | EUR | 31 | (765) |

| 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 Life Re of Australasia Ltd, Sydney/Australia | 77.9 | AUD | 189 760 | 22 600 |
| E+S Reinsurance (Ireland) Ltd., Dublin/Ireland | 55.8 | EUR | 158 192 | 11 550 |
| Associated companies resident in Germany | | | | |
| Oval Office Grundstücks GmbH, Hannover/Germany | 50.0 | EUR | 30 402 | (115) |
| WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany [2] | 39.0 | EUR | 73 689 | 34 933 |
| HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany [4] | 25.0 | EUR | 76 004 | 6 575 |
| Associated companies resident abroad | | | | |
| ITAS Assicurazioni S.p.A., Trento/Italy [2] | 43.7 | EUR | 54 702 | 2 730 |
| ITAS Vita S.p.A., Trento/Italy [2] | 34.9 | EUR | 58 690 | 6 228 |
| WPG Corporate Development Associates IV (Overseas), L.L.C., Grand Cayman/Cayman Islands | 26.8 | USD | 1 974 | (20) |
| Participations in Germany | | | | |
| JM Management Consulting GmbH, Hannover/Germany [2] | 66.0 | EUR | 170 | 7 |
| DSP Deutsche-Senior-Partner AG, Hannover/Germany [2] | 49.0 | EUR | 100 | (509) |
| Internationale Schule Hannover Region, Hannover/Germany [8] | 11.1 | EUR | 740 | 125 |
| Participations abroad | | | | |
| Mediterranean Re, PLC, Dublin/Ireland | 33.3 | USD | 3 905 | (22) |
| Special Risk Insurance and Reinsurance Luxemburg S.A., Luxembourg/Luxembourg [4] | 18.2 | EUR | 288 874 | (80) |
| HI Holdings, Inc., Honolulu, Hawaii [2] [9] [10] | 16.7 | USD | 17 247 | 2 883 |
| Inter Ocean Holdings Ltd., Hamilton/Bermuda [2] [11] | 9.1 | USD | 74 793 | 1 304 |

*[1] Financial year as at 30 September 2004*
*[2] Provisional (unaudited) figures*
*[3] Formerly HDI Reinsurance (Ireland) Ltd.*
*[4] Financial year as at 31 December 2003*
*[5] Company inactive for over a year*
*[6] Figures as per US GAAP*
*[7] Company inactive since 2004*
*[8] Financial year as at 31 July 2004*
*[9] Voting shares: 16.26%*
*[10] After shifting of profits*
*[11] Consolidated figures*

## 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.

Effective 1 January 2002 scheduled amortisation is no longer taken on acquired goodwill and intangible assets with an indefinite useful life. Instead, they are tested for impairment at least once a year or upon occurrence of significant events or changes in circumstances which would suggest that the current value of one of the Group's reporting units falls short of its book value. Prior to 1 January 2002 straight-line amortisation was taken on goodwill across estimated useful lives of up to 40 years.

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, and no fair value or goodwill is recognised. 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 ("as-if-pooling" method). In the previous year, 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 new shares. Since this transfer constituted 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 previous year.

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 previous year to include figures based on first-time consolidation of the company as at 1 July 2003 ("commercial treatment"). Effective 8 December 2003 Hannover Re transferred its shares in HDI Reinsurance (Ireland) Ltd. by way of a capital increase for a contribution in kind to Hannover Reinsurance (Ireland) Ltd., which was then renamed Hannover Reinsurance (Dublin) Ltd.

Major participations are accounted "at equity" in cases where Hannover Re does not hold a controlling interest but is able to exercise a significant influence on the operating and financial decisions of the enterprise ("associated company").

Immaterial and negative goodwill were booked to earnings in the year of their occurrence.

All figures reported in the Notes are subject to application of the "as-if-pooling" method.

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 59,754 thousand in the 2004 financial year (previous year: EUR 55,988 thousand).

### 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

On 1 January 2004 Hannover Re opened Hannover Rückversicherung AG Succursale française pour la Réassurance Vie, Paris, as a permanent establishment of Hannover Rückversicherung AG, Hannover. The purpose of the permanent establishment is to underwrite life reinsurance business.

DSP Deutsche-Senior-Partner AG, Bonn, in which Hannover Re holds an interest of 49%, was established effective 27 January 2004. The object of the company, which has specialised in meeting the needs of senior citizens, is to serve as a distributor for insurance products and services, products from the regulated capital market as well as real estate and the accompanying financial services. In the 2004 financial year the interests were reported in the consolidated financial statement at purchase cost.

## 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 cost 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 2004 and 2003

| Figures in EUR thousand | 2004 | | 2003 | |
|---|---|---|---|---|
| | Cost or amortised cost | Estimated fair value | Cost or amortised cost | Estimated fair value |
| **Held-to-maturity** | | | | |
| Due in one year | 36 611 | 37 406 | 67 169 | 68 408 |
| Due after one through five years | 109 952 | 114 862 | 114 953 | 123 384 |
| Due after five through ten years | 302 151 | 321 342 | 295 000 | 298 825 |
| Due after ten years | 21 540 | 23 811 | 21 573 | 22 831 |
| **Total** | 470 254 | 497 421 | 498 695 | 513 448 |
| **Available-for-sale** | | | | |
| Due in one year | 2 000 710 | 2 004 196 | 1 375 756 | 1 382 997 |
| Due after one through five years | 7 348 338 | 7 377 058 | 6 212 600 | 6 280 794 |
| Due after five through ten years | 1 728 974 | 1 773 312 | 2 150 603 | 2 196 050 |
| Due after ten years | 1 131 504 | 1 187 182 | 1 235 717 | 1 259 726 |
| **Total** | 12 209 526 | 12 341 748 | 10 974 676 | 11 119 567 |

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 | 2004 | | | |
|---|---|---|---|---|
| | Cost or amortised cost | Unrealised gains | Unrealised losses | Fair value |
| **Investments held to maturity** | | | | |
| Fixed-income securities | | | | |
| Other foreign government debt securities | 20 255 | – | – | 20 255 |
| Debt securities issued by semi-governmental entities | 115 226 | 12 217 | – | 127 443 |
| Corporate securities | 261 736 | 11 626 | – | 273 362 |
| Asset-backed securities | 73 037 | 3 324 | – | 76 361 |
| **Total** | 470 254 | 27 167 | – | 497 421 |

| 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 |

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

| Figures in EUR thousand | 2004 | | | |
|---|---|---|---|---|
| | Cost or amortised cost | Unrealised gains | Unrealised losses | Fair value |
| **Available-for-sale** | | | | |
| Fixed-income securities | | | | |
| Government debt securities of EU member states | 1 571 258 | 11 080 | 2 086 | 1 580 252 |
| US Treasury Notes | 1 847 047 | 1 809 | 17 836 | 1 831 020 |
| Other foreign government debt securities | 212 817 | 4 006 | 276 | 216 547 |
| Debt securities issued by semi-governmental entities | 2 935 118 | 32 957 | 24 873 | 2 943 202 |
| Corporate securities | 3 692 435 | 86 952 | 19 902 | 3 759 485 |
| Asset-backed securities | 1 397 896 | 28 711 | 3 832 | 1 422 775 |
| From investment funds | 552 955 | 36 321 | 809 | 588 467 |
| | 12 209 526 | 201 836 | 69 614 | 12 341 748 |
| Dividend-bearing securities | | | | |
| Equities | 265 180 | 16 395 | 3 084 | 278 491 |
| From investment funds | 754 482 | 72 145 | 104 | 826 523 |
| | 1 019 662 | 88 540 | 3 188 | 1 105 014 |
| Short-term investments | 549 187 | – | – | 549 187 |
| **Total** | 13 778 375 | 290 376 | 72 802 | 13 995 949 |
| **Trading** | | | | |
| Dividend-bearing securities | | | | |
| Derivatives | 2 633 | – | 151 | 2 482 |
| **Total** | 2 633 | – | 151 | 2 482 |

| 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 |

## Investment income

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Real estate | 24 310 | 25 980 |
| Dividends | 35 810 | 27 664 |
| Ordinary investment income on fixed-income securities | 531 366 | 501 241 |
| Other income | 445 129 | 583 486 |
| **Ordinary investment income** | 1 036 615 | 1 138 371 |
| Realised gains on investments | 217 628 | 255 330 |
| Realised losses from investments | 56 408 | 114 875 |
| Unrealised gains and losses | 8 669 | 8 517 |
| Real estate depreciation | 19 769 | 18 697 |
| Write-off on dividend-bearing securities | 13 348 | 65 300 |
| Write-off on fixed-income securities | 4 062 | 29 685 |
| Write-downs on participations | 7 338 | 4 299 |
| Other investment expenses | 45 252 | 53 874 |
| **Total investment income** | 1 116 735 | 1 115 488 |

The other income includes interest on deposits of EUR 432.5 million (EUR 548.8 million).

## Rating structure of fixed-income securities

| Figures in EUR thousand | 2004 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AAA | AA | A | BBB | BB | B | C | Other | Total |
| Fixed-income securities – held-to-maturity | 32 207 | 181 282 | 200 226 | 51 539 | – | 5 000 | – | – | 470 254 |
| Fixed-income securities – available-for-sale | 6 386 367 | 3 044 275 | 2 012 396 | 599 465 | 45 871 | 190 827 | 8 293 | 54 254 | 12 341 748 |
| **Total fixed-income securities** | 6 418 574 | 3 225 557 | 2 212 622 | 651 004 | 45 871 | 195 827 | 8 293 | 54 254 | 12 812 002 |

| 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 |

Investments were held in the following currencies

| Figures in EUR thousand | 2004 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | AUD | CAD | EUR | GBP | JPY | USD | ZAR | Other | Total |
| Fixed-income securities – held-to-maturity | – | – | 427 288 | – | – | 1 539 | 41 427 | – | 470 254 |
| Fixed-income securities – available-for-sale | 571 723 | 306 284 | 4 970 722 | 1 012 421 | 111 568 | 5 105 905 | 56 603 | 206 522 | 12 341 748 |
| Equity securities – available-for-sale | – | 1 936 | 902 731 | 5 225 | – | 182 976 | 11 489 | 657 | 1 105 014 |
| Equity securities – trading | – | – | – | – | – | 2 482 | – | – | 2 482 |
| Other invested assets | 37 | – | 394 829 | 5 041 | 528 | 409 067 | 10 000 | 1 469 | 820 971 |
| Short-term investments, cash | 113 789 | 12 411 | 128 380 | 42 145 | 44 311 | 513 776 | 128 930 | 46 255 | 1 029 997 |
| **Total investments and cash** | 685 549 | 320 631 | 6 823 950 | 1 064 832 | 156 407 | 6 215 745 | 248 449 | 254 903 | 15 770 466 |

| 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 |

## 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 | 2004 | 2003 |
|---|---|---|
| Real estate | 205 755 | 230 591 |
| Own-use real estate (other assets) | 41 342 | 42 395 |

## Cash equivalents

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

## Securitisation of reinsurance risks

In the previous year 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. 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 was applied to all relevant entities with effect from 31 March 2004. Prior to this date 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 from 1993 to 2002, 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 2004 remained unchanged from the previous year at EUR 1.3 million and thus do not constitute a significant risk of loss for Hannover Re.

In the period from March 2002 to December 2004 Hannover Re 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 financed the business via the international capital markets. The transaction was terminated as per the contractual agreement effective 31 December 2004. 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 168.6 million (EUR 182.4 million) as at 31 December 2004. 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 94.6 million (EUR 102.3 million). Based on its variable interests, the maximum risk of loss for Hannover Re from this transaction is EUR 14.5 million (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 remained unchanged from the previous year at 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 19.3 million (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 since 1988 in numerous special purpose entities, which for their part transact certain types of equity and debt capital investments. The variable interests associated with such structures consist largely of participations sold on the capital market to numerous investors.

The maximum risk of loss for the Hannover Re Group from the sum of these transactions amounted to EUR 83.6 million as at 31 December 2004. On the basis of our analysis we came to the conclusion that although – for Hannover Re's part – 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 33.0 million (EUR 48.5 million) as at 31 December 2004.

## 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 reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, acquisition costs were amortised based on a constant percentage of the present value of estimated gross profit margins from the reinsurance treaties.

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

### Development of deferred acquisition costs

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Balance as at 1 January | 1 690 806 | 1 428 044 |
| Currency exchange rate differences | (38 290) | (95 246) |
| | 1 652 516 | 1 332 798 |
| Changes | 371 768 | 365 760 |
| Currency exchange rate differences between valuation at the average rate and the year-end rate | 346 | (7 752) |
| **Balance as at 31 December** | 2 024 630 | 1 690 806 |

### 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 2.3% 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 356.1 million (EUR 697.9 million). As at year-end 2004 the discounted provisions amounted to EUR 2,197.8 million (EUR 2,857.3 million).

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

Reserves

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Reserve as at 31 December of previous year (gross) | 18 703 170 | 19 919 830 |
| Reserve as at 31 December of previous year (retro) | 4 396 564 | 6 181 645 |
| Reserve as at 31 December of previous year (net) | 14 306 606 | 13 738 185 |
| Effects of currency conversion as at 1 January of year under review | (599 326) | (1 701 102) |
| Net reserve as at 1 January of year under review | 13 707 280 | 12 037 083 |
| Incurred claims and claims expenses | | |
| Year under review | 4 510 396 | 4 038 334 |
| Previous years | 1 285 235 | 2 689 401 |
| | 5 795 631 | 6 727 735 |
| Less: | | |
| Claims and claims expenses paid (net) | | |
| Year under review | 2 915 398 | 2 037 119 |
| Previous years | 2 411 193 | 2 341 387 |
| | 5 326 591 | 4 378 506 |
| Effects of currency conversion at exchange rates on 31 December of year under review (net) | (92 004) | (79 706) |
| Reserve as at 31 December of year under review (net) | 14 084 316 | 14 306 606 |
| Reserve as at 31 December of year under review (retro) | 4 162 630 | 4 396 564 |
| Reserve as at 31 December of year under review (gross) | 18 246 946 | 18 703 170 |

The following table shows the net loss reserve (loss and loss adjustment expense reserve) for property and casualty reinsurance in the years 1994 to 2004 as well as the run-off of the reserve. The loss reserves for this business group are thus covered almost in their entirety. The figures for the years 1994 to 1997 have been drawn up in accordance with German accounting standards. The data from 1998 onwards is based upon United States Generally Accepted Accounting Principles (US GAAP).

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

The development of the euro relative to major foreign currencies is also a significant influencing factor in this context. Most notably, the depreciation of the US dollar against the euro compared to the previous year (-8.2%) led to an appreciable decrease in the loss and loss adjustment expense reserve.

The run-off triangle shows 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 | 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. | 2004 31.12. |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Loss and loss adjustment expense reserve (as per balance sheet) | 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 | 7 337.5 |
| Cumulative payments for the year in question and previous years | | | | | | | | | | | |
| One year later | 686,.3 | 841.2 | 822.1 | 796.9 | 1 114.9 | 1 287.2 | 1 690.4 | 1 986.7 | 1 106.2 | 1 292.5 | |
| Two years later | 1 206.0 | 1 481.6 | 1 259.0 | 1 423.4 | 1 759.0 | 2 029.8 | 2 659.3 | 2 863.0 | 1 946.6 | | |
| Three years later | 1 583.6 | 1 786.5 | 1 652.0 | 1 808.5 | 2 209.0 | 2 592.6 | 3 310.2 | 3 455.3 | | | |
| Four years later | 1 804.8 | 2 039.2 | 1 905.3 | 2 105.2 | 2 575.8 | 3 051.4 | 3 651.9 | | | | |
| Five years later | 1 986.6 | 2 214.1 | 2 102.5 | 2 327.8 | 2 905.7 | 3 293.8 | | | | | |
| Six years later | 2 122.8 | 2 356.2 | 2 261.5 | 2 586.6 | 3 076.5 | | | | | | |
| Seven years later | 2 230.0 | 2 478.4 | 2 468.4 | 2 707.8 | | | | | | | |
| Eight years later | 2 324.6 | 2 658.6 | 2 554.5 | | | | | | | | |
| Nine years later | 2 479.2 | 2 726.1 | | | | | | | | | |
| Ten years later | 2 537.1 | | | | | | | | | | |
| 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 | 3 735.6 | 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 | 7 337.5 |
| One year later | 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 | 6 320.4 | |
| Two years later | 3 403.5 | 4 060.9 | 4 005.9 | 4 590.9 | 5 217.8 | 5 482.1 | 6 017.5 | 5 795.6 | 5 446.8 | | |
| Three years later | 3 528.6 | 3 835.6 | 4 016.0 | 4 435.9 | 4 841.0 | 5 125.7 | 5 206.6 | 5 812.6 | | | |
| Four years later | 3 356.2 | 3 811.4 | 3 883.9 | 4 153.7 | 4 630.3 | 4 427.8 | 5 199.8 | | | | |
| Five years later | 3 329.1 | 3 695.1 | 3 666.3 | 3 949.5 | 4 001.5 | 4 396.1 | | | | | |
| Six years later | 3 268.3 | 3 547.6 | 3 489.2 | 3 362.4 | 3 911.8 | | | | | | |
| Seven years later | 3 177.8 | 3 417.5 | 3 003.0 | 3 308.2 | | | | | | | |
| Eight years later | 3 059.5 | 3 220.5 | 2 960.3 | | | | | | | | |
| Nine years later | 2 922.4 | 3 188.5 | | | | | | | | | |
| Ten years later | 2 910.2 | | | | | | | | | | |
| Net run-off result of the loss reserve | 825.4 | 769.1 | 1 344.4 | 1 541.2 | 1 090.3 | 1 300.2 | 962.5 | 1 055.2 | 399.3 | 264.5 | |
| Of which currency exchange rate differences | 9.6 | 48.7 | (111.6) | (427.6) | (264.2) | (633.2) | (919.6) | (1 172.8) | (795.2) | (292.6) | |
| Net run-off result excluding currency exchange rate differences | 835.0 | 817.8 | 1 232.8 | 1 113.6 | 826.1 | 667.0 | 42.9 | (117.6) | (395.9) | (28.1) | |
| As percentage of original loss reserve | 22.4 | 20.7 | 28.6 | 23.0 | 16.5 | 11.7 | 0.7 | (1.7) | (6.8) | (0.4) | |

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.

Contract deposits increased by EUR 1,028.5 million in the 2004 financial year from EUR 474.5 million to EUR 1,503.0 million. The rise was due in large measure to the enlarged volume of new business in the area of non-traditional life reinsurance.

## 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 | 2004 | 2003 |
|---|---|---|
| Goodwill net as at 1 January | 203 619 | 233 883 |
| Currency exchange rate differences | (10 738) | (28 896) |
| | 192 881 | 204 987 |
| Additions | 4 331 | 17 |
| Disposals | – | 565 |
| Impairments | 539 | 820 |
| **Goodwill net as at 31 December** | 196 673 | 203 619 |

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

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Balance as at 1 January | 12 098 | 14 621 |
| Disposals | – | 129 |
| Amortisation | 2 394 | 2 394 |
| **Balance as at 31 December** | 9 704 | 12 098 |

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

The disposals in the previous year were attributable to the sale of 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 | 2004 | 2003 |
|---|---|---|
| Current taxes | | |
| Germany | 62 407 | 73 169 |
| Outside Germany | 54 826 | 32 823 |
| Deferred taxes | | |
| Germany | 89 586 | 189 711 |
| Outside Germany | (65 455) | (21 642) |
| **Total** | 141 364 | 274 061 |

## Deferred tax assets and deferred tax liabilities of all Group companies

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax loss carry-forwards | 71 959 | 31 244 |
| Loss and loss adjustment expense reserves | 218 808 | 207 378 |
| Policy benefits for life and health contracts | 922 | 37 690 |
| Other provisions | 63 340 | 87 899 |
| Funds held under reinsurance treaties | 4 534 | 3 740 |
| Valuation differences relating to investments | 20 526 | 15 001 |
| Contract deposits | 688 724 | 290 780 |
| Other valuation differences | 8 237 | 4 720 |
| **Total** | 1 077 050 | 678 452 |
| **Deferred tax liabilities** | | |
| Loss and loss adjustment expense reserves | 1 802 | 32 118 |
| Policy benefits for life and health contracts | 378 047 | 107 205 |
| Other technical/non-technical provisions | 28 575 | 14 905 |
| Equalisation reserve | 773 510 | 645 590 |
| Funds held by ceding companies | 8 707 | 6 579 |
| Deferred acquisition costs | 510 884 | 491 648 |
| Accounts receivable/reinsurance payable | 3 134 | 14 792 |
| Valuation differences relating to investments | 93 237 | 107 205 |
| Contract deposits | 143 364 | 115 250 |
| Other valuation differences | 23 188 | 13 017 |
| **Total** | 1 964 448 | 1 548 309 |
| Deferred tax liabilities | 887 398 | 869 857 |

## Availability of capitalised loss carry-forwards

| Figures in EUR thousand | |
|---|---|
| **Availability** | **Capitalised loss carry-forward** |
| Until 2007 | 3 808 |
| Until 2024 | 65 610 |
| Unlimited | 2 541 |

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 | 2004 | 2003 |
|---|---|---|
| Profit before income taxes | 510 258 | 748 370 |
| Expected tax rate | 40% | 40% |
| Expected expense for income taxes | 204 103 | 299 348 |
| Change in deferred rates of taxation | 154 | (3 781) |
| Taxation differences affecting foreign subsidiaries | (57 663) | (122 235) |
| Non-deductible expenses | 6 557 | 24 170 |
| Tax-exempt income | (10 450) | (1 747) |
| Tax expense not attributable to the reporting period | 3 122 | 66 030 |
| Other | (4 459) | 12 276 |
| Actual provision for income taxes | 141 364 | 274 061 |

## 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 2,009 (previous year: 1,970). Of this number, 826 were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad.

| | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|
| Personnel information | Average | 31.3. | 30.6. | 30.9. | 31.12. | Average |
| Number of employees (excluding board members) | 1 970 | 1 997 | 2 011 | 2 031 | 2 035 | 2 009 |

| 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Nationality of employees | German | USA | South African | UK | Irish | Other | Total |
| Number of employees | 772 | 584 | 232 | 90 | 23 | 334 | 2 035 |

### 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 | 2004 | 2003 |
|---|---|---|
| a) Wages and salaries | | |
| aa) Expenditures on insurance business | 92 332 | 87 106 |
| ab) Expenditures on the administration of investments | 8 148 | 9 636 |
| | 100 480 | 96 742 |
| b) Social security contributions and expenditure on provisions and assistance | | |
| ba) Social security contributions | 13 736 | 11 255 |
| bb) Expenditures for pension provision | 10 108 | 12 601 |
| bc) Expenditures for assistance | 332 | 271 |
| | 24 176 | 24 127 |
| **Total** | 124 656 | 120 869 |

## 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 2,642 thousand (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: 5.00% to 6.25%
- Rate of compensation increase: 2.25% to 5.50%
- Projected long-term yield on plan assets (US plans): 6.00% to 7.50%
- Indexation: 1.5%

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 | 2004 | 2003 |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the reporting year | 54 581 | 54 024 |
| Currency exchange-rate differences | (455) | (1 121) |
| Service cost | 2 899 | 2 914 |
| Interest cost | 3 232 | 2 798 |
| Actuarial gain/loss in the reporting year | (1 499) | 2 302 |
| Deferred compensation | 394 | 404 |
| Benefits paid during the year | (2 643) | (1 338) |
| Business combinations, divestitures and other activities | 2 647 | (798) |
| **Projected benefit obligation at the end of the reporting year** | 62 154 | 54 581 |
| **Fair value of plan assets** | | |
| At the beginning of the year | 3 496 | 3 742 |
| Currency exchange rate differences | (264) | (651) |
| Business combinations, divestitures and other activities | 4 090 | – |
| Return on plan assets | 630 | 140 |
| Employer's contributions | 522 | 267 |
| Benefits paid | (1 293) | (2) |
| **At the end of the year** | 7 181 | 3 496 |
| **Funded status of plan** | | |
| Unrecognised actuarial gain/loss | 684 | 1 538 |
| Additional minimum liability (AML) under FAS 87 | 441 | – |
| Unamortised prior-service cost | – | 1 001 |
| | (1 125) | (537) |
| **Accrued pension liability** | 56 098 | 51 622 |
| **Net periodic pension cost of the year** | | |
| Service cost | | |
| Year under review | 2 899 | 2 914 |
| Amortisation for previous years | 13 | 3 |
| Interest cost | 3 232 | 2 798 |
| Expected return on plan assets | (493) | (170) |
| Recognised net actuarial loss | 24 | 16 |
| Amortisation of net obligation | – | 560 |
| **Total** | 5 675 | 6 121 |

## 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 commercial terms, therefore, 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.

In February 2004 Hannover Re bought back 92.5% (USD 370.0 million) of the debt.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. In 2001 a subordinated loan was placed through 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.

In the 2004 financial year further subordinated debt in the amount of EUR 750.0 million was again placed through our subsidiary Hannover Finance (Luxembourg) on the European capital markets. 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.

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

The amounts were repaid in full on 2 November 2004.

### Other financial facilities

In order to protect against possible future major losses, Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of a syndicated loan. The facility, which replaces the existing credit line of EUR 250.0 million, has a term of five years and is due in August 2009.

E+S Rück has a credit line of EUR 40.0 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 previous year through a capital increase for cash. It now amounts 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 60,299 thousand is available with a time limit of 31 May 2009. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares. In addition, conditional capital of up to EUR 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 | 2004 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 120 597 | – | – | – | – | 120 597 | | |
| Additional paid-in capital | 724 562 | – | – | – | – | 724 562 | | |
| Cumulative comprehensive income | (202 761) | – | (42 892) | – | – | (245 653) | | |
| Retained earnings | 1 762 252 | – | – | – | – | 1 762 252 | | |
| Net income | | – | – | 309 140 | – | 309 140 | | |
| Dividends paid | | – | – | (114 567) | – | (114 567) | | |
| Other changes | | – | – | 353 | – | 353 | | |
| **Total** | 2 404 650 | – | (42 892) | 194 926 | – | 2 556 684 | 535 004 | 3 091 688 |

| 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 euros.*

## 5.10 Other comprehensive income

The changes in the cumulative comprehensive income decreased by EUR 19.8 million to EUR 2.9 million in the year under review. This reduction was due in large measure to hedge-ineffective changes in the fair value of derivative financial instruments recognised in the statement of income.

## 5.11 Treasury stock

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 2 June 2004, the company was authorised until 30 November 2005 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 within the financial year or as at 31 December 2004.

## 5.12 Earnings per share

The basic earnings per share and the fully diluted earnings per share as at 31 December 2004 shown in the statement of income are calculated as follows on the basis of the year-end result:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | 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 | | 120 597 134 | | | 116 224 758 | |
| Basic earnings per share | 309 140 | 120 597 134 | 2.56 | 418 321 | 116 224 758 | 3.60 |
| Fully diluted earnings per share | 309 140 | 120 597 134 | 2.56 | 418 321 | 116 224 758 | 3.60 |

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.

In accordance with the "as-if-pooling" method, our calculation of the earnings per share in the previous year was based on the assumption that Hannover Reinsurance (Dublin) Ltd. (formerly: HDI Reinsurance (Ireland) Ltd.) already belonged to Hannover Re at the beginning of 2002. The weighted average number of shares was therefore increased by the number of shares issued for the capital increase against a contribution in kind (13,716,814) with effect from this date onwards.

## 5.13 Other assets and liabilities

### Other assets

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Securities payable | 1 054 | 3 345 |
| Own-use real estate | 41 342 | 42 395 |
| Other non-technical contracts | 37 801 | 45 391 |
| Present value of future profits on acquired life reinsurance portfolios | 9 704 | 12 098 |
| Fixtures, fittings and equipment | 26 597 | 18 809 |
| Other intangible assets | 26 623 | 29 392 |
| Interest and rent payable on investments | 1 764 | 2 528 |
| Tax refund claims | 32 956 | 37 581 |
| Receivables from affiliated companies | 117 546 | 15 414 |
| Other | 47 502 | 41 632 |
| **Total** | 342 889 | 248 585 |

### Other liabilities

| Figures in EUR thousand | 2004 | 2003 |
|---|---|---|
| Provisions for pensions and similar obligations | 60 187 | 54 442 |
| Liabilities from derivatives | 41 442 | 48 196 |
| Interest | 57 598 | 32 144 |
| Deferred income | 13 324 | 16 458 |
| Costs of the annual financial statements | 1 662 | 3 803 |
| Liabilities to trustees | 18 328 | 19 826 |
| Loans | 80 603 | 88 230 |
| Interest on additional tax payments | 25 853 | – |
| Stock option rights | 4 226 | 2 420 |
| Liabilities due to banks | 6 176 | 4 502 |
| Accounts due to affiliated companies | 81 | 1 035 |
| Other | 155 049 | 94 039 |
| **Total** | 464 529 | 365 095 |

### 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 | 2004 | 2003 |
|---|---|---|
| **Other income** | | |
| Exchange gains | 313 333 | 318 844 |
| Other interest income | 8 210 | 6 089 |
| Income from services | 4 237 | 6 079 |
| Sundry income | 34 432 | 30 385 |
| | 360 212 | 361 397 |
| **Other expenses** | | |
| Exchange losses | 273 653 | 304 114 |
| Other interest expenses | 78 974 | 57 771 |
| Depreciation | 17 449 | 18 393 |
| Expenses for services | 3 212 | 16 140 |
| Expenses for the company as a whole | 35 233 | 25 433 |
| Separate value adjustments | 43 859 | 33 105 |
| Goodwill impairments | 539 | 820 |
| Sundry expenses | 47 106 | 12 101 |
| | 500 025 | 467 877 |
| **Total** | (139 813) | (106 480) |

## 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. The following substantial business relationships existed with related parties in the 2004 financial year.

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 and HDI Verwaltungs-Service AG as well as through 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 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. E+S Rück is involved in the transfer of the portfolio through internal retrocession arrangements.

In accordance with a partner's resolution dated 17 May 2004 the additional paid-in capital of Hannover Rück Beteiligung Verwaltungs-GmbH in the amount of EUR 10.1 million was released and transferred in full to Hannover Re as the sole partner.

On 1 March 2004 Hannover Finance (Luxembourg) extended to Hannover Re a loan in the amount of EUR 375.0 million for a term until 24 February 2014 at an interest rate of 6.3%. This loan and the loan taken up in 2001 in the amount of EUR 100.0 million were repaid ahead of schedule in the 2004 financial year together with interest totalling EUR 23.6 million.

By way of an agreement dated 21 December 2004 Hannover Re disbursed to Clarendon National Insurance Company a loan of USD 100.0 million as an equity substitute. Interest is payable at six-month Libor plus 300 basis points.

Hannover Re has acquired receivables from Clarendon National Insurance Company and Clarendon America in a total amount of USD 18.4 million.

Hannover Re has made time money lendings of between USD 3.4 million and USD 31.9 million to Hannover Finance, Inc. The interest payable ranges from 1.15% to 2.50%.

In the 2004 financial year Hannover Re extended time money of EUR 70.2 million to Hannover Re (Dublin) at an interest rate of 1.92%.

In accordance with the Supervisory Board resolution of 11 August 2004 Hannover Re implemented a capital increase of EUR 300.0 million at Hannover Re (Bermuda). The funds were allocated to the subsidiary's additional paid-in capital.

Effective 28 December 2004 E+S Rück assumed from HDI Industrie Versicherung AG receivables in the amount of EUR 100.0 million due from reinsurance companies – including an amount of EUR 87.3 million due from Hannover Re. Under the agreement E+S Rück charged HDI Industrie Versicherung AG pro-rata interest for 2004 at six-month Euribor in an amount totalling EUR18,500.

Since 2002 Hannover Re and HDI Privat Versicherung AG have each held interests of EUR 12.5 million (50.0%) in Oval Office Grundstücks GmbH. 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 2004 financial year Hannover Re contributed a total of EUR 15.9 million.

As at 31 December 2001 Hannover Re and E+S Rück each took up limited partnership interests of EUR 25.0 million in Hannover Euro Private Equity Partners II GmbH & Co. KG. In the 2004 financial year Hannover Re and E+S Rück both paid five capital calls – totalling EUR 4.4 million each – on the amount subscribed. In addition, in accordance with the articles of partnership, three cash distributions were made to both Hannover Re and E+S Rück in the amount of EUR 2.3 million each.

As at 18 December 2002 Hannover Re and E+S Rück each took up a limited partnership interest of EUR 25.0 million in Hannover Euro Private Equity Partners III GmbH & Co. KG. Effective 1 September 2004 and in accordance with the articles of partnership and the certificates of subscription, HDI Industrie Versicherung AG, CiV Versicherung AG and CiV Lebensversicherung AG were included as additional limited partners. The total volume subscribed by these new partners amounted to EUR 22.0 million. Similarly with effect from 1 September 2004 the previously existing partners took up further limited partnership interests in a nominal amount of EUR 25.0 million each, thereby increasing the company's subscribed capital from EUR 50.0 million to altogether EUR 122.0 million. Due to the changes in the partnership Hannover Re and E+S Rück received capital equalisation payments in the amount of EUR 0.5 million each for the calls on capital already made. In the 2004 financial year both Hannover Re and E+S Rück paid five capitals of EUR 3.4 million each on the total amount subscribed. In addition, two cash distributions of EUR 0.9 million each were made to Hannover Re and E+S Rück in accordance with the articles of partnership.

As at 18 December 2002 Hannover Re and E+S Rück held limited partnership interests of USD 75.0 million and USD 25.0 million respectively in Hannover America Private Equity Partners II GmbH & Co. KG. Effective 1 September 2004 the subscribed capital was increased by USD 150.0 million to USD 250.0 million. Hannover Re increased its capital contribution to USD 217.5 million (87% of the subscribed capital), while E+S Rück raised its contribution to USD 32.5 million (13% of the subscribed capital). Due to the changes in the partnership Hannover Re was obliged to render to E+S Rück a capital equalisation payment in the amount of USD 5.0 million for the capital calls made in the period up to 1 September 2004. In the 2004 financial year Hannover Re paid a further eleven capital calls totalling USD 20.6 million on the amount subscribed, while for E+S Rück the same number of capital calls added up to USD 5.4 million. In addition, four cash distributions of USD 6.5 million were made to Hannover Re and four cash distributions of USD 1.5 million were made to E+S Rück in accordance with the articles of partnership.

Within the contractually agreed framework Ampega Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. The assets of US subsidiaries are managed by Ampega Investment AG. Ampega Immobilien Management GmbH performs services for Hannover Re within the framework of a management contract.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, fire, group accident and business travel collision insurance.

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 3,609 thousand (EUR 2,786 thousand) was paid to the Executive Board and EUR 694 thousand (EUR 446 thousand) to the Supervisory Board in the year under review. Former members of the Executive Board and their surviving dependants received EUR 896 thousand (EUR 823 thousand), and a liability of EUR 9,786 thousand (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 1,515 thousand (EUR 1,424 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:

### Dealings in securities

| Name | Type of transaction | Type of security | ISIN | Transaction date | Number of securities | Price in EUR |
|---|---|---|---|---|---|---|
| André Arrago | Buy | Call warrant | DE 000743 488 8 | 17.05.2004 | 100 000 | 0.28 |
| André Arrago | Buy | Call warrant | DE 000743 488 8 | 17.05.2004 | 100 000 | 0.29 |
| André Arrago | Buy | Call warrant | DE 000743 488 8 | 17.05.2004 | 100 000 | 0.30 |
| André Arrago | Sell | Call warrant | DE 000743 488 8 | 07.12.2004 | 200 000 | 0.28 |
| André Arrago | Sell | Call warrant | DE 000743 488 8 | 07.12.2004 | 100 000 | 0.29 |
| Wilhelm Zeller | Buy | Stock | DE 000 840 221 5 | 04.11.2004 | 1 000 | 25.93 |

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 2004 the total holding amounted to 0.03% of the issued shares, i.e. 35,882 shares. The total volume of stock appreciation rights held by members of the Executive Board on the basis of the virtual stock option plan amounted to 1.87% of the capital stock as at the balance sheet date. The value of these stock appreciation rights was EUR 2,263 thousand. Further information is provided in section 6.3 "Stock appreciation rights".

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 1.1.2004 | Addition | Repayment | Position as at 31.12.2004 | Interest rate in % |
|---|---|---|---|---|---|
| Executive Board | 88 | – | 4 | 84 | 5.0 |

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 7 to 9.

## 6.3 Stock appreciation rights (SARs)

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights (SARs) to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share.

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

The internal performance criterion is accomplishment of the target performance defined by the Supervisory Board, expressed in terms of the "diluted earnings per share" (EPS) under US GAAP. If the target performance is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the unweighted "Reactions" World Reinsurance Index. This index encompasses the performance of all listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the basic number – or reduced – although by no more than 50% of the EPS basic number.

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

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

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such options in the first exercise period thereafter. Stock appreciation rights expire if they are not exercised within this period or if the vesting period has not yet elapsed.

In the year under review the vesting period expired for 60% of the stock appreciation rights awarded in 2000. In the first exercise period (6 to 21 April 2004) 58,276 stock appreciation rights were exercised at an amount payable of EUR 2.29 per SAR and in the second exercise period (25 May to 7 June 2004) 21,861 stock appreciation rights were exercised at an amount payable of EUR 2.23 per SAR. No stock appreciation rights were exercised in the third exercise period (20 August to 2 September 2004) or in the fourth exercise period (19 November to 2 December 2004). The amounts payable per SAR for these two exercise periods stood at EUR 0.35 and EUR 0.57 respectively.

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

As at 1 January 2004 the existing number of stock appreciation rights stood at 1,673,499 with an average exercise price of EUR 24.78 each. In accordance with the resolution of the Supervisory Board dated 25 March 2004 a further 904,234 stock appreciation rights were granted at an average exercise price of EUR 24.00 each.

177,313 stock appreciation rights expired in the year under review at an average exercise price of EUR 24.40. The total number of stock appreciation rights existing as at year-end stood at 2,320,283. The average exercise price amounted to EUR 24.48. Of the total number of stock appreciation rights, 477,453 were exercisable at an average exercise price of EUR 25.50.

### Development of the stock appreciations rights plan (SAR)

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Number of SARs | Average exercise price* | Number of SARs | Average exercise price* | Number of SARs | Average exercise price* |
| | | in EUR per SAR | | in EUR per SAR | | in EUR per SAR |
| Total options existing at 1 January | 1 673 499 | 24.78 | 1 097 235 | 25.50 | 1 138 005 | 25.50 |
| Granted | 904 234 | 24.00 | 710 429 | 23.74 | – | – |
| Exercised | 80 137 | 25.50 | – | – | – | – |
| Expired | 177 313 | 24.40 | 134 165 | 25.19 | 40 770 | 25.50 |
| Total options remainingf at 31 December | 2 320 283 | 24.48 | 1 673 499 | 24.78 | 1 097 235 | 25.50 |
| Exercisable at year-end | 477 453 | 25.50 | 394 734 | 25.50 | – | 25.50 |

** The exercise price is the basic price at the time when the stock appreciation rights are granted pursuant to § 9 of the Conditions for the Granting of Stock Appreciation Rights*

The calculations are based on the year-end closing price of the Hannover Re share as at 30 December 2004 of EUR 28.75, volatility of 22.43%, a dividend yield of 3.52% and risk-free interest rates of 3.30% for the 2000 allocation year, 3.57% for the 2002 allocation year and 3.69% for the 2003 allocation year.

On this basis provisions were established for the stock appreciation rights existing as at 31 December 2004 in the amounts of EUR 1,653 thousand for the 2003 allocation year, EUR 2,669 thousand for the 2002 allocation year and EUR 3,484 thousand for the 2000 allocation year.

### 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 and also regarding the release of a trust account that serves as security for liabilities of the previous owners in relation to a particular business segment.

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

### 7.2 Contingent liabilities

Hannover Re has secured by subordinated guarantee a subordinated debt in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance, Inc., Wilmington/USA. In February 2004 Hannover Re bought back USD 370.0 million of the subordinated debt, leaving an amount of USD 30.0 million still secured by the guarantee.

In February 2004 we placed subordinated debt in the amount of EUR 750.0 million on the European capital markets through our subsidiary Hannover Finance (Luxembourg) S.A. Hannover Re has secured the debt by a subordinated guarantee.

Hannover Re has also secured by subordinated guarantee further subordinated debt in the amount of EUR 350.0 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.

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

As security for 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 1,748.7 million (EUR 1,664.2 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 2,663.7 million.

Outstanding capital commitments with respect to special investments exist in the amount of EUR 88.8 million (EUR 62.8 million) for E+S Rückversicherung AG and EUR 232.4 million (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 29.2 million as at the balance sheet date.

## 7.3 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships. Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

## 7.4 Derivative financial instruments

The accounting of the "Modified coinsurance" and "Coinsurance funds withheld" reinsurance contracts, 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.

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 10.3 million (EUR 3.3 million) as at the balance sheet date. In the course of the full 2004 financial year the fair value of the embedded derivatives increased by EUR 7.0 million (EUR 7.4 million adjusted for exchange-rate effects) before tax compared to the previous year.

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

Hannover Re uses derivative financial instruments as a tool to control interest rate risks and market price risks as well as to some extent currency exposures arising out of the use of financial instruments. Derivative financial instruments are used within the Hannover Re Group solely for hedging purposes.

The fair values of the derivative 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" or "other liabilities" 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.

### Fair value hedges

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

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

| 2004 Figures in EUR thousand | 1 to 5 years | 6 to 10 years | Total |
|---|---|---|---|
| Interest rate swaps | – | 293 255 | 293 255 |
| Currency swaps | 16 386 | 15 000 | 31 386 |
| Options | 110 348 | – | 110 348 |

The fair value of derivatives used in cash flow hedges totalled -EUR 26.6 million. Derivatives recognised under other liabilities had a fair value of EUR 28.0 million.

The fair value of derivatives used in fair value hedges amounted to EUR 2.5 million and was recognised in the trading portfolio.

Nine derivative contracts matured in the year under review; this gave rise to profits on disposals of EUR 4.9 million and losses on disposals of EUR 1.4 million.

As at the balance sheet date the portfolio did not contain any forward purchase options or forward exchange transactions.

## 7.5 Rents and leasing

### Leased property

### Summary of leasing commitments

| Figures in EUR thousand | Payments |
|---|---|
| 2005 | 7 381 |
| 2006 | 7 465 |
| 2007 | 5 745 |
| 2008 | 5 382 |
| 2009 | 6 524 |
| Subseqent years | 69 201 |

Operating leasing contracts produced expenditures of EUR 8,092 thousand (EUR 5,563 thousand) in the 2004 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 2003 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 |
|---|---|
| 2005 | 9 725 |
| 2006 | 9 444 |
| 2007 | 8 569 |
| 2008 | 8 078 |
| 2009 | 7 805 |
| Subsequent years | 5 476 |

Rental income totalled EUR 14,330 thousand (EUR 15,265 thousand) in the 2004 financial year.

## 7.6 Currency translation

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

| | 2004 | 2003 | 2004 | 2003 |
|---|---|---|---|---|
| 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 | 1.7489 | 1.6788 | 1.6916 | 1.7473 |
| CAD | 1.6430 | 1.6290 | 1.6165 | 1.5905 |
| GBP | 0.7071 | 0.7070 | 0.6819 | 0.6899 |
| MYR | 5.1503 | 4.7741 | 4.7182 | 4.3033 |
| SEK | 9.0200 | 9.0710 | 9.1239 | 9.1326 |
| USD | 1.3640 | 1.2610 | 1.2474 | 1.1342 |
| ZAR | 7.6793 | 8.3282 | 7.9666 | 8.5030 |

Hannover, 23 March 2005

Executive Board

Zeller    Arrago    Dr. Becke

Gräber    Dr. König    Dr. Pickel    Wallin

# AUDITORS' report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Hannover Rückversicherung AG for the business year from 1 January to 31 December 2004. The preparation and the content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

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

Our audit, which also extends to the group management report prepared by the Company's management for the business year from 1 January to 31 December 2004, has not led to any reservations. In our opinion on the whole 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 1 January to 31 December 2004 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Hannover, 23 March 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Dr. Dahl | Schuster |
| (Wirtschaftsprüfer) | (Wirtschaftsprüfer) |

# 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 2004 on the basis of detailed written and verbal reports from the Executive Board. The Supervisory Board held a total of four meetings – each lasting several hours – in order to adopt the necessary resolutions. The Standing Committee and the Balance Sheet Committee, both committees formed by the Supervisory Board within the meaning of § 107 Para. 3 German Stock Corporation Act, met on three and two occasions, respectively. The Chairman of the Supervisory Board kept the full Supervisory Board regularly updated on the work of the Committees. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the Group pursuant to § 90 German Stock Corporation Act. These reports contain, inter alia, up-to-date details of the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, current developments in connection with the ratings of the various Group companies and the increase in the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constitute a further important source of information for the Supervisory Board. In addition, the Chairman of the Supervisory Board was continuously advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

As part of its discussion of important individual projects the Supervisory Board considered inter alia the issue of subordinated debt by the financial holding company Hannover Finance (Luxembourg) S.A. in the amount of EUR 750 million. Issued in a favourable financing climate with a fair market coupon, the loan served to enhance the quality of the Hannover Re Group's capital and create contingent capital for any anticipated increases in capital adequacy requirements on the part of rating agencies and regulators. The inflow of cash was also used, inter alia, to buy back – at extremely favourable terms – a large portion of a subordinated debt in the amount of USD 400 million, which had been issued in March 1999 by the US financial holding company Hannover Finance, Inc. and guaranteed by Hannover Re. The Supervisory Board obtained information from specialist analysts about the development of particularly significant business segments. The focus in the year under review was on a discussion of the opportunities, risks and potential for growth in Greater China, i. e. China proper, Taiwan and Hong Kong.

The Rules of Procedure for the Executive Board were updated and enhanced. The primary reason for the revision was to take account of the enlarged investment volume and to safeguard the flexibility of asset management, inter alia by setting adjusted authority limits. As part of the preparations for the Annual General Meeting, the Supervisory Board considered, amongst other things, an increase in authorised capital and a modification of the compensation arrangements for the Supervisory Board. By linking the variable compensation of the Supervisory Board to the earnings before interest and taxes (EBIT), a benchmark was proposed to the Annual General Meeting that for practical purposes – in contrast to the dividend payment hitherto used as a reference – is largely independent of resolutions adopted by the Supervisory Board. The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. Details of the Supervisory Board's activities in this connection are provided in the Corporate Governance report printed in this annual report and the Declaration of conformity pursuant to § 161 Stock Corporation Act (AktG).

The Supervisory Board also continued to keep a close eye on the development of the Group's principal subsidiaries and participations. In 2004 the primary focus here was on two capital increases at subsidiaries. The capital increase of EUR 300 million to EUR 850 million at Hannover Re Bermuda was the most significant. This capital measure was implemented as an appropriate response to more exacting market requirements (clients and brokers are demanding increased capital resources from their business partners in the interests of better risk protection) and hence with an eye to opening up further attractive business opportunities for the company. In addition, the Supervisory Board approved the sale of a participating interest held in Willy Vogel AG through Willy Vogel Beteiligungsgesellschaft mbH.

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 report on the company's relations with affiliated companies drawn up by the Executive Board of Hannover Re has likewise been examined by KPMG DTG which has 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."

Hannover, 24 March 2005

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. It serves the goal of strengthening and consolidating on a lasting basis the trust placed in the enterprise by present and future shareholders, business partners, clients, employees and the general public". This fundamental idea, which already prefaced last year's Corporate Governance report, remains valid for Hannover Re without the slightest reservation.

The Executive Board and Supervisory Board of Hannover Re support the principles of value-oriented and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK) and recognise their importance in guiding their activities. On the basis of the DCGK we have drawn up our own Corporate Governance principles and thus created a state-of-the-art company-specific set of rules for the practical implementation of the DCGK standards. We are playing our part in enhancing the DCGK and the concept of Corporate Governance in Germany, inter alia by providing willing support for empirical studies on this topic. We are making this contribution because we concur with the German Corporate Governance Code Government Commission that it is in the German business community's own interest to put more trust in voluntary transparency, rather than simply being compelled to comply with legislative requirements.

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. With this in mind, we had already been practising Corporate Governance before the DCGK came into force. Key requirements of the Code, such as variable compensation for the Executive Board linked to the growth in the company's value (stock option plan), equal rights to information for all investors ("fair disclosure") and the holding of regular meetings with analysts, have long been standard practice at our company.

In 2004, as in previous years, we devoted special attention to the areas of Investor Relations and financial communication. Thus, a broad range of activities were undertaken, including:

- We again organised six international teleconferences for analysts and institutional investors for the purpose of explaining our quarterly financial statements, discussing the underlying financial data as well as our business policy and answering questions. The accompanying presentations were broadcast live over the Internet.

- Around 50 roadshows and investor conferences were held at various international financial marketplaces.

- Representatives of the company also met with roughly 40 international analysts and investors in Hannover for one-to-one discussions.

- In what has already become a regular fixture, our one-day seminar for analysts and investors was held in London to meet the demands of the financial market for basic background information.

- Analyst conferences were held in Frankfurt and London to discuss the annual financial statements. These conferences, the press briefing on the annual results, the speech made by the Chairman of the Executive Board at our Annual General Meeting as well as the telephone conferences were all recorded and can be accessed online by interested parties via video/audio streaming.

- Up-to-date information was also provided on the Web and through press releases and newsletters.

The entry into force at the end of October 2004 of the German Investor Protection Improvement Act *(Anlegerschutzverbesserungsgesetz)*, with its extensive modifications of the Securities Trading Act *(Wertpapierhandelsgesetz)*, was discussed at length by the Executive Board. Members of staff who have access to insider information as defined by the Act were advised of the tighter rules governing insider trading and of their inclusion in the list of persons with access to insider information ("insider directory").

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. At the beginning of the year a written efficiency audit was conducted to examine the work of the Supervisory Board. The questionnaires were evaluated in the strictest confidentiality by the company's Corporate Governance Officer and the results were then discussed within the Supervisory Board with the goal of further enhancing the quality of the body's work. Various measures adopted with a view to accomplishing this goal were subsequently implemented in the course of the year.

On 2 June 2004 the Annual General Meeting adopted an amended version of the Articles of Association in order to implement even more extensively the recommendations of the DCGK. The amendments provide for separate specification of compensation for the chair and members of Supervisory Board committees (Code Item 5.4.5 Para. 1 Sentence 3). In this connection, the link envisaged in the previous Supervisory Board compensation arrangements between the variable, performance-based compensation and the dividend paid by the company was also removed. It was replaced by a reference to a fixed percentage of the earnings before interest and taxes (EBIT) as reported in the consolidated financial statements in accordance with US GAAP. The Supervisory Board has thereby avoided any possible reproach to the effect that it is in a position to determine its own compensation (since by law it participates in the formation of a decision on the dividend distribution).

Continuing optimisation of our reporting processes also enabled us in 2004 to meet for the first time the publication deadlines for the annual report and the interim reports (Code Item 7.1.2, Sentence 2). The advances made in the area of Corporate Governance are also evident in the "Declaration of conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code" submitted by the Executive Board and the Supervisory Board. While there were still three divergences in the previous year, the company now fails to comply with the recommendations of the Code in only one respect (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 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 sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied. Implementation of the recommendations by Hannover Rückversicherung AG diverges from the German Corporate Governance Code (amended version of 21 May 2003) in the following aspects:

## 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 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.

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

Hannover, 11 November 2004

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

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# GLOSSARY

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

**Acquisition cost, deferred (DAC):** cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e.g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

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

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

**Bancassurance:** partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

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

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

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

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

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

**Claims and claims expenses:** sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

**Coinsurance Funds Withheld- (CFW) Treaty:** type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a → Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

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

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

**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

**Deposits with ceding companies/deposits received from retrocessionaires (also: funds held by ceding companies/funds held under reinsurance treaties):** collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

**Derivatives, derivative financial instruments:** these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

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

**Discounting of loss reserves:** determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

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

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

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

**Earnings per share, diluted:** ratio calculated by dividing the consolidated net income by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

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

**Excess of loss treaty:** cf. → non-proportional reinsurance

**Expense ratio:** administrative expenses in relation to the (gross or net) premiums written.

**Exposure:** level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

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

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

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

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

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

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

**Funds held by ceding companies/funds held under reinsurance treaties:** cf. → Deposits with ceding companies/deposits received from retrocessionaires

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

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

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

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

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

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

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

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

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

**Letter of credit (LOC):** bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

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

**Loss, economic:** total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the → insured loss.

**Loss, insured:** the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

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

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

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

**Modified Coinsurance- (Modco) Treaty:** type of reinsurance treaty where the ceding company retains the assets supporting the reinsured reserves by withholding a fund, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

**Net:** cf. → Gross/Retro/Net

**Non-proportional reinsurance:** reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (→ priority) (e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

**Obligatory (also: treaty) reinsurance:** reinsurance treaty under which the reinsurer participates in a → 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 at any time and are reported at their market value at the balance sheet date. Changes in market value do not affect the statement of income.

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

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

**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.

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

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

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

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

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

**Primary insurer:** cf. → direct insurer

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

**Probability level:** cf. → confidence level

**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 casualty insurance.

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

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

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

**Provision for unearned premiums (also: unearned premium reserve):** premiums written in a financial year which are to be allocated to the following period on an accrual basis. This item is used to defer written premiums.

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

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

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

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

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

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

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

**Retro:** cf. → Gross/Retro/Net

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

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

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

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

**Special Purpose Entity (SPE):** legal structure with specific characteristics not bound to a certain form of organisation used to conduct defined activities or to hold assets.

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

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

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

**Underwriting:** process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-)insureds and profitable for the (re-)insurer.

**Unearned premium reserve:** cf. → provision for unearned premiums

**US GAAP (United States Generally Accepted Accounting Principles):** internationally recognised US accounting principles. Not all the provisions which together constitute US GAAP have been codified. US GAAP comprises not only defined written statements but also, for example, standard accounting practices in specific industries.

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

**Variable Interest Entity:** legal entity not bound to a certain form of organisation for which the traditional approach to consolidation based on voting rights is ineffective in identifying where control of the entity really lies, or in which the equity investors do not bear the economic risks and rewards of the entity. The definition is broader than the previously used term → special-purpose entity (SPE).

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

# 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.

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

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We appreciate your feedback.

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Hannover Rückversicherung AG

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# FINANCIAL CALENDAR 2005/2006

| | |
|---|---|
| 29 March 2005 | **Annual Results Press Conference**<br>Hannover Re<br>Karl-Wiechert-Allee 50<br>30625 Hannover, Germany |
| 30 March 2005 | **DVFA Analysts' meeting, Frankfurt** |
| 30 March 2005 | **Analysts' meeting, London** |
| 12 May 2005 | **Interim Report 1/2005** |
| 14 June 2005 | **Annual General Meeting**<br>Beginning 10:30 a.m.<br>Hannover Congress Centrum<br>Theodor-Heuss-Platz 1–3<br>30175 Hannover, Germany |
| 11 August 2005 | **Interim Report 2/2005** |
| 10 November 2005 | **Interim Report 3/2005** |
| 12 May 2006 | **Annual General Meeting**<br>Beginning 10:30 a.m.<br>Hannover Congress Centrum<br>Theodor-Heuss-Platz 1–3<br>30175 Hannover, Germany |
| 12 May 2006 | **Interim Report 1/2006** |
| 10 August 2006 | **Interim Report 2/2006** |
| 09 November 2006 | **Interim Report 3/2006** |

The Annual Report of the Hannover Re Group can also be obtained in German (printed version). Furthermore, the report is published in German, English and Spanish as PDF-format for downloading on the internet.

We are pleased to provide you also with the individual Annual Report of Hannover Rückversicherung AG in German or English.

If you wish to receive any of these versions, please contact our Investor Relations/Public Relations department on:

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