

Annual Report | **2002**

hannover re[®]

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KEY FIGURES

of Hannover Re

<i>Figures in EUR million</i>	2002	+/- previous year	2001	2000	1999	1998
Gross written premiums	7 295.3	+29.5%	5 633.4	4 491.4	3 611.3	2 907.2
Net premiums earned	3 563.9	+30.2%	2 736.3	2 649.0	2 216.5	1 855.8
Underwriting result	67.3	(120.5%)	(328.8)	(195.4)	(156.6)	(52.6)
Allocation to the equalisation reserve and similar provisions	90.6	206.3%	(85.1)	55.6	53.9	98.9
Investment result	633.3	+31.6%	481.3	573.5	524.4	374.3
Pre-tax profit	240.4		14.0	121.5	108.8	71.5
Profit or loss for the financial year	243.4		0.2	71.7	95.8	47.8
Investments	10 071.5	+10.5%	9 116.3	7 574.0	7 259.9	6 002.3
Capital and reserve incl. surplus debenture (Genussrechtskapital)	763.0	+26.8%	601.9	407.6	406.0	360.3
Equilisation reserve and similar provisions	807.8	+12.6%	717.2	802.2	746.6	692.7
Net technical provisions	7 384.2	+2.7%	7 192.5	6 173.8	5 413.8	4 575.7
Total capital, reserves and technical provisions	8 908.8	+4.7%	8 511.6	7 383.6	6 566.4	5 628.7
Number of employees	535	+26	509	468	489	464
Retention	51.9%		50.9%	61.4%	61.0%	65.3%
Loss ratio*	75.3%		89.9%	73.2%	79.8%	73.8%
Expense ratio*	20.1%		25.8%	33.3%	28.5%	29.8%
Combined ratio*	95.4%		115.7%	106.5%	108.3%	103.6%

*excluding life and health reinsurance

BOARDS AND OFFICERS

of Hannover Re

Supervisory Board (Aufsichtsrat)

<p>Wolf-Dieter Baumgartl Hannover Chairman Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.</p>	<p>Chairman of the Supervisory Board - ASPECTA Global Group AG, Hamburg - ASPECTA Lebensversicherung AG, Hamburg - ASPECTA Versicherung AG, Hamburg - CiV Lebensversicherung AG, Hilden - CiV Versicherung AG, Hilden - E+S Rückversicherungs-AG, Hannover - HDI International Holding N.V., Rotterdam, Netherlands - HDI Lebensversicherung AG, Hannover - HDI Rechtsschutz Versicherung AG, Hannover</p>
	<p>Deputy Chairman of the Supervisory Board - PB Lebensversicherung AG, Hilden - PB Versicherung AG, Hilden</p>
	<p>Member of the Administrative Board - HDI Assicurazioni SpA, Rome, Italy</p>
<p>Dr. Paul Wieandt Hof/Saale Deputy Chairman Chairman of the Board of Management of SchmidtBank AG</p>	<p>Chairman of the Advisory Board - Peters Associates AG, Frankfurt/Main**</p>
	<p>Member of the Supervisory Board - Ampega Investment AG, Hannover** - HDI Asset Management GmbH, Hannover** - HPL Holding B.V., Rotterdam, Netherlands** - Trespa International B.V., Weert, Netherlands**</p>
	<p>Member Groups Representative (Mitgliedergruppenvertreter) - HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover**</p>
<p>Karola Böhme* Barsinghausen (until 24 May 2002)</p>	
<p>Dr. Horst Dietz Singapore Region Manager North and Southeast Asia of ABB Asea Brown Boveri AG (until 24 May 2002)</p>	
<p>Herbert K. Haas Burgwedel Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (since 1 February 2002)</p>	<p>Chairman of the Supervisory Board - Ampega Immobilien Management GmbH, Hannover - Ampega Investment AG, Hannover - HDI International Holding AG, Hannover - HDI Pensionskasse AG, Hamburg - HDI Verwaltungs-Service AG, Hannover - Protection Reinsurance Intermediaries AG, Hilden</p>
	<p>Chairman of the Advisory Board - HANNOVER Finanz GmbH, Hannover</p>

	<p>Deputy Chairman of the Supervisory Board</p> <ul style="list-style-type: none"> - ASPECTA Global Group AG, Hamburg - ASPECTA Lebensversicherung AG, Hamburg - CiV Lebensversicherung AG, Hilden - CiV Versicherung AG, Hilden - HDI Lebensversicherung AG, Hamburg
	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> - Ampega Asset Management GmbH, Hannover - ASPECTA Assurance International AG, Liechtenstein - ASPECTA Assurance International AG, Luxemburg S.A., Luxembourg - Euro International Reinsurance S.A., Luxembourg - E+S Rückversicherungs-AG, Hannover - HANNOVER International AG für Industrieversicherungen, Vienna, Austria - HANNOVER International España S.A., Madrid, Spain - HANNOVER International Insurance (Nederland) N.V., Rotterdam, Netherlands - HDI Assicurazioni S.p.A., Rome, Italy - HDI International Holding N.V., Rotterdam, Netherlands - PB Lebensversicherung AG, Hilden - PB Versicherung AG, Hilden - Samopomoc S.A., Warsaw, Poland
	<p>Member of the Advisory Board</p> <ul style="list-style-type: none"> - Commerzbank AG, Hamburg** - Norddeutsche Landesbank Girozentrale, Hannover**
<p>Karl Heinz Midunsky Munich Corporate Vice President and Treasurer of Siemens AG</p>	<p>Chairman of the Supervisory Board</p> <ul style="list-style-type: none"> - Krauss-Maffei Wegmann Verwaltungs-GmbH, Munich
	<p>Deputy Chairman of the Supervisory Board</p> <ul style="list-style-type: none"> - Risicom Rückversicherung AG, Grünwald - Siemens Dematic AG, Munich - Siemens VDO Automotive AG, Munich
	<p>Member of the Supervisory Board</p> <ul style="list-style-type: none"> - BSH Bosch und Siemens Hausgeräte GmbH, Munich - Gerling-Konzern Speziale Kreditversicherungs-AG, Cologne** - Infineon Technologies AG, Munich** - Osram GmbH, Munich
	<p>Member of the Administrative Board</p> <ul style="list-style-type: none"> - Fujitsu Siemens Computers (Holdings) B.V., Amsterdam, Netherlands - Siemens Building Technologies AG, Zurich, Switzerland
<p>Dr. Erwin Möller Hannover Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and of Talanx AG (until 24 May 2002)</p>	

<p>Ass. jur. Otto Müller* Hannover</p>	
<p>Bengt Pihl Mannheim Chairman of the Executive Board of ABB AG until 31 December 2002 (since 24 May 2002)</p>	<p>Chairman of the Supervisory Board - ABB Automation Products GmbH, Eschborn - ABB Process Industries GmbH, Eschborn - Busch-Jaeger Electro GmbH, Lüdenscheid</p>
	<p>Member of the Supervisory Board - ABB Gebäudetechnik AG, Mannheim - ABB Utilities GmbH, Mannheim</p>
	<p>Member of the Advisory Board - Hermes Kreditversicherungs-AG, Hamburg** - Branch Office for Baden-Wuerttemberg of Allianz Versicherungs-AG, Stuttgart**</p>
	<p>Member of the Board - Landesverband der Baden-Württembergischen Industrie e.V. (LVI), Ostfildern**</p>
	<p>Member of the Regional Board of Trustees - Stifterverband für die Deutsche Wissenschaft (Donors' Association for the Promotion of Sciences and Humanities in Germany), Essen**</p>
<p>Ass. jur. Renate Schaper-Stewart* Lehrte</p>	
<p>Dipl.-Ing. Hans-Günter Siegerist* Nienstädt (since 24 May 2002)</p>	
<p>Dr. Klaus Sturany Essen Member of the Executive Board of RWE Aktiengesellschaft</p>	<p>Member of the Supervisory Board - Commerzbank AG, Frankfurt** - Heidelberger Druckmaschinen AG, Heidelberg - HOCHTIEF AG, Essen** - RAG AG, Essen** - RWE-DEA AG, Essen - RWE Power AG, Essen - RWE Solutions AG, Essen</p>
	<p>Member of the Advisory Board - RWE Trading GmbH, Essen</p>
	<p>Member of the Board - Innogy Holdings Plc., Swindon, United Kingdom - Thames Water Plc., London, United Kingdom</p>

* Staff representative

** Memberships of supervisory boards and comparable control boards outside the Group required by law at other companies in Germany and abroad

Executive Board (Vorstand)

Wilhelm Zeller

Chairman of the Executive Board
 - Hannover Rückversicherungs-AG, Hannover
 - E+S Rückversicherungs-AG, Hannover

Chairman of the Administrative Board

- Euro International Reinsurance S.A., Luxembourg
 - Hannover Finance (Luxembourg) S.A., Luxembourg

Chairman of the Board of Directors

- Clarendon Insurance Group, Inc., Wilmington, USA
 - Clarendon National Insurance Company, Trenton, USA
 - E+S Reinsurance (Ireland) Ltd., Dublin, Ireland
 - Hannover Life Reassurance Africa Limited, Johannesburg, South Africa
 - Hannover Life Reassurance Company of America, Orlando, USA
 - Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland
 - Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
 - Hannover Re Advanced Solutions Limited, Dublin, Ireland
 - Hannover Re (Bermuda) Ltd., Hamilton, Bermuda
 - Hannover Reinsurance Africa Limited, Johannesburg, South Africa
 - Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
 - Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
 - HDI Reinsurance (Ireland) Ltd., Dublin, Ireland
 - Insurance Corporation of Hannover, Chicago, USA

Deputy Chairman of the Board of Directors

- Hannover Life Re of Australasia Ltd, Sydney, Australia

Member of the Board of Directors

- Hannover Finance, Inc., Wilmington, USA
 - International Insurance Company of Hannover Ltd., Virginia Water, Great Britain

Member of the Supervisory Board

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover*
 - Protection Reinsurance Intermediaries AG, Hilden

Dr. Wolf Becke

Member of the Executive Board
 - Hannover Rückversicherungs-AG, Hannover
 - E+S Rückversicherungs-AG, Hannover

Chairman of the Board of Directors

- Hannover Re Gestion de Réassurance France S.A., Paris, France
 - Hannover Re Sweden Insurance Company Limited, Stockholm, Sweden

Member of the Supervisory Board

- ASPECTA Global Group AG, Hamburg
 - ASPECTA Lebensversicherung AG, Hamburg

Member of the Administrative Board

- ITAS Vita S.p.A, Trento, Italy

* Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad

Member of the Board of Directors

- Hannover Life Reassurance Africa Limited, Johannesburg, South Africa
- Hannover Life Reassurance Company of America, Orlando, USA
- Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland
- Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom
- Hannover Life Re of Australasia Ltd, Sydney, Australia
- Hannover Reinsurance Africa Limited, Johannesburg, South Africa
- Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
- Hannover Re Services Japan, Tokyo, Japan

Managing Director

- Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Jürgen Gräber

Member of the Executive Board

- Hannover Rückversicherungs-AG, Hannover
- E+S Rückversicherungs-AG, Hannover

Member of the Board of Directors

- Clarendon Insurance Group, Inc., Wilmington, USA
- Clarendon National Insurance Company, Trenton, USA
- E+S Reinsurance (Ireland) Ltd., Dublin, Ireland
- Hannover Life Reassurance Africa Limited, Johannesburg, South Africa
- Hannover Re Advanced Solutions Limited, Dublin, Ireland
- Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey
- Hannover Reinsurance Africa Limited, Johannesburg, South Africa
- Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa
- Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
- Hannover Re Sweden Insurance Company Limited, Stockholm, Sweden
- HDI Reinsurance (Ireland) Ltd., Dublin, Ireland
- Insurance Corporation of Hannover, Chicago, USA
- RISConsulting Group LLC, Boston, USA

Alternate Member of the Board of Directors

- Inter-Ocean Holdings Ltd., Hamilton, Bermuda
- Inter-Ocean Reinsurance Company Ltd., Hamilton, Bermuda

Dr. Michael Pickel

Member of the Executive Board

- Hannover Rückversicherungs-AG, Hannover
- E+S Rückversicherungs-AG, Hannover

Chairman of the Administrative Board

- Hannover Re Services Italy S.r.l, Milan, Italy

Member of the Board of Directors

- Mediterranean Reinsurance Services Ltd., Hong Kong, China

Managing Director

- Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Herbert K. Haas

Member of the Executive Board

- Hannover Rückversicherungs-AG, Hannover
 - E+S Rückversicherungs-AG, Hannover
- (until 31 January 2002)

<p>André Arrago Deputy Member of the Executive Board - Hannover Rückversicherungs-AG, Hannover - E+S Rückversicherungs-AG, Hannover</p>	<p>Deputy Chairman of the Board of Directors - Hannover Re (Bermuda) Ltd., Hamilton, Bermuda - Hannover Re Gestion de Réassurance France S.A., Paris, France</p>
	<p>Member of the Board of Directors - Hannover Re Services Japan, Tokyo, Japan</p>
<p>Dr. Elke König Deputy Member of the Executive Board - Hannover Rückversicherungs-AG, Hannover - E+S Rückversicherungs-AG, Hannover</p>	<p>Chairwoman of the Board of Directors - Hannover Finance (UK) Limited, Virginia Water, United Kingdom</p>
	<p>Member of the Supervisory Board - Ampega Asset Management GmbH, Hannover - Ampega Investment Aktiengesellschaft, Hannover - WeHaCo Unternehmensbeteiligungs-Aktiengesellschaft, Hannover</p>
	<p>Member of the Advisory Board - Hannover Finanz GmbH, Hannover</p>
	<p>Member of the Administrative Board - Hannover Finance (Luxembourg) S.A., Luxembourg - Special Risk Insurance and Reinsurance Luxembourg S.A., Luxembourg - Willy Vogel Beteiligungs-GmbH, Berlin</p>
	<p>Member of the Board of Directors - Clarendon Insurance Group, Inc., Wilmington, USA - Clarendon National Insurance Company, Trenton, USA - E+S Reinsurance (Ireland) Ltd., Dublin, Ireland - Hannover Life Reassurance Company of America, Orlando, USA - Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland - Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom - Hannover Life Re of Australasia Ltd, Sydney, Australia - Hannover Re (Bermuda) Ltd., Hamilton, Bermuda - Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland - International Insurance Company of Hannover Ltd., Virginia Water, United Kingdom - Insurance Corporation of Hannover, Chicago, USA - Intercontinental Reinsurance Inc., Los Angeles, USA - Mediterranean Reinsurance Services Ltd., Hong Kong, China</p>
	<p>Managing Director - Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover</p>
<p>Ulrich Wallin Deputy Member of the Executive Board - Hannover Rückversicherungs-AG, Hannover - E+S Rückversicherungs-AG, Hannover</p>	<p>Member of the Board of Directors - International Insurance Company of Hannover Ltd., Virginia Water, United Kingdom</p>

MANAGEMENT REPORT

of Hannover Re

MANAGEMENT REPORT

of Hannover Re

Economic climate

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

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

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

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

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

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

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

Business development

Since 1 January 1997 the parent company has transacted active reinsurance – with the exception of some parts of the business of its principal shareholder – exclusively in foreign markets. All German business is handled by our subsidiary E+S Rückversicherungs-AG. The geographical balance of the portfolio, which is important for both companies from the point of view of optimal risk spreading, is preserved by means of reciprocal retrocessions.

Having only achieved a break-even result in 2001 due to the terrorist attacks of 11 September 2001, we returned to the profitability of previous years in 2002. Shortly after the terrorist attacks on the World Trade Center reinsurance markets around the world began to see significant premium increases and improvements in terms and conditions for the reinsurers. This market hardening was sustained in 2002 in all the property and casualty reinsurance lines transacted by Hannover Re. In accordance with our strategy of maximising these opportunities and acquiring additional market shares with a view to enhancing our scope for profits, we substantially enlarged our premium volume in property and casualty reinsurance in the year under review.

We boosted our total gross premium written by EUR 1,661.9 million. This represents growth of 29.5%, following 25.4% in the previous year. Had it not been for the marked depreciation of the US dollar against the euro, the increase in premium income would have been another 8.0 percentage points higher.

Growth derived primarily from the liability (EUR 441.7 million), fire (EUR 439.4 million), aviation (EUR 175.3 million) and life (EUR 127.4 million) lines of business. Regional growth was strongest in North America (EUR 865.7 million) and Europe (EUR 662.8 million).

The balance of catastrophe losses in the first half of 2002 was significantly impacted by a small number of large individual claims. The most notable event in the second half of the year

was the flood damage in central Europe. Nevertheless, the catastrophe loss burden in 2002 was in line with the multi-year average. The combined loss/expense ratio (excluding life reinsurance business) improved from 115.7% to 95.4%.

Overall, we were highly satisfied with the 2002 financial year. We succeeded in generating an underwriting profit of EUR 67.3 million (compared to a loss of EUR 328.8 million in the previous year). This was the first time since 1995 that we recorded a positive underwriting result.

The development of our life reinsurance portfolio also gave considerable grounds for satisfaction, although the changes were not as spectacular as in non-life business. In a fiercely competitive climate we asserted ourselves well in the year under review by systematically focusing on our fundamental strategic positions. We continued to concentrate on treaties containing a financing component. Gross premium income grew by 11% in the year under review to EUR 1,289.4 million. Life reinsurance generally developed according to plan.

An amount of EUR 90.6 million was allocated to the equalisation reserve and similar provisions, following a withdrawal of EUR 85.1 million in the previous year. The allocation to the IBNR reserve (for losses that have been incurred but not yet reported) booked under other expenses increased by 61.3%.

On the investment side we were able to boost ordinary net investment income by 33.2% to EUR 494.9 million (previous year: EUR 371.6 million). Due to the difficult state of the capital markets, however, we were compelled to take write-down of EUR 77.8 million on our investments; of this amount, EUR 38.1 million was attributable to our equity portfolio. It was only thanks to the considerable scaling back of our equity allocation – continuing a move initiated in 2001 – to its level of 3.6% as at year-end 2002 that these write-downs were not higher. Extraordinary investment income was higher than in the previous year. The primary factor here was

extraordinary income of EUR 161.0 million deriving from the transfer of our shares in E+S Rückversicherungs AG to Hannover Rück Beteiligung Verwaltungs-GmbH, a subsidiary of Hannover Re. At the suggestion of the Executive Board and the Supervisory Board, the resulting higher hidden reserves are to be used to boost the company's retained earnings. Overall, despite the difficult capital market situation, the net investment result therefore grew from EUR 481.3 million to EUR 633.3 million.

The balance of other income and expenses – excluding the allocation to the IBNR reserve – amounted to EUR 110.4 million as against EUR 50.3 million in the previous year.

Particularly due to the application of the "half-income system", we reported an income tax gain in the year under review. Overall, the parent company closed 2002 with a profit for the financial year of EUR 243.4 million following a figure of EUR 0.2 million in the previous year.

After write-back of the profit carried forward from the previous year and allocation of EUR 115.0 million to retained earnings, the disposable profit stood at EUR 128.7 million.

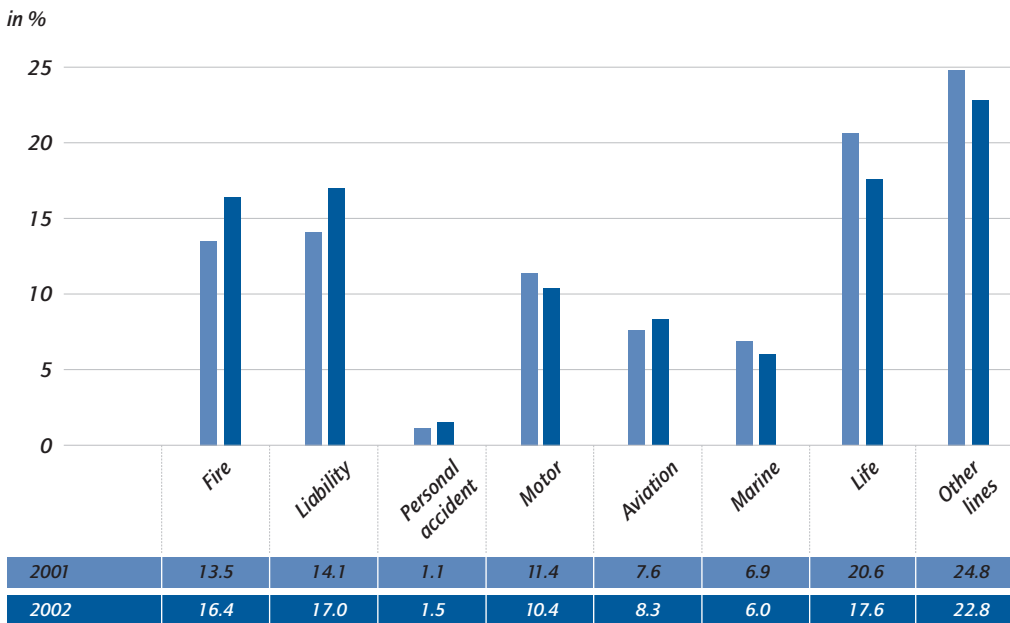
Having been unable to make a dividend distribution in 2001, Hannover Re intends this year to resume its long-standing practice of paying a dividend. The Executive Board and the Supervisory Board have proposed to the Annual General Meeting that a dividend of EUR 0.85 be paid on each eligible no-par-value share. The remaining amount (EUR 46.0 million) is to be allocated to retained earnings or carried forward to new account.

Premium development and results

An improvement in rates and conditions had already begun to emerge shortly after the terrorist attacks of 11 September 2001 in the USA. Even during the earliest renewal negotiations in the autumn of 2001 we were able to benefit from the appreciable market hardening and profitably expanded our premium volume. In renewal talks conducted during the year under review a substantial improvement was observed in the attainable rates and conditions across virtually all countries and lines of business.

Our total gross premium income grew by 29.5% to EUR 7,295.3 million. Had it not been for the upward revaluation of the euro against other major foreign currencies, most notably the US dollar, the increase would have been as much as 37.5%.

Line-of-business breakdown in % of the total portfolio



Through intergroup retrocessions from our subsidiary E+S Rück we are also involved in the German reinsurance market. The share of this business segment in our total portfolio decreased owing to the vigorous growth of our foreign business. Nevertheless, in the domestic market, too, a

favourable trend in the basic conditions for re-insurance business can be clearly felt. The proportion of gross premiums written attributable to German business stood at 15.5% in the year under review (previous year: 16.6%).

Fire

Fire

<i>in EUR million</i>	2002	2001
Gross written premiums	1 199.2	759.7
Loss ratio (%)	59.7	165.3
Underwriting result (net)	77.5	(306.9)

Fire insurance was heavily impacted in the previous year by the events of 11 September 2001. As a result, this line also benefited particularly strongly from the subsequent market hardening. We boosted premiums in our fire business, and especially in industrial fire insurance, by a substantial 57.8%. We were once again able to increase the share of business generated by non-proportional treaties, which produce higher profit margins.

Liability

Liability

<i>in EUR million</i>	2002	2001
Gross written premiums	1 238.0	796.2
Loss ratio (%)	99.7	61.8
Underwriting result (net)	14.1	11.2

Liability business also developed very favourably compared to the previous year. Gross premium income grew by 55.5%. North America, traditionally our largest liability market, offered particularly attractive business opportunities. We generated premium increases of 71.2% in this market alone. Medical malpractice and professional indemnity business were the most prominent areas written in this line.

The net loss ratio increased from 61.8% to 99.7%. However, the combined loss/expense ratio remained almost unchanged at 97.1%

Personal Accident

Personal Accident

<i>in EUR Million</i>	2002	2001
Gross written premiums	105.9	62.5
Loss ratio (%)	34.2	3.1
Underwriting result (net)	15.0	5.6

Gross premiums in personal accident insurance grew by 69.4%. This increase was, however, in part attributable to the fact that the previous year was impacted by a number of special effects. These included the planned discontinuation of several special treaties and the combining of various treaties in the personal accident and health lines. The premium volume had shown an exceptional

Particularly in the United States, Germany, and the United Kingdom, we achieved considerable increases in our premiums from fire business. The loss ratio, which had skyrocketed in 2001, was restored to a normal level. The underwriting result was improved by EUR 384.4 million. Following a withdrawal from the equalisation reserve of EUR 65.8 million in the previous year owing to the high loss burden, we were able to allocate an amount of EUR 85.9 million in the year under review.

(97.2%) because certain reinsurance agreements served to keep the expense ratio strictly in check.

The underwriting result increased slightly by EUR 2.9 million. An amount of EUR 101.0 million was withdrawn from the equalisation reserve, following an allocation of EUR 47.4 million in the previous year.

We strengthened the IBNR reserve with an allocation of EUR 120.7 million from the non-technical account.

decline in the previous year as a consequence of these measures.

The loss ratio had also fallen to a very low level in 2001 due to the aforementioned factors. In the year under review the loss ratio climbed sharply again, although at 34.2% it is well below the market average. The underwriting profit grew by 165.7% to EUR 15.0 million. An amount of EUR 24.7 million was allocated to the equalisation reserve.

Motor

Following a modest increase of 4.1% in the previous year we boosted our premium volume in motor business by a considerably more impressive 18.3% in the year under review. Growth was particularly gratifying in motor third party liability insurance, totalling 26.2%.

Germany and the USA were again our most important markets for motor reinsurance in the year under review. German motor third party liability business was characterised by a steadily falling claims frequency, stable average loss costs per event and higher original premiums. The loss ratio in own damage insurance was sharply lower.

In the US business the effects of substantial rate increases could be felt in commercial motor insurance lines.

Aviation

Hannover Re ranks among the leading providers worldwide in aviation and space business. Following the considerable strains associated with the terrorist attacks of 11 September 2001, we profited particularly strongly from the subsequent market hardening. Our premium income climbed by 41.1% in the year under review, with the greatest growth recorded in US business and on the London Market.

Our underwriting policy in the aviation sector is geared fundamentally to non-proportional business and middle as well as upper programme layers. We write proportional business only in cases where the premiums substantially exceed the expected losses.

Overall, we reduced our net loss ratio in motor business by 9.6 percentage points. With the expense ratio rising to 27.4% (16.1%), the underwriting result deteriorated to -EUR 77.3 million (-EUR 38.2 million). An amount of EUR 14.8 million was allocated to the equalisation reserve, following a withdrawal of EUR 28.6 million in the previous year. We boosted the IBNR reserve for motor third party liability insurance with a contribution of EUR 35.0 million from the non-technical account.

Motor

<i>in EUR million</i>	2002	2001
Gross written premiums	757.4	640.0
Loss ratio (%)	87.0	96.6
Underwriting result (net)	(77.3)	(38.2)

The aviation line of insurance was spared sizeable major claims in the year under review. The net ratio decreased sharply to 44.5%. The combined ratio fell to 59.7% (64.7%).

The underwriting profit increased substantially by EUR 71.7 million to EUR 125.7 million, thereby enabling us to strengthen the equalisation reserve with a large allocation of EUR 101.3 million.

Aviation

<i>in EUR million</i>	2002	2001
Gross written premiums	601.9	426.6
Loss ratio (%)	44.5	88.5
Underwriting result (net)	125.7	54.0

Marine

Marine

in EUR million	2002	2001
Gross written premiums	434.1	386.8
Loss ratio (%)	83.6	85.3
Underwriting result (net)	(9.6)	(16.8)

Marine business was heavily impacted by the events of 11 September. In this line, too, we profited from the market upturn, although growth was not as strong as in the previous year. The share of the marine portfolio attributable to non-proportional business was also substantially increased. At the same time, a resurgence in proportional solutions, e.g. in offshore business, was observed in order to provide additional reinsurance capacities.

In the marine insurance market we incurred a higher frequency of major claims in the year under review than in previous years. However, due

to the fact that the bulk of our treaties are excess of loss covers and in many cases the losses did not exceed our client's retentions, our net loss ratio decreased. The expense ratio was also reduced, and the combined ratio thus improved by 4.3 percentage points to 103.5%.

The underwriting deficit was reduced slightly by EUR 7.2 million; an amount of EUR 2.1 million was allocated to the equalisation reserve.

Life

We continue to attach high priority to the further expansion of our life portfolio. At the same time, though, this business group has now taken on dimensions and a structure that enable us to finance new business through the payments accruing back to our account from previous years. Gross premium income in this line was boosted by 11.0 % to EUR 1,289.4 million.

In the year under review we purposefully expanded our position in Germany as the leading writer of financing transactions for unit-linked policies (life and annuity products). In the United Kingdom we have advanced to become an acknowledged force in the reinsurance market with our strategic concentration on risk-oriented life business and the bancassurance segment (sale of simple annuity products through banks). In the North American market we successfully focus on individual life and annuity risks. In the year under review, as in previous years, we did not participate in other activities such as derivative risk components in the area of unit-linked annuities.

In Australia and New Zealand we wrote primarily risk-oriented business as well as financing transactions and group life business. We were able to enlarge the group life portfolio, in particular, by working closely together with the trustees of occupational pension schemes.

A recent analysis identified us as the largest life reinsurer on the African continent in the year under review. In Asia our most significant business growth was recorded in China and Japan.

Overall, we generated an underwriting result of -EUR 21.4 million (EUR 3.6 million) in life reinsurance. The decrease in the underwriting result was mainly due to higher prefinancing expenditures, especially in UK pension business.

Life

in EUR million	2002	2001
Gross written premiums	1 289.4	1 162.0
Underwriting result (net)	(21.4)	3.6

Other lines

In accordance with German accounting requirements, the following lines of business are shown combined under other lines: health, legal protection, burglary and robbery, water damage, plate glass, windstorm, comprehensive householder's (contents), comprehensive householder's (buildings), hail, livestock, engineering, omnium, credit and surety, extended coverage, travel assistance benefits, nuclear plant property, other property damage, loss of profits, other pure financial losses and fidelity.

In loss of profits insurance we substantially increased our gross premium written from EUR 139.4 million to EUR 227.2 million. This was made possible first and foremost by considerable growth in fire loss of profits business following the events of 11 September 2001.

Our health reinsurance portfolio, which consists principally of business ceded by our US subsidiary Hannover Life Re of America, is the largest single line reported under other lines. The rehabilitation of health business was largely completed in 2002 and already had an appreciable effect in the financial year. The underwriting result improved by EUR 89.9 million, moving marginally into the black for the first time.

Investments

The first quarter of 2002 was one of general consolidation on the international equity markets, with share prices for the most part caught in a sideways movement. A decline subsequently set in, however, dragging the major indices down to fourth-quarter levels even lower than those witnessed after 11 September 2001. This slump was triggered not only by the general uncertainty concerning the future direction of the economy, but also – and more specifically – by the erosion of confidence due to certain manipulations of financial statements and by the fear of further terrorist attacks. An additional adverse factor was that numerous companies were compelled to revise their profit forecasts downwards. The markets remained unsettled until

In credit and surety reinsurance we grew our gross premium income by 19.0% to EUR 229.0 million. The underwriting deficit was cut by EUR 5.4 million to EUR 12.3 million. In Europe and the USA the situation in this line remains tense. We maintained our strict policy of consolidation and significantly tightened our underwriting standards. Our European programmes still consist predominantly of proportional treaties, although we increased the share of non-proportional treaties in our total portfolio. In the USA we were able to profit from substantial rate improvements for excess of loss reinsurance and at the same time reduced our exposures.

Gross premiums for windstorm reinsurance were boosted by an impressive 39.3%. Despite a number of catastrophe losses the underwriting result in this segment recorded another modest increase of EUR 9.5 million to reach EUR 52.1 million. A mere EUR 0.5 million was allocated to the equalisation reserve in the year under review, following a contribution of EUR 46.6 million in the previous year.

year-end. Geopolitical crises, such as the looming war on Iraq and the repercussions of the general strike in Venezuela, were the final nail in the coffin for any hopes of a year-end rally. For the third year in succession the major stock indices closed in negative territory.

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

The national economies of Europe and Japan generated little impetus of their own, hoping

Other lines

in EUR million	2002	2001
Gross written premiums	1 669.4	1 399.6
Loss ratio (%)	75.4	74.3
Underwriting result (net)	(56.7)	(41.3)

to profit from a revival of the US economy. Although the European Central Bank took a lead from its US counterpart and slashed the prime rate by 50 basis points to 2.75%, fiscal policy failed to provide any greater impetus owing to the restrictions imposed by the Stability and Growth Pact.

Despite opposing effects associated with exchange rate movements, our total portfolio of self-managed assets (i.e. excluding deposits with ceding companies) grew in the reporting period by 10.4% or to EUR 7.2 billion. The weakness of the equity markets was more than offset in our portfolio by the favourable performance of our bond holdings, and on balance we therefore booked reserves of EUR 128.3 million on the other financial investments as at year-end.

The euro appreciated sharply in the course of the year against the majority of key foreign currencies for our company, most notably the US dollar. Had it not been for this factor, the volume of our investments would have grown by as much as 16.7% to EUR 7.7 billion.

Since we continue to view equity markets with scepticism, we further reduced the proportion of dividend-carrying securities in our portfolio in the year under review. Our investment universe remains unchanged, comprising liquid Blue Chips listed on major indices (Euro Stoxx, Nikkei, S&P 500). As at year-end a mere 3.6% of our investments were in listed stocks. Thanks to this approach, we suffered considerably less heavily than many of our competitors under the depressed state of the equity markets. Yet our account too was not spared diminutions in value. Total write-downs on exchange-listed equities amounted to EUR 38.1 million in the year under review. We realised losses of EUR 7.3 million on the sale of shares; the unrealised losses on our equity portfolio totalled EUR 35.2 million as at year-end.

Fixed-income securities were once again our preferred asset category in the year under review. In the course of the year we invested free

liquidity from maturities and cash inflows primarily in instruments with a short or medium time to maturity so as to minimise the interest rate risk. Our portfolio of fixed-income securities contracted slightly year-on-year to EUR 3.9 billion. It accounted for 86.3% of our total other financial investments.

In view of the considerable volatility and uncertainty prevailing on the credit markets we further enhanced the already excellent quality of our fixed-income securities. The proportion of the total portfolio rated "AA" or better increased to 81% (79%). The minimal strain produced by the spectacular business failures witnessed in the year under review demonstrated that our corporate bonds, too, are of a high quality.

We used the decline in yields and diminishing yield advantage offered by corporate bonds to realise price gains. Unrealised price gains in our portfolio of other financial investments showed only a slight decrease from EUR 156.6 million to EUR 128.3 million due to the lower yield levels.

Ordinary income increased by EUR 123.3 million to EUR 494.9 million, while at the same time the total investment portfolio (including deposits with ceding companies) grew by 10.5% to EUR 10.1 billion. This rise was primarily attributable to larger deposits with ceding companies.

Overall, we boosted our extraordinary investment result, comprising realised price gains and losses, by a substantial margin compared to the previous year. Profits on disposals totalling EUR 243.5 million were generated, contrasting with losses on disposals of EUR 17.3 million. The balance of EUR 226.2 million was thus EUR 80.1 million higher than in the previous year.

The total net investment result grew from EUR 481.3 million to EUR 633.3 million (+31.6%). This was due first and foremost to extraordinary investment income of EUR 161.0 million from the transfer of the shares in E+S Rückversicherungs-AG to the intermediate hol-

ding company established in 2002. Bearing in mind the current market climate, we are entirely satisfied with our investment result. As in the pre-

Risk report

The acceptance of risks and their professional management constitute our core business as an internationally operating reinsurance company. To this extent, the professional assessment and handling of risks is a major competitive factor and a crucial element in steering the company.

Organisation of risk management

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

vious year, our strategic positioning was once again proven correct.

Our corporate strategy is geared to generating a sustained increase in the value of the company. This means that we purposefully enter into entrepreneurial risks provided the associated opportunities promise a commensurate increase in the value of the company.

with the stipulated processes in all functional areas of our company.

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

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

Global risks

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

ability risks in the USA due to mould, asbestos-related risks – again primarily in the USA but recently in Europe too – and the settlement trends in severe motor third party liability bodily injury claims in major European markets.

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

Strategic risks

Strategic risks derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating framework conditions – an environment shaped, on the one hand, by our clients' requirements and, on the other, by the strategies of our competitors. Our overriding strategic objective is to generate dynamic growth as an optimally diversified and economically independent reinsurer of above-average profitability. All other goals are derived from this overriding objective. Hannover Re's individual business groups thus pursue specific and inherently consistent detailed strategies that are in accordance with the higher-order goal. Company-wide ratios and controlling processes have been defined to monitor achievement of the strategic targets from the operating standpoint. They are used to measure and control the contribution made by each business group to the company's overall performance.

In the year under review we further expanded our value-oriented controlling and management system. Through the progressive intro-

duction of an IVC (intrinsic value creation) approach we are implementing a key ratio by means of which all company-wide management processes can be systematically geared to value creation. In this regard, IVC provides an objective ratio that motivates managerial staff to take value-oriented actions and prevents value-destroying management errors.

Technical operating risks

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

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. The point of departure is always the information provided by ceding companies. The reserve is calculated on the basis of a breakdown by risk classes and regions for the property, liability and motor lines of business and on an aggregate basis for the credit, aviation, and marine lines. The anticipated ultimate loss ratios are calculated using statistical run-off triangles and actuarial methods.

Hannover Re has accepted business on the US market only since the seventies, and even then it wrote very modest lines. Consequently, losses from asbestos-related claims and pollution damage have had a comparatively minimal impact on our account. Nevertheless, we made provisions for these strains in good time, constituting additional reserves where necessary and commuting numerous existing exposed treaties.

A fundamental instrument of risk limitation and results stabilisation is retrocession. Whereas premiums are always payable at the beginning

of a contract, risks derive from the fact that long periods – sometimes decades – may elapse until losses are paid. It is therefore particularly important that retrocession partners not only have a high credit rating at the time when a contract comes into being but are also still able to meet their obligations when loss payments are to be made. Our assessment of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own balance sheet and market analyses. Our Security Committee classifies the reinsurers used by Hannover Re with binding effect for all placements.

A further key component of our risk management across business groups is the use of dynamic, scenario-based financial analysis. These analyses simulate the effects of hypothetical scenarios (e.g. loss events and capital market developments) on the assets, net income and financial situation. The findings produced by our dynamic financial analysis enable us to prioritise risk-policy measures.

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

Investment operating risks

Our investment strategy is shaped by the duration of our commitments and our interest in generating an adequate return. Risks in the investment sector consist most notably of market, credit and liquidity risks. The risks run by an internationally operating reinsurer also include, however, the exchange risk – which we limit by matching commitments in foreign currencies as far as possible with assets in the corresponding currencies. This strategy very largely offsets exchange gains and losses.

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

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

Operational risks

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

The technological dependence of the company's core processes on information technology is rising sharply – a trend which goes hand-in-hand with a commensurately growing risk potential. Ensuring high availability of our IT applications and protecting the integrity of mission-critical corporate data are tasks to which we attach fundamental economic importance. In the year under review we initiated an Information Security project in order to ensure that the existing high level of security is maintained in the future. This project investigates and, where necessary, supplements the already existing security measures at Hannover Re.

We also classify risks associated with human resources management under operational risks. Fierce competition for qualified specialists and

managers is a hallmark of all the markets we operate in. Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise, motivation and de-

lication of our staff. With this in mind we maintain close contacts with, inter alia, a number of universities and set great store by personnel development and training measures.

Assessment of the risk situation

As an internationally active reinsurer we are confronted with numerous potential risks that could have a not inconsiderable impact on our net income, financial position and assets. Nevertheless, on the basis of the information currently

available to us, we do not perceive any risks that could jeopardise the continued existence of our company in the short or medium term or could impair the assets, financial position or net income in a significant or sustained manner.

Human resources

For a financial services company operating worldwide with a professional clientele, the skills and motivation of its employees are just as important to its success as capital resources. We therefore offer jobs that attract ambitious, performance-minded staff who identify with the company's objectives. The continual enhancement of our employees' skills and motivation is the overriding goal of our human resources development and management activities. By delegating tasks, authorities and responsibilities wherever possible and by agreeing on demanding targets we foster entrepreneurial thinking on all levels. Among managerial staff this principle is also reflected in performance-based remuneration components and stock options.

We use agreements on targets in support of our unceasing efforts to accomplish the objectives derived from our corporate strategy – for every single area of the company and each member of our managerial staff. It is essential to know one's goals in order to define a course and hence work successfully towards achieving these objectives. This process is transparent and clearly comprehensible for all concerned.

As part of an ongoing quality assurance process we control and review our further and advanced training measures. Our aim here is not only to convey reinsurance-specific expertise but

also to provide behaviour-oriented guidance. Presentation techniques, project work and team leadership are particularly important in this context. In realistic role-play exercises and simulated situations the participants are able to gain personal experience which they can apply in daily practice.

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

The complexity of reinsurance business and the pressure of competition in the international markets necessitate a constant readiness to learn. We use state-of-the-art teaching methods to encourage and support our staff. Programmed and structured instruction and visual aids assist individual preparation for the subsequent concen-

trated workshops. Computer-aided learning techniques are currently undergoing a trial phase. They are intended to facilitate personal feedback on the acquired level of knowledge and should enable staff to develop their own study rhythm independently of other learners.

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

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

We devote special energy to cultivating our existing contacts with institutions of higher education and attending the relevant university car-

eer fairs. The sharp increase in the number of highly qualified applicants bears out the positive response to these efforts. Trainees at our company pass through an 18-month programme for junior executives and get to know many sides of the organisation by spending periods of 6 to 12 weeks in various departments. We also offer students participating in on-the-job training schemes the chance to gain insights into different areas of the company and we support diploma students writing on reinsurance-related topics with appropriate stipends.

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

The number of staff at our head office in Hannover increased in the year under review by 43 or 6.1% to 750. Roughly 10% of the workforce, i.e. 74 staff, come from abroad.

Word of gratitude to all our staff

We would like to thank our staff for their considerable dedication and loyalty in the 2002 financial year. Our gratitude also extends to the

employee council and the senior management committee at head office.

Outlook

The current economic climate is clouded by considerable uncertainty. The confrontation with Iraq and the fear of renewed terrorist attacks have darkened the mood appreciably. We find ourselves in what is evidently a sustained cyclical downturn. There is still no sign of an end to this downward slide: experts expect 2003 to remain sluggish, with growth of at best 1% to 2%. Some central banks, including the ECB, have announced further interest rate cuts with the hope

of injecting new life into the economy. Yet, in the current situation it remains open to question whether these money market moves will have their intended effect. The mood on capital markets is sombre, and there is little indication of improvement in the near term.

As the engine of growth for the global economy, the USA has lost momentum. Capital spending has declined markedly due to the low util-

isation of industrial production capacity. Even the availability of cheap loans may not remedy this situation. Private consumption and the real estate market have to date been the major pillars of the US economy. As the jobless rate rises, however, the impetus from these factors is also fading.

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

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

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

We were highly satisfied with the treaty renewals as at 1 January 2003, when almost two thirds of our property and casualty reinsurance treaties came up for renewal. We achieved broad-

based improvements in rates and conditions and further enlarged our share of profitable non-proportional business. In the North American market too the trend in property and casualty reinsurance remained positive. Improvements in rates and conditions were more striking in liability reinsurance than in property business. It is in this area that we also see the greatest potential for further improvements in the years to come. In marine reinsurance and on the London Market we were similarly very satisfied with the treaty renewals. However, in certain lines, such as the aviation sector, we observed the first signs of weakening in rates and conditions. In accordance with our strict cycle management we have therefore already slightly reduced our involvement in such lines during the current year.

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

Overall, we expect 2003 to be a very good year in property and casualty reinsurance. Provided no extraordinary expenditures are incurred for catastrophe losses, this business group is again expected to make a considerable contribution to the company's success.

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

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

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

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

Given the nature of the economic situation that we are currently experiencing, it is particularly difficult to forecast the investment result. Capital markets are likely to remain under strain. In view of the uncertain state of the equity markets, we shall keep our equity allocation low and further improve the quality of our fixed-income securities. In the prevailing climate we expect current yields to stay on their present level. In the medium term, however, a significant increase is possible – especially in interest rates

at the short end of the market. We therefore intend to invest primarily in securities with short to medium times to maturity.

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

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

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were

effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG). The measures taken did not adversely affect our company.

Proposal for the distribution of profits

The Executive Board and the Supervisory Board intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

<i>Figures in EUR</i>	<i>Proposal for the distribution of profits</i>
Payment of a dividend of EUR 0.85 on each registered no-par-value share with a dividend entitlement	82 589 338.80
Allocation to retained earnings	46 000 000.00
Profit carried forward to new account	110 661.20
Disposable profit	128 700 000.00

Other information

Joint administration arrangements exist between our company and our subsidiary E+S Rückversicherungs-AG and extend to all functions of the two companies.

Tax matters are largely handled on a central basis for the Group by HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Our investments are managed by Ampega Asset Management GmbH and real estate matters are handled by Ampega Immobilien Management GmbH.

INDIVIDUAL ACCOUNTS

of Hannover Rückversicherungs-AG

BALANCE SHEET

as at 31 December 2002

<i>Assets</i> <i>Figures in EUR thousand</i>	2002			2001
A. Intangible assets:				
Other intangible assets			7 369	6 313
B. Investments				
I. Land and buildings, rights to land and buildings, leasehold		72 270		47 716
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	2 305 122			1 516 673
2. Loans to affiliated companies	243 702			260 026
3. Participating interests	124 373			110 799
4. Loans to enterprises in which the company has a participating interest	17 283			23 243
		2 690 480		1 910 741
III. Other financial investments				
1. Shares, units in unit trusts and other variable-yield securities	934 979			1 112 160
2. Bearer debt securities and other fixed-income securities	2 965 800			2 846 620
3. Mortgages and loans secured on land and buildings	2 353			2 634
4. Other loans				
a) Registered debt securities	170 894			253 237
b) Debentures and loans	100 903			114 179
c) Sundry loans	63 000			53 000
		334 797		420 416
5. Deposits with banks	245 801			222 575
6. Other investments	5			5
		4 483 735		4 604 410
IV. Deposits with ceding companies		2 824 981		2 553 431
			10 071 466	9 116 298

<i>Liabilities</i> <i>Figures in EUR thousand</i>	2002		2001	
A. Capital and reserves				
I. Subscribed capital				
as at 1.1.2002	82 799			
Allocation	14 365			
as at 31.12.2002		97 164		82 799
II. Capital reserve				
as at 1.1.2002	388 816			
Withdrawal	14 365			
as at 31.12.2002		374 451		388 816
III. Retained earnings				
1. Statutory reserve	511			511
2. Other retained earnings				
as at 1.1.2002	53 100			
Allocation	115 000			
as at 31.12.2002	168 100			53 100
		168 611		53 611
IV. Disposable profit		128 700		300
			768 926	525 526
B. Surplus debenture (Genussrechtskapital)			76 694	76 694
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	942 837			774 875
2. Less:				
reinsurance ceded	222 179			202 970
		720 658		571 905
II. Life assurance provision				
1. Gross	2 458 197			2 042 579
2. Less:				
reinsurance ceded	896 449			579 533
		1 561 748		1 463 046
III. Provisions for outstanding claims				
1. Gross	8 478 470			8 761 571
2. Less:				
reinsurance ceded	3 450 994			3 603 550
		5 027 476		5 158 021
IV. Provision for bonuses and rebates				
1. Gross	1 843			2 525
2. Less:				
reinsurance ceded	509			816
		1 334		1 709
V. Equalisation reserve and similar provisions		807 704		717 155
VI. Other technical provisions				
1. Gross	93 234			99 410
2. Less:				
reinsurance ceded	20 216			101 583
		73 018		(2 173)
			8 191 938	7 909 663

<i>Assets</i> <i>Figures in EUR thousand</i>			2002			2001
C. Receivables						
I. Accounts receivable arising out of reinsurance operations			1 638 050			1 203 363
- from affiliated companies:						
371 352 (2001: 284 064)						
II. Other receivables			204 101			180 945
- from affiliated companies:						
134 720 (2001: 138 692)				1 842 151		1 384 308
D. Other assets						
I. Tangible assets and stocks			10 425			11 684
II. Current accounts with banks, cheques and cash in hand			193 591			109 641
				204 016		121 325
E. Prepayments and accrued income						
I. Accrued interest and rent			53 480			61 694
II. Other accrued income			1 886			1 686
				55 366		63 380
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)						
				46 705		43 762
				12 227 073		10 735 386

<i>Liabilities</i> <i>Figures in EUR thousand</i>			2002			2001
D. Provisions for other risks and charges						
I. Provisions for pensions and similar obligations			25 712			23 668
II. Provisions for taxation			40 947			40 788
III. Other provisions			32 406			23 549
				99 065		88 005
E. Deposits received from retrocessionaires				1 601 905		1 119 101
F. Other liabilities						
I. Accounts payable arising out of reinsurance operations			906 868			579 520
- to affiliated companies:						
182 812 (2001: 195 822)						
II. Liabilities to banks			4 706			50 000
III. Miscellaneous liabilities			574 644			382 191
- from taxes:				1 486 218		1 011 711
1 338 (2001: 1 462)						
- for social security :						
629 (2001: 567)						
- to affiliated companies :						
557 537 (2001: 368 921)						
G. Accruals and deferred income				2 327		4 686
				12 227 073		10 735 386

PROFIT AND LOSS ACCOUNT

for the 2002 financial year

Figures in EUR thousand

1.1.–31.12.2002

1.1.–31.12.2001

I. Technical account			
1. Earned premiums, net of retrocession			
a) Gross written premiums	7 295 282		5 633 402
b) Retrocession premiums	3 511 837		2 766 852
		3 783 445	2 866 550
c) Change in the gross provision for unearned premiums (+/-)	(265 615)		(181 897)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	46 110		51 696
		(219 505)	(130 201)
		3 563 940	2 736 349
2. Allocated investment return transferred from the non-technical account, net of retrocession		79 437	62 184
3. Other technical income, net of retrocession		–	22
4. Claims incurred, net of retrocession			
a) Claims paid			
aa) Gross	4 103 589		2 885 038
bb) Retrocessionaires' share	1 924 112		1 303 914
		2 179 477	1 581 124
b) Change in provisions for outstanding claims			
aa) Gross	(372 088)		(2 428 063)
bb) Retrocessionaires' share	109 588		1 963 084
		(262 500)	(464 979)
		2 441 977	2 046 103
5. Changes in other technical provisions, net of retrocession			
a) Net life assurance provision		(305 973)	(339 349)
b) Other net technical provisions		(308)	(96)
		(306 281)	(339 445)
6. Bonuses and rebates, net of retrocession		133	1 075
7. Operating expenses, net of retrocession			
a) Gross acquisition expenses		1 581 463	1 633 591
b) Less:			
commissions and profit commissions received on retrocession		756 736	894 159
		824 727	739 432
8. Other technical charges, net of retrocession		2 993	1 298
9. Subtotal		67 266	(328 798)
10. Change in the equalisation reserve and similar provisions		(90 550)	85 093
11. Net technical result		(23 284)	(243 705)

Figures in EUR thousand	1.1.–31.12.2002			1.1.–31.12.2001	
Balance brought forward:				(23 284)	(243 705)
II. Non-technical account					
1. Investment income					
a) Income from participating interest		141 283			87 381
- affiliated companies:					
127 248 (2001: 73 510)					
b) Income from other investments					
- affiliated companies:					
40 432 (2001: 56 573)					
aa) Income from land and buildings, rights to land and buildings, leasehold	6 543				5 011
bb) Income from other investments	347 033				279 167
		353 576			284 178
c) Appreciation on investments		9 049			3 433
d) Gains on the realisation of investments		243 501			164 158
			747 409		539 150
2. Investment charges					
a) Investment management charges, including interest		18 924			13 479
b) Depreciation		77 833			26 270
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
41 776 (2001: 10 884)					
c) Losses on the realisation of investments		17 306			18 071
			114 063		57 820
			633 346		481 330
3. Allocated investment return transferred to the technical account			(103 637)		(76 833)
				529 709	404 497
4. Other income			55 496		30 007
5. Other charges					
a) Special allocation to provisions for outstanding claims		155 679			96 536
b) Miscellaneous charges		165 861			80 262
			321 540		176 798
				(266 044)	(146 791)
6. Profit or loss on ordinary activities before tax				240 381	14 001

Figures in EUR thousand				1.1.–31.12.2002	1.1.–31.12.2001
Balance brought forward				240 381	14 001
7. Taxes on profit and income		5 581			10 442
plus allocation for group assessment		(9 224)			(532)
			(3 643)		9 910
8. Other taxes		613			1 379
plus allocation for group assessment		11			2 522
			624		3 901
				(3 019)	13 811
9. Profit or loss for the financial year				243 400	190
10. Profit brought forward from previous year				300	110
11. Allocation to retained earnings:					
to other retained earnings				115 000	–
12. Disposable profit				128 700	300

Valuation of assets

Valuation was carried out in accordance with the provisions of §§ 341 et seq. of the Commercial Code (HGB).

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life or the average period of the underlying contracts.

Property was valued at the purchase or construction cost less permitted depreciation under tax law.

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account special write-downs. Lower valuations were retained to the extent that write-offs were made in previous years due to permanent diminution in value.

Loans to affiliated companies and loans to enterprises in which the company has a participating interest were valued at nominal value less amortisation or at the lower fair value.

The portfolio of securities was allocated to fixed assets or current assets depending on the intended use and valued in accordance with the provisions of § 341 b of the Commercial Code (HGB).

Shares, units in unit trusts, and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued according to the strict or modified lower-of-cost-or-market principle depending on the intended use.

Derivative instruments were valued on a mark-to-market basis.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans as well as other loans were valued at nominal value or acquisition cost – taking into account amortisation – or at the lower fair value.

Write-ups were effected in accordance with § 280 (1) of the Commercial Code (HGB).

Other investments, deposits and cash at banks on current accounts, cash in hand, deposits and accounts receivable arising out of reinsurance operations and other debts were valued at the nominal amounts. Valuation adjustments were set up for default risks.

Fixed assets and stock were valued at purchase cost less straight-line or declining-balance depreciation. Low-value items were written off in the year of acquisition.

Valuation of liabilities

We always entered the provision for unearned premiums, life assurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years after the year following the underwriting year.

Where the provisions indicated by the ceding companies are not expected to be adequate, we have increased them by appropriate additional amounts. Where no information was available from cedents, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is 16.3% of the total volume.

In the liability and motor third party liability lines we set up IBNR claims reserves for excess of loss treaties. The calculation was largely carried out in accordance with statistical mathematical methods.

The shares of retrocessionaires in the technical reserves were determined on the basis of the reinsurance contracts.

The equalisation reserve was set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); the similar provisions were constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for nuclear plants was calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for pharmaceutical product liability was calculated in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG). The 1998 standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

The employee-funded pension commitments are established according to the present value of the expectancy.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. In the case of tax expenditure which relates to the financial year under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HGB). This relates to corporation tax based on an unchanged rate of taxation of 25%, the German reunification charge and trade earnings tax.

The other provisions were established in the amount that will probably be utilised.

A provision was constituted for virtual stock options in accordance with actuarial principles on the basis of a recognised financial option pricing model (Black-Scholes Model with the aid of a trinomial tree method).

The other liabilities were valued at the amounts repayable.

Currency conversion

Transactions booked in foreign currencies are converted to the reporting currency at the applicable monthly exchange rate at the date of entry in the accounts. Assets and liabilities entered in the balance sheet were converted to euros at the average exchange rates on the balance sheet date.

In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is congruent cover for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which we hold investments, we allocated the profits arising out of revaluation – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

The technical interest results in the main from the interest income earned on the basis of the life assurance provision. Standard methods were used for the calculation.

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.

Notes on assets

The change in asset items A., B.I. to B.III. was as follows during the 2002 financial year:

<i>Figures in EUR thousand</i>	<i>Book values 31.12.2001</i>	<i>Additions</i>	<i>Transfers</i>	<i>Disposals</i>	<i>Write-ups</i>	<i>Depreciation</i>	<i>Book values 31.12.2002</i>
A. Intangible assets:							
Other intangible assets	6 313	4 812	–	22	–	3 734	7 369
B.I. Land and buildings, rights to land and buildings, leasehold	47 716	27 119	–	–	–	2 565	72 270
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	1 516 673	1 352 582	–	564 133	–	–	2 305 122
2. Loans to affiliated companies	260 026	159 032	–	175 356	–	–	243 702
3. Participating interests	110 799	13 747	–	123	–	50	124 373
4. Loans to enterprises in which the company has a participating interest	23 243	262	–	6 222	–	–	17 283
5. Total B.II.	1 910 741	1 525 623	–	745 834	–	50	2 690 480
B.III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	1 112 160	158 769	–	284 138	26	51 838	934 979
2. Bearer-debt securities and other fixed-income securities	2 846 620	3 265 057	–	3 141 793	7 439	11 523	2 965 800
3. Mortgages and loans secured on land and buildings	2 634	–	–	281	–	–	2 353
4. Other loans							
a) Registered debt securities	253 237	25 396	268	108 600	593	–	170 894
b) Debentures and loans	114 179	55 000	(268)	68 008	–	–	100 903
c) Sundry loans	53 000	10 000	–	–	–	–	63 000
5. Deposits with banks	222 575	94 567	–	71 341	–	–	245 801
6. Other	5	–	–	–	–	–	5
7. Total B.III.	4 604 410	3 608 789	–	3 674 161	8 058	63 361	4 483 735
Sum total	6 569 180	5 166 343	–	4 420 017	8 058	69 710	7 253 854

Land and buildings and rights to land and buildings

On 31 December 2002 the company had at its disposal six developed properties with business and other buildings in Hannover, Duisburg, Düsseldorf, Bremen, Nuremberg and Kassel as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 953 thousand as at 31 December 2002. The company was also in possession of land with residential buildings in Hannover. The book value of the buildings for own use on Roderbruchstraße totalled EUR 1,675 thousand as at 31 December 2002. In addition, the company had shares of EUR 15,733 thousand in two developed properties in Düsseldorf and Stuttgart and a share of EUR 1,286 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are listed below. We have omitted companies of subordinate economic importance with no material influence on the assets, financial position or net income.

A complete list of shareholdings has been compiled separately in accordance with § 287 of the Commercial Code (HGB) and is deposited with the Hannover Commercial Register under HRB 6778.

<i>Name and registered office of the company Figures in currency units of 1 000</i>	<i>Participation (in %)</i>	<i>Capital and reserves (\$266 (3) Commercial Code)</i>	<i>Result for the last financial year</i>
Shares in affiliated companies			
Companies resident in Germany			
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR 586 504	EUR 11 355
■ holds 56.78% of the shares in:			
E+S Rückversicherungs-AG, Hannover/Germany		EUR 440 281	EUR 20 000
■ holds 100.00% of the shares in:			
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR 152 649	EUR 8 221
■ holds 33.33% of the shares in:			
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR 578	EUR (205)
■ holds 50.00% of the shares in:			
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD 173 220	AUD 14 220
■ holds 45.00% of the shares in:			
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG- Grundstücksgesellschaft, Hannover/Germany		EUR 58 799	EUR 1 265
■ holds 25.00% of the shares in:			
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany		EUR 74 763	EUR 29 828
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG- Grundstücksgesellschaft, Hannover/Germany	45.00	EUR 58 799	EUR 1 265
Companies resident abroad			
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR 18 539	EUR (9 010)
Hannover Finance (UK) Limited, Virginia Water/UK	100.00	GBP 103 362	GBP (4)

<i>Name and registered office of the company</i> <i>Figures in currency units of 1 000</i>	<i>Participation</i> <i>(in %)</i>	<i>Capital and reserves</i> <i>(\$266 (3)</i> <i>Commercial Code)</i>	<i>Result for the last financial year</i>
■ holds 100.00% of the shares in:			
Hannover Life Reassurance (UK) Limited, Virginia Water/UK		GBP 21 438	GBP 117
Hannover Services (UK) Ltd., Virginia Water/UK		GBP 680	GBP 343
International Insurance Company of Hannover Ltd., Virginia Water/UK		GBP 64 563	GBP 529
Hannover Life Reassurance Company of America, Orlando/USA	100.00	USD 87 817	USD 1 430
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland	100.00	EUR 98 600	EUR (1 668)
Hannover Re (Bermuda) Ltd., Bermuda/USA	100.00	EUR 575 146	EUR 62 918
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR 219 521	EUR 35 222
■ holds 33.33% of the shares in:			
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR 578	EUR (205)
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden	100.00	SEK –	SEK 723
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	96.85	ZAR 382 309	ZAR (2 685)
■ holds 100.00% of the shares in:			
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR 35 173	ZAR 3 135
Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR 295 316	ZAR (48 322)
■ holds 100.00% of the shares in:			
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR 13 292	ZAR (38 810)
Indoc Holdings S.A., Luxembourg/Luxembourg		CHF 8 513	CHF 172
■ holds 100.00% of the shares in:			
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius		MUR 164 207	MUR 6 064
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.52	USD 119 835	USD 7 519
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD 173 220	AUD 14 220
Hannover Finance Inc., Wilmington/USA	100.00	USD 353 043	USD 22 349

<i>Name and registered office of the company Figures in currency units of 1 000</i>	<i>Participation (in %)</i>	<i>Capital and reserves (\$266 (3) Commercial Code)</i>	<i>Result for the last financial year</i>
■ holds 100.00% of the shares in:			
Clarendon Insurance Group, Inc., Wilmington/USA		USD 492 101	USD 42 115
■ holds 100.00% of the shares in:			
Clarendon National Insurance Company, Trenton/USA		USD 568 128	USD 10 742
■ holds 100.00% of the shares in:			
Clarendon America Insurance Company, Trenton/USA		USD 151 813	USD (3 759)
Clarendon Select Insurance Company, Tallahassee/USA		USD 42 282	USD (35)
Harbor Specialty Insurance Company, Trenton/USA		USD 30 729	USD 5 941
Insurance Corporation of Hannover, Chicago/USA		USD 147 008	USD (2 650)
Lion Insurance Company, Tallahassee/USA		USD 7 167	USD 20
Redland Insurance Company, Council Bluffs/USA		USD 22 874	USD 3 878
Participations			
ITAS Vita SpA, Trento/Italy	43.74	EUR 30 816	EUR 35
ITAS Assicurazioni SpA, Trento/Italy	43.74	EUR 48 754	EUR 1 405
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany	25.00	EUR 106 907	EUR 37 100
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR 74 736	EUR 29 828

The disposals relate principally to our share in E+S Rückversicherungs-AG, which was transferred to the newly established Hannover Rück Beteiligung Verwaltungs-GmbH, as well as to the dissolution of a real estate company whose assets/liabilities accrued to us through accumulation.

Other notes on investments

Assets with a balance sheet value of EUR 1,896,816 (2001: 2,016,415) thousand were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Current values pursuant to § 54 RechVersV

The current values of land and buildings were largely determined using a combined asset value and gross rental method. In individual cases book values were used.

Income values were determined for shares in affiliated companies and participating interests, and in the case of life insurance companies embedded values were calculated.

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value. In the case of special investments for which no stock exchange price was available, valuation was made at cost of acquisition or net asset value (NAV).

The current values of the sundry loans were determined on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Other investments were reported at nominal values and in individual cases at book value.

<i>Current values pursuant to § 54 RechVersV of asset items B.I. to B. III. for the 2002 financial year Figures in EUR thousand</i>	<i>Book values 31.12.2002</i>	<i>Current values 31.12.2002</i>	<i>Difference 31.12.2002</i>
B.I. Land and buildings, rights to land and buildings, leasehold	72 270	104 323	32 053
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	2 305 122	2 687 650	382 528
2. Loans to affiliated companies	243 702	243 702	–
3. Participating interests	124 373	156 394	32 021
4. Loans to enterprises in which the company has a participating interest	17 283	17 283	–
5. Total B.II.	2 690 480	3 105 029	414 549
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	934 979	944 207	9 228
2. Bearer-debt securities and other fixed-income securities	2 965 800	3 061 501	95 701
3. Mortgages and loans secured on land and buildings	2 353	2 353	–
4. Other loans			
a) Registered debt securities	170 894	181 789	10 895
b) Debentures and loans	100 903	109 307	8 404
c) Sundry loans	63 000	67 103	4 103
5. Deposits with banks	245 801	245 801	–
6. Other investments	5	5	–
7. Total B.III.	4 483 735	4 612 066	128 331
Sum total	7 246 485	7 821 418	574 933

Notes on § 341b of the Commercial Code (HGB)

Of the units in unit trusts totalling EUR 900,470 (2001:1,063,161) thousand shown under the other investments in the item "shares, units in unit trusts and other variable-yield securities", an amount of EUR 744,235 (2001:1,006,209) thousand was allocated to fixed assets. To this extent, depreciation of EUR 78,468 (2001: 35,474) thousand was omitted.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 29,742 (2001: 43,857) thousand were allocated to fixed assets. The omitted depreciation totalled EUR 8,162 (2001: 5,647) thousand.

Other receivables

<i>Figures in EUR thousand</i>	2002	2001
Receivables from affiliated companies	134 720	138 692
Receivables from the revenue authorities	44 979	29 792
Receivables from banks on the sale of securities	14 579	9 187
Receivables from dividend entitlements	5 575	1 354
Receivables from overpayments	2 625	–
Interest and rent due	704	1 071
Receivables from representative offices	420	479
Other receivables	499	370
Total	204 101	180 945

Accruals and deferred income

<i>Figures in EUR thousand</i>	2002	2001
Accrued interest and rent	53 480	61 694
Accrued administrative expenses	1 062	1 179
Deferred premium on bonds	290	507
Other	534	–
Total	55 366	63 380

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 46,702 (2001: 43,762) thousand. Of this amount, EUR 24,601 (2001: 23,174) thousand was attributable to corporation tax including the German reunification charge and EUR 22,104 (2001: 20,588) thousand to trade tax.

Notes on liabilities

Subscribed capital

The subscribed capital was increased in the 2002 financial year to EUR 97,164 thousand through a withdrawal of EUR 14,365 thousand from the capital reserve. One no-par-value share worth a theoretical amount of EUR 3.00 of the subscribed capital was replaced by three no-par-value shares each with a value of EUR 1.00. The subscribed capital is divided into 97,163,928 no-par-value registered shares, which are fully paid up. The new shares carry a full dividend entitlement for the 2002 financial year.

In addition, conditional authorised capital of up to EUR 48,500 thousand is available. It can be used to grant shares to holders of convertible and warrant bonds and to issue employee shares in the amount of EUR 1,000 thousand and has a time limit of 13 November 2007.

Capital reserve

The subscribed capital was increased by EUR 14,365 thousand through a withdrawal from the capital reserve. As at 31.12.2002 the capital reserve amounted to EUR 374,451 thousand.

Retained earnings

An amount of EUR 115,000 thousand was allocated to retained earnings from the profit for the financial year.

Surplus debenture (Genussrechtskapital)

The surplus debenture issued in 1993 amounting to EUR 76,694 thousand has a term of 10 years. The amount repayable is due on 2 November 2004. The interest is 7.55%.

Provision for unearned premiums

Insurance line Figures in EUR thousand	2002		2001	
	gross	net	gross	net
Fire	216 378	164 754	164 098	123 262
Liability	212 134	162 300	162 403	110 538
Personal accident	11 360	7 775	8 291	5 292
Motor	104 574	82 026	94 783	68 749
Aviation	141 497	111 672	127 798	99 819
Life	51 105	39 438	62 470	51 710
Other lines	205 789	152 693	155 032	112 535
Total	942 837	720 658	774 875	571 905

Life assurance provisions

<i>Insurance line Figures in EUR thousand</i>	<i>2002</i>		<i>2001</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Personal accident	3 914	3 480	1 857	1 432
Life	2 412 283	1 522 542	2 037 652	1 459 159
Other lines	42 000	35 726	3 070	2 455
Total	2 458 197	1 561 748	2 042 579	1 463 046

Provisions for outstanding claims

<i>Insurance line Figures in EUR thousand</i>	<i>2002</i>		<i>2001</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Outstanding loss reserve				
Fire	1 242 084	327 653	1 615 181	580 105
Liability	2 869 901	1 973 652	2 679 718	2 018 758
Personal accident	90 604	65 741	106 794	74 402
Motor	1 203 016	961 289	1 013 437	824 190
Aviation	874 769	338 674	880 045	280 615
Marine	554 349	331 502	619 183	312 495
Life	439 962	307 198	417 616	297 357
Other lines	1 199 321	717 423	1 423 806	764 412
	8 474 006	5 023 132	8 755 780	5 152 334
Provision for annuities				
Liability	491	458	520	483
Personal accident	821	821	1 465	1 464
Motor	3 152	3 065	3 806	3 740
	4 464	4 344	5 791	5 687
Total	8 478 470	5 027 476	8 761 571	5 158 021

Equalisation reserve and similar provisions

<i>Insurance line Figures in EUR thousand</i>	<i>Position at 1.1.2002</i>	<i>Addition</i>	<i>Withdrawal and release</i>	<i>Position at 31.12.2002</i>
Equalisation reserve				
Fire	186	85 942	–	86 128
Liability	260 179	–	101 654	158 525
Personal accident	9 866	24 660	–	34 526
Motor	14 884	15 294	536	29 642
Aviation	19 775	107 868	6 565	121 078
Marine	30 361	2 097	–	32 458
Other lines	353 855	9 830	48 147	315 538
	689 106	245 691	156 902	777 895
Provisions which are similar to the equalisation reserve – major risks –				
Liability	8 325	669	48	8 946
Other lines	19 724	1 139	–	20 863
Total	717 155	247 499	156 950	807 704

Other technical provisions

<i>Type of provisions Figures in EUR thousand</i>	<i>2002</i>		<i>2001</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Profit commission	83 620	63 810	82 441	(20 698)
Commissions	7 059	6 754	14 754	16 374
Premium cancellation	2 555	2 454	2 210	2 146
Road traffic accident victim assistance	–	–	5	5
Total	93 234	73 018	99 410	(2 173)

Technical provisions – total

<i>Insurance line</i> <i>Figures in EUR thousand</i>	2002		2001	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Fire	1 556 690	588 293	1 791 810	713 360
Liability	3 288 162	2 336 885	3 148 590	2 431 467
Personal accident	141 363	112 262	128 465	92 637
Motor	1 346 717	1 081 456	1 137 351	920 376
Aviation	1 144 381	570 956	1 033 491	317 653
Marine	590 058	366 521	652 791	345 932
Life	2 907 095	1 872 245	2 521 717	1 811 110
Other lines	1 807 819	1 263 320	1 983 900	1 277 128
Total	12 782 285	8 191 938	12 398 115	7 909 663

Provisions for other risks and charges

<i>Figures in EUR thousand</i>	2002	2001
Provisions for pension and similar liabilities	25 712	23 668
Provision for taxation	40 947	40 788
Sundry provisions		
Provisions for currency risks	12 636	7 533
Provisions for outstanding payments	5 999	5 504
Provisions for interest and similar charges	7 064	4 518
Provisions for annual accounts costs	2 618	2 637
Provisions for suppliers' invoices	925	925
Provisions for litigation risks	329	350
Provisions for costs of legal action	180	246
Other provisions	2 655	1 836
	32 406	23 549
Total	99 065	88 005

Miscellaneous liabilities

<i>Figures in EUR thousand</i>	2002	2001
Accounts due to affiliated companies	557 034	368 921
Liabilities from deliveries and services	6 618	1 666
Liabilities from interest on surplus debenture	5 790	5 790
Liabilities from overpayments	2 480	2 139
Liabilities in respect of the revenue authorities	1 338	1 462
Liabilities from outstanding social security contributions	629	567
Liabilities in respect of permanent establishments	463	1 433
Liabilities under lease agreements	70	133
Liabilities from land and buildings	12	35
Other liabilities	210	45
Total	574 644	382 191

A loan of EUR 100.0 million issued by Hannover Finance (Luxembourg) S.A. is shown under the accounts due to affiliated companies. The remaining term of the loan is eight years. The item also comprises short-term loans from various subsidiaries.

We also received a loan of EUR 200 million at an interest rate of 3.6% from Hannover Re (Bermuda) Ltd. and a loan of EUR 250 million (interest rate of 4.85%) from our subsidiary E+S Rückversicherungs-AG. The remaining term of both loans is five years.

Deferred items

<i>Figures in EUR thousand</i>	2002	2001
Disagio	1 364	2 445
Long-term tenancy rights	924	1 046
Other accruals and deferred income	39	1 195
Total	2 327	4 686

Contingent liabilities

We have secured through guarantees a surplus note in the amount of USD 400.0 million with a term of 40 years issued in the 1999 financial year by our subsidiary Hannover Finance Inc., Wilmington/USA, and subordinate debt of EUR 350.0 million with a term of 30 years issued in the previous year by our Luxembourg subsidiary Hannover Finance (Luxembourg) S.A.

Liabilities for remaining calls existed with respect to special investments in the amount of EUR 141.9 million.

We also provided security for letters of credit furnished by banks for subsidiaries.

Notes on the profit and loss account

Figures in EUR thousand	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
	2002	2001	2002	2001	2002	2001	2002	2001
Fire	1 199 156	759 722	1 127 557	700 466	468 711	309 465	(8 443)	(241 162)
Liability	1 237 967	796 241	1 159 627	744 508	477 222	405 813	115 174	(36 169)
Personal accident	105 851	62 472	102 171	61 529	78 546	29 243	(9 672)	4 047
Motor	757 416	640 003	740 429	616 580	542 016	298 444	(92 053)	(9 560)
Aviation	601 871	426 605	567 586	342 323	312 194	152 837	24 411	86 342
Marine	434 060	386 830	434 060	386 830	268 702	214 656	(11 695)	(7 678)
Other lines	1 669 537	1 399 484	1 602 970	1 434 719	804 535	656 014	(19 573)	(43 092)
Total property and casualty insurance	6 005 858	4 471 357	5 734 400	4 286 955	2 951 926	2 066 472	(1 851)	(247 272)
Life	1 289 424	1 162 045	1 295 267	1 164 550	612 014	669 877	(21 433)	3 567
Total insurance business	7 295 282	5 633 402	7 029 667	5 451 505	3 563 940	2 736 349	(23 284)	(243 705)

Total insurance business

Figures in EUR thousand	2002	2001
Gross claims incurred	4 475 677	5 313 101
Gross operating expenses	1 581 463	1 633 591
Reinsurance balance	675 291	(1 446 001)

Expenses for personnel

Figures in EUR thousand	2002	2001
1. Wages and salaries	30 169	27 458
2. Social security payments and expenses for welfare	4 775	4 254
3. Expenses for old-age pension scheme	1 809	1 551
4. Total expenses	36 753	33 263

Expenses for investments

<i>Figures in EUR thousand</i>	2002	2001
Shares, units in unit trusts	59 489	23 089
Fixed-income securities	15 426	14 665
Administrative expenses	13 211	10 129
Deposits	11 857	3 436
Futures and options contracts	5 394	–
Land and buildings	4 595	3 336
Deposit and bank fees	3 683	1 950
Registered bonds and other loans	358	771
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	50	444
Total	114 063	57 820

Other income

<i>Figures in EUR thousand</i>	2002	2001
Exchange rate gains	30 705	5 371
Allocated investment return	8 392	12 033
Cancellation of value adjustments	6 472	2 308
Profit from services	5 000	4 673
Release of non-technical provisions	1 151	2 220
Income from repayments	1 002	1 914
Profit from clearing transactions	829	214
Amounts realised	11	129
Other income	1 934	1 145
Total	55 496	30 007

Other expenses

<i>Figures in EUR thousand</i>	<i>2002</i>	<i>2001</i>
Allocations to the provisions for outstanding claims	155 679	96 536
Separate value adjustment on accounts receivable	49 314	5 574
Exchange rate losses	45 720	21 314
Deposit interest	41 102	27 920
Financing interest	16 787	8 126
Expenses for the whole company	12 847	13 837
Expenses for letters of credit	7 400	2 511
Interest charges on surplus depenture (Genussrechtskapital)	5 790	5 790
Expenses from services	5 178	4 893
Allocation to interest provisions	2 545	405
Interest charges on old-age pension scheme	1 434	1 263
Interest charges from clearing transactions	331	903
Other interest and expenses	1 613	2 375
	345 740	191 447
Less: Technical interest	24 200	14 649
Total	321 540	176 798

Other information

The names of the members of the Supervisory Board and Executive Board are listed on pages 1 to 6.

Emoluments of EUR 242 thousand were received by the Supervisory Board and EUR 2,095 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to EUR 440 thousand, and a liability of EUR 6,088 thousand was entered.

The following loans secured by mortgages or land charges were granted to board members

<i>Figures in EUR thousand</i>	<i>Position as at 1.1.2002</i>	<i>Addition</i>	<i>Repayment</i>	<i>Position as at 31.12.2002</i>	<i>Interest rate %</i>
Executive Board	96	–	4	92	5.5

The company has not entered into any contingent liabilities for members of the boards.

The average number of employees was 507 in the financial year.

HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover, informed us that it holds a majority interest in our company via the subsidiary Talanx AG, Hannover, and via HDI Verwaltungs-Service AG, Hannover, and Erste und Zweite HDI Beteiligungsgesellschaft mbH, Hannover. The figures from our annual accounts are included in its consolidated annual accounts. The consolidated annual accounts are deposited with the Commercial Register at Hannover County Court.

Hannover, 10 April 2003

Executive Board



Zeller



Dr. Becke



Gräber



Dr. Pickel



Arrago



Dr. König



Wallin

AUDITORS'

Report

We have audited the annual financial statements, together with the bookkeeping system and the management report of Hannover Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB ("Handelsgesetzbuch: German Commercial Code") and the German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer in Deutschland (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with (German) principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the internal control system relating to the accounting system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily 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 annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hannover, 10 April 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl
(German Public Auditor)

Schuster
(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD

of Hannover Rückversicherungs-AG

We supervised the management of the company regularly during 2002 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at four meetings as well as on five occasions by way of written resolutions in accordance with § 10 section 5 of the Articles of Association. The Standing Committee also met on altogether three occasions. Between the meetings we received quarterly written reports from the Executive Board on the course of business and the position of the company. In addition, the Chairman of the Supervisory Board was kept constantly informed by the Chairman of the Executive Board of major developments and impending decisions. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2002 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts and in the Annual General Meeting.

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

maintain its excellent ratings. In this connection the Supervisory Board also considered capital increases at various subsidiaries. Due to in some cases marked premium growth the Supervisory Board approved capital increases at E+S Rückversicherungs-AG, Hannover Re (Bermuda) Ltd. and Hannover Life Reassurance (UK) Ltd.

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

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance, which it examined at length in two meetings. The Corporate Governance principles were subsequently approved at the Supervisory Board meeting on 9 December 2002. In this connection the Supervisory Board adopted procedural rules and set up a Balance Sheet Committee. The Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code was issued as at year-end. The recommendations of the Code have not been implemented in only one respect. Details of this issue are provided on page 55 of the present annual report as well as in the company's publications on the Internet.

The accounting, the annual financial statements and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. As a final outcome of the Balance Sheet Committee's detailed deliberations and the Supervisory Board's examination of the annual financial statements and the Executive Board's report, we concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

The Executive Board's report on the company's relations with affiliated companies has

likewise been examined by KPMG DTG and given the following unqualified audit certificate:

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

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high,
3. in the case of the measures specified in the report, there are no circumstances which would point to an assessment which differs significantly from that of the Executive Board."

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

The annual financial statements are thus approved and hereby duly adopted. We agree with the Executive Board's proposal for the distribution of the disposable profit for 2002.

On 24 May 2002, the date of the Annual General Meeting, Dr. Horst Dietz and Dr. Erwin Möller – as representatives of the shareholders – and Ms. Karola Böhme – representing the employees – stepped down from this body. The Supervisory Board thanked them for their many years of

constructive work and expressed its appreciation of their contribution to the development of the company. The Annual General Meeting elected Mr. Bengt Pihl and Mr. Herbert Haas as new members of the Supervisory Board. In the period until 31 January 2002, Mr. Haas had served for eight years on the company's Executive Board, moving to the Board of Management of HDI V.a.G. with effect from 1 February 2002. Mr. Hans-Günter Siegerist was elected to succeed Ms. Böhme as an employees' representative on the Supervisory Board.

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

Hannover, 11 April 2003

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

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

The "German Corporate Governance Code" (DCGK) was published on 26 February 2002. It sets out the major legal stipulations governing the management and supervision of German listed companies and contains both internationally and nationally recognised standards of good and responsible enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of a listed company to confirm conformity with the recommendations of the Code or explain which recommendations of the Code are not applied. From the very outset Hannover Re has supported the deliberations of the Government Commission on the "German Corporate Governance Code" in the interests of our shareholders and the company. The implementation of the recommendations at Hannover Rückversicherungs-AG diverges in only one aspect from the German Corporate Governance Code. The consolidated financial statements are supposed to be publicly accessible within 90 days of the end of the financial year, and interim reports within 45 days of the end of the reporting period in question (Code Item 7.1.2, Sentence 2). Due to some special features of international reinsurance business and the associated regulatory frameworks, we marginally exceed the

recommended periods at present. Yet, by no means do we use the full scope of the deadlines permitted by law. By further optimising our reporting processes we expect to achieve conformity with the recommended periods from 2004 onwards.

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

Hannover, 11 April 2003

For the
Executive Board

For the
Supervisory Board

GLOSSARY

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

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.

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

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

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

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

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

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

Combined ratio: sum of loss ratio and expense ratio.

Cost ratio: operating expenses in relation to the net premiums written.

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

Creditworthiness: cf. → credit status

Deposits with ceding companies/deposits received from retrocessionaires: collateral provided to cover insurance liabilities which a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows 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 insurer (also: primary insurer): company which accepts risks in exchange for an insurance premium, and which has a direct contractual relationship to the policyholder (private individual, company, organisation).

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

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

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

Expense ratio: administrative expenses in relation to the net premiums written.

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

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

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

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

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

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).

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

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

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.

Life assurance provision: 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.

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

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

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and liability insurance.

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

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

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

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

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

Treaty reinsurance: cf. → obligatory reinsurance

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

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