

# Annual Report | **2004**

<sup>®</sup>  
hannover **re**

# CONTENTS

1	<b>Boards and officers</b>
7	<b>Management report</b>
8	Economic climate
8	Business development
10	Premium development and results
15	Investments
16	Risk report
21	Human resources
23	Outlook for 2005
25	Affiliated companies
25	Proposal for the distribution of profits
25	Other information
26	<b>Individual accounts</b>
26	Balance sheet
30	Profit and loss account
33	<b>Notes</b>
53	<b>Auditors' report</b>
54	<b>Report of the Supervisory Board</b>
56	<b>Declaration of conformity</b>
57	<b>Glossary</b>

# KEY FIGURES

of Hannover Re

Figures in EUR million	2004	+/- previous year	2003	2002	2001	2000
Gross written premiums	6 095.2	(6.8%)	6 539.3	7 295.3	5 633.4	4 491.4
Net premiums earned	4 030.8	+9.1%	3 695.3	3 563.9	2 736.3	2 649.0
Underwriting result	192.4	(25.6%)	258.6	67.3	(328.8)	(195.4)
Allocation to the equalisation reserve and similar provisions	232.5	(23.0%)	301.8	90.6	(85.1)	55.6
Investment result	584.7	+1.1%	578.2	633.3	481.3	573.5
Pre-tax profit	149.1	+11.9%	133.2	240.4	14.0	121.5
Profit or loss for the financial year	120.6	+5.0%	114.9	243.4	0.2	71.7
Investments	13 465.3	+15.4%	11 670.8	10 071.5	9 116.3	7 574.0
Capital and reserve	1 215.8	(5.9%)	1 292.5 <sup>1)</sup>	763.0 <sup>1)</sup>	601.9 <sup>1)</sup>	407.6 <sup>1)</sup>
Equalisation reserve and similar provisions	1 342.0	+21.0%	1 109.5	807.8	717.2	802.2
Net technical provisions	9 844.2	+18.8%	8 286.7	7 384.2	7 192.5	6 173.8
Total capital, reserves and technical provisions	12 402.0	+16.0%	10 688.7	8 955.0	8 511.6	7 383.6
Number of employees	599	+30	569	535	509	468
Retention	67.8%		56.8%	51.9%	50.9%	61.4%
Loss ratio <sup>2)</sup>	72.0%		73.9%	75.3%	89.9%	73.2%
Expense ratio <sup>2)</sup>	20.1%		16.1%	20.1%	25.8%	33.3%
Combined ratio <sup>2)</sup>	92.1%		90.0%	95.4%	115.7%	106.5%

<sup>1)</sup> Including surplus debenture (Genusrechtskapital)

<sup>2)</sup> Excluding life and health reinsurance



# BOARDS AND OFFICERS

## of Hannover Re

### Supervisory Board (Aufsichtsrat)

**Wolf-Dieter Baumgartl** <sup>1)2)</sup>

Hannover

Chairman

Chairman of the Board of Management

Talanx AG

HDI Haftpflichtverband

der Deutschen Industrie V.a.G.

Chairman of the Supervisory Board

ASPECTA Global Group AG, Hamburg

ASPECTA Lebensversicherung AG, Hamburg

CiV Lebensversicherung AG, Hilden

E+S Rückversicherung AG, Hannover

HDI International Holding AG, Hannover

HDI Industrie Versicherung AG, Hannover

HDI Privat Versicherung AG, Hannover

HDI Service AG, Hannover

Deputy Chairman of the Supervisory Board

PB Lebensversicherung AG, Hilden

PB Versicherung AG, Hilden

Member of the Administrative Board

HDI Assicurazioni S.p.A., Rome, Italy

**Dr. Paul Wieandt** <sup>2)</sup>

Hof/Saale

Chairman of the Board of Management

Resba GmbH

Chairman of the Administrative Board

Frankfurter Sparkasse von 1822, Frankfurt/Main

Member of the Supervisory Board

neue leben Holding AG, Hamburg

Member of the Advisory Board

Corpus Immobiliengruppe GmbH & Co. KG, Düsseldorf

Member Groups Representative (Mitgliedergruppenvertreter)

HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover <sup>3)</sup>

**Herbert K. Haas** <sup>1)2)</sup>

Burgwedel

Member of the Board of Management

Talanx AG

HDI Haftpflichtverband

der Deutschen Industrie V.a.G.

HDI Industrie Versicherung AG

HDI Privat Versicherung AG

HDI Service AG

Chairman of the Supervisory Board

Ampega Immobilien Management GmbH, Hannover

Ampega Investment AG, Hannover

HDI Verwaltungs-Service AG, Hannover

neue leben Holding AG, Hamburg

Protection Reinsurance Intermediaries AG, Hannover

Chairman of the Advisory Board

HANNOVER Finanz GmbH, Hannover

Deputy Chairman of the Supervisory Board

ASPECTA Global Group AG, Hamburg

ASPECTA Lebensversicherung AG, Hamburg

CiV Lebensversicherung AG, Hilden

CiV Versicherung AG, Hilden

HDI Lebensversicherung AG, Hamburg

HDI Pensions Management AG, Hilden

	<p>Member of the Supervisory Board                  Ampega Asset Management GmbH, Hannover                  ASPECTA Assurance International AG, Liechtenstein                  ASPECTA Assurance International AG, Luxemburg S.A., Luxemburg                  E+S Rückversicherung AG, Hannover                  Euro International Reinsurance S.A., Luxemburg                  HDI Hannover Versicherung AG, Vienna, Austria                  HANNOVER International España S.A., Madrid, Spain                  HDI Verzekeringen N.V., Rotterdam, Netherlands                  HDI Assicurazioni S.p.A., Rome, Italy                  HDI International Holding AG, Hannover                  PB Lebensversicherung AG, Hilden                  PB Versicherung AG, Hilden                  Samopomoc S.A., Warsaw, Poland                  Talanx Finanz (Luxembourg) S.A., Luxemburg</p>
	<p>Member of the Advisory Board                  Commerzbank AG, Hamburg <sup>3)</sup>                  Norddeutsche Landesbank Girozentrale, Hannover <sup>3)</sup></p>
<p><b>Karl Heinz Midunsky</b>                  Munich                  Former Corporate Vice President                  and Treasurer                  Siemens AG</p>	<p>Chairman of the Supervisory Board                  Krauss-Maffei Wegmann Verwaltungs-GmbH, Munich</p>
	<p>Member of the Administrative Board                  Kommanditgesellschaft Allgemeine Leasing (KGAL), Grünwald</p>
<p><b>Ass. jur. Otto Müller</b> <sup>4)</sup>                  Hannover</p>	<p>Member of the Supervisory Board                  Talanx AG</p>
<p><b>Ass. jur. Renate Schaper-Stewart</b> <sup>4)</sup>                  Lehrte</p>	
<p><b>Dipl.-Ing. Hans-Günter Siegerist</b> <sup>4)</sup>                  Nienstädt</p>	
<p><b>Dr. Klaus Sturany</b> <sup>1)</sup>                  Dortmund                  Member of the Executive Board                  RWE Aktiengesellschaft</p>	<p>Member of the Supervisory Board                  Commerzbank Aktiengesellschaft, Frankfurt <sup>3)</sup>                  Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg <sup>3)</sup>                  Österreichische Industrieholding AG, Vienna, Austria <sup>3)</sup>                  RAG Aktiengesellschaft, Essen <sup>3)</sup>                  RWE Energy AG, Dortmund                  RWE Power Aktiengesellschaft, Cologne/Essen                  RWE Umwelt Aktiengesellschaft, Viersen</p>
	<p>Member of the Advisory Board                  RWE Trading GmbH, Essen</p>
	<p>Member of the Board of Directors                  RWE NPower Holdings plc, Swindon, United Kingdom                  RWE Thames Water Plc, London, United Kingdom</p>

**Bodo Uebber**

Stuttgart

Chairman of the Executive Board

DaimlerChrysler AG

Chairman of the Supervisory Board

DaimlerChrysler Bank AG, Stuttgart

DaimlerChrysler France Holding SAS, Le Chesnay, France

DaimlerChrysler Services AG, Berlin

debis AirFinance B.V., Amsterdam, Netherlands

Chairman of the Board of Directors

DaimlerChrysler Japan Holding Ltd., Tokyo, Japan

DaimlerChrysler North America Holding Corporation, Auburn Hills, USA

DaimlerChrysler UK Holding plc, London, United Kingdom

Member of the Supervisory Board

DaimlerChrysler España Holding, S.A., Madrid, Spain

Member of the Executive Board

Deutsches Aktieninstitut e.V., Frankfurt/Main

DRSC Deutsches Rechnungslegungs Standard Committee e.V., Berlin

Member of the Board of Directors

DaimlerChrysler Corporation, Auburn Hills, USA

DaimlerChrysler México Holding S.A. de C.V., Mexico City, Mexico

Freightliner LLC, Portland, USA

<sup>1)</sup> Member of the Standing Committee<sup>2)</sup> Member of the Balance Sheet Committee<sup>3)</sup> Memberships of supervisory boards and comparable control boards required by law at other companies in Germany and abroad<sup>4)</sup> Staff representative

## Executive Board (Vorstand)

### Wilhelm Zeller

Chairman of the Executive Board  
Hannover Rückversicherung AG, Hannover  
E+S Rückversicherung 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 Re of Australasia Ltd, Sydney, Australia  
Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland  
Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom  
Hannover Life Reassurance Africa Limited, Johannesburg, South Africa  
Hannover Life Reassurance Company of America, Orlando, USA  
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda  
Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland  
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland  
Hannover Reinsurance Africa Limited, Johannesburg, South Africa  
Hannover Reinsurance Group Africa (Pty) Limited,  
Johannesburg, South Africa

Member of the Supervisory Board  
Allgemeine Kredit Coface Holding AG, Mainz\*  
Allgemeine Kreditversicherung Coface AG, Mainz\*  
Deutsche Hypothekenbank (Actien-Gesellschaft), Hannover\*  
Protection Reinsurance Intermediaries AG, Hannover

Member of the Board of Directors  
International Insurance Company of Hannover Ltd.,  
Bracknell/Berkshire, United Kingdom

Member of the Board of Management  
Talanx AG, Hannover

### André Arrago

Member of the Executive Board  
Hannover Rückversicherung AG, Hannover  
E+S Rückversicherung AG, Hannover

Deputy Chairman of the Board of Directors  
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda  
Hannover Re Gestion de Réassurance France S.A., Paris, France

Member of the Supervisory Board  
Mutuelle des Transports Assurances (MTA), Paris, France\*

Member of the Supervisory Board  
Hannover Re Services Japan KK, Tokyo, Japan

### Dr. Wolf Becke

Member of the Executive Board  
Hannover Rückversicherung AG, Hannover  
E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors  
Hannover Re Gestion de Réassurance France S.A., Paris, France

	<p>Member of the Supervisory Board  ASPECTA Global Group AG, Hamburg  ASPECTA Lebensversicherung AG, Hamburg  CiV Lebensversicherung AG, Hamburg  HDI Lebensversicherung AG, Hamburg</p>
	<p>Member of the Administrative Board  ITAS Vita S.p.A, Trento, Italy</p>
	<p>Member of the Board of Directors  Hannover Life Re of Australasia Ltd, Sydney, Australia  Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland  Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom  Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa  Hannover Life Reassurance Company of America, Orlando, USA  Hannover Re Services Japan KK, Tokyo, Japan  Hannover Reinsurance Group Africa (Pty) Limited,  Johannesburg, South Africa</p>
	<p>Managing Director  Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover</p>
<p><a href="#">Jürgen Gräber</a>  Member of the Executive Board  Hannover Rückversicherung AG, Hannover  E+S Rückversicherung AG, Hannover</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 Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey  Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland  Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland  Hannover Reinsurance Africa Limited, Johannesburg, South Africa  Hannover Reinsurance Group Africa (Pty) Limited,  Johannesburg, South Africa  Insurance Corporation of Hannover, Chicago, USA  RISConsulting Group LLC, Boston, USA</p>
	<p>Alternate Member of the Board of Directors  Inter-Ocean Holdings Ltd., Hamilton, Bermuda  Inter-Ocean Reinsurance Company Ltd., Hamilton, Bermuda</p>
<p><a href="#">Dr. Elke König</a>  Member of the Executive Board  Hannover Rückversicherung AG, Hannover  E+S Rückversicherung AG, Hannover</p>	<p>Chairperson of the Board of Directors  Hannover Finance (UK) Limited, Virginia Water, United Kingdom  Hannover Finance, Inc., Wilmington, USA</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>

Member of the Administrative Board  
Special Risk Insurance and Reinsurance Luxembourg S.A., Luxembourg  
Willy Vogel Beteiligungs-GmbH, Berlin

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 Finance (Luxembourg) S.A., Luxembourg  
Hannover Life Re of Australasia Ltd, Sydney, Australia  
Hannover Life Reassurance (Ireland) Limited, Dublin, Ireland  
Hannover Life Reassurance (UK) Limited, Virginia Water, United Kingdom  
Hannover Life Reassurance Company of America, Orlando, USA  
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda  
Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland  
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland  
Intercontinental Reinsurance, Inc., Los Angeles, USA  
International Insurance Company of Hannover Ltd.,  
Bracknell/Berkshire, United Kingdom  
Mediterranean Reinsurance Services Ltd., Hong Kong, China

Managing Director  
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

**Dr. Michael Pickel**  
Member of the Executive Board  
Hannover Rückversicherung AG, Hannover  
E+S Rückversicherung 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

**Ulrich Wallin**  
Member of the Executive Board  
Hannover Rückversicherung AG, Hannover  
E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors  
International Insurance Company of Hannover Ltd.,  
Bracknell/Berkshire, United Kingdom

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

# MANAGEMENT REPORT

of Hannover Re

# MANAGEMENT REPORT

## of Hannover Re

### Economic climate

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

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

### Business development

Since 1 January 1997 the parent company has transacted the Group's active reinsurance – with the exception of some parts of the business of the Talanx Group companies – exclusively in foreign markets. Responsibility for all German business rests with our subsidiary E+S Rückversicherung AG. The risk diversification which both Hannover Re and E+S Rück seek through a geographically balanced portfolio is ensured by means of reciprocal retrocessions.

The year under review saw some of the heaviest losses in the history of the insurance industry. It was further characterised by an improved, but far from optimal capital market climate and the protracted weakness of the US dollar. While the result was adversely impacted by these negative factors, there was also gratifying news to report – namely, the sustained

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

The German economy was nevertheless able to consolidate its position somewhat in the first half of 2004, although domestic demand was not strong enough to induce a livelier upswing. While the global economic climate was relatively muted, Germany profited to a greater extent than almost any other country: exports, which were already on a high level, grew by a further 10% in 2004. Germany was thus again the world's number one exporter. Overall, economic growth in the order of 1.7% was generated – the first appreciable gain in three years.

"hard" market in property and casualty reinsurance. Against this backdrop, we were able to generate a satisfactory result.

Hannover Re again profited to the fullest extent from the advantageous market environment. Rates and conditions remained on a high level in the year under review, and even improved in some lines. This was especially true of the longer-tail casualty lines as well as those areas of natural catastrophe business that had been significantly affected by the numerous major losses in the year under review. Only in certain property lines and in aviation business did rates decline somewhat.

As always, we wrote our business in accordance with strict profitability criteria. We continued to optimise our portfolio as part of the

"More from less" initiative and replaced low-margin, high-volume proportional business with lower-volume, but more profitable non-proportional arrangements. This regrouping of our portfolio, however, combined with the restructuring of the business accepted from the HDI affiliates and the weakness of the US dollar, also caused premium income in property and casualty reinsurance to contract sharply in the year under review. Overall, we generated gross written premiums of EUR 6,095.2 million, a decline of 6.8% compared to the previous year's figure (EUR 6,539.3 million).

The effects of our cycle management were clearly evident in the development of individual lines: we preferred to write long-tail casualty business in the year under review. Gross premiums nevertheless contracted to EUR 1,304.1 million (EUR 1,404.5 million). Fire premiums were 15.4% lower at EUR 812.0 million. The premium volume in the aviation segment fell by 21.6% to EUR 440.5 million. These decreases were to a not insignificant extent attributable to the sustained strength of the euro against the US dollar.

After the relatively light burden of major losses recorded in 2003, the year under review will go down as the most expensive year for natural disasters in the history of the insurance industry. Early market estimates suggest that the insurance sector will be paying out around EUR 28 billion to settle natural catastrophe losses. The burden incurred by Hannover Re in the year under review was also correspondingly high: compared with just EUR 40.9 million in the previous year, major loss expenditure in property and casualty reinsurance totalled EUR 238.9 million in the year under review. The proportion of major losses relative to net premiums thus stood at 5.9% as against 1.5% in the previous year.

The disastrous flooding suffered in South Asia on 26 December 2004, a tragic event with a death toll of almost 300,000, produced a strain of EUR 20.1 million for our company. This relatively modest loss burden was attributable to

the significantly lower insurance density in the affected regions (compared, for example, to the USA). Despite additional major losses, the combined ratio was only slightly higher than in the previous year (90.0%) at 92.1%. This is a highly satisfactory figure in view of the enormous loss expenditure, and it clearly demonstrates that we were able to further enhance the quality of our property and casualty reinsurance business on a calendar-year basis.

Despite the heavy burden of major losses incurred in the year under review, we are very satisfied overall with the development of property and casualty reinsurance. With the exception of our catastrophe reinsurance, our portfolio performed superbly in all segments and in large measure made up for the drag on profitability associated with the natural disasters.

The situation in life and health reinsurance in the year under review was also satisfactory. Gross premium income was boosted by a substantial 26.1% to EUR 1.4 billion (EUR 1.1 billion). Net premiums climbed by as much as 53.0% to EUR 929.5 million (EUR 607.5 million) due to the increased level of retained premiums. The portfolio continues to develop as planned.

The underwriting result before changes in the equalisation reserve declined to EUR 192.4 million (EUR 258.6 million). An amount of EUR 232.5 million was allocated to the equalisation reserve and similar provisions. The allocation to the IBNR reserve shown under "Other charges" totalled EUR 235.3 million.

Developments on capital markets were largely satisfactory in the year under review. Write-downs of EUR 40.0 million were taken on investments in a capital market climate that was by no means straightforward. Ordinary income was boosted by 1.0% to EUR 511.6 million (EUR 506.2 million). Thanks to the strong underwriting cash flow the total asset portfolio – including deposits with ceding companies – grew by EUR 1.8 billion to EUR 13.5 billion, thereby offsetting the lower interest rate level in the year under

review. The extraordinary investment income of EUR 73.2 million was somewhat higher than in the previous year (EUR 72.1 million) due to realised gains. The net investment result increased from EUR 578.2 million to EUR 584.7 million.

The balance of other income and charges – excluding the allocation to the IBNR reserve – amounted to -EUR 70.5 million as against -EUR 119.5 million in the previous year.

Overall, the parent company generated a profit for the financial year of EUR 120.6 million (EUR 114.9 million). The low effective tax rate of 19.2% derives, most significantly, from high tax-exempt income due to distributions of foreign subsidiaries.

Outstanding debt in the amount of USD 400 million taken out by our US financing company was almost entirely bought back. In this context we profited especially from the US dollar exchange rate against the euro. In addition, we repaid surplus debenture of EUR 76.7 million that became due in November of the year under review. Hannover Re continues to be very strongly capitalised and was consequently able to stabilise its ratings. In the course of the year both Standard & Poor's (AA- "very strong") and A.M. Best (A "excellent") upgraded their rating outlook from "negative" to "stable".

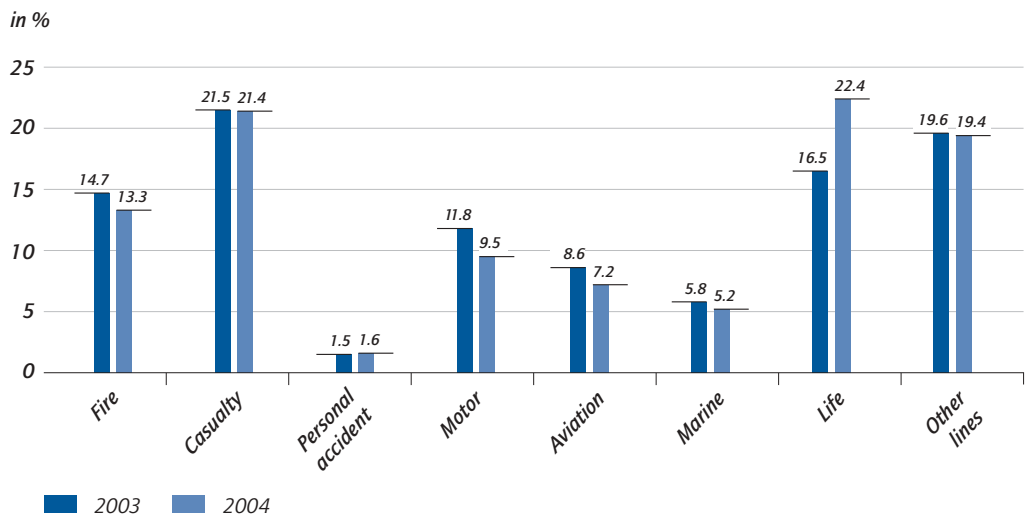
## Premium development and results

In the year under review we continued to profit from the highly advantageous market climate, especially in property and casualty re-insurance. In the treaty renewal negotiations we secured improved rates and conditions in most lines of business.

US dollar, the most significant factor here was the regrouping of our portfolio away from high-volume, but relatively low-margin proportional business towards lower-volume, but more profitable non-proportional arrangements.

Our total gross premium income nevertheless contracted by 6.8% to EUR 6.1 billion (EUR 6.5 billion). In addition to the weakness of the

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



Through intra-group retrocessions from E+S Rück we also participate in the German reinsurance market. Business on our domestic market developed very successfully in the year under review. No significant major losses were recorded in Germany. The claims situation in the industrial fire portfolio – including business interruption – was very relaxed.

## Fire

Worldwide – whether in North or South America, Northern Europe or Asia – fire business remains one of the most important lines written by Hannover Re. Industrial fire business in Germany fared even better than in the previous year; both the claims frequency and the scale of losses were substantially lower.

Premium income from our fire business fell by 15.4% to EUR 812.0 million (EUR 959.4 million). The major factors here were the restructuring of business with the HDI companies and the weak state of the US dollar. We also slightly scaled back our proportional fire business.

The loss ratio improved on the previous year by 10.2 percentage points to reach 64.9%.

## Casualty

Casualty business developed highly satisfactorily in the year under review. Especially in the longer-tail lines we were generally able to obtain further rate increases, although not on a scale comparable with the significant rises of recent years. Building on previous years, we continued to add an increasing volume of this business to our portfolio in view of its profitability.

North America is traditionally our most important casualty market. We analysed the individual lines with an eye to rate movements and claims/expense trends and scaled back those risks that were producing below-average margins – including, for example, directors' and officers' covers. The premium volume in North Ameri-

The proportion of the parent company's gross written premiums attributable to business accepted from E+S Rück stood at 9.6% in the year under review (5.8%).

An amount of EUR 55.7 million was allocated to the equalisation reserve, following a withdrawal of EUR 6.5 million in the previous year. A contribution of EUR 17.2 million was made to the reserve for terrorism risks in the year under review.

## Fire

in EUR million	2004	2003
Gross written premiums	812.0	959.4
Loss ratio (%)	64.9	75.1
Underwriting result (net)	51.5	128.0

ca consequently contracted by around 4% in the year under review. The commercial and professional indemnity lines were the most prominent components of the portfolio.

Total gross premium income fell by 7.1% to EUR 1,304.1 million (EUR 1,404.5 million).

The previous year's very good loss ratio of 69.8% deteriorated to 88.2% on account of specific adverse underwriting effects on various individual treaties. The underwriting result closed at -EUR 74.5 million (EUR 44.6 million). Bearing in mind the long run-off in this line, however, the underwriting deficit is offset by relatively strong investment income. Overall, therefore, this busi-

ness is expected to generate a positive profit contribution. An amount of EUR 12.1 million was withdrawn from the equalisation reserve, following an allocation of EUR 211.4 million in the previous year.

We strengthened the IBNR reserve with an allocation of EUR 167.0 million from the non-technical account.

### Personal Accident

Personal accident insurance is of minimal importance within our overall portfolio, accounting for just 1.6% of the total business. A number of developed markets currently offer growth opportunities in the area of products aimed at senior citizens.

Gross premiums were 1.6% higher than in the previous year at EUR 96.9 million (EUR 95.4 million).

On the claims side, we are highly satisfied with the experience in this line. The loss ratio im-

### Motor

Following substantial premium growth in 2002 and a modest rise in the previous year, our premium income contracted by 24.5% in the year under review to EUR 580.8 million.

Germany and North America continued to be the most important markets for motor reinsurance. US business was characterised by a falling claims frequency and stable average loss costs per event. In the German market, too, business was highly profitable overall, although mention should be made of a spectacular motor third party liability claim on the Wiehltalbrücke motorway bridge near Gummersbach.

It was particularly gratifying to note that we reduced our net loss ratio in motor business by a further 10.2 percentage points to 71.5% (81.7%) following a cut of 5.3 percentage points in the previous year. The underwriting result also

### Casualty

in EUR million	2004	2003
Gross written premiums	1 304.1	1 404.5
Loss ratio (%)	88.2	69.8
Underwriting result (net)	(74.5)	44.6

proved again to 52.3%. The underwriting profit also improved from EUR 6.7 million to EUR 13.4 million. An amount of EUR 8.4 million (EUR 5.7 million) was allocated to the equalisation reserve.

### Personal Accident

in EUR million	2004	2003
Gross written premiums	96.9	95.4
Loss ratio (%)	52.3	53.1
Underwriting result (net)	13.4	6.7

improved appreciably to EUR 17.2 million after a deficit of EUR 19.5 million in the previous year.

An amount of EUR 47.3 million was allocated to the equalisation reserve in the year under review, following a contribution of EUR 37.7 million in the previous year. We boosted the IBNR reserve for motor third party liability insurance with a contribution of EUR 68.3 million from the non-technical account.

### Motor

in EUR million	2004	2003
Gross written premiums	580.8	769.2
Loss ratio (%)	71.5	81.7
Underwriting result (net)	17.2	(19.5)

## Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business. Following considerable rate increases and improved conditions in the wake of the events of 11 September 2001, clear tendencies towards consolidation could already be observed on the market in the previous year. The development of aviation business in the year under review was characterised by declining insurance and reinsurance rates as well as surplus capacities on the reinsurance market.

A significant portion of our aviation business is written on the London Market. In view of the softening market we wrote risks highly selectively and scaled back our volume. Premium income consequently contracted from EUR 561.6 million to EUR 440.5 million.

The claims experience was satisfactory due to the low burden of losses. The loss ratio improved from 75.1% to 56.5%. The underwriting profit grew from EUR 36.2 million to EUR 66.6 million. An amount of EUR 24.2 million was allocated to the equalisation reserve.

### Aviation

in EUR million	2004	2003
Gross written premiums	440.5	561.6
Loss ratio (%)	56.5	75.1
Underwriting result (net)	66.6	36.2

## Marine

In marine business, too, we are one of the major providers, writing business principally through the London and North American markets. Our primary focus in this line was on consolidating our portfolio. In particular, we were committed to defending the good rate level – a goal that we in large measure accomplished. We again concentrated on writing profitable excess of loss covers, especially the middle and upper layers of such programmes. Hurricane "Ivan" was by far the largest single loss event in the marine sector. The damage caused to oil platforms in the Gulf of Mexico produced the largest insured loss ever recorded in offshore business. Our portfolio nevertheless closed with a technical profit thanks to our selective underwriting policy. Non-proportional marine business remained profitable despite the loss expenditure associated with hurricane "Ivan". The downward trend in primary insurance rates in this line was halted and reinsurance conditions further improved as a consequence of this loss.

The net loss ratio increased from the previous year's very low level of 37.3% to 57.3%.

Marine business closed with an underwriting profit of EUR 63.3 million (EUR 88.0 million). An amount of EUR 18.5 million was allocated to the equalisation reserve.

### Marine

in EUR million	2004	2003
Gross written premiums	319.6	377.2
Loss ratio (%)	57.3	37.3
Underwriting result (net)	63.3	88.0

## Life

Within the scope of our strategic diversification we continue to attach high priority to the expansion of our national and international market position in the various lines of life and health reinsurance – life, annuity, disability, critical illness and personal accident.

Our gross premium income of EUR 1,363.2 million in 2004 comfortably surpassed the previous year's level of EUR 1,080.9 million. In the year under review we took major strides towards generating further profitable growth: in core markets such as Germany and the United Kingdom we successfully launched new products and were able to both acquire attractive new accounts and expand existing customer relationships. On the product side, it is our belief that offerings specially tailored to the needs of senior citizens – an area that has hitherto been rather neglected in Germany compared to other countries – will be a promising market for the future.

In Germany – where we operate through our subsidiary E+S Rück –, Austria, Switzerland, and Luxembourg we successfully maintained our

## Other lines

In accordance with German accounting standards 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.

Gross premiums in fire loss of profits insurance declined by 10.4% in the year under review to EUR 128.2 million (EUR 143.1 million). The underwriting profit before changes in the equalisation reserve improved significantly, however, to EUR 51.5 million (EUR 23.4 million).

strategic positioning with a focus on financing transactions for unit-linked individual life policies; in the major Romance-speaking markets of France, Spain and Italy we primarily serve the bancassurance sector. In the United Kingdom we operate as the leading reinsurer and expert authority on enhanced annuities, a special form of immediate life annuities.

On the basis of intra-group retrocessions we also participate indirectly through our life subsidiaries in the United Kingdom, the United States, South Africa and Australia in the development of these markets.

We recorded an underwriting result of -EUR 50.1 million (-EUR 60.4 million) in 2004.

## Life

in EUR million	2004	2003
Gross written premiums	1 363.2	1 080.9
Underwriting result (net)	(50.1)	(60.4)

Our health reinsurance portfolio consists principally of business ceded by our subsidiary Hannover Life Re of America. Gross premium income contracted by 24.0% to EUR 218.4 million (EUR 287.2 million). The underwriting result of -EUR 0.7 million was roughly on a par with the previous year (-EUR 0.5 million).

Credit and surety insurance finally witnessed the uncoupling of underwriting results from the protracted adverse credit cycle. Terms and conditions for reinsurers were entirely adequate. The remaining established reinsurers wrote higher shares. Excellent market conditions prevailed in North America following the withdrawal of numerous US reinsurers. We therefore enlarged our market share despite emerging competition from newly established players in

Bermuda, although our underwriting policy in no way diverged from its strict profitability orientation. There were no significant loss events to report.

Gross premium income in credit and surety reinsurance grew by 3.2% to EUR 246.6 million. The underwriting result improved to EUR 21.6 million, contrasting with a deficit of EUR 11.6 million in the previous year.

Following a sizeable increase in the previous year, gross premiums in windstorm reinsurance retreated by 12.6% in the year under review to EUR 240.0 million. Primarily due to the numerous hurricanes and typhoons, the underwriting result deteriorated to -EUR 28.0 million

## Investments

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

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

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

Ordinary income in the year under review increased by 1.0% to EUR 531.6 million (EUR

after a profit of EUR 22.9 million in the previous year.

An amount of EUR 65.8 million was allocated to the equalisation reserves for other lines in the year under review, following a withdrawal of EUR 16.8 million in the previous year.

### Other lines

in EUR million	2004	2003
Gross written premiums	1 178.1	1 291.1
Loss ratio (%)	66.0	84.1
Underwriting result (net)	105.0	35.0

526.3). At the same time the total investment portfolio (including deposits with ceding companies) grew by EUR 1.8 billion (+15.4%) to EUR 13.5 billion. This growth was attributable to a higher underwriting cash flow from reinsurance business. Deposits with ceding companies accounted for a sizeable portion of our assets. Our total portfolio of self-managed assets (i.e. excluding deposits with ceding companies) grew by 9.5% in the reporting period to EUR 9.2 billion (EUR 8.4 billion). The reserves on our other financial investments, in other words investments excluding real estate and participating interests, decreased to EUR 138.2 million (EUR 147.1 million); this contrasted with net profits on disposals of EUR 106.1 million (EUR 89.2 million).

The euro had appreciated by 8.2% against the US dollar as at 31 December 2004 compared to year-end 2003. Had it not been for exchange-rate effects, the volume of our investments would have been EUR 369.9 million higher. Within the scope of our asset/liability management activities, the allocation of investments by currency is guided by the development of underwriting items on the liabilities side of the balance sheet. This ensures extensive currency matching of assets and liabilities, thereby keep-

ing earnings-affecting currency fluctuations within manageable bounds.

Equity investments were made predominantly in index-tracking investment instruments from the Eurozone and the USA. By using targeted option strategies we exploited market volatilities for the purposes of portfolio optimisation. As at year-end 10.3% of our investments were in listed stocks.

Write-downs on exchange-listed equities amounted to a mere EUR 0.7 million, while at the same time we realised net gains of EUR 58.1 million on the sale of shares.

Caution was the hallmark of our investment policy in the area of fixed-income securities in the year under review. The quality of the securities remained on a high level since greater exposure to lower-grade bonds appeared inadvisable in light of the risk/yield ratio on the credit markets. Our primary focus was on government bonds and liquid issues of sovereign entities as well as jumbo mortgage bonds in Europe. In addition, our duration management had a defen-

sive posture, enabling us to respond appropriately at short notice to movements in interest rates.

Our portfolio of fixed-income securities increased by a modest EUR 86.8 million to EUR 4.7 billion. New investments were made primarily in short- and medium-duration instruments in order to minimise the risk of write-downs. Net gains on disposals of EUR 32.9 million were realised. Net unrealised gains in our portfolio of fixed-income securities decreased to EUR 43.6 million (EUR 81.7 million). Fluctuations in market yields within the year were to a large extent optimally utilised through tactical duration management. We were able to maintain the very good quality of these securities.

In the continuing difficult investment climate write-downs of EUR 40.0 million (EUR 32.8 million) were taken. The balance of profits and losses on disposals increased to EUR 106.2 million (EUR 93.0 million). The total net investment result amounted to EUR 584.7 million, an improvement of EUR 6.5 million on the previous year's figure of EUR 578.2 million.

## Risk report

Our business consists of the systematic acceptance of underwriting risks. In our understanding, the concept of risk has both positive and negative connotations (opportunities and dangers). We assume our business partners' risks on the basis of advanced methods and proced-

ures, although only if the associated opportunities promise a commensurate increase in the value of the company. A professional set of tools for the appropriate controlling of risk acceptances is therefore indispensable for our company.

### Organisation of risk management

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

- Local staff bear primary responsibility for the monitoring of risks and risk-policy measures within their specific areas.

- Local risk controllers are charged – on the level of specific business groups – with aggregating and controlling individual risks and, where necessary, initiating appropriate risk-minimisation measures.
- Centralised risk controlling steers the entire process and describes the risk situation of the entire company across all business groups.

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

We have categorised Hannover Re's risks as follows:

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

#### Global risks

Global risks derive, inter alia, from:

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

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

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

(US GAAP/IFRS) by specialised service units within Hannover Re.

### Strategic risks

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

- Optimal diversification,
- Systematic cycle management,
- Efficient capital management and risk-optimised investments,
- Opportunistic use of retrocessions,
- Low administrative expenses,
- Internationally optimised tax policy.

### Technical operating risks

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

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

The calculations are also regularly checked by external actuaries and auditors. In addition to the losses reported to us by our clients, we establish additional reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBNR (incurred but not reported) reserve for claims that have probably already occurred but have not yet been reported to us. The latter, which are especially relevant in the casualty lines, are calculated using recognised actuarial methods. The IBNR

reserve established by Hannover Re is calculated according to a breakdown into risk categories and regions. Asbestos- and pollution-related claims constitute a special issue in IBNR reserving. In this area years or sometimes even decades may elapse between causation of the loss and reporting of the claim. Hannover Re's exposure to asbestos-related claims and pollution damage is relatively slight.

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

Retrocession is another key tool for risk limitation. The business that we accept is not always fully retained, but instead portions are retroceded as necessary. Assumed risks are examined in order to determine the extent to which they spread the overall risk in the portfolio in question. The levels of retained premiums are determined on this basis and our retrocession arrangements structured accordingly. It is therefore particularly important to carefully select retrocession partners in light of credit considerations. Our Security Committee classifies the reinsurers acceptable to Hannover Re with binding effect.

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

### Investment operating risks

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

- Steering of the underwriting portfolio (liability management),
- Steering of the investment portfolio (asset management),
- Linking and matching of these two subsegments through asset/liability management.

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

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

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

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between portfolio management, settlement and risk controlling. Risk controlling – which is organisationally and func-

tionally separate from portfolio management – bears responsibility for monitoring all risk limits, evaluating financial products and verifying that all transactions are effected in line with market conditions. In this respect our management and control mechanisms are geared to the rules adopted by the Federal Financial Supervisory Authority (BaFin).

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

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

## Rating structure of our fixed-income securities\*

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	70.8	2 804.2	5.8	21.3	0.3	0.8	–	–
AA	19.0	749.8	47.2	171.9	97.1	284.4	54.4	30.0
A	8.7	344.6	41.2	150.1	–	–	36.5	20.1
BBB	1.0	40.7	5.0	18.1	–	–	9.1	5.0
< BBB	0.5	19.8	0.8	2.8	2.6	7.7	–	–
Total	100.0	3 959.1	100.0	364.2	100.0	292.9	100.0	55.1

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

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

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices +10%	59.0
	Stock prices +20%	118.0
	Stock prices -10%	(59.0)
	Stock prices -20%	(118.0)
	Fair value as at 31.12.2004	589.8
Fixed-income securities	Yield increase +100 basis points	(131.6)
	Yield increase +200 basis points	(251.9)
	Yield decrease -100 basis points	142.8
	Yield decrease -200 basis points	297.0
	Fair value as at 31.12.2004	4 743.5
Exchange-rate sensitive investments	Exchange rate change* +10%	(330.2)
	Exchange rate change* -10%	330.2
	Fair value as at 31.12.2004	3 301.8

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

## Operational risks

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

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

The most important operational risks include:

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

The availability of applications, protection of confidentiality and integrity of its data are of vital importance to Hannover Re. The global sharing of information, increasingly via e-mail, also exposes us to attack from computer viruses.

We invest systematically in the security and availability of our information technology in order to maintain and enhance the current high level of security. For example, the existing contingency and disaster recovery plans are presently being updated and tested under realistic conditions. Group-wide coordination is the responsibility of the Corporate Information Security Officer appointed in the year under review.

Breaches of antitrust law can lead to not inconsiderable fines and damage the company's image. Particularly for staff who come into contact with cedents or other reinsurers, systematic

training sessions were held in the year under review in order to avoid conduct that might breach antitrust provisions. What is more, a detailed guideline was drawn up with company-wide validity setting out a code of conduct for all employees in accordance with antitrust law. On the basis of this guideline Internal Auditing will also include relevant antitrust issues within the scope of its audits. The company's offices abroad have similarly been instructed to adopt appropriate local guidelines. In this way we ensure that our actions comply with antitrust provisions.

## Assessment of the risk situation

All in all, we do not currently see any indications of developments that could significantly impact Hannover Re's assets, financial position

or net income. No risks can be discerned that could jeopardise the continued existence of the company.

## Human resources

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

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

- Needs-oriented enhancement of employee skills,
- Assignment of challenging and responsible duties,
- Attracting and retaining high-performance, motivated staff,
- Preparing managerial staff for their tasks and equipping them with the necessary skills,
- Establishing an entrepreneurial mindset on all levels.

For us, human resources development begins with our personnel marketing activities and the selection process prior to recruitment. Personnel development supports every member of staff, starting with their job familiarisation, through all positions and levels of their career with our company. In this context we see personnel development as an interplay between management, staff and Human Resources. To this end our Per-

sonnel Development team provides a range of development tools that are used by management and employees in consultation with personnel advisors and developers. Needless to say, the personnel development tools employed by Hannover Re are constantly reviewed and regularly expanded and optimised.

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

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

In the year under review we participated in the study "Germany's best employer 2004", conducted by a highly reputed Cologne research and consulting institute in cooperation with the business magazine Capital. Staff from more than 100 companies were surveyed. With an overall mark of 2 Hannover Re ranks among Germany's most popular employers. This score was based, in part, on the findings of the employee survey with regard to quality criteria such as credibility, respect, fairness, pride in one's work and company as well as team orientation; the results of this anonymous survey accounted for two-thirds of the total score. The rating also included a so-called "culture audit", in which the programmes, concepts and activities that make up our personnel development work were evaluated. Han-

nover Re was one of the few companies to participate in this study by way of a comprehensive survey, in which a response rate of 75.6% was achieved. Our company received an impressive mark from its workforce: 92% of respondents rated their company as a very good employer, nine out of ten staff are proud to tell others that they work here and a further 90% closely identify with the company: today, they would again choose to work for Hannover Re and would recommend the company as an employer to a good friend.

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

The number of staff increased in the year under review by 5.3% to 599 (569). 30 new jobs were thus created.

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

## Outlook for 2005

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

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

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

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

In property and casualty reinsurance we achieved a very good result in the year under review despite heavy loss expenditures. This underscores the logic of our strategic orientation geared to systematic diversification of our portfolio and business groups as well as the pursuit of a selective underwriting policy guided by our "More from less" initiative.

In the treaty renewals as at 1 January 2005 – the date when almost two-thirds of our portfolio was renegotiated – it became clear that ceding companies are looking even more closely

at a reinsurer's rating than was the case in the past. Especially when it comes to writing casualty business, a very good rating is absolutely indispensable. Only around 10% of reinsurers still satisfy this requirement: with ratings of "AA-" from Standards & Poor's and "A" from A.M. Best, Hannover Re is one of them.

Although a considerably softer market had already been expected in the year under review, there are still few signs of this materialising in 2005. Whilst we continue to assume that the market cycle has reached its peak, a virtually unchanged attractive business climate is anticipated for the current year. Stable rates and conditions were preserved in most segments. In some lines, including for example hurricane and flood-battered catastrophe business, it was even possible to obtain further modest improvements.

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

In credit and surety reinsurance the situation remains positive. Profitability has fallen off somewhat, but is still on a high level. Particularly in North America, this line will again enjoy a very attractive market climate in 2005. In Germany the primary sector is showing early signs of increased competition. Pointing to the very good rehabilitation successes achieved in recent years, many cedents believe that the time has now come to roll back – at least partially – the improved conditions obtained by reinsurers. It is to be hoped that the reinsurance market can resist this trend for a while longer.

The treaty renewal season for property/casualty business in Germany passed off highly successfully; the price structure exhibited unexpected stability. Adequate terms and conditions

enabled us to substantially expand our market position. We now rank as by far the largest reinsurer in our domestic market. We made the most of the advantageous market environment and therefore expect to show a good result, provided the loss experience is similarly favourable to that recorded in the previous year. In the other European countries, too, the current year promises to develop favourably.

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

Rates and conditions for catastrophe business in Japan are likely to improve for wind-storm risks, while they are expected to remain stable for earthquake risks. All in all, reinsurers continue to enjoy a gratifying business climate.

Business in Australia is developing very favourably. No tendencies towards a softer market can be observed as yet. This is true both of rates and conditions on the catastrophe reinsurance market. We are particularly pleased with the situation in casualty insurance, where rates and conditions are again comfortably adequate.

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

Especially in European markets, life and health reinsurance is expected to generate vigorous new business in the current year. The most

notable growth is anticipated in unit-linked life insurance (Germany) and the traditional products of term life and critical illness (United Kingdom). After enjoying a boom year in 2004, the German market will likely be somewhat calmer, although the overall pace of market growth will surpass the average level of recent years.

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

In the USA we shall press ahead with our successful niche strategy focussed on high-value financing transactions and the steadily growing senior citizens' market. We are seeking to further expand the good market position that we have now attained in South Africa, principally by focusing on conventional individual life business. In the Asia-Pacific region the most attractive growth opportunities are offered by Malaysia, Thailand and Japan. Bancassurance continues to grow in Japan: as part of extensive market deregulation banks are progressively being permitted to market life and annuity products. This process, which will primarily benefit the Japanese subsidiaries of foreign life insurers, is to be completed by 2007. Attractive business opportunities are also opening up for reinsurers in this context.

All in all, double-digit growth in premium income is anticipated in some European markets, the USA and South Africa for the current year. Profitability should continue to improve.

The anticipated positive underwriting cash flow will likely lead to further growth in the total asset volume in 2005. Even if interest rates rise only slightly investment income should also increase again. We therefore expect a modestly

improved investment result. We shall maintain our equity allocation on a slightly higher level of roughly 10%. In the area of fixed-income securities we continue to attach the utmost importance to the high quality of our portfolio.

In view of our business expectations and the economic climate, we should be able to substantially increase our profit for the 2005 fi-

ancial year. As always, this projection is subject to the proviso that there are no unexpected downturns on capital markets and major loss expenditure remains within the bounds of the multi-year average.

## 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).

## Proposal for the distribution of profits

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

Figures in EUR	Proposal for the distribution of profits
Payment of a dividend of EUR 1.00 on each eligible no-par-value share	120 597 134.00
Profit carried forward to new account	402 866.00
Disposable profit	121 000 000.00

## Other information

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

Tax matters are largely handled on a central basis for the Group by Talanx AG.

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

# BALANCE SHEET

as at 31 December 2004

Figures in EUR thousand	2004	2003
<b>Assets</b>		
A. Intangible assets:		
Other intangible assets	13 440	13 704
B. Investments		
I. Land and buildings, rights to land and buildings, leasehold	65 649	69 823
II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	2 938 683	2 621 029
2. Loans to affiliated companies	522 887	182 211
3. Participating interests	102 222	122 541
4. Loans to enterprises in which the company has a participating interest	13 196	14 274
	3 576 988	2 940 055
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	1 074 780	967 857
2. Bearer debt securities and other fixed-income securities	3 959 086	3 895 241
3. Mortgages and loans secured on land and buildings	1 578	1 885
4. Other loans		
a) Registered debt securities	91 375	131 496
b) Debentures and loans	272 846	147 093
c) Sundry loans	55 113	60 226
	419 334	338 815
5. Deposits with banks	99 682	193 475
6. Other investments	5	5
	5 554 465	5 397 278
IV. Deposits with ceding companies	4 259 778	3 263 633
	13 456 880	11 670 789

Figures in EUR thousand	2004	2003
<b>Liabilities</b>		
<b>A. Capital and reserves</b>		
I. Subscribed capital	120 597	120 597
II. Capital reserve	880 608	880 608
III. Retained earnings		
1. Statutory reserve	511	511
2. Other retained earnings	214 100	214 100
	214 611	214 611
IV. Disposable profit	121 000	115 000
	1 336 816	1 330 816
<b>B. Surplus debenture (Genussrechtskapital)</b>		76 694
<b>C. Technical provisions</b>		
I. Provision for unearned premiums		
1. Gross	902 608	868 247
2. Less: reinsurance ceded	201 560	226 299
	701 048	641 948
II. Life assurance provision		
1. Gross	3 280 191	2 694 749
2. Less: reinsurance ceded	901 563	943 660
	2 378 628	1 751 089
III. Provisions for outstanding claims		
1. Gross	8 983 687	8 452 366
2. Less: reinsurance ceded	2 316 493	2 640 043
	6 667 194	5 812 323
IV. Provision for bonuses and rebates		
1. Gross	1 594	2 566
2. Less: reinsurance ceded	732	1 131
	862	1 435
V. Equalisation reserve and similar provisions	1 341 989	1 109 482
VI. Other technical provisions		
1. Gross	126 500	100 813
2. Less: reinsurance ceded	30 017	20 893
	96 483	79 920
	11 186 204	9 396 197

Figures in EUR thousand	2004	2003
<b>Assets</b>		
<b>C. Receivables</b>		
I. Accounts receivable arising out of reinsurance operations	1 279 777	1 399 929
from affiliated companies:		
179 380 (2003: 146 660)		
II. Other receivables	282 808	270 587
from affiliated companies:	1 562 585	1 670 516
206 794 (2003: 220 859)		
<b>D. Other assets</b>		
I. Tangible assets and stocks	8 968	7 760
II. Current accounts with banks, cheques and cash in hand	85 306	95 417
	94 274	103 177
<b>E. Prepayments and accrued income</b>		
I. Accrued interest and rent	52 331	53 399
II. Other accrued income	2 520	2 610
	54 851	56 009
<b>F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)</b>		
	87 551	66 578
	15 269 581	13 580 773

Figures in EUR thousand	2004	2003
<b>Liabilities</b>		
D. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	29 274	27 088
II. Provisions for taxation	82 448	50 003
III. Other provisions	39 502	41 692
	151 224	118 783
E. Deposits received from retrocessionaires	1 532 527	1 554 546
F. Other liabilities		
I. Accounts payable arising out of reinsurance operations to affiliated companies: 341 525 (2003: 415 128)	1 019 893	978 309
II. Liabilities to banks	2 993	3 200
III. Miscellaneous liabilities	39 106	120 977
from taxes: 1 638 (2003: 842)		
for social security: 818 (2003: 539)		
to affiliated companies: 31 868 (2003: 130 666)		
G. Accruals and deferred income	818	1 251
	15 269 581	13 580 773

# PROFIT AND LOSS ACCOUNT

for the 2004 financial year

Figures in EUR thousand	2004		2003
	1.1.–31.12.		1.1.–31.12.
I. Technical account			
1. Earned premiums, net of retrocession			
a) Gross written premiums	6 095 233		6 539 297
b) Retrocession premiums	1 961 654		2 824 139
		4 133 579	3 715 158
c) Change in the gross provisions for unearned premiums (+/-)	(88 615)		(52 748)
d) Change in the provisions for unearned provisions, retrocessionaires' share (+/-)	(14 203)		32 881
		(102 818)	(19 867)
		4 030 761	3 695 291
2. Allocated investment return transferred from the non-technical account, net of retrocession		64 333	67 122
3. Claims incurred, net of retrocession			
a) Claims paid			
aa) Gross	2 935 267		3 045 700
bb) Retrocessionaires' share	1 318 581		1 662 254
		1 616 686	1 383 446
b) Change in provisions for outstanding claims			
aa) Gross	(656 203)		(595 639)
bb) Retrocessionaires' share	(267 719)		(569 773)
		(923 922)	(1 165 412)
		2 540 608	2 548 858
4. Changes in other technical provisions, net of retrocession			
a) Net life assurance provision		(360 291)	(160 925)
b) Other net technical provisions		920	377
		(359 371)	(160 548)
5. Bonuses and rebates, net of retrocession		(6)	577
6. Operating expenses, net of retrocession			
a) Gross acquisition expenses		1 394 893	1 509 365
Less: commissions and profit commissions received on retrocession		394 835	716 757
		1 000 058	792 608
7. Other technical charges, net of retrocession		2 624	1 230
8. Subtotal		192 439	258 592
9. Change in the equalisation reserve and similar provisions		(232 506)	(301 778)
10. Net technical result		(40 067)	(43 186)

Figures in EUR thousand	2004		2003
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		(40 067)	(43 186)
<b>II. Non-technical account</b>			
1. Investment income			
a) Income from participating interest affiliated companies: 170 090 (2003: 184 978)	177 485		194 542
b) Income from other investments affiliated companies: 50 954 (2003: 31 746)			
aa) Income from land and buildings, rights to land and buildings, leasehold	5 948		6 404
bb) Income from other investments	323 650		303 604
		329 598	310 008
c) Appreciation on investments		4 600	9 475
d) Gains on the realisation of investments		127 081	153 786
e) Income from profit pods, profit and loss transfer agreements or partial profit and loss transfer agreements		24 539	21 702
		663 303	689 513
2. Investment charges			
a) Investment management charges, including interest	17 637		17 735
b) Depreciation extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB) 7 666 (2003: 18 049)	40 004		32 830
c) Losses on the realisation of investments	20 937		60 785
		78 578	111 350
		584 725	578 163
3. Allocated investment return transferred to the technical account		(89 692)	(84 438)
		495 033	493 725
4. Other income		63 577	55 954
5. Other charges			
a) Special allocation to provisions for outstanding claims	235 308		197 838
b) Miscellaneous charges	134 051		175 412
		369 359	373 250
		(305 782)	(317 296)
6. Profit or loss on ordinary activities before tax		149 184	133 243

Figures in EUR thousand	2004		2003
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		149 184	133 243
7. Taxes on profit and income	28 710		19 536
plus allocation for group assessment	(1 494)		(1 951)
		27 216	17 585
8. Other taxes	1 057		742
plus allocation for group assessment	344		27
		1 401	769
		28 617	18 354
9. Profit or loss for the financial year		120 567	114 889
10. Profit brought forward from previous year		433	111
11. Disposable profit		121 000	115 000

## 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

The provision for unearned premiums, life assurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions were entered 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, they have been increased 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 23.1% of the total volume.

In the liability and motor third party liability lines IBNR claims reserves have been set up 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 catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) 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) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 1998 standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

The pension commitments are established according to the present value of the expectancy and are protected by insurance.

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, matching cover was extensively established for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which investments are held, the profits arising out of revaluation were allocated – 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

Figures in EUR thousand	2003			2004		
	Book values 31.12.	Additions	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets:						
Other intangible assets	13 704	3 601	280	–	3 585	13 440
B. I. Land and buildings, rights to land and buildings, leasehold	69 823	–	–	–	4 174	65 649
B. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	2 621 029	346 997	29 343	–	–	2 938 683
2. Loans to affiliated companies	182 211	340 680	4	–	–	522 887
3. Participating interests	122 541	581	18 800	–	2 100	102 222
4. Loans to enterprises in which the company has a participating interest	14 274	–	1 078	–	–	13 196
5. Total B. II.	2 940 055	688 258	49 225	–	2 100	3 576 988
B. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	967 857	990 467	880 164	899	4 279	1 074 780
2. Bearer-debt securities and other fixed-income securities	3 895 241	2 696 729	2 614 990	2 799	20 693	3 959 086
3. Mortgages and loans secured on land and buildings	1 885	–	307	–	–	1 578
4. Other loans						
a) Registered debt securities	131 496	–	40 121	–	–	91 375
b) Debentures and loans	147 093	219 923	94 170	–	–	272 846
c) Sundry loans	60 226	–	5 113	–	–	55 113
5. Deposits with banks	193 475	7 787	101 580	–	–	99 682
6. Other	5	–	–	–	–	5
7. Total B. III.	5 397 278	3 914 906	3 736 445	3 698	24 972	5 554 465
Sum total	8 420 860	4 606 765	3 785 950	3 698	34 831	9 210 542

### Land and buildings and rights to land and buildings

On 31 December 2004 the company had at its disposal seven 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 920 thousand as at 31 December 2004. In addition, the company had shares of EUR 14,042 thousand in two developed properties in Düsseldorf and Stuttgart and a share of EUR 1,264 thousand in land without buildings in Hannover. The book value of the buildings for own use on Roderbruchstraße totalled EUR 1,554 thousand as at 31 December 2004.

## 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.

2004					
Name and registered office of the company Figures in currency units of 1 000	Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year	
<b>Shares in affiliated companies</b>					
<b>Companies resident in Germany</b>					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	589 539	EUR	24 539
■ holds 55.78% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	464 281	EUR	44 000
■ holds 100.00% of the shares in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	158 192	EUR	11 550
■ holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR	31	EUR	(765)
■ holds 50.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	189 760	AUD	22 600
■ holds 45.00% of the shares in:					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany		EUR	60 013	EUR	1 214
■ holds 25.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany		EUR	73 689	EUR	34 933
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	60 013	EUR	1 214
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	30 402	EUR	(115)
<b>Companies resident abroad</b>					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	7 931	EUR	(1 767)
Hannover Finance (UK) Limited, Virginia Water/UK	100.00	GBP	111 093	GBP	(9)

2004					
Name and registered office of the company Figures in currency units of 1 000		Participation (in %)	Capital and reserves (§ 266 (3) Commercial Code)		Result for the last financial year
■ holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/UK			GBP	36 930	GBP (886)
Hannover Services (UK) Ltd., Virginia Water/UK			GBP	686	GBP 50
International Insurance Company of Hannover Ltd., Virginia Water/UK			GBP	73 475	GBP 2 293
Hannover Life Reassurance Company of America, Orlando/USA		100.00	USD	85 884	USD (5 242)
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		100.00	EUR	110 872	EUR 10 731
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		100.00	EUR	932 766	EUR 73 520
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland		100.00	EUR	550 099	EUR 58 647
■ holds 100.00% of the shares in:					
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland			EUR	277 212	EUR 35 369
■ holds 33.34% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland			EUR	31	EUR (765)
■ holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland			EUR	31	EUR (765)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa		100.00	ZAR	404 405	ZAR 101 812
■ holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa			ZAR	43 411	ZAR 10 428
Hannover Reinsurance Africa Limited, Johannesburg/South Africa			ZAR	375 986	ZAR 87 543
■ holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesburg/South Africa			ZAR	45 792	ZAR 11 328
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa			ZAR	25 708	ZAR 17 225

2004					
Name and registered office of the company Figures in currency units of 1 000	Capital and reserves (\$ 266 (3) Commercial Code)		Eigenkapital (\$ 266 (3) HGB)		Result for the last financial year
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.51	USD	128 487	USD	3 700
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	189 760	AUD	22 600
Hannover Finance, Inc., Wilmington/USA	100.00	USD	400 773	USD	8 238
■ holds 100.00% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	424 838	USD	(110 023)
■ holds 100.00% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	421 403	USD	(109 212)
■ holds 100.00% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	186 909	USD	8 452
Clarendon Select Insurance Company, Tallahassee/USA		USD	30 300	USD	3 296
Harbor Specialty Insurance Company, Trenton/USA		USD	40 177	USD	(20 543)
Insurance Corporation of Hannover, Chicago/USA		USD	198 700	USD	5 186
Redland Insurance Company, Council Bluffs/USA		USD	26 915	USD	828
<b>Participations</b>					
ITAS Vita S.p.A., Trento/Italy	34.88	EUR	58 690	EUR	6 228
ITAS Assicurazioni S.p.A., Trento/Italy	43.74	EUR	54 702	EUR	2 730
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany (Financial year 2003)	25.00	EUR	76 004	EUR	6 575
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	73 689	EUR	34 933

### Other notes on investments

Assets with a balance sheet value of EUR 2,510,468 (2003: 2,397,955) 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 for 2004 were determined using the 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.

Figures in EUR thousand		2004		
Current values pursuant to § 54 RechVersV of asset items B.I. to B.III.		Book value 31.12.	Current value 31.12.	Difference 31.12.
B.I.	Land and buildings, rights to land and buildings, leasehold	65 649	90 555	24 906
B.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	2 938 683	3 720 788	782 105
	2. Loans to affiliated companies	522 887	522 887	–
	3. Participating interests	102 222	113 157	10 935
	4. Loans to enterprises in which the company has a participating interest	13 196	13 196	–
	5. Total B.II.	3 576 988	4 370 028	793 040
B.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	1 074 780	1 181 907	107 127
	2. Bearer-debt securities and other fixed-income securities	3 959 086	3 977 478	18 392
	3. Mortgages and loans secured on land and buildings	1 578	1 578	–
	4. Other loans			
	a) Registered debt securities	91 375	95 764	4 389
	b) Debentures and loans	272 846	276 884	4 038
	c) Sundry loans	55 113	59 404	4 291
	5. Deposits with banks	99 682	99 682	–
	6. Other investments	5	5	–
	7. Total B.III.	5 554 465	5 692 702	138 237
	Total	9 197 102	10 153 285	956 183

### Notes on § 341b and § 285 of the Commercial Code (HGB)

Of the units in unit trusts totalling EUR 898,480 (2003: 855,122) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 558,631 (592,129) thousand was allocated to fixed assets. The fair value amounts to EUR 647,885 (649,608) thousand. Based on the assumption that the diminutions in value will not be permanent, write-downs of EUR 8,047 (15,174) thousand were not taken.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 456,767 (537,528) thousand and a fair value of EUR 445,249 (525,762) thousand were allocated to fixed assets. Write-downs of EUR 13,238 (12,636) thousand were not taken since a permanent diminution in value is not anticipated.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary diminutions in value were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

The portfolio contains a derivative financial instrument that was valued at fair value. The fair value is the active market price on the balance sheet date. The stock put option on the S & P 500 Index is included in the other receivables with an amount of EUR 2,482 thousand.

## Other receivables

Figures in EUR thousand	2004	2003
Receivables from affiliated companies	206 794	220 859
Receivables from the revenue authorities	33 939	26 234
Receivables from reinsured pension schemes	21 804	17 350
Claims from settlement of the purchase price of a participation	13 482	–
Receivables from settlement of an investment transaction	2 482	–
Receivables from banks on the sale of securities	914	5 101
Receivables from representative offices	407	481
Interest and rent due	442	191
Other receivables	2 544	371
Total	282 808	270 587

## Treasury Stock

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 2 June 2004, the company was authorised until 30 November 2005 to acquire treasury stock of up to 10% of the capital stock existing on the date of the resolution. The company did not hold treasury stock as at 31 December 2004.

## Accruals and deferred income

Figures in EUR thousand	2004	2003
Accrued interest and rent	52 331	53 399
Accrued administrative expenses	2 288	2 359
Deferred premium on bonds	74	107
Other	158	144
Total	54 851	56 009

### **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 87,551 (66,578) thousand. Of this amount, EUR 46,418 (EUR 35,217) thousand was attributable to corporation tax including the German reunification charge and EUR 41,133 (31,361) thousand to trade tax.

## **Notes on liabilities**

### **Subscribed capital**

The company's subscribed capital remained unchanged as at 31 December 2004 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares.

### **Capital reserve**

The company's capital reserve remained unchanged as at 31 December 2004 in the amount of EUR 880,608 thousand.

### **Retained earnings**

The company's retained earnings remained unchanged as at 31 December 2004 in the amount of 214,611 thousand.

### **Surplus debenture (Genussrechtskapital)**

The surplus debenture issued in 1993 amounting to EUR 76,694 thousand had a term of 10 years. The amount was repaid in full on 2 November 2004. The interest was 7.55%.

## Provision for unearned premiums

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Insurance line				
Fire	165 280	123 029	188 929	134 262
Casualty	300 921	246 954	253 634	200 016
Personal accident	10 211	7 917	11 954	9 301
Motor	81 075	61 427	80 002	56 439
Aviation	133 658	106 938	109 264	85 477
Life	49 026	40 869	55 503	44 121
Other lines	162 437	113 914	168 961	112 332
Total	902 608	701 048	868 247	641 948

## Life assurance provisions

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Insurance line				
Personal accident	1 149	1 128	3 707	3 305
Life	3 249 319	2 351 907	2 660 361	1 721 502
Other lines	29 723	25 593	30 681	26 282
Total	3 280 191	2 378 628	2 694 749	1 751 089

## Provisions for outstanding claims

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Outstanding loss reserve				
Fire	946 644	596 138	1 073 742	539 112
Casualty	3 545 346	2 780 039	3 120 683	2 371 549
Personal accident	99 311	79 178	89 195	64 189
Motor	1 370 733	1 176 080	1 251 120	1 034 704
Aviation	785 937	475 788	872 268	465 903
Marine	516 293	313 047	477 663	279 964
Life	469 675	353 581	411 611	286 143
Other lines	1 243 102	886 958	1 151 207	766 054
	8 977 041	6 660 809	8 447 489	5 807 618
Provision for annuities				
Casualty	623	569	411	378
Personal accident	1 645	1 643	885	883
Motor	4 378	4 173	3 581	3 444
	6 646	6 385	4 877	4 705
Total	8 983 687	6 667 194	8 452 366	5 812 323

## Equalisation reserve and similar provisions

Figures in EUR thousand		2004		
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	79 601	55 709	–	135 310
Casualty	369 892	–	12 090	357 802
Personal accident	40 239	8 365	–	48 604
Motor	67 325	50 562	3 317	114 570
Aviation	120 663	24 286	122	144 827
Marine	81 505	18 495	–	100 000
Other lines	298 709	104 314	38 392	364 631
	1 057 934	261 731	53 921	1 265 744
Provisions which are similar to the equalisation reserve – major risks –				
Fire	16 209	17 243	–	33 452
Casualty	9 969	1 172	1 977	9 164
Personal accident	–	128	–	128
Motor	37	11	–	48
Marine	1 120	631	–	1 751
Other lines	24 213	7 704	215	31 702
Total	1 109 482	288 620	56 113	1 341 989

## Other technical provisions

Figures in EUR thousand		2004		2003	
Type of provisions	gross	net	gross	net	
Profit commission	122 052	92 206	94 872	74 003	
Commissions	3 278	3 120	3 641	3 840	
Premium cancellation	1 170	1 157	2 300	2 077	
Total	126 500	96 483	100 813	79 920	

## Technical provisions – total

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Fire	1 301 392	901 082	1 377 866	783 560
Casualty	4 266 008	3 437 738	3 792 433	2 983 794
Personal accident	161 723	139 163	146 575	118 423
Motor	1 579 331	1 361 884	1 408 180	1 167 031
Aviation	1 070 041	731 665	1 108 738	674 567
Marine	623 261	418 993	564 716	366 089
Life	3 778 974	2 755 166	3 131 687	2 055 180
Other lines	1 855 839	1 440 513	1 698 025	1 247 553
<b>Total</b>	<b>14 636 569</b>	<b>11 186 204</b>	<b>13 228 220</b>	<b>9 396 197</b>

## Provisions for other risks and charges

Figures in EUR thousand	2004	2003
Provisions for pension and similar liabilities	29 274	27 088
Provision for taxation	82 448	50 003
Sundry provisions		
Provisions for currency risks	12 142	19 206
Provisions for interest and similar charges	9 924	8 449
Provisions for outstanding payments	8 410	6 949
Provisions for annual accounts costs	2 978	2 753
Provisions for partial retirement	1 148	953
Provisions for litigation risks	641	307
Provisions for costs of legal action	629	537
Provisions for suppliers' invoices	488	833
Other provisions	3 142	1 705
	39 502	41 692
<b>Total</b>	<b>151 224</b>	<b>118 783</b>

## Miscellaneous liabilities

Figures in EUR thousand	2004	2003
Accounts due to affiliated companies	31 836	103 666
Liabilities from deliveries and services	2 442	6 268
Liabilities from overpayments	2 171	1 054
Liabilities in respect of the revenue authorities	1 638	842
Liabilities from outstanding social security contributions	818	539
Liabilities under lease agreements	76	75
Liabilities in respect of permanent establishments	44	522
Liabilities from interest on surplus debenture	–	5 790
Liabilities from securities transactions	–	2 146
Other liabilities	81	75
Total	39 106	120 977

The liability existing to an affiliated company in the previous year was repaid ahead of schedule.

## Deferred items

Figures in EUR thousand	2004	2003
Long-term tenancy rights	680	802
Disagio	44	100
Other accruals and deferred income	94	349
Total	818	1 251

## Contingent liabilities

We have secured through guarantees a surplus note in the amount of USD 400.0 million issued in 1999 with a term of 40 years by our subsidiary Hannover Finance Inc., Wilmington/USA. We bought back an amount of USD 370.0 million in the 2004 financial year.

We have also secured through guarantees subordinated debt of EUR 350.0 million issued in 2002 with a term of 30 years and subordinated debt of EUR 750.0 million issued in the 2004 financial year with a term of 20 years by our subsidiary Hannover Finance (Luxembourg) S.A.

Within the scope of the sale of the participation in Willy Vogel AG held through Willy Vogel Beteiligungsgesellschaft mbH, we provided a joint and several guarantee with the other partners for a total amount of EUR 7.1 million as security for possible guarantee claims.

Liabilities for remaining calls existed with respect to shares in affiliated companies and special investments in a total amount of EUR 232.4 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	2004	2003	2004	2003	2004	2003	2004	2003
Lines of business	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	812 032	959 401	827 337	964 016	490 726	309 762	(21 469)	118 338
Casualty	1 304 066	1 404 461	1 233 222	1 323 699	986 339	1 019 732	(61 597)	(167 757)
Personal accident	96 888	95 358	98 510	94 261	80 224	52 748	4 880	969
Motor	580 805	769 166	572 915	776 192	439 220	526 455	(30 048)	(57 264)
Aviation	440 530	561 663	407 703	570 058	252 657	347 504	42 459	36 583
Marine	319 643	377 242	319 643	377 242	170 834	175 545	44 181	37 853
Other lines	1 178 027	1 291 098	1 178 770	1 308 767	681 247	656 097	31 619	48 472
Total property and casualty insurance	4 731 991	5 458 389	4 638 100	5 414 235	3 101 247	3 087 843	10 025	17 194
Life	1 363 242	1 080 908	1 368 518	1 072 314	929 514	607 448	(50 092)	(60 381)
Total insurance business	6 095 233	6 539 297	6 006 618	6 486 549	4 030 761	3 695 291	(40 067)	(43 187)

## Total insurance business

Figures in EUR thousand	2004	2003
Gross claims incurred	3 591 470	3 641 339
Gross operating expenses	1 394 893	1 509 365
Reinsurance balance	530 160	982 019

## Expenses for personnel

Figures in EUR thousand	2004	2003
1. Wages and salaries	35 140	31 837
2. Social security payments and expenses for welfare	5 754	5 319
3. Expenses for old-age pension scheme	640	1 563
4. Total expenses	41 534	38 719

## Expenses for investments

Figures in EUR thousand	2004	2003
Fixed-income securities	25 475	39 774
Shares, units in unit trusts, participating interests	19 066	33 879
Administrative expenses	12 490	14 813
Deposits	8 758	676
Land and buildings	6 206	3 759
Deposit and bank fees	3 115	1 610
Futures and options contracts	1 368	8 094
Registered bonds and other loans	–	7 984
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	2 100	761
Total	78 578	111 350

## Other income

Figures in EUR thousand	2004	2003
Payment for renewal rights	17 333	–
Cancellation of value adjustments	14 245	16 391
Exchange rate gains	13 535	23 936
Profit from services	9 188	8 075
Allocated investment return	3 033	2 916
Reimbursement of expenses	2 876	990
Release of non-technical provisions	1 202	751
Profit from clearing transactions	245	570
Amounts realised	65	64
Other income	1 855	2 261
Total	63 577	55 954

## Other expenses

Figures in EUR thousand	2004	2003
Allocation to the provisions for outstanding claims	235 308	197 838
Deposit interest	46 013	40 523
Exchange rate losses	28 304	51 173
Financing interest	23 707	21 463
Expenses for the whole company	17 421	23 352
Separate value adjustment on accounts receivable	15 472	23 778
Expenses from services	8 368	8 289
Expenses for letters of credit	5 236	8 013
Allocation to interest provisions	4 949	5 058
Interest charges on surplus debenture (Genussrechtskapital)	4 841	5 790
Interest charges on old-age pension scheme	1 646	1 570
Interest charges from clearing transactions	300	368
Other interest and expenses	3 153	3 351
	394 718	390 566
Less: Technical interest	25 359	17 316
Total	369 359	373 250

## Other information

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

Emoluments of EUR 477 thousand were received by the Supervisory Board and EUR 2,565 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to EUR 520 thousand, and a liability of EUR 5,972 thousand was entered.

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

Figures in EUR thousand	Position as at 1.1.2004	Addition	Repayment	Position as at 31.12.2004	Interest rate in %
Executive Board	88	–	4	84	5.0

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

The average number of employees was 590 in the financial year.

Talanx AG, Hannover, a wholly-owned subsidiary of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, includes our financial statements in its consolidated financial statements. The consolidated financial statements are deposited at Hannover County Court.

Talanx AG holds a majority interest in our company directly and indirectly via HDI Verwaltungsservice AG, Hannover, and Zweite HDI Beteiligungsgesellschaft mbH, Hannover

Hannover, 23 March 2005

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

We have audited the annual financial statements together with the bookkeeping system and the management report of Hannover Rückversicherung AG for the business year from 1 January to 31 December 2004. 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 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 accounting-related internal control 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, 23 March 2005

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Dahl                      Schuster  
Wirtschaftsprüfer          Wirtschaftsprüfer

# REPORT OF THE SUPERVISORY BOARD

## of Hannover Rückversicherung AG

We supervised the management of the company regularly during 2004 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at four meetings. The Standing Committee met on altogether three occasions and the Balance Sheet Committee twice. 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 2004 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 will be in attendance at the Annual General Meeting.

As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the implementation of various capital increases at subsidiaries as well as the issue of subordinated debt by the financial holding company Hannover Finance (Luxembourg) S.A. Details are provided in the report of the Supervisory Board reproduced in the annual report for the Hannover Re Group. The Rules of Procedure for the Executive Board were enhanced and updated with an eye to the enlarged business volume. As part of the preparations for the Annual General Meeting the Supervisory Board considered, inter alia, an increase in authorised capital and a modi-

fication of the compensation arrangements for the Supervisory Board. By linking the variable compensation to the earnings before interest and taxes (EBIT), a benchmark was proposed to the Annual General Meeting that for practical purposes – in contrast to the dividend payment hitherto used as a reference – is largely independent of resolutions adopted by the Supervisory Board. The Supervisory Board obtained information from specialist analyses about the development of particularly significant business segments. The focus in the year under review was on a discussion of the opportunities, risks and potential for growth in Greater China, i.e. China proper, Taiwan and Hong Kong.

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. At the beginning of the year a written efficiency audit was conducted to examine the work of the Supervisory Board. The questionnaires were evaluated in the strictest confidentiality by the company's Corporate Governance Officer and then discussed among the Supervisory Board with the goal of further enhancing the quality of the body's work. Various measures adopted with a view to accomplishing this goal were subsequently implemented in the course of the year. As part of efforts to implement even more extensively the recommendations of the German Corporate Governance Code, a proposed amendment of the Articles of Association was put to the Annual General Meeting; following its adoption, separate compensation will now be paid to the chair and members of the various Committees formed by the Supervisory Board (Code Item 5.4.5 Para. 1 Sentence 3). The advances made in the area of Corporate Governance are also evident in the "Declaration of conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code" submitted by the Supervisory Board. While there were still three divergences in the previous year, the company now fails to comply with the recommendations

of the Code in just one respect. Further details of this issue are provided in the "Declaration of conformity pursuant to § 161 Stock Corporation Act (AktG)" contained in this annual report as well as in the Corporate Governance report published in the annual report of the Hannover Re Group. The reader is also referred to the company's publications in 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."

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 2004.

Hannover, 24 March 2005

For the Supervisory Board

Wolf-Dieter Baumgartl  
Chairman

# DECLARATION OF CONFORMITY

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

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board

of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied. Implementation of the recommendations by Hannover Rückversicherung AG diverges from the German Corporate Governance Code (amended version of 21 May 2003) in the following respects:

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

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

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

enables our shareholders to fully assess the appropriateness of the total amount of compensation.

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

Hannover, 11 November 2004

For the  
Executive Board

For the  
Supervisory Board

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

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

**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 (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

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

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

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

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

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

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

**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 (gross or net) premiums written.

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

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

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

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

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

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

**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.

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

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

**Letter of credit (LOC):** bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in

the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

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

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

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

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

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

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

**Net:** cf. → Gross/Retro/Net

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

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

**Policy benefits for life and health contracts:** value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Retro:** cf. → Gross/Retro/Net

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

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

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

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

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

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

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

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

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

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

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



Hannover  
Rückversicherung AG

Karl-Wiechert-Allee 50  
30625 Hannover  
Germany

Telephone +49/5 11/56 04-0  
Fax +49/5 11/56 04-11 88  
info@hannover-re.com  
www.hannover-re.com

Investor Relations/  
Public Relations

Eric Schuh  
Telephone +49/5 11/56 04-15 00  
Fax +49/5 11/56 04-16 48  
eric.schuh@hannover-re.com

Investor Relations

Gabriele Bödeker  
Telephone +49/5 11/56 04-17 36  
Fax +49/5 11/56 04-16 48  
gabriele.boedeker@hannover-re.com

Public Relations

Gabriele Handrick  
Telephone +49/5 11/56 04-15 02  
Fax +49/5 11/56 04-16 48  
gabriele.handrick@hannover-re.com