Annual Report | 2003

hannover re®

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KEY FIGURES
of Hannover Re

Figures in EUR million	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	6 539.3	(10.4%)	7 295.3	5 633.4	4 491.4	3 611.3
Net premiums earned	3 695.3	+3.7%	3 563.9	2 736.3	2 649.0	2 216.5
Underwriting result	258.6	+284.2%	67.3	(328.8)	(195.4)	(156.6)
Allocation to the equalisation reserve and similar provisions	301.8	+233.1%	90.6	(85.1)	55.6	53.9
Investment result	578.2	(8.7%)	633.3	481.3	573.5	524.4
Pre-tax profit	133.2		240.4	14.0	121.5	108.8
Profit or loss for the financial year	114.9		243.4	0.2	71.7	95.8
Investments	11 670.8	+15.9%	10 071.5	9 116.3	7 574.0	7 259.9
Capital and reserve incl. surplus debenture (Genussrechtskapital)	1 292.5	+69.4%	763.0	601.9	407.6	406.0
Equalisation reserve and similar provisions	1 109.5	+37.3%	807.8	717.2	802.2	746.6
Net technical provisions	8 286.7	+12.2%	7 384.2	7 192.5	6 173.8	5 413.8
Total capital, reserves and technical provisions	10 688,7	+19,4%	8 955.0	8 511.6	7 383.6	6 566.4
Number of employees	569	+34	535	509	468	489
Retention	56.8%		51.9%	50.9%	61.4%	61.0%
Loss ratio*	73.9%		75.3%	89.9%	73.2%	79.8%
Expense ratio*	16.1%		20.1%	25.8%	33.3%	28.5%
Combined ratio*	90.0 %		95.4%	115.7%	106.5%	108.3%

excluding life and health reinsurance

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2) Member of the Balance Sheet Committee
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4) Staff representative

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

MANAGEMENT REPORT
of Hannover Re

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Economic climate

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

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

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

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

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

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

Business development

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

Following on from a difficult 2001 and the marked recovery already witnessed in 2002, we generated a very good result in the year under review. This was achieved in a capital market climate that – while certainly less depressed than in the year before – was by no means optimal. The protracted weakness of the US dollar, which adversely impacted our gross premium income, did not leave a significant mark on our result.

Our company recorded further improvements in rates and conditions for property and casualty reinsurance. In this positive environment we achieved an excellent result and continued to optimise our market position. We used the "hard market" climate as an opportunity to screen our portfolio in light of long-term profitability considerations and reduce specific acceptances. Hannover Re refers to this profitability initiative as "More from less". As a further step, effective 1 January 2003, we no longer accept the entire reinsurance volume of the HDI companies, but rather only the portion that we wish to carry in our retention.

We generated total gross written premiums of EUR 6,539.3 million, a contraction of 10.4% compared to the previous year's figure (EUR 7,295.3 million). Notable factors here were the significant depreciation of the US dollar against the euro and the acceptance of reinsurance volume from HDI only to the extent that it could be carried in our retention. The effects of our cycle management were clearly evident in the development of individual lines: we preferred long-tail business in the year under review. While casualty business grew by 13.4% to EUR 1,404.5 million, fire premiums declined by 20.0% to EUR 959.4 million and aviation business contracted by 6.7% to EUR 561.6 million. These decreases were in large measure due to the sustained relative strength of the euro. Our premium income in North America nevertheless climbed by 6.1% to EUR 239.2 million, contrasting with a decline of 16.3% in Europe to EUR 3,145.7 million.

Following the disastrous flooding of the previous year in Europe, the year under review witnessed significantly fewer major loss events. Expenditure on major losses amounted to EUR 40.9 million (EUR 162.7 million) or 1.5% (4.6%) of net premiums, a level well below the multi-year average of around 5%. Apart from a series of tornadoes in the Midwest of the United States in May, the largest single loss event was Hurricane "Fabian", which – with an estimated market loss of EUR 300 million – produced a net burden of EUR 10.1 million for Hannover Re. The combined ratio (excluding life reinsurance business) improved from 95.4% to 90.0%.

Overall, we were highly satisfied with the 2003 financial year. We succeeded in generating an excellent underwriting profit of EUR 258.6 million before changes in the equalisation and similar reserves, an increase of 284.2% on the previous year (EUR 67.3 million). For the second time since 1995 we thus recorded a positive underwriting result.

In the year under review we allocated EUR 301.8 million to the equalisation reserve and to similar provisions, a contribution 233.1% larger than in the previous year (EUR 90.6 million). This amount includes the reserve for terrorism risks of EUR 23.0 million, a provision constituted for the first time in the year under review. The allocation to the IBNR reserve (for losses that have been incurred but not yet reported) booked under other expenses increased by 27.1% to EUR 197.8 million.

We were also satisfied with the development of life reinsurance in the year under review. Overall, following the expansionary phase of recent years, we consolidated our market position in this business group – in which we now rank among the three largest providers in the world. In 2003, as in previous years, we primarily wrote business with a heavy financing component. Gross premium income contracted by 16.2% in the year under review to EUR 1,080.9 million (EUR 1,289.4 million), principally due to a decline in financing transactions.

On the investment side ordinary income surpassed the performance of the previous year, climbing by 6.3% to EUR 526.3 million (EUR 494.9 million). In a significantly improved capital market climate, we took write-downs of EUR 32.8 million on our investments in the year under review – contrasting with EUR 77.8 million in the previous year. Extraordinary investment income was, however, substantially lower, since the 2002 financial year had recorded inter alia extraordinary income of EUR 161.0 million deriving from the transfer of shares in E+S Rückversicherungs-AG to Hannover Rück Beteiligung Verwaltungs-GmbH, a subsidiary of Hannover Re.

Despite the brighter mood on capital markets, the net investment result therefore declined to EUR 578.2 million (EUR 633.3 million).

The balance of other income and expenses – excluding the allocation to the IBNR reserve – amounted to -EUR 119.5 million as against EUR -110.4 million in the previous year.

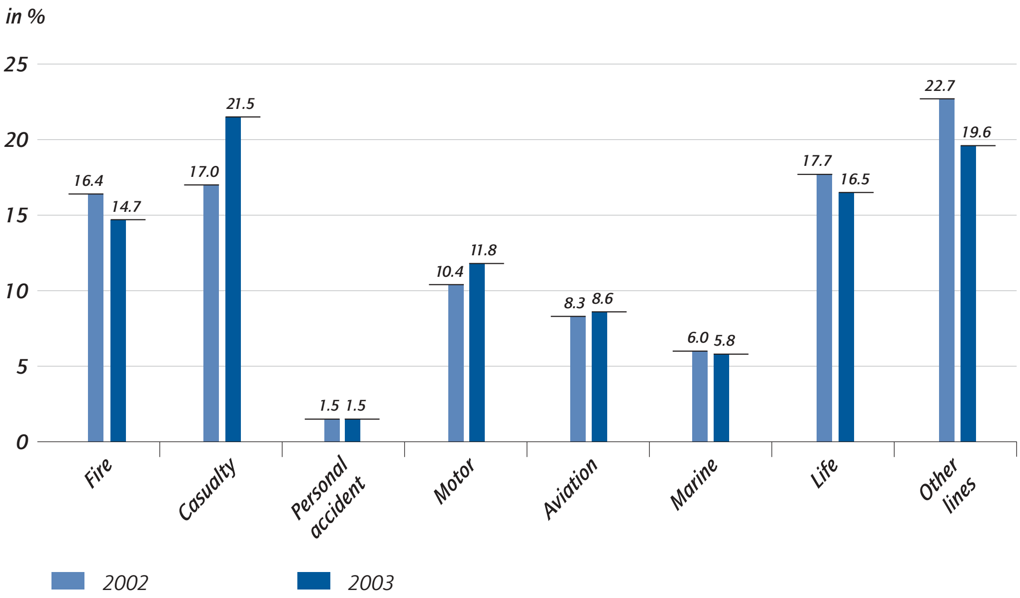
Overall, the parent company closed 2003 with a profit for the financial year of EUR 114.9 million (EUR 243.4 million). The effective tax rate of 13.8% results, on the one hand, from high tax-exempt income due to distributions of foreign subsidiaries and, on the other hand, from the establishment of assets-side deferred taxes.

Premium development and results

We continue to profit from the highly advantageous market environment, especially in property and casualty reinsurance. In renewal talks we obtained substantial improvements in rates and conditions across virtually all countries and lines of business.

Our total gross premium income contracted by 10.4% to EUR 6,539.3 million (EUR 7,295.3 million). The principal factors here were the sharp fall of the US dollar against the euro as well as the acceptance of HDI reinsurance volume only to the extent that it could be carried in our retention.

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. The basic conditions for reinsurance business in this market developed very favourably in the year under review. The proportion of the parent company's gross written premiums attributable to business accepted from E+S Rück stood at 5.8% in the year under review (15.5%).

Fire

Worldwide, fire business remains one of the most important risks written by Hannover Re. Thanks to far-reaching portfolio rehabilitation efforts among insurers in several countries and the absence of significant major losses, we boosted the underwriting result by 65.2% to EUR 128.0 million (EUR 77.5 million).

Fire

in EUR million	2003	2002
Gross written premiums	959.4	1 199.2
Loss ratio (%)	75.1	59.7
Underwriting result (net)	128.0	77.5

Premiums in our fire business, on the other hand, contracted by 20.0% to EUR 959.4 million (EUR 1,199.2 million). A particularly crucial factor here was the restructuring of our business with HDI. We also slightly scaled back our proportional fire business in some areas so as to write an increased volume of even more attractive casualty business.

The exceptionally low loss ratio of 59.7% recorded in 2002 was out of reach in the year under review, although the figure of 75.1% was still a very good achievement. An amount of EUR 6.5 million was withdrawn from the equalisation reserve, following allocations of EUR 85.9 million in the previous year. A contribution of EUR 16.2 million was made to the reserve for terrorism risks in the year under review.

Casualty

The so-called "hard market" was especially noticeable in casualty business. These generally longer-tail lines experienced sharp rate increases in some areas, while premiums in the property lines appeared to have peaked and stabilised at the upper end of the cycle.

Casualty

in EUR million	2003	2002
Gross written premiums	1 404.5	1 238.0
Loss ratio (%)	69.8	99.7
Underwriting result (net)	44.6	14.1

As in the previous year we added an increasing volume of long-tail casualty business to our portfolio. Gross premium income climbed by 13.4% to EUR 1,404.5 million (EUR 1,238.0 million).

North America, traditionally already our largest casualty market, offered particularly attractive business opportunities. The premium volume in the USA surged by 28.9% in the year under review. The commercial and professional indemnity lines were the most prominent components of the portfolio.

Particularly pleasing was the year-on-year reduction of almost 30 percentage points in the loss ratio down to 69.8% (99.7%). The underwriting result consequently improved by a substantial 216.3% to EUR 44.6 million (EUR 14.1 million). An amount of EUR 211.4 million was allocated to the equalisation reserve, following a withdrawal of EUR 101.7 million in the previous year.

We strengthened the IBNR reserve with an allocation of EUR 153.1 million from the non-technical account.

Personal Accident

Following extraordinarily vigorous growth in the previous year, gross premiums in personal accident insurance fell by 9.9% in the year under review to EUR 95.4 million (EUR 105.9 million).

The loss ratio normalised at 53.1% after dropping to an exceptionally low level of 34.2% in the previous year. The underwriting profit also declined by 55.3% to EUR 6.7 million (EUR 15.0 million). An amount of EUR 5.7 million (EUR 24.7 million) was allocated to the equalisation reserve.

Personal Accident

in EUR million	2003	2002
Gross written premiums	95.4	105.9
Loss ratio (%)	53.1	34.2
Underwriting result (net)	6.7	15.0

Motor

Following substantial premium growth of 18.3% in 2002, we boosted our volume of motor acceptances by a further 1.6% in the year under review. Appreciable increases were generated in the USA, while German business contracted significantly. In this case, too, the reduction was attributable to the restructuring of our business relationship with HDI.

Germany and the USA were again our most important markets for motor reinsurance. As in the previous year, German motor third party liability business was characterised by a falling claims frequency, stable average loss amounts per event and higher original premiums. We thus profited – not only in Germany – from a favourable trend in original business and the improvement in reinsurance rates and conditions.

It was particularly gratifying to note that we reduced our net loss ratio in motor business by a further 5.3 percentage points to 81.7% (87.0%) following a cut of 9.6 percentage points in the previous year. The underwriting result also improved appreciably to -EUR 19.5 million after a deficit of EUR 77.3 million in the previous year.

An amount of EUR 37.7 million was allocated to the equalisation reserve in the year under review, following a contribution of EUR 14.8 million in the previous year. We boosted the IBNR reserve for motor third party liability insurance with a contribution of EUR 44.7 million from the non-technical account.

Motor

in EUR million	2003	2002
Gross written premiums	769.2	757.4
Loss ratio (%)	81.7	87.0
Underwriting result (net)	(19.5)	(77.3)

Aviation

Hannover Re ranks among the leading providers worldwide in aviation and space business. Following sharp premium rises and rate increases as well as improved conditions in the wake of the events of 11 September 2001, clear tendencies towards consolidation could already be observed in the market in 2003. In the year under review we therefore tended to scale back our acceptances in aviation reinsurance in response to declining prices. Our premium income contracted, in part also due to exchange-rate effects, by 6.7% to EUR 561.6 million. This contrasted with growth of 41.1% to EUR 601.9 million in the previous year.

A significant portion of our aviation business is written on the London Market, where we held our ground well despite more intense competition. Our underwriting policy continues to be geared to non-proportional

Aviation

in EUR million	2003	2002
Gross written premiums	561.6	601.9
Loss ratio (%)	75.1	44.5
Underwriting result (net)	36.2	125.7

business involving middle and upper programme layers, an area where we are one of the market leaders. Although we scaled back our aviation exposure in some cases, our market penetration remains optimal. This is also largely true of the key US market.

The loss ratio rose to 75.1% in the year under review after the exceptionally low level of 44.5% in the previous year. The underwriting profit consequently declined by 71.2% to EUR 36.2 million (EUR 125.7 million). An amount of EUR 0.4 million was withdrawn from the equalisation reserve.

Marine

In marine business, too, we are one of the major players, writing business principally through the London and North American markets.

Marine

in EUR million	2003	2002
Gross written premiums	377.2	434.1
Loss ratio (%)	37.3	83.6
Underwriting result (net)	88.0	(9.6)

Rates and conditions tended to flatten out in marine reinsurance, albeit on a relatively high level. In this segment we continue to profit from the significant rate increases of the past two years as well as the accompanying reduction in the scope of cover. On the claims side the frequency of small and mid-sized losses was normal, while we were spared more sizeable losses in 2003.

Due to the fact that the bulk of our treaties are excess of loss covers and in many cases the small and mid-sized claims did not exceed our clients' retentions, our net loss ratio decreased very substantially in the year under review to 37.3% (83.6%).

Following an underwriting deficit of EUR 9.6 million in the previous year, the year under review produced a highly gratifying underwriting profit of EUR 88.0 million. An amount of EUR 49.0 million was allocated to the equalisation reserve.

Life

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

Life

in EUR million	2003	2002
Gross written premiums	1 080.9	1 289.4
Underwriting result (net)	(60.4)	(21.4)

As the second-largest German life reinsurer, our portfolio has now reached a size and maturity that enables us to offset the investment volume associated with new business financing from the payments accruing back to our account from previous years.

Gross premium income declined due to exchange-rate effects – primarily because of the weakness of the US dollar against the euro, our balance sheet currency – to EUR 1,080.9 million (EUR 1,289.4 million) in the year under review.

In Germany – where we operate through our subsidiary E+S Rück –, and in Austria, Switzerland and Luxembourg we successfully maintained our 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 through our branch office and service offices in Paris, Madrid and Milan. 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.

The parent company has cultivated its own independent activities in the Asian growth markets, with branch offices in Kuala Lumpur (serving the ASEAN markets) and Hong Kong (covering the Far East). Our application for a licence to transact life business in China constitutes a major strategic intensification of our involvement in this region, and we expect the Shanghai office to commence operations in 2005.

We recorded an underwriting result of -EUR 60.4 million (-EUR 21.4 million) in 2003.

Other lines

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.

Following considerable growth in loss of profits insurance in 2002 (+63.0%) as a consequence of the events of 11 September 2001, gross premiums sank sharply in the year under review to EUR 148.9 million (EUR 227.2 million). The previous year's underwriting deficit of EUR 51.1 million before changes in the equalisation reserve was, however, significantly improved to a profit of EUR 23.7 million.

The health reinsurance portfolio, which consists principally of business ceded by our US subsidiary Hannover Life Re of America, continues to be the largest single line reported under other lines. Gross premium income stood at EUR 287.2 million (EUR 491.6 million). The underwriting result of -EUR 0.5 million fell only marginally short of the previous year's level (EUR 0.7 million).

In credit and surety reinsurance we grew our gross premium income by 11.3% to EUR 254.8 million (EUR 229.0 million). The underwriting deficit improved slightly by 5.8% to -EUR 11.6 million (-EUR 12.3 million). The rehabilitation efforts undertaken by insurers in worldwide credit and surety business served to uncouple results from the continuing adverse credit cycle, with clearly favourable implications for reinsurers in the year under review. The latter were without exception under enormous pressure to perform well, and the remaining market players profited from a hard market climate coloured by the withdrawal of two key providers in the credit line. In a year that was spared spectacular major claims and had a reduced burden of basic losses, we consequently increased our market share in credit and surety reinsurance.

Other lines

in EUR million	2003	2002
Gross written premiums	1 291.1	1 669.4
Loss ratio (%)	84.1	75.4
Underwriting result (net)	35.0	(56.7)

Following an impressive increase in the previous year, gross premiums in windstorm reinsurance decreased slightly in the year under review to EUR 274.7 million (EUR 306.7 million). Owing to a retrocession-related increase in the loss ratio, we were unable to repeat the previous year's excellent underwriting profit in this segment. It declined from EUR 52.1 million to EUR 22.9 million.

An amount of EUR 16.8 million was withdrawn from the equalisation reserves for other lines in the year under review, following a contribution of EUR 38.3 million in the previous year.

Investments

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

Up until the middle of March 2003, however, the prevailing downward trend had been gathering further impetus. The gradual emergence of positive fundamentals, low key lending rates in the USA and the prospect of financial stimuli from the US government increasingly brightened the overall mood as the year progressed. In the lee of the US economic recovery, European indices also showed significant improvement. The EuroStoxx 50 put on 15.7%, while Germany's leading index – the Dax – gained as much as 37%.

Financial markets in both the USA and Europe were very heavily influenced by the events in Iraq during the early months of the year under review. Only once hostilities had ended market players were able to turn their attention back to the cyclical recovery. Prices began to rally in the middle of March, pushing indices into clearly positive territory. Parallel to this movement, volatility on equity markets in the USA and Europe increased sharply. During the summer investors shifted investments from bonds to equities, in some cases on a massive scale.

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

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

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

Ordinary income in the year under review surpassed the previous year's result, rising by 6.3% to EUR 526.2 million (EUR 494.9 million). At the same time the total investment portfolio (including deposits with ceding companies) grew by 15.9% to EUR 11.7 billion. This growth was attributable to a higher underwriting cash flow from reinsurance business as well as the capital increase implemented in June 2003.

Despite adverse exchange-rate effects, our total portfolio of self-managed assets (i.e. excluding deposits with ceding companies) grew by 16.2% in the reporting period to EUR 8.4 billion (EUR 7.2 billion). The favourable movements observed on stock markets from March 2003 onwards had only a limited impact on our reserves due to the cautious weighting of this asset class. The positive performance of our bond holdings left a greater mark here in the year under review, and on balance we therefore booked 6.9% higher reserves of EUR 147.1 million (EUR 128.3 million) on the other financial investments as at year-end.

The euro appreciated in the course of the year against the majority of key foreign currencies for our company, and especially against the US dollar – which lost 21.1% of its value. Had it not been for the inhibiting effect of the US dollar's decline, the volume of our investments would have grown by as much as 26.2% to EUR 9.1 billion. Within the scope of our asset/liability management activities, the allocation of investments by currency is guided by our underwriting liabilities in the various foreign currencies. This ensures extensive asset/liability matching, thereby keeping earnings-affecting currency fluctuations within manageable bounds.

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

Yet, our account, too, was not spared diminutions in value. Total write-downs on exchange-listed equities amounted to EUR 7.5 million in the year under review. We realised gains of EUR 21.2 million on the sale of shares; the unrealised gains on our equity portfolio totalled EUR 22.6 million as at year-end.

Our portfolio of fixed-income securities increased by 17.7% from EUR 3.9 billion to EUR 4.6 billion, accounting for 85.0% of our total other financial investments. We made extensive use of the general decline in yields as well as the diminishing yield advantage of corporate bonds over government bonds to realise gains of around EUR 71.4 million. Net unrealised gains in our portfolio of fixed-income securities thus decreased from EUR 128.3 million to EUR 81.7 million. Fluctuations in market yields within the year were to a large extent optimally utilised through tactical duration management in the range dictated by underwriting liabilities. We were able to maintain the very good quality of the securities.

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

With the capital market climate appreciably brighter than in the previous year, write-downs on investments of EUR 32.8 million were taken in 2003 – contrasting with EUR 77.8 million in 2002. The extraordinary investment result was significantly lower than the previous year’s figure, which had been boosted inter alia by extraordinary income of EUR 161.0 million deriving from the transfer of shares in E+S Rückversicherungs-AG to Hannover Rück Beteiligung Verwaltungs-GmbH, a subsidiary of Hannover Re. Profits on disposals totalling EUR 153.8 million (EUR 243.5 million) were generated, contrasting with losses on disposals of EUR 60.8 million (EUR 17.3 million). The balance of EUR 102.5 million was therefore EUR 132.7 million lower than in the previous year (EUR 235.2 million). The total net investment result consequently declined slightly to EUR 578.2 million (EUR 633.3 million) despite the improved state of the capital markets.

Risk report

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

Organisation of risk management

Risk management within Hannover Re is centrally coordinated, but based on local responsibility in the various areas of business. Local staff bear responsibility for risk monitoring and risk-policy measures within their specific areas and local risk controllers are charged – on the level of individual business groups – with identifying increased risk potentials as quickly as possible and initiating counteraction without delay. Centralised risk controlling steers the entire process and describes the risk situation of the company as a whole across all business groups. The system of local responsibility ensures that we can identify and control risks as quickly as possible in order to minimise the potential risk effectively. Decision-makers are kept informed – primarily online – through standard and ad hoc reports. An annual risk inventory is also carried out.

The core risk management elements are set out in guidelines. Acting independently of these clearly defined procedures, Internal Auditing verifies compliance with the stipulated processes in all functional areas of our company. Furthermore, the auditors examine whether the risk early-warning system integrated into the risk management system is capable of detecting at an early stage any development that could jeopardise the survival of the company.

Hannover Re's risk situation can be comprehensively described by the following risk categories:

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

Global risks

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

Our local market representatives are responsible for monitoring trends in the various national environments. Global changes, on the other hand, are tracked centrally within our specialised service units. Group Legal Services, for example, investigates trends in court practice around the world, e.g. the underwriting implications of the EU's eastern enlargement, asbestos-related risks in Europe and legal decisions connected with the World Trade Center event. One of the central problems facing the reinsurance industry is the growing number of natural disasters around the world and the associated potential for considerable losses. Particularly significant events for Hannover Re in the year under review were the tornadoes in the US Midwest, typhoon "Maemi" in South Korea and hurricanes "Fabian" and "Isabel", which in September caused considerable damage on Bermuda and the East Coast of the United States, respectively. Using simulation models we analyse the increase in the frequency of natural catastrophes caused by global climate changes and in the extent of the losses that they cause. On the basis of these analyses we determine the maximum exposure that we are prepared to accept for such risks and calculate our own reinsurance requirements.

Strategic risks

Strategic risks have a bearing on our corporate objectives. They derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating business environment. Value and cost drivers must be transparent if strategic corporate objectives are to be achieved. This is only possible with optimal organisational, decision-making and reporting structures. Risk management coordinates the activities and thereby supports the controlling of opportunities and risks. In order to survive in the fierce competitive environment we thoroughly review our strategy every three years and adjust our structures and processes accordingly. The most recent review was conducted in 2002.

Technical operating risks

The technical risk is that the actual claims expenses can diverge from the expected amount and exceed the total available premium income (including security funds). Possible reasons here may be an incorrect risk assessment or risk spread, excessive interdependencies between risks or default on the part of retrocessionaires. Hannover Re uses various mechanisms – both for the portfolio as a whole and for specific business groups – in order to control technical risks.

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. These reserves are established for claims that have been incurred and reported to the insurer, but whose amount has not yet been fixed and which therefore cannot yet be paid. There are also claims which only materialise later and which the policyholder consequently only reports to the insurer – and the insurer subsequently to the reinsurer – some time after they are incurred. Reserves also have to be constituted for these so-called IBNR (incurred but not reported) claims since years or even decades often elapse until the final run-off of such claims. This is especially true of casualty claims. Uncertainties in reserving are thus unavoidable, not least, because reinsurers find themselves at the end of the information chain and ultimately depend on the data provided by ceding companies.

Recent years have witnessed an accumulation of lawsuits around the world due to bodily injuries resulting from the use of asbestos. Hannover Re's exposure to asbestos- and pollution-related claims is, however, relatively slight. We have only accepted business on the US market since the seventies, and even then only very modest volumes. In addition, we have already commuted numerous existing exposed treaties. In view of the increased risks related to asbestos and pollution claims we nevertheless further reinforced our reserves. We do not therefore anticipate any significant risks in this area in future years.

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

We do not fully retain the business that we accept, but retrocede portions as necessary. By systematically retroceding individual risks, exposed lines or blocks of business we are able to reduce and diversify the risk portfolio and stabilise the result. It is therefore particularly important to carefully select retrocession partners in light of credit considerations. Our assessment of the financial strength of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own balance sheet and market analyses. Our Security Committee classifies the reinsurers used by Hannover Re with binding effect.

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

Investment operating risks

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

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

Operational risks

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

As a reinsurance enterprise we must be able to conduct projects in a professional and timely manner in order to realise new reinsurance products and concepts, offer services and meet legal requirements with a high quality standard. Multistage project management ensures that all projects are executed on time and within budget according to their prioritisation.

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

In the year under review we purposefully expanded our strategic human resources management activities. In this context personnel development remains a major preoccupation. Alongside the recruitment of qualified staff, we use a new method for identifying potential – the personnel development workshop – among the employees already with our company. With this technique we seek to ascertain the skills requirements of our staff, clarify development potential for specialist and leadership abilities as well as establish the foundation for and promote acceptance of successor planning. In this way we support managerial staff and provide them with valuable pointers for the professional advancement of the employees under their supervision.

Further tools introduced in recent years to promote management performance are management feedback and 270° feedback. For us, management feedback refers to the appraisal of managerial performance from the perspective of the supervised staff in contrast to employee assessment by superiors. The 270° feedback process is conducted from the standpoint of a manager's superior and colleagues. We have blended both systems in a single tool. The criteria used for systematic assessment are values (e.g. customer orientation, profitability and reliability), knowledge (e.g. languages and technical know-how) and skills (e.g. communication, readiness to take decisions, organisational talents). With these measures we are seeking to enhance leadership attitudes and match job profiles with personal profiles. In this way we are able to systematically check the quality of core competencies, determine training requirements and at the same time identify career opportunities as part of successor planning.

The purpose of human resources marketing is to find qualified people for the company. This task is geared to continuity and is not influenced by labour market factors. We have commissioned internal and external studies to examine our company's appeal as an employer and defined action fields on this basis: introductory events, job familiarisation plans and sponsor arrangements are the keywords in this context.

In order to identify motivated, well-educated university graduates we conduct marketing activities aimed at target groups and institutions of higher education. We therefore maintain close contacts with universities covering fields related to our work. By giving a diverse range of specialist presentations we recruit directly from among the students and establish lasting relationships with department chairs. We also attend university career fairs and relevant recruiting events and take every opportunity to profile our company and our business. In our assessment, the doubling in the number of qualified applications received in recent years is in part due to these activities.

"Employee Self-Service" and "Manager Self-Service" are important elements of our human resources activities: our staff enjoy online access to selected personal data and can obtain information about their working-time account, pay slips and event management. Managerial staff are also able to view online relevant data concerning the employees under their supervision.

We have made our company pension schemes even more secure by taking out insurance protection outside the Group. Furthermore, sufficient provision has been made for biometric risks and the necessary pension adjustments. The current model is a contribution-based, insured support fund set up in 2000.

The number of staff increased in the year under review by 6.4% to 569 (535). 34 new jobs were thus created. Women make up 52% of our workforce.

We would like to thank our staff for their personal dedication, energy and flexibility. Our gratitude also extends to the employee council and the senior management committee at Home Office.

Outlook

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

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

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

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

Although the state of the global economy is viewed somewhat more optimistically and despite the recovery on capital markets, insurers and reinsurers remain under pressure in the current year to generate good underwriting results. Against a backdrop of lower interest rates and reduced equity allocations, investment income cannot make up for underwriting profits. What is more, many market players are still suffering under the effects of the last soft market and it is still too early to foresee when the "payback" phase – during which insurers and reinsurers try to recoup past losses – will be completed. As at 1 January 2004, therefore, continuing rigorous underwriting discipline was observed on all major markets during the renewal negotiations. In life and health business, too, we anticipate improved growth prospects for insurers and reinsurers alike. The increased global demand for annuity and life insurance products is driven by the demographic trend and the resurgent economy in major markets.

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

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

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

Property and casualty reinsurance should therefore enjoy another excellent year in 2004 – provided our account is spared extraordinary expenditure for major losses. This business group is expected to generate a highly gratifying contribution to the profit for the financial year.

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

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

For 2004 we expect only marginal growth in our gross premium income from life reinsurance owing to exchange-rate effects. Profitability should, however, continue to improve, and we expect to substantially increase our result.

The reinsurance market continues to offer highly attractive conditions in 2004 and – adjusted for exchange-rate effects – we expect to generate an unremarkable increase in our gross premium income. In this context the growth opportunities offered by the market virtually offset the reorientation of our business relationship with HDI: as of 1 January 2003 we no longer accept the entire reinsurance volume of HDI but rather only the business that we intend to carry in our retention.

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

In view of the expected development of our business groups and the economic environment, we should again be able in 2004 to significantly boost the profit for the year. As always, this is subject to the proviso that the burden of losses remains within the normal bounds of the multi-year average and that there are no unexpectedly adverse movements on capital markets.

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

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

Other information

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

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

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

INDIVIDUAL ACCOUNTS
of Hannover Re

BALANCE SHEET
as at 31 December 2003

Figures in EUR thousand	2003				2002
Assets					
A. Intangible assets:					
Other intangible assets				13 704	7 369
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			69 823		72 270
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		2 621 029			2 305 122
2. Loans to affiliated companies		182 211			243 702
3. Participating interests		122 541			124 373
4. Loans to enterprises in which the company has a participating interest		14 274			17 283
			2 940 055		2 690 480
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		967 857			934 979
2. Bearer debt securities and other fixed-income securities		3 895 241			2 965 800
3. Mortgages and loans secured on land and buildings		1 885			2 353
4. Other loans					
a) Registered debt securities	131 496				170 894
b) Debentures and loans	147 093				100 903
c) Sundry loans	60 226				63 000
		338 815			334 797
5. Deposits with banks		193 475			245 801
6. Other investments		5			5
			5 397 278		4 483 735
IV. Deposits with ceding companies			3 263 633		2 824 981
				11 670 789	10 071 466

Figures in EUR thousand		2003			2002
Liabilities					
A. Capital and reserves					
I. Subscribed capital					
as at 1.1.2003		97 164			
Allocation		23 433			
as at 31.12.2003			120 597		97 164
II. Capital reserve					
as at 1.1.2003		374 451			
Allocation		506 157			
as at 31.12.2003			880 608		374 451
III. Retained earnings					
1. Statutory reserve		511			511
2. Other retained earnings					
as at 1.1.2003	168 100				
Allocation	46 000				
as at 31.12.2003		214 100			168 100
			214 611		168 611
IV. Disposable profit			115 000		128 700
				1 330 816	768 926
B. Surplus debenture (Genussrechtskapital)				76 694	76 694
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		868 247			942 837
2. Less: reinsurance ceded		226 299			222 179
			641 948		720 658
II. Life assurance provision					
1. Gross		2 694 749			2 458 197
2. Less: reinsurance ceded		943 660			896 449
			1 751 089		1 561 748
III. Provisions for outstanding claims					
1. Gross		8 452 366			8 478 470
2. Less: reinsurance ceded		2 640 043			3 450 994
			5 812 323		5 027 476
IV. Provision for bonuses and rebates					
1. Gross		2 566			1 843
2. Less: reinsurance ceded		1 131			509
			1 435		1 334
V. Equalisation reserve and similar provisions			1 109 482		807 704
VI. Other technical provisions					
1. Gross		100 813			93 234
2. Less: reinsurance ceded		20 893			20 216
			79 920		73 018
				9 396 197	8 191 938

Figures in EUR thousand	2003		2002
Assets			
C. Receivables			
I. Accounts receivable arising out of reinsurance operations	1 399 929		1 638 050
from affiliated companies:			
146 660 (2002: 371 352)			
II. Other receivables	270 587		204 101
from affiliated companies:		1 670 516	1 842 151
220 859 (2002: 134 720)			
D. Other assets			
I. Tangible assets and stocks	7 760		10 425
II. Current accounts with banks, cheques and cash in hand	95 417		193 591
		103 177	204 016
E. Prepayments and accrued income			
I. Accrued interest and rent	53 399		53 480
II. Other accrued income	2 610		1 886
		56 009	55 366
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		66 578	46 705
		13 580 773	12 227 073

Figures in EUR thousand	2003		2002
Liabilities			
D. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	27 088		25 712
II. Provisions for taxation	50 003		40 947
III. Other provisions	41 692		32 406
		118 783	99 065
E. Deposits received from retrocessionaires		1 554 546	1 601 905
F. Other liabilities			
I. Accounts payable arising out of reinsurance operations	978 309		906 868
to affiliated companies:			
415 128 (2002: 182 812)			
II. Liabilities to banks	3 200		4 706
III. Miscellaneous liabilities	120 977		574 644
from taxes:		1 102 486	1 486 218
842 (2002: 1 338)			
for social security:			
539 (2002: 629)			
to affiliated companies:			
130 666 (2002: 557 537)			
G. Accruals and deferred income		1 251	2 327
		13 580 773	12 227 073

PROFIT AND LOSS ACCOUNT

for the 2003 financial year

Figures in EUR thousand		2003		2002
		1.1.–31.12.		1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	6 539 297			7 295 282
b) Retrocession premiums	2 824 139			3 511 837
		3 715 158		3 783 445
c) Change in the gross provisions for unearned premiums (+/-)	(52 748)			(265 615)
d) Change in the provisions for unearned provisions, retrocessionaires' share (+/-)	32 881			46 110
		(19 867)		(219 505)
			3 695 291	3 563 940
2. Allocated investment return transferred from the non-technical account, net of retrocession			67 122	79 437
3. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	3 045 700			4 103 589
bb) Retrocessionaires' share	1 662 254			1 924 112
		1 383 446		2 179 477
b) Change in provisions for outstanding claims				
aa) Gross	(595 639)			(372 088)
bb) Retrocessionaires' share	(569 773)			109 588
		(1 165 412)		(262 500)
			2 548 858	2 441 977
4. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(160 925)		(305 973)
b) Other net technical provisions		377		(308)
			(160 548)	(306 281)
5. Bonuses and rebates, net of retrocession			577	133
6. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 509 365		1 581 463
b) Less: commissions and profit commissions received on retrocession		716 757		756 736
			792 608	824 727
7. Other technical charges, net of retrocession			1 230	2 993
8. Subtotal			258 592	67 266
9. Change in the equalisation reserve and similar provisions			(301 778)	(90 550)
10. Net technical result			(43 186)	(23 284)

Figures in EUR thousand	2003				2002
	1.1.–31.12.				1.1.–31.12.
Balance brought forward				(43 186)	(23 284)
II. Non-technical account					
1. Investment income					
a) Income from participating interest		194 542			141 283
affiliated companies:					
184 978 (2002: 127 248)					
b) Income from other investments					
affiliated companies:					
31 746 (2002: 40 432)					
aa) Income from land and buildings, rights to land and buildings, leasehold	6 404				6 543
bb) Income from other investments	303 604				347 033
		310 008			353 576
c) Appreciation on investments		9 475			9 049
d) Gains on the realisation of investments		153 786			243 501
e) Income from profit pods, profit and loss transfer agreements or partial profit and loss transfer agreements		21 702			–
			689 513		747 409
2. Investment charges					
a) Investment management charges, including interest		17 735			18 924
b) Depreciation		32 830			77 833
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
18 049 (2002: 41 776)					
c) Losses on the realisation of investments		60 785			17 306
			111 350		114 063
			578 163		633 346
3. Allocated investment return transferred to the technical account			(84 438)		(103 637)
				493 725	529 709
4. Other income			55 954		55 496
5. Other charges					
a) Special allocation to provisions for outstanding claims		197 838			155 679
b) Miscellaneous charges		175 412			165 861
			373 250		321 540
				(317 296)	(266 044)
6. Profit or loss on ordinary activities before tax				133 243	240 381

Figures in EUR thousand		2003		2002
		1.1.–31.12.		1.1.–31.12.
Balance brought forward			133 243	240 381
7. Taxes on profit and income	19 536			5 581
plus allocation for group assessment	(1 951)			(9 224)
		17 585		(3 643)
8. Other taxes	742			613
plus allocation for group assessment	27			11
		769		624
			18 354	(3 019)
9. Profit or loss for the financial year			114 889	243 400
10. Profit brought forward from previous year			111	300
11. Allocation to retained earnings:				
to other retained earnings			–	115 000
12. Disposable profit			115 000	128 700

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 15.6% 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). 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 (HBG). 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 Covernance Code has been submitted and made available to the stockholders.

Notes on assets

Figures in EUR thousand	2002	2003					
	Book values 31.12.	Additions	Transfers	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets:							
Other intangible assets	7 369	10 795	–	565	–	3 895	13 704
B. I. Land and buildings, rights to land and buildings, leasehold	72 270	–	–	–	–	2 447	69 823
B. II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	2 305 122	669 197	–	352 533	–	757	2 621 029
2. Loans to affiliated companies	243 702	5 621	–	67 112	–	–	182 211
3. Participating interests	124 373	8	–	1 840	–	–	122 541
4. Loans to enterprises in which the company has a participating interest	17 283	–	–	3 009	–	–	14 274
5. Total B. II.	2 690 480	674 826	–	424 494	–	757	2 940 055
B. III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	934 979	440 257	–	401 175	4 669	10 873	967 857
2. Bearer-debt securities and other fixed-income securities	2 965 800	3 732 691	–	2 786 931	1 759	18 078	3 895 241
3. Mortgages and loans secured on land and buildings	2 353	33	–	501	–	–	1 885
4. Other loans							
a) Registered debt securities	170 894	–	5 113	44 511	–	–	131 496
b) Debentures and loans	100 903	94 785	(5 113)	43 482	–	–	147 093
c) Sundry loans	63 000	15 000	–	17 774	–	–	60 226
5. Deposits with banks	245 801	65 138	–	117 464	–	–	193 475
6. Other	5	–	–	–	–	–	5
7. Total B. III.	4 483 735	4 347 904	–	3 411 838	6 428	28 951	5 397 278
Sum total	7 253 854	5 033 525	–	3 836 897	6 428	36 050	8 420 860

Land and buildings and rights to land and buildings

On 31 December 2003 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 936 thousand as at 31 December 2003. In addition, the company had shares of EUR 14,887 thousand in two developed proporties in Düsseldorf and Stuttgart and a share of EUR 1,275 thousand in land without buildings in Hannover. The book value of the buildings for own use on Roderbruchstraße totalled EUR 1,614 thousand as at 31 December 2003.

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.

2003

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	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	596 851	EUR	21 730
holds 55.78% of the shares in:					
E+S Rückversicherungs-AG, Hannover/Germany		EUR	459 281	EUR	39 000
holds 100.00% of the shares in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	157 643	EUR	12 994
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR	797	EUR	218
holds 50.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	177 160	AUD	13 940
holds 45.00% of the shares in:					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany		EUR	59 108	EUR	1 207
holds 25.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany		EUR	70 350	EUR	25 442
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	59 108	EUR	1 207
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	29 903	EUR	(24)
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	9 698	EUR	7 869
Hannover Finance (UK) Limited, Virginia Water/UK	100.00	GBP	109 352	GBP	(10)

2003 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	33 074	GBP	980
Hannover Services (UK) Ltd., Virginia Water/UK		GBP	635	GBP	169
International Insurance Company of Hannover Ltd., Virginia Water/UK		GBP	70 970	GBP	6 365
Hannover Life Reassurance Company of America, Orlando/USA	100.00	USD	84 958	USD	(1 401)
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland	100.00	EUR	101 639	EUR	2 963
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	100.00	EUR	647 472	EUR	142 961
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	536 952	EUR	46 430
holds 100.00% of the shares in:					
HDI Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	226 844	EUR	104 091
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR	797	EUR	218
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Limited, Dublin/Ireland		EUR	797	EUR	218
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	343 191	ZAR	(39 118)
holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR	32 977	ZAR	(2 195)
Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR	289 992	ZAR	259
holds 100.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	9 743	ZAR	(3 421)
Indoc Holdings S.A., Luxembourg/Luxembourg		CHF	2 807	CHF	332
holds 100.00% of the shares in:					
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius		MUR	39 897	MUR	(101 045)
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.50	USD	124 787	USD	4 951

2003

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	
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	177 160	AUD	13 940
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	541 994	USD	28 259
holds 100.00% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	518 515	USD	16 956
holds 100.00% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	179 213	USD	10 815
Clarendon Select Insurance Company, Tallahassee/USA		USD	27 121	USD	3 537
Harbor Specialty Insurance Company, Trenton/USA		USD	42 028	USD	6 313
Insurance Corporation of Hannover, Chicago/USA		USD	197 044	USD	11 302
Redland Insurance Company, Council Bluffs/USA		USD	26 500	USD	2 393
Participations					
ITAS Vita SpA, Trento/Italy	34.88	EUR	52 410	EUR	2 087
ITAS Assicurazioni SpA, Trento/Italy	43.74	EUR	54 197	EUR	4 786
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany (Financial year 2002)	25.00	EUR	106 971	EUR	37 543
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	70 350	EUR	25 442

Other notes on investments

Assets with a balance sheet value of EUR 2,397,955 (2002: 1,896,816) 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 2003 were largely determined using a combined asset value and gross rental method. In individual cases book values were used.

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

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

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

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

Figures in EUR thousand	2003		
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	69 823	101 745	31 922
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	2 621 029	3 045 634	424 605
2. Loans to affiliated companies	182 211	182 211	–
3. Participating interests	122 541	133 335	10 794
4. Loans to enterprises in which the company has a participating interest	14 274	14 274	–
5. Total B.II.	2 940 055	3 375 454	435 399
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	967 857	1 072 025	104 168
2. Bearer-debt securities and other fixed-income securities	3 895 241	3 924 195	28 954
3. Mortgages and loans secured on land and buildings	1 885	1 885	–
4. Other loans			
a) Registered debt securities	131 496	141 750	10 254
b) Debentures and loans	147 093	148 845	1 752
c) Sundry loans	60 226	62 183	1 957
5. Deposits with banks	193 475	193 475	–
6. Other investments	5	5	–
7. Total B.III.	5 397 278	5 544 363	147 085
Total	8 407 156	9 021 562	614 406

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

Of the units in unit trusts totalling EUR 855,122 (2002: 900,470) thousand shown under the other investments in the item "shares, units in unit trusts and other variable-yield securities", an amount of EUR 592,129 (2002: 744,235) thousand was allocated to fixed assets. To this extent, depreciation of EUR 15,174 (2002: 78,468) thousand was omitted.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 537,528 (2002: 29,742) thousand were allocated to fixed assets. The omitted depreciation totalled EUR 12,637 (2002: 8,162) thousand.

Other receivables

Figures in EUR thousand	2003	2002
Receivables from affiliated companies	220 859	134 720
Receivables from the revenue authorities	26 234	44 979
Receivables from reinsured pension schemes	17 350	–
Receivables from banks on the sale of securities	5 101	14 579
Receivables from representative offices	481	420
Interest and rent due	191	704
Receivables from overpayments	1	2 625
Receivables from dividend entitlements	–	5 575
Other receivables	370	499
Total	270 587	204 101

Treasury Stock

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 27 May 2003, the company was authorised until 31 October 2004 to acquire treasury stock of up to 10% of the capital stock existing on the date of the resolution. The company did not hold treasury stock as at 31 December 2003.

Accruals and deferred income

in EUR thousand	2003	2002
Accrued interest and rent	53 399	53 480
Accrued administrative expenses	2 359	1 062
Deferred premium on bonds	107	290
Other	144	534
Total	56 009	55 366

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 66,578 (2002: 46,705) thousand. Of this amount, EUR 35,217 (2002: EUR 24,601) thousand was attributable to corporation tax including the German reunification charge and EUR 31,361 (2002: 22,104) thousand to trade tax.

Notes on liabilities

Subscribed capital

The subscribed capital was strengthened in the 2003 financial year by means of a combined capital increase against contributions in cash and kind. Under the capital increase against cash 9,716,392 new shares were issued and the subscribed capital amounted to EUR 106,880,320.00. The contribution in kind in the form of HDI Reinsurance (Ireland) Ltd. increased the subscribed capital by EUR 13.7 million to EUR 120,597,134.00. The subscribed capital is divided into 120,597,134 no-par-value registered shares.

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

Capital reserve

An allocation of EUR 506.2 million was made to the capital reserve through the increase in subscribed capital. As at 31 December 2003 the capital reserve amounted to EUR 880,608 thousand.

Retained earnings

An amount of EUR 46,000 thousand was allocated to retained earnings from the profit for the financial year 2002.

Surplus debenture (Genussrechtskapital)

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

Provision for unearned premiums

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Fire	188 929	134 262	216 378	164 754
Casualty	253 634	200 016	212 134	162 300
Personal accident	11 954	9 301	11 360	7 775
Motor	80 002	56 439	104 574	82 026
Aviation	109 264	85 477	141 497	111 672
Life	55 503	44 121	51 105	39 438
Other lines	168 961	112 332	205 789	152 693
Total	868 247	641 948	942 837	720 658

Life assurance provisions

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Personal accident	3 707	3 305	3 914	3 480
Life	2 660 361	1 721 502	2 412 283	1 522 542
Other lines	30 681	26 282	42 000	35 726
Total	2 694 749	1 751 089	2 458 197	1 561 748

Provisions for outstanding claims

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Outstanding loss reserve				
Fire	1 073 742	539 112	1 242 084	327 653
Casualty	3 120 683	2 371 549	2 869 901	1 973 652
Personal accident	89 195	64 189	90 604	65 741
Motor	1 251 120	1 034 704	1 203 016	961 289
Aviation	872 268	465 903	874 769	338 674
Marine	477 663	279 964	554 349	331 502
Life	411 611	286 143	439 962	307 198
Other lines	1 151 207	766 054	1 199 321	717 423
	8 447 489	5 807 618	8 474 006	5 023 132
Provision for annuities				
Casualty	411	378	491	458
Personal accident	885	883	821	821
Motor	3 581	3 444	3 152	3 065
	4 877	4 705	4 464	4 344
Total	8 452 366	5 812 323	8 478 470	5 027 476

Equalisation reserve and similar provisions

Figures in EUR thousand	2003			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	86 128	1 758	8 285	79 601
Casualty	158 525	211 367	–	369 892
Personal accident	34 526	5 713	–	40 239
Motor	29 642	46 120	8 437	67 325
Aviation	121 078	25 278	25 693	120 663
Marine	32 458	49 047	–	81 505
Other lines	315 538	33 450	50 279	298 709
	777 895	372 733	92 694	1 057 934
Provisions which are similar to the equalisation reserve – major risks –				
Fire	–	16 209	–	16 209
Casualty	8 946	1 329	306	9 969
Motor	–	37	–	37
Marine	–	1 120	–	1 120
Other lines	20 863	5 181	1 831	24 213
Total	807 704	396 609	94 831	1 109 482

Other technical provisions

Figures in EUR thousand	2003		2002	
Type of provisions	gross	net	gross	net
Profit commission	94 872	74 003	83 620	63 810
Commissions	3 641	3 840	7 059	6 754
Premium cancellation	2 300	2 077	2 555	2 454
Total	100 813	79 920	93 234	73 018

Technical provisions – total

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Fire	1 377 866	783 560	1 556 690	588 293
Casualty	3 792 433	2 983 794	3 288 162	2 336 885
Personal accident	146 575	118 423	141 363	112 262
Motor	1 408 180	1 167 031	1 346 717	1 081 456
Aviation	1 108 738	674 567	1 144 381	570 956
Marine	564 716	366 089	590 058	366 521
Life	3 131 687	2 055 180	2 907 095	1 872 245
Other lines	1 698 025	1 247 553	1 807 819	1 263 320
Total	13 228 220	9 396 197	12 782 285	8 191 938

Provisions for other risks and charges

Figures in EUR thousand	2003	2002
Provisions for pension and similar liabilities	27 088	25 712
Provision for taxation	50 003	40 947
Sundry provisions		
Provisions for currency risks	19 206	12 636
Provisions for interest and similar charges	8 449	7 064
Provisions for outstanding payments	6 949	5 999
Provisions for annual accounts costs	2 753	2 618
Provisions for partial retirement	953	969
Provisions for suppliers' invoices	833	925
Provisions for costs of legal action	537	180
Provisions for ligitation risks	307	329
Other provisions	1 705	1 686
	41 692	32 406
Total	118 783	99 065

Miscellaneous liabilities

Figures in EUR thousand	2003	2002
Accounts due to affiliated companies	103 666	557 034
Liabilities from deliveries and services	6 268	6 618
Liabilities from interest on surplus debenture	5 790	5 790
Liabilities from securities transactions	2 146	–
Liabilities from overpayments	1 054	2 480
Liabilities in respect of the revenue authorities	842	1 338
Liabilities from outstanding social security contributions	539	629
Liabilities in respect of permanent establishments	522	463
Liabilities under lease agreements	75	70
Other liabilities	75	222
Total	120 977	574 644

A loan of EUR 100.0 million issued by Hannover Finance (Luxembourg) S.A. is shown under the accounts due to affiliated companies. The remaining term of the loan is seven years.

The liabilities existing to two affiliated companies in the previous year were repaid ahead of schedule.

Deferred items

Figures in EUR thousand	2003	2002
Long-term tenancy rights	802	924
Disagio	100	1 364
Other accruals and deferred income	349	39
Total	1 251	2 327

Contingent liabilities

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

Liabilities for remaining calls existed with respect to special investments in the amount of EUR 115.4 million.

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

Events subsequent to conclusion of the financial year

We secured by guarantee a subordinated debt in the amount of EUR 750.0 million issued in early 2004 by one of our subsidiaries, Hannover Finance (Luxembourg) S. A.

Notes on the profit and loss account

Figures in EUR thousand	2003	2002	2003	2002	2003	2002	2003	2002
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	959 401	1 199 156	964 016	1 127 557	309 762	468 711	118 338	(8 443)
Casualty	1 404 461	1 237 967	1 323 699	1 159 627	1 019 732	477 222	(167 757)	115 174
Personal accident	95 358	105 851	94 261	102 171	52 748	78 546	969	(9 672)
Motor	769 166	757 416	776 192	740 429	526 455	542 016	(57 264)	(92 053)
Aviation	561 663	601 871	570 058	567 586	347 504	312 194	36 583	24 411
Marine	377 242	434 060	377 242	434 060	175 545	268 702	37 853	(11 695)
Other lines	1 291 098	1 669 537	1 308 767	1 602 970	656 097	804 535	48 472	(19 573)
Total property and casualty insurance	5 458 389	6 005 858	5 414 235	5 734 400	3 087 843	2 951 926	17 194	(1 851)
Life	1 080 908	1 289 424	1 072 314	1 295 267	607 448	612 014	(60 381)	(21 433)
Total insurance business	6 539 297	7 295 282	6 486 549	7 029 667	3 695 291	3 563 940	(43 187)	(23 284)

Total insurance business

Figures in EUR thousand	2003	2002
Gross claims incurred	3 641 339	4 475 677
Gross operating expenses	1 509 365	1 581 463
Reinsurance balance	982 019	675 291

Expenses for personnel

Figures in EUR thousand	2003	2002
1. Wages and salaries	31 837	30 169
2. Social security payments and expenses for welfare	5 319	4 775
3. Expenses for old-age pension scheme	1 563	1 809
4. Total expenses	38 719	36 753

Expenses for investments

Figures in EUR thousand	2003	2002
Fixed-income securities	39 774	15 426
Shares, units in unit trusts	33 879	59 489
Administrative expenses	14 813	13 211
Futures and options contracts	8 094	5 394
Registered bonds and other loans	7 984	358
Land and buildings	3 759	4 595
Deposit and bank fees	1 610	3 683
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	761	50
Deposits	676	11 857
Total	111 350	114 063

Other income

Figures in EUR thousand	2003	2002
Exchange rate gains	23 936	30 705
Cancellation of value adjustments	16 391	6 472
Profit from services	8 075	5 000
Allocated investment return	2 916	8 392
Release of non-technical provisions	751	1 151
Income from repayments	597	1 002
Profit from clearing transactions	570	829
Amounts realised	64	11
Other income	2 654	1 934
Total	55 954	55 496

Other expenses

Figures in EUR thousand	2003	2002
Allocation to the provisions for outstanding claims	197 838	155 679
Exchange rate losses	51 173	45 720
Deposit interest	40 523	41 102
Separate value adjustment on accounts receivable	23 778	49 314
Expenses for the whole company	23 352	12 847
Financing interest	21 463	16 787
Expenses from services	8 289	5 178
Expenses for letters of credit	8 013	7 400
Interest charges on surplus depenture (Genussrechtskapital)	5 790	5 790
Allocation to interest provisions	5 058	2 545
Interest charges on old-age pension scheme	1 570	1 434
Interest charges from clearing transactions	368	331
Other interest and expenses	3 351	1 613
	390 566	345 740
Less: Technical interest	17 316	24 200
Total	373 250	321 540

Other information

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

Emoluments of EUR 253 thousand were received by the Supervisory Board and EUR 1,950 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to EUR 471 thousand, and a liability of EUR 6,013 thousand was entered.

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

Figures in EUR thousand	Position as at 1.1.2003	Addition	Repayment	Position as at 31.12.2003	Interest rate in %
Executive Board	92	–	4	88	5.5

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

The average number of employees was 554 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 Verwaltungs-Service AG, Hannover, and Zweite HDI Beteiligungsgesellschaft mbH, Hannover

Hannover, 24 March 2004

Executive Board

Zeller | Arrago | Dr. Becke

Gräber | Dr. König | Dr. Pickel | Wallin

AUDITORS'
Report

We have audited the annual financial statements, together with the bookkeeping system and the management report of Hannover Rückversicherung AG, Hannover for the business year from January 1 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 24 March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

REPORT OF THE SUPERVISORY BOARD
of Hannover Rückversicherung AG

We supervised the management of the company regularly during 2003 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at five meetings. The Standing Committee also 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 2003 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts and in the Annual General Meeting.

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

The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. The revised Corporate Governance principles were approved at the final Supervisory Board meeting of the year and the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code was issued. The recommendations of the Code have not been implemented in three respects. Further details regarding this matter are provided on page 55 f of the present annual report as well as in the company's publications on the Internet. The Supervisory Board defined a procedure for the efficiency audit of the Supervisory Board's activities in accordance with the German Corporate Governance Code, under which the review will be conducted using a comprehensive questionnaire.

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 2003.

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

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

Hannover, 25 March 2004

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

DECLARATION OF CONFORMITY

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

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

Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of a listed company to confirm conformity with the recommendations of the Code or to explain which recommendations of the Code are not applied. Hannover Rückversicherung AG diverges from the German Corporate Governance Code only in the three respects explained below.

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

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

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

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

(Code Item 5.4.5 Para. 1, Sentence 3)

The compensation received by the Chairman and Deputy Chairman of the Supervisory Board as well as by the chair and the members of its committees is supposed to be detailed separately. Hannover Re has not to date made separate disclosure for the chair and members of the committees. In future, however, Hannover Re intends to comply even more closely with the Code. It is therefore envisaged that arrangements in accordance with the German Corporate Governance Code will be proposed to the next Annual General Meeting on 02 June 2004.

Publication deadlines for the annual report and the interim reports

(Code Item 7.1.2, Sentence 2)

The consolidated financial statements are supposed to be publicly accessible within 90 days of the end of the financial year, and interim reports within 45 days of the end of the reporting period in question. As already explained in last year's declaration of conformity, owing to some special features of international reinsurance business and the associated regulatory frameworks we marginally exceed the recommended periods at present. Yet, we by no means use the full scope of the deadlines permitted by law. By further optimising our reporting processes it remains our expectation that we shall achieve compliance with the deadlines for the 2004 financial year.

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

Hannover, 25 November 2003

For the Executive Board	For the Supervisory Board

GLOSSARY

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

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

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

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

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

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

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

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

Combined ratio: sum of loss ratio and expense ratio.

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

Creditworthiness: Cf. → credit status

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: Process o 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.

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

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