Interim Report 3/2004

KEY FIGURES
of the Hannover Re Group

Figures in EUR million	2004					2003	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premiums	4 795.3	2 384.2	(17.6%)	7 179.5	(19.1%)	2 894.8	8 872.3
Net premiums earned	3 461.0	1 977.3	(12.9%)	5 438.3	(8.0%)	2 270.1	5 909.0
Net underwriting result	(91.8)	(153.0)	(967.4%)	(244.8)	+111.6%	17.6	(115.7)
Net investment income	567.0	216.1	(6.2%)	783.1	+9.3%	230.6	716.8
Operating profit (EBIT)	375.4	32.6	(84.7%)	408.0	(18.1%)	213.0	498.2
Net income (after tax)	211.5	(20.4)	(121.8%)	191.1	(25.5%)	94.2	256.6
Policyholders' surplus	4 235.1			4 287.0	+20.8%		3 550.0
Total stockholders' equity	2 484.3			2 516.6	+8.0%		2 330.1
Minority interests	509.3			529.3	+28.8%		411.1
Hybrid capital	1 241.5			1 241.1	+53.4%		808.8
Investments (including funds held by ceding companies)	23 964.9			24 512.4	+9.1%		22 461.2
Total assets	35 733.3			36 161.0	+2.7%		35 208.8
Earnings per share (diluted) in EUR	1.75	(0.17)		1.58		0.78	2.43
Bookvalue per share in EUR	20.60	20.87		20.87		19.32	19.32
Retention	76.5%	79.0%		77.3%		73.4%	71.0%
Combined ratio (property and casualty reinsurance)	94.3%	101.3%		97.1%		94.9%	97.2%
Return on investment	4.9%	3.7%		4.5%		4.3%	4.5%
Net return on premium*	10.9%	1.7%		7.5%		9.4%	8.4%
Return on equity (after tax)	17.3%	(3.3%)		10.4%		17.0%	16.8%

** Operating profit (EBIT)/net premiums earned*

Dear shareholders,
Ladies and Gentlemen,

2004 promises to be a year of extremes. On the one hand, we are seeing outstanding underwriting profitability on the reinsurance markets. On the other hand, the third quarter was dominated by a historic accumulation of major loss events: based on current loss estimates, the four severe hurricanes in Florida may even supersede the claim expenditures incurred as a result of the terrorist attacks of 11 September 2001 as the largest insured loss of all time. As a further factor, our Japanese portfolio was impacted by an exceptional number of typhoons. In program business, in particular, the effects on our income statement have been clearly felt.

Yet even in this kind of business environment your company has not been thrown off balance. Looking at the third quarter in isolation, it is true that with a loss amount in excess of EUR 300 million from hurricanes and typhoons we were unable to show a profit. What is more, we were compelled to revise our profit target for the full 2004 financial year: instead of the originally planned net income of EUR 390–430 million we now anticipate a figure of EUR 300 million. Despite the extraordinarily high burden of major losses, we shall therefore still achieve our ambitious return-on-equity target of currently roughly 12% after tax.

In the first nine months of 2004 Hannover Re generated an operating profit (EBIT) of a good EUR 400 million. This figure falls short of the previous year due to the losses associated with the aforementioned windstorm events. Net income after tax consequently also declined, coming in just under the EUR 200 million mark after a good EUR 250 million in the previous year. Despite the heavy loss expenditure it is, however, gratifying to report that the book value per share increased in the course of the year by nearly one euro to EUR 20.87 (31 December 2003: EUR 19.94). Our risk management has thus ensured that your company's capital is optimally protected – even against loss events of such magnitude.

In the first half-year all four of our business groups made a substantial contribution to the Group's overall performance. The windstorms of the third quarter have, however, left a clear mark on the results. *Property and casualty reinsurance* remains our largest business group. Despite heavy loss expenditures it has still delivered a slightly improved profit of almost EUR 150 million in the course of the year to date; the combined ratio of 97.1% as at 30 September testifies to this performance. Property and casualty reinsurance continues to benefit from the very adequate prices and conditions on the market, which have served to absorb our burden of major losses. Standing at 10.5 percentage points of net premiums earned after the first nine months, the latter was well in excess of the multi-year average of 5 percentage points for Hannover Re's portfolio. At EUR 258.5 million the level of major losses is more than three times higher than in the corresponding period of the previous year.

Life and health reinsurance also generated a very healthy contribution of more than EUR 30 million to the Group's overall result, improving significantly as projected on its performance in the previous year. The net income of more than EUR 60 million in *financial reinsurance* showed double-digit growth. It was only in *program business* that the strains associated with the four hurricanes transformed a profit at the midway point of the year into a deficit of almost EUR 50 million. In the case of program business two factors need to be borne in mind: firstly, Florida is the US state with by far the highest risk exposure within this business group. Secondly, the accumulation of four severe hurricanes – each of which would be entirely tolerable on its own – had a particularly adverse impact on our account inasmuch as four separate retentions had to be carried and our own catastrophe reinsurance therefore afforded only limited relief.

The company's *investment income* as at 30 September was highly satisfactory. Following on from the already very good level of the previous year, it showed another significant increase. Net investment income amounted to almost EUR 800 million, and we anticipate a very strong result for the full 2004 financial year. No notable write-downs on securities were necessary.

The muted tone on the stock market had an adverse impact on share prices in the third quarter, and the performance of the Hannover Re share similarly suffered; from the beginning of July to the end of October it declined slightly in value. Although the Hannover Re share has performed very well in relative terms, we are in no way satisfied. At a price of around EUR 26 we consider it to be heavily undervalued: based on the analysts' consensus profit estimate for 2005 this figure corresponds to a price/earnings ratio of roughly 7. In the future, as we have done in the past, we shall therefore continue to strive to increase the value of your company through consistent, above-average profitability.

I would like to thank you – as always also on behalf of my colleagues on the Executive Board – for your trust in Hannover Re. We shall continue to be guided by our overriding goal of leading your company profitably and securely into the future.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS
of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl [1) 2)] Hannover	Chairman
Dr. Paul Wieandt [2)] Hof/Saale	Deputy Chairman
Herbert K. Haas [1) 2)] Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller [3)] Hannover	
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Dr. Klaus Sturany [1)] Essen	
Bodo Uebber Berlin	

Executive Board (Vorstand)

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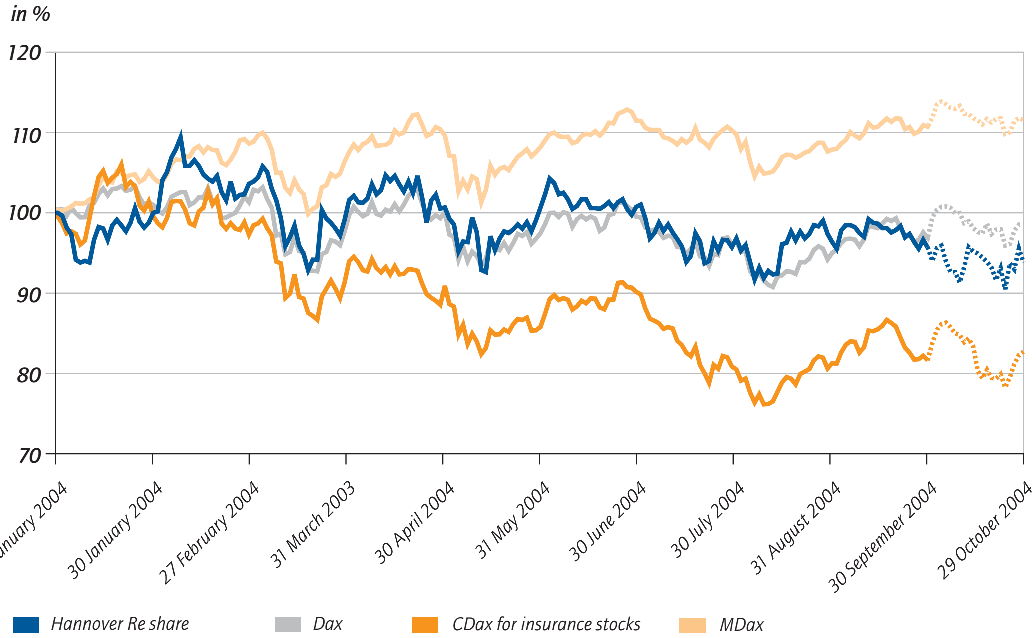
André Arrago Hannover	
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Elke König Hannover	
Dr. Michael Pickel Gehrden	
Ulrich Wallin Hannover	

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

THE HANNOVER RE SHARE

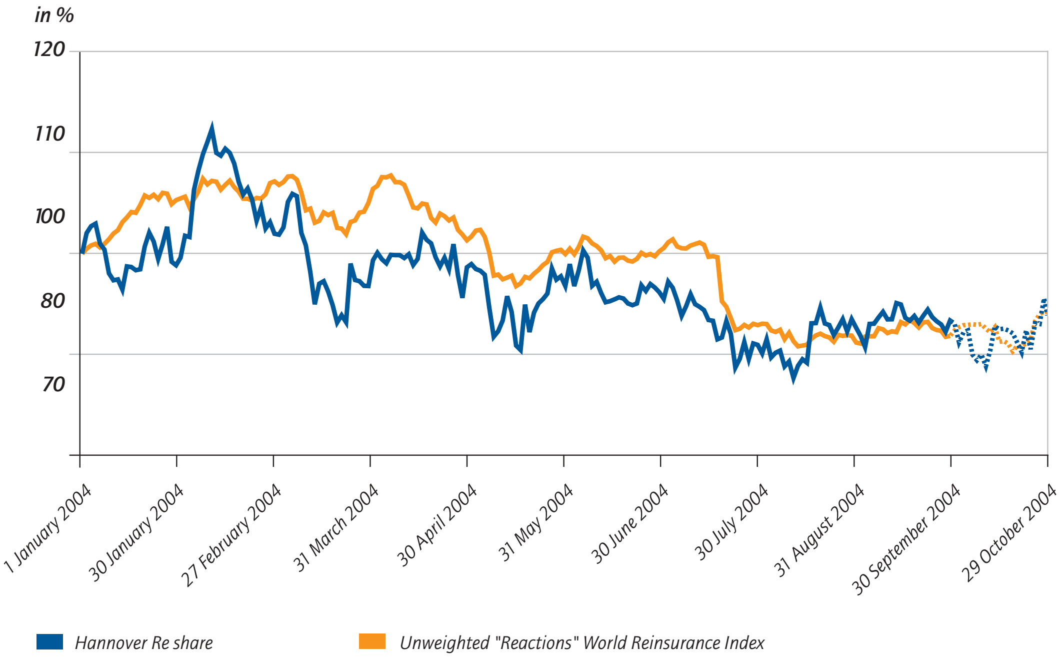
The unfavourable trend on the capital markets was maintained in the third quarter of the current stock market year. Disappointing US economic data, the rocketing price of crude oil and renewed fears of terrorism triggered a price slide over the summer that saw markdowns on stock markets worldwide. A new low for the year was reached on 11 August. With hurricane "Charley" heralding the hurricane season in the Caribbean, insurance stocks, too, declined across a broad front. Equity markets recovered somewhat towards the end of the quarter, although the high cost of oil continued to drag heavily on share prices. Mid-caps remained the focus of investor interest: the MDax (+12.2%) left the Dax (-1.8%), CDax insurance stocks (-17.2%) as well as the EuroStoxx 50 (-1.2%) and the Dow Jones (-3.6%) trailing far behind.

Performance of the Hannover Re share compared with standard benchmark indices



Our share continued to fare considerably better than other insurance stocks and outperformed the CDax insurance stocks by 11.4 percentage points. The development of the MDax, on the other hand, was substantially more impressive (+18.0 percentage points). On 11 August our share price had fallen by -9,8% to its lowest point of the year at EUR 25. Even the publication of the company's strong interim report on the first half-year failed to bring about a significant turnaround. On 13 August hurricane "Charley" then made landfall in the United States, and the ensuing series of windstorm events that affected Florida and the Pacific region shattered investor confidence in the insurance sector's ability to generate sound profits. Towards the end of the quarter our share rallied somewhat to close -5.8% down at EUR 26.10. Our benchmark index, the unweighted "Reactions" World Reinsurance Index, shadowed the performance of the Hannover Re share with only minor divergences.

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



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

Although the anticipated after-tax profit for the year has been adjusted downwards due to the hurricane losses, our shareholders can again look forward to an improved dividend in the year under review on account of a higher payout ratio.

Analysts currently put the price target for the Hannover Re share at around EUR 32 on average. Given its present price of roughly EUR 26, the price/earnings ratio based on the consensus profit estimate for 2005 is a good 7. In view of this very low P/E ratio and our consistently above-average profitability, the vast majority of analysts – even after the losses caused by the hurricane season – assess our profit outlook very favourably. As at 30 September 22 of the 28 analysts listed in Bloomberg (i.e. 79%) recommended the Hannover Re share as a "buy".

Share information

in EUR	30.9.2004	2003	2002	2001	2000	1999
Earnings per share (diluted)	1.58	3.24	2.75	0.11	4.13	2.29
Dividend per share	–	0.95	0.85	–	0.77 [1]	0.68
Corporation-tax credit	–	–	–	–	0.36	0.29
Gross dividend	–	0.95	0.85	–	1.21 [2]	0.97

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

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	Talanx AG: 51.2% (directly and indirectly) Free float: 48.8%
Capital measure of 12 June 2003:	Increase in common stock through • a capital increase for cash against issuance of 9,716,392 new shares and through • a capital increase against a contribution in kind through issuance of 13,716,814 new shares to Talanx AG for all shares in HDI Re (Ireland) Ltd – now Hannover Re (Dublin) Ltd. – (with commercial effect from 1 July 2003)
Common stock as at 30 September 2004:	EUR 120,597,134.00
Number of shares as at 30 September 2004:	120,597,134 no-par-value registered shares
Market capitalisation as at 30 September 2003:	EUR 3,147.6 million

The business development to date has been notable for a rather low-key first half-year followed by high losses in the third quarter, which with the four hurricanes "Charley", "Frances", "Ivan" and "Jeanne" may have experienced the largest-ever insured loss in history. Taken together with a record number of typhoons in the Pacific region as well as a number of other events, Hannover Re suffered a burden of major losses as at 30 September 2004 of EUR 358.6 million in property and casualty reinsurance and program business – a figure for the first nine months of more than three times that of a "normal" year. On the other hand, however, we also observed that the underlying profitability of property and casualty reinsurance was even better than in the previous year. Despite the huge natural catastrophe losses incurred in the third quarter, we were therefore able to generate consolidated net income in the reporting period that – while it will fall short of the previous year's level for the full financial year – will still enable us to achieve our current return-on-equity target of roughly 12%.

As had been the case in the first half of the year under review, gross premiums were lower as at 30 September. This was due on the one hand to the relative strengthening of the euro against the US dollar year-on-year and on the other to our strategic realignments in property and casualty reinsurance. The reorganisation of reinsurance business with our HDI affiliates was alone responsible for a decrease of around EUR 300 million. Gross written premiums in the Group totalled EUR 7,179.5 million (EUR 8,872.3 million) in the first nine months, a contraction of 19.1%. At constant exchange rates the decrease would have been 14.8%. Retention climbed by 6.3 percentage points to 77.3%; therefore, net premiums earned were only reduced by 8.0% to EUR 5,438.3 million (EUR 5,909.0 million). Investment income developed favourably as anticipated; no significant write-downs were necessary.

The operating profit (EBIT) contracted by 18.1% to EUR 408.0 million (EUR 498.2 million) owing to the major losses. Consolidated net income showed a similar decline; the amount of EUR 191.1 million was 25.5% less than the figure as at 30 September 2003 (EUR 256.6 million). This was reflected in correspondingly lower earnings of EUR 1.58 (EUR 2.43) per share. The third quarter itself consequently closed with a deficit of EUR 20.4 million.

It is therefore all the more gratifying to report that we nevertheless significantly increased our stockholders' equity to EUR 2,516.6 million, an improvement of 4.7% compared to the position as at the beginning of the financial year (EUR 2,404.7 million).

Property and casualty reinsurance

The two dominant issues for property and casualty reinsurance in the third quarter were without doubt the hurricanes in the USA and the typhoons in Asia. On the positive side, the third quarter was again notable for the sustained, highly attractive market conditions that for the most part continued to prevail in property and casualty reinsurance business.

The decline of 21.1% in gross written premiums to EUR 3,189.8 million (EUR 4,041.6 million) derived primarily from the depreciation of the US dollar against the euro and the restructuring of reinsurance arrangements for the business accepted from our HDI affiliates. At constant exchange rates the decrease would have been just 18.1%. Net premiums earned in the first nine months after retrocessions and deferred premiums totalled EUR 2,470.0 million (EUR 2,638.7 million); we increased our retention to 82.6% as projected.

The burden of major losses as at 30 September in the amount of EUR 258.5 million was equivalent to 10.5% of net premiums earned (a level well in excess of the multi-year average of around 5%). Most significantly, Hannover Re's account for property and casualty reinsurance in the third quarter was crucially impacted by the Florida hurricanes "Charley", "Frances", "Ivan" and

"Jeanne" as well as the typhoons in the Pacific – the latter producing by far less severe effects. Total net loss expenditure is provisionally estimated at EUR 211.1 million, a figure corresponding to 21.6% of net premiums earned in the third quarter.

The combined ratio in the first nine months of the year under review was a mere 97.1% despite the very high major loss expenditure and thus even improved fractionally on the previous year's figure (97.2%). The decisive factor here was the further improvement in the quality of the core business, which thereby cushioned the impact of the major losses on profitability. We stood by our accustomed conservative approach to reserving new business. What is more, on balance there was again no need in the third quarter to establish additional reserves for previous underwriting years. As a consequence of the high quality of the other business written, the underwriting profit for the first nine months of the year under review showed only a minimal decrease – despite the extraordinary burden of major losses – to EUR 72.5 million (EUR 73.8 million).

Against this backdrop the operating profit (EBIT) in property and casualty reinsurance improved by 3.7% as at 30 September to EUR 315.2 million (EUR 304.0 million). Net income was again somewhat higher thanks to reduced tax expenditure, climbing by 5.5% to EUR 144.9 million (EUR 137.4 million). The first nine months thus closed with earnings of EUR 1.20 (EUR 1.30) per share.

Key figures for property and casualty reinsurance

Figures in EUR million	2004					2003	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premiums	2 115.4	1 074.4	(22.3%)	3 189.8	(21.1%)	1 382.4	4 041.6
Net premiums earned	1 491.4	978.6	(1.0%)	2 470.0	(6.4%)	988.2	2 638.7
Underwriting result	84.7	(12.2)	(124.2%)	72.5	(1.8%)	50.6	73.8
Operating profit (EBIT)	228.4	86.8	(28.5%)	315.2	+3.7%	121.4	304.0
Net income (after tax)	115.9	29.0	(19.5%)	144.9	+5.5%	36.1	137.4
Earnings per share in EUR	0.96	0.24	(20.0%)	1.20	(7.7%)	0.30	1.30
Retention	77.4%	92.8%		82.6%		70.4%	69.5%
Combined ratio	94.3%	101.2%		97.1%		94.9%	97.2%

Life and health reinsurance

Life and health reinsurance developed very favourably in the first nine months of the year under review. The discontinuation of a major business relationship in the United Kingdom at the end of last year is, however, still reflected in a reduced premium volume. Gross written premiums as at 30 September totalled EUR 1,497.1 million, a decline of 10.3% compared to the previous year (EUR 1,669.4 million). Life and health reinsurance, in common with our other business groups, also had to cope with the continuing strength of the euro against key foreign currencies, most notably the US dollar; had it not been for this effect the decrease would have been a mere 7.1%. Net premiums earned contracted slightly by 1.3% to EUR 1,372.6 million (EUR 1,390.7 million) due to the higher level of retained premiums. The operating profit (EBIT) of EUR 59.0 million surpassed the previous year's figure by 20.7% (EUR 48.9 million). Net income surged even more impressively by 40.7% as at 30 September to EUR 31.1 million (EUR 22.1 million) thanks to significantly lower tax expenditure year-on-year. Life and health reinsurance thus generated earnings of EUR 0.26 (EUR 0.21) per share.

Key figures for life and health reinsurance

Figures in EUR million	2004					2003	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premiums	939.4	557.7	(3.7%)	1 497.1	(10.3%)	579.2	1 669.4
Net premiums earned	857.9	514.7	(1.9%)	1 372.6	(1.3%)	524.8	1 390.7
Operating profit (EBIT)	39.2	19.8	(21.0%)	59.0	+20.7%	25.1	48.9
Net income (after tax)	23.7	7.4	(26.7%)	31.1	+40.7%	10.1	22.1
Earnings per share in EUR	0.20	0.06	(25.0%)	0.26	+23.8%	0.08	0.21
Retention	91.8%	93.3%		92.4%		90.7%	83.2%
Net return on premium*	4.6%	3.9%		4.3%		4.8%	3.5%

** Operating profit (EBIT)/net premiums earned*

Financial reinsurance

Financial reinsurance developed according to plan in the first nine months of the year under review: following the rapid growth of recent years, a decrease in premium volume was to be expected. Gross written premiums consequently contracted by 27.7% as at 30 September to EUR 884.4 million (EUR 1,223.4 million). In financial reinsurance, too, the strength of the euro served to restrain premium growth: at constant exchange rates the decline would have been 22.7%. Standing at 92.9%, the level of retained premiums was somewhat lower than in the previous year (98.1%), although the decline of 26.8% in net premiums earned – which fell to EUR 798.2 million (EUR 1,089.7 million) – was roughly on a par with the reduction in gross premium income.

The operating profit (EBIT) improved by 16.4% to EUR 105.2 million (EUR 90.3 million). Net income after tax as at 30 September climbed by 11.7% to EUR 63.8 million (EUR 57.1 million), producing earnings of EUR 0.52 (EUR 0.54) per share.

Key figures for financial reinsurance

Figures in EUR million	2004					2003	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premiums	674.8	209.6	(30.2%)	884.4	(27.7%)	300.1	1 223.4
Net premiums earned	552.0	246.2	(44.7%)	798.2	(26.8%)	445.0	1 089.7
Operating profit (EBIT)	65.3	39.9	(24.0%)	105.2	+16.4%	52.5	90.3
Net income (after tax)	45.9	17.9	(44.4%)	63.8	+11.7%	32.2	57.1
Earnings per share in EUR	0.38	0.14	(48.1%)	0.52	(3.7%)	0.27	0.54
Retention	95.3%	85.1%		92.9%		103.4%	98.1%
Net return on premium*	11.8%	16.2%		13.2%		11.8%	8.3%

** Operating profit (EBIT)/net premiums earned*

Program business

The losses from the hurricanes in Florida impacted our book of program business in an amount of around EUR 100 million for net account. It also incurred premiums payable for the reinstatement of reinsurance covers. In contrast to the situation in property and casualty reinsurance, it was only possible to alleviate – but not offset – the effect of these losses at Clarendon Insurance Group, New York, through other, favourably performing business.

Gross written premiums in program business fell by 17.0% in the first nine months to EUR 1,608.1 million (EUR 1,938.0 million); at constant exchange rates gross premium income would have recorded a far smaller decrease of 9.3%. At 44.1%, the level of retained premiums was slightly lower than in the previous year (46.4%); net premiums earned, on the other hand, grew by 1.0% to EUR 797.5 million (EUR 789.9 million). The higher combined ratio – which surged by 15.2 percentage points to 111.5% (96.3%) – clearly reflects the repercussions of the four hurricanes in the third quarter.

The development of the operating profit (EBIT) as at 30 September was correspondingly negative: a reversal to -EUR 71.4 million after positive EBIT in the same period of the previous year (EUR 54.9 million). The net loss after tax stood at EUR 48.6 million after nine months, contrasting with a profit of EUR 40.0 million in the previous year. Having contributed EUR 0.38 per share in the previous year, program business thus eroded the Group profit by EUR 0.40 per share.

Key figures for program business

Figures in EUR million	2004					2003	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premiums	1 065.6	542.5	(14.3%)	1 608.1	(17.0%)	633.1	1 938.0
Net premiums earned	559.8	237.7	(23.9%)	797.5	+1.0%	312.2	789.9
Underwriting result	19.2	(110.5)		(91.3)	(414.2%)	0.5	29.1
Operating profit (EBIT)	42.5	(113.9)	(931.4%)	(71.4)	(230.1%)	13.7	54.9
Net income/loss (after tax)	25.9	(74.5)	(568.2%)	(48.6)	(221.5%)	15.9	40.0
Earnings per share in EUR	0.21	(0.61)	(569.2%)	(0.40)	(205.3%)	0.13	0.38
Retention	49.1%	34.4%		44.1%		49.7%	46.4%
Combined ratio	96.6%	146.5%		111.5%		99.9%	96.3%

Net investment income

Our investment portfolio continued to perform well in the third quarter. Based on our rather low equity allocation – a position which is paying off given the unchanged heavily depressed state of equity markets – and despite the very defensive nature of our bond portfolio, our investment income remained entirely within the planned parameters after the first nine months of the year under review. In view of the size of our portfolio the write-downs on securities of EUR 22.7 million in the first nine months were only a marginal factor. In the previous year corresponding write-downs of as much as EUR 89.1 million had been necessary as at 30 September.

In the third quarter we kept the modified duration of the bond portfolio steady at 3.3. Losses of EUR 29.2 million (EUR 72.5 million) were realised on the disposal of investments in the first nine months of the year under review. This contrasted with realised profits of EUR 123.6 million (EUR 149.0 million).

Increased asset volumes failed to fully offset the fall in interest rates. Ordinary income consequently declined slightly to EUR 742.1 million (EUR 771.8 million). Net investment income improved sharply to EUR 783.1 million, a rise of 9.3% compared to the corresponding figure in the previous year (EUR 716.8 million). We are highly satisfied with this performance which – as in the first half-year – remains absolutely in line with our planning for the full financial year.

Outlook

During 2004 we have developed highly successfully in a market environment that is by no means straightforward. The good quality of our portfolio in all segments, especially in property and casualty reinsurance, cushioned the extraordinarily high loss expenditures arising from the windstorms in the third quarter.

Our largest business group, *property and casualty reinsurance*, remains strongly profitable – despite suffering very heavy strains from major loss events. The excellent quality of the business should be sustained in the fourth quarter with favourable implications for profitability, provided the burden of major losses in the fourth quarter remains within the multi-year average. For the full 2004 financial year we expect a combined ratio of significantly less than 100% despite the sizeable loss expenditures associated with the four hurricanes, the typhoons in the Pacific region and other major losses incurred in the course of the year. As could be discerned from the underlying tenor of the annual meetings of reinsurers held in Monte Carlo, Baden-Baden and Washington, D.C., the 2004/05 renewal season should again facilitate rates and conditions in the coming year that are both commensurate with the risk and profitable in almost all sub-segments of property and casualty reinsurance. Particularly in natural catastrophe business, it may be assumed that the price erosion anticipated prior to the third quarter will now fail to materialise.

Gross written premiums as at year-end will fall substantially short of the previous year's level, primarily due to exchange-rate effects and other factors already explained in the reporting on the individual business groups. The contraction in net premiums earned will be less marked due to a further rise in the level of retained premiums. Net income for the full 2004 year in property and casualty reinsurance is unlikely to match up to the previous year due to the exceptional burden of major losses, although profitability should still be very good.

Gross premium income in *life and health reinsurance* will be lower than in the previous year owing to the discontinuation of a business relationship in the United Kingdom and the weakness of the US dollar. The operating profit (EBIT) and net income are nevertheless expected to show significant double-digit increases in line with our defined targets. The fourth quarter should again deliver a gratifying profit contribution.

Following vigorous growth over the past two years, the premium volume in *financial reinsurance* is expected to be lower as at year-end, as already envisaged in our planning. The result should, however, continue to be highly satisfactory.

In program business it is our expectation that the full financial year will also show a significant deficit owing to the very severe strains associated with the four hurricanes in Florida. Nevertheless, the fourth quarter should – subject to a "normal" major loss incidence – deliver a renewed favourable contribution to the overall result. Premium income will decline; our retention will probably remain unchanged.

Current income from *investments* will be at least on a par with the previous year, since strong cash inflows and low returns on securities will roughly balance each other out. Extraordinary income is expected to show a positive result for the full financial year, provided the capital markets are spared any adverse trends. Our net investment income for the full year should surpass the level of the previous year.

Outlook for the Group

On 12 October of the year under review we were compelled to revise our profit forecast for the full year from EUR 390–430 million to EUR 300 million (roughly EUR 2.50 per share) as a consequence of the extraordinary burden of major losses incurred in the third quarter. Corresponding to an expected return on equity of 12%, this figure still satisfies our minimum return-on-equity target and can be considered excellent by the standards of our competitors. Provided the fourth quarter does not witness any unforeseen adverse developments of significant dimensions on the capital markets or an accumulation of major losses substantially in excess of the multi-year average, we therefore expect to achieve this target as at year-end.

For the coming year – subject to the same premises regarding the major loss experience and movements on capital markets – we still anticipate a highly positive profit trend. For the 2005 financial year we therefore stand by our forecast net income of between EUR 430 and 470 million (EUR 3.60–3.90 per share).

CONSOLIDATED QUARTERLY ACCOUNTS
of Hannover Re

CONSOLIDATED BALANCE SHEET
as at 30 September 2004

Figures in EUR thousand	2004	2003	
Assets		Commercial treatment	US GAAP "as-if-pooling" method*
	30.9.	31.12.	31.12.
Fixed-income securities – held to maturity	482 702	498 695	498 695
Fixed-income securities – available for sale	12 593 105	11 119 567	11 119 567
Equity securities – available for sale	1 174 746	925 595	925 595
Equity securities – trading	–	2 402	2 402
Real estate	227 457	230 591	230 591
Other invested assets	650 768	633 885	633 885
Short-term investments	723 098	569 592	569 592
Total investments without cash	15 851 876	13 980 327	13 980 327
Cash	586 341	386 134	386 134
Total investments and cash	16 438 217	14 366 461	14 366 461
Prepaid reinsurance premiums	598 486	566 920	566 920
Reinsurance recoverables on benefit reserve	65 602	206 717	206 717
Reinsurance recoverables on unpaid claims	4 803 895	4 396 564	4 396 564
Reinsurance recoverables on other reserves	4 494	41 528	41 528
Deferred acquisition costs	1 899 797	1 690 806	1 690 806
Accounts receivable	3 604 539	3 402 908	3 402 908
Funds held by ceding companies	8 074 209	7 664 683	7 664 683
Goodwill	206 678	203 619	203 619
Other assets	252 636	248 585	248 585
Accrued interest and rent	212 452	185 953	185 953
	36 161 005	32 974 744	32 974 744

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004	2003	
Liabilities		Commercial treatment	US GAAP "as-if-pooling" method*
	30.9.	31.12.	31.12.
Loss and loss adjustment expense reserve	19 864 956	18 703 170	18 703 170
Policy benefits for life and health contracts	4 174 524	4 001 148	4 001 148
Unearned premium reserve	2 298 465	2 126 894	2 126 894
Provisions for contingent commission	173 639	130 265	130 265
Other technical provisions	7 224	9 089	9 089
Reinsurance payable	2 114 903	1 396 215	1 396 215
Funds held under reinsurance treaties	881 928	1 080 491	1 080 491
Contract deposits	855 444	474 526	474 526
Minorities	529 334	491 836	491 836
Other liabilities	488 728	365 095	365 095
Taxes	210 747	137 583	137 583
Provision for deferred taxes	803 336	869 857	869 857
Notes payable	1 123 544	666 328	666 328
Surplus debenture	117 597	117 597	117 597
Total liabilities	33 644 369	30 570 094	30 570 094
Stockholders' equity			
Common stock	120 597	120 597	120 597
Nominal value 120 597 Authorised capital 60 299			
Additional paid-in capital	724 562	764 199	724 562
Cumulative comprehensive income			
Unrealised appreciation/depreciation of investments, net of deferred taxes	138 308	157 569	160 862
Cumulative foreign currency conversion adjustment, net of deferred taxes	(293 678)	(352 502)	(340 938)
Other changes in cumulative comprehensive income	(11 578)	(22 685)	(22 685)
Total comprehensive income	(166 948)	(217 618)	(202 761)
Retained earnings			
Beginning of period	1 762 252	1 379 291	1 340 529
Net income	191 108	354 779	418 321
Dividend paid	(114 567)	(82 591)	(82 591)
Other changes	(368)	85 993	85 993
	1 838 425	1 737 472	1 762 252
Total stockholders' equity	2 516 636	2 404 650	2 404 650
	36 161 005	32 974 744	32 974 744

CONSOLIDATED STATEMENT OF INCOME
for the period 1 January to 30 September 2004

Figures in EUR thousand	2004		2003			
			Commercial treatment		US GAAP "as-if-pooling" method*	
	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.
Gross written premiums	2 384 136	7 179 459	2 894 772	8 872 298	2 894 772	9 117 499
Ceded written premiums	501 764	1 631 167	770 801	2 575 253	770 801	2 612 051
Change in gross unearned premiums	53 070	(134 291)	135 030	(410 469)	135 030	(531 687)
Change in ceded unearned premiums	41 838	24 308	11 099	22 382	11 099	36 009
Net premiums earned	1 977 280	5 438 309	2 270 100	5 908 958	2 270 100	6 009 770
Ordinary investment income	208 957	742 090	245 714	771 829	245 714	816 213
Realised gains on investments	21 536	123 647	61 500	148 960	61 500	148 960
Realised losses on investments	10 330	29 223	55 740	72 508	55 740	72 825
Unrealised gains and losses on investments	11 734	12 913	11 935	8 007	11 935	8 007
Other investment expenses/depreciations	15 740	66 313	32 879	139 533	32 879	139 598
Net investment income	216 157	783 114	230 530	716 755	230 530	760 757
Other technical income	(1 477)	3 825	656	18 821	656	18 821
Total revenues	2 191 960	6 225 248	2 501 286	6 644 534	2 501 286	6 789 348
Claims and claims expenses	1 530 395	4 054 304	1 646 773	4 521 659	1 646 773	4 577 700
Change in policy benefits for life and health contracts	50 926	144 947	109 666	316 726	109 666	316 726
Commission and brokerage	469 117	1 239 464	428 087	951 481	428 087	966 850
Other acquisition costs	1 185	4 519	(4 062)	1 564	(4 062)	2 065
Other technical expenses	15 679	59 663	30 642	83 681	30 642	83 681
Administrative expenses	61 475	184 001	42 016	168 342	42 016	168 516
Total technical expenses	2 128 777	5 686 898	2 253 122	6 043 453	2 253 122	6 115 538
Other income and expenses	(30 507)	(130 304)	(35 244)	(102 920)	(35 244)	(104 615)
Operating profit (EBIT)	32 676	408 046	212 920	498 161	212 920	569 195
Interest on hybrid capital	18 696	50 118	13 382	40 308	13 382	40 308
Net income before taxes	13 980	357 928	199 538	457 853	199 538	528 887
Taxes	14 559	105 053	130 177	198 776	130 177	206 268
Minority interest	(19 783)	(61 767)	24 841	(2 501)	24 841	(2 501)
Net income	(20 362)	191 108	94 202	256 576	94 202	320 118

* *Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004		2003			
			Commercial treatment		US GAAP "as-if-pooling" method*	
	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.	1.7.–30.9.	1.1.–30.9.
Other comprehensive income						
Net unrealised appreciation/ depreciation of investments	66 268	(22 554)	(42 282)	97 218	(42 283)	99 707
Cumulative foreign currency conversion adjustments	(18 036)	47 260	(42 452)	(206 871)	(42 634)	(203 497)
Other comprehensive income	5 126	11 107	19 716	24 728	19 716	24 728
Total	32 996	226 921	29 184	171 651	29 001	241 056
Earnings per share						
Earnings per share in EUR	(0.17)	1.58	0.78	2.43	0.78	2.79

CASH FLOW STATEMENT
as at 30 September 2004

Figures in EUR thousand	2004	2003	
		Commercial treatment	US GAAP "as-if-pooling" method*
	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
I. Cash flow from operating activities			
Consolidated net income (after tax)	191 108	256 576	320 118
Appreciation/depreciation	37 944	115 429	115 429
Net realised gains and losses on investments	(94 424)	(76 452)	(76 135)
Amortisation of investments	6 934	3 271	3 603
Minority interest	61 767	2 501	2 501
Changes in funds held	(499 443)	(700 182)	(810 143)
Changes in prepaid reinsurance premiums (net)	123 684	345 479	463 578
Changes in tax assets/provisions for taxes	4 901	157 146	164 639
Changes in benefit reserves (net)	271 874	436 978	436 978
Changes in claims reserves (net)	610 742	1 652 835	1 657 145
Changes in deferred acquisition costs	(205 267)	(329 803)	(382 753)
Changes in other technical provisions	77 690	5 621	5 611
Changes in clearing balances	537 294	(323 095)	(385 877)
Changes in other assets and liabilities (net)	88 173	78 223	81 700
Cash flow from operating activities	1 212 977	1 624 527	1 596 394
II. Cash flow from investing activities			
Fixed income securities – held to maturity			
Maturities	46 763	30 678	30 678
Purchases	(29 250)	(15 000)	(15 000)
Fixed income securities – available for sale			
Maturities, sales	4 571 454	3 743 411	3 914 735
Purchase	(5 903 312)	(5 790 625)	(5 825 866)
Equity securities – available for sale			
Sales	247 421	138 316	138 316
Purchases	(499 227)	(376 764)	(376 764)
Other invested assets			
Sales	85 613	80 530	80 530
Purchases	(62 863)	(73 364)	(73 364)
Affiliated companies and participating interests			
Sales	3 544	2 825	2 825
Acquisitions	(14 700)	(7 457)	(7 457)
Real estate			
Sales	–	820	820
Acquisitions	(654)	(524)	(524)
Short-term investments			
Changes	(144 388)	174 012	76 749
Other changes (net)	(21 193)	(20 799)	(21 049)
Cash flow from investing activities	(1 720 792)	(2 113 941)	(2 075 371)

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Figures in EUR thousand	2004	2003	
		Commercial treatment	US GAAP "as-if-pooling" method*
	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
III. Cash flow from financing activities			
Inflows from capital increases	–	219 590	219 590
Inflow from capital increase through contribution in kind	–	11 402	–
Net changes in contract deposits	383 090	153 852	153 852
Dividend paid	(114 567)	(82 589)	(82 589)
Changes in notes payable	447 416	30 086	30 086
Other changes	(16 052)	(4 338)	(4 338)
Cash flows from financing activities	699 887	328 003	316 601
IV. Exchange rate differences on cash	8 135	32 655	32 642
Change in cash and cash equivalents (I.+II.+III.+IV.)	200 207	(128 756)	(129 734)
Cash and cash equivalents at the beginning of the period	386 134	671 866	672 844
Change in cash and cash equivalents according to cash flow statement	200 207	(128 756)	(129 734)
Cash and cash equivalents at the end of the period	586 341	543 110	543 110
Income taxes	(42 559)	(31 222)	(31 222)
Interest paid	(74 174)	(77 014)	(77 014)

SEGMENTAL REPORT
as at 30 September 2004

In the following table we have allocated the underwriting assets and liabilities as at 30 September 2004 and 31 December 2003 to our business segments after eliminating intergroup transactions across segments.

Segmentation of underwriting assets and liabilities

Figures in EUR thousand	Property/casualty reinsurance		Life/health reinsurance	
	2004	2003	2004	2003
	30.9.	31.12.	30.9.	31.12.
Assets				
Prepaid reinsurance premiums	82 476	99 122	341	2 555
Deferred acquisition costs (net)	231 800	197 078	1 532 785	1 344 206
Reinsurance recoverables on benefit reserves	–	–	65 602	206 717
Reinsurance recoverables on incurred claims and others	1 603 085	1 817 976	95 304	96 379
Funds held by ceding companies	168 405	176 330	4 067 494	3 257 988
Total underwriting assets	2 085 766	2 290 506	5 761 526	4 907 845
Liabilities				
Loss and loss adjustment expense reserve	9 125 162	8 396 999	1 044 836	929 396
Policy benefits for life and health contracts	–	–	4 174 524	4 001 148
Unearned premium reserve	1 100 136	939 942	30 333	21 868
Other technical provisions	107 987	93 987	33 672	24 002
Funds held under reinsurance treaties	572 830	559 333	118 405	216 185
Total underwriting liabilities	10 906 115	9 990 261	5 401 770	5 192 599

Financial reinsurance		Program business		Total	
2004	2003	2004	2003	2004	2003
30.9.	31.12.	30.9.	31.12.	30.9.	31.12.
14 164	2 042	501 505	463 201	598 486	566 920
39 209	44 780	96 003	104 742	1 899 797	1 690 806
–	–	–	–	65 602	206 717
616 682	506 510	2 493 318	2 017 227	4 808 389	4 438 092
3 824 600	4 216 479	13 710	13 886	8 074 209	7 664 683
4 494 655	4 769 811	3 104 536	2 599 056	15 446 483	14 567 218
5 743 395	6 192 954	3 951 563	3 183 821	19 864 956	18 703 170
–	–	–	–	4 174 524	4 001 148
204 185	165 518	963 811	999 566	2 298 465	2 126 894
29 696	18 851	9 508	2 514	180 863	139 354
24 315	20 734	166 378	284 239	881 928	1 080 491
6 001 591	6 398 057	5 091 260	4 470 140	27 400 736	26 051 057

SEGMENTAL REPORT
as at 30 September 2004

Segmental statement of income

Figures in EUR thousand	Property/casualty reinsurance			Life/health reinsurance		
	2004	2003		2004	2003	
		Commercial treatment	US GAAP "as-if-pooling" method*		Commercial treatment	US GAAP "as-if-pooling" method*
	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
Gross written premiums	3 189 774	4 041 605	4 041 605	1 497 127	1 669 355	1 669 355
Net premiums earned	2 470 045	2 638 679	2 638 679	1 372 564	1 390 676	1 390 676
Claims and claims expenses	1 857 448	2 031 737	2 031 737	804 489	856 711	856 711
Change in policy benefits for life and health contracts	–	–	–	(144 947)	(316 726)	(316 726)
Commission and brokerage and other technical income/expenses	462 900	456 164	456 164	465 586	273 345	273 345
Investment income	344 293	305 351	305 351	150 101	152 083	152 083
Administrative expenses	77 226	76 978	76 978	41 768	36 100	36 100
Other income and expenses	(101 525)	(75 127)	(75 127)	(6 837)	(10 993)	(10 993)
Operating profit (EBIT)	315 239	304 024	304 024	59 038	48 884	48 884
Interest on hybrid capital	31 719	26 879	26 879	4 711	4 985	4 985
Net income before taxes	283 520	277 145	277 145	54 327	43 899	43 899
Taxes	90 722	140 803	140 803	19 835	21 315	21 315
Minority interest	(47 917)	1 032	1 032	(3 374)	(467)	(467)
Net income	144 881	137 374	137 374	31 118	22 117	22 117

** Figures under US GAAP "as-if-pooling" method comprise Hannover Reinsurance (Dublin) Ltd.*

Financial reinsurance			Program business			Total		
2004	2003		2004	2003		2004	2003	
	Commercial treatment	US GAAP "as-if-pooling" method*		Commercial treatment	US GAAP "as-if-pooling" method*		Commercial treatment	US GAAP "as-if-pooling" method*
1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.	1.1.–30.9.
884 425	1 223 359	1 468 560	1 608 133	1 937 979	1 937 979	7 179 459	8 872 298	9 117 499
798 182	1 089 654	1 190 466	797 518	789 949	789 949	5 438 309	5 908 958	6 009 770
738 886	1 013 325	1 069 366	653 481	619 886	619 886	4 054 304	4 521 659	4 577 700
–	–	–	–	–	–	(144 947)	(316 726)	(316 726)
197 811	200 215	216 085	173 524	88 181	88 181	1 299 821	1 017 905	1 033 775
246 701	222 712	266 714	42 019	36 609	36 609	783 114	716 755	760 757
3 152	2 453	2 627	61 855	52 811	52 811	184 001	168 342	168 516
165	(6 028)	(7 723)	(22 107)	(10 772)	(10 772)	(130 304)	(102 920)	(104 615)
105 199	90 345	161 379	(71 430)	54 908	54 908	408 046	498 161	569 195
4 214	3 002	3 002	9 474	5 442	5 442	50 118	40 308	40 308
100 985	87 343	158 377	(80 904)	49 466	49 466	357 928	457 853	528 887
26 758	27 189	34 681	(32 262)	9 469	9 469	105 053	198 776	206 268
(10 476)	(3 066)	(3 066)	–	–	–	(61 767)	(2 501)	(2 501)
63 751	57 088	120 630	(48 642)	39 997	39 997	191 108	256 576	320 118

NOTES

1. General accounting principles

Hannover Rückversicherung AG (Hannover Re) belongs to Talanx AG, which in turn is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i ff. of the German Commercial Code (HGB). The annual financial statements of Hannover Re and its subsidiaries are included in these consolidated annual accounts. Under § 291 Para. 3 No. 1 of the German Commercial Code (HGB), amended version, the consolidated annual accounts of the parent company no longer release Hannover Re from its obligation to compile a consolidated financial statement.

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

SFAS 141 "Business Combinations" Para. 11 in conjunction with Appendix D 11 to 18 sets out standards governing the accounting of transfer transactions between entities under common control. This statement requires that the assets and liabilities of the transferred entity be carried over with the book values at the transferring parent company. The comparative figures presented for previous reporting periods must also be adjusted according to this treatment. The consolidated financial statement was drawn up in accordance with these requirements, which we refer to in their entirety as the "as-if pooling" method, and supplemented with certain additional information. All figures in the previous year's reference period were compiled applying the "as-if pooling" method. For further information the reader is referred to the management report and notes of our annual report prepared as at 31 December 2003.

All Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board (FASB) on or before 30 September 2004 with binding effect for the 2004 financial year have been observed in the consolidated financial statement.

The quarterly results of reinsurance companies, including our results, are for various reasons not a reliable indicator for the results of the financial year as a whole. Losses from natural catastrophes and other catastrophe losses have a disproportionate impact on the result of the reporting period in which they occur. Furthermore, late reported claims for major loss complexes can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

2. Accounting principles including reporting and valuation methods

The quarterly accounts included in the consolidated financial statement were drawn up as at 30 September 2004. The reader is also referred to the corresponding information contained in the consolidated financial statement drawn up as at 31 December 2003.

3. Consolidated companies and consolidation principles

Consolidated companies

The consolidated companies have remained unchanged since 31 December 2003.

Capital consolidation

The capital consolidation complies with the standards of SFAS 141. Under the "purchase accounting" method the purchase costs of the parent company have been netted with the proportionate stockholders' equity of the subsidiary at the time when it was first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with SFAS 141 are to be accounted for separately from goodwill, the difference between the revalued stockholders' equity of the subsidiary and the purchase price is recognised as goodwill. Immaterial and negative goodwill were booked to earnings in the year of their occurrence. Where minority interests in the stockholders' equity exist, such interests are reported separately. The minority interest in the result is deducted from the net income in the statement of income and totalled EUR 61,767 thousand (previous year: EUR 2,501 thousand) as at 30 September 2004.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other.

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

4. Notes on the individual items of the balance sheet and statement of income

4.1 Investments including income and expenses

Investments were valued in accordance with SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities". The allocation and valuation of investments are guided by the investment intent.

Fixed-income securities classified as held to maturity are valued at purchase costs plus/minus amortised costs. The amortised costs derive from the difference between the nominal value and purchase cost and they are spread over the time to maturity of the fixed-income securities.

Fixed-income securities classified as available for sale are valued at fair value. The difference between the fair value and amortised cost is booked to other comprehensive income.

Trading securities are valued at fair value. The difference between the fair value and amortised cost is recognised within the statement of income.

Securities whose fair value falls permanently below purchase cost are written down to current value and recognised within the statement of income.

The other investments primarily consist of shares in private-equity limited partnerships.

Contractual maturities of the fixed-income securities in the held-to-maturity portfolio and the available-for-sale portfolio as at the balance sheet dates of 30 September 2004 and 31 December 2003

Figures in EUR thousand	2004		2003	
	Cost or amortised cost 30.9.	Estimate fair value 30.9.	Cost or amortised cost 31.12.	Estimated fair value 31.12.
Held-to-maturity				
Due in one year	41 598	42 073	67 169	68 408
Due after one through five years	117 349	123 435	114 953	123 384
Due after five through ten years	302 083	313 804	295 000	298 825
Due after ten years	21 672	23 376	21 573	22 831
Total	482 702	502 688	498 695	513 448
Available-for-sale				
Due in one year	1 602 060	1 607 796	1 375 756	1 382 997
Due after one through five years	7 804 555	7 844 765	6 212 600	6 280 794
Due after five through ten years	1 847 153	1 894 324	2 150 603	2 196 050
Due after ten years	1 206 867	1 246 220	1 235 717	1 259 726
Total	12 460 635	12 593 105	10 974 676	11 119 567

The actual maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Amortised costs and unrealised gains and losses on the portfolio of investments classified as held to maturity

30.9.2004

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Investments held to maturity				
Fixed income securities				
Other foreign government debt securities	19 704	–	–	19 704
Debt securities issued by semi-government entities	125 452	10 004	–	135 456
Corporate securities	259 284	6 502	397	265 389
Asset-backed securities	78 262	3 877	–	82 139
Total	482 702	20 383	397	502 688

31.12.2003

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

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

30.9.2004

Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 517 071	8 400	5 712	1 519 759
US Treasury Notes	1 939 443	3 982	10 533	1 932 892
Other foreign government debt securities	208 276	2 859	469	210 666
Debt securities issued by semi-governmental entities	2 881 474	30 570	15 031	2 897 013
Corporate securities	4 003 297	85 612	25 035	4 063 874
Asset-backed securities	1 348 501	28 963	3 952	1 373 512
From investment funds	562 573	33 668	852	595 389
	12 460 635	194 054	61 584	12 593 105
Dividend-bearing securities				
Equities	293 066	24 701	12 519	305 248
From investment funds	824 784	48 647	5 441	867 990
Other dividend-bearing securities	1 339	169	–	1 508
	1 119 189	73 517	17 960	1 174 746
Short-term investments	723 098	–	–	723 098
Total	14 302 922	267 571	79 544	14 490 949

31.12.2003				
Figures in EUR thousand	Cost or amortised cost	Unrealised gains	Unrealised losses	Estimated fair value
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 490 422	15 622	3 247	1 502 797
US Treasury Notes	1 483 771	8 420	4 607	1 487 584
Other foreign government debt securities	318 673	4 612	458	322 827
Debt securities issued by semi-governmental entities	2 873 524	34 981	17 898	2 890 607
Corporate securities	3 114 644	97 006	24 835	3 186 815
Asset-backed securities	1 133 208	29 856	4 796	1 158 268
From investment funds	560 434	13 921	3 686	570 669
	10 974 676	204 418	59 527	11 119 567
Dividend-bearing securities				
Equities	220 587	21 397	17 174	224 810
From investment funds	644 842	53 885	100	698 627
Other dividend-bearing securities	1 138	1 020	–	2 158
	866 567	76 302	17 274	925 595
Short-term investments	569 592	–	–	569 592
Total	12 410 835	280 720	76 801	12 614 754
Trading				
Dividend-bearing securities				
Derivatives	–	2 480	78	2 402
Total	–	2 480	78	2 402

Investment income

Figures in EUR thousand	2004	2003
	30.9.	30.9.
Real estate	17 831	19 166
Dividends	24 529	17 230
Ordinary investment income on fixed-income securities	399 974	370 073
Other income	299 756	409 744
Ordinary investment income	742 090	816 213
Realised gains on investments	123 647	148 960
Realised losses from investments	29 223	72 825
Unrealised gains and losses	12 913	8 007
Real estate depreciation	5 432	5 074
Write-offs on dividend-bearing securities	13 185	56 433
Write-offs on fixed-income securities	2 852	29 826
Write-downs on participations	6 691	2 888
Other investment expenses	38 153	45 377
Total investment income	783 114	760 757

The other income includes interest on deposits in the amount of EUR 292.4 million (EUR 382.5 million).

4.2 Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,971 (31 December 2003 : 1,970). Of this number, 810 were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad.

4.3 Stockholders' equity and minority interests

The stockholders' equity is shown as a separate component of the financial statement in accordance with SFAS 130 "Reporting of Comprehensive Income". The change in the stockholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

Minority interests are established in accordance with the shares held by companies outside the Group in the stockholders' equity of the subsidiaries.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 31 May 2009. Of this amount, up to EUR 1,000 thousand may be used to issue employee shares. In addition, conditional capital of up to EUR 48,500 thousand is available. It can be used to grant shares to holders of convertible and warrant bonds and has a time limit of 13 November 2007.

Consolidated statement of changes in stockholders' equity

30.9.2004

Figures in EUR thousand	Balance as at 1 January	Capital-increase/additions	Change in the current period less deferred taxes	Change in retined earnings	Transfer	Group Stock-holders' equity	Minority interests	Group Stock-holders' equity incl. minority interests
Common stock	120 597	–	–	–	–	120 597		
Additional paid-in capital	724 562	–	–	–	–	724 562		
Cumulative comprehensive income	(202 761)	–	35 813	–	–	(166 948)		
Retained earnings	1 762 252	–	–	–	–	1 762 252		
Net income	–	–	–	191 108	–	191 108		
Dividend paid	–	–	–	(114 567)	–	(114 567)		
Other changes	–	–	–	(368)	–	(368)		
Total	2 404 650	–	35 813	76 173	–	2 516 636	529 334	3 045 970

30.9.2003

Figures in EUR thousand	Balance as at 1 January	Capital-increase/additions	Change in the current period less deferred taxes	Change in retined earnings	Transfer*	Group Stock-holders' equity	Minority interests	Group Stock-holders' equity incl. minority interests
Common stock	110 881	9 716	–	–	–	120 597		
Additional paid-in capital	514 688	209 874	–	–	–	724 562		
Cumulative comprehensive income	(102 450)	–	9 297	–	(88 359)	(181 512)		
Retained earnings	1 340 529	–	–	–	–	1 340 529		
Net income	–	–	–	320 118	–	320 118		
Dividend paid	–	–	–	(82 589)	–	(82 589)		
Other changes	–	–	–	–	88 359	88 359		
Total	1 863 648	219 590	9 297	237 529	–	2 330 064	411 147	2 741 211

* *The cumulative currency effects from previous years in the amount of EUR 88.4 million hitherto reported under retained earnings will in future not be included in the comprehensive income. These currency effects derive primarily from the conversion of foreign annual financial statements to euros.*

4.4 Other comprehensive income

The changes of EUR 11.1 million in the cumulative comprehensive income in the year under review resulted principally from the application of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities". This development was due to changes in the fair value of interest-rate swaps included in a cash-flow hedge transaction used to hedge floating-rate loans.

4.5 Treasury stock

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

5. Other notes

5.1 Contingent liabilities

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

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

Hannover Re has also provided a subordinated guarantee as security for subordinated debt in the amount of EUR 350.0 million issued by Hannover Finance (Luxembourg) S.A.

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

In July 2004 Hannover Re – together with the other partners – sold its participation in Willy Vogel AG held through Willy Vogel Beteiligungsgesellschaft mbH. As security for the guarantees assumed under the contract of sale, Hannover Re provided a joint and several guarantee with the other partners to the purchaser for a total amount limited to EUR 7.1 million per partner. In addition, a settlement arrangement commensurate with the ratio of participations held was concluded between Hannover Re and the other partners in the event of a call on the guarantee.

As security for our technical liabilities to our U.S. clients, we have established a Master Trust Fund in the USA. As at the balance sheet date this Master Trust Fund amounted to EUR 1,929.3 million (31 December 2003: EUR 1,664.2 million). The securities held in the Master Trust Fund are shown as available-for-sale investments.

As further security for technical liabilities, various financial institutions have furnished collateral in the form of letters of credit or other types of collateral. The total amount of this collateral as at the balance sheet date was EUR 2,954.9 million (31 December 2003: EUR 2,950.5 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 118.1 million for E+S Rückversicherung AG and EUR 292.7 million for Hannover Re. These involve primarily private equity funds and venture capital firms in the form of private limited companies.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount estimated at EUR 28.0 million as at the balance sheet date.

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