

Interim Report

2/2003

hannover [®]re

KEY FIGURES

of the Hannover Re Group

Figures in EUR million	2003			2002			
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	3 152.1	2 825.4	(5.0%)	5 977.5	(2.9%)	2 974.7	6 154.3
Net premiums earned	1 675.9	1 963.0	+32.0%	3 638.9	+9.4%	1 487.0	3 327.5
Net underwriting result	(94.0)	(39.3)		(133.3)		(13.4)	(29.1)
Net investment income	208.0	278.2	+44.7%	486.2	+27.9%	192.3	380.1
Operating profit (EBIT)	109.0	176.2	+60.2%	285.2	+0.3%	110.0	284.3
Net income (after tax)	71.2	91.2	+62.3%	162.4	+11.0%	56.2	146.3
Policyholders' surplus	2 956.0			3 365.5	18.4%		2 842.5
Total stockholders' equity	1 755.4			2 107.9	26.8%		1 662.2
Minority interests	401.2			440.9	44.7%		304.6
Hybrid capital	799.4			816.7	(6.7%)		875.7
Investments (without funds held by ceding companies)	13 154.4			13 292.2	11.9%		11 879.9
Total assets	33 735.9			34 264.9	4.1%		32 928.9
Earnings per share (diluted) in EUR	0.73	0.92		1.65		0.58	1.51
Book value per share in EUR	18.07	21.48		21.48		17.11	17.11
Return on equity (after tax)*	16.3%	18.9%		16.9%		13.2%	17.6%
Retention	71.6%	67.8%		69.8%		51.4%	64.2%
Combined ratio (property and casualty reinsurance)	100.3%	97.3%		98.6%		99.6%	95.6%

* Annualised

Dear shareholders,
Ladies and gentlemen,

In the first half of 2003 your company seamlessly built on its strong performance in the preceding quarters and again achieved very pleasing results.

In the period from April to June the 2003 financial year presented us with numerous additional opportunities to renew and acquire profitable reinsurance business. Just how favourable the current market environment is can be clearly seen from our impressive operating profit (EBIT) of EUR 285.2 million: we were thus able to slightly improve on even the very good first half of 2002. With consolidated net income of EUR 162.4 million for the half-year, 11.0% higher than in the same period of the previous year, we are also well on track to once again boost our year-end result in 2003. This corresponds to earnings of EUR 1.65 per share for the half-year, following EUR 1.51 in the first six months of 2002.

Property and casualty reinsurance is and will remain our highest-volume business group. Especially in liability reinsurance, we see good opportunities for further growth at a highly profitable point in the market's cyclical upturn. The combined ratio stood at 98.6% in the first half-year, following 100.3% in the first quarter. The burden of catastrophe losses was also strictly limited in the period until 30 June 2003: just three loss events were recorded, producing a total net loss amount for our account of EUR 14.5 million – a figure far below the multi-year average. The first half-year as a whole, then, was a highly successful one for property and casualty reinsurance, which with a net profit of EUR 101.3 million (a rise of 11.7% compared to the same period in the previous year) accounted for more than 60% of consolidated net income for the reporting period.

All the other business groups similarly played a decisive part in our excellent interim result and developed entirely according to plan for the 2003 year as a whole. *Life and health reinsurance* contributed EUR 12.0 million for the half-year (a figure, however, that represents a decline of 21.6% due to a special timing effect), *financial reinsurance* EUR 24.9 million (+ 18.6%) and *program business* EUR 24.1 million (+ 24.9%).

Yet it was not only the performance of the underwriting units that gave grounds for satisfaction, net investment income was also significantly higher than in the same period of the previous year. Ordinary income recorded particularly vigorous growth due to increased returns on reinsurance deposits and enlarged asset portfolios. In the latter case, growth was primarily attributable to a very positive underwriting cash flow. There was also no need to make significant write-downs on our investments in the second quarter. Whereas in the first quarter we had to take write-downs of EUR 46 million



on our equity portfolio, the figure was just EUR 6 million in the months from April to June. Net investment income for the half-year thus rose by 27.9% to EUR 486.2 million.

In June we implemented a capital increase aimed at strengthening our equity base in order to ensure that we can continue to enjoy unrestricted profitable growth. The transaction consisted of a 10-percent increase against cash and a 13-percent increase against contribution in kind through the issuance of new shares, thereby increasing our stockholders' equity by altogether EUR 530 million. This step was very positively received by the market, as evidenced by the fact that the cash component was heavily oversubscribed within just a few hours of its announcement at an allotment price (EUR 22.60) only marginally below the prevailing share price at that time.

The increase in the free float of 40% has already had a highly favourable effect on the liquidity of our share. In the medium term this should also support the share price – something which I consider to be necessary since, in my assessment, our share is significantly undervalued. The price/earnings ratio of around 7 based on the consensus profit estimate for 2004 does not nearly reflect the price that would be appropriate in view of your company's profitability. Nevertheless, I am confident that the market will increasingly come to recognise this oversight, and I therefore see considerable scope for our share to move upwards.

On behalf of my colleagues on the Executive Board and myself, I thank you most sincerely for the trust that you place in us. It will continue to inspire us as we strive unceasingly to enhance the value of your company.

Yours sincerely,



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl Hannover	Chairman
Dr. Paul Wieandt Hof/Saale	Deputy Chairman
Herbert K. Haas Burgwedel	
Karl Heinz Midunsky Munich	
Ass. jur. Otto Müller*	
Hannover	
Bengt Pihl New York (until 27 May 2003)	
Ass. jur. Renate Schaper-Stewart*	
Lehrte	
Dipl.-Ing. Hans-Günter Siegerist*	
Nienstädt	
Dr. Klaus Sturany Essen	

**Staff representative*

Executive Board (Vorstand)

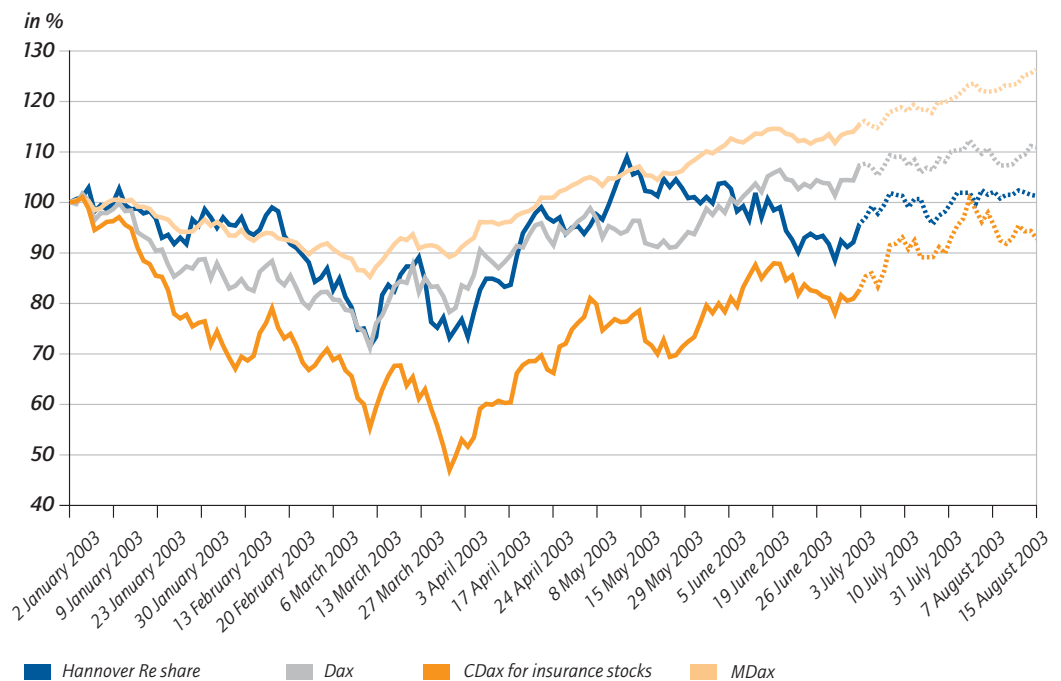
Wilhelm Zeller Burgwedel	Chairman
Dr. Wolf Becke Hannover	
Jürgen Gräber Ronnenberg	
Dr. Michael Pickel Gehrden	
André Arrago Hannover	Deputy Member
Dr. Elke König Hannover	Deputy Member
Ulrich Wallin Hannover	Deputy Member

THE HANNOVER RE SHARE

The capital markets showed clear signs of recovery in the second quarter of 2003. The leading German stocks surprised market watchers by outperforming Wall Street: while the Dow Jones put on around 8% in the period since the beginning of the second quarter, the Dax was one of the leading performers among international indices with a gain of 31% as at 30 June 2003. This bears witness to a remarkable rally in the

German stock market bellwether since its lowest point on 12 March 2003. This new-found confidence among investors is in large part due to the diminished political and economic uncertainties. What is more, a renewed focus on fundamentals can be observed in corporate analysis. The MDax, on which our share is listed, similarly recorded a superb performance of +27%.

Performance of the Hannover Re share compared with standard benchmark indices



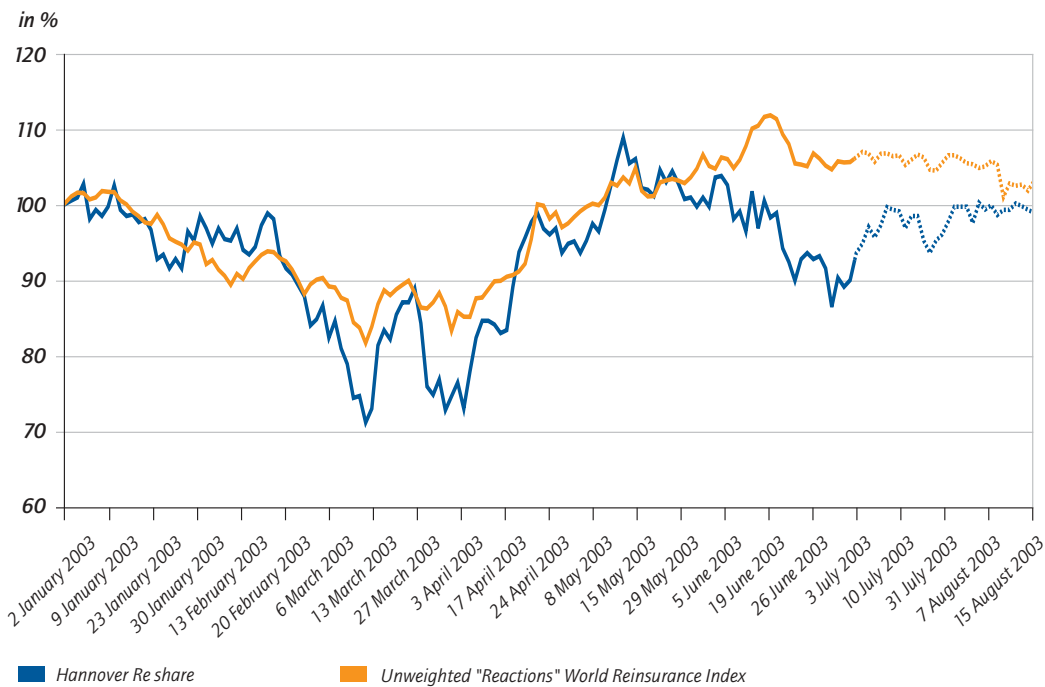
In the second quarter our share continued to move in a corridor between the CDax Insurance Stocks and MDax benchmark indices. In mid-May it reached its highest point of the year to date at EUR 26.75, before closing on 30 June 2003 at EUR 22.50 with a gain of 22.6% for the quarter. On 15 August 2003 the Hannover Re share was listed at EUR 24.34, almost exactly on a par with its price at the start of the year. With the exception of the CDax, therefore, it has not yet been possible to outperform the benchmarks. Although at first glance unsatisfac-

tory, this state of affairs should, however, also be viewed in the context of our share's strong performance in 2002 and previous years – in 2002, for example, the share put on 68% compared to the CDax, 52% relative to the Dax and it surpassed the MDax by 37%.

In the period from 2 January to 15 August 2003 our share also lagged slightly behind our internal benchmark, the unweighted "Reactions" World Reinsurance Index*.

* The unweighted "Reactions" World Reinsurance Index combines all exchange-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.

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



In order to reinforce our equity base and hence safeguard further profitable growth we implemented a capital increase in June of the current year, a move that was exceptionally well received by the capital market. A special feature of this transaction was the combination of a 10-percent capital increase against cash and a 13-percent capital increase against a contribution in kind through issuance of new shares. The transaction, which was successfully placed on the market within just a few hours and at a very minimal discount off the offering price, strengthened the company's stockholders' equity by altogether EUR 530 million.

With an increase of roughly 30% in the company's stockholders' equity and an already anticipated rise in profits for 2003, especially as

a consequence of the inclusion of HDI Re Ireland through the contribution in kind, this measure scarcely gives rise to any dilution for our existing shareholders. The free float increased by 9.7 million shares from 25.0% to 31.8% as at 30 June. This increase in the free float has already had a highly favourable effect on our share's liquidity, and in the medium term it is also expected to favourably influence the share price.

In our assessment, the above-average profitability of our company, its very low price/earnings ratio of around 7 (at a price of EUR 24 based on the consensus profit estimate for 2004) and Hannover Re's excellent positioning in the market all point to the remarkable potential offered by the Hannover Re share.

Share information

<i>in EUR</i>	<i>30.6.2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Earnings per share (diluted) ¹⁾	1.65	2.75	0.11	4.13	2.29	1.94
Dividend per share	–	0.85	–	0.77 ²⁾	0.68	0.65
Corporation-tax credit	–	–	–	0.36	0.29	0.08
Gross dividend	–	0.85	–	1.21 ³⁾	0.97	0.73

¹⁾ For previous years stock split of 15 July 2002 in a ratio of 3 for 1 taken into account

²⁾ On each for the year 2000 fully paid-up share

³⁾ Incl. bonus of EUR 0.08

International Securities Identification Number (ISIN):	DE 000 840 221 5
Shareholding structure:	68.2% Talanx AG (via its subsidiaries HDI Verwaltungs-Service AG as well as Erste and Zweite HDI Beteiligungsgesellschaft mbH) 31.8% free float
Capital measure of 6 June 2002:	Increase in common stock out of company funds in the amount of EUR 14,365,382.11 without issue of new shares
Stock split of 15 July 2002:	Ratio of 3 for 1
Capital measure of 12 June 2003:	Capital increase against cash through issuance of 9,716,392 new shares in conjunction with a capital increase against contribution in kind through issuance of 13,716,814 new shares to Talanx AG which contributed its shares in HDI Re Ireland Ltd. (with retroactive effect as at 1 July 2003)
Common stock as at 30 June 2003:	EUR 106,880,320.00
Number of shares as at 30 June 2003:	106.880.320 no-par-value registered shares (common stock)
Market capitalisation as at 30 June 2003:	EUR 2,404.8 million

BUSINESS DEVELOPMENT

We are highly satisfied with the development of the first half of 2003. Once again we significantly improved on the previous year's performance, thereby translating the potential inherent in the continuing very favourable state of the reinsurance markets into a very good corporate result. The slight decline in our gross written premiums compared to the level in the previous year was in large measure attributable – as in the first quarter – to exchange rate factors, most notably the relative strengthening of the euro against the US dollar. It is also a consequence of our "More from less" initiative implemented in the property/casualty reinsurance business group. Under this initiative we have withdrawn from certain business segments and also restructured the assumption of reinsurance business from HDI.

Gross written premiums in the Group totalled EUR 5,977.5 million in the first six months of the current financial year, a decline of 2.9% compared to the previous year's figure (EUR 6,154.3 million). Had it not been for negative cur-

rency effects an increase of 10.1% would have been recorded. Since the level of retained premiums climbed by 5.6 percentage points to 69.8%, the Group's net premiums earned nevertheless increased by 9.4% to EUR 3,638.9 million (EUR 3,327.5 million).

Investment income in the second quarter – and hence also in the first half-year 2003 – was highly gratifying. As anticipated, no significant write-downs were taken on investments in the second quarter. After an amount of EUR 75.3 million in the first quarter, a mere EUR 5.0 million had to be written off equities in the second quarter – almost entirely on specific equity positions.

In the first half of 2003 we generated an operating profit (EBIT) of EUR 285.2 million, a figure marginally in excess of the previous year (EUR 284.3 million). Consolidated net income, on the other hand, grew by a more substantial 11.0% to EUR 162.4 million, compared to EUR 146.3 million in the first half of 2002. This corresponded to earnings of EUR 1.65 (EUR 1.51) per share.

Property and casualty reinsurance

The market for property and casualty reinsurance remains highly attractive, as was clearly demonstrated by the development of the first half of 2003. The outcome of the treaty renewals as at 1 January and 1 April 2003 – when more than two-thirds of our treaties were renewed – was thoroughly satisfactory. The positive effects of improvements in rates and conditions, which were achieved in almost all areas of this business group, enabled us to post an excellent semi-annual result; we grew our net income for the half-year despite a decline in gross premiums. This confirms that we are on the right track with our "More from less" initiative launched in property and casualty reinsurance at the turn of the year, under which we have striven to concentrate on profitable market segments even more heavily than in past years.

The decrease of 20.2% in gross written premiums to EUR 2,659.2 million (EUR 3,334.2 million EUR) in the first half of 2003 was due primarily to two factors, both of which had already

made themselves felt in the first quarter of the year. Firstly, currency effects, most notably the significant fall of the US dollar against the euro relative to the same period in the previous year, accounted for 7.5% of the decline in gross premium income. Secondly, lower gross premiums were collected in 2003 as a consequence of strategic course adjustments made in two underwriting areas of property/casualty reinsurance business. The first of these changes involved the reinsurance volume of our main shareholder, HDI, which since 1 January 2003 has no longer been ceded automatically and in full to Hannover Re – either to be retained or placed on the market by way of retrocessions. Since the beginning of the year, as the preferred reinsurer of HDI, we have accepted only the volume of business that we wish to run in our retention. The second fundamental change affects Insurance Corporation of Hannover (ICH) in the USA, whose activities in the property/casualty reinsurance business group have been discontinued. Given the fact that the restructuring of HDI's reinsurance business

merely reduces the gross volume, net premiums earned in the first half-year 2003 decreased far less significantly than gross written premiums – by just 9.8% to EUR 1,650.5 million (EUR 1,829.4 million).

As at the end of the first six months we can still be very satisfied with our claims situation. Hannover Re recorded only three catastrophe losses in the first half of 2003. These involved a plane crash in the USA, a fire in a production facility in Austria and a series of tornadoes, also in the USA, with a total net loss amount of EUR 14.5 million (EUR 21.7 million gross) for Hannover Re. The combined ratio improved slightly on the first quarter of 2003 (100.3%) to 98.6%. This figure is 3.0 percentage points higher than in the first half of 2002 (95.6%), although the deterioration was due principally to the larger proportion of the total premium deriving from US liability business. Although the latter is highly profitable on account of the associated investment income, the long-tail nature of the business generally leads to high reserves in the year when it is first written – and hence to an increased combined ratio. As in the past and in accordance with our standard practice, we established conservatively calculated reserves for new business accepted in the first half of 2003.

The operating profit (EBIT) as at 30 June 2003 benefited inter alia from the gratifying investment income of the second quarter. In the first quarter considerable write-downs and value adjustments – especially on equities – had been necessary due to the depressed capital market climate in 2002 and early 2003; in the second quarter, as expected, these were almost entirely absent. What is more, the continuing very good performance of property/casualty reinsurance business with its excellent underwriting cash flow favourably impacted investment income. Below the line these factors contributed to a pleasing operating profit (EBIT) of EUR 182.6 million, a mere 7.0% lower than the figure of EUR 196.2 million reported in the extraordinarily strong comparable period of the previous year. The net income for the half-year of EUR 101.3 was 11.7% higher than in the first half of 2002 (EUR 90.7 million), although the reduced tax expenditure compared to the previous year was also a factor here. The property and casualty reinsurance business group thus contributed earnings of EUR 1.03 (EUR 0.93) per share.

Key figures for property and casualty reinsurance

in EUR million	2003		2002				
	1.1.–31.3.	1.4.–30.6.	1.1.–30.6.	1.1.–30.6.			
		+/- previous year		+/- previous year			
Gross written premiums	1 478.7	1 180.5	(25.7%)	2 659.2	(20.2%)	1 589.7	3 334.2
Net premiums earned	715.9	934.6	+15.0%	1 650.5	(9.8%)	812.9	1 829.4
Underwriting result	(1.9)	25.1	+698.0%	23.2	(71.1%)	3.1	80.3
Operating profit (EBIT)	52.5	130.1	+156.5%	182.6	(7.0%)	50.7	196.2
Net income (after tax)	34.6	66.7	+352.1%	101.3	+11.7%	14.7	90.7
Earnings per share in EUR	0.35	0.68		1.03		0.15	0.93
Retention	71.3%	66.2%		69.1%		49.1%	67.8%
Combined ratio	100.3%	97.3%		98.6%		99.6%	95.6%

Life and health reinsurance

Gross written premiums in life and health reinsurance amounted to EUR 1,090.2 million as at 30 June 2003, a figure almost exactly on a par with the same period of the previous year (EUR 1,098.5 million). This figure is in line with our expectation that gross premium income for the 2003 financial year as a whole will remain stable. Had it not been for adverse currency effects, however, gross premiums would have been 11.8% higher. By realigning our retrocession structures we were nevertheless able to boost net premiums earned by 8.6% to EUR 865.9 million (EUR 797.3 million).

Investment income improved substantially compared to the first half of the previous year, rising by 52.9% to EUR 109.8 million

(EUR 71.8 million). This performance was helped by reduced losses and write-downs on investments. The operating profit (EBIT) of EUR 23.8 million was, however, just 5.6% in excess of the previous year's figure (EUR 22.5 million). On the basis of particularly good results at E+S Rück and our subsidiary in Australia, Hannover Life Re Australasia, the minority interest in the semi-annual result stood at EUR 6.3 million (previous year: yield of EUR 1.5 million). The net income of EUR 12.0 million consequently fell short of the previous year's figure (EUR 15.3 million). The life and health reinsurance business group contributed earnings of EUR 0.12 (EUR 0.16) per share.

Key figures for life and health reinsurance

in EUR million	2003				2002		
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	570.8	519.4	(0.3%)	1 090.2	(0.8%)	520.9	1098.5
Net premiums earned	487.1	378.8	+34.5%	865.9	+8.6%	281.6	797.3
Operating profit (EBIT)	15.9	7.9	(49.2%)	23.8	+5.6%	15.6	22.5
Net income (after tax)	9.6	2.4	(81.2%)	12.0	(21.6%)	12.6	15.3
Earnings per share in EUR	0.10	0.02		0.12		0.13	0.16
Retention	84.7%	73.0%		79.1%		56.2%	73.8%

Financial reinsurance

Building on the positive indicators in the first quarter of 2003, financial reinsurance continued to develop highly favourably in the second quarter of the year. Gross written premiums increased by 82.9% in the first half to EUR 923.3 million, compared to EUR 504.7 million in the comparable period of the previous year. The nine-month figure for the previous year (EUR 732.6 million) has thus already been comfortably surpassed. Our expectation that financial reinsurance would likely be the only business group to record a substantial premium increase in 2003 has thus been proven correct. Had it not been for negative

currency effects, the rise in gross premiums for the half-year would have been as high as 109.5%. Net premiums earned in the first half of 2003 amounted to EUR 644.7 million, growth of 111.5% relative to the same period in the previous year (EUR 304.9 million).

The most notable development in the financial reinsurance business group during the first half-year was a shift in the composition of the portfolio towards lower-risk European and American proportional business. The operating profit (EBIT) was boosted by a highly gratifying 30.8%

to EUR 37.8 million (EUR 28.9 million). We generated half-yearly net income after tax of EUR 24.9 million, a rise of 18.6% compared to the figure of EUR 21.0 million recorded in the first six

months of the previous year. Financial reinsurance therefore contributed earnings of EUR 0.25 (EUR 0.22) per share for the first half of 2003.

Key figures for financial reinsurance

in EUR million	2003			2002			
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	457.6	465.7	+61.9%	923.3	+82.9%	287.6	504.7
Net premiums earned	236.5	408.2	+105.5%	644.7	+111.5%	198.6	304.9
Operating profit (EBIT)	17.7	20.1	(1.6%)	37.8	+30.8%	20.5	28.9
Net income (after tax)	12.8	12.1	(18.7%)	24.9	+18.6%	14.9	21.0
Earnings per share in EUR	0.13	0.12		0.25		0.16	0.22
Retention	94.0%	98.7%		96.4%		79.8%	88.1%

Program business

Program business generated gross premium income of EUR 1,304.9 million in the first half of 2003, an increase of 7.2% on the previous year's figure of EUR 1,216.8 million. Growth would have been as high as 29.8% without the adverse currency effects. The level of retained premiums, which has been consistently increased, now stands at 44.7% (35.9%). Net premiums earned consequently recorded disproportionately strong growth of 20.7% to reach EUR 477.7 million (EUR 395.9 million).

The slight rise in the combined ratio from 90.8% in the half of 2002 to 94.0% caused the underwriting result to fall to EUR 28.6 million, a

decrease of 21.1% relative to the same period of the previous year. This effect was, however, more than offset by increased investment income in the first half-year, ultimately producing a 12.0% higher operating profit (EBIT) of EUR 41.2 million (EUR 36.8 million). Net income after tax was also highly satisfactory, growing by 24.9% to EUR 24.1 million – compared to EUR 19.3 million in the first half of 2002. Program business thus delivered earnings of EUR 0.25 (EUR 0.20) per share for the first half-year.

Key figures for program business

in EUR million	2003					2002	
	1.1.–31.3.	1.4.–30.6.	+/- previous year	1.1.–30.6.	+/- previous year	1.4.–30.6.	1.1.–30.6.
Gross written premiums	645.1	659.8	+14.4%	1 304.9	+7.2%	576.5	1 216.8
Net premiums earned	236.4	241.3	+24.4%	477.7	+20.7%	193.9	395.9
Underwriting result	18.6	10.0	(55.0%)	28.6	(21.1%)	22.2	36.3
Operating profit (EBIT)	22.9	18.3	(21.5%)	41.2	+12.0%	23.3	36.8
Net income (after tax)	14.1	10.0	(28.5%)	24.1	+24.9%	13.9	19.3
Earnings per share in EUR	0.15	0.10		0.25		0.14	0.20
Retention	44.8%	44.7%		44.7%		39.3%	35.9%
Combined ratio	92.1%	95.9%		94.0%		88.5%	90.8%

Net investment income

In the first quarter of 2003 the capital markets had still been overshadowed by numerous adverse effects that saw equity prices plunge to record lows. In the second quarter, however, the situation improved appreciably, with both equities and fixed-income securities recording price gains – in some cases on a substantial scale. The development of our asset portfolio was correspondingly favourable. Write-downs on securities in the second quarter were necessary only to a very limited extent. They amounted to EUR 5.0 million, almost entirely on specific equity positions, compared to EUR 75.3 million in the first quarter (thereof EUR 46.0 million on equities).

In contrast to the first half of 2002, significantly lower losses were realised on the disposal

of investments as at 30 June of the year under review, namely EUR 16.8 million as against EUR 67.8 million. On the other hand, we realised profits on the sale of equities and fixed-income securities totalling EUR 87.5 million in the first half of the year, after EUR 73.3 million in the previous year. Primarily on the basis of higher interest on reinsurance deposits, but also due to the enlarged investment volume as a consequence of the strong underwriting cash flow, we were able to boost our ordinary income by 10.2% to EUR 526.1 million (EUR 477.3 million). This was an excellent performance in view of the sharp declines in returns on some securities. Against this backdrop we also grew our net investment income by 27.9% to EUR 486.2 million (EUR 380.1 million) for the first half of 2003.

Outlook

We are highly satisfied with the course of the financial year to date. Business has clearly developed according to plan, in some areas even better than planned, and we can therefore reaffirm our major objectives for 2003.

In *property and casualty reinsurance* the advantageous market climate is holding up as expected, and we have concluded further highly

satisfactory treaty renewals as the year under review has progressed. We are willing to accept the fact that our gross premium income in property and casualty reinsurance will probably not increase as a consequence of our proactive cycle management, adverse currency effects and the strategic decisions taken under our "More from less" initiative. Provided the second half-year delivers an average catastrophe loss experience,

the profit contribution generated by the property and casualty reinsurance business group should again surpass the previous year. We also continue to expect that the combined ratio for the year as a whole will not exceed 100%.

In *life and health reinsurance* we anticipate growing demand over the long term for individually tailored products to provide for dependants and retirement. As in previous years, we expect the second half-year to contribute significantly more strongly to the result than the first six months. For the remainder of the current year, therefore, we anticipate premium growth comparable to the first six months and a sharp rise in the operating profit (EBIT) and net income.

In our assessment, demand for specially tailored *financial reinsurance* solutions will continue to grow. As a well-known provider with a strong reputation and many years of experience, we shall derive further considerable benefit from this trend in the future. This business group is expected to generate appreciable double-digit growth in gross premiums as well as an increased profit contribution.

The organisational changes implemented in *program business* are expected to prove their worth. In particular, it is our assumption that Cla-

rendon will deliver very favourable profit contributions in the years to come. In this area too we shall focus particularly closely on portfolio optimisation. The gross premium volume is therefore forecast to remain roughly on a par with the previous year, while net income will be slightly higher.

Two opposing trends were observed in our *investment portfolio* in the first half of 2003. On the one hand, we expect the volume of assets will continue to grow as a consequence of strong underwriting cash flows. On the other hand, the returns that can be generated on capital markets declined sharply in the first six months. We profited from the sharp rise in interest rates in July as we reinvested liquid funds and regrouped our portfolio. Overall, therefore, net investment income is expected to be roughly on a par with the previous year; interest on reinsurance deposits will play a not inconsiderable role here. Provided prices on international stock markets do not experience another significant setback, we do not anticipate any further need for systematic write-downs on our equity portfolio and we expect a balanced extraordinary result.

Prospects for the Group

Overall, we look forward to completing a highly successful 2003 financial year. Provided there are no unforeseen negative movements on capital markets in the second half of the year and assuming the catastrophe loss experience does not exceed the multi-year average, we still expect to generate consolidated net income of between EUR 320 million and EUR 350 million

(earnings of EUR 2.90 to EUR 3.20 per share). This result should be achieved with gross premium income that is currently forecast to be roughly on a par with the previous year.

CONSOLIDATED QUARTERLY ACCOUNTS

of Hannover Re

CONSOLIDATED BALANCE SHEET

as at 30 June 2003

<i>Assets</i> <i>Figures in EUR thousand</i>	30.6.2003	31.12.2002
Fixed-income securities – held to maturity	355 878	356 333
Fixed-income securities – available for sale	9 331 363	9 140 755
Equity securities – available for sale	634 346	717 745
Equity securities – trading	28 316	5 493
Real estate	254 425	265 858
Other invested assets	633 300	676 563
Short-term investments	1 303 637	874 027
Total investments without cash	12 541 265	12 036 774
Cash	750 927	671 866
Total investments and cash	13 292 192	12 708 640
Prepaid reinsurance premiums	726 568	739 487
Reinsurance recoverables on benefit reserve	448 599	489 784
Reinsurance recoverables on unpaid claims	5 841 021	6 179 896
Reinsurance recoverables on other reserves	30 767	41 902
Deferred acquisition costs	1 655 662	1 321 961
Accounts receivable	4 066 938	3 809 631
Funds held by ceding companies	7 093 959	7 597 206
Goodwill	219 134	233 883
Other assets	714 033	280 893
Accrued interest and rent	175 983	175 688
	34 264 856	33 578 971

<i>Liabilities</i> <i>Figures in EUR thousand</i>	<i>30.6.2003</i>	<i>31.12.2002</i>
Loss and loss adjustment expense reserve	18 528 893	18 836 651
Policy benefits for life and health contracts	4 112 196	4 136 701
Unearned premium reserve	2 814 504	2 411 591
Provisions for contingent commission	126 124	143 120
Other technical provisions	2 860	7 870
Reinsurance payable	1 896 959	1 936 514
Funds held under reinsurance treaties	1 502 766	1 630 200
Contract deposits	494 254	184 884
Minorities	440 859	400 426
Other liabilities	502 034	480 540
Taxes	181 194	110 311
Provision for deferred taxes	737 597	742 078
Notes payable	699 106	698 792
Surplus debenture	117 597	119 831
Total liabilities	32 156 943	31 839 509
Stockholders' equity		
Common stock	106 880	97 164
Nominal value 106 880		Authorised capital 38 784
Additional paid-in capital	584 325	374 451
Cumulative comprehensive income		
Unrealised appreciation/depreciation of investments, net of deferred taxes	182 627	43 127
Cumulative foreign currency conversion adjustment, net of deferred taxes	(264 695)	(100 276)
Other changes in cumulative comprehensive income	(49 283)	(54 295)
Total comprehensive income	(131 351)	(111 444)
Retained earnings		
Beginning of period	1 379 291	1 243 334
Net income	162 374	267 172
Dividend paid	(82 589)	–
Other changes	88 983	(131 215)
	1 548 059	1 379 291
Total stockholders' equity	2 107 913	1 739 462
	34 264 856	33 578 971

CONSOLIDATED STATEMENT OF INCOME

for the period 1 January to 30 June 2003

<i>Figures in EUR thousand</i>	<i>1.4.–30.6.2003</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>
Gross written premiums	2 825 411	5 977 526	6 154 259
Ceded written premiums	909 751	1 804 452	2 201 646
Change in gross unearned premiums	36 634	(545 499)	(682 794)
Change in ceded unearned premiums	10 621	11 283	57 643
Net premiums earned	1 962 915	3 638 858	3 327 462
Ordinary investment income	265 907	526 115	477 300
Realised gains on investments	41 882	87 460	73 331
Realised losses on investments	12 395	16 768	67 806
Unrealised gains and losses on investments	(228)	(3 928)	(15 061)
Other investment expense/depreciations	16 962	106 654	87 684
Net investment income	278 204	486 225	380 080
Other technical income	14 712	18 165	12 124
Total revenues	2 255 831	4 143 248	3 719 666
Claims and claims expenses	1 580 203	2 874 886	2 593 325
Change in policy benefits for life and health contracts	79 192	207 060	72 240
Commission and brokerage	262 251	523 394	528 561
Other acquisition costs	1 664	5 626	1 294
Other technical expenses	29 597	53 039	58 599
Administrative expenses	64 032	126 326	114 711
Total technical expenses	2 016 939	3 790 331	3 368 730
Other income and expenses	(62 602)	(67 676)	(66 589)
Operating profit (EBIT)	176 290	285 241	284 347
Interest on hybrid capital	13 583	26 926	30 232
Net income before taxes	162 707	258 315	254 115
Taxes	51 085	68 599	86 101
Minority interest	(20 411)	(27 342)	(21 672)
Net income	91 211	162 374	146 342

Figures in EUR thousand 1.4.–30.6.2003 | 1.1.–30.6.2003 | 1.1.–30.6.2002

Other comprehensive income			
Net unrealised appreciation/depreciation of investments	153 791	139 500	(17 847)
Cumulative foreign currency conversion adjustments	(22 759)	(164 419)	(48 968)
Other comprehensive income	(7 404)	5 012	463
Net comprehensive income	214 839	142 467	79 990

Earnings per share			
Earnings per share in EUR	0.92	1.65	1.51

CASH FLOW STATEMENT

as at 30 June 2003

<i>Figures in EUR thousand</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>
I. Cash flow from operating activities		
Consolidated net income (after tax)	162 374	146 342
Appreciation/depreciation	95 542	72 510
Net realised gains and losses on investments	(70 692)	(5 525)
Amortisation of investments	402	(5 123)
Minority interest	27 342	21 672
Changes in funds held	(72 485)	(616 371)
Changes in prepaid reinsurance premiums (net)	510 932	537 906
Changes in tax assets/provisions for taxes	39 299	15 789
Changes in benefit reserves (net)	219 567	57 114
Changes in claims reserves (net)	753 481	1 333 226
Changes in deferred acquisition costs	(385 020)	(249 019)
Changes in other technical provisions	(1 959)	(55 572)
Changes in clearing balances	(425 488)	(562 960)
Changes in other assets and liabilities (net)	(393 256)	(119 303)
Cash flow from operating activities	460 039	570 686
II. Cash flow from investing activities		
Fixed income securities – held to maturity		
Maturities	–	2 689
Purchases	–	(120 000)
Fixed income securities – available for sale		
Maturities, sales	2 679 985	2 032 817
Purchase	(3 136 342)	(2 363 615)
Equity securities – available for sale		
Sales	117 084	101 557
Purchases	(80 013)	(181 999)
Other invested assets		
Sales	18 239	54 892
Purchases	(15 992)	(126 322)
Affiliated companies and participating interests		
Sales	2 106	1 419
Acquisitions	(6 212)	(15 700)
Real estate		
Sales	–	–
Acquisitions	(545)	(1 309)
Short-term investments		
Changes	(446 358)	(31 213)
Other changes (net)	(9 407)	(55 584)
Cash flow from investing activities	(877 455)	(702 368)

<i>Figures in EUR thousand</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>
III. Cash flow from financing activities		
Dividend paid	(82 589)	–
Net changes in contract deposits	311 928	34 663
Inflows from capital increases	219 590	–
Changes in notes payable	30 179	–
Other changes	(8 982)	(21 672)
Cash flows from financing activities	470 126	12 991
IV. Exchange rate differences on cash	26 351	51 614
Change in cash and cash equivalents (I.+II.+III.+IV.)	79 061	(67 077)
Cash and cash equivalents at the beginning of the period	671 866	830 659
Change in cash and cash equivalents according to cash flow statement	79 061	(67 077)
Cash and cash equivalents at the end of the period	750 927	763 582
Income taxes	(16 383)	(16 198)
Interest paid	(66 743)	(74 500)

SEGMENTAL REPORT

as at 30 June 2003

In the following table we have allocated the underwriting assets and liabilities as at 30 June 2003 and 31 December 2002 to our business segments after eliminating intergroup transactions across segments.

Segmentation of underwriting assets and liabilities

<i>Figures in EUR thousand</i>	<i>Property/casualty reinsurance</i>		<i>Life/health reinsurance</i>	
	<i>30.6.2003</i>	<i>31.12.2002</i>	<i>30.6.2003</i>	<i>31.12.2002</i>
Assets				
Prepaid reinsurance premiums	146 850	94 365	1 454	1 523
Deferred acquisition costs (net)	273 896	250 988	1 217 049	963 961
Reinsurance recoverables on benefit reserves	–	–	448 599	489 784
Reinsurance recoverables in incurred claims and others	3 038 180	3 073 835	103 538	112 513
Funds held by ceding companies	205 565	252 479	3 207 215	3 329 560
Total underwriting assets	3 664 491	3 671 667	4 977 855	4 897 341
Liabilities				
Loss and loss adjustment expense reserve	8 828 500	8 954 985	983 719	934 142
Policy benefits for life and health contracts	–	–	4 112 196	4 136 701
Unearned premium reserve	1 311 751	1 124 308	17 091	21 522
Other technical provisions	91 399	110 872	23 346	20 437
Funds held under reinsurance treaties	903 675	986 831	272 211	343 819
Total underwriting liabilities	11 135 325	11 176 996	5 408 563	5 456 621

<i>Financial reinsurance</i>		<i>Program business</i>		<i>Total</i>	
<i>30.6.2003</i>	<i>31.12.2002</i>	<i>30.6.2003</i>	<i>31.12.2002</i>	<i>30.6.2003</i>	<i>31.12.2002</i>
15 568	86	562 696	643 513	726 568	739 487
55 532	25 604	109 185	81 408	1 655 662	1 321 961
–	–	–	–	448 599	489 784
445 558	632 218	2 284 512	2 403 232	5 871 788	6 221 798
3 680 285	4 012 475	894	2 692	7 093 959	7 597 206
4 196 943	4 670 383	2 957 287	3 130 845	15 796 576	16 370 236
5 395 538	5 544 198	3 321 136	3 403 326	18 528 893	18 836 651
–	–	–	–	4 112 196	4 136 701
355 216	103 913	1 130 446	1 161 848	2 814 504	2 411 591
14 239	19 681	–	–	128 984	150 990
20 238	24 164	306 642	275 386	1 502 766	1 630 200
5 785 231	5 691 956	4 758 224	4 840 560	27 087 343	27 166 133

SEGMENTAL REPORT

as at 30 June 2003

Segmental statement of income

<i>Figures in EUR thousand</i>	<i>Property/casualty reinsurance</i>		<i>Life/health reinsurance</i>	
	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>
Gross written premiums	2 659 212	3 334 200	1 090 192	1 098 503
Net premiums earned	1 650 548	1 829 422	865 900	797 266
Claims and claims expenses	1 308 699	1 303 225	544 236	592 109
Change in policy benefits for life and health contracts	–	–	(207 060)	(72 240)
Commission and brokerage and other technical expenses	264 228	393 241	153 495	146 525
Investment income	199 606	153 046	109 844	71 830
Administrative expenses	54 436	52 617	28 558	20 897
Other income and expenses	(40 225)	(37 162)	(18 631)	(14 817)
Operating profit (EBIT)	182 566	196 223	23 764	22 508
Interest on hybrid capital	18 795	22 115	2 603	2 410
Net income before taxes	163 771	174 108	21 161	20 098
Taxes	45 151	63 777	2 835	6 264
Minority interest	(17 271)	(19 609)	(6 311)	1 481
Net income	101 349	90 722	12 015	15 315

<i>Financial reinsurance</i>		<i>Program business</i>		<i>Total</i>	
<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>	<i>1.1.–30.6.2003</i>	<i>1.1.–30.6.2002</i>
923 251	504 714	1 304 871	1 216 842	5 977 526	6 154 259
644 695	304 851	477 715	395 923	3 638 858	3 327 462
644 366	410 828	377 585	287 163	2 874 886	2 593 325
–	–	–	–	(207 060)	(72 240)
116 179	4 687	29 992	31 877	563 894	576 330
156 270	138 568	20 505	16 636	486 225	380 080
1 841	647	41 491	40 550	126 326	114 711
(826)	1 602	(7 994)	(16 212)	(67 676)	(66 589)
37 753	28 859	41 158	36 757	285 241	284 347
1 938	921	3 590	4 786	26 926	30 232
35 815	27 938	37 568	31 971	258 315	254 115
7 115	4 889	13 498	11 171	68 599	86 101
(3 760)	(2 018)	–	(1 526)	(27 342)	(21 672)
24 940	21 031	24 070	19 274	162 374	146 342

NOTES

1. General accounting principles

Hannover Rückversicherung AG (Hannover Re) belongs to the Talanx AG, a 100% subsidiary of HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i et seq of the German Commercial Code (HGB). The annual financial statements of Hannover Re and its subsidiaries are included in these consolidated annual accounts. The German Commercial Code (HGB) was amended with effect from 19 July 2002. Consequently, pursuant to § 291 Para. 3 No. 1 of the German Commercial Code (HGB) the consolidated annual accounts of the parent company no longer release Hannover Re from its obligation to compile a consolidated financial statement.

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

All Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board (FASB) on or before 30 June 2003 with binding effect for the 2003 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 June 2003. The reader is also referred to the corresponding information contained in the consolidated financial statement drawn up as at 31 December 2002.

3. Consolidated companies and consolidation principles

Consolidated companies

The consolidated companies have remained unchanged since 31 December 2002.

Capital consolidation

The capital consolidation is based upon the "purchase accounting" method (comparable to the German revaluation 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 27,342 thousand (previous year: EUR 21,672 thousand) as at 30 June 2003.

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, available-for-sale portfolio and trading portfolio as at the balance sheet dates of 30 June 2003 and 31 December 2002

<i>Figures in EUR thousand</i>	<i>30.6.2003</i>		<i>31.12.2002</i>	
	<i>Cost or amortised cost</i>	<i>Estimated fair value</i>	<i>Cost or amortised cost</i>	<i>Estimated fair value</i>
Held-to-maturity				
Due in one year	51 001	51 829	30 608	31 382
Due after one through five years	153 194	166 462	173 937	187 824
Due after five through ten years	130 000	142 709	130 000	138 330
Due after ten years	21 683	23 745	21 788	24 057
Total	355 878	384 745	356 333	381 593
Available-for-sale				
Due in one year	1 198 945	1 208 716	1 279 481	1 289 054
Due after one through five years	5 145 667	5 316 596	4 380 831	4 515 430
Due after five through ten years	1 506 978	1 620 850	2 059 290	2 142 071
Due after ten years	1 141 368	1 185 201	1 161 819	1 194 200
Total	8 992 958	9 331 363	8 881 421	9 140 755

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

<i>30.6.2003</i> <i>Figures in EUR thousand</i>	<i>Cost or amortised cost</i>	<i>Unrealised gains losses</i>		<i>Estimated fair value</i>
Investments held to maturity				
Fixed-income securities				
Corporate securities	238 092	17 888	–	255 980
Asset-backed securities	87 786	8 810	–	96 596
Other securities	30 000	2 169	–	32 169
Total	355 878	28 867	–	384 745

<i>31.12.2002</i> <i>Figures in EUR thousand</i>	<i>Cost or amortised cost</i>	<i>Unrealised gains losses</i>		<i>Estimated fair value</i>
Investments held to maturity				
Fixed-income securities				
Corporate securities	238 466	16 413	–	254 879
Asset-backed securities	87 867	7 560	–	95 427
Other securities	30 000	1 601	314	31 287
Total	356 333	25 574	314	381 593

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

<i>30.6.2003</i> <i>Figures in EUR thousand</i>	<i>Cost or amortised cost</i>	<i>Unrealised gains losses</i>		<i>Estimated fair value</i>
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 600 184	48 293	100	1 648 377
US Treasury Notes	1 231 057	34 536	193	1 265 400
Other foreign government debt securities	571 508	21 981	763	592 726
Corporate securities	3 536 338	183 075	17 454	3 701 959
Asset-backed securities	1 064 654	39 390	9 944	1 094 100
From investment funds	564 528	16 710	645	580 593
Other securities	424 689	24 592	1 073	448 208
	8 992 958	368 577	30 172	9 331 363
Dividend-bearing securities				
Equities	171 773	13 505	33 421	151 857
From investment funds	492 306	16 116	27 554	480 868
Other dividend-bearing securities	1 210	411	–	1 621
	665 289	30 032	60 975	634 346
Short-term investments	1 303 637	–	–	1 303 637
Total	10 961 884	398 609	91 147	11 269 346
Trading				
Dividend-bearing securities				
Derivatives	23 866	5 113	663	28 316
Total	23 866	5 113	663	28 316

<i>31.12.2002</i> <i>Figures in EUR thousand</i>	<i>Cost or amortised cost</i>	<i>Unrealised gains losses</i>		<i>Estimated fair value</i>
Available for sale				
Fixed-income securities				
Government debt securities of EU member states	1 547 751	50 090	–	1 597 841
US Treasury Notes	1 339 647	44 464	–	1 384 111
Other foreign government debt securities	451 613	13 883	1 310	464 186
Corporate securities	3 525 911	143 321	43 255	3 625 977
Asset-backed securities	1 032 697	28 426	14 514	1 046 609
From investment funds	521 285	22 929	380	543 834
Other securities	462 517	17 448	1 768	478 197
	8 881 421	320 561	61 227	9 140 755
Dividend-bearing securities				
Equities	190 614	5 536	33 450	162 700
From investment funds	667 257	–	113 297	553 960
Other dividend-bearing securities	1 165	–	80	1 085
	859 036	5 536	146 827	717 745
Short-term investments	874 027	–	–	874 027
Total	10 614 484	326 097	208 054	10 732 527
Trading				
Dividend-bearing securities				
Derivatives	–	5 493	–	5 493
Total	–	5 493	–	5 493

Investment income

<i>Figures in EUR thousand</i>	<i>30.6.2003</i>	<i>30.6.2002</i>
Real estate	12 610	16 809
Dividends	13 449	24 322
Ordinary investment income on fixed-income securities	235 188	243 941
Other income	264 868	192 228
Ordinary investment income	526 115	477 300
Realised gains on investments	87 460	73 331
Realised losses from investments	16 768	67 809
Unrealised gains and losses	(3 928)	(15 061)
Real estate depreciation	3 385	3 985
Write-off on dividend-bearing securities	52 043	45 330
Write-off on fixed-income securities	26 063	9 926
Write-downs on participations	2 211	6 320
Other investment expenses	22 952	22 123
Total investment income	486 225	380 080

The other income includes interest on deposits in the amount of EUR 243.5 million (EUR 173.8 million).

4.2 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 2,025 (31 December 2002: 1,900). Of this number, 788 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.

Capital increase

Effective 12 June 2003 Hannover Re implemented a capital increase against cash in the amount of 10% of the capital stock through issuance of 9,716,392 new, registered no-par-value shares – each with an interest of EUR 1.00 in the capital stock. The new shares carry dividend rights with effect from 1 January 2003. Based on the placement price per share of EUR 22.60, the resulting cash inflow for Hannover Re amounted to EUR 219.6 million.

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

Conditional authorised capital of up to EUR 38.8 million is available. It can be used to grant shares to holders of convertible and warrant bonds and to issue employee shares in the amount of EUR 1.0 million. It has a time limit of 13 November 2007.

Consolidated statement of changes in stockholder' equity

30.6.2003 Figures in EUR thousand	Balance as at 1 January	Capital increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer*	Group stock- holders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	97 164	9 716	–	–	–	106 880		
Additional paid-in capital	374 451	209 874	–	–	–	584 325		
Cumulative comprehensive income	(111 444)	–	68 452	–	(88 359)	(131 351)		
Retained earnings	1 379 291	–	–	–	–	1 379 291		
Net income	–	–	–	162 374	–	162 374		
Dividend paid	–	–	–	(82 589)	–	(82 589)		
Other changes	–	–	624	–	88 359	88 983		
Total	1 739 462	219 590	69 076	79 785	–	2 107 913	440 859	2 548 772

30.6.2002 Figures in EUR thousand	Balance as at 1 January	Capital increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Group stock- holders' equity	Minority interests	Group stockholders' equity incl. minority interests
Common stock	82 799	14 365	–	–	97 164		
Additional paid-in capital	388 816	(14 365)	–	–	374 451		
Cumulative comprehensive income	(42 921)	–	(66 352)	–	(109 273)		
Retained earnings	1 243 334	–	–	–	1 243 334		
Net income	–	–	–	146 342	146 342		
Other changes	–	–	–	(89 825)	(89 825)		
Total	1 672 028	–	(66 352)	56 517	1 662 193	304 555	1 966 748

* The cumulative currency effects from previous years in the amount of EUR 88.5 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 5.0 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 24 May 2002, the company was authorised until 31 October 2003 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 June 2003.

5. Other notes

5.1 Contingent liabilities

Hannover Re has secured by guarantee a surplus note in the amount of USD 400.0 million issued in the 1999 financial year by Hannover Finance Inc., Wilmington/USA.

Hannover Re has secured by guarantee subordinated debt issued by Hannover Finance (Luxembourg) S.A. in the 2001 financial year in the amount of EUR 350 million.

As security for our technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 1,574.0 million (31 December 2002: EUR 1,491.9 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 3,207.5 million (31 December 2002: EUR 3,754.5 million).

Outstanding capital commitments with respect to special investments exist in the amount of EUR 72.7 million for E+S Rückversicherungs-AG and EUR 133.6 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 20.6 million as at the balance sheet date.

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