

somewhat
different

Annual Report | **2005**

hannover **re**[®]

CONTENTS

1	Boards and officers
7	Management report
8	Economic climate
8	Business development
10	Development of the individual lines of business
15	Investments
16	Human resources and social report
18	Risk report
22	Forecast
26	Affiliated companies
26	Proposal for the distribution of profits
26	Other information
27	Individual accounts
28	Balance sheet
32	Profit and loss accounts
35	Notes
55	Auditors' report
56	Report of the Supervisory Board
59	Declaration of conformity
60	Glossary

KEY FIGURES

of Hannover Re

Figures in EUR million	2005	+/- previous year	2004	2003	2002	2001
Gross written premium	6 340.4	+4.0%	6 095.2	6 539.3	7 295.3	5 633.4
Net premium earned	4 383.8	+8.8%	4 030.8	3 695.3	3 563.9	2 736.3
Underwriting result	160.2	(16.7%)	192.4	258.6	67.3	(328.8)
Allocation to the equalisation reserve and similar provisions	228.3	(1.8%)	232.5	301.8	90.6	(85.1)
Investment result	895.7	+53.2%	584.7	578.2	633.3	481.3
Pre-tax profit	376.1	+152.2%	149.1	133.2	240.4	14.0
Profit or loss for the financial year	374.6	+210.6%	120.6	114.9	243.4	0.2
Investments	16 699.4	+24.0%	13 465.3	11 670.8	10 071.5	9 116.3
Capital and reserve	2 085.8 ²⁾³⁾	+71.6%	1 215.8	1 292.5 ¹⁾	763.0 ¹⁾²⁾	601.9 ¹⁾
Equalisation reserve and similar provisions	1 570.3	+17.0%	1 342.0	1 109.5	807.8	717.2
Net technical provisions	12 471.9	+26.7%	9 844.2	8 286.7	7 384.2	7 192.5
Total capital, reserves and technical provisions	16 128.0	+30.0%	12 402.0	10 688.7	8 955.0	8 511.6
Number of employees	628	+29	599	569	535	509
Retention	68.3%		67.8%	56.8%	51.9%	50.9%
Loss ratio ⁴⁾	69.0%		72.0%	73.9%	75.3%	89.9%
Expense ratio ⁴⁾	26.4%		20.1%	16.1%	20.1%	25.8%
Combined ratio ⁴⁾	95.4%		92.1%	90.0%	95.4%	115.7%

¹⁾ including surplus debenture (Genusrechtskapital)

²⁾ including allocation to reserves proposed by the Annual General Meeting

³⁾ including subordinated liabilities

⁴⁾ excluding life and health reinsurance

BOARDS AND OFFICERS of Hannover Re

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl ¹⁾²⁾

Hannover

Chairman

Chairman of the Board of Management

Talanx AG

HDI Haftpflichtverband

der Deutschen Industrie V.a.G.

Chairman of the Supervisory Board

ASPECTA Global Group AG, Hamburg

ASPECTA Lebensversicherung AG, Hamburg

CiV Lebensversicherung AG, Hilden

E+S Rückversicherung AG, Hannover

HDI Industrie Versicherung AG, Hannover

HDI International Holding AG, Hannover

HDI Privat Versicherung AG, Hannover

HDI Service AG, Hannover

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PB Versicherung AG, Hilden

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Königstein i. T.

Liquidator of

Resba GmbH i.L.

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Chairman of the Management Board

WBG Wissenschaftliche Buchgesellschaft, Darmstadt ³⁾

Chairman of the Executive Board

Europäische Stiftung Kaiserdom zu Speyer ³⁾

Member of the Supervisory Board

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neue leben Lebensversicherung AG, Hamburg ³⁾

neue leben Pensionskasse AG, Hamburg ³⁾

neue leben Pensionsverwaltung AG, Hamburg ³⁾

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Polytechnische Stiftung, Frankfurt/Main ³⁾

Member Groups Representative

HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover ³⁾

Herbert K. Haas ¹⁾²⁾

Burgwedel

Member of the Board of Management

Talanx AG

HDI Haftpflichtverband

der Deutschen Industrie V.a.G.

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Amega Investment AG, Hannover

HDI Verwaltungs-Service AG, Hannover

Protection Reinsurance Intermediaries AG, Hannover

Chairman of the Advisory Board

HANNOVER Finanz GmbH, Hannover

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 ASPECTA Lebensversicherung AG, Hamburg
 CiV Lebensversicherung AG, Hilden
 CiV Versicherung AG, Hilden
 HDI Lebensversicherung AG, Hamburg
 HDI Pensions Management AG, Hilden

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 ASPECTA Assurance International AG, Luxembourg S.A., Luxembourg
 E+S Rückversicherung AG, Hannover
 Euro International Reinsurance S.A., Luxembourg
 HDI Assicurazioni S.p.A., Rome, Italy
 HDI International Holding AG, Hannover
 PB Lebensversicherung AG, Hilden
 PB Versicherung AG, Hilden
 Talanx Finanz (Luxembourg) S.A., Luxembourg

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 Norddeutsche Landesbank Girozentrale, Hannover ³⁾

Karl Heinz Midunsky
 Munich
 Former Corporate Vice President
 and Treasurer
 Siemens AG

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 Krauss-Maffei Wegmann Verwaltungs-GmbH, Munich

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 Kommanditgesellschaft Allgemeine Leasing (KGAL), Grünwald

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 Hannover

Member of the Supervisory Board
 Talanx AG, Hannover

Ass. jur. Renate Schaper-Stewart ⁴⁾
 Lehrte

Dipl.-Ing. Hans-Günter Siegerist ⁴⁾
 Nienstädt

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 RWE Aktiengesellschaft

Chairman of the Supervisory Board
 RWE Systems AG, Dortmund

Member of the Supervisory Board
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 Heidelberger Druckmaschinen Aktiengesellschaft, Heidelberg ³⁾
 Österreichische Industrieholding AG, Vienna, Austria ³⁾
 RAG Aktiengesellschaft, Essen ³⁾
 RWE Energy AG, Dortmund
 RWE Power Aktiengesellschaft, Cologne/Essen

	Member of the Board of Directors RWE Npower Holdings plc, Swindon, United Kingdom RWE Thames Water Plc, London, United Kingdom
Bodo Uebber Stuttgart Chairman of the Executive Board DaimlerChrysler AG	Chairman of the Supervisory Board DaimlerChrysler Services AG, Berlin
	Chairman of the Board of Directors DaimlerChrysler North America Holding Corporation (DCNAH), Auburn Hills, USA DaimlerChrysler UK Holding plc, London, United Kingdom
	Chairman of the Supervisory Board DaimlerChrysler France Holding SAS, Le Chesney, France
	Member of the Supervisory Board DaimlerChrysler Bank AG, Stuttgart
	Member of the Advisory Board Deutsche Bank AG, Munich ³⁾
	Member of the Board of Management Deutsches Aktieninstitut e.V., Frankfurt/Main ³⁾ DRSC Deutsches Rechnungslegungs Standard Committee e.V., Berlin ³⁾
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	Member of the Board of Directors DaimlerChrysler Corporation (DCC), Auburn Hills, USA DaimlerChrysler México Holding S.A. de C.V., Mexico City, Mexico Freightliner LLC, Portland, USA
	Member of the Supervisory Board DaimlerChrysler España Holding, S.A. Madrid, Spain
	Corporate Member Berliner Center Corporate Governance, Berlin ³⁾
	Vice-President and Member of the Presidential Steering Committee IHK Berlin, Berlin ³⁾

¹⁾ Member of the Standing Committee

²⁾ Member of the Balance Sheet Committee

³⁾ Membership of supervisory board and comparable control boards required by law at other companies in Germany and abroad

⁴⁾ Staff representative

Executive Board (Vorstand)

Wilhelm Zeller

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

Chairman of the Administrative Board

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Hannover Finance (Luxembourg) S.A., Luxembourg

Chairman of the Board of Directors

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

Deputy Chairman of the Board of Directors

Hannover Life Re of Australasia Ltd, Sydney, Australia

Member of the Supervisory Board

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Allgemeine Kreditversicherung Coface AG, Mainz*
Protection Reinsurance Intermediaries AG, Hannover

Member of the Board of Management

Talanx AG, Hannover

Member of the Board of Directors

International Insurance Company of Hannover Ltd.,
Bracknell/Berkshire, United Kingdom

André Arrago

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

Chairman of the Board of Directors

Hannover Re Gestion de Réassurance France S.A., Paris, France

Deputy Chairman of the Board of Directors

Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors

Hannover Re Services Japan KK, Tokyo, Japan

Member of the Supervisory Board

Mutuelle des Transports Assurances (MTA), Paris, France*

Dr. Wolf Becke

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 Hannover Rückversicherung AG, Hannover
 E+S Rückversicherung AG, Hannover

Member of the Supervisory Board
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 ASPECTA Lebensversicherung AG, Hamburg
 CiV Lebensversicherung AG, Hamburg
 HDI Lebensversicherung AG, Hamburg

Member of the Board of Directors

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

Managing Director

Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover
 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Jürgen Gräber

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 E+S Rückversicherung AG, Hannover

Member of the Board of Directors

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 Clarendon National Insurance Company, Trenton, USA
 E+S Reinsurance (Ireland) Ltd., Dublin, Ireland
 Hannover Re (Guernsey) PCC Ltd., St. Peter Port, Guernsey
 Hannover Reinsurance (Dublin) Ltd., Dublin, Ireland
 Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland
 Hannover Reinsurance Africa Limited, Johannesburg, South Africa
 Hannover Reinsurance Group Africa (Pty) Limited,
 Johannesburg, South Africa

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 E+S Rückversicherung AG, Hannover

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 Hannover Finance, Inc., Wilmington, USA

Member of the Supervisory Board

Ampega Asset Management GmbH, Hannover
 Ampega Investment Aktiengesellschaft, Hannover
 WeHaCo Unternehmensbeteiligungs-Aktiengesellschaft, Hannover

Member of the Advisory Board

Hannover Finanz GmbH, Hannover

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

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 Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover
 Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

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 E+S Rückversicherung AG, Hannover

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Member of the Board of Directors
 Mediterranean Reinsurance Services Ltd., Hong Kong, China

Managing Director
 Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover

Ulrich Wallin
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 Hannover Rückversicherung AG, Hannover
 E+S Rückversicherung AG, Hannover

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

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

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

MANAGEMENT REPORT

of Hannover Re

MANAGEMENT REPORT

of Hannover Re

Economic climate

The upturn in the global economy was sustained in the year under review. The cyclical trend proved to be robust, despite a sharp surge in energy prices.

Growth in the key US economy continued to be driven by private consumption and capital spending. Even multiple interest rate hikes by the Federal Reserve Board and the severe hurricanes failed to halt this trend.

China again constituted another reliable engine of growth for the world economy. This market has provided significant impetus for several years now, particularly for world trade – although indications can already be detected that a cool-down is setting in.

Persistent sluggish domestic demand was again the hallmark of the weak cyclical trend in the Eurozone in the first half of the year. The summer of 2005, however, heralded an economic revival. Exports and domestic demand were the

major drivers here, although private consumption showed only modest growth. The European Central Bank (ECB) began to tighten the reins of monetary policy with an increase of 25 basis points in key lending rates on 1 December, thereby helping to curb the smouldering inflationary risks.

In Germany, too, cyclical activity began to gather steam in the year under review against the backdrop of sustained vigorous expansion in the global economy. This growth has primarily been driven by exports, although modest price and cost trends in the domestic market and the depreciation of the euro were also supporting factors. Domestic demand was slow to pick up, however, and the depressed level of private consumption was still evident. Continuing high unemployment and the rise in energy prices hampered any improvement on this front.

Business development

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

Following the heavy burden of natural catastrophe losses that was the hallmark of the 2004 financial year, the year under review unfortunately saw an even more active and costly hurricane season. Still, there was also positive news to report despite the extreme situation as regards catastrophe losses. The "hard" market in property and casualty reinsurance was sustained. Leaving aside the experience in catastrophe reinsurance, the performance of our other business

was gratifying. Almost all segments offered attractive opportunities to write profitable business.

Based on its strong ratings Hannover Re was able to profit to the fullest extent from the advantageous market environment. Rates and conditions remained on a high level in the year under review, and even showed further improvement in some lines. This was especially true of the property and catastrophe lines as well as marine (incl. offshore) business that had been impacted by the severe hurricanes of 2004. Only in certain property and casualty segments did rates decline somewhat.

As always, our acceptances were guided strictly by considerations of profitability. We did not write or renew treaties that failed to satisfy our standards. Our focus – as in previous years – was on non-proportional business, since this enables us to better detach ourselves from the

downward trend that can already be discerned in many primary insurance markets. We nevertheless boosted our gross written premium by 4.0% in the year under review to EUR 6,340.4 million (previous year: EUR 6,095.2 million). This growth was, however, entirely attributable to exchange rate movements; at constant exchange rates gross premium would have contracted by 1.3%.

Premium growth in property and casualty reinsurance was driven by marine, motor – our highest-volume non-life line – and personal accident business. On the other hand, gross premium in the casualty segment, where we wrote our business highly selectively, was significantly lower. Life reinsurance – our largest single line of business – generated very marked growth.

In the year under review we incurred a hitherto unprecedented burden of losses from natural catastrophe events. Hurricane "Katrina" alone – which caused an estimated market loss of some USD 50 billion – went down as the most expensive ever loss in the history of the insurance industry. What is more, hurricanes "Rita" and "Wilma" also left insurers facing significant loss expenditure. Taken together, the three hurricanes alone caused a net loss of EUR 688.7 million for Hannover Re's account. Including further major losses – such as winter storm "Erwin" in Northern Europe, floods in the Alpine region, damage to an oil platform in the Indian Ocean, several aviation claims and flooding in Mumbai, India – the net strain from natural catastrophes and major losses totalled EUR 885.4 million. This is equivalent to 26.4% of net premium, as against the multi-year average of 6%. Based on the solid quality and good diversification of our property and casualty reinsurance portfolio we nevertheless achieved a very good combined ratio of 95.4% (92.1%); this performance was assisted by effects in the casualty and motor lines resulting from the positive run-off of previous underwriting years.

Leaving aside the heavy major loss burden in the year under review, we were satisfied overall with developments in property and casualty reinsurance. Our portfolio performed very well in

all segments with the exception of catastrophe reinsurance, although there was no offsetting the extraordinarily high expenditure on losses from natural disasters.

Life reinsurance again proved to be the engine of growth in 2005. Gross premium was boosted by a further substantial 20.5% to EUR 1,642.2 million (EUR 1,363.2 million). Net premium grew as planned by 11.2% to EUR 1,033.2 million (EUR 929.5 million).

The underwriting result for total business before changes in the equalisation reserve declined to EUR 160.2 million (EUR 192.4 million). An amount of EUR 228.3 million was allocated to the equalisation reserve and similar provisions. The allocation to the IBNR reserve for the casualty and motor liability lines shown under "Other charges" totalled EUR 255.7 million.

On the capital markets the year under review was largely satisfactory. Our investment result came in entirely as planned despite the somewhat defensive posture of our bond portfolio. Thanks to the strong cash flow from the technical account our portfolio of self-managed assets grew to EUR 11.9 billion (EUR 9.2 billion). The ordinary income of EUR 513.5 million was slightly less than in the previous year (EUR 531.6 million), due not least to the fact that our subsidiaries in Bermuda and Ireland paid out a sharply lower dividend in light of the hurricane-related strains.

Extraordinary investment income was influenced by a number of special effects in the year under review. In order to put clear group structures in place various subsidiaries were brought together under two intermediate holding companies – one for non-life reinsurance and one for life reinsurance. The disclosure of hidden reserves realised in this context had virtually no tax implications. As a parallel move we adjusted the valuation of the participation in a US subsidiary. On balance this gave rise to extraordinary income of just over EUR 370 million. The amount in question does not constitute operating profits, but reflects solely the realisation of hidden reserves within the Group.

The net investment result increased on balance to EUR 895.7 million compared to EUR 584.7 million in the previous year.

Due in particular to the aforementioned effects in extraordinary investment income, the company generated a profit for the financial year of EUR 374.6 million (EUR 120.6 million). A near breakeven result of just over EUR 5 million would have been posted had it not been for the realisation of hidden reserves within the Group. Dividends are traditionally distributed exclusively from operating profits in order to avoid weak-

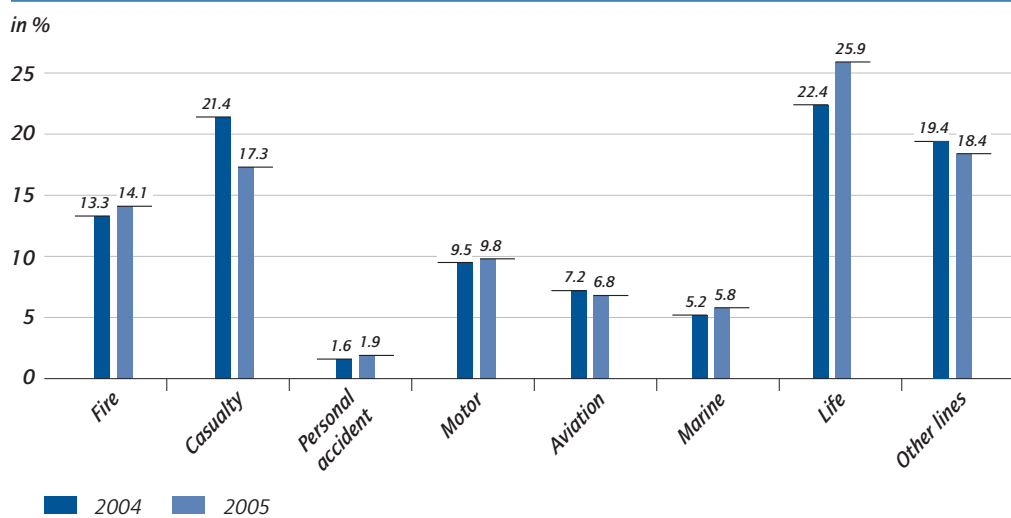
ening our capital resources and hence our credit rating. For this reason we are allocating EUR 185 million from the profit for the year to retained earnings. In addition, the Executive Board and Supervisory Board shall propose to the Annual General Meeting that a further EUR 185 million be contributed to retained earnings and an amount of EUR 5 million be carried forward to new account.

Development of the individual lines of business

The following section describes the development of the various lines of business in relation to the worldwide portfolio written by Hannover Re (Hannover Rück AG). Through intra-Group retrocessions from E+S Rück we also participate in the German reinsurance market. The propor-

tion of the parent company's gross written premium attributable to business accepted from E+S Rück stood at 10.4% in the year under review (9.6%). We were highly satisfied with both the result and the development of business in our domestic market.

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



Fire

Fire business is one of Hannover Re's most important lines. The portfolio is written on a worldwide basis. The loss experience in industrial fire business was notable for an increased number of major claims: the strains were associated principally with the hurricanes, substantial

damage to an oil refinery in Canada as well as other major claims in Europe.

Premium income from our fire business climbed by 10.0% to EUR 893.5 million (EUR 812.0 million). Growth was driven by certain Euro-

pean markets – including Germany – and South Africa. We slightly reduced our volume of proportional fire business.

The net loss ratio deteriorated by 13.2 percentage points year-on-year to 78.1% as a consequence of the major claims. The underwriting result slipped into negative territory from EUR 51.5 million to -EUR 27.4 million.

An amount of EUR 1.4 million was withdrawn from the equalisation reserve, following a contribution of EUR 55.7 million in the previous

year. A contribution of EUR 14.0 million (EUR 17.2 million) was made to the reserve for terrorism risks in the year under review.

Fire

in EUR million	2005	2004
Gross written premium	893.5	812.0
Loss ratio (%)	78.1	64.9
Underwriting result (net)	(27.4)	51.5

Casualty

We write our portfolio highly selectively with an eye to our rigorous profitability criteria. In most cases we were able to obtain attractive rates in the year under review. The treaty renewals once again demonstrated the ever-greater importance that ceding companies are attaching to their reinsurers' financial strength; Hannover Re was able to profit disproportionately strongly from this situation thanks to its very good ratings.

North America is traditionally our most important casualty market. Our underwriting policy here is geared primarily towards non-proportional acceptances. We have maintained only a small number of proportional treaties which still promise satisfactory profitability. Risks that generated below-average margins have been systematically scaled back. This is particularly true of directors' & officers' covers.

Our total gross premium volume contracted sharply by 16.0% to EUR 1,095.5 million (EUR 1,304.1 million).

The results posted by our casualty portfolio in the year under review were very good. Add-

itional positive effects derived from the run-off of previous underwriting years under a number of large programmes. The net loss ratio consequently decreased by 36.5 percentage points to 51.7%. The underwriting result improved from -EUR 74.5 million to EUR 189.9 million.

An amount of EUR 98.4 million was allocated to the equalisation reserve, following a withdrawal of EUR 12.1 million in the previous year. We strengthened the IBNR reserve with an allocation of EUR 169.8 million from the non-technical account.

Casualty

in EUR million	2005	2004
Gross written premium	1 095.5	1 304.1
Loss ratio (%)	51.7	88.2
Underwriting result (net)	189.9	(74.5)

Personal Accident

Personal accident insurance is of minimal importance within our overall portfolio, accounting for just 1.9% of the total business. Especially in Germany and other developed markets, how-

ever, we have identified growth opportunities in the area of products aimed at senior citizens. Personal accident products with assistance benefits, which we had revamped last year in cooperation

with a number of primary insurers and another cooperation partner, have established themselves successfully on the market. These products feature a range of assistance benefits that our clients make available to their policyholders who are in need of help after an accident, including for example the provision of a household emergency call system, a "meals on wheels" service or accompaniment on trips to the doctor or official agencies.

Gross premium surged higher by a very substantial 22.4% to reach EUR 118.6 million, compared to EUR 96.9 million in the previous year.

On the claims side too, we are highly satisfied with the experience in this line. The previous

year's very good net loss ratio of 52.3% improved again to 50.1%. The underwriting profit also improved from EUR 13.4 million to EUR 17.5 million.

An amount of EUR 7.1 million (EUR 8.4 million) was allocated to the equalisation reserve.

Personal Accident

in EUR million	2005	2004
Gross written premium	118.6	96.9
Loss ratio (%)	50.1	52.3
Underwriting result (net)	17.5	13.4

Motor

Germany and North America continued to be our most important markets in the motor line. A limitation of liability to EUR 100 million under the original policies has now become established in motor third party liability insurance in Germany. It is therefore gratifying to note that our portfolio of policies providing unlimited coverage continues to shrink. Motor third party liability business produced very favourable results in our domestic market. In the USA, too, the market climate enabled us to write highly profitable business. The overall claims level showed a downward trend.

It was particularly gratifying to note that our loss ratio, which had decreased by 10.2 percentage points in the previous year, improved by a further 12.7 percentage points in the year under review to 58.8%. The underwriting result increased from EUR 17.2 million to EUR 74.3 million. As in casualty insurance, positive effects de-

rived from the run-off of previous underwriting years under a number of major treaties.

An amount of EUR 70.0 million was allocated to the equalisation reserve in the year under review, following a contribution of EUR 47.3 million in the previous year. We boosted the IBNR reserve for motor third party liability insurance with a contribution of EUR 86.0 million from the non-technical account.

Motor

in EUR million	2005	2004
Gross written premium	623.4	580.8
Loss ratio (%)	58.8	71.5
Underwriting result (net)	74.3	17.2

Aviation

Hannover Re ranks among the leading reinsurers worldwide in aviation and space business. Although some rate erosion could be observed overall, the level was still high.

The bulk of our aviation business is written on the London Market. Our portfolio is guided strictly by profitability considerations and business is written highly selectively. Gross written

premium consequently contracted by 2.4% to EUR 429.8 million (EUR 440.5 million) despite the continued attractive rate level.

The net loss ratio improved by a further 16.9 percentage points to a very good 39.6% (56.5%). It was thus possible to significantly boost the underwriting profit to EUR 114.1 million (EUR 66.6 million).

An amount of EUR 60.1 million (EUR 24.2 million) was allocated to the equalisation reserve.

Marine

Most of our marine business is also written through the London Market, where we are one of the major reinsurance providers. The emphasis in this line was on consolidating our portfolio. The rate level improved appreciably in the aftermath of hurricane "Ivan", which in 2004 caused what had hitherto been by far the heaviest losses of all time in marine business. Gross written premium grew from EUR 319.6 million to EUR 368.1 million.

The year under review proved to be even more costly than the previous one in marine reinsurance: in addition to a major loss affecting an oil platform in the Indian Ocean, we incurred extremely heavy loss expenditure in connection with the severe hurricanes "Katrina" and "Rita". As had been the case with hurricane "Ivan", these hurricanes tracked across the Gulf of Mexico and inflicted heavy damage on the drilling platforms located there. In addition, the business interruption covers that attached subsequently produced a further heavy burden of losses for our account. Still, there was also a bright side to these

Life

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

Aviation

in EUR million	2005	2004
Gross written premium	429.8	440.5
Loss ratio (%)	39.6	56.5
Underwriting result (net)	114.1	66.6

events: they led to significant price increases and improvement in conditions for marine reinsurance, and we therefore expect to be able to recoup the losses suffered in the year under review over the medium term.

The net loss ratio rocketed from 57.3% to 147.6%.

Marine business closed with an underwriting loss of EUR 167.6 million, after a profit of EUR 63.3 million in the previous year. An amount of EUR 100.0 million was withdrawn from the equalisation reserve, compared to an allocation of EUR 18.5 million in the year before.

Marine

in EUR million	2005	2004
Gross written premium	368.1	319.6
Loss ratio (%)	147.6	57.3
Underwriting result (net)	(167.6)	63.3

We are still pursuing our expansionary course in this segment. Growth was driven primarily by the European markets. Our gross premium income of EUR 1,642.2 million in the year under review was significantly higher than in the previous year (EUR 1,363.2 million).

In our home market of Germany – where we operate through our subsidiary E+S Rück – and in other European markets we successfully maintained our strategic positioning with a focus on financing transactions for unit-linked individual life policies. In the Romance-speaking markets we concentrate primarily on the bancassurance sector.

In the United Kingdom we were again able to boost the volume of new business written, especially in the area of enhanced annuities. Yet premium income also enjoyed dynamic growth in the Asian markets and in South Africa. It is our belief that offerings specially tailored to the needs of senior citizens – a target group that has hitherto been rather neglected, particularly in Germany – will constitute a promising market for the future.

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

In the fourth quarter of the year under review we completed a further securitisation of life

insurance risks ("L6"). In this way we are able to obtain greater financial flexibility and optimise our risk profile. The securitisation covers individual unit-linked policies from Germany and Austria. We were thus able to monetise EUR 100 million of "embedded value" and convert a future earnings stream into a current liquidity position. The transaction clearly demonstrates that "embedded value" is not merely an actuarial stipulation but constitutes a tangible asset that can be monetised.

Despite vigorous premium growth and the associated new business acquisition costs, the underwriting profit improved substantially and moved into positive territory to reach a gratifying EUR 9.3 million (-EUR 50.1 million); the L6 transaction was a major factor here.

Life

in EUR million	2005	2004
Gross written premium	1 642.2	1 363.2
Underwriting result (net)	9.3	(50.1)

Other lines

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

Gross premium in *fire loss of profits* business climbed by 6.3% in the year under review to EUR 136.3 million (EUR 128.2 million). The underwriting profit before changes in the equalisation reserve came in sharply lower at EUR 15.4 million (EUR 51.5 million).

Our *health reinsurance portfolio* consists principally of business ceded by our subsidiary Hannover Life Re of America. Gross premium income contracted by 4.0% to EUR 209.7 million (EUR 218.4 million). The underwriting deficit of EUR 0.7 million was on a par with the previous year.

Hannover Re is one of the three market leaders in *credit and surety reinsurance*. This segment saw continued uncoupling of underwriting results from the protracted adverse credit cycle. The business environment for reinsurers was entirely adequate. Primary insurers tried to push through more favourable reinsurance terms and conditions in light of the successful efforts to restore this segment to profitability, but for the most part it was possible to withstand this pressure.

Although a sizeable reserve had to be constituted for the insolvency of a major construction firm in Germany, we were highly satisfied with the results of our worldwide credit and surety reinsurance business. Gross premium income grew from EUR 246.6 million to EUR 254.4 million. The underwriting result improved significantly to EUR 43.3 million (EUR 21.6 million).

Gross premium in *windstorm reinsurance* climbed by 22.2% in the year under review to EUR 293.4 million (EUR 240.0 million). This segment was especially hard hit by the severe hurricanes in the USA, and the underwriting result consequently deteriorated appreciably from -EUR 28.0 million to -EUR 179.2 million.

Investments

In the United States expectations among players on the bond markets were dominated by the theme of interest rate rises. The US prime rate was hiked 25 basis points on each of altogether 8 occasions to reach 4.25% by year-end. Ten-year US yields for the most part moved in a range of 4.0% to 4.5% throughout the year, closing at 4.4%.

The European bond market was at times able to substantially detach itself from US parameters. European 10-year government bonds fell to a yield low of 3.0% in the course of the year, only to recover to 3.3% by year-end. The yield gap relative to the USA was on a historically high level throughout the year.

As 2005 progressed players on the foreign exchange markets profited increasingly from the interest rate advantage enjoyed by the USA over the Eurozone and Japan, causing the US dollar to appreciate significantly. Both the yen and the euro shed around 13% of their value against the greenback. The euro closed 2005 at USD 1.1834 (USD 1.3640).

European and Japanese equity markets performed very favourably in the year under review and outstripped the bellwether US market.

An amount of EUR 70.9 million was allocated to the equalisation reserves for *other lines* in the year under review, following a contribution of EUR 65.8 million in the previous year.

Other lines

in EUR million	2005	2004
Gross written premium	1 169.3	1 178.1
Loss ratio (%)	76.1	66.0
Underwriting result (net)	(49.9)	105.0

Equity investments were made predominantly in index-tracking investment instruments from the Eurozone and the USA. By using targeted option strategies we exploited market volatilities at the beginning of the year in order to optimise our portfolio. In the third quarter we scaled back our holdings of US equities. As at year-end 5.1% of our investments were in listed stocks.

The total net investment result was boosted by 53.2% in the year under review to EUR 895.7 million (EUR 584.7 million). This massive increase was, however, primarily attributable to the special effects described under the development of our business (see page 9). At the same time the total investment portfolio (including deposits with ceding companies) grew by EUR 3.2 billion to EUR 16.7 billion (EUR 13.5 billion). The growth was due in part to the underwriting cash flow from reinsurance business but also to the issue of a new bond and special effects. Our total portfolio of self-managed assets grew by 29.3% in the reporting period to EUR 11.9 billion (EUR 9.2 billion).

Within the scope of our asset/liability management activities, the allocation of investments by currency is guided by the development of underwriting items on the liabilities side of the

balance sheet. This ensures extensive currency matching of assets and liabilities, thereby largely eliminating the effects of currency fluctuations from the overall result.

Caution was the hallmark of our investment policy in the area of fixed-income securities in the year under review. In view of the low level of interest rates we attached special importance to the high quality of the securities. We did not enlarge the proportion of corporate bonds in the overall investment portfolio. Our preferred asset classes in Europe were government bonds and jumbo mortgage bonds. New investments were made primarily in short- and medium-duration instruments. As in previous years, we actively managed the duration of our fixed-income portfolio, thereby not only optimising our returns but also conserving our capital and reserves. We increased the modified duration of our bond portfolio, including deposits with banks, in both Eu-

rope and the USA over the course of the reporting period to 4.0 (2.8) as at year-end.

Our portfolio of fixed-income securities had grown by EUR 1.4 billion as at 31 December 2005 to EUR 6.0 billion (EUR 4.7 billion). We used the decline in yields in Euroland to realise modest net gains on disposals of EUR 4.9 million (EUR 32.9 million). Net unrealised gains in our portfolio of fixed-income securities totalled EUR 64.3 million, compared to EUR 72.1 million in the previous year.

After factoring out special effects associated with the reorganisation of the Group's structure, profits on disposals totalling altogether EUR 106.2 million (EUR 127.1 million) were realised. This contrasted with realised losses of EUR 31.2 million (EUR 20.9 million). The balance of profits and losses on disposals was thus lower than in the previous year at EUR 75.0 million (EUR 106.2 million).

Human resources and social report

Unceasing dedication to customers' needs coupled with the commitment and professionalism of our staff have made Hannover Re what it is today: one of the most successful reinsurers in the world. The constant fostering of our employees' skills and motivation therefore ranks as one of the most vital tasks in safeguarding our company's future and forms the basis of our personnel management policy. In 2005 therefore, in order to translate this aspiration into the day-to-day practice of personnel management and staff leadership on a systematic and consistent basis, the Central Division of Human Resources Management moved forward with the interlinking of its departmental strategy with the company's holistic management system "Performance Excellence" (PE). Following its successful certification in 2003, the Central Division was subjected to an IBEC assessment (IQNet Business Excellence Class) last year in accordance with the model of the European Foundation for Quality Management. Our human resources management thus received a further seal of quality approval on the European level from an independent, external institute.

Hannover Re employed 628 (599) staff as at 31 December 2005. The staff turnover of 3.2% (2.3%) – measured in relation to the average workforce employed at our Home Office in Hannover – remains considerably better than the industry average. Along with the current state of the labour market, there can be no doubting the role played here by our continuous and systematic personnel development and leadership.

Continuity is also the hallmark of the esteem in which Hannover Re is held as an employer. Following our successful participation in the 2004 survey "Germany's best employer" conducted on the basis of a standardised questionnaire, we carried out a company-specific survey in the year under review to explore in even greater detail just how our staff rate us as an employer. On the basis of a questionnaire tailored specifically to our company, Hannover Re's staff once again expressed their considerable satisfaction overall: nine out of ten employees – more precisely 92% – consider Hannover Re to be a very good employer. The overall level of satisfaction was thus even higher than in the previous stand-

ardised survey. Irrespective of the highly positive overall findings, we identified room for improvement and advancement in some areas. Working together with the Employee Council we analysed these weaknesses and initiated appropriate countermeasures. Some areas of the company, for example, expressed a desire for more support in handling in-house conflicts. Since the adverse repercussions of unresolved conflicts are plain to see – e.g. costs in the form of lost working time or employees whose energies are tied up elsewhere –, we offered a cycle of training activities in the year under review designed to convey conflict management skills to our managerial staff.

We reviewed our range of personnel development tools such as appraisal interviews, personnel development workshops and other internal seminar offerings. In their feedback on behaviour-oriented coaching our staff praised the existing range of seminars, but they also expressed additional needs.

Our long-established, highly popular and without reservation favourably rated English-language courses (Presentation/Negotiation Techniques) as well as the seminars covering time management and memory training continue to enjoy strong demand.

We combined our two personnel tools Management Feedback (assessment of a manager's performance from the standpoint of his/her supervised staff) and 270° Feedback (assessment of a manager from the standpoint of his/her supervisor and colleagues) in the year under review with a view to constantly enhancing our customer orientation and streamlining internal processes. With the new, intelligent linking of these tools we have striven to improve managerial performance, on the one hand, while at the same time creating more time for customers.

We would like to thank our employees for their initiative, dedication and performance. In the year under review our staff once again pursued the company's strategic objectives with enthusiasm and energy. We would also like to express our appreciation to the representatives of

staff and senior management for their critical yet always constructive cooperation.

In accordance with its strategy Hannover Re strives to be one of the three most profitable reinsurers in the world – both in terms of the return on equity and the annual growth in earnings per share. In our pursuit of this goal we never lose sight of our social responsibility. We are committed to the City of Hannover and our sense of responsibility is reflected in a foundation that benefits the Sprengel Museum Hannover. Launched in 1991 on the occasion of Hannover Re's twenty-fifth anniversary, the foundation has a clear mission: the advancement of contemporary art in Hannover through the acquisition of paintings and sculptures for the Sprengel Museum Hannover and the funding of accompanying publications and events. In the year under review the foundation was able to hand over a fourth work on permanent loan to the museum following its purchase of "Bild dreiundzwanzig" by Georg Baselitz.

Bearing in mind that the reinsurance of catastrophe risks is part of our core business, one of our concentrations – along with the analysis of such risks by way of accumulation control, for example, – is on a constant knowledge transfer between business and research that enables our company to apply the very latest insights. With this in mind we support the highly respected Geo Research Center in Potsdam in its systematic research into earthquakes and their early identification. We also seek to maintain an ongoing dialogue with universities and, last but not least, our own experts are welcome speakers at conferences and institutions of higher learning.

Hannover Re is held in high international esteem. In the year under review clients and other market players once again assessed our company highly positively: in the first place, our Chief Executive Officer was crowned "Chief Executive of the Year" by the UK reinsurance magazine "Reactions"; secondly, Hannover Re achieved excellent results in the customer survey conducted by the American Flaspöhler Research Group, having already been voted the best reinsurer on the US market in the previous year's corresponding broker survey.

Risk report

Overall system of risk monitoring and management

As an internationally operating reinsurer, our business inevitably involves commercial risks – which take different forms in the various strategic business groups and geographical regions. The acceptance of risks and the professional management of this risk portfolio constitute the core business of a reinsurance enterprise. Our risk management is based on a business strategy geared to sustained enhancement of the company's value. This means that we systematically enter into entrepreneurial risks provided the associated opportunities promise a commensurate increase in the value of the company.

The following elements are the hallmarks of our risk management organisation:

- Central coordination, yet local responsibility in the various areas.
 - Local *risk controllers* bear primary responsibility for the monitoring of risks and risk-policy measures within their specific areas.
 - Local *risk controlling* aggregates and manages individual risks on the level of specific business groups and, where necessary, initiates appropriate risk-minimisation measures.

– Centralised *risk controlling* steers the entire process and is responsible for mapping the risk situation of the company across all business groups.

- Continuous monitoring of critical performance factors in order to detect undesirable developments at an early stage and facilitate implementation of appropriate countermeasures.
- Annual risk inventory, in which all risks or risk groups that could potentially jeopardise the company's survival are thoroughly analysed and quantified,
- Documentation of the principal elements of risk management in guidelines that are valid throughout the Group.
- Regular internal and external review of the efficiency of the risk management system and adjustment to the prevailing business environment.
- Complete integration into value-oriented enterprise management.

Risk categories

Global risks

Global risks are beyond our direct sphere of influence and there are therefore limits to the extent to which they can be reduced or avoided. Early detection is the top priority here. Global risks derive, inter alia, from:

- changes in the legal framework, including changes in the general regulatory and tax environment,
- social and demographic changes as well as developments in the insurance industry,
- changes due to environmental and climate factors.

We counter these risks, inter alia, by means of the following measures:

- monitoring of claims trends,
- regular adjustment of our underwriting policy (e.g. through appropriate contractual exclusions or by way of material and geographical diversification of the portfolio),
- analysis of the frequency of and extent of losses associated with natural disasters attributable to climate factors using detailed simulation models (e.g. frequency and intensity of wind-storm events due to climate change),

- tracking of relevant legal trends and changes in pertinent accounting standards by specialised service units within Hannover Re.

Strategic risks

Our overriding strategic objective is to grow as an optimally diversified and economically independent reinsurance group of above-average profitability. All other goals are derived from and subordinate to this overriding objective. Every three years we review the assumptions underlying our strategy. In order to translate our strategic objectives into operating practice, we have defined company-wide ratios and controlling processes that are used to measure and steer the contribution made by each business segment to the overall corporate performance. Performance Excellence is the method used to put our strategy into practice. At annual Excellence workshops we systematically deploy a number of tools – inter alia the SWOT* analysis – to examine the implications of strategic decisions. The resulting diverse initiatives lead to consistent refinement of value-enhancing processes.

Technical operating risks

Risks in underwriting business can essentially be subdivided into risks of random fluctuation, risks of error and risks of change.

The aforementioned risks can manifest themselves in a number of ways, including for example:

- inaccurate or incorrect calculation assumptions within risk models (risk of errors),
- random fluctuation of the actual claims experience from the forecast development (risk of random fluctuations),
- permanent change in the actual claims experience as a consequence of changes in court practice, e.g. US casualty business (risk of change).

Despite this definition, it is in practice difficult to allocate a random claim materialisation precisely to these risk types. After each significant claim materialisation it is therefore incumbent on responsible risk management to review the extent to which the risk assessments made prior to the event remain valid.

* Strengths, Weaknesses, Opportunities and Threats

Generally speaking, the business that we accept is not always fully retained, but instead portions are retroceded as necessary. In order to minimise the default risk it is essential to select retrocession partners carefully in light of credit considerations. Our receivables from reinsurance business are in large measure secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.

Property and casualty reinsurance

- In property and casualty reinsurance the loss reserves are determined on an actuarial basis. The point of departure for our calculations is the information provided by cedants. In addition to the claims reported by our clients, we establish additional reserves that may seem appropriate on the basis of our loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have probably already occurred but have not yet been reported to us. This applies primarily to claims in the casualty lines. Furthermore, the calculations made by our own actuaries are regularly reviewed by external actuaries and auditors.
- Aggregate control is a fundamental risk management tool. It is used to determine the strain on the Hannover Re portfolio associated with particular natural catastrophe scenarios and return periods. The aggregate amount of the exposures expected from one or more treaties for a specific combination of countries and hazard zones and a specific probability are calculated.
- The diversification of our portfolio is a further risk-minimising measure. Diversification promotes risk-spreading across business groups and also reduces the capital adequacy otherwise required in property and casualty reinsurance. The diversification effect is calculated using mathematical methods (DFA model) and makes allowance for the individual features of the various business groups as well as the correlations between them. It was thanks to Hannover Re's optimal diversification across four business groups that we were able – despite

the extreme loss burden from hurricanes "Katrina", "Rita" and "Wilma" – to show a positive, albeit reduced year-end result.

- Hannover Re analyses the findings of all available scientific research into possible changes in the risk situation associated with natural disasters (e.g. frequency and intensity of wind-storm events) with an eye to the implications for potential losses. To this end we use recognised licensed simulation models and also employ our own scientists, who control the quality of the models and develop our own risk management tools. The extreme natural catastrophe events of 2005 revealed structural flaws in the risk models. As an immediate step intended to restore our calculations to a risk-adequate basis, we are adding safety loadings to the output of the simulation models.

Life and health reinsurance

- Biometric risks (miscalculation of mortality, life expectancy and disability probabilities) as well as lapse and credit risks are of special importance in life and health reinsurance.
- The reserves in life and health reinsurance are based principally upon information provided by our clients. Hannover Re reviews the plausibility of the data using secure biometric actuarial bases. Furthermore, local supervisory authorities ensure that the reserves calculated by ceding companies satisfy all local requirements with respect to actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are of crucial importance in the prefinancing of our clients' acquisition costs. The interest rate risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

Investment operating risks

Since investment income is a major revenue source for a reinsurance enterprise, severe volatility on the capital markets can have a similar impact on the statement of income to natural disasters. Our investment policy is therefore not geared first and foremost to maximising returns at any cost. Rather, investment income should be optimised on a lasting basis subject to a limited and clearly defined risk. The investments are

comprised to a very large extent of inflows (premium) that are put aside for future claim payments. For this reason, investments too are guided by the requirements of our reinsurance business, for example with respect to currencies and maturities. In this context our management and control mechanisms take their lead from the standards adopted by the Federal Financial Supervisory Authority (BaFin) and foreign regulators.

Risks in the investment sector consist primarily of market, credit and liquidity risks.

- The most significant *market price risks* are share price, interest rate and currency risks. The "value at risk" (VaR) is a vital tool used for managing market price risks. The VaR is determined on the basis of historical data, e.g. for the volatility. As part of these calculations the probability of losing a certain portion of our portfolio is calculated. Our range of tools is complemented by stress tests and sensitivity analyses. Detailed investment guidelines and defined loss limits are in force for the entire Hannover Re Group, compliance with which is monitored by risk controlling.
 - *Share price risks* derive from unfavourable changes in the value of equities and equity or index derivatives. We spread the equity price risks through systematic diversification across various sectors and regions. We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with the use of such transactions.
 - *Interest rate risks* refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the general interest rate level. Declining interest rates lead to increases and rising interest rates to decreases in the fair value of fixed-income securities portfolios.

– *Currency risks* are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage.

- *Credit risks* may arise out of a failure to pay (interest and/or capital repayment) or change in the credit status (rating downgrade) of issuers of securities. We attach vital importance to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.
- The *liquidity risk* refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or

to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure ensure that Hannover Re is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

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

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

Portfolio	Scenario	Portfolio change based on fair value in EUR
Equities	Stock prices - 10%	(69.6)
	Stock prices - 20%	(139.3)
	Stock prices +10%	69.6
	Fair value as at 31.12.2005	696.5
Fixed-income securities	Yield increase +50 basis points	(133.5)
	Yield increase +100 basis points	(261.2)
	Yield decrease - 50 basis points	138.5
	Fair value as at 31.12.2005	6 091.8

Rating structure of our fixed-income securities*

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	73.4	3 965.6	34.6	64.0	0.2	0.8	–	–
AA	12.3	667.1	32.9	61.0	97.3	355.7	–	–
A	12.6	681.5	14.2	26.2	–	–	7.1	5.1
BBB	1.0	53.9	18.1	33.5	–	–	69.4	50.0
<BBB	0.7	35.8	0.2	0.3	2.5	9.0	23.5	16.9
Gesamt	100.0	5 403.9	100.0	185.0	100.0	365.5	100.0	72.0

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

Operational risks

In our understanding, the category of operational risks encompasses the risk of losses occurring directly or indirectly because of

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

The failure of our data processing infrastructure and associated disruptions in the availabil-

ity of applications pose a major risk for our company. We invest systematically in the security and availability of our information technology in order to minimise these risks. High availability of mission-critical IT applications is ensured. Contingency plans are in place to facilitate systematic and rapid restoration of the data-processing infrastructure in crisis situations. Controlling these risks consequently constitutes a key competitive factor. The existing risk management measures were therefore expanded in the year under review.

Assessment of the risk situation

As an internationally exposed reinsurance group we face many potential risks that could have a not inconsiderable impact on our assets, finances and earnings. Based on the information currently available, however, we cannot discern

any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or earnings.

Forecast

The cyclical momentum of the world economy is likely to be sustained in the current year, despite continuing high oil prices. Estimates suggest growth of four percent in global output. Monetary policy, which still shows expansionary tendencies throughout the world, should also have a positive effect on the global economic situation in 2006.

The state of the US economy will depend not least on how quickly it is able to stem the headline-grabbing disruptions in oil production that followed the severe hurricane damage. To a far greater extent than this effect, however, the tightening of monetary policy is likely to bring about a modest cooldown in the US economy.

The upturn in the world economy has also been supported by economic expansion in Japan and Western Europe. The emerging markets of East Asia – with their consistently vigorous manufacturing growth – will also contribute to the upswing, even though a slight slowdown is likely to take hold in China during the current year.

In Euroland the moderating impacts of high oil prices are gradually receding. Despite meagre

growth in disposable incomes, the way is therefore open for stronger domestic demand. Capital spending is also expected to pick up again as corporate profits rise. The trend will be fostered by continued very low interest rates. In general terms, the economy should also gain impetus from rising export prices and enjoy a revival as 2006 progresses.

In Germany a modest economic recovery can be anticipated. Given the favourable worldwide environment, exports are likely to reinvigorate the economy. Much will depend, however, on whether domestic demand increases. As a further factor, the consolidation of corporate finance will also support the resurgence of the German economy. Yet the stubbornly depressed level of consumption among private households – influenced by rising energy costs, the uncertain state of the labour market and slow growth in employment income – has still not been alleviated. On the other hand, the latter factor promotes the competitive position of the German economy in the international arena. All in all, the economic picture in Germany too should improve significantly in 2006.

The treaty renewals in *property and casualty reinsurance* as at 1 January 2006 – the date when roughly two-thirds of our portfolio was renegotiated – were highly satisfactory for our company. Although not all our expectations were fulfilled, we were still able to surpass the already very high rate level in some areas.

The updating of pricing models to take account of the experience gained in the wake of last year's hurricanes has also contributed to this favourable rate trend: the market fully accepted the enhancement of pricing models to include loadings for previously omitted or inadequately modelled components such as cyclical climate fluctuations, flood and inundation losses, business interruption and demand-driven price increases for restoration services.

In addition to adjusting our models we reduced our peak exposures as part of our risk management measures. With a roughly unchanged premium volume, our property and casualty reinsurance portfolio is thus ideally poised to face the challenges of the current year.

We used retrocession, i.e. the passing on of portions of our covered risks to other (re)insurers, as a further element of our risk optimisation. Bearing in mind the considerable losses incurred by retrocessionaires, we expect to see an overall increase in the price of our retrocessions – some of which are agreed on a multi-year basis.

It was once again evident from this year's renewal season that ceding companies are attaching ever-greater importance to a reinsurer's rating. This is especially true of the underwriting of long-tail casualty business, where a very good rating is absolutely indispensable. Hannover Re is one of the few reinsurers that continues to satisfy this condition without reservation on the basis of its very good ratings ("AA-" from Standard & Poor's and "A" from A.M. Best).

In light of our above-average financial strength rating we profited disproportionately strongly from the sustained hard market; indeed, in segments that had been hard hit by last year's hurricane events we were able to obtain sometimes appreciable rate increases. Even in sectors that had been spared major losses we recorded

for the most part at least stable – and hence highly attractive – rates.

The most marked changes, however, were observed in this year's *marine reinsurance* renewals, and especially in offshore business. The severe losses incurred as a consequence of last year's hurricanes prompted wide-ranging restructuring of the reinsurance programmes. Many programmes are now split into catastrophe-exposed (Gulf of Mexico) regions and those areas with no correlation to catastrophe events (other exposures). We were able to substantially reduce our peak risks across the board in our marine portfolio while at the same time achieving significant double-digit price increases.

In *credit and surety reinsurance* the situation continues to be favourable in the current year. There has been no significant price erosion despite extremely low loss ratios in the year under review and adequate rates. Although the rate level declined slightly in credit insurance, it remains high. Rates for surety business were more or less unchanged. All in all, in this line too it is evident that considerably greater importance is being attached to the financial standing of reinsurers. In some instances this enabled us to write larger shares and acquire new business, thereby in large measure offsetting the decline in premium associated with the sometimes substantially higher retentions carried by primary insurers.

The treaty renewal season for our property and casualty business in *Germany* went off better than expected. Ceding companies have generally retained a higher level of premium for own account, hence causing our premium volume to contract slightly. On the other hand, we were able to further enlarge our customer base. In the year just-ended we observed increasingly fierce competition among insurers – especially in the industrial fire and motor lines, but also to a limited extent in industrial liability business. We therefore scaled back our proportional acceptances in these lines so as to write more non-proportional business. The renewals in German catastrophe business were also satisfactory. The anticipated erosion of conditions failed to materialise, doubtless in part due to the tense state of retrocession markets already overtaxed by the hurricanes in

the Gulf of Mexico. Provided there are no exceptional strains from major loss events, we are looking forward to another pleasing result in the current financial year.

Developments in the *Northern European markets* are expected to be favourable. Rates increased in catastrophe reinsurance as a consequence of the losses from winter storm "Erwin", while in other lines they held steady. The state of the UK market was also stable. Non-proportional reinsurance saw modest rate increases, although they fell short of our expectations. The renewal phase passed off satisfactorily in France, and in Italy we were able to profitably expand our portfolio – thanks in part to our very good rating.

In *North America*, our largest and most important market, our primary focus in the current financial year will be on the continued optimisation of our portfolio. With this in mind we are pressing ahead with the restructuring of our proportional acceptances in favour of considerably more profitable non-proportional business. In the casualty sector we shall consolidate our portfolio. Our clients here continue to attach particular importance to better-than-average financial strength. Thanks to our very good rating we have thus become a preferred partner in this line. Yet we are not satisfied with the development of all liability lines. In directors' & officers' (D&O) insurance, for example, we found the rates to be inadequate and consequently wrote our business on an extremely selective basis. Should rates here continue their downward slide, it is likely that we will significantly scale back our premium volume.

In the aftermath of the heavy hurricane losses, the affected segments of property insurance saw substantial price increases combined with reduced coverage limits; rates for treaties that had been spared losses held stable. In catastrophe reinsurance we achieved rate increases averaging around 100% in programmes that had suffered a total loss, compared to around 50% in those with only partial losses; even under loss-free programmes we were able to obtain improvements of 15%. We expect our North American business – provided it is spared extraordinarily high hurricane losses – to show very strong profitability.

Treaty renewals for *Asian markets* take place predominantly as at 1 April. In Taiwan, however, most treaties were renegotiated on 1 January. Although the market suffered a major fire loss, rates did not show the improvement that we had anticipated. Since they declined slightly for proportional business, we stepped up our writing of non-proportional business. In Japan we expect stronger demand for earthquake covers. The price level for windstorm and flood risks should remain stable. All in all, business in the Asian markets should develop favourably.

Business in *Australia* is progressing very well. In this market some treaties are renewed as at 1 January, others on 1 July. Thus far, rates have held very stable on a high level, and we expect further highly attractive business from the Australian market.

The favourable overall market conditions in *property and casualty reinsurance* should improve even more in this year's remaining renewal phases (1 April, 1 June/July and 1 October). It is likely that further adjustment of pricing models will not be restricted solely to windstorm aggregates in the USA. Competitors who still have to incorporate the latest loadings into their quotations will doubtless follow suit in the course of the year, which should cause prices for catastrophe covers to rise across the board. In view of the more exacting capital adequacy requirements imposed by the rating agencies, which also have to be factored into the pricing calculations, and given the fact that risks will have to be remodelled across a broad front, it is our assumption that property and casualty reinsurance promises a positive business trend for the long term. We therefore expect premium volume on a par with the previous year and a reduced level of risk. Provided the major loss expenditure remains in line with the multi-year average, a very good profit contribution can be anticipated.

In *life and health reinsurance* striking growth in new business is expected in numerous European markets for the current financial year. We consistently pursue a conservative underwriting and pricing policy that is enshrined in our global underwriting guidelines. Since we are able to offer our clients a high level of financial

strength and hence obligatory reinsurance capacity we are a sought-after partner.

In the area of *unit-linked products* – primarily annuities – in German-speaking markets we shall continue to finance our clients' new business acquisition costs through quota share reinsurance arrangements. Our business is also expected to expand in the United Kingdom. As far as enhanced annuities are concerned, our focus is on the European market – especially Germany, the United Kingdom and Switzerland. *Bancassurance business* will develop notable momentum, particularly in the German, Italian and Greek markets.

In the *USA* we shall move forward with our successful niche strategy focused on high-value financing transactions and the steadily growing senior citizens' market. We are also working intensively on the roll-out of system-supported solutions for the sale of life policies by major US financial services providers.

The *South African market*, in which we now rank as one of the leading reinsurers, offers additional growth potential in already existing customer relationships. In Asia we shall step up our marketing and services for *Thailand* and *Vietnam*, although *China* and *South Korea* will also figure prominently; we intend to significantly intensify our cultivation of these markets from our Hong Kong office. The licensing procedure for a life reinsurance branch in China continues to move forward, and we still hope to receive a licence in the first half of 2006.

All in all, we are looking to a double-digit increase in premium volume and further improvement in the result for the current year.

Overall business outlook

In view of the attractive market opportunities that are opening up to us we are looking forward to a very good 2006 financial year, albeit with a slight reduction in premium volume.

The expected positive underwriting cash flow will likely lead to further growth in the total asset volume. If interest rates rise slightly investment income should also increase again. In the area of fixed-income securities we continue to

stress the high quality of our portfolio. Combined with our continuing investments not only in equities but also in alternative asset categories, we should be able to generate a stable profit contribution over the long term.

In light of the expected business development and the economic climate, we should be able to achieve a very good profit for the year in the current financial year. As always, this projection is conditional upon major loss expenditure remaining within the bounds of the multi-year average and there being no unexpectedly sharp downturns on capital markets.

As part of our efficient approach to capital management we have transferred risks to the capital markets for a number of years. In view of the advantageous market conditions prevailing in property and casualty reinsurance we decided in late 2005 to undertake a further securitisation of catastrophe risks. The transaction – which has a volume of USD 370 million – was placed with institutional investors. By means of this risk transfer, which is intended to provide against anticipated capacity shortages and rising prices on the retrocession markets, we are able to safeguard the underwriting capacity needed to share in the profitable market opportunities that will present themselves over the coming years. The portfolio assembled for the "K5" securitisation consists of property catastrophe, aviation and marine reinsurance risks. In this way we are able to keep our cost of capital low and return on equity high.

Against the backdrop of the current upbeat market conditions in property/casualty and life/health reinsurance, it is our expectation that the positive trend of the current year will be sustained. In 2007 we therefore anticipate another good result – assuming that the major loss expenditure comes in around the multi-year average of 8% of net premium in property and casualty reinsurance and as long as there are no exceptionally adverse developments on the capital markets.

In property and casualty reinsurance we are guided exclusively by profit rather than growth targets. In this respect we seek to increase our operating profit (EBIT) by at least 10% each year. In life and health reinsurance, on the other hand,

we have defined an annual growth target of 12%–15% for both gross premium income and the operating profit (EBIT).

Our return-on-equity target is at least 750 basis points above the risk-free interest rate.

The earnings per share also constitutes a central management ratio and performance indicator for our company: our strategic objective is to increase this key figure by at least 10% every year.

Affiliated companies

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

We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Proposal for the distribution of profits

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

Figures in EUR million	Proposal for the distribution of profits
Allocation to retained earnings	185 000 000.00
Profit carried forward to new account	5 000 000.00
Disposable profit	190 000 000.00

Other information

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

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

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

INDIVIDUAL ACCOUNTS

of Hannover Re

BALANCE SHEET

as at 31 December 2005

Figures in EUR thousand	2005	2004
Assets		
A. Intangible assets:		
Other intangible assets		16 934
B. Investments		
I. Land and buildings, rights to land and buildings, leasehold	63 253	65 649
II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	3 878 955	2 938 683
2. Loans to affiliated companies	708 299	522 887
3. Participating interests	84 521	102 222
4. Loans to enterprises in which the company has a participating interest	2 338	13 196
	4 674 113	3 576 988
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	1 219 312	1 074 780
2. Bearer debt securities and other fixed-income securities	5 403 928	3 959 086
3. Mortgages and loans secured on land and buildings	917	1 578
4. Other loans		
a) Registered debt securities	100 027	91 375
b) Debentures and loans	85 099	272 846
c) Sundry loans	72 013	55 113
	257 139	419 334
5. Deposits with banks	250 673	99 682
6. Other investments	19	5
	7 131 988	5 554 465
IV. Deposits with ceding companies	4 830 073	4 259 778
	16 699 427	13 456 880

Figures in EUR thousand	2005		2004
Liabilities			
A. Capital and reserves			
I. Subscribed capital		120 597	120 597
II. Capital reserve		880 608	880 608
III. Retained earnings			
1. Statutory reserve	511		511
2. Other retained earnings			
as at 1.1.	214 100		
Allocation	185 000		
as at 31.12.		399 100	214 100
		399 611	214 611
IV. Disposable profit		190 000	121 000
			1 590 816
			1 336 816
B. Subordinated liabilities			500 000
			–
C. Technical provisions			
I. Provision for unearned premiums			
1. Gross	1 010 755		902 608
2. Less: reinsurance ceded	277 628		201 560
		733 127	701 048
II. Life assurance provision			
1. Gross	4 097 825		3 280 191
2. Less: reinsurance ceded	973 058		901 563
		3 124 767	2 378 628
III. Provisions for outstanding claims			
1. Gross	11 943 165		8 983 687
2. Less: reinsurance ceded	3 436 241		2 316 493
		8 506 924	6 667 194
IV. Provision for bonuses and rebates			
1. Gross	966		1 594
2. Less: reinsurance ceded	557		732
		409	862
V. Equalisation reserve and similar provisions		1 570 250	1 341 989
VI. Other technical provisions			
1. Gross	125 586		126 500
2. Less: reinsurance ceded	18 911		30 017
		106 675	96 483
			14 042 152
			11 186 204

Figures in EUR thousand	2005	2004
Assets		
C. Receivables		
I. Accounts receivable arising out of reinsurance operations	1 585 896	1 279 777
from affiliated companies:		
295 291 (2004: 179 380)		
II. Other receivables	196 963	282 808
from affiliated companies:		
111 542 (2004: 206 794)		
	1 782 859	1 562 585
D. Other assets		
I. Tangible assets and stocks	7 797	8 968
II. Current accounts with banks, cheques and cash in hand	112 103	85 306
	119 900	94 274
E. Prepayments and accrued income		
I. Accrued interest and rent	85 295	52 331
II. Other accrued income	1 945	2 520
	87 240	54 851
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		
		123 981
		87 551
	18 830 341	15 269 581

Figures in EUR thousand	2005	2004
Liabilities		
D. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	32 176	29 274
II. Provisions for taxation	81 340	82 448
III. Other provisions	65 481	39 502
	178 997	151 224
E. Deposits received from retrocessionaires	1 834 946	1 532 527
F. Other liabilities		
I. Accounts payable arising out of reinsurance operations	422 574	1 019 893
to affiliated companies:		
97 690 (2004: 341 525)		
II. Liabilities to banks	–	2 993
III. Miscellaneous liabilities	260 196	39 106
thereof		
from taxes:		
1 135 (2004: 1 638)		
for social security:		
993 (2004: 818)		
to affiliated companies:		
222 400 (2004: 31 836)		
682 770		1 061 992
G. Accruals and deferred income	660	818
	18 830 341	15 269 581

PROFIT AND LOSS ACCOUNT

for the 2005 financial year

Figures in EUR thousand	2005		2004
	1.1.–31.12.		1.1.–31.12.
I. Technical account			
1. Earned premiums, net of retrocession			
a) Gross written premiums	6 340 396		6 095 233
b) Retrocession premiums	2 007 225		1 961 654
		4 333 171	4 133 579
c) Change in the gross provisions for unearned premiums (+/-)	(5 130)		(88 615)
d) Change in the provisions for unearned provisions, retrocessionaires' share (+/-)	55 724		(14 203)
		50 594	(102 818)
		4 383 765	4 030 761
2. Allocated investment return transferred from the non-technical account, net of retrocession		92 243	64 333
3. Claims incurred, net of retrocession			
a) Claims paid			
aa) Gross	3 060 858		2 935 267
bb) Retrocessionaires' share	1 380 271		1 318 581
		1 680 587	1 616 686
b) Change in provisions for outstanding claims			
aa) Gross	(1 729 481)		(656 203)
bb) Retrocessionaires' share	833 441		(267 719)
		(896 040)	(923 922)
		2 576 627	2 540 608
4. Changes in other technical provisions, net of retrocession			
a) Net life assurance provision	(566 629)		(360 291)
b) Other net technical provisions	1 123		920
		(565 506)	(359 371)
5. Bonuses and rebates, net of retrocession		(27)	(6)
6. Operating expenses, net of retrocession			
a) Gross acquisition expenses	1 502 535		1 394 893
Less: commissions and profit commissions received on retrocession	331 501		394 835
		1 171 034	1 000 058
7. Other technical charges, net of retrocession		2 630	2 624
8. Subtotal		160 238	192 439
9. Change in the equalisation reserve and similar provisions		(228 261)	(232 506)
10. Net technical result		(68 023)	(40 067)

Figures in EUR thousand	2005		2004	
	1.1.–31.12.		1.1.–31.12.	
Balance brought forward			(68 023)	(40 067)
II. Non-technical account				
1. Investment income				
a) Income from participating interest		8 402		177 485
affiliated companies:				
3 140 (2004: 170 090)				
b) Income from other investments				
affiliated companies:				
69 211 (2004: 50 954)				
aa) Income from land and buildings, rights to land and buildings, leasehold	6 239			5 948
bb) Income from other investments	406 617			323 650
		412 856		329 598
c) Appreciation on investments		4 112		4 600
d) Gains on the realisation of investments		817 493		127 081
e) Income from profit pools, profit and loss transfer agreements or partial profit and loss transfer agreements		92 285		24 539
			1 335 148	663 303
2. Investment charges				
a) Investment management charges, including interest		19 454		17 637
b) Depreciation		388 751		40 004
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)				
346 608 (2004: 7 666)				
c) Losses on the realisation of investments		31 214		20 937
			439 419	78 578
			895 729	584 725
3. Allocated investment return transferred to the technical account			(122 040)	(89 692)
			773 689	495 033
4. Other income			64 552	63 577
5. Other charges				
a) Special allocation to provisions for outstanding claims		255 717		235 308
b) Miscellaneous charges		138 381		134 051
			394 098	369 359
			(329 546)	(305 782)
6. Profit or loss on ordinary activities before tax			376 120	149 184

Figures in EUR thousand	2005		2004
	1.1.–31.12.		1.1.–31.12.
Balance brought forward		376 120	149 184
7. Taxes on profit and income	4 853		28 710
plus allocation for group assessment	(3 722)		(1 494)
		1 131	27 216
8. Other taxes	391		1 057
plus allocation for group assessment	1		344
		392	1 401
		1 523	28 617
9. Profit or loss for the financial year		374 597	120 567
10. Profit brought forward from previous year		403	433
11. Allocation to retained earnings: to other retained earnings		185 000	–
12. Disposable profit		190 000	121 000

Valuation of assets

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

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the normal operational useful life.

Property was valued at the purchase or construction cost less scheduled and unscheduled depreciation in accordance with § 253 (2) of the Commercial Code (HGB).

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account write-downs at the lower fair value.

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

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

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

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

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

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

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

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

Valuation of liabilities

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

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

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is 26.01% of the total volume.

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

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

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

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

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

The catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 2005 standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

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

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

The other provisions were established in the amount that will probably be utilised or on the basis of actuarial opinions.

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and made available to the stockholders.

Notes on assets

Figures in EUR thousand	2004		2005			
	Book values 31.12.	Additions	Disposals	Write-ups	Depreciation	Book values 31.12.
A. Intangible assets:						
Other intangible assets	13 440	6 563	–	–	3 069	16 934
B.I. Land and buildings, rights to land and buildings, leasehold	65 649	–	–	–	2 396	63 253
B.II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	2 938 683	2 791 434	1 521 033	–	330 129	3 878 955
2. Loans to affiliated companies	522 887	185 758	3	–	343	708 299
3. Participating interests	102 222	–	4 701	–	13 000	84 521
4. Loans to enterprises in which the company has a participating interest	13 196	4 327	15 185	–	–	2 338
5. Total B.II.	3 576 988	2 981 519	1 540 922	–	343 472	4 674 113
B.III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	1 074 780	851 806	699 247	344	8 371	1 219 312
2. Bearer debt securities and other fixed-income securities	3 959 086	5 204 357	3 726 073	947	34 389	5 403 928
3. Mortgages and loans secured on land and buildings	1 578	–	661	–	–	917
4. Other loans						
a) Registered debt securities	91 375	229 759	221 107	–	–	100 027
b) Debentures and loans	272 846	280 351	468 098	–	–	85 099
c) Sundry loans	55 113	16 900	–	–	–	72 013
5. Deposits with banks	99 682	164 077	13 086	–	–	250 673
6. Other	5	14	–	–	–	19
7. Total B.III.	5 554 465	6 747 264	5 128 272	1 291	42 760	7 131 988
Sum total	9 210 542	9 735 346	6 669 194	1 291	391 697	11 886 288

Land and buildings and rights to land and buildings

On 31 December 2005 the company had at its disposal seven developed properties with business and other buildings in Hannover, Duisburg, Düsseldorf, Bremen, Nuremberg and Kassel as well as one floor of offices in Madrid. The book value of the floor of offices in Madrid amounted to EUR 903 thousand as at 31 December 2005. In addition, the company had shares of EUR 13,197 thousand in two developed properties in Düsseldorf and Stuttgart and a share of EUR 1,252 thousand in land without buildings in Hannover. The book value of the buildings on Roderbruchstraße in Hannover totalled EUR 1,493 thousand as at 31 December 2005.

Shares in affiliated companies and participations

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

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

2005					
Name and registered office of the company Figures in currency units of 1 000	Participation (in %)	Capital and reserves (\$ 266 (3) Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	2 465 000	EUR	92 285
■ holds 55.78% of the shares in:					
E+S Rückversicherung AG, Hannover/Germany		EUR	442 281	EUR	22 000
■ holds 50.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	166 537	AUD	22 834
■ holds 45.00% of the shares in:					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany		EUR	61 000	EUR	987
■ holds 20.01% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany		EUR	70 728 ¹⁾	EUR	7 039 ¹⁾
■ holds 100.00% of the shares in:					
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda		EUR	888 312	EUR	61 278
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	527 938	EUR	40 432
■ holds 100.00% of the shares in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	153 559	EUR	6 572
Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland		EUR	234 083	EUR	29 554

2005

Name and registered office of the company Figures in currency units of 1 000	Participation (in %)	Capital and reserves (\$ 266 (3) Commercial Code)		Result for the last financial year	
Zweite Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100.00	EUR	379 996	EUR	(4)
■ holds 100.00% of the shares in:					
Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland		EUR	183 104	EUR	13 263
Hannover Life Reassurance Company of America, Orlando/USA		USD	113 145	USD	3 406
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	61 000	EUR	987
Oval Office Grundstücks GmbH Hannover/Germany	50.00	EUR	63 092	EUR	1 428
Companies resident abroad					
Hannover Finance (Luxembourg), S.A., Luxembourg/Luxembourg	100.00	EUR	18 842	EUR	(19 089)
Hannover Finance (UK) Limited, Virginia Water/United Kingdom	100.00	GBP	111 084	GBP	(9)
■ holds 100.00% of the shares in:					
Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom		GBP	32 052	GBP	3 121
Hannover Services (UK) Ltd., Virginia Water/United Kingdom		GBP	736	GBP	50
International Insurance Company of Hannover Ltd., Bracknell/United Kingdom		GBP	74 669	GBP	1 328
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	127 629	ZAR	24 450
■ holds 100.00% of the shares in:					
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa		ZAR	84 067	ZAR	15 717
Hannover Reinsurance Africa Limited, Johannesburg/South Africa		ZAR	448 788	ZAR	71 919
■ holds 100.00% of the shares in:					
Compass Insurance Company Limited, Johannesburg/South Africa		ZAR	54 212	ZAR	8 561
■ holds 51.00% of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	43 081	ZAR	11 889

2005

Name and registered office of the company Figures in currency units of 1 000	Participation (in %)	Capital and reserves (\$ 266 (3) Commercial Code)	Result for the last financial year
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.51	USD 131 776	USD 3 700
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD 166 537	AUD 22 834
Hannover Finance, Inc., Wilmington/USA	100.00	USD 683 778	USD (63 685)
■ holds 100.00% of the shares in:			
Clarendon Insurance Group, Inc., Wilmington/USA		USD 508 025	USD (57 454)
■ holds 100.00% of the shares in:			
Clarendon National Insurance Company, Trenton/USA		USD 472 445	USD 25 307
■ holds 100.00% of the shares in:			
Clarendon America Insurance Company, Trenton/USA		USD 196 121	USD 11 633
Clarendon Select Insurance Company, Tallahassee/USA		USD 29 935	USD (356)
Harbor Specialty Insurance Company, Trenton/USA		USD 30 962	USD (7 799)
■ holds 100.00% of the shares in:			
Praetorian Financial Group, Inc. Wilmington/USA		USD 407 699	USD 1 324
■ holds 100.00% of the shares in:			
Redland Insurance Company, Council Bluffs/USA		USD 34 492	USD (1 820)
Insurance Corporation of Hannover, Itasca/USA		USD 373 207	USD 3 144
Participations			
ITAS Vita S.p.A., Trento/Italy	34.88	EUR 64 711	EUR 6 813
ITAS Assicurazioni S.p.A., Trento/Italy	43.74	EUR 55 981	EUR 2 425
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany	25.00	EUR 76 654 ¹⁾	EUR 6 857 ¹⁾
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	20.00	EUR 70 728 ¹⁾	EUR 7 039 ¹⁾

¹⁾ Financial year ending 31 December 2004

Other notes on investments

Assets with a balance sheet value of EUR 3,782,509 (2004: 2,510,468) thousand were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties. A guarantee fund of EUR 160 thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings for 2005 were determined using the gross rental method. In individual cases book values were used.

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

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

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

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

Figures in EUR thousand		2005		
Fair values pursuant to § 54 RechVersV of asset items B.I. bis B.III.		Book value 31.12.	Fair value 31.12.	Difference 31.12.
B.I.	Land and buildings, rights to land and buildings, leasehold	63 253	90 555	27 302
B.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	3 878 955	4 472 919	593 964
	2. Loans to affiliated companies	708 299	708 359	60
	3. Participating interests	84 521	98 414	13 893
	4. Loans to enterprises in which the company has a participating interest	2 338	2 338	–
	5. Total B. II.	4 674 113	5 282 030	607 917
B.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	1 219 312	1 415 043	195 731
	2. Bearer debt securities and other fixed-income securities	5 403 928	5 414 758	10 830
	3. Mortgages and loans secured on land and buildings	917	917	–
	4. Other loans			
	a) Registered debt securities	100 027	100 777	750
	b) Debentures and loans	85 099	89 642	4 543
	c) Sundry loans	72 013	77 960	5 947
	5. Deposits with banks	250 673	250 673	–
	6. Other investments	19	19	–
	7. Total B. III.	7 131 988	7 349 789	217 801
	Total	11 869 354	12 722 374	853 020

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

Of the units in unit trusts totalling EUR 1,103,312 (2004: 898,480) thousand shown under the "Other investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 664,985 (558,631) thousand was allocated to fixed assets. The fair value amounts to EUR 788,850 (647,885) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 4,191 (8,047) thousand were not taken.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 542,642 (456,767) thousand and a fair value of EUR 520,497 (445,249) thousand were allocated to fixed assets. Write-downs of EUR 24,366 (13,238) thousand were not taken since a permanent impairment is not anticipated.

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

As at 31 December 2005 the portfolio contained 530 short calls on the S&P 500 share index. The underlying volume of these contracts amounted to EUR 58,222 thousand and constituted 50% of our holding of USD-denominated equities. These derivative financial instruments were recognised under other liabilities and valued at an acquisition cost of altogether EUR 1,812 thousand in accordance with the inequality principle. The fair value of this item on the balance sheet date stood at EUR 1,209 thousand.

Of the total fees paid to the auditor, EUR 709 thousand related to the audit of the financial statements, EUR 196 thousand to tax consulting and EUR 117 thousand to other services.

Other receivables

Figures in EUR thousand	2005	2004
Receivables from affiliated companies	111 542	206 794
Claims from settlement of the purchase price of a participation	26 419	13 482
Receivables from the revenue authorities	25 429	33 939
Receivables from reinsured pension schemes	24 777	21 804
Advance payments on acquisition of participations	6 224	–
Receivables from representative offices	584	407
Receivables from securities transactions	–	2 482
Receivables from banks on the sale of securities	–	914
Interest and rent due	57	442
Other receivables	1 931	2 544
Total	196 963	282 808

Treasury shares

By a resolution of the Annual General Meeting of Hannover Rückversicherung AG adopted on 14 June 2005, the company was authorised until 30 November 2006 to acquire treasury shares of up to 10% of the capital stock existing on the date of the resolution. The company did not hold fully paid, no-par-value treasury shares within the financial year just-ended or as at 31 December 2005.

Accruals and deferred income

Figures in EUR thousand	2005	2004
Accrued interest and rent	85 294	52 331
Accrued administrative expenses	1 744	2 288
Deferred premium on bonds	58	74
Other	144	158
Total	87 240	54 851

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

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 123,981 (87,551) thousand. Of this amount, EUR 66,228 (EUR 46,418) thousand was attributable to corporation tax including the German reunification charge and EUR 57,753 (41,133) thousand to trade tax.

Notes on liabilities

Subscribed capital

The company's subscribed capital remained unchanged as at 31 December 2005 in the amount of EUR 120,597 thousand. It is divided into 120,597,134 no-par-value registered shares.

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

Capital reserve

The company's capital reserve remained unchanged as at 31 December 2005 in the amount of EUR 880,608 thousand.

Retained earnings

An amount of EUR 185,000 thousand was allocated to retained earnings from the profit for the financial year.

Subordinated liabilities

Under a loan agreement dated 7 June 2005 Hannover Finance (Luxembourg) S.A. granted Hannover Re a junior loan of EUR 500,000 thousand at an interest rate of 5.11% and with a term until 27 May 2015.

Provision for unearned premiums

Figures in EUR thousand	2005		2004	
	gross	net	gross	net
Insurance line				
Fire	195 461	118 201	165 280	123 029
Casualty	297 367	233 604	300 921	246 954
Personal accident	11 310	9 021	10 211	7 917
Motor	108 022	71 442	81 075	61 427
Aviation	147 894	117 774	133 658	106 938
Life	57 936	48 436	49 026	40 869
Other lines	192 765	134 649	162 437	113 914
Total	1 010 755	733 127	902 608	701 048

Life assurance provisions

Figures in EUR thousand	2005		2004	
	gross	net	gross	net
Insurance line				
Personal accident	1 025	997	1 149	1 128
Life	4 062 644	3 093 798	3 249 319	2 351 907
Other lines	34 156	29 972	29 723	25 593
Total	4 097 825	3 124 767	3 280 191	2 378 628

Provisions for outstanding claims

Figures in EUR thousand	2005		2004	
	gross	net	gross	net
Outstanding loss reserve				
Fire	1 382 201	862 730	946 644	596 138
Casualty	4 301 636	3 406 062	3 545 346	2 780 039
Personal accident	115 720	91 032	99 311	79 178
Motor	1 529 244	1 295 091	1 370 733	1 176 080
Aviation	906 171	585 159	785 937	475 788
Marine	992 429	617 703	516 293	313 047
Life	562 683	505 722	469 675	353 581
Other lines	2 146 680	1 137 372	1 243 102	886 958
	11 936 764	8 500 871	8 977 041	6 660 809
Provision for annuities				
Casualty	661	599	623	569
Personal accident	1 441	1 439	1 645	1 643
Motor	4 299	4 015	4 378	4 173
	6 401	6 053	6 646	6 385
Total	11 943 165	8 506 924	8 983 687	6 667 194

Equalisation reserve and similar provisions

Figures in EUR thousand		2005		
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	135 310	868	2 225	133 953
Casualty	357 802	98 436	–	456 238
Personal accident	48 604	7 087	–	55 691
Motor	114 570	70 187	186	184 571
Aviation	144 827	63 105	2 994	204 938
Marine	100 000	–	100 000	–
Other lines	364 631	191 420	120 563	435 488
	1 265 744	431 103	225 968	1 470 879
Provisions which are similar to the equalisation reserve – major risks –				
Fire	33 452	14 042	–	47 494
Casualty	9 164	2 650	–	11 814
Personal accident	128	102	–	230
Motor	48	19	–	67
Aviation	–	99	–	99
Marine	1 751	792	–	2 543
Other lines	31 702	5 422	–	37 124
Total	1 341 989	454 229	225 968	1 570 250

Other technical provisions

Figures in EUR thousand		2005		2004	
Type of provisions	gross	net	gross	net	
Profit commission	122 575	103 231	122 052	92 206	
Commission	2 964	3 411	3 278	3 120	
Premium cancellation	47	33	1 170	1 157	
Total	125 586	106 675	126 500	96 483	

Technical provisions – total

Figures in EUR thousand	2005		2004	
	gross	net	gross	net
Insurance line				
Fire	1 779 809	1 179 769	1 301 392	901 082
Casualty	5 124 447	4 155 404	4 266 008	3 437 738
Personal accident	185 658	158 630	161 723	139 163
Motor	1 834 700	1 562 403	1 579 331	1 361 884
Aviation	1 265 888	913 022	1 070 041	731 665
Marine	1 000 351	624 571	623 261	418 993
Life	4 687 868	3 651 704	3 778 974	2 755 166
Other lines	2 869 826	1 796 649	1 855 839	1 440 513
Total	18 748 547	14 042 152	14 636 569	11 186 204

Provisions for other risks and charges

Figures in EUR thousand	2005	2004
Provisions for pension and similar liabilities	32 176	29 274
Provision for taxation	81 340	82 448
Sundry provisions		
Provisions for currency risks	29 037	12 142
Provisions for interest and similar charges	11 400	9 924
Provisions for outstanding payments	8 152	8 410
Provisions for annual accounts costs	2 498	2 978
Provisions for partial retirement	1 363	1 148
Provisions for litigation risks	297	641
Provisions for costs of legal action	175	629
Provision for suppliers' invoices	2 115	488
Other provisions	10 444	3 142
	65 481	39 502
Total	178 997	151 224

Miscellaneous liabilities

Figures in EUR thousand	2005	2004
Accounts due to affiliated companies	222 400	31 836
Liabilities from misdirected payments	29 579	–
Liabilities from deliveries and services	1 890	2 442
Liabilities from interest and LOC	1 951	2 171
Liabilities from securities transactions	1 812	–
Liabilities in respect of the revenue authorities	1 135	1 638
Liabilities from outstanding social security contributions	993	818
Liabilities in respect of permanent establishments	189	44
Liabilities under lease agreements	78	76
Other liabilities	169	81
Total	260 196	39 106

Deferred items

Figures in EUR thousand	2005	2004
Long-term tenancy rights	558	680
Disagio	13	44
Other accruals and deferred income	89	94
Total	660	818

Contingent liabilities

We have secured through guarantees a surplus note in the amount of USD 400.0 million issued in 1999 with a term of 40 years by our subsidiary Hannover Finance, Inc., Wilmington/USA. In the previous and current financial years we bought back amounts of USD 370.0 million and USD 10.0 million respectively, leaving an amount of USD 20.0 million still secured by the guarantees.

We have also secured through guarantees a debt issued in 2001 by our subsidiary Hannover Finance (Luxembourg) S.A., the volume of which now stands at EUR 138.1 million, a debt issued in the previous year in the amount of EUR 750.0 million and a debt issued in the current financial year in the amount of EUR 500.0 million.

As part of the sale of the participation held in Willy Vogel AG through Willy Vogel Beteiligungsgesellschaft mbH in 2004, we provided a joint and several guarantee with the other partners for a total amount of EUR 7.1 million as security to cover possible guarantee claims.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount. As at the balance sheet date the estimated amount of the reinsurance commitments was EUR 27.7 million.

Liabilities for remaining calls existed with respect to shares in affiliated companies and special investments in a total amount of EUR 233.4 (232.4) million.

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

Events subsequent to the balance sheet date

Effective 1 January 2006 we securitised reinsurance risks with a volume of USD 370 million under non-proportional treaties in the property catastrophe, aviation and marine lines and transferred them to the capital market through a Bermuda-based special purpose entity in which we have held a majority interest since 1 January 2006.

Notes on the profit and loss account

Figures in EUR thousand	2005	2004	2005	2004	2005	2004	2005	2004
	Gross written premium		Gross premium earned		Net premium earned		Technical result for own account	
Fire	893 536	812 032	879 848	827 337	566 666	490 726	(40 064)	(21 469)
Casualty	1 095 488	1 304 066	1 139 680	1 233 222	919 148	986 339	88 833	(61 597)
Personal accident	118 582	96 888	117 583	98 510	83 332	80 224	10 264	4 880
Motor	623 402	580 805	605 222	572 915	458 740	439 220	4 261	(30 048)
Aviation	429 804	440 530	434 241	407 703	289 667	252 657	53 873	42 459
Marine	368 116	319 643	368 116	319 643	256 137	170 834	(68 358)	44 181
Other lines	1 169 225	1 178 027	1 154 016	1 178 770	776 845	681 247	(126 170)	31 619
Total property	4 698 153	4 731 991	4 698 706	4 638 100	3 350 535	3 101 247	(77 361)	10 025
Life	1 642 243	1 363 242	1 636 560	1 368 518	1 033 230	929 514	9 338	(50 092)
Total insurance business	6 340 396	6 095 233	6 335 266	6 006 618	4 383 765	4 030 761	(68 023)	(40 067)

Total insurance business

Figures in EUR thousand	2005	2004
Gross claims incurred	4 790 339	3 591 470
Gross operating expenses	1 502 535	1 394 893
Reinsurance balance	(593 712)	530 160

Expenses for personnel

Figures in EUR thousand	2005	2004
1. Wages and salaries	36 653	35 140
2. Social security payments and expenses for welfare	6 169	5 754
3. Expenses for old-age pension scheme	1 453	640
4. Total expenses	44 275	41 534

Expenses for investments

Figures in EUR thousand	2005	2004
Fixed-income securities	47 474	25 475
Shares, units in unit trusts, participating interests	17 584	19 066
Administrative expenses	15 008	12 490
Futures and options contracts	7 173	1 368
Land and buildings	5 052	6 206
Deposit and bank fees	1 790	3 115
Registered bonds and other loans	1 660	–
Deposits	123	8 758
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	343 555	2 100
Total	439 419	78 578

Other income

Figures in EUR thousand	2005	2004
Exchange rate gains	22 936	13 535
Cancellation of value adjustments	19 313	14 245
Profit from services	5 892	9 188
Income from winding up of a trust account	5 072	–
Allocated investment return	4 235	3 033
Reimbursement of expenses	1 504	2 876
Release of non-technical provisions	1 235	1 202
Profit from clearing transactions	2 026	245
Payment for renewal rights	997	17 333
Amounts realised	3	65
Other income	1 339	1 855
Total	64 552	63 577

Other expenses

Figures in EUR thousand	2005	2004
Allocation to the provisions for outstanding claims	255 717	235 308
Deposit interest	59 691	46 013
Exchange rate losses	25 691	28 304
Separate value adjustment on accounts receivable	17 842	15 472
Expenses for the whole company	15 772	17 421
Financing interest	14 995	23 707
Financing charges	14 663	–
Expenses for letters of credit	6 620	5 236
Expenses from services	5 882	8 368
Interest charges on old-age pension scheme	1 779	1 646
Allocation to interest provisions	1 532	4 949
Interest charges from reinsurance transactions	759	1 615
Interest charges on surplus debenture (Genussrechtskapital)	–	4 841
Other interest and expenses	2 952	1 838
	423 895	394 718
Less: Technical interest	29 797	25 359
Total	394 098	369 359

Other information

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

Emoluments of EUR 430 thousand were received by the Supervisory Board and EUR 2,603 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to EUR 520 thousand, and a liability of EUR 6,110 thousand was entered.

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

Figures in EUR thousand	2005				
	Position as at 1.1.2005	Addition	Repayment	Position as at 31.12.2005	Interest rate in %
Executive Board	84	–	84	–	5.0

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

The average number of employees was 614 in the financial year.

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

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

Hannover, 21 March 2006

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the Hannover Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2005. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 21 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl
Wirtschaftsprüfer

Schuster
Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

of Hannover Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2005 financial year – as in previous years – the position and development of the company. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board held four meetings in order to adopt the necessary resolutions. Resolutions were adopted by a written procedure with respect to two matters requiring attention at short notice. The Standing Committee and the Balance Sheet Committee, both committees formed by the Supervisory Board within the meaning of § 107 Para. 3 of the Stock Corporation Act (AktG), met on three and two occasions respectively. The Chairman of the Supervisory Board updated the full Supervisory Board on the Committees' major deliberations at its next meeting. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the Group pursuant to § 90 of the Stock Corporation Act (AktG). These reports contain, inter alia, up-to-date details of the current planned and expected figures for the individual business groups. The reporting also covers strains from major losses as well as the investment portfolio, investment income, ratings and the increase in the Group's global workforce. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constitute a further important source of information for the Supervisory Board. In addition, the Chairman of the Supervisory Board was constantly advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

The Executive Board explained to us the profit expected for the 2005 financial year as well as the operational planning for the 2006 financial year. The focus here was on the strains associated with hurricanes "Katrina" and "Rita" and the resulting implications for our future strategy with respect to the reinsurance of natural catastrophe risks.

As part of its discussion of important individual projects the Supervisory Board considered, inter alia, the issue of subordinated debt by the subsidiary Hannover Finance (Luxembourg) S.A. in the amount of EUR 500 million. Issued in a highly favourable financing climate, the loan served to replace as far as possible a subordinated debt of EUR 350 million issued in 2001 with a term of 30 years and to further reinforce the Group's strong capital base. The reorganisation of the Group's primary insurance activities in the USA was also discussed at considerable length. The strategic shift at the Clarendon Insurance Group envisages the run-off of existing program business and a focus on profitable specialty business. The Supervisory Board expressly welcomes this realignment of business policy and the resulting restructuring activities.

The Supervisory Board also paid close attention to the development of the Group's other major subsidiaries and participations. With a view to unifying the Group's market presence and sales activities, the Supervisory Board gave the green light to the reorganisation of financial reinsurance operations in Ireland. The ultimate goal here is to bring together all the Group's activities in a single company. The Supervisory Board also approved the inclusion of two life reinsurance subsidiaries in a special "Beteiligungs-GmbH". Capital measures at various subsidiaries were discussed, including for example capital increases of EUR 65 million at Hannover Life Reassurance (Ireland) Ltd. and USD 25 million at Hannover Life Reassurance Company of America. Both these capital measures will safeguard the companies' growth and satisfy more exacting market requirements with respect to ratings and solvency. In this context we also examined and assessed the issue of capital tie-up at the subsidiaries and the flexibility of capital repatriation.

With the aid of specialist analyses the Supervisory Board took an in-depth look at financial reinsurance, which has come in for heavy criticism especially in the USA. On the basis of extensive information provided by the Executive Board, the Supervisory Board satisfied itself that in this business group too the worldwide activities conducted by the Hannover Re Group are in conformity with legal standards.

In its reporting on the current year the Executive Board intends to respond to a desire expressed by the Supervisory Board at its last meeting of 2005 for a comprehensive description of reserving and retrocession practice.

The Rules of Procedure for the Executive Board were again reviewed and the list of investment-related measures and transactions requiring approval was updated. As is the case every year, the Supervisory Board was also provided with details of significant pending legal procedures. The Supervisory Board again devoted considerable attention to the issue of Corporate Governance. Against the backdrop of new legal provisions, including for example the Investor Protection Improvement Act (Anleger-schutzverbesserungsgesetz), Hannover Re's Corporate Governance principles were updated. With an eye to the amendment of Item 5.4.2 of the German Corporate Governance Code, the Supervisory Board determined that four of the six shareholders' representatives are "independent" as defined by the Code. In the opinion of the Supervisory Board it therefore includes a sufficient number of independent members. The considerable importance attached to the standards of good and responsible enterprise management set out in the Corporate Governance Code is also evident from the declaration of conformity given by the Executive Board and Supervisory Board pursuant to § 161 of the Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code. The company fails to comply with the recommendations of the Code only with respect to the individualised specification of compensation received by members of the Executive Board and Supervisory Board. The reader is further referred to the Corporate Governance report printed in this annual report and the company's publications in the Internet.

The accounting, the annual financial statements and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. The Supervisory Board selected the auditor for the 2005 audit and the Chairman of the Supervisory Board awarded the concrete audit mandate. In addition to the usual audit tasks, the audit focused particularly on the handling of current account transactions with ceding companies and retrocessionaires – including transactions within the Group – and the impairment of deferred tax assets. Collaboration with the auditors took place on a trusting and cooperative basis. The special challenges associated with the international aspects of the audit were met without reservation. Since the audit did not give rise to any objections KPMG DTG issued an unqualified audit certificate. The Balance Sheet Committee discussed the annual financial statements and the management report at a meeting attended by the auditors. The auditors' report was distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors were present at the Annual General Meeting.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG DTG and given the following unqualified audit certificate:

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

1. its factual details are correct;
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

We have examined

- a) the annual financial statements of the company and the management report prepared by the Executive Board,
- b) the consolidated financial statements of the Hannover Re Group and the Group management report prepared by the Executive Board and
- c) the report of the Executive Board pursuant to § 312 of the Stock Corporation Act (AktG) (report on relations with affiliated companies)

– in each case drawn up as at 31 December 2005 and awarded the auditors' unqualified audit certificate – and have no objections. The Supervisory Board has thus approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2005.

Hannover, 22 March 2006

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

DECLARATION of conformity

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

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied. Implementation of the recommendations by Hannover Rückversicherung AG diverges from the German Corporate Governance Code (amended version of 2 June 2005) in the following respects:

Individualised specification of compensation received by the Executive Board and Supervisory Board (Code Items 4.2.4 Sentence 2 and 5.4.7 Para. 3, Sentence 1)

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

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

Hannover, 15 November 2005

Executive Board

Supervisory Board

GLOSSARY

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

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

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

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

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

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

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

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

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

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

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

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

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

pany furnishing the collateral shows a deposit with a ceding company.

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

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

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

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

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

Expense ratio: administrative expenses in relation to the (gross or net) premium written.

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

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

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

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

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

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

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

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

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

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

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

Life business: this term is used to designate business activities in our life and health reinsurance business group.

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and speciality insurance.

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

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

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while

maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

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

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

Primary insurer: cf. → direct insurer

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

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

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

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

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

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

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

Treaty reinsurance: cf. → obligatory reinsurance

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

Unearned premium reserve: cf. → provision for unearned premium

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

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