

Offering Circular dated 1 June 2005

Hannover Finance (Luxembourg) S.A.

(a corporation organised as a "société anonyme" under the laws of the Grand Duchy of Luxembourg, having its registered office at 25A, Boulevard Royal, L-2449 Luxembourg and registered with the Luxembourg Register for Commerce and Companies under number B 80692)

€500,000,000 Undated Guaranteed Subordinated Fixed to Floating Rate Callable Bonds of 2005



Hannover Rückversicherung AG

(incorporated as a stock corporation under the laws of the Federal Republic of Germany and limited in its liability in accordance with German Stock Corporations law)

Issue Price 99.546 per cent.

Hannover Finance (Luxembourg) S.A. (the "Issuer") will issue €500,000,000 nominal amount of Undated Guaranteed Subordinated Fixed to Floating Rate Callable Bonds (the "Bonds") on 1 June 2005 at an issue price of 99.546 per cent. of the nominal amount of such Bonds. €240,581,000 of the Bonds will be issued in exchange for €211,850,000 Guaranteed Subordinated Fixed to Floating Rate Bonds of 2001/2031 pursuant to an exchange offer which ended on 25 May 2005. The remaining €259,419,000 Bonds will be issued for cash.

The Bonds will bear interest from and including 1 June 2005 to but excluding 1 June 2015 at a rate of 5 per cent. per annum, payable annually in arrear on 1 June in each year, commencing 1 June 2006. Thereafter, unless previously redeemed, the Bonds will bear interest at a rate of 2.68 per cent. per annum above the Euro-zone inter-bank offered rate for three-month Euro deposits, payable quarterly in arrear on 1 September, 1 December, 1 March and 1 June in each year (each a "Floating Interest Payment Date"), commencing on 1 September 2015.

Under certain circumstances, the Issuer may elect to suspend any interest payment; suspended interest payments will not accumulate and will not be paid at a later point in time (all as more particularly described in "Terms and Conditions of the Bonds – Interest"). For a discussion of certain factors regarding the Bonds which should be considered by prospective purchasers, see "Investment Considerations".

The Bonds are undated and the Bondholders shall have no right to call for their redemption. The Bonds are redeemable in whole but not in part at the option of the Issuer at their principal amount together with any interest accrued thereon (the "Redemption Amount") on 1 June 2015 and on any Floating Interest Payment Date thereafter. The Issuer may also redeem the Bonds in whole but not in part at any time before 1 June 2015 following a Gross-up Event at their Redemption Amount and, after 1 June 2010, following a Tax Event or a Regulatory Event (each as defined herein) at their Early Redemption Amount (as defined herein). Any redemption by the Issuer will be subject to the prior replacement of the amount of Bonds to be redeemed with other at least equivalent own funds (*Eigenmittel*) or if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) has given its prior consent to the redemption of the Bonds without such replacement.

The obligations of the Issuer under the Bonds constitute unsecured and undated subordinated obligations of the Issuer ranking *pari passu* among themselves and shall be subordinated to all unsubordinated and subordinated obligations of the Issuer, except as otherwise required by mandatory statutory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Issuer, the obligations of the Issuer under the Bonds will be subordinated to all unsubordinated and subordinated obligations of the Issuer so that in any such event payments shall not be made under the Bonds until all claims against the Issuer which pursuant to the first sentence of this paragraph are expressed to rank senior to the obligations of the Issuer under the Bonds shall first have been satisfied in full; only after all of the aforementioned claims shall first have been satisfied any remaining assets may be distributed to the holders of any preference shares as well as the common shares of the Issuer.

Hannover Rückversicherung AG ("Hannover Re" or the "Guarantor") has given an unconditional and irrevocable Guarantee on a subordinated basis for the due payment of principal of, and interest on, and any other amounts expressed to be payable in respect of the Bonds. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Guarantor, the obligations of the Guarantor under the Guarantee will be satisfied only after all claims against the Guarantor which are expressed pursuant to the Guarantee to rank senior to the obligations of the Guarantor under the subordinated Guarantee shall first have been satisfied in full. Any remaining assets may only be distributed to the holders of any preference shares as well as common shares of the Guarantor after all of the aforementioned claims have first been satisfied.

Application has been made to list the Bonds on the Luxembourg Stock Exchange.

The Bonds are expected to be rated A by Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation.

The Bonds are undated and the Bondholders shall have no right to call for their redemption. The Bonds will form part of the regulatory own funds of the Guarantor, the Hannover Re Group and the group of which the Guarantor is a member, and as such, it is the Issuer's intention to redeem the Bonds only to the extent that the Issuer or any of its financing subsidiaries has, in the period of six months preceding such redemption, raised funds in the aggregate principal amount of the Bonds by the issuance and sale of any ordinary shares or capital at least equivalent to the Bonds.

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this offering circular (the "Offering Circular"). To the best of their knowledge and belief the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each of the Issuer and the Guarantor further confirms that (i) this Offering Circular contains all information with respect to the Issuer and the Guarantor as well as to the Guarantor and its subsidiaries and affiliates taken as a whole (the "Hannover Re Group") and to the Bonds and the Guarantee which is material in the context of the issue and offering of the Bonds and the Guarantee, including all information which, according to the particular nature of the Issuer and the Guarantor and of the Bonds and the Guarantee is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Guarantor and of the rights attached to the Bonds and the Guarantee; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Hannover Re Group, the Bonds and the Guarantee are in every material particular true and accurate and not misleading; (iii) there are no other facts in relation to the Issuer, the Guarantor, the Hannover Re Group, the Bonds or the Guarantee the omission of which would, in the context of the issue and offering of the Bonds, make any statement in the Offering Circular misleading in any material respect and (iv) reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements.

No person is authorised to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or J.P. Morgan Securities Ltd. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor or any of their affiliates since the date of this Offering Circular, or that the information herein is correct at any time since its date.

Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and the Guarantor. This Offering Circular does not constitute an offer of Bonds or an invitation by or on behalf of the Issuer, the Guarantor or J.P. Morgan Securities Ltd. to purchase any Bonds. Neither this Offering Circular nor any other information supplied in connection with the Bonds should be considered as a recommendation by the Issuer, the Guarantor or J.P. Morgan Securities Ltd. to a recipient hereof and thereof that such recipient should purchase any Bonds. This Offering Circular may not be used for or in connection with any offer or invitation in any jurisdiction or in any circumstances in which such offer or invitation is unlawful or unauthorised.

This Offering Circular does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The offer, sale and delivery of the Bonds and the distribution of this Offering Circular in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and J.P. Morgan Securities Ltd. to inform themselves about and to observe any such restrictions. For a description of certain specific restrictions on the offer, sale and delivery of the Bonds and on the distribution of this Offering Circular and other offering material relating to the Bonds, see "Subscription and Sale". In particular, the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and are subject to U.S. tax

law requirements. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons.

In this Offering Circular, all references to "€", "EUR" or "euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union, the Treaty of Amsterdam and as further amended from time to time.

In connection with the issue of the Bonds, J.P. Morgan Securities Ltd. or any person acting for it may over-allot or effect transactions with a view to supporting the market price of The Bonds at a level higher than that which would otherwise prevail for a limited period. However, there is no obligation on J.P. Morgan Securities Ltd. or any agent of it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, rules and regulations.

Incorporation by Reference

The 2003 and 2004 annual reports of the Hannover Re Group including the 2003 and 2004 audited unconsolidated financial statements of the Guarantor and the 2003 and 2004 audited consolidated financial statements of the Hannover Re Group as well as the 2003 and 2004 audited financial statements of the Issuer and the articles of association of the Guarantor are incorporated by reference into this Offering Circular. The audited consolidated financial statements for the business year ended 31 December 2004 of Hannover Re Group and the unaudited consolidated interim financial statements for the three months ended 31 March 2005 are included in this Offering Circular. The documents incorporated by reference and the financial statements of the Issuer and the Hannover Re Group for all subsequent years (such future financial statements not being incorporated into this Offering Circular by reference) may be inspected and are available free of charge at J.P. Morgan Bank Luxembourg S.A. as long as any Bonds are listed on the Luxembourg Stock Exchange and the rules of such stock exchange so require.

TABLE OF CONTENTS

Investment Considerations	5
Terms and Conditions.....	7
Use of Proceeds.....	28
Description of the Issuer	29
Description of the Guarantor	32
Extract From the un-audited Consolidated Quarterly Accounts of Hannover Re Group as at 31 March 2005.....	46
Audited Consolidated Financial Statements of Hannover Re Group as at 31 December 2004.....	47
Audited Consolidated Financial Statements of Hannover Re Group as at 31 December 2003	89
Taxation.....	98
Subscription and Sale	102
General Information.....	105

INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the Bonds of which prospective investors should be aware. This summary is not intended to be exhaustive and does not impose any limitation on the rights and duties created by the Terms and Conditions of the Bonds. Prospective investors should carefully consider this summary in conjunction with the other information contained herein.

Perpetual securities

The Issuer is under no obligation to redeem the Bonds at any time and the Bondholders (as defined in § 2 (1) of the Terms and Conditions) have no right to call for their redemption.

Redemption risk

The Bonds have no final maturity date. The Bonds may be redeemed at the option of the Issuer (in whole but not in part) at par plus accrued interest, if any (the "Redemption Amount"), on 1 June 2015 or on any Floating Interest Payment Date (as defined in § 3 (2) (b) of the Terms and Conditions) thereafter. The Bonds will be subject to early redemption at the Early Redemption Amount (in whole but not in part) following a Gross-up Event and, after 1 June 2010, at the greater of the Redemption Amount and the Make-Whole Amount at any time at the option of the Issuer following a Regulatory Event or a Tax Event (all terms as defined in § 4 of the Terms and Conditions). For regulatory reasons any early redemption will be subject to the Guarantor or any of its subsidiaries replacing the principal to be redeemed by other at least equivalent regulatory own funds or the prior approval of the competent regulator having been obtained, all as more fully described in the Terms and Conditions.

No limitation on issuing debt

There is no restriction on the amount of liabilities which the Issuer or the Guarantor may issue which rank senior to the Bonds or on the amount of liabilities which the Issuer or the Guarantor may issue which rank *pari passu* with the Bonds. The occurrence of such may reduce the amount recoverable by Bondholders on a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against, the Issuer or the Guarantor or may increase the likelihood that the Issuer may elect to suspend payments of interest under the Bonds.

Subordination

The Bonds and the Guarantor's obligations under the Guarantee will be undated subordinated obligations of the Issuer and the Guarantor, respectively. Upon the occurrence of any winding-up proceedings of the Issuer or the Guarantor, payments on the Bonds or the Guarantee, respectively, will be subordinated in right of payment to the prior payment in full of all other liabilities of the Issuer and the Guarantor. In a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against, the Issuer or the Guarantor, the Bondholders may recover proportionately less than the holders of unsubordinated and subordinated liabilities of the Issuer or the Guarantor, as the case may be.

In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Issuer which occurs in connection with a dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Guarantor, the amount paid to the Bondholders per Bond shall not exceed the amount such Bondholders would have been paid as a liquidation distribution out of the assets of the Guarantor had the Bonds been securities of the Guarantor (whether or not the Guarantor could in fact have issued such securities at such time).

Payments on the Bonds (including repurchases and redemptions) may only be made if the Guarantor's solvency margin, capital adequacy ratios or comparable margins or ratios at the date of payment is not or as a result of such payment would not become less than the relevant minimum requirement applicable at that time.

The Bondholders explicitly accept that, in the circumstances described above, payments in respect of the Bonds or the Guarantee, respectively, will be made by the Issuer and by the

Guarantor pursuant to the Guarantee only in accordance with the subordination described above.

Suspension of Interest Payments

Bondholders should be aware that pursuant to § 3 (3) of the Terms and Conditions the Issuer is entitled to suspend interest if (i) no dividend was declared in respect of any class of shares of the Guarantor at the ordinary general meeting of shareholders (*ordentliche Hauptversammlung*) (the "General Meeting") of the Guarantor immediately preceding that Interest Payment Date, (ii) no payment on account of the balance sheet profit has been made since that General Meeting, and (iii) no payment has been made by the Issuer, the Guarantor or any of their respective subsidiaries in respect of any security issued by any of them which ranks *pari passu* with or junior to the Bonds during the 12 months preceding the Interest Payment Date, provided that any payments made on silent partnership interests and preference shares during that period will not affect the right of the Issuer to suspend a payment of interest.

Pursuant to § 3 (4) of the Terms and Conditions, the Issuer must suspend payment of interest if (a) the Guarantor's solvency margin, capital adequacy ratios or comparable margins or ratios is or as a result of a payment of interest would become less than the relevant minimum requirement in accordance with the provisions of German insurance regulatory law and a generally recognized administrative practice of the then competent German insurance regulator, if any, applicable at that time, or (b) an order by the then competent German insurance regulator is in effect prohibiting the Guarantor from paying interest or other distributions (including to the holders of any security which ranks *pari passu* with or junior to the Bonds).

Suspended interest payments will not accumulate and will therefore not be paid at a later point in time.

TERMS AND CONDITIONS

The German version of the Terms and Conditions is the only legally binding version. The English translation is for convenience only.

Anleihebedingungen

Terms and Conditions

§ 1

(Verbriefung und Nennbetrag)

§ 1

(Form and Denomination)

(1) Wahrung, Nennbetrag und Form.

Die Hannover Finance (Luxembourg) S.A. (die „**Emittentin**“) begibt unter der Garantie der Hannover Ruckversicherung Aktiengesellschaft (die „**Garantin**“) am 1. Juni 2005 (der „**Begebungstag**“) auf den Inhaber lautende, garantierte, nachrangige, fest- bis variabel verzinsliche Schuldverschreibungen (die „**Schuldverschreibungen**“) im Nennbetrag von je € 1.000 (der „**Nennbetrag**“) und im Gesamtnennbetrag von € 500.000.000,00.

(1) Currency, Denomination and Form.

Hannover Finance (Luxembourg) S.A. (the „**Issuer**“) issues on 1 June 2005 (the „**Issue Date**“) under the guarantee of Hannover Ruckversicherung Aktiengesellschaft (the „**Guarantor**“) guaranteed subordinated fixed to floating rate bearer bonds (the „**Bonds**“) in a denomination of € 1,000 each (the „**Denomination**“) in the aggregate principal amount of € 500,000,000.00.

(2) Globalurkunden und Austausch.

Die Schuldverschreibungen werden zunachst in einer vorlaufigen Globalinhaberschuldverschreibung (die „**Vorlaufige Globalurkunde**“) ohne Zinsscheine verbrieft und am oder um den Begebungstag bei einer gemeinsamen Verwahrstelle fur Clearstream Banking, societe anonyme, Luxemburg und Euroclear Bank S.A./N.V. als Betreiberin des Euroclear-Systems (beide gemeinsam nachstehend als „**Clearing System**“ bezeichnet) hinterlegt. Die Vorlaufige Globalurkunde wird nicht vor Ablauf von 40 und spatestens nach Ablauf von 180 Tagen nach dem Begebungstag gegen Vorlage einer Bestatigung uber das Nichtbestehen U.S.-amerikanischen wirtschaftlichen Eigentums (*beneficial ownership*) an den Schuldverschreibungen gema den Regeln und Betriebsablaufen des Clearing Systems gegen eine endgultige Globalinhaberschuldverschreibung (die „**Dauer-Globalurkunde**“) ohne Zinsscheine ausgetauscht. Zahlungen auf eine Vorlaufige Globalurkunde erfolgen nur gegen Vorlage einer solchen Bestatigung. Einzelurkunden oder Zinsscheine werden nicht ausgegeben.

(2) Global Bonds and Exchange.

The Bonds will initially be represented by a temporary global bearer Bond (the „**Temporary Global Bond**“) without coupons which will be deposited with a common depositary for Clearstream Banking, societe anonyme, Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System (together hereinafter referred to as the „**Clearing System**“) on or around the Issue Date. The Temporary Global Bond will be exchangeable for a permanent global bearer Bond (the „**Permanent Global Bond**“) without coupons not earlier than 40 and not later than 180 days after the Issue Date upon certification as to non-U.S. beneficial ownership in accordance with the rules and operating procedures of the Clearing System. Payments on a Temporary Global Bond will only be made against presentation of such certification. No definitive Bonds or interest coupons will be issued.

§ 2

(Status und Garantie)

(1) Status der Schuldverschreibungen.

Die Verbindlichkeiten der Emittentin aus den Schuldverschreibungen begrunden (vorbehaltlich der Garantie) nicht besicherte und nicht in der Laufzeit beschrankte, nachrangige Verbindlichkeiten der Emittentin, die untereinander gleichrangig sind und die nachrangig gegenuber nicht nachrangigen und

§ 2

(Status and Guarantee)

(1) Status of the Bonds.

The obligations of the Issuer under the Bonds constitute (subject to the Guarantee) unsecured and undated subordinated obligations of the Issuer ranking *pari passu* among themselves and shall be subordinated to all unsubordinated and subordinated obligations of the Issuer, except as otherwise required by

nachrangigen Verbindlichkeiten der Emittentin sind, soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Emittentin dienenden Verfahrens stehen die Verbindlichkeiten der Emittentin aus den Schuldverschreibungen allen nicht nachrangigen und nachrangigen Verbindlichkeiten der Emittentin im Rang nach, so dass Zahlungen auf die Schuldverschreibungen erst erfolgen, wenn alle Ansprüche gegen die Emittentin aus Verbindlichkeiten, die den Verbindlichkeiten der Emittentin aus den Schuldverschreibungen nach Maßgabe dieses § 2(1) im Rang vorgehen, vollständig befriedigt sind; erst nach Befriedigung aller der vorgenannten Ansprüche können die verbleibenden Vermögenswerte an die Eigner gegebenenfalls ausgegebener Vorzugsaktien der Emittentin und der Stammaktien der Emittentin verteilt werden. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Emittentin dienenden Verfahrens im Zusammenhang mit einer Auflösung, Liquidation, Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens wird der Betrag, der den Inhabern der Schuldverschreibungen (die „Anleihegläubiger“) pro Schuldverschreibung gezahlt wird, den Betrag nicht übersteigen, den die Anleihegläubiger als Liquidationserlös aus dem Vermögen der Garantin erhalten hätten, wären die Schuldverschreibungen Wertpapiere der Garantin (unabhängig davon, ob die Garantin derartige Wertpapiere zu einem solchen Zeitpunkt hätte ausgeben können).

Zahlungen auf die Schuldverschreibungen (einschließlich Rückkaufe und Rückzahlungen gemäß § 4) dürfen nur erfolgen, wenn die Solvabilitätsspanne, Kapitaladäquanzkennzahlen oder vergleichbare Spannen oder Kennzahlen der Garantin zum Zeitpunkt der Zahlung nicht unter den an diesem Tag anwendbaren Mindestanforderungen liegt oder durch die Zahlung fallen würde.

(2) Hinweis nach § 53c Absatz 3b Satz 4 Versicherungsaufsichtsgesetz (VAG).

Für die Rechte der Anleihegläubiger aus den Schuldverschreibungen ist diesen (vorbehaltlich der Garantie) keine Sicherheit durch die Emittentin oder durch Dritte gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden. Nachträglich können weder der Nachrang gemäß diesem § 2

mandatory statutory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Issuer, the obligations of the Issuer under the Bonds will be subordinated to all unsubordinated and subordinated obligations of the Issuer so that in any such event payments shall not be made under the Bonds until all claims against the Issuer which pursuant to this § 2(1) are expressed to rank senior to the obligations of the Issuer under the Bonds shall first have been satisfied in full; only after all of the aforementioned claims shall first have been satisfied any remaining assets may be distributed to the holders of any preference shares as well as the common shares of the Issuer. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Issuer which occurs in connection with a dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Guarantor, the amount paid to the holders of the Bonds (the “Bondholders”) per Bond shall not exceed the amount such Bondholders would have been paid as a liquidation distribution out of the assets of the Guarantor had the Bonds been securities of the Guarantor (whether or not the Guarantor could in fact have issued such securities at such time).

Payments on the Bonds (including repurchases and redemptions pursuant to § 4) may only be made if the Guarantor’s solvency margin, capital adequacy ratios or comparable margins or ratios at the date of payment is not or as a result of such payment would not become less than the relevant minimum requirement applicable at that time.

(2) Notification pursuant to § 53c (3b) Sentence 4 of the German Insurance Supervisory Act (VAG).

No security (subject to the Guarantee) of whatever kind is, or shall at any time be, provided by the Issuer or any other person securing rights of the Bondholders under the Bonds. No subsequent agreement may limit the subordination pursuant to the provisions set out in this § 2 or limit the term of the Bonds or

beschränkt noch die Laufzeit der Schuldverschreibungen begrenzt oder die Kündigungsfristen verkürzt werden. Eine vorzeitige Rückerstattung ist der Emittentin ohne Rücksicht auf entgegenstehende Vereinbarungen zurückzugewähren, sofern die Emittentin nicht aufgelöst wurde oder sofern nicht der rückerstattete Betrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist.

(3) Nachrangige Garantie.

Die Garantin hat die nachrangige unbedingte und unwiderrufliche Garantie (die „**Garantie**“) für die fristgerechte Zahlung von Kapital, Zinsen und sonstigen aus den Schuldverschreibungen zu zahlenden Beträgen übernommen. Die Garantie ist ein Vertrag zugunsten jedes Anleihegläubigers als begünstigtem Dritten gemäß § 328 Absatz 1 Bürgerliches Gesetzbuch (BGB), der das Recht begründet, die Garantin unmittelbar aus der Garantie auf Erfüllung in Anspruch zu nehmen und Ansprüche aus der Garantie gegen die Garantin unmittelbar durchzusetzen.

(4) Status der nachrangigen Garantie.

Die Verbindlichkeiten der Garantin aus der nachrangigen Garantie sind nachrangig gegenüber nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin (einschließlich Genussrechten und Stillen Beteiligungen), soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens stehen Verbindlichkeiten der Garantin aus der Garantie nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin im Rang nach, so dass Zahlungen auf die Garantie erst erfolgen, wenn alle Ansprüche gegen die Garantin aus Verbindlichkeiten, die den Verbindlichkeiten der Garantin aus der nachrangigen Garantie nach Maßgabe der Garantie im Rang vorgehen, vollständig befriedigt sind; erst nach Befriedigung aller der vorgenannten Ansprüche können die verbleibenden Vermögenswerte an die Eigner gegebenenfalls ausgegebener Vorzugsaktien und der Stammaktien der Garantin verteilt werden.

(5) Aufrechnungsverbot.

Die Anleihegläubiger sind nicht berechtigt, Forderungen aus den Schuldverschreibungen oder der Garantie mit möglichen Forderungen der Emittentin oder der Garantin gegen sie aufzurechnen und die Emittentin oder die

shorten any applicable termination period (*Kündigungsfrist*) in respect of the Bonds. If the Bonds are redeemed early the amounts redeemed must be returned to the Issuer irrespective of any agreement to the contrary unless the Issuer has been dissolved or such amounts have been replaced by other at least equivalent own funds (*Eigenmittel*) of at least equal status.

(3) Subordinated Guarantee.

The Guarantor has given a subordinated unconditional and irrevocable guarantee (the “**Guarantee**“) for the due payment of principal of, and interest on, and any other amounts expressed to be payable under the Bonds. The Guarantee constitutes a contract for the benefit of the Bondholders from time to time as third party beneficiaries in accordance with § 328(1) of the German Civil Code (*Bürgerliches Gesetzbuch*), giving rise to the right of each Bondholder to require performance under the Guarantee directly from the Guarantor and to enforce the Guarantee directly against the Guarantor.

(4) Status of the subordinated Guarantee.

The obligations of the Guarantor under the subordinated Guarantee shall be subordinated to all unsubordinated and subordinated obligations of the Guarantor (including profit participation rights (*Genussrechte*) and silent partnership interests (*Stille Beteiligungen*)) except as otherwise required by mandatory statutory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Guarantor, the obligations of the Guarantor under the Guarantee will be subordinated to all unsubordinated and subordinated obligations of the Guarantor so that in any such event payments under the Guarantee shall not be made until all claims against the Guarantor which are expressed pursuant to the Guarantee to rank senior to the obligations of the Guarantor under this subordinated Guarantee shall first have been satisfied in full; only after all of the aforementioned claims shall first have been satisfied any remaining assets may be distributed to the holders of any preference shares as well as the common shares of the Guarantor.

(5) No right to set-off.

The Bondholders may not set off any claims arising under the Bonds or the Guarantee against any claims that the Issuer or the Guarantor may have against each of them. The Issuer or the Guarantor may not set off any

Garantin ist nicht berechtigt, Forderungen gegenüber den Anleihegläubigern mit den Verbindlichkeiten aus den Schuldverschreibungen oder der Garantie aufzurechnen.

§ 3 (Zinsen)

(1) Festzinsperiode.

Ab 1. Juni 2005 (einschließlich) bis 1. Juni 2015 (ausschließlich) werden die Schuldverschreibungen bezogen auf den Gesamtnennbetrag mit jährlich 5,00% verzinst. Zinsen sind nachträglich am 1. Juni eines jeden Jahres fällig, erstmals am 1. Juni 2006 (jeweils ein „**Festzinszahlungstag**“), sofern die Emittentin nicht von ihrem Recht gemäß § 3 (3) Gebrauch macht. Die Berechnung von Zinsen für einen Zeitraum, der kürzer als ein Jahr ist, erfolgt auf der Grundlage der tatsächlichen Anzahl von Tagen in diesem Zeitraum dividiert durch die tatsächliche Anzahl von Tagen (365 oder 366) im jeweiligen Jahr.

(2) Variable Zinsperiode.

(a) Variable Verzinsung.

Im Zeitraum ab dem 1. Juni 2015 (einschließlich) werden Schuldverschreibungen, bezogen auf ihren Gesamtnennbetrag, zu einem von der Berechnungsstelle bestimmten Zinssatz, der dem Variablen Zinssatz entspricht, verzinst. Zinsen werden jeweils vierteljährlich nachträglich an jedem Variablen Zinszahlungstag fällig, erstmals am 1. September 2015, sofern die Emittentin nicht von ihrem Recht gemäß § 3 (3) Gebrauch macht.

(b) Variable Zinszahlungstage und Variable Zinsperioden.

„**Variabler Zinszahlungstag**“ bezeichnet den ersten Tag im September, Dezember, März und Juni eines jeden Jahres. Falls ein Variabler Zinszahlungstag auf einen Tag, der kein Geschäftstag ist, fällt, wird dieser Variable Zinszahlungstag auf den nächstfolgenden Geschäftstag verschoben, es sei denn, jener würde dadurch in den nächsten Kalendermonat fallen; in diesem Fall wird der Variable Zinszahlungstag auf den unmittelbar vorausgehenden Geschäftstag vorgezogen. In diesen Anleihebedingungen bezeichnet „**Geschäftstag**“ einen Tag, an dem alle maßgeblichen Stellen des Trans-European Automated Real-time Gross settlement Express Transfer (TARGET)

claims it may have against any Bondholder against any of its obligations under the Bonds or the Guarantee.

§ 3 (Interest)

(1) Fixed Interest Period.

From and including 1 June 2005 to but excluding 1 June 2015 the Bonds bear interest on their aggregate principal amount at the rate of 5.00% per annum. Interest shall be payable annually in arrear on [1 June of each year commencing on 1 June 2006 (each a “**Fixed Interest Payment Date**”), unless the Issuer exercises its right pursuant to § 3 (3). If interest is to be calculated for a period of less than one year, it shall be calculated on the basis of the actual number of days in such period divided by the actual number of days (365 or 366) in the respective year.

(2) Floating Rate Interest Period.

(a) Floating Rate Interest.

In the period from and including 1 June 2015 the Bonds shall bear interest on their aggregate principal amount at a rate determined by the Calculation Agent equal to the Floating Interest Rate. Interest will be payable quarterly in arrear on each Floating Interest Payment Date, the first such payment to be made on 1 September 2015, unless the Issuer exercises its right pursuant to § 3 (3).

(b) Floating Interest Payment Dates and Floating Interest Periods.

“**Floating Interest Payment Date**” means the first day of September, December, March and June in each year. If any Floating Interest Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Floating Interest Payment Date shall be the immediately preceding Business Day. In these Terms and Conditions, “**Business Day**” means a day on which all relevant parts of the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system are operational. Each period from and including 1 June 2015 to but excluding the first Floating Interest Payment Date

Systems Geschäfte tätigen. Jeder Zeitraum ab dem 1. Juni 2015 (einschließlich) bis zum ersten Variablen Zinszahlungstag und nachfolgend ab jedem Variablen Zinszahlungstag (einschließlich) bis zu dem jeweils nächstfolgenden Variablen Zinszahlungstag (ausschließlich) wird als „**Variable Zinsperiode**“ bezeichnet.

(c) Variabler Zinssatz.

Der Zinssatz (der „**Variable Zinssatz**“) für die jeweilige Variable Zinsperiode berechnet sich aus dem Angebotssatz (ausgedrückt als jährlicher Prozentsatz) für Dreimonatseinlagen in Euro für diese Variable Zinsperiode, der am Zinsfestsetzungstag um 11:00 Uhr vormittags (Brüsseler Ortszeit) auf der Bildschirmseite angegeben wird zuzüglich 2,68% (die „**Marge**“), wobei alle Festlegungen durch die Berechnungsstelle erfolgen.

„**Zinsfestsetzungstag**“ bezeichnet den zweiten Geschäftstag, der dem Beginn der maßgeblichen Variablen Zinsperiode vorangeht.

„**Bildschirmseite**“ bezeichnet Telerate Page 248 („EURIBOR Bildschirmseite“) oder eine Telerate Bildschirmseite bzw. andere Bildschirmseite, die zum Zwecke der Anzeige solcher Angebotssätze als Nachfolger von Telerate Page 248 eingesetzt wurde.

Sollte die maßgebliche Bildschirmseite nicht zur Verfügung stehen, wird die Berechnungsstelle von jeder der von ihr bestimmten fünf Referenzbanken deren jeweilige Angebotssätze (jeweils als Prozentsatz per annum ausgedrückt) für Dreimonatseinlagen in Euro für die betreffende Variable Zinsperiode gegenüber führenden Banken im Interbanken-Markt der Euro-Zone um ca. 11.00 Uhr (Brüsseler Ortszeit) am Zinsfestsetzungstag anfordern. Falls zwei oder mehr Referenzbanken der Berechnungsstelle solche Angebotssätze nennen, ist der Zinssatz für die betreffende Zinsperiode das arithmetische Mittel (falls erforderlich, auf- oder abgerundet auf das nächste ein Tausendstel Prozent, wobei 0,0005 aufgerundet wird) dieser Angebotssätze zuzüglich der Marge. Falls der Variable Zinssatz nicht gemäß der oben definierten Bestimmungen ermittelt werden kann, ist der Zinssatz der Angebotssatz bzw. das arithmetische Mittel der Angebotssätze auf der Bildschirmseite an dem letzten Tag vor dem Zinsfestsetzungstag, an dem diese Angebotssätze angezeigt wurden, zusätzlich der Marge.

and thereafter from and including each Floating Interest Payment Date to but excluding the next following Floating Interest Payment Date is a „**Floating Interest Period**“.

(c) Floating Rate Interest.

The rate of interest (the „**Floating Interest Rate**“) for each Floating Interest Period will be the offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro for that Floating Interest Period which appears on the Screen Page as of 11:00 a.m. (Brussels time) on the Interest Determination Date plus 2.68% (the „**Margin**“), all as determined by the Calculation Agent.

„**Interest Determination Date**“ means the second Business Day prior to the commencement of the relevant Floating Interest Period.

„**Screen Page**“ means Telerate Page 248 („EURIBOR Screen Page“) or such other screen page of Telerate or such other information service, which has been designated as the successor to Telerate Page 248 for the purpose of displaying such rates.

If the Screen Page is not available the Calculation Agent shall request the five Reference Banks selected by it to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for three-month deposits in euro for the relevant Floating Interest Period to leading banks in the interbank market of the Euro-Zone at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date. As long as two or more of the selected Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Floating Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) plus the Margin. If the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page on the last day preceding the Interest Determination Date on which such quotations were offered plus the Margin.

In diesem Absatz bezeichnen „**Referenzbanken**“ diejenigen Banken, deren Angebotssätze zur Ermittlung des maßgeblichen Angebotssatzes zu dem Zeitpunkt benutzt wurden, als solch ein Angebot letztmals auf der maßgeblichen Bildschirmseite angezeigt wurde.

Die Berechnungsstelle wird zu oder baldmöglichst nach jedem Zeitpunkt, an dem der Variable Zinssatz zu bestimmen ist, den auf die Schuldverschreibungen fälligen Zinsbetrag (der „**Zinsbetrag**“) für die entsprechende Variable Zinsperiode berechnen. Der Zinsbetrag wird ermittelt, indem der Zinssatz und der Zinstagequotient auf den Gesamtnennbetrag der Schuldverschreibungen angewendet werden, wobei der resultierende Betrag auf den nächstliegenden Cent auf- oder abgerundet wird (wobei 0,5 solcher Einheiten aufgerundet werden). „**Zinstagequotient**“ bezeichnet im Hinblick auf die Berechnung des Zinsbetrages für eine beliebige Variable Zinsperiode oder einen Teil davon (der „**Zinsberechnungszeitraum**“) die tatsächliche Anzahl von Tagen im Zinsberechnungszeitraum dividiert durch 360.

Die Berechnungsstelle wird veranlassen, dass der Zinssatz, der Zinsbetrag für die jeweilige Variable Zinsperiode, die jeweilige Variable Zinsperiode und der relevante Variable Zinszahlungstag der Emittentin und, sofern dies von den jeweiligen Wertpapierbörsen, an denen die Schuldverschreibungen notiert sind, vorgesehen ist, der jeweiligen Wertpapierbörse sowie den Anleihegläubigern durch Bekanntmachung gemäß § 10 baldmöglichst, aber keinesfalls später als zu Beginn der maßgeblichen nächstfolgenden Variablen Zinsperiode, bekannt gemacht wird. Im Fall einer Verlängerung oder Verkürzung der Variablen Zinsperiode kann der mitgeteilte Zinsbetrag und Variable Zinszahlungstag ohne Vorankündigung nachträglich angepasst (oder andere geeignete Anpassungsregelungen getroffen) werden. Jede solche Anpassung wird umgehend allen Wertpapierbörsen, an denen die Schuldverschreibungen zu diesem Zeitpunkt notiert sind, sowie den Anleihegläubigern gemäß § 10 bekannt gemacht.

Alle Bescheinigungen, Mitteilungen, Gutachten, Festsetzungen, Berechnungen, Quotierungen und Entscheidungen, die von der Berechnungsstelle für die Zwecke dieses § 4 gemacht, abgegeben, getroffen oder eingeholt werden, sind (sofern nicht ein offensichtlicher Irrtum vorliegt) für die Emittentin, die Hauptzahlstelle, die Zahlstellen und die Anleihegläubiger bindend.

As used herein, “**Reference Banks**” means those banks whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page.

The Calculation Agent will, on or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest and calculate the amount of interest (the “**Interest Amount**”) payable on the Bonds for the relevant Floating Interest Period. The Interest Amount shall be calculated by applying the Rate of Interest and the Day Count Fraction to the aggregate principal amount of the Bonds and rounding the resultant figure to the nearest cent, with 0.5 or more of a cent being rounded upwards. “**Day Count Fraction**” means, in respect of the calculation of the Interest Amount on each Bond for any Floating Interest Period or part thereof (the “**Calculation Period**”), the actual number of days in the Calculation Period divided by 360.

The Calculation Agent will cause the Rate of Interest, each Interest Amount for each Floating Interest Period, each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Issuer and, if required by the rules of any stock exchange on which the Bonds are from time to time listed, to such stock exchange, and to the Bondholders by notice in accordance with § 10 as soon as possible after their determination, but in no event later than at the beginning of the relevant Floating Interest Period thereafter. Each Interest Amount and Floating Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements may be made by way of adjustment) without notice in the event of an extension or shortening of the Floating Interest Period. Any such amendment will be promptly notified to any stock exchange on which the Bonds are then listed and to the Bondholders in accordance with § 10.

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this § 4 by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent, the Paying Agents and the Bondholders.

(3) Wahlweise Aussetzung der Verzinsung.

Die Emittentin ist berechtigt, eine Zinszahlung durch eine unwiderrufliche Bekanntmachung an die Anleihegläubiger gemäß § 10 innerhalb einer Frist von nicht weniger als 10 und nicht mehr als 15 Geschäftstagen vor dem jeweiligen Festzinszahlungstag oder Variablen Zinszahlungstag (jeweils ein „Zinszahlungstag“) auszusetzen, wenn (i) auf der ordentlichen Hauptversammlung der Garantin unmittelbar vor dem jeweiligen Zinszahlungstag für keine Aktiengattung der Garantin eine Dividende, andere Ausschüttung oder Zahlung festgesetzt wurde und (ii) seit dieser ordentlichen Hauptversammlung der Garantin keine Abschlagszahlungen aus dem Bilanzgewinn geleistet wurden und (iii) in den letzten 12 Monaten vor dem Zinszahlungstag keine Zahlungen auf Wertpapiere der Emittentin, der Garantin oder einer ihrer jeweiligen Tochtergesellschaften, die den Schuldverschreibungen im Rang gleich- oder nachstehen, geleistet wurden, wobei etwaige in diesem Zeitraum geleistete Zahlungen auf Stille Beteiligungen oder Vorzugsaktien das Recht der Emittentin zur Aussetzung einer Zinszahlung unberührt lassen. Ausgesetzte Zinszahlungen akkumulieren nicht und werden daher nicht nachgezahlt.

(4) Zwingende Aussetzung der Verzinsung.

Wenn am 15. Geschäftstag vor einem Zinszahlungstag

- (a) die Solvabilitätsspanne, Kapitaladäquanzkennzahlen oder vergleichbare Spannen oder Kennzahlen der Garantin unter den zu diesem Zeitpunkt nach den jeweils geltenden Vorschriften des deutschen Versicherungsaufsichtsrechts und einer etwaigen allgemein anerkannten Verwaltungspraxis der dann zuständigen deutschen Versicherungsaufsichtsbehörde anwendbaren Mindestanforderungen liegt oder durch die Zahlung der an einem solchen Zinszahlungstag (vorbehaltlich dieses § 3 (4)) fälligen und zahlbaren Zinsen, oder eines Teilbetrags hiervon, fallen würde, oder
- (b) es der Garantin aufgrund einer geltenden Anweisung der dann zuständigen deutschen Versicherungsaufsichtsbehörde untersagt ist, Zinszahlungen oder sonstige Ausschüttungen (unter anderem an die Inhaber von Wertpapieren, die den Schuldverschreibungen im Rang gleich- oder nachstehen) vorzunehmen,

(3) Optional Suspension of Interest.

The Issuer may elect by giving not less than 10 and not more than 15 Business Days' notice to the Bondholders in accordance with § 10 (which notice will be irrevocable) before any Fixed Interest Payment Date or any Floating Interest Payment Date (each an "Interest Payment Date") to suspend a payment of interest in case (i) no dividend, special dividend or other distribution or payment was declared in respect of any class of shares of the Guarantor at the ordinary general meeting (*ordentliche Hauptversammlung*) of the Guarantor immediately preceding that Interest Payment Date and (ii) no payment on account of the balance sheet profit has been made since that ordinary general meeting of the Guarantor and (iii) no payment has been made by the Issuer, the Guarantor or any of their respective subsidiaries in respect of any security issued by any of them which ranks *pari passu* with or junior to the Bonds during the 12 months preceding the Interest Payment Date, provided that any payments made on silent partnership interests and preference shares during that period will not affect the right of the Issuer to suspend a payment of interest. Suspended interest payments will not accumulate and will therefore not be paid at a later point in time.

(4) Mandatory Suspension of Interest.

If on the 15th Business Day prior to any Interest Payment Date

- (a) the Guarantor's solvency margin, capital adequacy ratios or comparable margins or ratios is or as a result of a payment of interest due and payable on such Interest Payment Date (subject to this § 3 (4)), or part thereof, would become less than the relevant minimum requirement in accordance with the provisions of German insurance regulatory law and a generally recognized administrative practice of the then competent German insurance regulator, if any, applicable at that time, or
- (b) an order by the then competent German insurance regulator is in effect prohibiting the Guarantor from paying interest or other distributions (including to the holders of any security which ranks *pari passu* with or junior to the Bonds),

muss die Emittentin eine solche Zinszahlung, oder gegebenenfalls die Zahlung eines solchen Teilbetrags hiervon, durch eine unwiderrufliche Bekanntmachung an die Anleihegläubiger gemäß § 10 nicht später als 10 Geschäftstage vor einem solchen Zinszahlungstag aussetzen. Ausgesetzte Zinszahlungen akkumulieren nicht und werden daher nicht nachgezahlt.

(5) Ende der Verzinsung und Verzugzinsen.

Die Verzinsung der Schuldverschreibungen endet mit Beginn des Tages, an dem sie zur Rückzahlung fällig werden, oder, sollte die Emittentin eine Zahlung aus diesen Schuldverschreibungen bei Fälligkeit nicht leisten, mit Beginn des Tages der tatsächlichen Zahlung. Der jeweils anzuwendende Zinssatz wird gemäß diesem § 3 bestimmt.

§ 4

(Rückzahlung und Rückkauf)

(1) Keine Endfälligkeit.

Die Schuldverschreibungen haben keinen Endfälligkeitstag und werden außer gemäß den Bestimmungen in § 4 (2) bis (7) nicht zurückgezahlt.

(2) Rückkauf.

Vorbehaltlich der Regelungen des § 4 (7) können die Emittentin, die Garantin oder ihre jeweiligen Tochtergesellschaften, soweit gesetzlich zulässig, jederzeit Schuldverschreibungen auf dem freien Markt oder anderweitig sowie zu jedem beliebigen Preis kaufen und wieder veräußern.

(3) Rückzahlung nach Wahl der Emittentin.

Die Emittentin kann die Schuldverschreibungen (insgesamt jedoch nicht nur teilweise) nach Maßgabe von § 4 (7) am 1. Juni 2015 und an jedem Variablen Zinszahlungstag durch Erklärung gemäß § 4 (6) zum Nennbetrag zuzüglich der bis zu diesem Tag (ausschließlich) aufgelaufener Zinsen (der „Rückzahlungsbetrag“) zurückzahlen.

(4) Rückzahlung nach Eintritt eines Gross-up Ereignisses, eines Steuerereignisses oder eines Aufsichtsrechtlichen Ereignisses.

Die Emittentin ist berechtigt, durch Erklärung gemäß § 4 (6) und nach Maßgabe von § 4 (7) die Schuldverschreibungen nach Eintritt eines Gross-Up Ereignisses zum Rückzahlungsbetrag und, nach dem 1. Juni 2010, nach Eintritt eines Steuerereignisses oder eines Aufsichtsrechtlichen Ereignisses zum Vorzeitigen Rückzahlungsbetrag (insgesamt und nicht teilweise) zurückzuzahlen.

the Issuer must suspend such payment of interest, or such part thereof, as the case may be, by giving notice to the Bondholders in accordance with § 10 (which notice will be irrevocable) not less than 10 Business Days prior to such Interest Payment Date. Suspended interest payments will not accumulate and will therefore not be paid at a later point in time.

(5) End of interest bearing period and default interest.

The Bonds shall cease to bear interest from the beginning of the day they are due for redemption, or, in case the issuer fails to make any payment under the Bonds when due, from the beginning of the day on which such payment is made. The respective rate of interest shall be determined pursuant to this § 3.

§ 4

(Redemption and Repurchase)

(1) No Final Maturity.

The Bonds have no final maturity and will not be redeemed except in accordance with § 4 (2) to (7).

(2) Repurchase.

Subject to § 4 (7) and applicable laws, the Issuer, the Guarantor or any of their respective subsidiaries may at any time purchase Bonds in the open market or otherwise and at any price and may resell those Bonds.

(3) Redemption at the Option of the Issuer.

The Issuer may upon giving notice in accordance with § 4 (6) and subject to § 4 (7) redeem the Bonds (in whole but not in part) on 1 June 2015 or on any Floating Interest Payment Date at their principal amount plus any interest accrued until such date (exclusive) (the “Redemption Amount”).

(4) Redemption following a Gross-up Event, a Tax Event or a Regulatory Event.

The Issuer may upon giving notice in accordance with § 4 (6) and subject to § 4 (7) redeem the Bonds (in whole but not in part) following a Gross-Up Event at the Redemption Amount and, after 1 June 2010, following a Tax Event or a Regulatory Event at the Early Redemption Amount.

(a) Gross-up-Ereignis.

Ein „**Gross-up-Ereignis**“ liegt vor, wenn die Emittentin durch eine gesetzgebende Körperschaft, ein Gericht oder eine Behörde verpflichtet ist oder verpflichtet sein wird, Zusätzliche Beträge gemäß § 6 zu zahlen oder die Garantin aufgrund einer Gesetzesänderung (oder einer Änderung von darunter erlassenen Bestimmungen und Vorschriften) des Großherzogtums Luxemburg oder der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung dieser Gesetze, Bestimmungen oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht oder eine Behörde verpflichtet ist oder verpflichtet sein wird, Zusätzliche Beträge gemäß § 6 zu zahlen und die Emittentin und/oder die Garantin diese Verpflichtung nicht durch das Ergreifen zumutbarer Maßnahmen abwenden kann.

Die Rückzahlungsbekanntmachung darf nicht früher als 90 Tage vor dem Tag erfolgen, an dem die Emittentin oder die Garantin erstmals verpflichtet wäre, Zusätzliche Beträge gemäß § 6 zu zahlen bzw. wenn eine ordnungsgemäße Zahlungsaufforderung unter der Garantie erfolgen würde.

(b) Steuerereignis.

Ein „**Steuerereignis**“ liegt vor, wenn aufgrund einer Gesetzesänderung (oder einer Änderung von darunter erlassenen Bestimmungen und Vorschriften) des Großherzogtums Luxemburg oder der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder einer ihrer Steuerbehörden, oder als Folge einer Änderung der offiziellen Auslegung oder Anwendung solcher Gesetze, Bestimmungen oder Vorschriften durch eine gesetzgebende Körperschaft, ein Gericht, eine Regierungsstelle oder eine Aufsichtsbehörde (einschließlich des Erlasses von Gesetzen sowie der Bekanntmachung gerichtlicher oder aufsichtsrechtlicher Entscheidungen), Zinsen, die von der Emittentin auf die Schuldverschreibungen zu zahlen sind oder Beträge, die von der Garantin aus der Garantie zu zahlen sind, von der Emittentin und/oder der Garantin nicht mehr für die Zwecke der

(a) Gross-up Event.

A “**Gross-up Event**” shall occur if the Issuer has or will become obliged by a legislative body, a court or any authority to pay Additional Amounts pursuant to § 6 or the Guarantor has or will become obliged to pay Additional Amounts in respect of payments due under the Guarantee as a result of any change in or amendment to the laws (or any rules or regulations thereunder) of the Grand-Duchy of Luxembourg or the Federal Republic of Germany or any political subdivision or any authority of or in the Grand-Duchy of Luxembourg or the Federal Republic of Germany, or any change in or amendment to any official interpretation or application of those laws or rules or regulations, and that obligation cannot be avoided by the Issuer and/or the Guarantor taking such reasonable measures it (acting in good faith) deems appropriate.

No such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be for the first time obliged to pay the Additional Amounts pursuant to § 6 or (as the case may be) in respect of a demand for payment duly made under the Guarantee.

(b) Tax Event.

A “**Tax Event**” shall occur if as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of the Grand-Duchy of Luxembourg or the Federal Republic of Germany or any political subdivision or any taxing authority thereof or therein, or as a result of any amendment to, or change in, an official interpretation or application of any such laws, rules or regulations by any legislative body, court, governmental agency or regulatory authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination), interest payable by the Issuer in respect of the Bonds or any amount payable by the Guarantor under the Guarantee is no longer fully deductible by the Issuer and/or the Guarantor for Luxembourg and/or German income tax purposes, and that risk cannot be avoided by the Issuer and/or the Guarantor taking such

luxemburgischen und/oder deutschen Ertragsteuer voll abzugsfähig sind und die Emittentin und/oder die Garantin dieses Risiko nicht durch das Ergreifen zumutbarer Maßnahmen abwenden kann.

(c) Aufsichtsrechtlichen Ereignisses.

Ein „**Aufsichtsrechtliches Ereignis**“ liegt vor, wenn die Bundesanstalt für Finanzdienstleistungsaufsicht (oder ein Funktionsnachfolger) schriftlich gegenüber der Garantin feststellt, dass die Schuldverschreibungen (ganz oder teilweise) nicht länger die Anforderungen an Eigenmittel für Zwecke der Ermittlung der Gruppensolvabilität oder der Einzelsolvabilität der Emittentin oder der Garantin oder der Unternehmensgruppe, zu der die Emittentin oder die Garantin gehören, erfüllt. Dies gilt nur, wenn die Schuldverschreibungen diese Anforderungen zu einem Zeitpunkt vor dieser Feststellung erfüllt haben.

(5) Vorzeitiger Rückzahlungsbetrag.

Der „**Vorzeitige Rückzahlungsbetrag**“ ist der Aufrechnungsbetrag, mindestens jedoch der Rückzahlungsbetrag (wie von der Berechnungsstelle bestimmt).

Der „**Aufrechnungsbetrag**“ wird durch die Berechnungsstelle bestimmt und entspricht der Summe aus den Aktuellen Werten (i) des Nennbetrags der Schuldverschreibungen und (ii) der verbleibenden vorgesehenen Zinszahlungen auf die Schuldverschreibungen bis zum 1. Juni 2015 (ausschließlich) am Tag der Rückzahlung.

Die Berechnungsstelle ermittelt die „**Aktuellen Werte**“ durch die Abzinsung pro Jahr des Nennbetrags der Schuldverschreibungen und der verbleibenden berechneten Zinszahlungen bis zum 1. Juni 2015; dabei gilt als Berechnungsgrundlage ein Jahr von 360 Tagen mit zwölf Monaten zu je 30 Tagen unter der Verwendung der Angepassten Vergleichsrendite zuzüglich 0,75%.

Die „**Angepasste Vergleichsrendite**“ ist die Rendite, die am Tag der Rückzahlung für ein Wertpapier mit Euro-Referenzzinssatz zu zahlen wäre, das die Berechnungsstelle unter Berücksichtigung einer vergleichbaren Laufzeit mit der Restlaufzeit der Schuldverschreibungen bis zum 1. Juni 2015 bestimmt hat und welches zum Zeitpunkt der Bestimmung als Berechnungsgrundlage für die Preisgebung neuer Unternehmensanleihen mit vergleichbarer Laufzeit bis 1. Juni 2015 dienen könnte.

reasonable measures as it (acting in good faith) deems appropriate.

(c) Regulatory Event.

A „**Regulatory Event**“ shall occur if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) states in writing to the Guarantor that the Bonds (in whole or in part) no longer fulfil the requirements for own funds for group solvency or solo solvency purposes of the Issuer or Guarantor or the group of companies the Issuer or the Guarantor is a member of. This applies only if at any time prior to such statement the Bonds did fulfil such requirements.

(5) Early Redemption Amount.

The „**Early Redemption Amount**“ will be the greater of the Redemption Amount and Make-Whole Amount (as determined by the Calculation Agent).

The „**Make-Whole Amount**“ will be calculated by the Calculation Agent, and will equal the sum of the Present Values on the date of redemption of (i) the principal amount of the Bonds and (ii) the remaining scheduled payments of interest on the Bonds to but excluding 1 June 2015.

The „**Present Values**“ will be calculated by the Calculation Agent by discounting the principal amount of the Bonds and the remaining interest payments to 1 June 2015 on an annual basis, assuming a 360-day year consisting of twelve 30-day months and using the Adjusted Comparable Yield plus 0.75%.

The „**Adjusted Comparable Yield**“ will be the yield at the date of redemption on the euro benchmark security selected by the Calculation Agent as having a maturity comparable to the remaining term of the Bonds to 1 June 2015 that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to 1 June 2015.

(6) Bekanntmachung der Vorzeitigen Rückzahlung.

Die Emittentin kann ein Recht zur vorzeitigen Rückzahlung gemäß § 4 (3) und (4) durch eine Bekanntmachung an die Anleihegläubiger gemäß § 10 unter Einhaltung einer Frist von nicht weniger als 30 und nicht mehr als 60 Tagen ausüben. Die Emittentin wird die Hauptzahlstelle vor dieser Bekanntmachung von der vorzeitigen Rückzahlung informieren. Die Bekanntmachung und die Information der Hauptzahlstelle sollen in den Fällen des § 4 (4) diejenigen Tatsachen enthalten, auf welche die Emittentin ihr Kündigungsrecht stützt.

(7) Aufsichtsrechtliche Einschränkungen.

(a) Rückkauf und Rückzahlung.

Der Emittentin, der Garantin oder ihren jeweiligen Tochtergesellschaften steht das Recht zum Rückkauf der Schuldverschreibungen gemäß § 4 (2) und der Emittentin steht das Recht zur Rückzahlung der Schuldverschreibungen gemäß § 4 (3) und (4) nur zu, wenn der zurückzuzahlende Nennbetrag durch die Einzahlung anderer, zumindest gleichwertiger Eigenmittel ersetzt worden ist oder die Bundesanstalt für Finanzdienstleistungsaufsicht (oder ein Funktionsnachfolger) dem Rückkauf bzw. der Rückzahlung ohne eine solche Ersetzung zuvor zugestimmt hat.

(b) Rückkauf und Rückzahlung durch verbundene Unternehmen.

Die in § 4 (7) (a) genannten Einschränkungen gelten nicht für Rückkäufe, soweit verbundene Unternehmen der Emittentin oder der Garantin die Schuldverschreibungen für fremde Rechnung oder für Sondervermögen (im Sinne des § 2 Abs. 2 und § 30 Investmentgesetz) erwerben, es sei denn, Anteile an diesen Sondervermögen werden mehrheitlich von der Emittentin, der Garantin oder einer ihrer verbundene Unternehmen gehalten.

**§ 5
(Zahlungen)**

- (1) Die Emittentin verpflichtet sich, Kapital und Zinsen auf die Schuldverschreibungen bei Fälligkeit in Euro zu zahlen. Die Zahlung von Kapital und Zinsen erfolgt, vorbehaltlich geltender steuerrechtlicher und sonstiger gesetzlicher Regelungen und Vorschriften, über die Hauptzahlstelle zur Weiterleitung an das Clearing

(6) Notification of Early Redemption.

The Issuer shall give not less than 30 nor more than 60 days' notice to the Bondholders in accordance with § 10 of any early redemption pursuant to § 4 (3) and (4). The Issuer shall give notice to the Principal Paying Agent about such early redemption before notifying the Bondholders. In the case of § 4 (4) such notices shall set forth the underlying facts of the Issuer's right to early redemption.

(7) Regulatory Limitations.

(a) Repurchase and Redemption.

The Issuer, the Guarantor or any of their respective subsidiaries may only repurchase the Bonds as set forth in § 4 (2) and may only redeem the Bonds as set forth in § 4 (3) and (4) if the principal amount of the Bonds to be repaid has been replaced by other at least equivalent capital (*Eigenmittel*) or if the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (or any successor in its capacity) has given its prior consent to the repurchase or redemption of the Bonds without such replacement.

(b) Repurchase and Redemption by affiliates.

The restrictions set forth in § 4 (7) (a) do not apply for purchases made by affiliates of the Issuer or the Guarantor for the account of a third party or funds (as defined for the purposes of § 2 para. 2 and § 30 Investment Act (*Investmentgesetz*), unless the majority of the shares in the relevant fund are held by the Issuer, the Guarantor or one of its affiliates.

**§ 5
(Payments)**

- (1) The Issuer undertakes to pay, as and when due, principal and interest on the Bonds in euro. Payment of principal and interest on the Bonds shall be made, subject to applicable fiscal and other laws and regulations, through the Principal Paying Agent for on-payment to the Clearing System or to its order for credit to the respective account

System oder nach dessen Weisung zur Gutschrift für die jeweiligen Kontoinhaber. Die Zahlung an das Clearing System oder nach dessen Weisung befreit die Emittentin in Höhe der geleisteten Zahlung von ihren entsprechenden Verbindlichkeiten aus den Schuldverschreibungen. Eine Bezugnahme in diesen Anleihebedingungen auf Kapital oder Zinsen der Schuldverschreibungen schließt jegliche Zusätzlichen Beträge gemäß § 6 ein.

- (2) Falls ein Fälligkeitstag für die Zahlung von Kapital und/oder Zinsen kein Geschäftstag ist, erfolgt die Zahlung erst am nächstfolgenden Geschäftstag (außer im Fall von § 3 (2) (b)); die Anleihegläubiger sind nicht berechtigt, Zinsen oder eine andere Entschädigung wegen eines solchen Zahlungsaufschubs zu verlangen.

§ 6 (Besteuerung)

Sämtliche Zahlungen von Kapital und Zinsen in Bezug auf die Schuldverschreibungen (einschließlich Zahlungen der Garantin unter der nachrangigen Garantie) werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren jedweder Art („**Steuern**“) geleistet, die von dem Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, sofern nicht die Emittentin oder Garantin kraft Gesetzes oder einer sonstigen Rechtsvorschrift zu einem solchen Einbehalt oder Abzug verpflichtet ist. In einem solchen Falle wird die Emittentin bzw. die Garantin zusätzliche Beträge zahlen (die „**Zusätzlichen Beträge**“), so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Solche Zusätzlichen Beträge sind jedoch nicht zahlbar wegen solcher Steuern:

- (i) denen ein Anleihegläubiger wegen einer anderen Beziehung zum Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland unterliegt als der bloßen Tatsache, dass er der Inhaber der betreffenden Schuldverschreibungen ist; oder

holders. Payments to the Clearing System or to its order shall to the extent of amounts so paid constitute the discharge of the Issuer from its corresponding liabilities under the Bonds. Any reference in these Terms and Conditions of the Bonds to principal or interest will be deemed to include any Additional Amounts as set forth in § 6.

- (2) If the due date for any payment of principal and/or interest is not a Business Day, payment shall be effected only on the next Business Day (except as provided in § 3 (2) (b)). The Bondholders shall have no right to claim payment of any interest or other indemnity in respect of such delay in payment.

§ 6 (Taxation)

All payments of principal and interest in respect of the Bonds (including payments by the Guarantor under the subordinated Guarantee) will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**“) imposed, levied, collected, withheld or assessed by the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) or any political subdivision or any authority of or in the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) that has power to tax, unless the Issuer or the Guarantor, as the case may be, is compelled by a law or other regulation to make such withholding or deduction. In that event, the Issuer or the Guarantor (as the case may be) will pay such additional amounts (the “**Additional Amounts**“) as will result in receipt by the Bondholders of the same amounts as they would have received if no such withholding or deduction had been required. However, no such Additional Amounts shall be payable with respect to such Taxes:

- (i) to which a Bondholder is liable because of a relationship with Grand-Duchy of Luxembourg or the Federal Republic of Germany other than the mere fact of his being the holder of the relevant Bonds; or

- (ii) deren Einbehalt oder Abzug auf eine Zahlung an eine natürliche Person erfolgt und zwar auf der Grundlage der Richtlinie 2003/48/EC der Europäischen Union oder einer anderen Richtlinie der Europäischen Union zur Besteuerung privater Zinserträge, die die Beschlüsse der ECOFIN-Versammlung vom 26. bis 27. November 2000 umsetzt oder aufgrund eines Gesetzes, das aufgrund solcher Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder
- (iii) denen der Anleihegläubiger nicht unterläge, wenn er seine Schuldverschreibungen binnen 30 Tagen nach Fälligkeit bzw., falls die notwendigen Beträge der Hauptzahlstelle bei Fälligkeit nicht zur Verfügung gestellt worden sind, nach dem Tag, an dem diese Mittel der Hauptzahlstelle zur Verfügung gestellt worden sind und dies gemäß § 10 bekannt gemacht wurde, zur Zahlung vorgelegt hätte.

**§ 7
(Vorlegungsfrist)**

Die Vorlegungsfrist der Schuldverschreibungen wird auf zehn Jahre reduziert.

**§ 8
(Zahlstellen und Berechnungsstellen)**

- (1) Bestellung.

Die Emittentin hat JPMorgan Chase Bank N.A., London Branch als Hauptzahlstelle und Berechnungsstelle (die „Hauptzahlstelle“ oder „Berechnungsstelle“) und J.P. Morgan Bank Luxembourg S.A., Luxembourg Branch als Zahlstelle (die „Zahlstelle“, gemeinsam mit der Hauptzahlstelle, die „Zahlstellen“) bestellt.

- (2) Änderung oder Beendigung der Bestellung.

Die Emittentin und die Garantin behalten sich das Recht vor, jederzeit die Benennung einer Zahlstelle oder Berechnungsstelle zu verändern oder zu beenden und Nachfolger bzw. zusätzliche Zahlstellen zu ernennen. Dabei ist jedoch zu gewährleisten, dass, solange die Schuldverschreibungen an der Luxemburger Börse notiert sind, die Emittentin und die Garantin jederzeit eine Zahlstelle (die auch Hauptzahlstelle sein kann) in Luxemburg unterhalten. Den Anleihegläubigern werden Änderungen in bezug auf die Zahlstellen, deren angegebenen Geschäftsstellen oder die Berechnungsstelle umgehend gemäß § 10 bekannt gemacht.

- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iii) to which the Bondholder would not be subject if he had presented his Bonds for payment within 30 days from the due date for payment, or, if the necessary funds have not been provided to the Fiscal Agent when due, from the date on which such funds have been provided to the Fiscal Agent, and a notice to that effect has been published in accordance with § 10.

**§ 7
(Presentation Period)**

The period for presentation of the Bonds will be reduced to 10 years.

**§ 8
(Paying and Calculation Agents)**

- (1) Appointment.

The Issuer has appointed JPMorgan Chase Bank N.A., London Branch as principal paying agent and calculation agent (the “Principal Paying Agent” or “Calculation Agent”) and J.P. Morgan Bank Luxembourg S.A., Luxembourg Branch as paying agent (the “Paying Agent”, together with the Principal Paying Agent, the “Paying Agents”).

- (2) Variation or Termination of Appointment.

The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying or Calculation Agent and to appoint successor or additional Paying Agents, provided that so long as the Bonds are listed on the Luxembourg Stock Exchange the Issuer and the Guarantor will at all times maintain a Paying Agent (which may be the Principal Paying Agent) in Luxembourg. Notice of any change in the Paying Agents or in the specified office of any Paying Agent or in the Calculation Agent will promptly be given to the Bondholders pursuant to § 10.

(3) Status der beauftragten Stellen.

Die Zahlstellen und die Berechnungsstelle handeln ausschließlich als Vertreter der Emittentin und der Garantin und übernehmen keine Verpflichtungen gegenüber den Anleihegläubigern; es wird kein Vertrags-, Auftrags- oder Treuhandverhältnis zwischen ihnen und den Anleihegläubigern begründet. Die Zahlstellen sind von den Beschränkungen des § 181 des Bürgerlichen Gesetzbuchs (BGB) befreit.

**§ 9
(Weitere Emissionen)**

Die Emittentin kann ohne Zustimmung der Anleihegläubiger weitere Schuldverschreibungen begeben, die in jeder Hinsicht (mit Ausnahme der ersten Zinszahlung) die gleichen Bedingungen wie die Schuldverschreibungen dieser Anleihe haben und die zusammen mit den Schuldverschreibungen dieser Anleihe eine einzige Anleihe bilden.

**§ 10
(Bekanntmachungen)**

(1) Bekanntmachung in Tageszeitung.

Sämtliche Bekanntmachungen an die Anleihegläubiger gelten als ordnungsgemäß bekannt gemacht, wenn sie in einer führenden Tageszeitung mit allgemeiner Verbreitung in Luxemburg (voraussichtlich d'Wort), veröffentlicht werden. Jede derartige Bekanntmachung gilt am dritten Tag nach dem Tage der ersten Veröffentlichung als wirksam erfolgt.

(2) Bekanntmachung an das Clearing System.

Die Emittentin ist berechtigt, eine Zeitungsveröffentlichung nach § 10 (1) durch eine Bekanntmachung an das Clearing System zur Weiterleitung an die Anleihegläubiger zu ersetzen, vorausgesetzt, dass in Fällen, in denen die Schuldverschreibungen an einer Börse notiert sind, die Regeln dieser Börse diese Form der Bekanntmachung zulassen. Jede derartige Bekanntmachung gilt am siebten Tag nach dem Tag der Bekanntmachung an das Clearing System als den Anleihegläubigern mitgeteilt.

**§ 11
(Ersetzung)**

(1) Ersetzung.

Die Garantin ist jederzeit berechtigt, ohne Zustimmung der Anleihegläubiger sich selbst oder eine andere Gesellschaft (soweit es sich bei dieser Gesellschaft nicht um ein

(3) Status of the Agents.

The Paying Agents and Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of contract, agency or trust for or with any of the Bondholders. The Paying Agents are exempt from the restrictions of § 181 of the German Civil Code (*Bürgerliches Gesetzbuch*).

**§ 9
(Further Issues)**

The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (except for the first payment of interest) so as to form a single series with the Bonds.

**§ 10
(Notices)**

(1) Notices in Newspaper

Notices to the Bondholders will be valid if published in a leading newspaper having general circulation in Luxembourg (which is expected to be d'Wort). Any notice so given will be deemed to have been validly given on the third day after the date of the first such publication.

(2) Notice to the Clearing System.

The Issuer may, in lieu of publication in the newspapers set forth in § 10 (1) above, deliver the relevant notice to the Clearing System, for communication by the Clearing System to the Bondholders, provided that, so long as any Bonds are listed on any stock exchange, the rules of such stock exchange permit such form of notice. Any such notice shall be deemed to have been given to the Bondholders on the seventh day after the day on which the said notice was given to the Clearing System.

**§ 11
(Substitution)**

(1) Substitution.

The Guarantor may at any time, without the consent of the Bondholders, substitute for the Issuer either itself or any other company (other than an insurance undertaking) which is

Versicherungsunternehmen handelt), die direkt oder indirekt von der Garantin kontrolliert wird, als neue Emittentin für alle sich aus oder im Zusammenhang mit den Schuldverschreibungen ergebenden Verbindlichkeiten mit schuldbefreiender Wirkung für die Emittentin an die Stelle der Emittentin zu setzen (die „**Neue Emittentin**“), sofern

- (i) die Neue Emittentin sämtliche Verbindlichkeiten der Emittentin aus oder im Zusammenhang mit den Schuldverschreibungen übernimmt;
- (ii) die Neue Emittentin sämtliche für die Schuldnerersetzung und die Erfüllung der Verbindlichkeiten aus oder im Zusammenhang mit den Schuldverschreibungen erforderlichen Genehmigungen erhalten hat;
- (iii) die Neue Emittentin in der Lage ist, sämtliche zur Erfüllung der aufgrund der Schuldverschreibungen bestehenden Zahlungsverpflichtungen erforderlichen Beträge in Euro an die Hauptzahlstelle oder die Clearing Systeme zu zahlen, und zwar ohne Abzug oder Einbehalt von Steuern oder sonstigen Abgaben jedweder Art, die von dem Land (oder den Ländern), in dem (in denen) die Neue Emittentin ihren Sitz oder Steuersitz hat, auferlegt, erhoben oder eingezogen werden; und
- (iv) für den Fall, dass die Neue Emittentin nicht die Garantin ist, die Bestimmungen des Absatzes 4 der Garantie, wonach sich die Garantie auf die von der Neuen Emittentin gemäß den Anleihebedingungen zahlbaren Beträge erstreckt, in vollem Umfang Bestand haben.

Wenn die Garantin selbst Neue Emittentin geworden ist, ist eine weitere Schuldnerersetzung ausgeschlossen.

(2) Bezugnahmen.

Im Fall einer Schuldnerersetzung gemäß Absatz (1) gilt jede Bezugnahme in diesen Anleihebedingungen auf die Emittentin als eine solche auf die Neue Emittentin und jede Bezugnahme auf das Großherzogtum Luxemburg als eine solche auf den Staat, in welchem die Neue Emittentin steuerlich ansässig ist.

(3) Bekanntmachung und Wirksamwerden der Ersetzung.

Die Ersetzung der Emittentin ist gemäß § 10 bekannt zu machen. Mit der Bekanntmachung der Ersetzung wird die Ersetzung wirksam und

directly or indirectly controlled by the Guarantor, as new issuer (the “**New Issuer**”) in respect of all obligations arising under or in connection with the Bonds, with the effect of releasing the Issuer of all such obligations, if:

- (i) the New Issuer assumes all obligations of the Issuer arising under or in connection with the Bonds;
- (ii) the New Issuer has obtained all authorisations and approvals necessary for the substitution and the fulfilment of the obligations arising under or in connection with the Bonds;
- (iii) the New Issuer is in the position to pay to the Clearing Systems or to the Principal Paying Agent in euro and without deducting or withholding any taxes or other duties of whatever nature imposed, levied or deducted by the country (or countries) in which the New Issuer has its domicile or tax residence all amounts required for the performance of the payment obligations arising from or in connection with the Bonds; and
- (iv) in the event that the New Issuer is not the Guarantor, the provisions of paragraph 4 of the Guarantee, pursuant to which the Guarantee shall extend to any and all amounts expressed to be payable by the new Issuer pursuant to these Terms and Conditions of the Bonds, shall be in full force and effect.

If the Guarantor has become the New Issuer, any further substitution of the issuer shall be excluded.

(2) References.

In the event of a substitution pursuant to subsection (1), any reference in these Terms and Conditions of the Bonds to the Issuer shall be a reference to the New Issuer and any reference to the Grand Duchy of Luxembourg shall be a reference to the New Issuer’s country of domicile for tax purposes.

(3) Notice and Effectiveness of Substitution.

Notice of any substitution of the Issuer shall be given by publication in accordance with § 10. Upon such publication, the substitution shall

die Emittentin und im Falle einer wiederholten Anwendung dieses § 11 jede frühere Neue Emittentin von ihren sämtlichen Verbindlichkeiten aus den Schuldverschreibungen frei. Im Falle einer solchen Ersetzung werden die Wertpapierbörsen informiert, an denen die Schuldverschreibungen notiert sind, und es wird, soweit erforderlich, eine Ergänzung zu dem Offering Circular mit einer Beschreibung der Neuen Emittentin erstellt.

§ 12 (Schlussbestimmungen)

(1) Anzuwendendes Recht

Außer § 2 (1), der sich nach Luxemburger Recht bestimmt, bestimmen sich Form und Inhalt der Schuldverschreibungen und der Garantie, nach dem Recht der Bundesrepublik Deutschland. Die Bestimmungen der §§ 86-94-8 des Luxemburger Gesetzes vom 10. August 1915 bezüglich Handelsunternehmen in der jeweils gültigen Fassung ist auf diese Schuldverschreibungen nicht anwendbar.

(2) Gerichtsstand

Ausschließlicher Gerichtsstand für alle Rechtsstreitigkeiten aus den in diesen Anleihebedingungen geregelten Angelegenheiten ist, soweit gesetzlich zulässig, Frankfurt am Main, Bundesrepublik Deutschland. Die Emittentin und die Garantin verzichten unwiderruflich darauf, gegenwärtig oder zukünftig gegen die Gerichte in Frankfurt am Main als Forum für Rechtsstreitigkeiten Einwände zu erheben, und versichern, keines der Gerichte in Frankfurt am Main als ungelegenes oder unangemessenes Forum zu bezeichnen.

(3) Erfüllungsort

Erfüllungsort ist Frankfurt am Main, Bundesrepublik Deutschland.

(4) Zustellungsbevollmächtigter

Für etwaige Rechtsstreitigkeiten oder sonstige Verfahren vor deutschen Gerichten bestellt die Emittentin die Hannover Rückversicherung AG, Karl-Wiechert-Allee 50, 30625 Hannover, Bundesrepublik Deutschland, zum Zustellungsbevollmächtigten.

(5) Geltendmachung von Rechten

Jeder Anleihegläubiger kann in Rechtsstreitigkeiten gegen die Emittentin oder die Garantin im eigenen Namen seine Rechte aus den ihm zustehenden Schuldverschreibungen geltend machen unter Vorlage der folgenden Dokumente: (a) einer Bescheinigung seiner Depotbank, die (i) den vollen Namen und die volle Anschrift des

become effective, and the Issuer and in the event of a repeated application of this § 11, any previous New Issuer shall be discharged from any and all obligations under the Bonds. In case of such substitution, the stock exchange(s), if any, on which the Bonds are then listed will be notified and a supplemental offering circular describing the New Issuer will be prepared, if required.

§ 12 (Final Provisions)

(1) Applicable Law

The Bonds and the Guarantee are governed by the laws of the Federal Republic of Germany, except that Condition 2 (1) is governed by the laws of Luxembourg. The provisions of articles 86 to 94-8 of the Luxembourg law dated 10 August 1915 concerning commercial companies, as amended, shall not apply to the Bonds.

(2) Place of Jurisdiction

To the extent legally permissible, exclusive place of jurisdiction for all proceedings arising from matters provided for in these Terms and Conditions shall be Frankfurt am Main, Federal Republic of Germany. The Issuer and the Guarantor, respectively, irrevocably waive any objection which it might now or hereafter have to the courts of Frankfurt am Main being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any of those courts is not a convenient or appropriate forum.

(3) Place of Performance

Place of performance shall be Frankfurt am Main, Federal Republic of Germany.

(4) Process Agent

For any legal disputes or other proceedings before German courts, the Issuer appoints Hannover Rückversicherung AG, Karl-Wiechert-Allee 50, 30625 Hannover, Federal Republic of Germany, as authorised agent for accepting services of process.

(5) Enforcement of Rights

Any Bondholder may in any proceedings against the Issuer or the Guarantor protect and enforce in its own name its rights arising under its Bonds by submitting the following documents: (a) a certificate issued by its Depository Bank (i) stating the full name and address of the Bondholder, (ii) specifying an aggregate principal amount of Bonds credited

Anleihegläubigers bezeichnet, (ii) den Gesamtnennbetrag der Schuldverschreibungen angibt, die am Ausstellungstag dieser Bescheinigung dem bei dieser Depotbank bestehenden Depot dieses Anleihegläubigers gutgeschrieben sind, und (iii) bestätigt, dass die Depotbank dem Clearing System und der Hauptzahlstelle eine schriftliche Mitteilung zugeleitet hat, die die Angaben gemäß (i) und (ii) enthält und Bestätigungsvermerke des Clearing Systems sowie des jeweiligen Clearing System-Kontoinhabers trägt, sowie (b) einer von einem Vertretungsberechtigten des Clearing Systems oder der Hauptzahlstelle beglaubigten Ablichtung der Globalurkunde.

**§ 13
(Sprache)**

Diese Anleihebedingungen sind in deutscher Sprache abgefasst und mit einer Übersetzung in die englische Sprache versehen. Der deutsche Wortlaut ist allein rechtsverbindlich. Die englische Übersetzung dient nur zur Information.

on the date of such certificate to such Bondholder's securities account maintained with such Depository Bank and (iii) confirming that the Depository Bank has given a written notice to the Clearing System as well as to the Principal Paying Agent containing the information pursuant to (i) and (ii) and bearing acknowledgements of the Clearing System and the relevant Clearing System accountholder as well as (b) a copy of the Global Bond certified by a duly authorised officer of the Clearing System or the Fiscal Agent as being a true copy.

**§ 13
(Language)**

These Terms and Conditions are written in the German language and provided with an English language translation. The German text shall be the only legally binding version. The English language translation is provided for convenience only.

GERMAN LANGUAGE GUARANTEE

NACHRANGIGE GARANTIE

der
Hannover Rückversicherung AG
Hannover, Bundesrepublik Deutschland
zugunsten der Anleihegläubiger der
Garantierten Nachrangigen Anleihe mit
unbegrenzter Laufzeit von 2005 mit einem
Gesamt-nennbetrag von

€ 500.000.000

(die „Schuldverschreibungen“)

der
Hannover Finance (Luxembourg) S.A.
(die „Emittentin“)

Die Hannover Rückversicherung AG (die „Garantin“) garantiert hiermit gegenüber Anleihegläubigern, auf nachrangiger Basis, unbeding und unwiderruflich die ordnungsgemäße und fristgerecht Zahlung von Kapital, Zinsen und sonstigen aus den Schuldverschreibungen zu zahlenden Beträgen, die von der Emittentin auf die Schuldverschreibungen zahlbar sind.

Die Verbindlichkeiten der Garantin aus dieser nachrangigen Garantie sind nachrangig gegenüber nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin (einschließlich Genussrechten und Stillen Beteiligungen), soweit nicht zwingende gesetzliche Bestimmungen etwas anderes vorschreiben. Im Fall der Auflösung, der Liquidation, der Insolvenz oder eines der Abwendung der Insolvenz der Garantin dienenden Verfahrens stehen Verbindlichkeiten der Garantin aus der Garantie nicht nachrangigen und nachrangigen Verbindlichkeiten der Garantin im Rang nach, so dass Zahlungen auf die Garantie erst erfolgen, wenn alle Ansprüche gegen die Garantin aus Verbindlichkeiten, die den Verbindlichkeiten der Garantin aus dieser nachrangigen Garantie nach Maßgabe dieses Absatzes im Rang vorgehen, vollständig befriedigt sind; erst nach Befriedigung aller der vorgenannten Ansprüche können die verbleibenden Vermögenswerte an die Eigner gegebenenfalls ausgegebener Vorzugsaktien und der Stammaktien der Garantin verteilt werden. Jedes Recht zur Aufrechnung gegen Ansprüche der Garantin mit Ansprüchen aus den Schuldverschreibungen oder dieser nachrangigen Garantie ist ausgeschlossen.

Für die Rechte der Anleihegläubiger aus dieser nachrangigen Garantie ist diesen keine Sicherheit durch die Garantin oder durch Dritte

ENGLISH LANGUAGE TRANSLATION OF THE GUARANTEE SUBORDINATED GUARANTEE

of
Hannover Rückversicherung AG
Hanover, Federal Republic of Germany
for the benefit of the Bondholders of the
Guaranteed Undated Subordinated Bonds
of 2005 in an aggregate principal
amount

€ 500,000,000

(the “Bonds“)

of
Hannover Finance (Luxembourg) S.A.
(the “Issuer“)

Hannover Rückversicherung AG (the “Guarantor“) guarantees to the Bondholders, on a subordinated basis, unconditionally and irrevocably the due and timely payment of principal, interest and any other amounts payable by the Issuer on the Bonds.

The obligations of the Guarantor under this subordinated Guarantee shall be subordinated to all unsubordinated and subordinated obligations of the Guarantor (including profit participation rights (*Genussrechte*) and silent partnership interests (*Stille Beteiligungen*)) except as otherwise required by mandatory statutory law. In the event of the dissolution, liquidation, insolvency or any proceeding for the avoidance of insolvency of the Guarantor, the obligations of the Guarantor under the Guarantee will be subordinated to all unsubordinated and subordinated obligations of the Guarantor so that in any such event payments under the Guarantee shall not be made until all claims against the Guarantor based on any obligations which pursuant to this paragraph are expressed to rank senior to the obligations of the Guarantor under this subordinated Guarantee shall first have been satisfied in full; only after all of the aforementioned claims shall first have been satisfied any remaining assets may be distributed to the holders of any preference shares as well as the common shares of the Guarantor. Any right to set-off claims arising from this subordinated Guarantee against claims of the Guarantor shall be excluded.

No security of whatever kind is, or shall at any time be, provided by the Guarantor or any other person securing rights of the Bondholders

gestellt; eine solche Sicherheit wird auch zu keinem Zeitpunkt gestellt werden. Nachträglich können weder der Nachrang dieser Garantie beschränkt, noch die Laufzeit der Garantie begrenzt werden.

Es ist Sinn und Zweck dieser nachrangigen Garantie sicherzustellen, dass die Anleihegläubiger unter allen Umständen, ob rechtlicher oder tatsächlicher Natur, und unabhängig von der Wirksamkeit oder Durchsetzbarkeit der Verpflichtungen der Emittentin oder der Gesellschaft (außer der Garantin), die gegebenenfalls die Emittentin gemäß § 11 der Bedingungen der Schuldverschreibung (die „**Anleihebedingungen**“) ersetzt hat (die „**Neue Emittentin**“), und unabhängig von sonstigen Gründen, aufgrund derer eine Zahlung durch die Emittentin oder die Neue Emittentin unterbleiben mag, die zahlbaren Kapitalbeträge, Zinsen und sonstigen aufgrund der Anleihebedingungen an die Anleihegläubiger zahlbaren Beträge zu den Fälligkeitsterminen erhalten, die in den Anleihebedingungen festgesetzt sind.

Sämtliche Zahlungen unter dieser nachrangigen Garantie werden ohne Einbehalt oder Abzug von Steuern, Abgaben, Festsetzungen oder behördlichen Gebühren jedweder Art („**Steuern**“) geleistet, die von dem Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland oder einer ihrer Gebietskörperschaften oder Behörden mit der Befugnis zur Erhebung von Steuern auferlegt, erhoben, eingezogen, einbehalten oder festgesetzt werden, es sei denn, ein solcher Einbehalt oder Abzug ist gesetzlich vorgeschrieben. In einem solchen Falle wird die Garantin zusätzliche Beträge zahlen (die „**Zusätzlichen Beträge**“), so dass die Anleihegläubiger die Beträge erhalten, die sie ohne Einbehalt oder Abzug erhalten hätten. Solche Zusätzlichen Beträge sind jedoch nicht zahlbar wegen solcher Steuern:

- (i) denen ein Anleihegläubiger wegen einer anderen Beziehung zum Großherzogtum Luxemburg bzw. der Bundesrepublik Deutschland unterliegt als der bloßen Tatsache, dass er der Inhaber der betreffenden Schuldverschreibungen ist; oder
- (ii) deren Einbehalt oder Abzug auf eine Zahlung an eine natürliche Person erfolgt und zwar auf der Grundlage der Richtlinie 2003/48/EC der Europäischen Union oder einer anderen Richtlinie der

under the subordinated Guarantee. No subsequent agreement may limit the subordination of this Guarantee or the term of this Guarantee.

The intent and purpose of this subordinated Guarantee is to ensure that the Bondholders under all circumstances, whether factual or legal, and regardless of the validity and enforceability of the obligations of the Issuer or the company (other than the Guarantor) which may have been substituted for the same (the “**Substitute Issuer**“) pursuant to § 11 of the terms and conditions of the bonds (the “**Conditions**“), or of any other grounds on the basis of which the Issuer or the Substitute Issuer may fail to effect payment, shall receive the amounts payable as principal, interest and other amounts payable to the Bondholders pursuant to the Conditions on the due dates therefore provided for in the Conditions.

All payments under this subordinated Guarantee will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**“) imposed, levied, collected, withheld or assessed by the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) or any political subdivision or any authority of or in the Grand-Duchy of Luxembourg or the Federal Republic of Germany (as the case may be) that has power to tax, unless that withholding or deduction is required by law. In that event, the Guarantor (as the case may be) will pay such additional amounts (the “**Additional Amounts**“) as will result in receipt by the Bondholders of the same amounts as they would have received if no such withholding or deduction had been required. However, no such Additional Amounts shall be payable with respect to such Taxes:

- (i) to which a Bondholder is liable because of a relationship with Grand-Duchy of Luxembourg or the Federal Republic of Germany other than the mere fact of his being the holder of the relevant Bonds; or
- (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive

Europäischen Union zur Besteuerung privater Zinserträge, die die Beschlüsse der ECOFIN-Versammlung vom 26. bis 27. November 2000 umsetzt oder aufgrund eines Gesetzes, das aufgrund solcher Richtlinie erlassen wurde, ihr entspricht oder eingeführt wurde, um dieser Richtlinie nachzukommen; oder

- (iii) denen der Anleihegläubiger nicht unterläge, wenn er seine Schuldverschreibungen binnen 30 Tagen nach Fälligkeit bzw., falls die notwendigen Beträge der Hauptzahlstelle bei Fälligkeit nicht zur Verfügung gestellt worden sind, nach dem Tag, an dem diese Mittel der Hauptzahlstelle zur Verfügung gestellt worden sind und dies gemäß § 10 der Anleihebedingungen bekannt gemacht wurde, zur Zahlung vorgelegt hätte.

Diese nachrangige Garantie ist ein Vertrag zugunsten der jeweiligen Anleihegläubiger als begünstigte Dritte gemäß § 328(1) BGB, der jedem Anleihegläubiger das Recht gibt, Erfüllung der hierin übernommenen Verpflichtungen unmittelbar von der Garantin zu verlangen und diese Verpflichtungen unmittelbar gegen die Garantin durchzusetzen.

Die Garantin erklärt, dass für den Fall von Zahlungen der Emittentin an Anleihegläubiger, die nach erfolgter Zahlung insgesamt oder zum Teil für unwirksam, missbräuchlich oder anfechtbar erklärt werden und/oder an die Emittentin, die Insolvenzmasse, den Insolvenzverwalter oder an eine andere Partei aufgrund irgendeines Insolvenzrechts oder dessen Auslegung zurückgezahlt werden, diese Garantie und Beträge oder Teilbeträge, die durch solche Zahlungen bereits beglichen, abgegolten oder befriedigt wurden, in vollem Umfang wie vor dem Zeitpunkt der ersten Zahlung, Abgeltung oder Befriedigung fortbestehen.

Begriffe, die in den Anleihebedingungen definiert sind, haben in dieser nachrangigen Garantie die gleiche Bedeutung wie in den Anleihebedingungen, soweit sie in dieser nachrangigen Garantie nicht anderweitig definiert sind.

Die diese nachrangige Garantie annehmende JPMorgan Chase Bank N.A., London Branch handelt nicht als Treuhänderin oder in ähnlicher Funktion für die Anleihegläubiger. JPMorgan Chase Bank N.A., London Branch

implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (iii) to which the Bondholder would not be subject if he had presented his Bonds for payment within 30 days from the due date for payment, or, if the necessary funds have not been provided to the Fiscal Agent when due, from the date on which such funds have been provided to the Fiscal Agent, and a notice to that effect has been published in accordance with § 10 of the Conditions.

The Subordinated Guarantee constitutes a contract in favour of the Bondholders from time to time as third party beneficiaries pursuant to § 328(1) of the German Civil Code (*Bürgerliches Gesetzbuch*) giving rise to the right of each Bondholder to require performance of the obligations undertaken herein directly from the Guarantor and to enforce such obligations directly against the Guarantor.

The Guarantor further agrees that to the extent that the Issuer makes a payment or payments to the Bondholders, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside, and/or required to be repaid to the Issuer or its estate, trustee, receiver, or any other party under any bankruptcy law, or officially binding interpretation thereof, then to the extent of such payment or repayment, this Guarantee and the advances or part thereof that have been paid, reduced, or satisfied by such amount shall be reinstated and continued in full force and effect as of the date such initial payment, reduction, or satisfaction occurred.

Unless otherwise defined herein, terms used herein and defined in the Conditions shall in this subordinated Guarantee have the meaning attributed to them in the Conditions.

JPMorgan Chase Bank N.A., London Branch which accepts this subordinated Guarantee does not act in a fiduciary or similar capacity for the Bondholders. JPMorgan Chase Bank N.A., London Branch agrees to hold the original copy

verpflichtet sich, das Original dieser nachrangigen Garantie bis zur Erfüllung sämtlicher Verpflichtungen aus den Schuldverschreibungen und dieser nachrangigen Garantie zu verwahren.

Die Rechte und Pflichten aus dieser nachrangigen Garantie bestimmen sich ausschließlich nach deutschem Recht. Gerichtsstand ist Frankfurt am Main, Bundesrepublik Deutschland.

Die deutsche Fassung dieser nachrangigen Garantie ist allein rechtsverbindlich. Die englische Übersetzung dient nur der Information.

Hannover,

27. Mai 2005

Hannover Rückversicherung AG

of this subordinated Guarantee in custody until all obligations under the Bonds and the subordinated Guarantee have been fulfilled.

The rights and obligations arising from this Subordinated Guarantee shall in all respects be determined in accordance with German law. The place of jurisdiction shall be Frankfurt/Main, Federal Republic of Germany.

The German version of this Subordinated Guarantee shall be the only legally binding version. The English translation is for convenience only.

Hannover,

27 May 2005

Hannover Rückversicherung AG

Wir nehmen die obenstehenden Erklärungen an.

London,

27. Mai 2005

JPMorgan Chase Bank N.A., London Branch

We accept all of the above.

London,

27 May 2005

JPMorgan Chase Bank N.A., London Branch

USE OF PROCEEDS

€240,581,000 of the aggregate principal amount of the Bonds to be issued on 1 June 2005 will be used to exchange €211,850,000 of the aggregate principal amount of the Issuer's €350,000,000 Guaranteed Subordinated Fixed to Floating Rate Bonds of 2001/2031 (ISIN: XS0126063386 Common Code: 012606338).

The net proceeds of the remaining €259,419,000 of the aggregate principal amount of the Bonds to be issued on 1 June 2005, amounting to approximately €256,500,000, will be used to strengthen the capital base of the group and for general business purposes.

DESCRIPTION OF THE ISSUER

Incorporation, Corporate Seat, Duration and Objects

The Issuer was incorporated as a public limited liability company (*société anonyme*) for an unlimited duration on 8 February 2001 in the Grand Duchy of Luxembourg. It has its registered office at 25A, Boulevard Royal, L-2449 Luxembourg. The Issuer was registered on 28 February 2001 with the Luxembourg Register for Commerce and Companies under number B 80692 and its articles of incorporation have been published in the *Mémorial C number 804, Recueil des Sociétés et Associations* ("Mémorial C") of the Grand Duchy of Luxembourg on 2 September 2002. The articles of incorporation of the Issuer were amended on 14 July 2003 and were published in the Mémorial C number 889 on 29 August 2003.

The object of the Issuer is the holding of participations, in any form whatsoever, directly or indirectly, in Luxembourg or in foreign companies, the acquisition by purchase, subscription or in any other way of stocks, bonds, notes, debentures or other securities of any kind; the securitisation of loans as well as the transfer by sale, exchange or otherwise and the holding, development and management of these securities. The Issuer may also hold participations in partnerships.

The Issuer may enter into loans of any nature, issue debt securities as well as it may enter into any other type of secured liabilities. The Issuer may grant loans to its subsidiaries or to any other companies of the Hannover Re Group. The Issuer may also stand surety for its subsidiaries or any other companies of the Hannover Re Group vis-à-vis third parties. The Issuer may pledge its assets in total or in part in favour of any person which puts any necessary financial resources at its disposal.

The Issuer may conclude currency swap contracts and/or interest rate swaps, as well as it may enter into contracts on derivative instruments, currency hedging and/or similar contracts. In general, the Issuer may avail itself of all and any investment methods which are in the interest of the development of the Issuer, in particular methods aiming at protecting the Issuer from risks linked to currencies, interest losses or similar risks.

The Issuer may also take all controlling measures and carry out all transactions which it may deem useful in the accomplishment and development of its corporate object.

The annual general meeting of the shareholders of the Issuer takes place on the second Wednesday of June at 11.00 a.m. at the registered office of the Issuer. The Issuer does not have any subsidiaries and it does not hold any real estate.

Share Capital

The issued paid in capital of the Issuer of € 600,000 consists of 600 registered ordinary shares with par value of € 1,000 per share. Together with a capital reserve (*Ausgabeagio*) of € 13,400,000, the total capital amounts to € 14,000,000.

Ownership

599 of the 600 shares are held by the Guarantor; one share is held by Mr. Dietmar Stenzel, who is one of the three directors of the Issuer.

Capitalisation

The following table sets forth the capitalisation of the Issuer as at 31 March 2005:

	31 March 2005 – unaudited –	31 March 2005 adjusted for the present issue – unaudited –
	(€)	
Paid in capital consisting of 600 shares	600,000	600,000
Capital reserve	13,400,000	13,400,000
Total stockholder's equity	14,000,000	14,000,000
Notes payable	1,100,000,000	1,388,150,000 ¹
Total capitalisation	1,114,000,000	1,402,150,000

1 €240,581,000 of the Bonds will be issued in exchange for €211,850,000 Guaranteed Subordinated Fixed to Floating Rate Bonds of 2001/2031 pursuant to an exchange offer which ended on 25 May 2005. The remaining €259,419,000 Bonds will be issued for cash.

Save for the Bonds to be issued as described in this Offering Circular, there has been no material change to the capitalisation of the Issuer since 31 March 2005.

It is likely that in 2005 stockholders' equity will decrease due to negative net income resulting from the current investment situation.

Management

The company has a Board of Directors (*Verwaltungsrat*) consisting of three directors. The Issuer has no employees. The Board of Directors consists of:

Wilhelm Zeller (Chairman)

Dr. Elke A. König

Dietmar Stenzel

The business address of the members of the Board of Directors is 25A, Boulevard Royal, L-2449 Luxembourg.

In addition to being the directors of the Issuer, Wilhelm Zeller and Dr. Elke A. König are also members of the Executive Board of the Guarantor and of certain other companies within the Hannover Re Group.

Financial Year

The financial year of the Issuer is the calendar year.

Auditors

The Issuer's statutory auditor (*Kommissar*) is KPMG Audit S.à.r.l., having its registered office at 31 Alleé Scheffer, L-2520 Luxembourg. The audited financial statements of the Issuer for the year ended 31 December 2003 and 2004 are incorporated by reference into this Offering Circular. Copies thereof may be obtained free of charge at the offices of the Paying Agent in Luxembourg.

Recent Developments

There has been no material change in the financial condition of the Issuer since 31 December 2004, other than as disclosed in this Offering Circular.

Hannover Finance (Luxembourg) S.A.

Luxembourg GAAP

	31 December		
	2002	2003	2004
	000' €		
Assets			
Fixed-income Securities – available for sale	261,725	231,223	1,086,971
Other Invested Assets	100,000	130,000	30,000
Short-term Investments	1,230	3,587	21,331
Total Investments and Cash	362,955	364,810	1,138,302
Other Assets	2,379	2,295	6,571
Accrued Interest and Rent	11,660	10,145	17,106
Totals	376,994	377,250	1,161,979

	31 December		
	2002	2003	2004
	000' €		
Liabilities			
Other Liabilities	38,665	17,552	54,048
Bond Payable	350,000	350,000	1,100,000
Total Liabilities	388,665	367,552	1,154,048
Common Stock	200	600	600
Capital Reserve	300	13,400	13,400
Retained Earnings			
Beginning of Period	-3,161	-12,171	-4,302
Net Income/Loss	-9,010	7,869	-1,767
End of Period	-12,171	-4,302	-6,069
Total Stockholders' Equity	-11,671	9,698	7,931
Totals	376,994	377,250	1,161,979

	1 January – 31 December		
	2002	2003	2004
	000' €		
Ordinary Investment Income	22,032	21,354	50,521
Realised Gains on Investments	1,647	6,318	9,989
Appreciation/Depreciation on Investments	-9,895	2,463	-507
Other Income/Expenses	-917	-254	-3,312
Interest Expense on Bond Payable	-21,877	-21,877	-58,300
Income Tax	—	-135	-158
Net Income/Loss	-9,010	7,869	-1,767

DESCRIPTION OF THE GUARANTOR

Overview

Hannover Re, with gross premiums of approximately EUR 10 billion, is one of the largest reinsurance groups in the world. It transacts all lines of property/casualty, life/health and financial/finite-risk reinsurance as well as program business. It maintains business relations with more than 5,000 insurance companies in about 150 countries. Its worldwide network consists of more than 100 subsidiaries, branch and representative offices in 18 countries.

The Hannover Re Group has four business segments: property and casualty reinsurance, which in 2004 contributed 43% to the Hannover Re Group's gross written premiums, life and health reinsurance (23%), financial reinsurance (12%) and program business (22%).

Hannover Rückversicherung AG

Incorporation, Corporate Seat, Duration, Corporate Purpose and Regulation

Hannover Re was incorporated as a stock corporation under German law on 6 June 1966 in Bochum under the name "Aktiengesellschaft für Transport und Rückversicherung". The founders of Hannover Re were Feuerschadenverband Rheinisch Westfälischer Zechen V.a.G., Haftpflichtverband der Deutschen Industrie V.a.G., Haftpflicht Unterstützungs Kasse kraftfahrender Beamter Deutschlands a.G., Schadensschutzverband GmbH and Westfalen Bank AG. The major shareholders of Hannover Re, namely Feuerschadenverband Rheinisch Westfälischer Zechen V.a.G. and Haftpflichtverband der Deutschen Industrie V.a.G., later merged to form HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI"), which now indirectly holds the shares of Hannover Re through Talanx Aktiengesellschaft ("Talanx").

The registered office of Hannover Re is at Karl-Wiechert-Allee 50, 30625 Hannover, Germany. Hannover Re is registered with the Commercial Register of the Local Court (*Amtsgericht*) Hannover under the registration number HRB 6778. The corporate purpose of Hannover Re, as stated in its articles of association, is to pursue activities in the reinsurance business. Hannover Re may also engage in other insurance business.

The duration of Hannover Re is unlimited.

Announcements of Hannover Re are published in the electronic Federal Gazette of Germany (*elektronischer Bundesanzeiger*).

Share Capital, Shares and Dividends

Share Capital

As of 31 December 2004, the issued share capital of Hannover Re amounted to EUR 120,597,134.00, consisting of 120,597,134 ordinary registered no-par-value shares (*Stückaktien*). All shares are fully paid up and have the same voting rights.

The capital stock is increased contingently by up to EUR 48,500,000.00 through the issue of up to 48,500,000 new registered no-par-value shares with participating rights effective from the beginning of the financial year in which they are issued. The contingent capital increase can be used to grant shares to holders of convertible and warrant bonds and has a time limit of 13 November 2007.

Hannover Re has an aggregate authorised share capital (*genehmigtes Kapital*) of EUR 60,298,567.00 that is available with a time limit of 31 May 2009. New no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. However, the Executive Board, with the consent of the Supervisory Board, may exclude the pre-emptive rights under certain circumstances as set forth in the articles of association of the Guarantor.

The ordinary shareholders' meeting of Hannover Re of 2 June 2004 authorised the Executive Board of Hannover Re to buy back up to 10% of its outstanding share capital. The authorisation expires on 30 November 2005 in accordance with § 71 Section 1 No. 8 Stock Corporation Act (*Aktiengesetz-AktG*). As at 31 March 2005, such shares had not been repurchased.

Shares

After a placement of 20.6% of the issued share capital of Hannover Re with institutional investors on 18 February 2004, Talanx Aktiengesellschaft holds 51.2% of the issued share

capital of Hannover Re. The remaining 48.8% are publicly held. The shares of Hannover Re are listed for trading on the Frankfurt and Hannover Stock Exchanges. The shares are represented by a global share certificate, which has been deposited with Clearstream Banking AG, Frankfurt am Main. The shareholders are not entitled to request the delivery of share certificates.

The annual ordinary general meeting of shareholders of Hannover Re takes place at least once a year and passes resolutions with respect to the allocation and distribution of profits and the discharge of responsibilities of the Executive Board and the Supervisory Board. The meeting takes place within the first fourteen months after the end of the financial year and is called by the Executive Board. To attend and vote, shareholders must be registered in the share register of Hannover Re and give advanced notice of their intention to attend and vote. The announcement of a shareholders' meeting must be published in the electronic Federal Gazette of Germany (*elektronischer Bundesanzeiger*).

At the shareholders' meeting, each share shall have one vote.

Dividends

Dividends are proposed by the Supervisory Board and Executive Board, and are approved at the annual ordinary general meeting of shareholders. If approved, dividends are paid once a year promptly following the general meeting. Dividends may be declared and paid from the balance sheet profit (*Bilanzgewinn*) only, as shown in the annual financial statements. The annual financial statements are adopted and approved by resolution of the Executive Board and the Supervisory Board. In determining the distributable balance sheet profits, the Executive Board and the Supervisory Board are authorised to allocate to other revenue reserves (*andere Gewinnrücklagen*) up to 50% of the net income (*Jahresüberschuss*) that remains after deduction of amounts to be allocated to the statutory reserves and losses carried forward. The ordinary general meeting, which resolves on the distribution of profits, is entitled to allocate additional amounts to the profit reserves and to carry forward the profits in part or in full.

For the financial years 2002, 2003 and 2004 Hannover Re has paid the following dividends on fully paid up shares:

	<u>Dividend</u>
	EUR
2002	0.85
2003	0.95
2004	1.00*

* The dividend for 2004 has not been paid yet. The Executive Board and Supervisory Board intend to propose to the Annual General Meeting which takes place on 14 June 2005 the payment of a dividend of EUR 1.00 on each eligible no-par-value share.

The Hannover Re Group

Hannover Re is the parent company of the Hannover Re Group. The consolidated financial statement includes nine German and seventeen foreign companies, as well as three foreign consolidated entities.

Hannover Re conducts its own reinsurance business and also operates as a holding company, performing management and control functions within the Hannover Re Group. As of 31 December 2004, total assets of Hannover Re Group amounted to EUR 35.4 billion. As of 31 December 2004, Hannover Re Group globally employed a total of 2,035 employees, consisting of 826 in Germany, 588 in the US, 235 in South Africa, 115 in the UK and Ireland and 271 in other countries.

Application of US GAAP SFAS 141 D 11-D 18 ("as-if pooling" method)

As part of Hannover Re's capital increase of 12 June 2003 the majority shareholder Talanx AG transferred its shares in what is now Hannover Reinsurance (Dublin) Limited (HRD, formerly: HDI Reinsurance (Ireland) Limited) to the Hannover Re Group effective 1 July 2003 as a contribution in kind against issuance of 13,726,814 new shares valued at EUR 310 million. The effective commercial date of this transaction (1 July 2003) was deemed determinative for the

first-time consolidation of the transferred company in the quarterly financial statements as at 30 September 2003.

The “as if pooling” accounting method is US GAAP specific (SFAS 141 App. D 11-18) and only applicable to transactions between companies that are under common control. The most important implication is that Hannover Reinsurance (Dublin) Ltd. must be treated as if it had always been part of the Hannover Re Group. The disclosure for the previous period has to be adjusted according to this modified treatment – in other words, Hannover Reinsurance (Dublin) Ltd. must be included effective 1 January – in order to ensure that the figures for the various accounting periods can be compared. In the company’s view this distorts the representation of the Hannover Re Group’s economic performance in the 2003 financial year.

Capitalisation

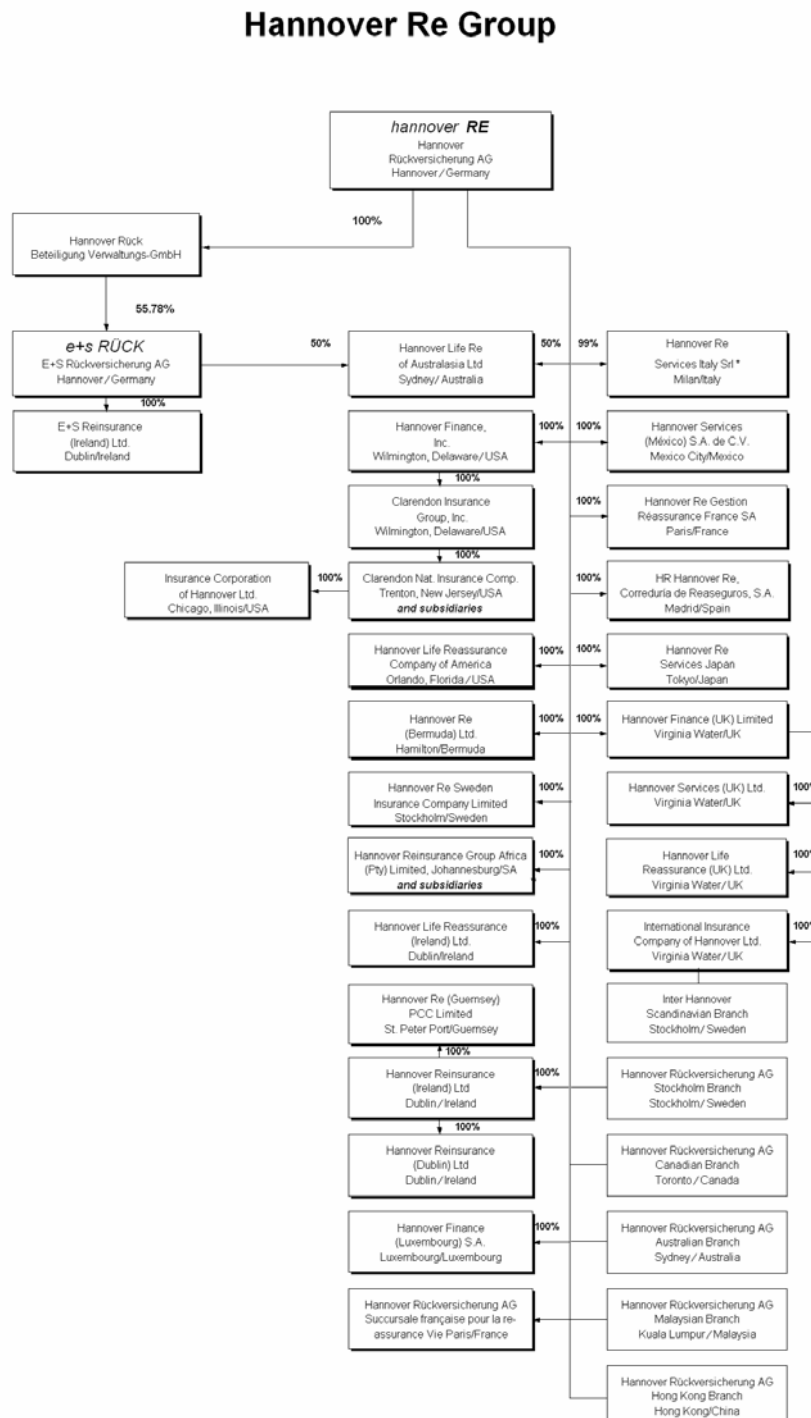
The following table shows the capitalisation of Hannover Re Group as of 31 December 2004:

	31 December
	2004
	000' €
Common stock	120,597
Additional Paid-in capital	724,562
Total comprehensive income	-245,653
Retained earnings.....	1,762,252
Net income	309,140
Dividends paid	-114,567
Other changes.....	353
	<hr/>
Total stockholders’ equity.....	2,556,684
	<hr/>
Notes payable	1,121,335
	<hr/>
Minorities.....	535,004
	<hr/> <hr/>
Policyholders’ Surplus.....	4,213,023

Save as disclosed in this Offering Circular, there has been no material change to the capitalisation of the Hannover Re Group since 31 December 2004.

The following chart gives an overview of the major operating subsidiaries within the (re)insurance sector of Hannover Re Group as per 31 December 2004:

Hannover Re Group Structure



remark: all cities/countries refer to the registered address of the company

* remaining shareholding of 1% is held by E+S Rück

As at 31 December 2004, the major operating subsidiaries of Hannover Re were:

E+S Rückversicherung AG, Hannover/Germany

E+S Rückversicherung AG, Hannover, is a 55.78% owned subsidiary of Hannover Re. The majority of the remaining shares are held by eight German mutual insurance companies. E+S Rückversicherung AG has subsidiaries in Ireland, Australia and Italy. Within the Hannover Re Group, E+S Rückversicherung AG is exclusively responsible for the German business and operates in both property and casualty reinsurance as well as life and health reinsurance segments.

Total gross written premium of E+S Rückversicherung AG were EUR 2.1 billion in 2004 (2003: EUR 2.2 billion). Net income in 2004 was EUR 44.0 million (2003: EUR 39.0 million) (figures according to German GAAP).

Clarendon Insurance Group, Wilmington, Delaware/USA

Clarendon Insurance Group has been part of the Hannover Re Group since 1999. Clarendon Insurance Group operates as a primary insurer in the strategic segment of program business, in particular in the property and liability classes; it is one of the market leaders in this sector in the United States. Key areas consist of workers' compensation insurance, householders' and homeowners' comprehensive insurance and the insurance of non-standard motor risks (policyholders with a non-standard risk profile).

Gross premium income decreased in 2004 by 22.8% to EUR 1.8 billion (2003: EUR 2.4 billion). Overall Clarendon recorded a net loss after tax of EUR 91.4 million, compared with net income of EUR 37.3 million in the previous year.

Hannover Re (Bermuda) Ltd, Hamilton/Bermuda

Hannover Re (Bermuda) Ltd ("HR Bermuda") in Hamilton/Bermuda was established in 2001 and is a wholly owned subsidiary of Hannover Re. HR Bermuda participates in various excess of loss property catastrophe reinsurance contracts.

Hannover Re (Bermuda) was formed to be the centre of excellence within the Hannover Re Group for the writing of property catastrophe business. By setting up the company in the Bermuda market Hannover secured its presence in the most active reinsurance environment.

Other operating subsidiaries of the Hannover Re Group include:

Hannover Life Re of Australasia Ltd, Sydney/Australia

Hannover Life Reassurance (UK) Limited, Virginia Water/United Kingdom

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

E+S Reinsurance (Ireland) Ltd., Dublin/Ireland

Hannover Life Reassurance (Ireland) Limited, Dublin/Ireland

Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland

Hannover Reinsurance (Dublin) Ltd., Dublin/Ireland

Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa

Hannover Life Reassurance Company of America, Orlando/USA

Overview of the Business Development of the Hannover Re Group for the period ended 31 December 2004

Property and casualty reinsurance

Accounting for 42.9% of gross premium income, property and casualty reinsurance remains Hannover Re's largest business group. In 2004 the "hard market" climate once again prevailed: rates and conditions continued to be favourable, and in some lines further improvements were obtained. This was especially true of the longer-tail casualty lines. In marine insurance, too, gratifying rate increases were observed in those segments that had been hit by the repercussions of hurricane "Ivan". Only in some property lines and in aviation business could a certain softening in rates be detected.

Hannover Re again profited to the fullest extent from these advantageous market conditions in 2004. As always, Hannover Re wrote its business in compliance with strict profitability criteria. Hannover Re continued to optimise its portfolio as part of the "More from less" initiative and replaced low-margin proportional business with more profitable non-proportional arrangements. The latter also enabled Hannover Re to keep a considerably tighter grip on the pricing of the treaties. It was therefore gratifying to note that the share of the total property and casualty reinsurance portfolio attributable to non-proportional business increased to 83% (81%). This regrouping of the portfolio, however, combined with the restructuring of the business accepted from the HDI affiliates and the weakness of the US dollar, also caused premium income in property and casualty reinsurance to contract sharply in 2004.

Life and health reinsurance

The reinsurance of life, health, annuity and personal accident insurances (the latter to the extent that they are transacted by life insurers) is brought together in the life and health reinsurance business group, which Hannover Re operates worldwide on a uniform basis under the proprietary brand name of Hannover Life Re.

Hannover Re lives up to its clients' expectations regarding local service and short chains of communication by means of its decentralised corporate structure. With 18 subsidiaries, branches and service offices Hannover Re is present on all five continents with a staff of 380.

All underwriting decisions of Hannover Life Re are taken on the basis of its General Underwriting Guidelines. The underwriting policy, which is clearly defined in these guidelines, is conservative and geared to generating stable long-term earnings. Above all, it avoids derivative risks on the casualty side of the balance sheet. For this reason Hannover Re does not participate in the reinsurance of derivative components of unit-linked US annuity policies, an area that has recently attracted negative. Hannover Re's exposure to longer-term US term life policies, the reserving of which has been dominated by "Regulation XXX" since 2000, is also minimal.

Financial reinsurance

The difference between financial reinsurance and property/casualty reinsurance can be traced principally to the reinsurance needs of the individual client. Whereas in property and casualty reinsurance the emphasis is on the risk transfer between insurer and reinsurer in the context of a single portfolio or segment, in financial reinsurance the clients typically seek to optimise their entire book of business. These frequently highly specific requirements call for solutions that are specially tailored to the particular client.

When it comes to underwriting the risks, however, financial reinsurance uses the same actuarial models and similar methods and resources to those applied in traditional property and casualty reinsurance. For organisational purposes many reinsurers therefore include it within this business group. For Hannover Re, however, financial reinsurance constitutes a separate business group that has been established under the brand Hannover Re Advanced Solutions. By taking this approach Hannover Re believes that it has created optimal transparency for its clients and shareholders.

Program business

Program business is a specialty form of primary insurance which concentrates on closely defined, homogeneous portfolios (programs) of niche risks that are not normally offered or

adequately covered by traditional insurers. Major functions of the insurance business (from acquisition through the issuing of policies and premium collection to claims settlement) are normally outsourced and handled by specialised managing general agents (MGAs).

A further feature of this business group is the often very high percentage of proportional reinsurance. This is due to the fact that many programs come in through a reinsurer's relation with an MGA and the reinsurer itself wishes to write a large portion of the business – although it is not licensed to transact primary insurance.

Hannover Re's activities in program business are conducted principally through four subsidiaries. By far the largest share of the total portfolio is written by the US subsidiary Clarendon Insurance Group, Inc., New York, the market leader in program business in the United States. Hannover Re is further represented by the American company Insurance Corporation of Hannover (ICH), Chicago, the UK-based International Insurance Company of Hannover Ltd. (Inter Hannover), Bracknell/London, and Compass Insurance Holdings (Pty) Ltd., Johannesburg, South Africa.

Business Development of Hannover Re Group for the period until 31 December 2004

Business Development Overview

In general 2004 was one of the most eventful years in recent memory. All four of Hannover Re's business groups had to cope with exceptional events, most notably the four hurricanes in the Caribbean and the United States with associated heavy losses for the insurance and reinsurance industries. Many market players referred to 2004 as the heaviest year of losses in reinsurance history. Market estimates put the strains from natural catastrophe events alone at around EUR 30 billion.

The unusually high burden of major losses from natural catastrophe events in the third quarter of 2004 prevented Hannover Re from generating a new record result. The business group hardest hit by the natural catastrophes was program business.

Whereas in 2003 Hannover Re had generated the best operating profit in the company's history (EUR 732.1 million), EBIT stood at just EUR 577.6 million in 2004 – a decline of 21.1%. Similarly, the net income of EUR 309.1 million was 12.9% lower than in 2003 (EUR 354.8 million), corresponding to earnings of EUR 2.56 (EUR 3.24) per share.

Stockholders' equity grew in 2004 by 6.3% to EUR 2.6 billion (2003: EUR 2.4 billion).

Property and casualty reinsurance

Gross written premiums in property and casualty reinsurance declined by 14.4% in 2004 to EUR 4.1 billion (2003: EUR 4.8 billion). At constant euro exchange rates – especially against the US dollar – the decrease would have been just 11.1%. The decline was also attributable to the reorganisation of Hannover Re's business relationship with its HDI affiliates. In view of the good quality of the business written and the improved capital position Hannover Re substantially increased the level of retained premiums to 85.6% (72.2%). Net premiums remained virtually unchanged, falling by 0.8% to EUR 3.5 billion.

The numerous hurricanes and typhoons as well as the severe seaquake in the Indian Ocean were the dominant major loss events in 2004. What was probably the most expensive year for natural disasters in the history of the insurance industry resulted in a burden of EUR 287.2 million for property and casualty reinsurance – compared to only EUR 51.5 million in 2003. The proportion of major losses relative to net earned premiums thus stood at 8.3%, significantly higher than in the previous year (1.5%). The four severe hurricanes in Florida alone cost Hannover Re EUR 194.3 million. Despite the heavy loss expenditure there was only a slight increase in the combined ratio to 97.0% (96.0%) which clearly demonstrates that Hannover Re was able to further enhance the quality of its property and casualty reinsurance business in 2004. As in the past, on balance there was no need to constitute additional reserves for previous underwriting years.

Despite the heavy burden of major losses incurred in 2004, Hannover Re is satisfied overall with the development of property and casualty reinsurance. The business performed satisfactorily in nearly all segments and in large measure made up for the reduced profit due to the natural catastrophe losses. Although the underwriting profit was significantly lower year-on-year at EUR 104.9 million, investment income increased by 18.9% to EUR 467.6 million (EUR 393.4 million) – despite declining interest rates – thanks to the strong underwriting cash flow and the associated high level of additions to the asset portfolio. Below the line this was reflected in a 3.8% higher operating profit (EBIT) of EUR 483.3 million (EUR 465.9 million). Net income increased by a substantial 54.9% to EUR 258.6 million (EUR 167.0 million). The property and casualty reinsurance business group thus contributed earnings of EUR 2.14 per share to the consolidated result, as against EUR 1.52 in 2003.

Life and health reinsurance

Life and health reinsurance once again developed well in 2004. Gross premium income decreased slightly as expected by 4.4% to EUR 2.2 billion (EUR 2.3 billion); adjusted for exchange-rate effects premiums were on a par with 2003. An additional reason for the premium reduction was the temporary discontinuation of a major account in the United Kingdom, although this business relationship had already been reactivated by the end of the year. At the same time, however, Hannover Re acquired new accounts in the German market.

Hannover Re further scaled back its retrocessions in 2004. The level of premiums retained by Hannover Life Re consequently climbed to 90.2% (85.1%) in 2004, and the net premiums earned of EUR 2.0 billion were slightly higher than in 2003.

The portfolio composition shifted further in favour of the preferred lines of life, annuity and personal accident business in the year under review; these now account for 85% (80%) of the total premium volume.

The operating profit (EBIT) of EUR 90.9 million surpassed the 2003 figure (EUR 61.0 million) by 49.1%, thus reaching a new record level. The EBIT margin amounted to 4.7%, following 3.2% in the previous year; the life and health reinsurance business group thus moved a significant step closer to achieving its goal of improving this ratio to 5% by 2006. Net income increased to 7.4% to EUR 50.0 million, or EUR 0.41 (EUR 0.43) per share.

Financial reinsurance

Three market events dominated financial reinsurance in 2004. Firstly, some cedents were still struggling with runoff losses from the underwriting years 1997 to 2001. However, Hannover Re was not significantly impacted thanks to additional premiums based on the claims experience that formed an integral part of Hannover Re's covers. These run-off losses were combined with sustained premium growth in the "hard market" and further increases in the level of retained premiums. As a result the solvency margins of many insurers and reinsurers – despite improved equity positions – continued to come under pressure. This enhanced steady demand in financial reinsurance, without entirely making up for the decline in solvency stabilising products such as surplus relief covers.

The second major theme in 2004 was the preparations made by European insurers for the implementation of International Financial Reporting Standards (IFRS). This implementation is expected to result in higher volatility in the results reported in the clients' balance sheets. The resulting increased capital requirement is already reinvigorating the debate surrounding and the demand for cost-effective financial reinsurance solutions.

Thirdly, it was the investigations launched by New York Attorney General Eliot Spitzer and the US stock exchange regulatory agency, the Securities and Exchange Commission (SEC) that attracted attention. The practices of a number of cedents and their reinsurers came under close critical scrutiny. In a letter to its clients Hannover Re explained that it had not been and is not active in any of the potentially problematic areas touched upon by the Attorney General's Office. Nevertheless, Hannover Re is committed to co-operate and respond to subpoenas and inquiries issued by several regulatory and stock exchange authorities.

Financial reinsurance is experiencing a period of consolidation following the vigorous growth of recent years. Gross premium income contracted as anticipated by 27.6% to EUR 1.2 billion (EUR 1.6 billion). This reduction was attributable principally to the non-renewal of a number of major accounts. At constant exchange rates the decrease would have been 22.6%. Net premiums earned consequently fell by 22.9% to EUR 1.2 billion (EUR 1.6 billion); the retention remained largely unchanged at 93.3%. The operating profit (EBIT) was 10.5% lower at EUR 132.6 million (EUR 148.2 million). Although the exceptionally good net income of the previous year could not be repeated, the reduction of 10.2% to EUR 89.0 million in the year under review was disproportionately low relative to the premium decline. With an increased EBIT margin of 11.0% profitability in this business group again improved sharply, producing earnings of EUR 0.74 (EUR 0.90) per share.

Program business

Results in program business were heavily impacted by the high burden of losses from the four severe hurricanes in Florida. Clarendon Insurance Group, New York, reported a loss for the first time since its acquisition by Hannover Re. Unlike in property and casualty reinsurance, the considerable net burden of EUR 90.0 million was not offset by other business. Contributions to the loss and loss adjustment expense reserve – which serve to increase the confidence level of the reserves – placed a further strain on the results. Clarendon's gross premium income contracted by 22.8% to EUR 1.8 billion (EUR 2.4 billion). The decrease was in part so dramatic because of the weakness of the US dollar against the euro – at constant exchange rates the decline would have been 15.1%. Another factor was the strengthening of the loss and loss adjustment expense reserves, a move that further reinforced the confidence level of the reserves. This produced additional strains running into

the mid-range double-digit millions in the fourth quarter of 2004. Overall, Clarendon therefore recorded a net loss after tax of EUR 91.4 million, compared with net income of EUR 37.3 million in 2003.

London-based Inter Hannover reported a satisfactory year overall in its main markets of the United Kingdom, Ireland, Scandinavia, France and Germany. It generated gross premium income of EUR 258.4 million (EUR 275.3 million) and contributed EUR 6.6 million (EUR 8.5 million) to consolidated net income.

Taken together, the companies transacting program business generated gross written premiums of EUR 2.1 billion (EUR 2.6 billion) in 2004, a decline of 20.3%. At constant exchange rates, especially as regards the US dollar against the euro, the reduction would have been significantly less marked at 13.0%. Retained premiums were slightly lower at 40.3% (46.4%) following Clarendon's move to marginally raise the level of business reinsured as part of its capital management activities. Net premiums earned consequently fell by 18.4% to EUR 942.7 million (EUR 1.2 billion). The combined ratio increased to 114.4% (98.3%) due to the enormous loss expenditure incurred in the third quarter. The operating result (EBIT) was correspondingly negative: following a profit of EUR 57.1 million in 2003 a loss of EUR 129.3 million was reported in 2004. The net loss for 2004 amounted to EUR 88.5 million, as against net income of EUR 42.2 million in 2003. Program business therefore reduced consolidated net loss by EUR 0.73 per share, contrasting with a contribution of EUR 0.39 per share in 2003.

Investments

In 2004 Hannover Re grew its total portfolio of self-managed assets (i.e. excluding funds held by ceding companies) by 9.8% to EUR 15.8 billion (EUR 14.4 billion). This was attributable to a strong cash flow from the reinsurance business despite the hurricane season. Taking out the inhibiting effect of the US dollar's downward slide, the volume of the assets would have increased by as much as 13.3% to EUR 16.3 billion.

Hannover Re was able to slightly improve the average quality of the fixed-income securities as the year 2004 progressed. The proportion of securities rated "A" or better – at 92.5% – was marginally higher than in 2003 (91.1%). This high quality was also reflected in the markedly lower write-downs of EUR 4.1 million taken on fixed-income securities in 2004.

As at year-end 2004 Hannover Re held a total amount of EUR 549.2 million in short-term assets, including overnight money and time deposits, and EUR 480.8 million in current assets. Funds held by ceding companies climbed by EUR 1.3 billion to EUR 9.0 billion.

The equity holdings in the portfolio increased by 19.5% to EUR 1.1 billion (EUR 0.9 billion). This corresponded to an equity allocation of 7.0% (6.5%).

Total write-downs taken on exchange-listed equities amounted to EUR 13.3 million in 2004, compared to EUR 65.3 million in 2003. The balance of unrealised gains on the equity portfolio totalled a gratifying EUR 85.4 million (EUR 59.0 million) as at the end of 2004. Hannover Re realised net gains of EUR 67.7 million on the sale of shares in 2004.

The ordinary income of EUR 1.0 billion fell slightly short of 2003 (EUR 1.1 billion). The contribution to ordinary income generated by deposit interest – at EUR 432.5 million – was lower than in 2003 and reflected the yield trend in Europe.

Total profits on disposals of EUR 217.6 million were generated in 2004. This contrasted with realised losses on disposals of EUR 56.4 million. The positive balance of EUR 161.2 million thus improved slightly on the 2003 figure of EUR 140.7 million. The lower write-downs on investments of EUR 24.7 million (EUR 99.3 million) – attributable not least to the moderately upbeat trend on equity markets and the high quality of our asset portfolio – had a clearly favourable impact on the investment performance.

The total net investment income of EUR 1,116.7 million increased by 4.2% compared to 2003 (EUR 1,071.5 million).

Recent Developments

Business is expected to develop favourably as the year progresses.

The market prospects in property and casualty reinsurance remain good; premium growth should be sustained. Provided major losses stay within the bounds of the multi-year average

over the course of the year, the result in property and casualty reinsurance should surpass that of the previous year.

In life and health reinsurance, double-digit premium growth is expected in original currencies, most notably in Germany, the United Kingdom and the Asian markets. All in all, an increased profitability is expected.

The premium volume in financial reinsurance should contract by a double-digit margin. Net income should remain gratifying.

As part of its ongoing strategic review of the program business, Hannover Re, in concert with the management of Clarendon, is exploring alternatives to enhance the operating efficiency and profitability of the Clarendon Group, and direct its focus on specialty lines and niche markets. First results of this strategic review are expected to be available by mid-2005. Clarendon continues to pursue diligently the collection of any outstanding reinsurance recoverables through commercial business solutions and the dispute resolution process, including but not limited to settlements and commutations that permit the company to reduce counterparty credit risk. Through the collection process the Company has been successful in recovering the substantial majority of amounts due, incurring an only limited discount on such recoveries. Certain settlements and respective discounts relating to Clarendon's reinsurance recoverables which have occurred after closing of the first quarter 2005 and thus are not reflected in the account will not have a material effect on the annual financial performance of Hannover Re.

The expected positive underwriting cash flow should lead to further expansion of the asset volume. Given modestly rising interest rates, investment income should be somewhat higher than in the previous year.

Net income expectations are EUR 430 to 470 million for 2005, equivalent to earnings of around EUR 3.60 to 3.90 per share. As usual, the forecast is subject to the premise that the burden of major losses for the rest of the year remains within the multi-year average and that there are no unexpectedly adverse movements on capital markets.

There has been no material change in the financial condition of the Issuer since 31 March 2005, other than as disclosed in this Offering Circular.

Litigation and Proceedings

The members of the Hannover Re Group participate in judicial and extra-judicial proceedings in Germany and abroad both as plaintiffs or petitioners and as defendants or respondents, in their capacity as insurance companies, taxpayers and employers, respectively. The outcome of these proceedings is uncertain.

Acquisition of Lion Holding, Inc. (Clarendon Group) in 1999

In February 1999, Hannover Re purchased all shares in Lion Holding, Inc., the parent company of the Clarendon Group, through which the Hannover Re Group conducts parts of its North American business.

US\$100 million of the purchase price was paid into two escrow accounts. The first escrow account (US\$50 million) was to satisfy general indemnity obligations of the sellers as a result of various representations and warranties in the stock purchase agreement. In addition, Hannover Re has the right to offset any indemnity claims from any incentive compensation payable to the former owners (see below) up to a maximum of \$120 million (including the escrow funds.) The second escrow account (\$50 million) was set up to secure obligations in relation to a specific book of business known as "LMX".

In 2001, in order to comply with a two year limitation period in the stock purchase agreement, Hannover Re gave the former owners notice of potential indemnity claims and gave instructions not to release the funds in the first escrow account. In response, the former owners commenced proceedings in the New York State Supreme Court seeking release of the funds in the first escrow. This litigation has proceeded slowly mainly due to the fact that the litigation was not ripe at the time it was commenced since the majority of indemnity claims was not liquidated at that time. Due to a partial settlement in February 2005 which included a certain release of funds to Hannover Re the amount of the first escrow account was reduced to \$25 million.

In respect of LMX, the former owners commenced a lawsuit in the New York State Court in Brooklyn, seeking release of the remaining balance of the LMX Escrow account after a partial release.

Following the purchase of Clarendon, two former owners of Clarendon remained as the management of Clarendon and were offered incentive compensation (split between additional purchase price and bonus) for the period 1999 – 2001. The maximum amount of incentive compensation was US\$100 million contingent upon Clarendon achieving certain combined ratio targets in the financial years 1999 – 2001. These targets were not fully attained.

In 2002, the two former owners commenced proceedings in Federal Court seeking payment of the full US\$100 million, alleging that Hannover Re had manipulated the accounts of Clarendon to increase the combined ratio and frustrate their claim for incentive compensation. This claim was reduced by US\$25 million due to the partial settlement with respect to the financial year 1999. The Federal Court litigation is currently in the discovery stage. A trial is expected in 2005. In the event that incentive compensation is payable, this may be offset against indemnity obligations (see above.) Although Hannover Re expects that the cases described above will be resolved in its favour, the outcome of the cases is not foreseeable with absolute certainty at the present time.

Collapse of the HIH Insurance Group in Australia

The HIH Insurance Group, one of the largest insurance companies in Australia, collapsed in 2001 due to overindebtedness. A "Royal Commission" was established to investigate the specific circumstances of the collapse, submitting its final "Royal Commission Report" in April 2003. Among the matters investigated were two insurance contracts concluded between members of the Hannover Re Group and the HIH Insurance Group. Members of the management of the Hannover Re Group companies were interrogated by the Royal Commission. The Royal Commission Report made no findings which justify direct action against members of the Hannover Re Group, and made no recommendations for measures in supervisory law against members of the Hannover Re Group.

Independent of the Royal Commission's investigation, shareholders and investors in the HIH Insurance Group filed a class action with the Federal Court of New South Wales on 17 April 2002 against a total of 14 respondents in connection with the collapse of the HIH Insurance Group. Among the respondents were Hannover Re and its subsidiaries Hannover Reinsurance (Ireland) Ltd. and E+S Reinsurance (Ireland) Ltd. (together the "Hannover Companies"). In this class action, the applicant sued for damages for losses due to the collapse of the HIH group. On 4 March 2005, the Court ordered the proceedings against the Hannover Companies to be discontinued and that the Hannover Companies are entitled to recover their costs against the applicant. The applicant announced that it would file a new statement of claim but has not yet done so. In the event of a negative result in a new proceeding as announced by the applicant, the Hannover Companies may have to make substantial payments and reimburse for considerable costs and expenses, which could have a negative impact on the financial, earnings and liquidity position of the Hannover Re Group.

Legal Disputes of Hannover Finance Inc. with Insurers

Hannover Finance Inc. and its subsidiaries are currently engaged in legal disputes with various insurers, e.g. ERC and the John Hancock Mutual Life Insurance Company.

The outcome of these cases is uncertain at this time, so that the result could be disadvantageous for Hannover Finance Inc. and its subsidiaries.

Tax Disputes related to Tax Assessment Notices issued by the Hannover-Nord Revenue Office

Hannover Re and E+S Rückversicherung Aktiengesellschaft (hereinafter, "E+S Rück AG") have filed suits with the Fiscal Court in Hannover against additional tax assessment notices which were issued by the Hannover-Nord Revenue Office after its field audit for the 1988-1992 assessment periods. Additional taxes in the amount of around € 15.5 million are in dispute for Hannover Re and around € 2.8 million for E+S Rück AG. The outcome of the proceedings is uncertain, so that a disadvantageous result for Hannover Re and E+S Rück AG is possible.

The collapse of Frontier Insurance

In the past, the Clarendon Group reinsured business with Frontier Insurance. The business was protected by collateral provided by various members of the Frontier Insurance Group. Following the collapse of Frontier Insurance Group, Clarendon retained control of USD 200 million posted as collateral for losses by intervening in insolvency proceedings and by entering into interim agreements under which Clarendon gained control of the collateral and the claims settlement process. Frontier then claimed in court filings that its insolvency was triggered because Clarendon took control of the collateral which exceeded its exposure. Frontier's insolvency administrators requested Clarendon to agree to release a part of the securities deposit, contending that Clarendon was over-secured. Clarendon disputed these allegations and refused to return the alleged excessive collateral to Frontier.

However, the insolvency administrators have allowed Clarendon to continue paying the underlying claims from the collateral. To date no administrator has actively pursued these alleged claims for return of the collateral.

Executive Board

The Executive Board (*Vorstand*) of Hannover Re consists of seven members. As of the date of this Offering Circular the members and their respective responsibilities are:

Name	Position
Wilhelm Zeller	Chairman; Controlling, Internal Auditing; Investor Relations, Public Relations; Corporate Development; Human Resources Management; Underwriting & Actuarial Services; Program Business
André Arrago	Property and Casualty Treaty Reinsurance Arab, European Romance and Latin American countries, Northern and Eastern Europe, Asia and Australasia
Dr. Wolf Becke	Life and Health markets worldwide
Jürgen Gräber	Coordination of entire Non-Life Reinsurance; Property and Casualty Treaty Reinsurance North America and English-speaking Africa; Financial Reinsurance worldwide
Dr. Elke König	Finance and Accounting, Asset Management; Information Technology; Facility Management
Dr. Michael Pickel	Property and Casualty Treaty Reinsurance Germany, Austria, Switzerland and Italy; Credit, Surety and Political Risk worldwide; Group Legal Services; Run Off Solutions
Ulrich Wallin	Specialty Division (worldwide Facultative Business; worldwide Treaty and Facultative Business Marine, Aviation and Space); Property and Casualty Treaty Reinsurance Great Britain and Ireland; Retrocessions

The business address of the members of the Executive Board is Karl-Wiechert-Allee 50, D-30625 Hannover.

Supervisory Board

As of the date of this Offering Circular the following individuals are members of the Supervisory Board (*Aufsichtsrat*):

Name	Position within Supervisory Board	Principal Outside Activity
Wolf-Dieter Baumgartl	Chairman	Chairman of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Dr. Paul Wieandt	Deputy Chairman	Chairman of the Management Board Resba GmbH
Herbert K. Haas	Member	Member of the Executive Board Talanx AG HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Karl Heinz Midunsky	Member	Former Corporate Vice President and Treasurer Siemens AG
Ass. jur. Otto Müller	Member (staff representative)	
Ass. jur. Renate Schaper Stewart	Member (staff representative)	
Dipl.-Ing. Hans-Günter Siegerist	Member (staff representative)	
Dr. Klaus Sturany	Member	Member of the Executive Board RWE Aktiengesellschaft
Bodo Uebber	Member	Member of the Executive Board DaimlerChrysler AG

Share Ownership

Members of the Supervisory Board and Executive Board of Hannover Re as well as of the parent companies and their spouses or registered partners and first-degree relatives hold less than 1% of the issued shares. As at 31 December 2004, the total holding amounted to 0.03% of the issued shares, i.e. 35,882 shares. The total volume of stock appreciation rights held by members of the Executive Board on the basis of the virtual stock option plan amounted to 1.87% of the capital stock as at 31 December 2004.

Loans to the Members of the Executive Board and the Supervisory Board

As at 31 December 2004, the aggregate outstanding amount of mortgage loans granted to members of the Executive Board amounted to approximately € 84,000. Such mortgage loans are subject to the usual conditions in the industry.

Financial Year

The financial year of Hannover Re is the calendar year.

Auditors

The auditors of Hannover Re and the consolidated financial statements of Hannover Re Group are KPMG Deutsche Treuhand Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Osterstr. 40, D-30159 Hannover. The financial statements of Hannover Re as of 31 December 2002, 31 December 2003 and 31 December 2004 and the consolidated financial statements of the Hannover Re Group as of 31 December 2002, 31 December 2003 and 31 December 2004 were audited by the auditors and the auditors have in each case issued an unqualified auditors' opinion.

EXTRACT FROM THE UN-AUDITED CONSOLIDATED QUARTERLY ACCOUNTS OF HANNOVER RE GROUP AS AT 31 MARCH 2005

The following Consolidated Quarterly Accounts of Hannover Re Group as at 31 March 2005 represent an extract from the Consolidated Interim Report 1/2005 for the period ended 31 March 2005.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HANNOVER RE GROUP AS AT 31 DECEMBER 2004

CONSOLIDATED BALANCE SHEET

as at 31 December 2004

Assets	2004	2003	
		Commercial treatment	US GAAP "as-if pooling" method
	Figures in EUR thousand		
Fixed-income securities – held to maturity	470 254	498 695	498 695
Fixed-income securities – available for sale.....	12 341 748	11 119 567	11 119 567
Equity securities – available for sale.....	1 105 014	925 595	925 595
Equity securities – trading	2 482	2 402	2 402
Real estate	205 755	230 591	230 591
Other invested assets	615 216	633 885	633 885
Short-term investments.....	549 187	569 592	569 592
Total investments without cash	15 289 656	13 980 327	13 980 327
Cash.....	480 810	386 134	386 134
Total investments and cash	15 770 466	14 366 461	14 366 461
Prepaid reinsurance premiums.....	489 085	566 920	566 920
Reinsurance recoverables on benefit reserve.....	95 004	206 717	206 717
Reinsurance recoverables on unpaid claims.....	4 162 630	4 396 564	4 396 564
Reinsurance recoverables on other reserves	9 903	41 528	41 528
Deferred acquisition costs	2 024 630	1 690 806	1 690 806
Accounts receivable	3 122 762	3 402 908	3 402 908
Funds held by ceding companies.....	8 965 291	7 664 683	7 664 683
Goodwill	196 673	203 619	203 619
Other assets	342 889	248 585	248 585
Accrued interest and rent.....	192 618	185 953	185 953
	35 371 951	32 974 744	32 974 744

Liabilities

	2004	2003	
		Commercial treatment	US GAAP "as-if pooling" method
Figures in EUR thousand			
Loss and loss adjustment expense reserve.....	18 246 946	18 703 170	18 703 170
Policy benefits for life and health contracts.....	5 253 328	4 001 148	4 001 148
Unearned premium reserve.....	1 825 886	2 126 894	2 126 894
Provision for contingent commission.....	172 201	130 265	130 265
Other technical provisions.....	—	9 089	9 089
Reinsurance payable.....	1 707 775	1 396 215	1 396 215
Funds held under reinsurance treaties.....	955 636	1 080 491	1 080 491
Contract deposits.....	1 503 020	474 526	474 526
Minorities.....	535 004	491 836	491 836
Other liabilities.....	464 529	365 095	365 095
Taxes.....	142 209	137 583	137 583
Provision for deferred taxes.....	887 398	869 857	869 857
Notes payable.....	1 121 335	666 328	666 328
Surplus debenture.....	—	117 597	117 597
Total liabilities.....	32 815 267	30 570 094	30 570 094
Stockholders' equity			
Common stock.....	120 597	120 597	120 597
Nominal value 120 597 Authorized capital 60 299			
Additional paid-in capital.....	724 562	764 199	724 562
Cumulative comprehensive income			
Unrealised appreciation/depreciation of investments, net of deferred taxes.....	170 496	157 569	160 862
Cumulative foreign currency conversion adjustment, net of deferred taxes.....	-413 259	-352 502	-340 938
Other changes in cumulative comprehensive income.....	-2 890	-22 685	-22 685
Total comprehensive income.....	-245 653	-217 618	-202 761
Retained earnings			
Beginning of period.....	1 762 252	1 379 291	1 340 529
Net income.....	309 140	354 779	418 321
Dividend paid.....	-114 567	-82 591	-82 591
Other changes.....	353	85 993	85 993
	1 957 178	1 737 472	1 762 252
Total stockholders' equity.....	2 556 684	2 404 650	2 404 650
	35 371 951	32 974 744	32 974 744

CONSOLIDATED STATEMENT OF INCOME

for the 2004 financial year

	2004	2003	
		Commercial treatment	US GAAP "as-if pooling" method
	Figures in EUR thousand		
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
Gross written premiums.....	9 566 566	11 342 857	11 588 058
Ceded written premiums.....	2 142 847	3 183 503	3 220 301
Change in gross unearned premiums.....	195 087	-345	-121 563
Change in ceded unearned premiums.....	-43 436	-3 421	10 206
Net premiums earned	7 575 370	8 155 588	8 256 400
Ordinary investment income.....	1 036 615	1 093 987	1 138 371
Realised gains on investments.....	217 628	255 330	255 330
Realised losses on investments.....	56 408	114 558	114 875
Unrealised gains and losses on investments.....	8 669	8 517	8 517
Other investment expenses/depreciations.....	89 769	171 790	171 855
Net investment income	1 116 735	1 071 486	1 115 488
Other technical income.....	859	8 227	8 227
Total revenues	8 692 964	9 235 301	9 380 115
Claims and claims expenses.....	5 795 631	6 671 694	6 727 735
Change in policy benefits for life and health contracts.....	253 796	297 797	297 797
Commission and brokerage.....	1 624 099	1 118 484	1 133 853
Other acquisition costs.....	13 371	2 912	3 413
Other technical expenses.....	57 601	95 438	95 438
Administrative expenses.....	231 075	212 062	212 236
Total technical expenses	7 975 573	8 398 387	8 470 472
Other income and expenses.....	-139 813	-104 785	-106 480
Operating profit/loss (EBIT)	577 578	732 129	803 163
Interest on hybrid capital.....	67 320	54 793	54 793
Net income before taxes.....	510 258	677 336	748 370
Taxes.....	141 364	266 569	274 061
Minority interest.....	-59 754	-55 988	-55 988
Net income	309 140	354 779	418 321
Other comprehensive income			
Net unrealised appreciation/depreciation of investments.....	9 634	114 442	116 932
Cumulative foreign currency conversion adjustments.....	-72 321	-252 226	-248 852
Other comprehensive income.....	19 795	31 610	31 610
Total	266 248	248 605	318 011
Earnings per share			
Earnings per share in EUR.....	2.56	3.24	3.60

CASH FLOW STATEMENT

for the 2004 financial year

	2004	2003	
		Commercial treatment	US GAAP "as-if pooling" method
	Figures in EUR thousand		
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
I. Cash flows from operating activities			
Consolidated net income (after tax)	309 140	354 779	418 321
Appreciation/depreciation	58 341	139 476	139 476
Net realised gains and losses on investments	-161 220	-140 772	-140 455
Amortisation of investments	6 467	6 682	7 014
Minority interest.....	59 754	55 988	55 988
Changes in funds held.....	-1 745 627	-629 214	-739 175
Changes in prepaid reinsurance premiums (net)	-125 630	-25 002	93 097
Changes in tax assets/provisions for taxes.....	29 470	206 461	213 954
Changes in benefit reserves (net).....	1 501 725	501 944	501 944
Changes in claims reserves (net).....	512 873	2 120 995	2 125 305
Changes in deferred acquisition costs.....	-381 755	-305 194	-358 144
Changes in other technical provisions	71 131	-14 187	-14 197
Changes in clearing balances.....	474 004	-397 085	-459 867
Changes in other assets and liabilities (net)...	-354	-30 865	-27 388
Cash flows from operating activities.....	608 319	1 844 006	1 815 873
II. Cash flows from investing activities			
Fixed income securities – held to maturity			
Maturities.....	67 221	30 946	30 946
Purchases.....	-36 081	-147 044	-147 044
Fixed income securities – available for sale			
Maturities, sales.....	6 045 988	5 233 955	5 405 279
Purchases.....	-7 702 911	-7 975 451	-8 010 692
Equity securities – available for sale			
Sales.....	988 074	540 400	540 400
Purchases.....	-1 114 453	-706 541	-706 541
Other invested assets			
Sales.....	100 045	48 279	48 279
Purchases.....	-66 190	-48 331	-48 331
Affiliated companies and participating interests			
Sales.....	23 850	9 214	9 214
Acquisitions.....	-18 697	-20 886	-20 886
Real estate			
Sales.....	32	609	609
Acquisitions.....	-832	-764	-764
Short-term investments			
Changes.....	-4 030	420 484	323 221
Other changes (net).....	-27 091	-25 256	-25 506
Cash flows from investing activities.....	-1 745 075	-2 640 386	-2 601 816

	2004	2003	
		Commercial treatment	US GAAP "as-if pooling" method
	Figures in EUR thousand		
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
III. Cash flows from financing activities			
Inflows from capital increases.....	—	219 590	219 590
Inflow from capital increase through contribution in kind.....	—	11 402	—
Net changes in contract deposits	1 034 285	294 123	294 123
Dividend paid	-114 567	-82 591	-82 591
Changes in notes payable	329 819	30 087	30 087
Other changes	-15 004	-11 010	-11 010
Cash flows from financing activities	1 234 533	461 601	450 199
IV. Exchange rate differences on cash	-3 101	49 047	49 034
Change in cash and cash equivalents (I.+II.+III.+IV.)	94 676	-285 732	-286 710
Cash and cash equivalents at the beginning of the period	386 134	671 866	672 844
Change in cash and cash equivalents according to cash flow statement	94 676	-285 732	-286 710
Cash and cash equivalents at the end of the period	480 810	386 134	386 134
Income taxes.....	-54 694	-43 982	-43 982
Interest paid	-95 278	-48 673	-48 673

SEGMENTAL REPORT

as at 31 December 2004

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

Segmentation of underwriting assets and liabilities

	Property/casualty reinsurance		Life/health reinsurance		Financial reinsurance		Program business		Total	
	2004	2003*	2004	2003*	2004	2003*	2004	2003*	2004	2003*
Assets	in TEUR									
Prepaid reinsurance premiums	77 944	99 122	1 429	2 555	1 797	2 042	407 915	463 201	489 085	566 920
Deferred acquisition costs (net)	199 195	197 078	1 719 298	1 344 206	14 828	44 780	91 309	104 742	2 024 630	1 690 806
Reinsurance recoverables on benefit reserves	—	—	95 004	206 717	—	—	—	—	95 004	206 717
Reinsurance recoverables on incurred claims and others	1 492 976	1 817 976	89 731	96 379	508 314	506 510	2 081 512	2 017 227	4 172 533	4 438 092
Funds held by ceding companies	161 804	176 330	5 706 555	3 257 988	3 084 639	4 216 479	12 293	13 886	8 965 291	7 664 683
Total underwriting assets	<u>1 931 919</u>	<u>2 290 506</u>	<u>7 612 017</u>	<u>4 907 845</u>	<u>3 609 578</u>	<u>4 769 811</u>	<u>2 593 029</u>	<u>2 599 056</u>	<u>15 746 543</u>	<u>14 567 218</u>
Liabilities										
Loss and loss adjustment expense reserve	8 820 198	8 396 999	1 053 719	929 396	4 834 860	6 192 954	3 538 169	3 183 821	18 246 946	18 703 170
Policy benefits for life and health contracts	—	—	5 253 328	4 001 148	—	—	—	—	5 253 328	4 001 148
Unearned premium reserve	917 664	939 942	26 046	21 868	58 305	165 518	823 871	999 566	1 825 886	2 126 894
Other technical provisions	106 654	93 987	33 294	24 002	24 491	18 851	7 762	2 514	172 201	139 354
Funds held under reinsurance treaties	557 880	559 333	153 396	216 185	—	20 734	244 360	284 239	955 636	1 080 491
Total underwriting liabilities	<u>10 402 396</u>	<u>9 990 261</u>	<u>6 519 783</u>	<u>5 192 599</u>	<u>4 917 656</u>	<u>6 398 057</u>	<u>4 614 162</u>	<u>4 470 140</u>	<u>26 453 997</u>	<u>26 051 057</u>

* The figures for the commercial treatment and under the US GAAP "as-if-pooling" method are identical.

	Program business			Total		
	2004	2003	US GAAP "as-if pooling" method	2004	2003	US GAAP "as-if pooling" method
	in TEUR					
Gross written premiums.....	2 108 201	2 646 747	2 646 747	9 566 566	11 342 857	11 588 058
Net premiums earned	942 708	1 155 855	1 155 855	7 575 370	8 155 588	8 256 400
Claims and claims expenses	751 735	814 156	814 156	5 795 631	6 671 694	6 727 735
Change in policy benefits for life and health contracts.....	—	—	—	-253 796	-297 797	-297 797
Commission and brokerage and other technical expenses.....	244 546	253 664	253 664	1 694 212	1 208 607	1 224 477
Investment income.....	54 704	60 371	60 371	1 116 735	1 071 486	1 115 488
Administrative expenses.....	82 142	68 004	68 004	231 075	212 062	212 236
Other income and expenses.....	-48 296	-23 317	-23 317	-139 813	-104 785	-106 480
Operating profit/loss (EBIT)	-129 307	57 085	57 085	577 578	732 129	803 163
Interest on hybrid capital.....	10 221	7 727	7 727	67 320	54 793	54 793
Net income before taxes	-139 528	49 358	49 358	510 258	677 336	748 370
Taxes	-51 001	7 161	7 161	141 364	266 569	274 061
Minority interest	—	—	—	-59 754	-55 988	-55 988
Net income	-88 527	42 197	42 197	309 140	354 779	418 321

NOTES

1. General accounting principles

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

The consolidated financial statement of Hannover Re has been drawn up fully in accordance with United States Generally Accepted Accounting Principles (US GAAP). All Statements of Financial Accounting Standards (SFAS) issued by the FASB on or before 31 December 2004 with binding effect for the 2004 financial year have been observed in the consolidated financial statement.

In November 2003 and March 2004 the EITF reached a consensus on some parts of EITF Issue 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". EITF Issue 03-1 discusses the meaning of other-than-temporary impairment and provides guidance for its application to certain investments that fall within the categories of "available-for-sale" and "held-to-maturity" pursuant to SFAS 115 "Accounting for Certain Investments in Debt and Equity Securities" as well as to equity investments carried at cost in accordance with the "cost method" of accounting. The standard requires certain quantitative and qualitative information (*inter alia* regarding unrealised losses) for investments allocated to these categories. The recognition and measurement guidance in EITF Issue 03-1 has been delayed until publication of further implementing guidance. Hannover Re is currently exploring the implications of EITF Issue 03-1 for the consolidated financial statement.

In December 2004 the FASB published SFAS 123 (revised 2004) "Share-Based Payment" (SFAS 123R). SFAS 123R provides rules for the accounting of transactions in which a company issues its own equity instruments as compensation for goods or services. In addition, SFAS 123R provides rules for the accounting of transactions in which a company incurs liabilities from the procurement of goods or services, the amount of which depends on the fair value of its own equity instruments or which can be paid for through the issuance of its own equity instruments. This standard does not give rise to any significant implications for the consolidated financial statement. The reader is referred to our remarks in section 6.3 "Stock appreciation rights".

In December 2003 the FASB issued FASB Interpretation No. 46 (FIN 46) (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46R). Hannover Re has applied the standards of FIN 46R to special purpose entities since 31 December 2003 and to all other companies with effect from 31 March 2004. The application of FIN 46R did not result in the additional consolidation of entities above and beyond the group of consolidated companies described herein. More detailed explanations are provided in section 5.1 on the securitisation of reinsurance risks.

The application of this standard did not have any significant impact on the consolidated financial statement.

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.

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key elements subject to such assumptions and estimates include, for example, the impairment of conditional reinsurance commitments, the impairment of participations in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to payments rendered to employees. The actual amounts may diverge from the estimated amounts.

Amounts indicated in brackets refer to the previous year.

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

2. Accounting principles including reporting and valuation methods

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. There is no requirement to compile interim accounts pursuant to ARB 51 Para. 4 for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement.

The annual financial statements of all companies were initially drawn up in compliance with the provisions of the respective national laws and then transformed to US GAAP in accordance with standard Group accounting and valuation rules.

3. Consolidated companies and consolidation principles

Consolidated companies

Hannover Re is the parent company of the Group. There has been no change in the group of consolidated companies compared to the situation as at 31 December 2003. The consolidated financial statement includes nine German and seventeen foreign companies as well as three foreign consolidated entities. Three German and three foreign companies were consolidated using the equity basis of accounting.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 21 May 2003 the following table also lists major participations in unconsolidated third companies.

The figures for the capital and reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

Companies included in the consolidated financial statement

Name and registered office of the company <i>(Figures in currency units of 1 000)</i>	Participation in %		Capital and reserves	Results for the last financial year
	<u> </u>		<u> </u>	<u> </u>
Affiliated companies resident in Germany				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany	100,0	EUR	589 539	24 539
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁽¹⁾	94,3	EUR	37 211	-84
HAPEP II Holding GmbH, Hannover/Germany ⁽¹⁾	94,3	EUR	30 332	-149
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/ Germany.....	70,1	EUR	60 013	1 214
Hannover Euro Private Equity Partners III GmbH & Co. KG, Hannover/Germany ⁽¹⁾	63,8	EUR	7 924	-25
HEPEP III Holding GmbH, Hannover/Germany ⁽¹⁾	63,8	EUR	2 315	-22
E+S Rückversicherung AG, Hannover/Germany ⁽²⁾	55,8	EUR	464 281	44 000
Hannover Euro Private Equity Partners II GmbH & Co. KG, Hannover/Germany ⁽¹⁾	54,9	EUR	30 064	33
HEPEP II Holding GmbH, Hannover/Germany ⁽¹⁾	54,9	EUR	22 233	-20

Name and registered office of the company (Figures in currency units of 1 000)	Participation in %	Capital and reserves		Results for the last financial year
Affiliated companies resident abroad				
Hannover Finance (Luxembourg) S.A., Luxemburg/Luxemburg	100,0	EUR	7 931	-1 767
Hannover Finance (UK) Limited, Virginia Water/Großbritannien ⁽²⁾	100,0	GBP	111 093	-9
Hannover Life Reassurance Company of America, Orlando/USA ⁽²⁾	100,0	USD	85 884	-5 242
Hannover Life Reassurance (Ireland) Ltd., Dublin/Irland	100,0	EUR	110 872	10 731
Hannover Life Reassurance (UK) Ltd., Virginia Water/Großbritannien	100,0	GBP	36 930	-886
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda	100,0	EUR	932 766	73 520
Hannover Reinsurance (Dublin) Ltd., Dublin/Irland ⁽³⁾	100,0	EUR	277 212	35 369
Hannover Reinsurance (Ireland) Ltd., Dublin/Irland	100,0	EUR	550 099	58 647
Hannover Re Sweden Insurance Company Ltd., Stockholm/Schweden ⁽⁴⁾⁽⁵⁾	100,0	SEK	—	-2 804
Hannover Services (UK) Ltd., Virginia Water/Großbritannien ⁽²⁾	100,0	GBP	686	50
International Insurance Company of Hannover Ltd., Virginia Water/Großbritannien ⁽²⁾	100,0	GBP	73 475	2 293
Hannover Finance, Inc., Wilmington/USA ⁽⁶⁾	100,0	USD	400 773	8 238
Hannover Finance, Inc. compiles its own sub-group financial statement, including the following major companies in which it holds the following shares:				
Clarendon America Insurance Company, Trenton/USA	100,0	USD	186 909	8 452
Clarendon National Insurance Company, Trenton/USA	100,0	USD	421 403	-109 212
Clarendon Select Insurance Company, Tallahassee/USA	100,0	USD	30 300	3 296
Harbor Specialty Insurance Company, Trenton/USA	100,0	USD	40 177	-20 543
Insurance Corporation of Hannover, Itasca/USA	100,0	USD	198 700	5 186
Redland Insurance Company, Council Bluffs/USA	100,0	USD	26 915	828
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/Südafrika ⁽²⁾	100,0	ZAR	404 405	101 812
Hannover Reinsurance Group Africa (Pty) Ltd. compiles its own sub- group financial statement, including the following major companies in which it holds the following shares:				
Compass Insurance Company Ltd., Johannesburg/Südafrika ⁽²⁾	100,0	ZAR	45 792	11 328
Hannover Life Reassurance Africa Ltd., Johannesburg/Südafrika ⁽²⁾	100,0	ZAR	43 411	10 428
Hannover Reinsurance Africa Ltd., Johannesburg/Südafrika ⁽²⁾	100,0	ZAR	375 986	87 543

Name and registered office of the company (Figures in currency units of 1 000)	Participation in %		Capital and reserves	Results for the last financial year
Lireas Holdings (Pty) Ltd., Johannesburg/Südafrika ⁽²⁾	100,0	ZAR	25 708	17 225
Hannover Re Real Estate Holdings, Inc., Orlando/USA ^{(6) (2)}	94,0	USD	128 487	3 700
Hannover Re Real Estate Holdings, Inc. holds a sub-group including the following major companies in which it holds the following shares:				
Hannover USA Real Estate Corporation, Orlando/USA ^{(6) (2)}	94,0	USD	52 819	1 777
Summit at Southpoint Corporation, Jacksonville/USA ^{(6) (2)}	94,0	USD	7 637	215
5115 Sedge Corporation, Chicago/USA ⁽⁶⁾⁽²⁾	94,0	USD	2 109	159
Penates A, Ltd., Tortola/British Virgin Islands ⁽⁶⁾	88,1	USD	79 437	7 361
WRH Offshore High Yield Partners, L.P., Wilmington/USA ⁽⁶⁾	86,7	USD	49 056	3 703
Hannover Re Advanced Solutions Ltd., Dublin/Ireland ⁽⁷⁾	85,3	EUR	31	-765
Hannover Life Re of Australasia Ltd., Sydney/Australien	77,9	AUD	189 760	22 600
E+S Reinsurance (Ireland) Ltd., Dublin/Irland	55,8	EUR	158 192	11 550
Associated companies resident in Germany				
Oval Office Grundstücks GmbH, Hannover/Germany	50,0	EUR	30 402	-115
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany ⁽²⁾	39,0	EUR	73 689	34 933
HANNOVER Finanz GmbH Beteiligungen und Kapitalanlagen, Hannover/Germany ⁽⁴⁾	25,0	EUR	76 004	6 575
Associated companies resident abroad				
ITAS Assicurazioni S.p.A., Trient/Italien ⁽²⁾	43,7	EUR	54 702	2 730
ITAS Vita S.p.A., Trient/Italien ⁽²⁾	34,9	EUR	58 690	6 228
WPG Corporate Development Associates IV (Overseas), L.L.C., Grand Cayman/Cayman Islands	26,8	USD	1 974	-20
Participations in Germany				
JM Management Consulting GmbH, Hannover/Germany ⁽²⁾	66,0	EUR	170	7
DSP Deutsche-Senior-Partner AG, Hannover/Germany ⁽²⁾	49,0	EUR	100	-509
Internationale Schule Hannover Region, Hannover/Germany ⁽⁸⁾	11,1	EUR	740	125
Participations abroad				
Mediterranean Re, PLC, Dublin/Irland	33,3	USD	3 905	-22
Special Risk Insurance and Reinsurance Luxemburg S.A., Luxemburg/Luxemburg ⁽⁴⁾	18,2	EUR	288 874	-80

Name and registered office of the company <i>(Figures in currency units of 1 000)</i>	Participation in %	Capital and reserves	Results for the last financial year
HI Holdings, Inc., Honolulu, Hawaii ⁽²⁾⁽⁹⁾⁽¹⁰⁾	16,7	USD 17 247	2 883
Inter Ocean Holdings Ltd., Hamilton/Bermuda ⁽²⁾⁽¹¹⁾	9,1	USD 74 793	1 304

Notes:

- (1) Financial year as at 30 September 2004
- (2) Provisional (unaudited) figures
- (3) Formerly HDI Reinsurance (Ireland) Ltd.
- (4) Financial year as at 31 December 2003
- (5) Company inactive for over a year
- (6) Figures as per US GAAP
- (7) Company inactive since 2004
- (8) Financial year as at 31 July 2004
- (9) Voting shares: 16.26%
- (10) After shifting of profits
- (11) Consolidated figures

Capital consolidation

The capital consolidation is based upon the standards set out in SFAS 141. Under the "purchase method" of accounting, the purchase costs of the parent company are netted with the proportionate stockholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with SFAS 141 are to be accounted for separately from goodwill, the difference between the revalued stockholders' equity of the subsidiary and the purchase price is recognised as goodwill.

Effective 1 January 2002 scheduled amortisation is no longer taken on acquired goodwill and intangible assets with an indefinite useful life. Instead, they are tested for impairment at least once a year or upon occurrence of significant events or changes in circumstances which would suggest that the current value of one of the Group's reporting units falls short of its book value. Prior to 1 January 2002 straight-line amortisation was taken on goodwill across estimated useful lives of up to 40 years.

SFAS 141 "Business Combinations" Para. 11 in conjunction with Appendix D 11 to 18 sets out standards governing the accounting of transfer transactions between entities under common control. This statement requires that the assets and liabilities of the transferred entity be carried over with the book values at the transferring parent company, and no fair value or goodwill is recognised. The consolidated financial statement of the acquiring entity is to be drawn up as if the transferred entity had already been part of the consolidated group since the commencement of the financial year ("as-ifpooling" method). In the previous year, as part of a capital increase for a contribution in kind, Talanx AG transferred its shares in HDI Reinsurance (Ireland) Ltd. to Hannover Re effective 1 July 2003 against issuance of new shares. Since this transfer constituted a transaction between entities under common control, US GAAP required that the company be consolidated at the book values of Talanx AG as if it had already belonged to the Group at the commencement of the previous year.

The consolidated financial data of the Group reported on this basis for the periods prior to the transfer do not necessarily reflect the assets, financial position and net income that would have been reported had it not been for the inclusion of HDI Reinsurance required by US GAAP. For this reason, we expanded the consolidated financial statement for the previous year to include figures based on first-time consolidation of the company as at 1 July 2003 ("commercial treatment"). Effective 8 December 2003 Hannover Re transferred its shares in HDI Reinsurance (Ireland) Ltd. by way of a capital increase for a contribution in kind to Hannover Reinsurance (Ireland) Ltd., which was then renamed Hannover Reinsurance (Dublin) Ltd.

Major participations are accounted "at equity" in cases where Hannover Re does not hold a controlling interest but is able to exercise a significant influence on the operating and financial decisions of the enterprise ("associated company").

Immaterial and negative goodwill were booked to earnings in the year of their occurrence.

All figures reported in the Notes are subject to application of the "as-if-pooling" method. Where minority interests in the stockholders' equity exist, such interests are reported separately. The minority interest in the result is deducted from the net income in the statement of income and totalled EUR 59,754 thousand in the 2004 financial year (previous year: EUR 55,988 thousand).

Debt consolidation

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

Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

4. Major acquisitions/new establishments

On 1 January 2004 Hannover Re opened Hannover Rückversicherung AG Succursale française pour la Réassurance Vie, Paris, as a permanent establishment of Hannover Rückversicherung AG, Hannover. The purpose of the permanent establishment is to underwrite life reinsurance business.

DSP Deutsche-Senior-Partner AG, Bonn, in which Hannover Re holds an interest of 49%, was established effective 27 January 2004. The object of the company, which has specialised in meeting the needs of senior citizens, is to serve as a distributor for insurance products and services, products from the regulated capital market as well as real estate and the accompanying financial services. In the 2004 financial year the interests were reported in the consolidated financial statement at purchase cost.

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

5.1 Investments including income and expenses

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

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

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

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

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

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

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

	2004		2003	
	Cost or amortised cost	Estimated fair value	Cost or amortised cost	Fair value
Figures in EUR thousand				
Held-to-maturity				
Due in one year.....	36 611	37 406	67 169	68 408
Due after one through five years	109 952	114 862	114 953	123 384
Due after five through ten years	302 151	321 342	295 000	298 825
Due after ten years	21 540	23 811	21 573	22 831
Total	470 254	497 421	498 695	513 448
Available-for-sale				
Due in one year.....	2 000 710	2 004 196	1 375 756	1 382 997
Due after one through five years	7 348 338	7 377 058	6 212 600	6 280 794
Due after five through ten years	1 728 974	1 773 312	2 150 603	2 196 050
Due after ten years	1 131 504	1 187 182	1 235 717	1 259 726
Total	12 209 526	12 341 748	10 974 676	11 119 567

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

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

	2004			Fair value
	Cost or amortised cost	Unrealised gains	Unrealised losses	
Figures in EUR thousand				
Investments held to maturity				
Fixed-income securities				
Other foreign government debt securities..	20 255	—	—	20 255
Debt securities issued by semi-government entities.....	115 226	12 217	—	127 443
Corporate securities.....	261 736	11 626	—	273 362
Asset-backed securities.....	73 037	3 324	—	76 361
Total	470 254	27 167	—	497 421
2003				
	Cost or amortised cost	Unrealised gains	Unrealised losses	Fair value
Figures in EUR thousand				
Investments held to maturity				
Fixed-income securities				
Other foreign government debt securities				
Debt securities issued by semi-government entities.....	145 896	8 718	—	154 614
Corporate securities.....	249 128	4 037	3 845	249 320
Asset-backed securities.....	103 671	5 843	—	109 514
Total	498 695	18 598	3 845	513 448

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

	2004			
	Cost or amortised cost	Unrealised gains losses		Fair value
	Figures in EUR thousand			
Available for sale				
Fixed-income securities				
Government debt securities of EU				
member states	1 571 258	11 080	2 086	1 580 252
US Treasury Notes	1 847 047	1 809	17 836	1 831 020
Other foreign government debt securities	212 817	4 006	276	216 547
Debt securities issued by semi- government entities	2 935 118	32 957	24 873	2 943 202
Corporate securities	3 692 435	86 952	19 902	3 759 485
Asset-backed securities	1 397 896	28 711	3 832	1 422 775
From investment funds	552 955	36 321	809	588 467
	<u>12 209 526</u>	<u>201 836</u>	<u>69 614</u>	<u>12 341 748</u>
Dividend-bearing securities				
Equities	265 180	16 395	3 084	278 491
From investment funds	754 482	72 145	104	826 523
	<u>1 019 662</u>	<u>88 540</u>	<u>3 188</u>	<u>1 105 014</u>
Short-term investments	549 187	—	—	549 187
Total	<u><u>13 778 375</u></u>	<u><u>290 376</u></u>	<u><u>72 802</u></u>	<u><u>13 995 949</u></u>
Trading				
Dividend-bearing securities				
Derivatives	2 633	—	151	2 482
Total	<u><u>2 633</u></u>	<u><u>—</u></u>	<u><u>151</u></u>	<u><u>2 482</u></u>

2003

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

2004

2003

Figures in EUR thousand

Investment income		
Real estate	24 310	25 980
Dividends	35 810	27 664
Ordinary investment income on fixed-income securities	531 366	501 241
Other income	445 129	583 486
Ordinary investment income	<u>1 036 615</u>	<u>1 138 371</u>
Realised gains on investments	217 628	255 330
Realised losses from investments	56 408	114 875
Unrealised gains and losses	8 669	8 517
Real estate depreciation	19 769	18 697
Write-off on dividend-bearing securities	13 348	65 300
Write-off on fixed-income securities	4 062	29 685
Write-downs on participations	7 338	4 299
Other investment expenses	45 252	53 874
Total investment income	<u>1 116 735</u>	<u>1 115 488</u>

The other income includes interest on deposits of EUR 432.5 million (EUR 548.8 million).

Rating structure of fixed-income securities

		2004								
		AAA	AA	A	BBB	BB	B	C	Other	Total
		Figures in EUR thousand								
Fixed-income securities										
– held-to-maturity		32 207	181 282	200 226	51 539	—	5 000	—	—	470 254
Fixed-income securities										
– available-for-sale		6 386 367	3 044 275	2 012 396	599 465	45 871	190 827	8 293	54 254	12 341 748
Total fixed-income securities		6 418 574	3 225 557	2 212 622	651 004	45 871	195 827	8 293	54 254	12 812 002
		2003								
		AAA	AA	A	BBB	BB	B	C	Other	Total
		Figures in EUR thousand								
Fixed-income securities										
– held-to-maturity		71 556	165 926	246 077	13 563	—	—	—	1 573	498 695
Fixed-income securities										
– available-for-sale		6 461 711	1 987 441	1 650 632	677 067	56 870	180 350	8 239	97 257	11 119 567
Total fixed-income securities		6 533 267	2 153 367	1 896 709	690 630	56 870	180 350	8 239	98 830	11 618 262

Investments were held in the following currencies

		2004								
		AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
		Figures in EUR thousand								
Fixed-income securities										
– held-to-maturity		—	—	427 288	—	—	1 539	41 427	—	470 254
Fixed-income securities										
– available-for-sale		571 723	306 284	4 970 722	1 012 421	111 568	5 105 905	56 603	206 522	12 341 748
Equity securities										
– available-for-sale		—	1 936	902 731	5 225	—	182 976	11 489	657	1 105 014
Equity securities										
– trading		—	—	—	—	—	2 482	—	—	2 482
Other invested assets ...		37	—	394 829	5 041	528	409 067	10 000	1 469	820 971
Short-term investments, cash....		113 789	12 411	128 380	42 145	44 311	513 776	128 930	46 255	1 029 997
Total investments and cash		685 549	320 631	6 823 950	1 064 832	156 407	6 215 745	248 449	254 903	15 770 466
		2003								
		AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
		Figures in EUR thousand								
Fixed-income securities										
– held-to-maturity		—	—	488 672	—	—	1 573	8 450	—	498 695
Fixed-income securities										
– available-for-sale		553 090	245 236	3 536 043	1 250 990	87 930	5 159 204	64 438	222 636	11 119 567
Equity securities										
– available-for-sale		18 960	2 292	690 299	12 779	10 953	178 363	11 423	526	925 595
Equity securities										
– trading		—	—	2 402	—	—	—	—	—	2 402
Other invested assets ...		55	—	427 062	7 130	829	414 944	11 932	2 524	864 476
Short-term investments, cash....		86 853	36 636	160 028	65 559	20 753	401 547	100 888	83 462	955 726
Total investments and cash		658 958	284 164	5 304 506	1 336 458	120 465	6 155 631	197 131	309 148	14 366 461

Real estate

Real estate is divided into real estate for own use and third-party use. Only the real estate in the portfolio which is used to generate income is shown under the investments. Real estate is valued at cost of acquisition less scheduled depreciation.

Income and expenses from rental agreements are included in the investment income.

Breakdown of real estate

	2004	2003
	Figures in EUR thousand	
Real estate	205 755	230 591
Own-use real estate (other assets)	41 342	42 395

Cash equivalents

This item comprises investments with a life of up to one year.

Securitisation of reinsurance risks

In the previous year the FASB published the revised version of FIN 46 "Consolidation of Variable Interest Entities" (FIN 46R) addressing the consolidation of so-called variable interest entities. In cases where consolidation is not required on the basis of a majority voting interest, a variable interest entity is to be consolidated by the primary beneficiary. The primary beneficiary is the party that absorbs a majority of the entity's expected losses and receives a majority of its expected residual returns as a result of holding variable interests. The term "variable interest" is defined in FIN 46R as a "contractual, ownership or other pecuniary interest in an entity that changes with changes in the entity's net asset value".

FIN 46R was applied to all relevant entities with effect from 31 March 2004. Prior to this date we applied FIN 46R to all variable interests in special purpose entities. In addition, FIN 46R contains disclosure requirements with respect to existing relationships with variable interest entities that are to be satisfied even if such entities are not consolidated.

Within the scope of the portfolio-linked securitisation of certain reinsurance risks under transactions concluded in the years from 1993 to 2002, Hannover Re retroceded business on a proportional basis to an insurance enterprise in the form of a special purpose entity that finances the business via the international capital markets. The company has been in the process of winding up since February 2003. This transaction falls within the scope of applicability of FIN 46R. Since Hannover Re's relations with the company do not constitute variable interests as defined by FIN 46R, the transaction does not give rise to a consolidation requirement.

The residual assets of the special purpose entity as at 31 December 2004 remained unchanged from the previous year at EUR 1.3 million and thus do not constitute a significant risk of loss for Hannover Re.

In the period from March 2002 to December 2004 Hannover Re retroceded natural catastrophe risks (including hurricanes and earthquakes in the USA, windstorms in Europe and earthquakes in Japan) as well as worldwide aviation on a proportional basis to a special purpose entity that financed the business via the international capital markets. The transaction was terminated as per the contractual agreement effective 31 December 2004. Hannover Re's relations with this entity do not constitute variable interests, and there is therefore no consolidation requirement.

This entity reported liable equity capital of EUR 168.6 million (EUR 182.4 million) as at 31 December 2004. It is fully secured and thus does not constitute any risk of loss for Hannover Re.

Since November 2000 Hannover Re has held voting equity interests in as well as a share of the capital market bonds issued by a special purpose entity for the securitisation of reinsurance risks in France and Monaco. The total volume of the bonds issued stands at EUR 94.6 million (EUR 102.3 million). Based on its variable interests, the maximum risk of loss for

Hannover Re from this transaction is EUR 14.5 million (EUR 15.7 million). Hannover Re is not the primary beneficiary in this relationship.

Since 2 November 2001 Hannover Re has held the equity of a special purpose entity for the purchase and handling of so-called "life settlements". The company's total financing volume remained unchanged from the previous year at EUR 269.6 million. The entire underwriting risk of the special purpose entity is borne by an insurance company. This cedent retrocedes part of the risk to Hannover Re. The contract has been terminated with effect from 31 December 2003. The special purpose entity is closed for the acceptance of new business and is currently in the process of winding up. The maximum risk of loss for Hannover Re from this transaction is EUR 19.3 million (EUR 20.6 million). Hannover Re is not the primary beneficiary in this relationship.

Investments

Within the scope of asset management activities Hannover Re has participated since 1988 in numerous special purpose entities, which for their part transact certain types of equity and debt capital investments. The variable interests associated with such structures consist largely of participations sold on the capital market to numerous investors.

The maximum risk of loss for the Hannover Re Group from the sum of these transactions amounted to EUR 83.6 million as at 31 December 2004. On the basis of our analysis we came to the conclusion that although – for Hannover Re's part – relations exist in the form of variable interests, there are no grounds to consider the Group the primary beneficiary in any of these transactions. A consolidation requirement therefore does not exist.

Since May 1994, Hannover Re has participated in a number of special purpose entities for the securitisation of catastrophe risks by taking up certain capital market securities known as "disaster bonds" (or "CAT bonds"). Hannover Re's relations with these entities constitute variable interests. Hannover Re is not the primary beneficiary in any of these transactions, and there is therefore no consolidation requirement. The maximum risk of loss for Hannover Re resulting from these participations is EUR 33.0 million (EUR 48.5 million) as at 31 December 2004.

5.2 Underwriting assets and liabilities

Underwriting assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties.

SFAS 60 "Accounting and Reporting by Insurance Enterprises" requires that acquisition costs be capitalised as assets and amortised via the statement of income in proportion to the earned premiums. In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, acquisition costs were amortised based on a constant percentage of the present value of estimated gross profit margins from the reinsurance treaties.

In the case of property and casualty reinsurance, acquisition costs directly connected with the acquisition or renewal of treaties are deferred and amortised in line with the unearned portion of the premiums. In life and health reinsurance, the capitalised acquisition costs under life and annuity policies with regular premium payments are determined in the light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income. In the case of life reinsurance treaties classified as "universal life-type contracts" pursuant to SFAS 97, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

Development of deferred acquisition costs

	2004	2003
	Figures in EUR thousand	
Balance as at 1 January	1 690 806	1 428 044
Currency exchange rate differences	-38 290	-95 246
	<u>1 652 516</u>	<u>1 332 798</u>
Changes	371 768	365 760
Currency exchange rate differences between valuation at the average rate and the year-end rate.....	346	-7 752
Balance as at 31 December	<u>2 024 630</u>	<u>1 690 806</u>

Technical provisions

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. IBNR reserves are also included. The total amount of the reserves corresponds to the "principle of best estimate" under US GAAP. This estimate is based on past experience and estimations of future development. In one subsegment of financial reinsurance technical provisions were discounted at interest rates of between 2.3% and 8.6%. The interest rates are determined by the contractual agreements. These treaties are discounted over a period of at least four years, which represents the period from inception to expiry of the respective contracts. The discounted amount totals EUR 356.1 million (EUR 697.9 million). As at year-end 2004 the discounted provisions amounted to EUR 2,197.8 million (EUR 2,857.3 million).

The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

Reserves

	2004	2003
	Figures in EUR thousand	
Reserve as at 31 December of previous year (gross)	18 703 170	19 919 830
Reserve as at 31 December of previous year (retro).....	4 396 564	6 181 645
Reserve as at 31 December of previous year (net)	14 306 606	13 738 185
Effects of currency conversion as at 1 January of year under review..	-599 326	-1 701 102
Net reserve as at 1 January of year under review	13 707 280	12 037 083
Incurring claims and claims expenses		
Year under review	4 510 396	4 038 334
Previous years.....	1 285 235	2 689 401
	5 795 631	6 727 735
Less:		
Claims and claims expenses paid (net)		
Year under review	2 915 398	2 037 119
Previous years.....	2 411 193	2 341 387
	5 326 591	4 378 506
Effects of currency conversion at exchange rates on 31 December of year under review (net).....	-92 004	-79 706
Reserve as at 31 December of year under review (net)	14 084 316	14 306 606
Reserve as at 31 December of year under review (retro)	4 162 630	4 396 564
Reserve as at 31 December of year under review (gross)	18 246 946	18 703 170

The following table shows the net loss reserve (loss and loss adjustment expense reserve) for property and casualty reinsurance in the years 1994 to 2004 as well as the run-off of the reserve. The loss reserves for this business group are thus covered almost in their entirety. The figures for the years 1994 to 1997 have been drawn up in accordance with German accounting standards. The data from 1998 onwards is based upon United States Generally Accepted Accounting Principles (US GAAP).

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between original and current estimates is reflected in the net run-off result. In addition, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible in reinsurance business to make an exact allocation of claims expenditures to the current financial year and the previous year. Consequently, the development of earlier years – and especially the immediately preceding year – may be distorted. In our assessment, therefore, informative analyses can only be performed after the elapse of at least two years.

The development of the euro relative to major foreign currencies is also a significant influencing factor in this context. Most notably, the depreciation of the US dollar against the euro compared to the previous year (-8.2%) led to an appreciable decrease in the loss and loss adjustment expense reserve.

The run-off triangle shows the run-off of the reserve established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years. The run-off of the reserve for individual occurrence years is not shown in this regard, but rather the run-off of the reserve constituted annually in the balance sheet as at the balance sheet date.

Net loss reserve and its run-off

	1994 31.12.	1995 31.12.	1996 31.12.	1997 31.12.	1998 31.12.	1999 31.12.	2000 31.12.	2001 31.12.	2002 31.12.	2003 31.12.	2004 31.12.
Figures in EUR million											
Loss and loss adjustment expense reserve (as per balance sheet).....	3 735,6	3 957,6	4 304,7	4 849,4	5 002,1	5 696,3	6 162,3	6 867,8	5 846,1	6 584,9	7 337,5
Cumulative payments for the year in question and previous years											
One year later.....	686,3	841,2	822,1	796,9	1 114,9	1 287,2	1 690,4	1 986,7	1 106,2	1 292,5	
Two years later.....	1 206,0	1 481,6	1 259,0	1 423,4	1 759,0	2 029,8	2 659,3	2 863,0	1 946,6		
Three years later.....	1 583,6	1 786,5	1 652,0	1 808,5	2 209,0	2 592,6	3 310,2	3 455,3			
Four years later.....	1 804,8	2 039,2	1 905,3	2 105,2	2 575,8	3 051,4	3 651,9				
Five years later.....	1 986,6	2 214,1	2 102,5	2 327,8	2 905,7	3 293,8					
Six years later.....	2 122,8	2 356,2	2 261,5	2 586,6	3 076,5						
Seven years later.....	2 230,0	2 478,4	2 468,4	2 707,8							
Eight years later.....	2 324,6	2 658,6	2 554,5								
Nine years later.....	2 479,2	2 726,1									
Ten years later.....	2 537,1										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year.....	3 735,6	3 957,6	4 304,7	4 849,4	5 002,1	5 696,3	6 162,3	6 867,8	5 846,1	6 584,9	7 337,5
One year later.....	3 475,7	4 110,2	4 339,1	4 484,9	5 322,2	5 885,0	6 265,0	6 819,2	5 667,7	6 320,4	
Two years later.....	3 403,5	4 060,9	4 005,9	4 590,9	5 217,8	5 482,1	6 017,5	5 795,6	5 446,8		
Three years later.....	3 528,6	3 835,6	4 016,0	4 435,9	4 841,0	5 125,7	5 206,6	5 812,6			
Four years later.....	3 356,2	3 811,4	3 883,9	4 153,7	4 630,3	4 427,8	5 199,8				
Five years later.....	3 329,1	3 695,1	3 666,3	3 949,5	4 001,5	4 396,1					
Six years later.....	3 268,3	3 547,6	3 489,2	3 362,4	3 911,8						
Seven years later.....	3 177,8	3 417,5	3 003,0	3 308,2							
Eight years later.....	3 059,5	3 220,5	2 960,3								
Nine years later.....	2 922,4	3 188,5									
Ten years later.....	2 910,2										
Net run-off result of the loss reserve.....	825,4	769,1	1 344,4	1 541,2	1 090,3	1 300,2	962,5	1 055,2	399,3	264,5	
Of which currency exchange rate differences	9,6	48,7	-111,6	-427,6	-264,2	-633,2	-919,6	-1 172,8	-795,2	-292,6	
Net run-off result excluding currency exchange rate differences.....	835,0	817,8	1 232,8	1 113,6	826,1	667,0	42,9	-117,6	-395,9	-28,1	
As percentage of original loss reserve.....	22,4	20,7	28,6	23,0	16,5	11,7	0,7	-1,7	-6,8	-0,4	

Policy benefits for life and health contracts are established in accordance with the principles set out in SFAS 60. The provisions are based on the Group companies' information regarding mortality, interest and lapse rates.

Unearned premiums derive from the deferral of ceded reinsurance premiums. They are geared to the period during which the risk is carried and were established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premiums were estimated using suitable methods. Premiums paid for periods subsequent to the date of the balance sheet were deferred from recognition within the statement of income.

5.3 Contracts with no technical risk

We have identified insurance contracts which do not satisfy the requirements of SFAS 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". These involve reinsurance treaties under which the risk transfer between the ceding company and the reinsurer is of merely subordinate importance. With the exception of the contractually agreed fee payable by the ceding company, these contracts were eliminated in full from the technical account. The profit components were netted under other income/ expenses. The payment flows resulting from these contracts were reported in the cash flow statement under financing activities. Technical amounts were shown as net changes in contract deposits, the fair values of which corresponded approximately to their book values.

Contract deposits increased by EUR 1,028.5 million in the 2004 financial year from EUR 474.5 million to EUR 1,503.0 million. The rise was due in large measure to the enlarged volume of new business in the area of non-traditional life reinsurance.

5.4 Goodwill; present value of future profits on acquired life reinsurance portfolios

In accordance with SFAS 142 "Goodwill and Other Intangible Assets" scheduled amortisation is no longer taken on goodwill. Goodwill was tested for impairment in a two-step fair value process.

Development of goodwill

	2004	2003
	Figures in EUR thousand	
Goodwill net as at 1 January.....	203 619	233 883
Currency exchange rate differences	-10 738	-28 896
	<u>192 881</u>	<u>204 987</u>
Additions	4 331	17
Disposals	—	565
Impairments.....	539	820
Goodwill net as at 31 December	<u>196 673</u>	<u>203 619</u>

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios

	2004	2003
	Figures in EUR thousand	
Balance as at 1 January	12 098	14 621
Disposals	—	129
Amortisation.....	2 394	2 394
Balance as at 31 December	<u>9 704</u>	<u>12 098</u>

The period of amortisation on acquired portfolios varies between 5.5 and 15 years.

The disposals in the previous year were attributable to the sale of shares in E+S Rück.

5.5 Taxes and deferred taxes

Deferred tax assets and liabilities are booked in accordance with SFAS 109 for tax reductions and additional tax charges expected in subsequent financial years, insofar as they result from different valuations of individual balance sheet items. In principle, such valuation differences may arise between the national tax balance sheet and the national commercial balance sheet, the uniform consolidated balance sheet and the national commercial balance sheet as well as from tax loss carry-forwards and tax credits. Deferred taxes are based on the current tax

rates. In the event of a change in the tax rates on which the calculation of the deferred taxes is based, appropriate allowance is made in the year in which the change in the tax rate is stipulated in law with sufficient certainty. Deferred taxes at the Group level are booked using the Group tax rate of 40%.

German/foreign breakdown of reported tax expenditure/income

	<u>2004</u>	<u>2003</u>
	Figures in EUR thousand	
Current taxes		
Germany.....	62 407	73 169
Outside Germany	54 826	32 823
Deferred taxes		
Germany.....	89 586	189 711
Outside Germany	-65 455	-21 642
Total	<u>141 364</u>	<u>274 061</u>

Deferred tax assets and deferred tax liabilities of all Group companies

	<u>2004</u>	<u>2003</u>
	Figures in EUR thousand	
Deferred tax assets		
Tax loss carry-forwards	71 959	31 244
Loss and loss adjustment expense reserves	218 808	207 378
Policy benefits for life and health contracts	922	37 690
Other provisions.....	63 340	87 899
Funds held under reinsurance treaties	4 534	3 740
Valuation differences relating to investments.....	20 526	15 001
Contract deposits	688 724	290 780
Other valuation differences	8 237	4 720
Total	<u>1 077 050</u>	<u>678 452</u>
Deferred tax liabilities		
Loss and loss adjustment expense reserves	1 802	32 118
Policy benefits for life and health contracts	378 047	107 205
Other technical/non-technical provisions	28 575	14 905
Equalisation reserve	773 510	645 590
Funds held by ceding companies	8 707	6 579
Deferred acquisition costs	510 884	491 648
Accounts receivable/reinsurance payable	3 134	14 792
Valuation differences relating to investments.....	93 237	107 205
Contract deposits	143 364	115 250
Other valuation differences	23 188	13 017
Total	<u>1 964 448</u>	<u>1 548 309</u>
Deferred tax liabilities	<u>887 398</u>	<u>869 857</u>

Availability of capitalised loss carry-forwards

Availability	Capitalised loss carry- forward
	Figures in EUR thousand
Until 2007.....	3 808
Until 2024.....	65 610
Unlimited	2 541

The following table presents a reconciliation of the expected expense for income taxes with the actual provision for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes. The Group tax rate used is composed of the corporate income tax rate of 25%, the German reunification charge of 5.5% levied on corporate income tax and trade earnings tax of 13.625% calculated on the basis of this effective corporate income tax rate.

Reconciliation of the expected expense for income taxes with the actual provision for income taxes

	2004	2003
	Figures in EUR thousand	
Profit before income taxes.....	510 258	748 370
Expected tax rate	40%	40%
Expected expense for income taxes.....	204 103	299 348
Change in deferred rates of taxation.....	154	-3 781
Taxation differences affecting foreign subsidiaries	-57 663	-122 235
Non-deductible expenses.....	6 557	24 170
Tax-exempt income.....	-10 450	-1 747
Tax expense not attributable to the reporting period.....	3 122	66 030
Other.....	-4 459	12 276
Actual provision for income taxes	<u>141 364</u>	<u>274 061</u>

5.6 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 2,009 (previous year: 1,970). Of this number, 826 were employed in Germany in the year under review. The majority of staff were employed at the consolidated Group companies abroad.

Staff

	2003		2004				
Personnel information	Average	31.3.	30.6.	30.9.	31.12.	Average	
Number of employees (excluding board members).....	1 970	1 997	2 011	2 031	2 035	2 009	
2004							
Nationality of employees	German	USA	South African	UK	Irish	Other	Total
Number of employees .	772	584	232	90	23	334	2 035

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Expenditures on personnel

	2004	2003
	Figures in EUR thousand	
a) Wages and salaries		
aa) Expenditures on insurance business	92 332	87 106
ab) Expenditures on the administration of investments	8 148	9 636
	<u>100 480</u>	<u>96 742</u>
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	13 736	11 255
bb) Expenditures for pension provision	10 108	12 601
bc) Expenditures for assistance	332	271
	<u>24 176</u>	<u>24 127</u>
Total	<u><u>124 656</u></u>	<u><u>120 869</u></u>

5.7 Provisions for pensions and similar liabilities

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which at 1% up to the assessment limit in the statutory pension insurance scheme and 2.5% above the assessment limit of the pensionable employment income are calculated in a range of 0.7% to 1% and 1.75% to 2.5% respectively depending upon the company's performance. The pension plan closed as at 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI Lebensversicherung AG, Hamburg.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse. The pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision by way of deferred compensation through membership of HDI Pensionskasse AG. The benefits provided by HDI Pensionskasse AG are guaranteed for its members and their surviving dependants and comprise traditional pension plans with bonus increases as well as unit-linked hybrid annuities.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

Additional similar obligations based upon length of service exist at some Group companies. Expenditures for these commitments in the financial year totalled EUR 2,642 thousand (EUR 2,903 thousand).

Provisions for pensions are established in accordance with SFAS 87 "Employers' Accounting for Pensions" using the Projected Unit Credit Method. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. The provisions for pensions in Germany were calculated according to uniform standards defined by Talanx AG.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level. The calculation of the provisions for pensions is based upon the following assumptions:

- Discount rate: 5.00% to 6.25%
- Rate of compensation increase: 2.25% to 5.50%
- Projected long-term yield on plan assets (US plans): 6.00% to 7.50%
- Indexation: 1.5%

The commitments to employees in Germany predominantly comprise commitments financed by the Group companies. The pension plans are unfunded. Amounts carried as liabilities are shown as other liabilities.

Provisions for pensions in accordance with SFAS 132

	2004	2003
	Figures in EUR thousand	
Change in projected benefit obligation		
Projected benefit obligation at the beginning of the reporting year	54 581	54 024
Currency exchange-rate differences	-455	-1 121
Service cost	2 899	2 914
Interest cost	3 232	2 798
Actuarial gain/loss in the reporting year	-1 499	2 302
Deferred compensation	394	404
Benefits paid during the year	-2 643	-1 338
Business combinations, divestitures and other activities	2 647	-798
Projected benefit obligation at the end of the reporting year	62 154	54 581
Fair value of plan assets		
At the beginning of the year	3 496	3 742
Currency exchange rate differences	-264	-651
Business combinations, divestitures and other activities	4 090	—
Return on plan assets	630	140
Employer's contributions	522	267
Benefits paid	-1 293	-2
At the end of the year	7 181	3 496
Funded status of plan		
Unrecognised actuarial gain/loss	684	1 538
Additional minimum liability (AML) under FAS 87	441	—
Unamortised prior-service cost	—	1 001
	-1 125	-537
Accrued pension liability	56 098	51 622
Net periodic pension cost of the year		
Service cost		
Year under review	2 899	2 914
Amortisation for previous years	13	3
Interest cost	3 232	2 798
Expected return on plan assets	-493	-170
Recognised net actuarial loss	24	16
Amortisation of net obligation	—	560
Total	5 675	6 121

5.8 Surplus debenture and loans

Loans

On 31 March 1999 Hannover Finance Inc., Wilmington/USA, issued subordinated debt in the form of a floating-rate loan in the amount of USD 400.0 million with a term of 30 years. The due date of the loan is 31 March 2029. It may be redeemed by the issuer no earlier than 31 March 2009.

In order to hedge against the risk of interest rate changes associated with this loan, the issuing company purchased interest rate swaps in 1999 in the same amount which expire on 31 March 2009. In commercial terms, therefore, the interest rate is converted from a floating rate to a fixed rate for a period ending commensurate with the first opportunity to redeem the loan. The annual interest rate arising after allowance is made for the interest rate swap amounts to 6.69% until 31 March 2009.

In February 2004 Hannover Re bought back 92.5% (USD 370.0 million) of the debt.

In order to safeguard the sustained financial strength of the Hannover Re Group, Hannover Re issued additional subordinated debt. In 2001 a subordinated loan was placed through Hannover Finance (Luxembourg) S.A. – a wholly owned subsidiary of Hannover Re – on the European capital market. The debt, which is secured by Hannover Re, was issued in the amount of EUR 350 million with a term of 30 years. It may be redeemed by the issuer after 10 years at the earliest.

In the 2004 financial year further subordinated debt in the amount of EUR 750.0 million was again placed through our subsidiary Hannover Finance (Luxembourg) on the European capital markets. The bond was placed predominantly with institutional investors in Europe. The bond was priced at a spread of 163 basis points over the 10-year mid-swap rate and has a final maturity of 20 years. It may be redeemed by Hannover Re after 10 years at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly Euribor +263 basis points.

Surplus debenture (Genusrechtskapital)

On 2 November 1993 Hannover Re and E+S Rück issued surplus debentures in the amounts of EUR 76.7 million at an interest rate of 7.55% and EUR 40.9 million at an interest rate of 7.75% respectively. Surplus debenture is shown as a liability with the amount repayable.

The amounts were repaid in full on 2 November 2004.

Other financial facilities

In order to protect against possible future major losses, Hannover Re took out a new credit line of EUR 500.0 million in 2004 in the form of a syndicated loan. The facility, which replaces the existing credit line of EUR 250.0 million, has a term of five years and is due in August 2009.

E+S Rück has a credit line of EUR 40.0 million, which is extended on a half-yearly basis and can be drawn on as required.

Additional bilateral, secured credit lines in the amount of EUR 200.0 million – available variably for both cash and guarantee credit financing – as well as similar unsecured credit lines with a volume of EUR 70.0 million were arranged with Landesbank Hessen-Thüringen Girozentrale for the purpose of short-term borrowing.

5.9 Stockholders' equity and minority interests

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

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

The common stock was strengthened in the previous year through a capital increase for cash. It now amounts to EUR 120,597,134.00. The capital stock 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. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares. In addition, conditional capital of up to EUR 48,500 thousand is available. It can be used to grant shares to holders of convertible and warrant bonds and has a time limit of 13 November 2007.

Consolidated statement of changes in stockholders' equity

2004

	Balance as at 1 January	Capital- increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
Figures in EUR thousand								
Common stock	120 597	—	—	—	—	120 597		
Additional paid-in capital	724 562	—	—	—	—	724 562		
Cumulative comprehensive income	-202 761	—	-42 892	—	—	-245 653		
Retained earnings	1 762 252	—	—	—	—	1 762 252		
Net income		—	—	309 140	—	309 140		
Dividends paid		—	—	-114 567	—	-114 567		
Other changes		—	—	353	—	353		
Total	2 404 650	—	-42 892	194 926	—	2 556 684	535 004	3 091 688

2003

	Balance as at 1 January	Capital- increase/ additions	Change in the current period less deferred taxes	Change in retained earnings	Transfer	Group stockholders' equity	Minority interests	Group stockholders' equity incl. minority interests
in TEUR								
Common stock	110 881	9 716	—	—	—	120 597		
Additional paid-in capital	514 688	209 874	—	—	—	724 562		
Cumulative comprehensive income	-102 451	—	-11 951	—	-88 359	-202 761		
Retained earnings	1 340 529	—	—	—	—	1 340 529		
Net income	—	—	—	418 321	—	418 321		
Dividends paid	—	—	—	-82 591	—	-82 591		
Other changes	—	—	—	-2 366	88 359	85 993		
Total	1 863 647	219 590	-11 951	333 364	—	2 404 650	491 836	2 896 486

* The cumulative currency exchange-rate effects from previous years in the amount of EUR 88.4 million hitherto recognised under retained earnings will in future be shown under comprehensive income. The exchange-rate effects in question derive largely from the translation of foreign financial statements into euros.

5.10 Other comprehensive income

The changes in the cumulative comprehensive income decreased by EUR 19.8 million to EUR 2.9 million in the year under review. This reduction was due in large measure to hedge-ineffective changes in the fair value of derivative financial instruments recognised in the statement of income.

5.11 Treasury stock

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

5.12 Earnings per share

The basic earnings per share and the fully diluted earnings per share as at 31 December 2004 shown in the statement of income are calculated as follows on the basis of the year-end result:

	2004			2003		
	Result (in EUR thousand)	No. of shares	Per share (in EUR)	Result (in EUR thousand)	No. of shares	Per share (in EUR)
Weighted average of issued shares.....		120 597 134			116 224 758	
Basic earnings per share.....	309 140	120 597 134	2,56	418 321	116 224 758	3,60
Fully diluted earnings per share.....	309 140	120 597 134	2,56	418 321	116 224 758	3,60

Neither in the year under review nor in the previous reporting period was there any extraordinary comprehensive income which should have been included in the calculation.

In accordance with the "as-if-pooling" method, our calculation of the earnings per share in the previous year was based on the assumption that Hannover Reinsurance (Dublin) Ltd. (formerly: HDI Reinsurance (Ireland) Ltd.) already belonged to Hannover Re at the beginning of 2002. The weighted average number of shares was therefore increased by the number of shares issued for the capital increase against a contribution in kind (13,716,814) with effect from this date onwards.

5.13 Other assets and liabilities

Other assets

	2004	2003
	Figures in EUR thousand	
Securities payable.....	1 054	3 345
Own-use real estate	41 342	42 395
Other non-technical contracts.....	37 801	45 391
Present value of future profits on acquired life reinsurance portfolios ..	9 704	12 098
Fixtures, fittings and equipment.....	26 597	18 809
Other intangible assets	26 623	29 392
Interest and rent payable on investments.....	1 764	2 528
Tax refund claims	32 956	37 581
Receivables from affiliated companies	117 546	15 414
Other.....	47 502	41 632
Total.....	342 889	248 585

Other liabilities

	2004	2003
	Figures in EUR thousand	
Provisions for pensions and similar obligations.....	60 187	54 442
Liabilities from derivatives.....	41 442	48 196
Interest.....	57 598	32 144
Deferred income	13 324	16 458
Costs of the annual financial statements	1 662	3 803
Liabilities to trustees.....	18 328	19 826
Loans.....	80 603	88 230
Interest on additional tax payments.....	25 853	—
Stock option rights.....	4 226	2 420
Liabilities due to banks.....	6 176	4 502
Accounts due to affiliated companies.....	81	1 035
Other.....	155 049	94 039
Total	464 529	365 095

5.14 Technical statement of income

In accordance with SFAS 60 insurance contracts are to be classified as “short-duration contracts” or “long-duration contracts”. The determinative criteria in this regard are, *inter alia*, the termination opportunities available to the insurer, the period of risk protection and the scope of the services provided by the insurer in connection with the contract. Premiums from short-duration contracts are brought to account over the period of the underlying contract, and where appropriate unearned premiums are deferred to subsequent years. By contrast, premiums deriving from long-duration contracts are brought to account at the date payable.

Most of the contracts underwritten by our company are classified as short-duration contracts.

5.15 Other income/expenses

Other income/expenses

	2004	2003
	in TEUR	
Other income		
Exchange gains.....	313 333	318 844
Other interest income.....	8 210	6 089
Income from services.....	4 237	6 079
Sundry income.....	34 432	30 385
	<u>360 212</u>	<u>361 397</u>
Other expense		
Exchange losses	273 653	304 114
Other interest expenses	78 974	57 771
Depreciation	17 449	18 393
Expenses for services.....	3 212	16 140
Expenses for the company as a whole.....	35 233	25 433
Separate value adjustments.....	43 859	33 105
Goodwill impairments.....	539	820
Sundry expenses.....	47 106	12 101
	<u>500 025</u>	<u>467 877</u>
Total	<u><u>-139 813</u></u>	<u><u>-106 480</u></u>

6. Related party disclosures

6.1 Transactions with related parties

SFAS 57 defines related parties *inter alia* as parent companies and subsidiaries, subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the management of the company itself. The following substantial business relationships existed with related parties in the 2004 financial year.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) indirectly holds a majority interest in the shares of Hannover Re through the subsidiaries Talanx AG and HDI Verwaltungs-Service AG as well as through Zweite HDI Beteiligungsgesellschaft mbH, all based in Hannover.

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at normal market conditions.

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück, while Hannover Re has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies.

As part of a portfolio withdrawal Hannover Re transferred treaties in the area of life and health reinsurance to Hannover Life Reassurance Company of America for regional handling. E+S Rück is involved in the transfer of the portfolio through internal retrocession arrangements.

In accordance with a partner's resolution dated 17 May 2004 the additional paid-in capital of Hannover Rück Beteiligung Verwaltungs-GmbH in the amount of EUR 10.1 million was released and transferred in full to Hannover Re as the sole partner.

On 1 March 2004 Hannover Finance (Luxembourg) extended to Hannover Re a loan in the amount of EUR 375.0 million for a term until 24 February 2014 at an interest rate of 6.3%. This loan and the loan taken up in 2001 in the amount of EUR 100.0 million were repaid ahead of schedule in the 2004 financial year together with interest totalling EUR 23.6 million.

By way of an agreement dated 21 December 2004 Hannover Re disbursed to Clarendon National Insurance Company a loan of USD 100.0 million as an equity substitute. Interest is payable at six-month Libor plus 300 basis points.

Hannover Re has acquired receivables from Clarendon National Insurance Company and Clarendon America in a total amount of USD 18.4 million.

Hannover Re has made time money lendings of between USD 3.4 million and USD 31.9 million to Hannover Finance, Inc. The interest payable ranges from 1.15% to 2.50%.

In the 2004 financial year Hannover Re extended time money of EUR 70.2 million to Hannover Re (Dublin) at an interest rate of 1.92%.

In accordance with the Supervisory Board resolution of 11 August 2004 Hannover Re implemented a capital increase of EUR 300.0 million at Hannover Re (Bermuda). The funds were allocated to the subsidiary's additional paid-in capital.

Effective 28 December 2004 E+S Rück assumed from HDI Industrie Versicherung AG receivables in the amount of EUR 100.0 million due from reinsurance companies – including an amount of EUR 87.3 million due from Hannover Re. Under the agreement E+S Rück charged HDI Industrie Versicherung AG pro-rata interest for 2004 at six-month Euribor in an amount totalling EUR 18,500.

Since 2002 Hannover Re and HDI Privat Versicherung AG have each held interests of EUR 12.5 million (50.0%) in Oval Office Grundstücks GmbH. By a partners' resolution of 21 February 2003 the partners individually committed themselves to contribute up to a total of EUR 31.7 million in additional cash payments to the company's equity capital. In the 2004 financial year Hannover Re contributed a total of EUR 15.9 million.

As at 31 December 2001 Hannover Re and E+S Rück each took up limited partnership interests of EUR 25.0 million in Hannover Euro Private Equity Partners II GmbH & Co. KG. In the 2004 financial year Hannover Re and E+S Rück both paid five capital calls – totalling EUR 4.4 million each – on the amount subscribed. In addition, in accordance with the articles of partnership, three cash distributions were made to both Hannover Re and E+S Rück in the amount of EUR 2.3 million each.

As at 18 December 2002 Hannover Re and E+S Rück each took up a limited partnership interest of EUR 25.0 million in Hannover Euro Private Equity Partners III GmbH & Co. KG. Effective 1 September 2004 and in accordance with the articles of partnership and the certificates of subscription, HDI Industrie Versicherung AG, CiV Versicherung AG and CiV Lebensversicherung AG were included as additional limited partners. The total volume subscribed by these new partners amounted to EUR 22.0 million. Similarly with effect from 1 September 2004 the previously existing partners took up further limited partnership interests in a nominal amount of EUR 25.0 million each, thereby increasing the company's subscribed capital from EUR 50.0 million to altogether EUR 122.0 million. Due to the changes in the partnership Hannover Re and E+S Rück received capital equalisation payments in the amount of EUR 0.5 million each for the calls on capital already made. In the 2004 financial year both Hannover Re and E+S Rück paid five capitals of EUR 3.4 million each on the total amount subscribed. In addition, two cash distributions of EUR 0.9 million each were made to Hannover Re and E+S Rück in accordance with the articles of partnership.

As at 18 December 2002 Hannover Re and E+S Rück held limited partnership interests of USD 75.0 million and USD 25.0 million respectively in Hannover America Private Equity Partners II GmbH & Co. KG. Effective 1 September 2004 the subscribed capital was increased by USD 150.0 million to USD 250.0 million. Hannover Re increased its capital contribution to USD 217.5 million (87% of the subscribed capital), while E+S Rück raised its contribution to USD 32.5 million (13% of the subscribed capital). Due to the changes in the partnership Hannover Re was obliged to render to E+S Rück a capital equalisation payment in the amount of USD 5.0 million for the capital calls made in the period up to 1 September 2004. In the 2004 financial year Hannover Re paid a further eleven capital calls totalling USD 20.6 million on the amount subscribed, while for E+S Rück the same number of capital calls added up to USD 5.4 million. In addition, four cash distributions of USD 6.5 million were made to Hannover Re and four cash distributions of USD 1.5 million were made to E+S Rück in accordance with the articles of partnership.

Within the contractually agreed framework Ampega Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. The assets of US subsidiaries are managed by Ampega Investment AG. Ampega Immobilien Management GmbH performs services for Hannover Re within the framework of a management contract.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection *inter alia* in the areas of public liability, fire, group accident and business travel collision insurance.

All transactions were effected at normal market conditions. We gave an account of these transactions with regard to Hannover Re and E+S Rück in the corresponding dependent company reports.

6.2 Compensation and stockholdings of the management boards of the parent company and further information with respect to the German Corporate Governance Code

Total compensation of EUR 3,609 thousand (EUR 2,786 thousand) was paid to the Executive Board and EUR 694 thousand (EUR 446 thousand) to the Supervisory Board in the year under review. Former members of the Executive Board and their surviving dependants received EUR 896 thousand (EUR 823 thousand), and a liability of EUR 9,786 thousand (EUR 9,970 thousand) was shown as at year-end.

The total compensation received by the members of the Executive Board included variable components of EUR 1,515 thousand (EUR 1,424 thousand). The variable remuneration of the Executive Board is determined on the basis of the year-end result and the value creation. The value creation is measured using an appropriate benchmark (the performance of the Hannover Re share relative to the unweighted "Reactions" World Reinsurance Index). The benchmarks cannot be retroactively changed.

Transactions implemented by Executive Board and Supervisory Board members of Hannover Re and by their spouses or registered partners and first-degree relatives involving shares, options or derivative financial instruments of Hannover Re as well as of the parent companies (so-called "Directors' Dealings"), which with effect from 1 July 2002 are to be reported in accordance with § 15a of the German Securities Act (WpHG), are set out in the table below:

Dealings in securities

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of securities	Price in EUR
André Arrago	Buy	Call warrant	DE 000743 488 8	17.05.2004	100 000	0,28
André Arrago	Buy	Call warrant	DE 000743 488 8	17.05.2004	100 000	0,29
André Arrago	Buy	Call warrant	DE 000743 488 8	17.05.2004	100 000	0,3
André Arrago	Sell	Call warrant	DE 000743 488 8	07.12.2004	200 000	0,28
André Arrago	Sell	Call warrant	DE 000743 488 8	07.12.2004	100 000	0,29
Wilhelm Zeller.....	Buy	Stock	DE 000 840 221 5	04.11.2004	1 000	25,93

Members of the Supervisory Board and Executive Board of Hannover Re as well as of the parent companies and their spouses or registered partners and first-degree relatives hold less than 1% of the issued shares. As at 31 December 2004 the total holding amounted to 0.03% of the issued shares, i.e. 35,882 shares. The total volume of stock appreciation rights held by members of the Executive Board on the basis of the virtual stock option plan amounted to 1.87% of the capital stock as at the balance sheet date. The value of these stock appreciation rights was EUR 2,263 thousand. Further information is provided in section 6.3 "Stock appreciation rights".

The compensation received by the Supervisory Board comprises fixed and variable components determined by the paid dividend. Appropriate allowance is made for the functions performed by the Chairman and Deputy Chairman when determining the level of compensation paid to the members of the Supervisory Board. In the year under review the company did not pay any compensation to members of the Supervisory Board for personally rendered services, e.g. consulting or mediation services.

Mortgage loans granted to members of the management boards

	Position as at 1.1.2004	Addition	Repayment	Position as at 31.12.2004	Interest rate in %
Figures in EUR thousand					
Executive Board	88	—	4	84	5,0

The company did not enter into any contingent liabilities for members of the management boards. The names of the members of the management boards of the parent company are listed on pages [37] and [38].

6.3 Stock appreciation rights (SARs)

With effect from 1 January 2000 the Executive Board of Hannover Re, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights (SARs) to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of Hannover Re stock, but merely to payment of a cash amount linked to the performance of the Hannover Re share.

Stock appreciation rights were first granted for the 2000 financial year and are awarded separately for each subsequent financial year (allocation year), provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights are satisfied.

The internal performance criterion is accomplishment of the target performance defined by the Supervisory Board, expressed in terms of the "diluted earnings per share" (EPS) under US GAAP. If the target performance is surpassed or undershot, the provisional basic number of stock appreciation rights initially granted is increased or reduced accordingly to produce the EPS basic number. The external performance criterion is the development of the share price in the allocation year. The benchmark used in this regard is the unweighted "Reactions" World Reinsurance Index. This index encompasses the performance of all listed reinsurers worldwide. Depending upon the outperformance or underperformance of this index, the EPS basic number is increased – albeit by at most 400% of the basic number – or reduced – although by no more than 50% of the EPS basic number.

The maximum option period is ten years, commencing at the end of the year in which the SAR is awarded. Stock appreciation rights expire if they are not exercised by the end of the respective option period. Stock appreciation rights may only be exercised after a vesting period and then only within four exercise periods each year. For 40% of the stock appreciation rights (first tranche) the vesting period is two years, for each additional 20% (tranches two to four) of the stock appreciation rights the vesting period is extended by one year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rückversicherung AG.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Re share at the time when the option is exercised. In this context, the basic price corresponds to the arithmetical mean of the closing prices of the Hannover Re share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Re share on the date when an option is exercised is determined by the arithmetical mean of the closing prices of the Hannover Re share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation of the employment relationship or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such options in the first exercise

period thereafter. Stock appreciation rights expire if they are not exercised within this period or if the vesting period has not yet elapsed.

In the year under review the vesting period expired for 60% of the stock appreciation rights awarded in 2000. In the first exercise period (6 to 21 April 2004) 58,276 stock appreciation rights were exercised at an amount payable of EUR 2.29 per SAR and in the second exercise period (25 May to 7 June 2004) 21,861 stock appreciation rights were exercised at an amount payable of EUR 2.23 per SAR. No stock appreciation rights were exercised in the third exercise period (20 August to 2 September 2004) or in the fourth exercise period (19 November to 2 December 2004). The amounts payable per SAR for these two exercise periods stood at EUR 0.35 and EUR 0.57 respectively.

The existing stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

As at 1 January 2004 the existing number of stock appreciation rights stood at 1,673,499 with an average exercise price of EUR 24.78 each. In accordance with the resolution of the Supervisory Board dated 25 March 2004 a further 904,234 stock appreciation rights were granted at an average exercise price of EUR 24.00 each.

177,313 stock appreciation rights expired in the year under review at an average exercise price of EUR 24.40. The total number of stock appreciation rights existing as at year-end stood at 2,320,283. The average exercise price amounted to EUR 24.48. Of the total number of stock appreciation rights, 477,453 were exercisable at an average exercise price of EUR 25.50.

Development of the stock appreciations rights plan (SAR)

	2004		2003		2002	
	Number of SARs	Average exercise price*	Number of SARs	Average exercise price*	Number of SARs	Average exercise price*
	in EUR per SAR					
Total options existing at 1 January.	1 673 499	24,78	1 097 235	25,50	1 138 005	25,50
Granted	904 234	24,00	710 429	23,74	—	—
Exercised	80 137	25,50	—	—	—	—
Expired	177 313	24,40	134 165	25,19	40 770	25,50
Total options remaining at						
31 December	2 320 283	24,48	1 673 499	24,78	1 097 235	25,50
Exercisable at year-end	477 453	25,50	394 734	25,50	—	25,50

* The exercise price is the basic price at the time when the stock appreciation rights are granted pursuant to § 9 of the Conditions for the Granting of Stock Appreciation Rights

The calculations are based on the year-end closing price of the Hannover Re share as at 30 December 2004 of EUR 28.75, volatility of 22.43%, a dividend yield of 3.52% and risk-free interest rates of 3.30% for the 2000 allocation year, 3.57% for the 2002 allocation year and 3.69% for the 2003 allocation year.

On this basis provisions were established for the stock appreciation rights existing as at 31 December 2004 in the amounts of EUR 1,653 thousand for the 2003 allocation year, EUR 2,669 thousand for the 2002 allocation year and EUR 3,484 thousand for the 2000 allocation year.

6.4 Mortgages and loans

Employees who are not members of the Executive Board or Supervisory Board were granted mortgages and mortgage loans to finance residential property. These loans are all secured by a first charge on property. Bad debt losses did not exist and are not anticipated.

7. Other notes

7.1 Lawsuits

In connection with the acquisition of Lion Insurance Company, Trenton/USA by Hannover Finance, Inc., Wilmington/USA – a subsidiary of Hannover Re -, a legal dispute exists with the former owners of Lion Insurance Company regarding the release of a portion of the purchase

price at that time which is held in trust as well as a commitment to pay further portions of the purchase price and incentive compensation under management contracts and also regarding the release of a trust account that serves as security for liabilities of the previous owners in relation to a particular business segment.

Apart from the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of isolated out-of-court proceedings within the scope of ordinary insurance and reinsurance business activities.

7.2 Contingent liabilities

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

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

Hannover Re has also secured by subordinated guarantee further subordinated debt in the amount of EUR 350.0 million issued by Hannover Finance (Luxembourg) S.A.

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

In July 2004 Hannover Re and the other shareholders sold the participation that they held through Willy Vogel Beteiligungsgesellschaft mbH in Willy Vogel AG. In order to secure the guarantees assumed under the purchase agreement, Hannover Re and the other shareholders jointly gave the purchaser a directly enforceable guarantee limited to a total amount of EUR 7.1 million. Furthermore, in the event of a call being made on the guarantee Hannover Re and the other shareholders agreed that settlement would be based upon the ratio of participatory interests.

As security for our technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 1,748.7 million (EUR 1,664.2 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 2,663.7 million.

Outstanding capital commitments with respect to special investments exist in the amount of EUR 88.8 million (EUR 62.8 million) for E+S Rückversicherung AG and EUR 232.4 million (EUR 115.4 million) for Hannover Re. These involve primarily private equity funds and venture capital firms in the form of private limited companies.

Within the scope of a novation agreement regarding a life insurance contract we assumed contingent reinsurance commitments with respect to due date and amount estimated at EUR 29.2 million as at the balance sheet date.

7.3 Long-term commitments

Following the termination of the German Aviation Pool with effect from 31 December 2003, our participation consists of the run-off of the remaining contractual relationships. Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

7.4 Derivative financial instruments

The accounting of the "Modified coinsurance" and "Coinsurance funds withheld" reinsurance contracts, under which security deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, must comply with the standards of SFAS 133 DIG B 36. The derivatives embedded in such host contracts are to be reported separately from the underlying reinsurance arrangements at fair value.

A small number of treaties in life and health reinsurance meet criteria which require the application of SFAS 133 DIG B 36. Under these treaties the interest-rate risk elements are clearly and closely linked with the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair value of the embedded derivatives using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract is concluded and its value then fluctuates over time according to changes in the credit spread of the securities.

The application of DIG B 36 had no significant impact on the consolidated financial statement in the financial year. The fair values of the embedded derivatives were recognised in the investments as at the balance sheet date and to this extent increased the investment income. The pre-tax effect on the investment income amounted to altogether EUR 10.3 million (EUR 3.3 million) as at the balance sheet date. In the course of the full 2004 financial year the fair value of the embedded derivatives increased by EUR 7.0 million (EUR 7.4 million adjusted for exchange-rate effects) before tax compared to the previous year.

Since Hannover Re concludes reinsurance transactions worldwide in numerous international currencies, the Group is exposed to currency fluctuations.

Hannover Re uses derivative financial instruments as a tool to control interest rate risks and market price risks as well as to some extent currency exposures arising out of the use of financial instruments. Derivative financial instruments are used within the Hannover Re Group solely for hedging purposes.

The fair values of the derivative financial instruments were determined on the basis of the market information available as at the balance sheet date and by using the valuation methods set out below. If the underlying transaction and the derivative cannot be reported as a single unit, the derivative is recognised under the "trading portfolio" or "other liabilities" item in the balance sheet.

Cash flow hedges

In the case of a cash flow hedge, the hedge-effective part of the changes in fair value is initially recognised under the stockholders' equity (cumulative comprehensive income). It is only reported in the statement of income when the underlying hedged transaction has been recognised in the statement of income. The hedge-ineffective part of the changes in fair value is recognised in the statement of income immediately.

Fair value hedges

In the case of a fair value hedge, the results of the fair valuation of the derivatives and the corresponding underlying transactions are recognised (subject to effectiveness) in the statement of income.

Breakdown of nominal amounts of underlying hedged transactions by product type and period to maturity

	1 to 5 years	6 to 10 years	Total
	2004 Figures in EUR thousand		
Interest rate swaps.....	—	293 255	293 255
Currency swaps.....	16 386	15 000	31 386
Options.....	110 348	—	110 348

The fair value of derivatives used in cash flow hedges totalled -EUR 26.6 million. Derivatives recognised under other liabilities had a fair value of EUR 28.0 million.

The fair value of derivatives used in fair value hedges amounted to EUR 2.5 million and was recognised in the trading portfolio.

Nine derivative contracts matured in the year under review; this gave rise to profits on disposals of EUR 4.9 million and losses on disposals of EUR 1.4 million.

As at the balance sheet date the portfolio did not contain any forward purchase options or forward exchange transactions.

7.5 Rents and leasing

Leased property

Summary of leasing commitments

	<u>Payments</u>
	Figures in EUR thousand
2005	7 381
2006	7 465
2007	5 745
2008	5 382
2009	6 524
Subsequent years	69 201

Operating leasing contracts produced expenditures of EUR 8,092 thousand (EUR 5,563 thousand) in the 2004 financial year.

The Insurance Corporation of Hannover and the Clarendon Group have multi-year contracts for the lease of business premises. In the latter case, a lease agreement for business premises was concluded in 2003 with a term of 20 years. The lease ends on 29 August 2023. The rent instalments are fixed for the lease term, although adjustments in line with changed market conditions are possible at contractually agreed times.

In 2002 Hannover Reinsurance Africa Ltd. concluded a sale-and-lease-back contract for land and business premises for a period of eight years. SFAS 13 requires that this be recognised as an operating lease.

Rented property

Hannover Re Real Estate Holdings rents out real estate in Florida; the period of the rental contracts ranges from three to ten years. Non-cancellable contracts will produce the income shown below in subsequent years:

	<u>Payments to be received</u>
	Figures in EUR thousand
2005	9 725
2006	9 444
2007	8 569
2008	8 078
2009	7 805
Subsequent years	5 476

Rental income totalled EUR 14,330 thousand (EUR 15,265 thousand) in the 2004 financial year.

7.6 Currency translation

Foreign currency items in the individual companies' statements of income are converted into the respective national currency at the average rates of exchange. The individual companies' statements of income prepared in the national currencies are converted into Euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In the case of functional currencies, differences arising between the average exchange rate and the exchange rate on the balance sheet date lead to the establishment of a separate item in the stockholders' equity, which is excluded from the statement of income. Differences arising with regard to non-functional currencies are recognised in the statement of income. Functional currencies are defined as those currencies in which investments are effected.

Key exchange rates

	2004	2003	2004	2003
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
	31.12.	31.12.	31.12.	31.12.
1 EUR corresponds to:				
AUD	1,7489	1,6788	1,6916	1,7473
CAD	1,6430	1,6290	1,6165	1,5905
GBP	0,7071	0,7070	0,6819	0,6899
MYR	5,1503	4,7741	4,7182	4,3033
SEK	9,0200	9,0710	9,1239	9,1326
USD	1,3640	1,2610	1,2474	1,1342
ZAR	7,6793	8,3282	7,9666	8,5030

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF HANNOVER RE GROUP AS AT 31 DECEMBER 2003

CONSOLIDATED BALANCE SHEET

as at 31 December 2003

	2003	2002	2003	2002
Assets	Commercial treatment		US GAAP "as-if pooling" method	
	Figures in EUR thousand			
Fixed-income securities – held to maturity..	498 695	356 333	498 695	356 333
Fixed-income securities – available for sale.	11 119 567	9 140 755	11 119 567	9 414 098
Equity securities – available for sale	925 595	717 745	925 595	722 754
Equity securities – trading	2 402	5 493	2 402	5 493
Real estate	230 591	265 858	230 591	265 858
Other invested assets	633 885	676 563	633 885	676 563
Short-term investments	569 592	874 027	569 592	982 416
Total investments without cash.....	13 980 327	12 036 774	13 980 327	12 423 515
Cash	386 134	671 866	386 134	672 844
Total investments and cash.....	14 366 461	12 708 640	14 366 461	13 096 359
Prepaid reinsurance premiums	566 920	739 487	566 920	743 398
Reinsurance recoverables on benefit reserve.....	206 717	489 784	206 717	489 784
Reinsurance recoverables on unpaid claims	4 396 564	6 179 896	4 396 564	6 181 645
Reinsurance recoverables on other reserves	41 528	41 902	41 528	41 902
Deferred acquisition costs.....	1 690 806	1 321 961	1 690 806	1 428 044
Accounts receivable.....	3 402 908	3 809 631	3 402 908	3 799 913
Funds held by ceding companies	7 664 683	7 597 206	7 664 683	8 359 107
Goodwill.....	203 619	233 883	203 619	233 883
Other assets	248 585	280 893	248 585	283 202
Accrued interest and rent.....	185 953	175 688	185 953	183 686
	32 974 744	33 578 971	32 974 744	34 840 923

	2003	2002	2003	2002
Liabilities	Commercial treatment		US GAAP "as-if pooling" method	
	Figures in EUR thousand			
Loss and loss adjustment expense reserve...	18 703 170	18 836 651	18 703 170	19 919 830
Policy benefits for life and health contracts	4 001 148	4 136 701	4 001 148	4 136 701
Unearned premium reserve	2 126 894	2 411 591	2 126 894	2 418 243
Provision for contingent commission.....	130 265	143 120	130 265	145 300
Other technical provisions	9 089	7 870	9 089	7 870
Reinsurance payable	1 396 215	1 936 514	1 396 215	1 978 709
Funds held under reinsurance treaties	1 080 491	1 630 200	1 080 491	1 633 080
Contract deposits.....	474 526	184 884	474 526	184 884
Minorities.....	491 836	400 426	491 836	400 233
Other liabilities.....	365 095	480 540	365 095	481 509
Taxes.....	137 583	110 311	137 583	110 311
Provision for deferred taxes	869 857	742 078	869 857	741 983
Notes payable	666 328	698 792	666 328	698 792
Surplus debenture	117 597	119 831	117 597	119 831
Total liabilities	30 570 094	31 839 509	30 570 094	32 977 276
Stockholders' equity				
Common stock	120 597	97 164	120 597	110 881
Nominal value	120 597			
Authorised capital	25 067			
Additional paid-in capital	764 199	374 451	724 562	514 688
Cumulative comprehensive income				
Unrealised appreciation/depreciation of investments, net of deferred taxes.....	157 569	43 127	160 862	43 930
Cumulative foreign currency translation adjustment, net of deferred taxes.....	-352 502	-100 276	-340 938	-92 086
Other changes in cumulative comprehensive income	-22 685	-54 295	-22 685	-54 295
Total comprehensive income	-217 618	-111 444	-202 761	-102451
Retained earnings				
Beginning of period.....	1 379 291	1 243 334	1 340 529	1 254 731
Net income	354 779	267 172	418 321	243 113
Dividend paid	-82 591	—	-82 591	-26 100
Other changes	85 993	-131 215	85 993	-131 215
	1 737 472	1 379 291	1 762 252	1 340 529
Total stockholders' equity	2 404 650	1 739 462	2 404 650	1 863 647
	32 974 744	33 578 971	32 974 744	34 840 923

CONSOLIDATED STATEMENT OF INCOME
for the 2003 financial year

	2003	2002	2003	2002
	Commercial treatment		US GAAP "as-if pooling" method	
	Figures in EUR thousand			
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
Gross written premiums.....	11 342 857	12 463 227	11 588 058	12 766 069
Ceded written premiums.....	3 183 503	4 328 181	3 220 301	4 346 764
Change in gross unearned premiums.....	-345	-410 963	-121 563	-412 480
Change in ceded unearned premiums.....	-3 421	-35 848	10 206	-31 936
Net premiums earned	8 155 588	7 688 235	8 256 400	7 974 889
Ordinary investment income.....	1 093 987	1 119 629	1 138 371	1 184 784
Realised gains on investments.....	255 330	201 907	255 330	202 151
Realised losses on investments.....	114 558	108 554	114 875	108 559
Unrealised gains and losses on investments	8 517	-7 090	8 517	-7 090
Other investment expenses/depreciations ...	171 790	277 542	171 855	386 167
Net investment income	1 071 486	928 350	1 115 488	885 119
Other technical income.....	8 227	21 475	8 227	21 481
Total revenues	9 235 301	8 638 060	9 380 115	8 881 489
Claims and claims expenses.....	6 671 694	5 988 555	6 727 735	6 232 972
Change in policy benefits for life and health contracts.....	297 797	574 123	297 797	574 123
Commission and brokerage.....	1 118 484	1 039 969	1 133 853	1 063 439
Other acquisition costs.....	2 912	35 911	3 413	36 612
Other technical expenses.....	95 438	123 495	95 438	123 495
Administrative expenses.....	212 062	258 767	212 236	258 767
Total technical expenses	8 398 387	8 020 820	8 470 472	8 289 408
Other income/expenses.....	-104 785	-146 318	-106 480	-146 833
Operating profit/loss (EBIT)	732 129	470 922	803 163	445 248
Interest on hybrid capital.....	54 793	57 548	54 793	57 548
Net income before taxes.....	677 336	413 374	748 370	387 700
Taxes.....	266 569	131 197	274 061	129 514
Minority interest.....	-55 988	-15 005	-55 988	-15 073
Net income	354 779	267 172	418 321	243 113
Other comprehensive income				
Net unrealised appreciation/depreciation of investments.....	114 442	11 963	116 932	12 795
Cumulative foreign currency translation adjustments.....	-252 226	-42 084	-248 852	-32 759
Other comprehensive income.....	31 610	-38 402	31 610	-38 402
Total	248 605	198 649	318 011	184 747
Earnings per share				
Earnings per share in EUR.....	3.24	2.75	3.60	2.19

CASH FLOW STATEMENT
for the 2003 financial year

	2003	2002	2003	2002
	Commercial treatment		US GAAP "as-if pooling" method	
	Figures in EUR thousand			
	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.	1.1.-31.12.
I. Cash flows from operating activities				
Consolidated net income (after tax)...	354 779	267 172	418 321	243 113
Appreciation/depreciation.....	139 476	248 759	139 476	248 759
Net realised gains and losses on investments	-140 772	-93 354	-140 455	-93 592
Amortisation of investments	6 682	-5 296	7 014	3 520
Minority interest.....	55 988	15 005	55 988	15 073
Changes in funds held.....	-629 214	-1 374 919	-739 175	-1 514 522
Changes in prepaid reinsurance premiums (net)	-25 002	429 632	93 097	427 237
Changes in tax assets/provisions for taxes.....	206 461	55 681	213 954	50 155
Changes in benefit reserves (net)	501 944	532 739	501 944	532 739
Changes in claims reserves (net)	2 120 995	2 002 234	2 125 305	2 183 999
Changes in deferred acquisition costs	-305 194	-208 275	-358 144	-313 069
Changes in other technical provisions	-14 187	55 790	-14 197	57 055
Changes in clearing balances	-397 085	-305 019	-459 867	-331 919
Changes in other assets and liabilities (net)	-30 865	-4 856	-27 388	-1 554
Cash flows from operating activities.	1 844 006	1 615 293	1 815 873	1 506 994
II. Cash flows from investing activities				
Fixed income securities – held to maturity				
Maturities.....	30 946	8 449	30 946	8 449
Purchases.....	-147 044	-124 606	-147 044	-124 606
Fixed income securities – available for sale				
Maturities, sales.....	5 233 955	4 941 360	5 405 279	5 247 903
Purchases.....	-7 975 451	-6 020 990	-8 010 692	-6 100 584
Equity securities – available for sale				
Sales	540 400	100 719	540 400	100 719
Purchases.....	-706 541	-288 255	-706 541	-293 599
Other invested assets				
Sales	48 279	19 397	48 279	19 397
Purchases.....	-48 331	-138 497	-48 331	-138 497
Affiliated companies and participating interests				
Sales	9 214	9 273	9 214	9 273
Acquisitions.....	-20 886	-29 298	-20 886	-29 298
Real estate				
Sales	609	28 372	609	28 372
Acquisitions.....	-764	-2 536	-764	-2 536
Short-term investments				
Changes.....	420 484	-239 162	323 221	-330 536
Other changes (net)	-25 256	-67 844	-25 506	-67 844
Cash flows from investing activities	-2 640 386	-1 803 618	-2 601 816	-1 673 387

	2003	2002	2003	2002
			US GAAP	
	Commercial treatment		"as-if pooling" method	
	Figures in EUR thousand			
III. Cash flows from financing activities				
Inflows from capital increases.....	219 590	—	219 590	—
Inflow from capital increase trough contribution in kind.....	11 402	—	—	—
Net changes in contract deposits.....	294 123	-65 267	294 123	-65 267
Dividend paid.....	-82 591	—	-82 591	-26 100
Changes in notes payable.....	30 087	-33 797	30 087	-33 797
Other changes.....	-11 010	63 971	-11 010	63 971
Cash flows from financing activities..	461 601	-35 093	450 199	-61 193
IV. Exchange rate differences on cash.....	49 047	64 625	49 034	64 614
Change in cash and cash equivalents (I.+II.+III.+IV.).....	-285 732	-158 793	-286 710	-162 972
Cash and cash equivalents at the beginning of the period.....	671 866	830 659	672 844	835 816
Change in cash and cash equivalents according to cash flow statement.....	-285 732	-158 793	-286 710	-162 972
Cash and cash equivalents at the end of the period.....	386 134	671 866	386 134	672 844
Income taxes.....	-43 982	-29 233	-43 982	-25 853
Interest paid.....	-48 673	-107 039	-48 673	-107 039

SEGMENTAL REPORT
as at 31 December 2003

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

Segmentation of underwriting assets and liabilities

SEGMENTAL REPORT
as at 31 December 2003

	Property/casualty reinsurance		Life/health reinsurance		Financial reinsurance	
	2003*	2002	2003	2002	2003	2002
		US GAAP "as-if pooling" method		US GAAP "as-if pooling" method		US GAAP "as-if pooling" method
		Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment
			in TEUR			
Assets						
Prepaid reinsurance premiums.....	99 122	94 365	2 555	1 523	2 042	86
Deferred acquisition costs (net).....	197 078	250 988	1 344 206	963 961	44 780	25 604
Reinsurance recoverables on benefit reserves.....	—	—	206 717	489 784	—	—
Reinsurance recoverables on incurred claims and others.....	1 817 976	3 073 835	96 379	112 513	506 510	632 218
Funds held by ceding companies.....	176 330	252 479	3 257 988	3 329 560	4 216 479	4 012 475
Total underwriting assets	2 290 506	3 671 667	4 907 845	4 897 341	4 769 811	5 544 027
Liabilities						
Loss and loss adjustment expense reserve.....	8 396 999	8 954 985	929 396	934 142	6 192 954	5 544 198
Policy benefits for life and health contracts.....	—	—	4 001 148	4 136 701	—	—
Unearned premium reserve.....	939 942	1 124 308	21 868	21 522	165 518	103 913
Other technical provisions.....	93 987	110 872	24 002	20 437	18 851	19 681
Funds held under reinsurance treaties.....	559 333	986 831	216 185	343 819	20 734	24 164
Total underwriting liabilities	9 990 261	11 176 996	5 192 599	5 456 621	6 398 057	5 691 956

*The figures for the commercial treatment and under the US GAAP "as-if-pooling" method are identical.

	Program business				Total	
	2003		2002		2003	2002
	Commercial treatment	US GAAP "as-if pooling" method	Commercial treatment	US GAAP "as-if pooling" method	Commercial treatment	US GAAP "as-if pooling" method
	in TEUR					
Assets						
Prepaid reinsurance premiums	463 201	643 513	643 513	566 920	739 487	743 398
Deferred acquisition costs (net)	104 742	81 408	81 408	1 690 806	1 321 961	1 428 044
Reinsurance recoverables on benefit reserves	—	—	—	206 717	489 784	489 784
Reinsurance recoverables on incurred claims and others	2 017 227	2 403 232	2 403 232	4 438 092	6 221 798	6 223 547
Funds held by ceding companies	13 886	2 692	2 692	7 664 683	7 597 206	8 359 107
Total underwriting assets	2 599 056	3 130 845	3 130 845	14 567 218	16 370 236	17 243 880
Liabilities						
Loss and loss adjustment expense reserve	3 183 821	3 403 326	3 403 326	18 703 170	18 836 651	19 919 830
Policy benefits for life and health contracts	—	—	—	4 001 148	4 136 701	4 136 701
Unearned premium reserve	999 566	1 161 848	1 161 848	2 126 894	2 411 591	2 418 243
Other technical provisions	2 514	—	—	139 354	150 990	153 170
Funds held under reinsurance treaties	284 239	275 386	275 386	1 080 491	1 630 200	1 633 080
Total underwriting liabilities	4 470 140	4 840 560	4 840 560	26 051 057	27 166 133	28 261 024

Segmental statement of income

	Property/ casualty reinsurance			Life/health reinsurance			Program business		
	2003	2002	2003	2002	2003	2002	2003	2002	2003
	US GAAP "as-if pooling" method			US GAAP "as-if pooling" method			US GAAP "as-if pooling" method		
	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment	Commercial treatment
	4 787 119	6 020 029	4 787 119	2 276 319	2 276 319	2 471 500	1 632 672	1 242 611	1 877 873
Gross written premiums.....	3 499 993	3 502 073	3 499 993	1 936 309	2 276 319	2 471 500	1 563 431	1 210 956	1 664 243
Net premiums earned.....	2 976 907	2 722 079	2 976 907	1 270 385	1 936 309	2 142 270	1 610 246	1 380 973	1 666 287
Claims and claims expenses.....	—	—	—	-297 797	2 270 385	1 218 683	—	—	—
Change in policy benefits for life and health contracts.....	—	—	—	-297 797	1 270 385	1 218 683	—	—	—
Commission and brokerage and other technical expenses.....	285 862	543 154	285 862	427 836	-574 123	-574 123	241 245	132 924	257 115
Investment income.....	393 411	255 860	393 411	179 393	427 836	478 322	438 311	357 194	482 313
Administrative expenses.....	96 099	106 042	96 099	44 918	179 393	268 424	3 041	5 393	3 215
Other income and expenses.....	-68 686	-81 080	-68 686	-13 766	44 918	56 625	984	-1 034	-711
	465 850	305 578	465 850	61 000	-13 766	-34 464	148 194	47 826	219 228
Operating profit/loss (EBIT).....	37 781	40 866	37 781	4 834	61 000	48 477	4 451	3 716	4 451
Interest on hybrid capital.....	428 069	264 712	428 069	56 166	48 477	41 902	143 743	44 110	214 777
Net income before taxes.....	215 281	97 642	215 281	10 410	56 166	41 902	33 717	4 323	41 209
Taxes.....	-45 822	-12 931	-45 822	798	10 410	9 755	-10 964	-92	-10 964
Minority interest.....	166 966	154 139	166 966	46 554	798	-2 150	99 062	39 695	162 604
Net income.....	166 966	154 139	166 966	46 554	46 554	29 997	99 062	39 695	162 604
	15 636	15 636	15 636	15 636	15 636	15 636	15 636	15 636	15 636

	Program business				Total			
	2003	2002	2003	2002	2003	2002	2003	2002
	Commercial treatment		US GAAP "as-if pooling" method		Commercial treatment		US GAAP "as-if pooling" method	
				Figures in EUR thousand				
Gross written premiums	2 646 747	2 729 087	2 646 747	2 729 087	11 342 857	12 463 227	11 588 058	12 766 069
Net premiums earned	1 155 855	832 936	1 155 855	832 936	8 155 588	7 688 235	8 256 400	7 974 889
Claims and claims expenses	814 156	666 820	814 156	666 820	6 671 694	5 988 555	6 727 735	6 232 972
Change in policy benefits for life and health contracts	—	—	—	—	-297 797	-574 123	-297 797	-574 123
Commission and brokerage and other technical expenses	253 664	23 500	253 664	23 500	1 208 607	1 177 900	1 224 477	1 202 065
Investment income	60 371	46 872	60 371	46 872	1 071 486	928 350	1 115 488	885 119
Administrative expenses	68 004	90 707	68 004	90 707	212 062	258 767	212 236	258 767
Other income and expenses	-23 317	-29 740	-23 317	-29 740	-104 785	-146 318	-106 480	-146 833
Operating profit/loss (EBIT)	57 085	69 041	57 085	69 041	732 129	470 922	803 163	445 248
Interest on hybrid capital	7 727	6 391	7 727	6 391	54 793	57 548	54 793	57 548
Net income before taxes	49 358	62 650	49 358	62 650	677 336	413 374	748 370	387 700
Taxes	7 161	19 477	7 161	19 477	266 569	131 197	274 061	129 514
Minority interest	—	168	—	168	-55 988	-15 005	-55 988	-15 073
Net income	42 197	43 341	42 197	43 341	354 779	267 172	418 321	243 113

TAXATION

The following is a general description of certain tax considerations relating to the Bonds. It does not purport to be a complete analysis of all tax considerations relating to the Bonds. Prospective purchasers of Bonds should consult their tax advisers as to the consequences, under the tax laws of the country in which they are resident for tax purposes and under the tax laws of Luxembourg and the Federal Republic of Germany, of acquiring, holding and disposing of Bonds and receiving payments of principal, interest and other amounts under the Bonds. This summary is based upon the laws in force and their interpretation on the date of this Offering Circular and is subject to any change in law or interpretation that may take effect after such date.

Luxembourg

The following is a summary of certain material Luxembourg tax consequences of purchasing, owning and disposing of the Bonds. It does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase, own or deposit the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers as to the applicable tax consequences of the ownership of the Bonds, based on their particular circumstances. This summary does not allow any conclusions to be drawn with respect to issues not specifically addressed. The following description of Luxembourg tax law is based upon the Luxembourg law and regulations as in effect and as interpreted by the Luxembourg tax authorities on the date of this Offering Circular and is subject to any amendments in law (or in interpretation) later introduced, whether or not on a retroactive basis.

Tax Residency

A Bondholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Bonds, or the execution, performance, delivery and/or enforcement of the Bonds.

Taxation of the Bondholders

Withholding tax

Under Luxembourg tax law currently in effect (see, however, the section relating to the EU Savings Directive hereunder), there is no withholding tax for Luxembourg residents and non-residents on payments of interest (including accrued but unpaid interest) in respect of the Bonds, nor is any Luxembourg withholding tax payable on payments received upon redemption, repayment of the principal or upon an exchange of the Bonds.

Taxation of Luxembourg non-residents

Bondholders who are non-residents of Luxembourg and who do not hold the Bonds through a permanent establishment or a permanent representative in Luxembourg are not liable to any Luxembourg income tax, whether they receive payments of interest (including accrued but unpaid interest), or payments upon redemption, repayment of principal or exchange of the Bonds, or realise capital gains on the sale of any Bond.

Taxation of Luxembourg residents – General

Bondholders who are residents of Luxembourg or non-residents who have a permanent establishment or a permanent representative in Luxembourg with which the holding of the Bonds is connected, must for income tax purposes include any interest received in their taxable income. These holders will not be liable to any Luxembourg income tax on repayment of principal of the Bonds.

Luxembourg resident individuals

Luxembourg resident individual Bondholders or non-resident individual Bondholders who have a fixed base of business in Luxembourg with which the holding of the bonds is connected are not subject to taxation on capital gains upon the transfer of the Bonds, unless the transfer of the Bonds precedes the acquisition of the Bonds, or the Bonds are disposed of within six months of the date of acquisition of these Bonds. Upon a redemption or exchange of the Bonds, individual Luxembourg resident Bondholders must however include the portion

of the redemption or exchange price corresponding to accrued but unpaid interest in their taxable income.

Fully taxable Luxembourg resident companies

Luxembourg resident companies (*société de capitaux*), Bondholders or foreign entities of the same type which have a permanent establishment or permanent representative in Luxembourg with which the holding of the Bonds is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Bonds sold, exchanged or deemed realised. Under certain circumstances, the gain realised upon an exchange of the Bonds may be rolled over the new Bonds received in exchange.

Luxembourg resident companies with special tax regime

Luxembourg resident bondholders who are holding companies subject to the law of 31 July 1929 or undertakings for collective investment subject to the law of 20 December 2002 are tax exempt entities in Luxembourg and thus are not subject to any Luxembourg tax on income received on the bonds or gains realised upon their transfer.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by the Bondholders as a consequence of the issuance of the Bonds, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Bonds.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Bonds or in respect of the payment of interest or principal under the Bonds or the transfer of the Bonds. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

Luxembourg net wealth tax will not be levied on a Bondholder, unless (i) such holder is or is deemed to be a Luxembourg resident or (ii) such Bonds are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative in Luxembourg.

No gift, estate or inheritance tax is levied on the transfer of the Bonds upon death of a Bondholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes. Luxembourg gift tax will be levied in cases where the gift is notarised in Luxembourg.

Federal Republic of Germany

The information contained in this section is not intended as tax advice and does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser of the Bonds. It is based on German tax laws in effect as of the date hereof, which are subject to change, potentially with retroactive or retrospective effect.

Withholding Tax

Under current German law, payments of principal on the Bonds are not subject to German taxation. A withholding tax will be levied on payments of interest if (i) the Bondholder is subject to German taxation and (ii) the payment is made by an institution described below. A disposal of the Bonds may be subject to withholding tax as set out in (c) below.

- (a) Bondholders are subject to German taxation if they are:
 - (i) resident in the Federal Republic of Germany (unlimited tax liability). This includes individuals having a residence or habitual abode in the Federal Republic of Germany and legal persons having their statutory seat or place of management in the Federal Republic of Germany;

- (ii) not resident in the Federal Republic of Germany (limited tax liability) to the extent the interest received under the Bonds constitutes income from German sources as defined in the German Income Tax Act (such as income effectively connected with a German trade or business).
- (b) Provided that the Bondholders are subject to taxation in accordance with (a), withholding tax on interest payments is to be withheld by:
 - (i) the German bank or financial services institution (including a German branch of a foreign bank or foreign financial services institution but excluding a foreign branch of a German bank or German financial services institution) disbursing the interest if it acts as a custodian;
 - (ii) the relevant Issuer, if the Issuer disbursing the interest acts as a custodian.
- (c) With regard to the accrued interest, withholding tax will – *inter alia* – also be triggered if Bondholders (subject to taxation in accordance with (i) and (ii) above) dispose of:
 - (i) the right to receive interest payments without the underlying Bonds;
 - (ii) the right to receive interest payments with the underlying Bonds provided the accrued interest is charged separately;
 - (iii) the underlying Bonds without the right to receive interest payments at a discounted price;
 - (iv) the right to receive interest payments with the underlying Bonds provided the accrued interest is not charged separately;
- (d) To the extent withholding tax has to be withheld in accordance with (a), (b) and (c) above, the current withholding tax rate is 30% plus a solidarity surcharge of 5.5% of the withholding tax amount. The aggregate deduction therefore is 31.65% of the gross amount of the interest payment.

If payments are made upon the maturity of coupons (or interest receivables), the withholding tax base is determined by such payments. The withholding tax base is determined in the case of:

- (a) (i), by the proceeds deriving from the disposal of the right to receive interest payments;
- (b) (ii), by the interest amount separately charged;
- (c) (iii) and (iv), by the balance of the disposal proceeds and the issue price, the acquisition costs or the book value, as the case may be, provided that the Bonds have been acquired or sold by the German bank or financial services institution in cases of (b) (i) or by the Issuer in cases of (b) (ii) and since then have been administered or held in custody by the German bank or financial services institution (cases of (b) (i)) or by the Issuer (cases of (b) (ii)). If these conditions are not met, the withholding tax base will be determined as 30% of the disposal proceeds.

The withholding tax base may be reduced by the German bank or financial services institution or the Issuer to the extent the bank, financial services institution or the Issuer separately charged accrued interest to the Bondholder as an expense upon the acquisition of the Bonds in the respective year of the disbursement of the coupon or the right to receive interest payments.

Bondholders subject to unlimited tax liability may credit the withholding tax within their tax assessment. Bondholders subject to limited tax liability may credit the withholding tax within their assessment if the interest is effectively connected with a German branch.

Income Taxation / Tax Assessment

The taxable amount for tax assessment purposes might deviate from the above described withholding tax base. In particular, with regard to Bondholders holding the Bonds as private assets, if such Bondholder furnishes proof for the issuing yield of a Bond, the tax base for capital investment income (*Einkünfte aus Kapitalvermögen*) will be determined on this basis. A capital gain in excess of the issuing yield realised by such Bondholder would be treated as speculative and would be subject to the tax regime for private disposal transactions (*private Veräußerungsgeschäfte*).

If the Bonds are held as private (non-business) assets (*Privatvermögen*) by an individual, payments of interest under the Bonds will be taxed as interest income and the amount of such payments after deduction of related expenses will be subject to progressive income tax up to 42% plus solidarity surcharge of 5.5% thereon. A personal annual exemption (*Sparer-Freibetrag*) of € 1,370 € 2,740 for married couples filing their tax return jointly) is available for the aggregate amount of all dividends and savings income including interest income from the Bonds. In addition, an individual is entitled to a standard deduction of € 51 (€ 102 for married couples filing their tax return jointly) in computing his overall investment income unless the expenses involved are demonstrated to have actually exceeded that amount.

If the Bonds are held as business assets (*Betriebsvermögen*), payments of interest under the Bonds will be subject to both, income tax and trade tax, which is a municipal tax.

If the Bonds are held by a Bondholder in the legal form of a corporation, payments of interest under the Bonds will be subject to corporate income tax at a rate of 25% plus solidarity surcharge of 5.5% thereon and trade tax.

Inheritance and Gift Tax

Under German law, German inheritance or gift tax will be imposed, in principle on the fair market value at the time of the taxable event, on the transfer of Bonds to another person by gift or at death, if:

- the donor or transferor or the heir, donee or other beneficiary has his residence or habitual abode in the Federal Republic of Germany or is a German citizen who has not been continuously outside Germany for a period of more than five years at the time of the transfer; or
- the Bonds were assets of a business for which a permanent establishment in the Federal Republic of Germany was maintained or a German permanent representative was appointed at the time of the transfer.

EU Savings Tax Directive

On June 3, 2003 the Council of the European Union approved a directive regarding the taxation of interest income. Accordingly, each EU Member State must require paying agents (within the meaning of the directive) established within its territory to provide to the competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Austria, Belgium and Luxembourg may opt instead to withhold tax from interest payments within the meaning of the directive at a rate of 15 per cent. for the first three years from application of the provisions of the directive, of 20 per cent. for the subsequent three years, and of 35 per cent. from the seventh year after application of the provisions of the directive.

On July 19, 2004 the Council of the European Union decided that the provisions to be enacted for implementation of the directive shall be applied by the member states as from July 1, 2005.

By legislative regulations dated January 26, 2004 the Federal Government enacted the provisions for implementing the directive into German law. The entry into force of the legislative regulations depends, however, on a determination by the Council of the European Union to the effect that the conditions for the application of the directive have been fulfilled.

On April 12, 2005, the Luxembourg Parliament adopted the draft law n°5297 implementing the directive. The entry into force of the law depends, however, on a determination by the Council of the European Union to the effect that the conditions for the application of the directive have been fulfilled.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. (the "Manager") has entered into a subscription agreement dated 27 May 2005 (the "Subscription Agreement") with the Issuer and the Guarantor and, subject to the terms thereof, has agreed to subscribe and pay for €259,419,000 Bonds (€240,581,000 will be issued in exchange for 211,850,000 Guaranteed Subordinated Fixed to Floating Rate Bonds of 2001/2031 pursuant to the Exchange Offer as described in the Exchange Offer Memorandum dated 17 May 2005) at their issue price of 99.546 per cent. of their principal amount less certain management and underwriting commissions and selling concessions. The Issuer has also agreed to reimburse the Manager for certain of its expenses incurred in connection with the management of the issue of the Bonds. The Manager is entitled in certain circumstances to be released and discharged from its obligations under the Subscription Agreement prior to the closing of the issuance of the Bonds. The Subscription Agreement is governed by German law.

Germany

The Manager has confirmed that it is aware of the fact that no German sales prospectus (*Verkaufsprospekt*) within the meaning of the Securities Sales Prospectus Act (*Wertpapier-Verkaufsprospektgesetz*, the "**Prospectus Act**") of the Federal Republic of Germany has been or will be published with respect to the Bonds and that it will comply with the Prospectus Act and all other applicable legal and regulatory requirements. In particular, the Manager has represented that it has not engaged and has agreed that it will not engage in a public offering (*öffentliches Angebot*) within the meaning of the Prospectus Act with respect to any Bonds otherwise than in accordance with the Prospectus Act. Any resale of the Bonds in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

United States of America

The Bonds and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act ("Regulation S").

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act.

United Kingdom

The Manager has represented, warranted and agreed that:

- (a) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Bonds, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding,

managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

The Netherlands

This Offering Circular may not be distributed and any Bonds (including rights representing an interest in a Bond in global form) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who are established, domiciled or have their residence in *The Netherlands* ("**Dutch Residents**") other than the following entities ("**Professional Market Parties**" or "**PMPs**") provided they acquire the Bonds for their own account and provided they also trade or invest in securities in the conduct of a business or profession:

- (a) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (b) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*: "**DNB**") or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) and acting through a branch office in The Netherlands;
- (c) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;
- (d) the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, international treaty organisations and supranational organisations;
- (e) Netherlands enterprises or entities with total assets of at least EUR 500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Bonds;
- (f) Netherlands enterprises, entities or natural persons with a net equity (*eigen vermogen*) of at least EUR 10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Bonds and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (g) Netherlands subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to prudential supervision;
- (h) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (i) such other entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

All Bonds (whether or not offered to Dutch Residents) shall bear the following legend:

"THIS BOND (OR ANY INTEREST THEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS ("**DUTCH RESIDENTS**") OTHER THAN PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE

DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 (AS AMENDED) AND THAT TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A BUSINESS OR PROFESSION (“PMP”).

EACH DUTCH RESIDENT BY PURCHASING THIS BOND (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS A PMP AND IS ACQUIRING THIS BOND (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS BOND (OR ANY INTEREST THEREIN), BY PURCHASING SUCH BOND (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH BOND (OR ANY INTEREST THEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY DUTCH RESIDENT OTHER THAN A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP AND THAT (2) IT WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.”

and in the offer and in any documents or advertisements in which a forthcoming offering of such Bonds is publicly announced (whether electronically or otherwise) in The Netherlands it is stated that such offer is and will be exclusively made to such PMPs.

Republic of Italy

The offering of the Bonds has not been and will not be registered pursuant to the Italian securities legislation and, accordingly, the Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Bonds in the Republic of Italy in a solicitation to the public, and that sales of the Bonds in the Republic of Italy shall be effected in accordance with all Italian securities, tax, exchange control and other applicable laws and regulations.

The Manager has represented that it has not offered, sold and delivered and it will not offer, sell or deliver any Bonds or distribute copies of the Offering Circular or any other document relating to the Bonds in the Republic of Italy except to “Professional Investors”, as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1st July 1998 (“Regulation No. 11522”), as amended, pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24th February 1998, as amended (“Decree No. 58”), or in any other circumstances where an express exemption from compliance with the solicitation restrictions provided by Decree No. 58 or CONSOB Regulation No. 11971 of 14th May 1999, as amended, applies, provided however, that any such offer, sale or delivery of Bonds or distribution of copies of the Offering Circular or any other document relating to the Bonds in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1st September 1993, as amended (“Decree No. 385”), Decree No. 58, Regulation No. 11522 and any other applicable laws and regulations;
- (b) in compliance with Article 129 of Decree No. 385 and the implementing instructions of the Bank of Italy (“Istruzioni di vigilanza della Banca d’Italia”), pursuant to which the issue, offer or placement of securities in Italy is subject to prior notification to the Bank of Italy, unless an exemption, depending, *inter alia*, on the aggregate amount of the securities issued, offered or placed in Italy and their characteristics, applies; and
- (c) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

General

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Manager that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required, other than Luxembourg. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Bonds, in all cases at their own expense.

GENERAL INFORMATION

- (1) The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 4 May 2005. The giving of the Guarantee of the Bonds has been authorised by a resolution of the Management Board (*Vorstand*) of the Guarantor dated 25 April 2005 and resolution of the Supervisory Board (*Aufsichtsrat*) of the Guarantor dated 11 May 2005.
- (2) Save as disclosed in this Offering Circular, there are no litigation or arbitration proceedings against or affecting the Issuer, the Guarantor or any of its subsidiaries or any of their respective assets, nor is the Issuer or the Guarantor aware of any pending or threatened proceedings, which (in either case) are or might be material in the context of the issue of the Bonds. For further information, please see "Description of the Guarantor – Litigation and Proceedings".
- (3) Save as disclosed in this Offering Circular, there has been no material adverse change, or any development reasonably likely to involve a material adverse change, in the condition (financial or otherwise) or general affairs of the Issuer since 31 December 2004 or in the condition (financial or otherwise) or general affairs of the Guarantor since 31 December 2004 that is material in the context of the issue of the Bonds.
- (4) For so long as any Bond is outstanding, copies of the following documents may be inspected during normal business hours at the specified office of each Paying Agent:
 - (a) the Agency Agreement;
 - (b) the Guarantee;
 - (c) the Subscription Agreement;
 - (d) the Articles of Association (*Satzung*) of the Issuer; and
 - (e) the Articles of Association (*Satzung*) of the Guarantor.
- (5) For so long as any of the Bonds are outstanding, a copy of the latest audited financial statements of the Issuer for each period since the financial year ended 31 December 2004 may be obtained free of charge during normal business hours at the specified office of each Paying Agent. The Issuer does not publish interim financial statements.
- (6) For so long as any of the Bonds are outstanding, a copy of the latest audited unconsolidated financial statements, audited consolidated financial statements and unaudited consolidated interim financial statements, which are published quarterly, of Hannover Re Group for each period since the three months ended 31 March 2005 may be obtained during normal business hours at the specified office of each Paying Agent.
- (7) In connection with the application to list the Bonds on the Luxembourg Stock Exchange, a legal notice relating to the issue of the Bonds and copies of the constitutional documents of the Issuer and the Guarantor will be deposited with the Register of Commerce and Companies in Luxembourg (*Registre de Commerce et des Sociétés à Luxembourg*).
- (8) The Temporary Global Bond and the Permanent Global Bond will each bear the following legend:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."
- (9) The Bonds have been accepted for clearance by Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank N.V./S.A., as operator of the Euroclear System. The Common Code for the Bonds is 022101145, the ISIN is XS0221011454 and the German Security Code is AOE5JB.

REGISTERED OFFICE OF THE ISSUER
Hannover Finance (Luxembourg) S.A.
25A, Boulevard Royal
L-2449 Luxembourg

REGISTERED OFFICE OF THE GUARANTOR
Hannover Rückversicherung AG
Karl-Wiechert-Allee 50
D-30625 Hannover
Germany

MANAGER
J.P. Morgan Securities Ltd.
125 London Wall
London EC2Y 5AJ
England

FISCAL AGENT AND CALCULATION AGENT

JPMorgan Chase Bank N.A.
Trinity Tower
9 Thomas Moore Street
London E1W 14T
England

LISTING AND PAYING AGENT

J.P. Morgan Bank Luxembourg S.A.
6, Route de Treres
L-2633 Senningerberg
Luxembourg

Please notice the change to Bank of New York with effect from October 1, 2006. For further information see also www.hannover-re.com/ir/bonds/debt/

LEGAL ADVISERS

To the Issuer and the Guarantor

as to German law:

Linklaters Oppenhoff & Rädler
Mainzer Landstrasse 16
D-60325 Frankfurt am Main
Germany

as to Luxembourg law:

Linklaters Loesch
4, rue Carlo Hemmer
P.O. Box 1107
L-1011 Luxembourg

To the Manager

Clifford Chance
Partnerschaftsgesellschaft
Mainzer Landstrasse 46
D-60325 Frankfurt am Main
Germany

AUDITORS

to the Guarantor:

KPMG
Osterstrasse 40
D-30159 Hannover
Germany

to the Issuer:

KPMG Audit
31, Allée Scheffer
L-2520 Luxembourg
Luxembourg

