Hannover Re Individual

ANNUAL REPORT 2000

hannover re

KEY FIGURES *of Hannover Re*

Figures in EUR million	*2000*	*+/- previous year*	*1999*	*1998*
Gross written premiums	4 491.4	+24.4%	3 611.3	2 907.2
Net premiums earned	2 649.0	+19.5%	2 216.5	1 855.8
Technical result	(195.4)	+24.8%	(156.6)	(52.6)
Allocation to the equalisation reserve and similar provisions	55.6	+3.2%	53.9	98.9
Investment result	573.5	+9.4%	524.4	374.3
Profit or loss on ordinary activities before tax	121.5	+11.7%	108.8	71.5
Profit or loss for the financial year	71.7	(25.2%)	95.8	47.8
Investments	7 574.0	+4.3%	7 259.9	6 002.3
Capital and reserves incl. surplus debenture (Genussrechtskapital)	407.6	+0.4%	406.0	360.3
Equalisation reserve and similar provisions	802.2	+7.4%	746.6	692.7
Net technical provisions	6 173.8	+14.0%	5 413.8	4 575.7
Total capital, reserves and technical provisions	7 383.6	+12.4%	6 566.4	5 628.7
Number of employees	468	(21)	489	464
Retention	61.4%		61.0%	65.3%
Loss ratio*	73.2%		79.8%	73.8%
Expense ratio*	32.0%		28.4%	29.8%
Combined ratio*	105.2%		108.2%	103.6%

* excluding life and health reinsurance

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- ASPECTA Versicherung AG
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- CiV Lebensversicherung AG
- CiV Versicherung AG
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* Membership of supervisory boards and comparable control boards required by law at other companies in Germany and abroad

** Staff representative

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Economic climate

Particularly in the first half-year 2000 the industrialised nations recorded strong economic growth. As the year progressed, however, the economic cycle in many countries began to lose impetus and the increase in production fell away sharply. Rising oil prices were a notable restraining factor in this regard. In the USA, western Europe and Japan economic growth experienced a slowdown towards year-end. Developments in the USA were crucial to the increasing decline in economic activity around the world. Nevertheless, the weak euro and surging US demand enabled Europe to enjoy a welcome export boom.

Of the major industrial nations, the USA showed the strongest economic growth (at around 5%) and Japan – despite promising indications in the first half-year – the weakest (at 1.5%). In western Europe and the Eurozone overall economic production rose by approximately 3.3%. While the pace of growth thus lagged behind the USA, it was the highest since 1989. The German economy recorded growth of 3.1% in 2000. This figure was double the average of the previous decade and the highest since the 1991 boom associated with German reunification.

Economic activity in Japan again lagged behind the major industrial nations in 2000. The emerging markets provided further substantial impetus for global economic growth. The brisk pace of economic development in Asia was sustained. In Latin America, too, the national economies recovered in the year under review following a sluggish performance in 1999.

The cyclical upturn in Euroland stabilised, although economic activity peaked in the third quarter. The level of incoming orders was generally good. Compared to Japan and the USA, Euroland profited particularly greatly from the economic growth of the emerging markets due to the relatively high market share enjoyed in this region by the Euroland countries. The weak euro gave exports a further boost.

In Germany the economic upswing peaked in the summer. The German economy was driven primarily by export demand. After dropping off sharply over the summer, capital expenditure on plant and equipment continued to climb sharply in the second half-year. Private consumption, on the other hand, rose only slightly after the summer, and the drain on purchasing power was particularly evident here. The cost of living rose into the autumn months, driven first and foremost by higher oil prices. The labour market improved in 2000. This was due not only to the brighter state of the economy, but also to increased employment of part-time workers as a consequence of the amendment of laws governing jobs paying up to DEM 630 per month.

The financial markets started 2000 in turbulent mood. As the year progressed the euphoria on the stock markets surrounding "New Economy" stocks gave way to market disillusionment. Investors began to switch to fundamentally stable financial and pharmaceutical stocks. The restrictive interest rate policy – originating from the USA – gave rise to fears about the development of corporate profits, and share prices were therefore generally sluggish. Bond markets too looked to the USA for their lead. While the short end of the market initially saw interest rate increases, longer-range maturities experienced an impressive positive trend throughout the year. The interest rates on 10-year US Treasury Bonds, for example, fell from more than 6.8% in January to less than 5% in December.

The insurance and reinsurance markets posted moderate growth. Property and casualty (re-)insurance showed initial signs of an improvement in market conditions. The decline in prices was halted in major markets, and the first sporadic rate increases were achieved in the course of the year. These were, however, hardly sufficient to write business on a consistently profitable basis.

Although the number of natural catastrophes increased in 2000, insured losses were lower than in the previous year. There was a particularly marked rise in weather- and climate-related catastrophe losses. Bearing in mind that sustained climate changes are one factor in this trend, increased losses must be anticipated in this sector in the years to come. The insurance industry underwent further concentration around the world. In almost every market the number of active companies was reduced as a result of mergers and acquisitions. For reinsurers this tendency gives rise to a decrease in existing and potential client relations, higher retentions on the part of more heavily capitalised insurance groups and a trend towards the conversion of proportional covers to non-proportional coverage concepts.

Life and health insurance generated disproportionately strong growth rates around the world, profiting from the trends towards the privatisation of systems of old-age provision. The German market in 2000 was still overshadowed by the previous year, which had witnessed extraordinary demand due to tax policy measures. Thus, asset-forming life insurance policies showed correspondingly lower growth in new business. Unit-linked life insurance policies, on the other hand, benefited from the highly favourable capital market trends of recent years and recorded appreciable growth.

Business development

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

We increased our gross premiums in the year under review by 24.4% to EUR 4,491 million. Our retention in property and casualty reinsurance rose due to the shortage of capacity in the retrocession markets. As a result of the strong growth in life and health reinsurance, we again found it necessary to use our securitisation instruments and refinance our prefinancing costs via the capital markets. Overall, the retention increased from 61.0% to 61.4%; net premiums thus totalled EUR 2,757 million (previous year: EUR 2,202 million). Reinsurance terms and conditions for property and casualty business showed a marginally favourable trend in the year under review. Following a slight decline in the previous year, this segment therefore produced a substantial growth contribution. International life, health and personal accident reinsurance also generated gratifying growth. In regional terms, the most notable growth rates were achieved in the USA, Japan, the United Kingdom and Latin America, whereas in South Africa our premium volume declined.

The technical result benefited quite considerably from the decrease in natural catastrophe losses. The total net burden of major claims fell compared to the previous year's heavy strain of EUR 192 million to EUR 42 million. The only notable events were two hailstorms in Austria and Japan as well as hurricane Keith in the USA. In the course of 2000 the heavy losses of the previous year – especially in the property lines – favourably impacted reinsurance terms and conditions. Nevertheless, the overall premium level was still not commensurate with the risk, and the combined ratio (excluding life business) therefore improved only slightly from 108.2% to 105.2%.

In life and health reinsurance we have specialised in treaties containing a financing component. Under German accounting rules, prefinancing costs and single commissions must be written off immediately, with the result that the full amount is debited to the profit and loss account in the year of acquisition. Although we passed on some of these strains to the capital markets by way of our securitisation instruments, the technical account was again burdened by such investment-related expenditure associated with the considerable growth in our life and health reinsurance portfolio.

In the previous year the allocated investment return transferred from the non-technical account had been extraordinarily high due to a financing arrangement in life business. Owing to the elimination of this effect, the technical result before allocations to the equalisation reserve deteriorated from -EUR 157 million to -EUR 195 million despite the improvement in the combined ratio.

With marked divergences between the individual lines of business, the allocation to the equalisation reserve was virtually unchanged; it increased slightly to EUR 56 million following EUR 54 million in the previous year.

We used the booming stock markets in the first half of the year to realise substantial price gains, only to dispense almost entirely with further sales in the second half-year as the market climate changed. Overall, though, profits on disposals totalled EUR 205 million and were thus almost on a par with the previous year (EUR 226 million) – when the level had been exceptionally high due to a special factor. In addition, ordinary investment earnings rose by a further 7.1% from EUR 356 million to EUR 381 million. Despite the fact that the previous year's special effect no longer applied, the investment result of EUR 573 million showed a further 9.4% increase on the 1999 financial year.

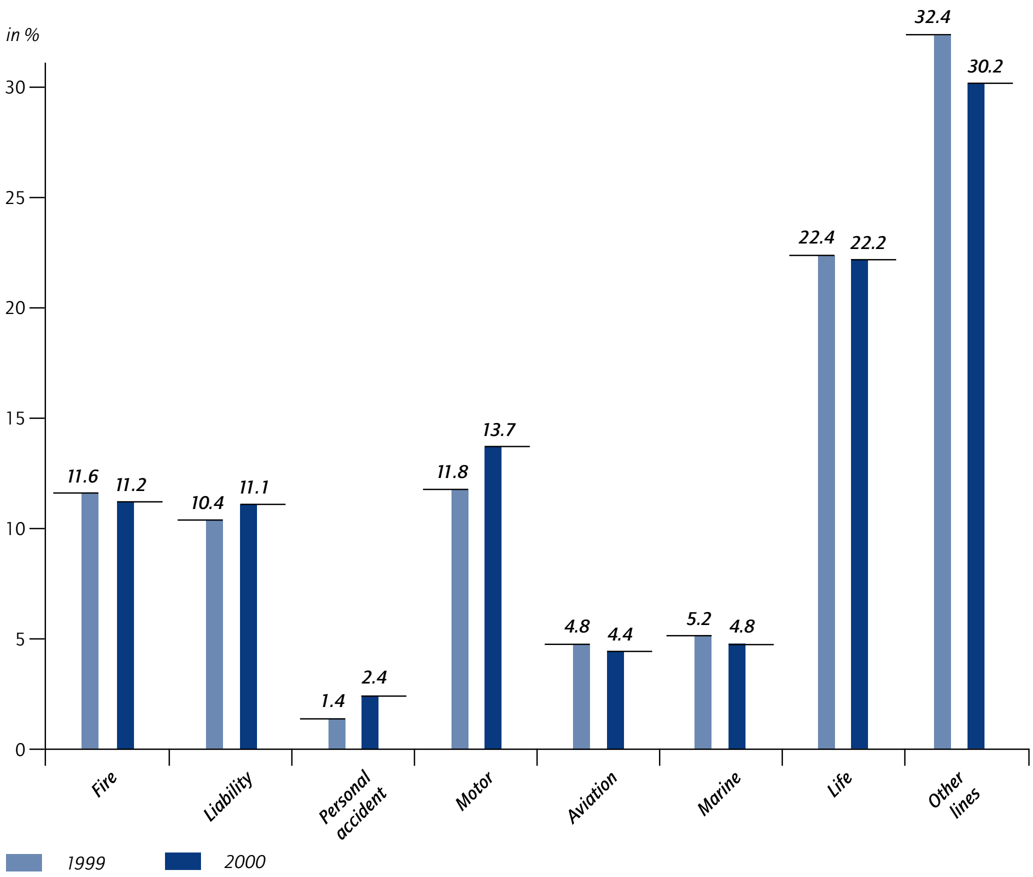
This earnings trend was based on an investment portfolio which grew from EUR 7.3 billion to EUR 7.6 billion. Due to the movements on stock markets in the second half-year, the hidden reserves in the investments decreased markedly. Falling interest rates caused a rise in unrealised gains on the portfolio of fixed-income securities, as a consequence of which they declined only slightly overall and totalled EUR 815 million as at the balance sheet date.

The allocation to the IBNR reserve, our own management expenses and other expenses showed modest increases in step with the growth of business. Our tax load in the year under review was heavily influenced by the change in the tax framework, most notably the elimination of the imputation system of corporate taxation. In order not to forfeit available corporation-tax credits in the interests of our shareholders, we intend to distribute the lion's share of the profit for the year to our owners. Due to the capitalisation of deferred taxes in connection with the Tax Relief Act, the tax load in the previous year had been extraordinarily low. In the year under review it grew to a normal level, totalling EUR 50 million (previous year: EUR 13 million). This also caused the profit for the year to decrease from EUR 96 million to EUR 72 million.

Premium growth

Although Hannover Re has transacted active reinsurance solely in foreign markets since 1 January 1997, we received a substantial volume of German business – accounting for 18.1% of our total portfolio compared to 18.0% in the previous year – through intergroup retrocessions from our subsidiary E+S Rück. Developments in the German market thus continued to be of relevance to our company.

Development by line of business as % of the total portfolio



Fire

Our portfolio of fire business grew by 20.9%. Growth was generated in virtually all foreign markets, and most notably in the USA, the United Kingdom, France and Japan. Our premium volume in South Africa declined because we transferred the entire South African portfolio to our subsidiary Hannover Re Africa. Whilst Germany continued to be our largest single market in terms of premium volume – especially due to increased business assumed from our majority shareholder –, we retrocede a large portion of our acceptances here and the retention is therefore relatively low.

Particularly in the commercial sector, fire business includes a natural catastrophe exposure. For this reason, the positive reactions to the heavy loss burdens of the previous years made themselves felt in this line of business. In France, as was also the case

Fire

in EUR million	2000	1999
Gross premiums written	505.1	417.9
Loss ratio (%)	68.2	81.8
Technical result (net)	(12.4)	(26.8)

in the UK and USA, for example, various market players withdrew their reinsurance capacity, thereby improving the possibility of securing adequate reinsurance terms and conditions. As the year progressed, insurance markets in the USA also recovered to an extent that it sometimes made economic sense to resume writing risks on a proportional basis.

Overall, especially due to the favourable major claims experience, both the loss ratio and the technical result therefore improved in the fire line of business. An amount of EUR 4 million was nevertheless withdrawn from the equalisation reserve.

Liability

With an increase of 32.2% we substantially expanded our premium income in liability business. Especially in the USA, this growth was well in excess of exchange-rate factors; we almost doubled our premium volume in this region. Most notably in the sublines of professional indemnity and liability reinsurance for hospitals, we tapped into profitable growth opportunities in the USA. In the South American market, which had previously been dominated almost exclusively by property insurance, the liability lines of insurance are also slowly developing and we have participated cautiously in their growth. In Australia, on the other hand, the volume of our acceptances declined – especially in industrial liability business.

Liability

in EUR million	2000	1999
Gross premiums written	498.7	377.3
Loss ratio (%)	76.9	75.6
Technical result (net)	(16.0)	2.3

In years when we expand our liability portfolio our conservative and rigorous reserving practice produces relatively high loss ratios and a deterioration in the technical result. Given the long run-off in this line of business, the technical strains are offset in subsequent years by higher investment income. Consequently, the slightly negative results trend still led to a satisfactory technical result.

The comparatively favourable technical result made possible a further allocation to the equalisation reserve in the amount of EUR 39.0 million. In the year under review we strengthened the IBNR reserve by an amount of EUR 59.6 million.

Personal Accident

Our volume of business in the personal accident line was considerably more than double the previous year's level. This was largely attributable to high-volume, new business relationships in South America. We also appreciably enlarged our personal accident portfolio in Germany, France and the USA. The premium volume in the United Kingdom and Italy, however, declined.

Personal Accident

in EUR million	2000	1999
Gross premiums written	107.6	49.3
Loss ratio (%)	71.0	58.9
Technical result (net)	0.3	(1.6)

Personal accident business has been generating stable, satisfactory profits for a number of years. Since the loss reserves in some cases are run off over quite a protracted period, this line accounts for correspondingly large investment income from the perspective of the business result. The slight technical profit was therefore particularly gratifying.

The amount of EUR 2.3 million was withdrawn from the equalisation reserve.

Motor

Our motor portfolio recorded growth of 44.7%. At the same time we appreciably increased our retention, and net premiums therefore grew by as much as 76.0%. We enlarged our portfolio in Germany, the United Kingdom, the USA, South America and Australia, whereas in Taiwan we somewhat scaled back our substantial participation in this line of business. A special treaty with a bank in Scandinavia caused our motor business in this region to grow several times over.

Overall, German motor insurance grew in the year under review. Almost all German insurers implemented tariff increases for their new business in the 2000 financial year. The claims experience also developed favourably. The estimated market loss ratio of roughly 101% shows a pleasing improvement on the previous year's figure of 104.7%. Around one-third of our premium still derives from our domestic market, where we exploited the more favourable terms and conditions to expand our portfolio. In the United Kingdom we profited not only from premium increases but also from stronger demand and the conclusion of new treaties, especially on the London Market. In the USA, commercial motor business, in particular, had produced highly unsatisfactory results in recent years, and terms and conditions therefore improved appreciably in this region too. The overall technical deficit was markedly lower, although in most markets further premium increases will be necessary if satisfactory results are to be generated.

Motor

in EUR million	*2000*	*1999*
Gross premiums written	615.0	425.0
Loss ratio (%)	86.6	100.6
Technical result (net)	(54.5)	(66.1)

An amount of EUR 11.1 million was allocated to the equalisation reserve. We boosted the IBNR reserve with a contribution of EUR 16.2 million from the non-technical account.

Aviation

We have accorded long-term strategic priority to the expansion of our aviation and space business. The United Kingdom and the USA generate the bulk of our acceptances in this line. Since premiums in these countries are for the most part booked in US dollars, exchange-rate movements were a factor in our portfolio growth.

In aviation reinsurance the tourism and good-in-transit sectors recorded further high rates of increase. In space business the demand for new telecommunications and science satellites continued unabated.

Despite a number of plane crashes, the total loss burden in the year under review did not rise to a disproportionate extent. In both aviation and space business the insurance markets continued to suffer under insufficient rates and considerable overcapacities. Nevertheless, the unsatisfactory results prompted appreciable premium increases on the insurance side.

In the reinsurance sector it was even possible to secure additional rate increases in some areas. We particularly stepped up our non-proportional and facultative acceptances, posting above-average results in this business. Thanks to this selective underwriting policy, the generally inadequate conditions prevailing in the primary insurance sector had only a very limited influence on our technical result, which was satisfactory overall despite the decreased profit.

Aviation

in EUR million	*2000*	*1999*
Gross premiums written	197.1	174.7
Loss ratio (%)	62.2	64.7
Technical result (net)	9.4	22.7

We withdrew EUR 7.0 million from the equalisation reserve.

Marine

The expansion of our marine business was concentrated almost exclusively on the United Kingdom, where the London Market, in particular, remained by far our most important market.

Due to intense competition and overcapacity, the marine insurance market again failed to show any general improvement in the rate level in 2000. However, the poor results of recent years prompted various players to withdraw from the market, and efforts to restore business to profitability thus began to bear their first fruit. This was particularly true of certain market segments, such as offshore business.

Marine

in EUR million	*2000*	*1999*
Gross premiums written	214.4	188.8
Loss ratio (%)	78.8	86.3
Technical result (net)	(2.4)	(10.6)

The positive trend was more pronounced on the reinsurance side. In the London Market it was possible to increase ceding companies' retentions and achieve average rate increases in the order of 25-30%. In other regions premiums rose moderately, while the scope of cover remained largely unchanged.

Given the unsatisfactory results of recent years, we markedly scaled back our proportional acceptances and concentrated on non-proportional covers. This enabled us to reduce the technical deficit appreciably. Taking into account the investment income which is to be allocated to the business result for our marine portfolio, the overall result was satisfactory.

An amount of EUR 8.2 million was withdrawn from the equalisation reserve.

Life

We have assigned high strategic priority to the expansion of our life portfolio, which grew by 23.3% in the year under review.

Growth derived from a number of our traditional main markets such as Germany and the United Kingdom. Following a change in the structure of internal retrocessions within the Group, we significantly reduced acceptances from our US subsidiary, Hannover Life Re America; the proportion of US business was thus almost halved. In Japan, on the other hand, we generated a considerable volume of financially oriented life reinsurance business, as a consequence of which this country ranked among our five largest markets in the year under review.

Life

in EUR million	*2000*	*1999*
Gross premiums written	996.6	808.3
Technical result (net)	(59.0)	(19.9)

The German life insurance industry enjoyed the most successful year in its history in 1999, and the year under review was therefore expected to record an initial decline in premium volume. The debate surrounding the reform of the pension system and the lack of a clear framework in this regard caused additional uncertainty among insurance companies. Nevertheless, the level of new business was on a par with the previous year. Our subsidiary with responsibility for the German market, E+S Rück, made the most of this general environment and – with gross premium income of EUR 380 million – now ranks among the foremost life reinsurers in the German market. Our account also reflected this growth due to business retroceded by E+S Rück within the Group.

We also continued to specialise in financing transactions. In addition to assuming underwriting risks, we finance the high initial acquisition costs incurred by life insurers as they build up a portfolio and – especially in the USA – we assume entire portfolios against payment of a single commission by way of so-called block assumption transactions (BATs). This prefinancing expenditure accrues to our account as earnings in subsequent years.

The prefinancing effects associated with such arrangements – which are largely investment-oriented by nature – placed an immediate strain on our technical account, thus producing sharply negative results especially in growth regions. We pass these burdens on to other reinsurers only partially by means of retrocessions. In the year under review we also made further use of securitisations in order to refinance our costs directly through the capital markets. On balance, the strong increase in overall growth generated a higher technical deficit, although this is counterbalanced by a corresponding increase in the embedded value of our in-force portfolio.

Other lines

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

Health insurance, which consists principally of business ceded by our US subsidiary Hannover Life Re of America, is the largest single line reported under other lines.

In the years 1997-1999 we supported this US subsidiary in major transactions under which the highly successful concept of block assumption transactions used in life business was also applied to health insurance. Just as in life insurance, the prefinancing expenditures incurred in this connection are immediately debited to our profit and loss account, but from the standpoint of the business result they also constitute an investment which will generally accrue to our account in subsequent years and boost earnings.

Against the backdrop of a softening US health insurance market, however, it became clear in several instances that these acceptances from previous years only generate the expected results after a time lag. Since the beginning of 2000 we have therefore implemented far-ranging rehabilitation measures for the US in-force portfolio in close consultation with our clients, and these already bore initial fruit in the 2000 financial year.

The combined ratio of 102.4% for this business segment is considerably better than in the previous year, and in the current year we anticipate a continuing favourable trend.

The credit and surety insurance markets continued to be the scene of fierce competition. The very high degree of concentration on global insurance groups – which hold around 70% of the world market – and the growing globalisation of the various national markets continued to be the hallmarks of this line of business. As a result, credit and surety reinsurance outside the USA almost exclusively involves worldwide business. In the USA, however, the dramatic claims experience gave rise to some striking rate increases and a considerable tightening of underwriting criteria on the surety market.

Other lines

in EUR million	*2000*	*1999*
Gross premiums written	1357.0	1170.0
Loss ratio (%)	66.5	74.9
Technical result (net)	(60.8)	(56.6)

In this general climate we achieved modest premium growth in credit and surety business. However, the otherwise satisfactory profit situation was adversely impacted by major losses in the USA, Mexico and Germany, and the technical result for this line of business therefore deteriorated significantly.

The winter storms "Lothar", "Martin" and "Anatol" as well as hurricane "Floyd" and typhoon "Bart" had placed a heavy strain on the 1999 financial year. As the year under review progressed, positive effects on the premium level could already be discerned. This was of course particularly true of those countries which had suffered heavy losses. We made use of these opportunities and substantially enlarged our premium volume in France, Germany and Scandinavia as well as in the USA and Japan. Since 2000 was virtually spared natural catastrophe losses, results in the windstorm line of business were highly gratifying.

Additional burdens on the result derived from engineering insurance, and the overall technical deficit in the other lines was therefore slightly higher.

Nevertheless, on balance the amount of EUR 27.1 million was allocated to the equalisation reserve.

Risk management

The acceptance and professional management of risks constitute the core business of an internationally operating reinsurer; to this extent, the professional management of risks is also a major competitive factor for our company. This has a bearing on the concerns and interests of both our business partners and our shareholders. Our business partners expect us to have sufficient risk capital resources and a correspondingly high security rating from renowned rating agencies. Our shareholders, on the other hand, call for returns which are commensurate with their invested capital and the accepted risk. We try to satisfy these opposing expectations with optimised capital resources which are nevertheless adequate to meet the risks involved. Consequently, risk management has always played a central role in the management of Hannover Re's business.

Within the framework of our comprehensive risk management system, we assess systematically and at regular intervals the risks which could threaten our company's future existence with an eye to determining the possible loss amount, probability of occurrence and time horizon. At the operational level, the system is locally integrated into the organisation of Hannover Re's various business segments. This allocation of responsibility is intended to ensure that risks can be identified and controlled as quickly as possible. To this end, we use a number of quite different measuring methods tailored to the individual risk, and they provide information at an early stage about any potentially undesirable developments. A central risk coordinator ensures that all the risk management activities carried out are monitored, harmonised and documented; the coordinator also bears responsibility for the comprehensive description of the risk situation of the company as a whole. Independently of these permanently installed procedures, the internal auditing department verifies compliance with defined processes in all functional areas of our company.

Our risk management system distinguishes between three risk categories:

- Global risks (external risks),
- Strategic risks,
- Operating risks, which we subdivide into
  - technical risks,
  - investment risks and
  - other operating risks.

Global risks

Global risks may arise as a result of changes in the legal framework (including changes in the general regulatory or tax situation), through social and demographic trends or developments in the insurance industry and also as a consequence of environmental and climate factors. We counter these risks by constantly monitoring claims trends, analysing claims and major losses and applying precise models in order to control results. It is hardly possible to reduce – let alone avoid – such risks. Risk management measures must therefore be geared to the early identification of dangerous trends. Monitoring of developments in the individual national frameworks around the world is therefore carried out locally by our market specialists, whose market intimacy ensures that they detect significant changes without delay. Global changes in possible losses, however, are monitored centrally by the appropriate specialist departments. For example, our legal experts in the claims department assess developments in court decisions worldwide, especially with respect to the liability lines – e.g. new liability risks associated with electrosmog or the use of new media (so-called cyberspace liability). With the aid of sophisticated simulation models, we also monitor centrally the increase in the frequency and extent of losses arising out of natural catastrophes induced by global climate changes. On the basis of these analyses, we then determine both the maximum liability which we are prepared to accept for Hannover Re and our own retrocession requirements.

Strategic risks

Our paramount strategic objective is to assert our position in the international reinsurance markets as an important, optimally diversified reinsurance group of above-average profitability in order to secure our long-term survival as an independent enterprise. Derived from this strategic mission, the individual business segments of Hannover Re are guided by further, inherently consistent detailed strategies. In order to ensure that our strategic targets are also applied to at the operating level, we have, on the one hand, defined company-wide ratios and controlling processes which measure and control the contribution made by each business segment to the Group's overall performance. On the other hand, specific ratios have also been defined which facilitate performance controlling of our strategic objectives for each segment, subsidiary etc. With a view to structuring these processes on an even more efficient and uniform basis, we have begun to implement a new worldwide standard system. Using a lean, top-down approach, strategic targets are translated into ratios, measured and communicated. In this context too, generally applicable parameters are combined with segment-specific standards. These defined target figures then serve as a basis for the measurement of results and the performance-based remuneration received by management.

Technical operating risks

The technical risk comprises first and foremost the danger of accepting risks which exceed the available financial resources as well as those cases where the previously calculated premiums are insufficient to offset the resulting losses. Possible reasons here may be inaccurate calculation assumptions or models, unexpected claim developments or inadequate reserves as well as insufficient own reinsurance (retrocession) or the default of a retrocessionaire. The technical risk for our Group is principally determined by mandatory underwriting guidelines. These define in detail which risks may be accepted and up to what amount. The contents of the guidelines are reviewed annually, adjustments are made where necessary and compliance is subject to regular control.

In order to ensure that adequate premiums are agreed, various instruments are available for controlling the profitability of individual reinsurance treaties. Detailed minimum returns defined for the various business segments form the basis of the premium calculation. Shortly after conclusion of a new transaction or the renewal of existing business, the so-called supply/demand analysis determines the extent to which it was possible to achieve the quoted premiums on the market, while a contribution margin analysis identifies whether the terms and conditions agreed for individual treaties will produce the expected results. In this connection, the calculation of the loss reserves – which in reinsurance business frequently have a significant impact on results – is scrutinised by independent external experts and checked by our auditors. Particularly in property and casualty reinsurance, this multi-layered system ensures that risks are written with an eye to profits, not volume.

A further key instrument of risk limitation and results stabilisation is our own reinsurance, referred to as retrocession. Whereas premiums are always payable at the beginning of a contract, risks derive from the fact that long periods – sometimes even decades – may elapse until losses are paid. An intensive credit investigation must therefore ensure that the business partner will be able to meet its obligations even after such long periods. Retrocessionaires are selected on the basis of a graded approach which takes account of the probable run-off period of the business in question. In addition, we are guided by the opinions of internationally recognised rating agencies, whose assessments are supplemented by the analyses of our own internal dedicated service.

Investment operating risks

Our risks in the investment sector consist primarily of price, interest rate, default and exchange rate risks. Since investment income constitutes a major source of revenue for reinsurance companies, the repercussions of capital market fluctuations on the profit and loss account may be similar to those of natural catastrophes. For this reason, our investment policy is not geared first and foremost to yield maximisation at any price. Rather, the intention is to optimise investment income on a sustained basis subject to the condition that risks are limited and clearly defined. The investment portfolio is very largely based on inflows (premiums) which are set aside for future loss payments. Consequently, investment activities too are guided by the conditions of the reinsurance business. In order to eliminate exchange-rate risks, we invest funds in the currencies in which future losses will be paid (principle of matching currencies). Similarly, maturity commitments and the choice of investment categories take into account the probable periods until payment (principle of matching maturities). Additional investment risks are limited by the selection of borrowers with a high credit standing.

Investment decisions are made within the framework of detailed investment guidelines, which are constantly reviewed and where necessary – as determined by the entire Executive Board – revised. Compliance with these guidelines and the associated observance of defined limits are ensured, inter alia, by the strict separation of trading and settlement functions as well as by regular reviews. These encompass, for example, the weighting of the investments (e.g. proportion of equities), the quality of the investments (e.g. issuer's credit rating), the limits per issuer etc. Not only that, the entire portfolio as well as the associated profit and loss items pending settlement are evaluated on a daily basis.

Derivative financial instruments are used by Hannover Re solely to hedge existing investment portfolios against price, interest rate, currency and default risks and as a substitute for securities purchases; they are controlled using mark-to-market valuations and with the aid of appropriate sensitivity analyses.

Other operating risks

By other operating risks we particularly have in mind risks associated with information technology and human resources management. The failure of technical equipment, especially in the case of the data processing infrastructure and the availability of the applications which it provides, poses a major risk to our company. We ensure the availability of our IT systems by means of state-of-the-art defence technologies and efficient methods of anti-virus protection, preventive structural measures and active fire protection safeguards as well as a secure uninterrupted power supply. Contingency plans and safety guidelines have also been drawn up to define the measures to be taken and appropriate behaviour in such emergencies. The relevant safety measures are documented centrally and subject to regular review. Thus, for example, all systems managed the change of date at the turn of the millennium virtually flawlessly thanks to intensive preparatory measures. Virus attacks at those points where we are connected with worldwide public data networks have also been effectively prevented. The so-called "I LOVE YOU" virus, for example, did not cause any damage whatsoever within our company.

Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise, motivation and dedication of our staff. In the future, therefore, it is important that we continue to be able to recruit highly qualified specialists and management staff and secure their long-term loyalty to the company. Consequently, we cultivate close contacts with a number of universities and set great store by personnel development activities.

Assessment of the risk situation

As an internationally operating reinsurer we are confronted with numerous opportunities and risks which are directly connected with our entrepreneurial activities and can therefore impact our net income or financial situation. Given the information currently available to us, however, we do not perceive any risks which could jeopardise the continued existence of our company in the short or medium term or which could impair the assets, financial position or net income in a significant or sustained manner.

Human resources

As at the end of 2000, Hannover Re employed 468 (previous year: 489) staff. In Germany asset management activities within the HDI Group were centralised. Consequently, some members of staff transferred to HDI Asset Management GmbH and are thus no longer employed by Hannover Re.

The internationalisation of our business operations places increasingly exacting demands on the integration of different cultures and various political, social and economic environments, and hence poses considerable challenges to all our human resources activities. As a globally operating company, we have taken up these challenges; we believe that the temporary exchange of staff within our organisation is a particularly appropriate way to foster integration. This takes place largely through delegation as well as cooperation on projects of worldwide scope. In addition, numerous meetings were organised last year between various specialist areas on an international level. They included, for example, the areas of finance and accounting, data processing, communications and human resources.

The globalisation of our own organisation and the drive to ensure international comparability prompted us to implement new job titles and hierarchical structures in the year under review. We now use uniform English-language job titles and have redefined the group of staff with managerial duties. This project was conducted highly efficiently and successfully in cooperation with a renowned international firm of consultants. As part of its scope, the management positions – including those of the Executive Board – were described in detail and evaluated. We have thus created the basis for classification, development planning and not least fair salary determination, while applying a high degree of objectivity and taking account of specific national factors.

The job evaluations have also created the basis for company-wide performance-oriented management remuneration, most notably including the launch of a stock option plan. The design of this stock option plan is "virtual", i.e. members of staff receive stock value participation rights which entitle the holder not to the award of shares but to payment of a corresponding cash amount. In this way, we link the interests of decision-makers in a sustained increase in the company's value with those of shareholders.

Our human resources development programme also includes extensive internal and external training courses, the contents and goals of which are tailored to the results of staff interviews and needs analyses. Our managerial staff can receive coaching on a voluntary basis from seasoned trainers who work closely together in a coaching pool. We are thus able to exert a positive influence on the development of social skills, especially among younger executives. This is carried out on the job in concrete management and conflict situations, and is considerably more effective than the purely theoretical communication of management ABCs which can be gleaned from books.

We significantly stepped up our university marketing activities for the recruitment of qualified graduates and attend all the major "job fairs" in Germany. Furthermore, we have enjoyed great success with the qualification of certified insurance practitioners and are supporting the development and introduction of professional training in Lower Saxony.

We contribute to the expenses incurred by our staff for old-age provision. In addition to the contributions to the statutory pension insurance scheme, we initiated a pension plan in Germany with effect from 1 July 2000 in the form of an insured provident fund for all members of staff. The company provides the full amount of the contributions according to an appropriate scale.

We would like to take this opportunity to thank our members of staff for their considerable commitment and personal dedication. This is particularly true of the hospitality extended to our many guests from home and abroad who visited us during EXPO 2000. We would also like to express our appreciation to the employee council and the senior management committee for their constructive and trusting cooperation.

Outlook

The sharp rise in oil prices coupled with possible interest rate increases by the US Federal Reserve and the European Central Bank have left their mark on expectations as to the development of the global economy in 2001. On the financial markets the fear of recession is growing.

The development of the world economy is in turn crucially dependent on the economic trend in the USA. Just as in the past the US had fuelled growth in the light of progressive globalisation, its economic weakness is currently depressing the global economic cycle. The reduced sales and earnings prospects of American companies will probably have an adverse effect on company investments, and economic growth in the USA is therefore likely to be smaller than in the previous year.

The restrained forecasts also crucially determine the long-term growth expectations in the insurance industry, especially in the already largely saturated markets of the industrialised nations. Positive factors such as a greater need for security, the regional concentration of values and product innovations will not be sufficient to hold the promise of double-digit growth rates worldwide.

In property and casualty reinsurance the modestly favourable general climate will be further impaired by the fact that – due to ongoing concentration in the insurance market – the number of (potential) clients is steadily diminishing and ceding companies are progressively growing in size. This is leading to higher retentions and the increasing prevalence of non-proportional types of reinsurance, with a corresponding decline in premium volumes. On the other hand, the reinsurance capacity available for the coverage of natural catastrophes is not sufficient worldwide to satisfy the strong demand. This segment thus continues to offer considerable potential. For the current year the virtually across-the-board improvement in terms and conditions in property and casualty reinsurance markets had almost exclusively positive repercussions, and, given a normal scale of natural catastrophe losses, technical results will rise appreciably. What is more, there is every indication that the favourable trend will continue beyond 2001 and at least the next renewal season, and this may restore some appeal to markets which are currently still producing losses – such as the liability sector in the USA and motor business in Germany.

Growth expectations in life and health reinsurance are based on rising demand in the life insurance markets and on a growing need for reinsurance solutions as companies strive to optimally deploy their capital resources. In addition, we are seeing a trend towards the demutualisation of large mutual societies, giving rise to a much greater interest in individually tailored life and health reinsurance products.

Further expansion of unit-linked life and annuity policies is anticipated in continental Europe, and in the United Kingdom we perceive opportunities in traditional life and health reinsurance. Overall, we again expect clear double-digit growth.

Investment income is by its very nature difficult to forecast. On the stock markets the initial sharp downslide on the technology exchanges is likely to be halted and a certain stability achieved. We do not anticipate any significant interest rate movements, and bond markets should thus continue to develop favourably. We expect a marked overall decline in profits on disposals but a further rise in ordinary investment income, and on balance a slight decrease in total investment income is to be anticipated.

Due in particular to the appreciable improvement in treaty terms and conditions in property and casualty reinsurance, we anticipate – given a "normal" loss experience – a better technical result as well as an increase in the overall operating profit.

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG). The measures taken did not adversely affect our company.

Proposal for the distribution of profits

We intend to propose to the Annual General Meeting that the disposable profit should be distributed as follows:

	EUR
Payment of a dividend of EUR 2.30 on each registered no-par value share fully paid-up for the entire year 2000	38 479 494.50
Payment of a bonus of EUR 0.25 on each registered no-par value share fully paid-up for the entire year 2000	4 182 553.75
Payment of a dividend of EUR 1.94 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 62.5% until 31 May 2000	15 520 000.00
Payment of a bonus of EUR 0.21 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 62.5% until 31 May 2000	1 680 000.00
Payment of a dividend of EUR 1.90 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 58.33% until 31 May 2000	9 120 000.00
Payment of a bonus of EUR 0.21 on each registered no-par value share fully paid-up in 2000 which was partially paid in the amount of 58.33% until 31 May 2000	1 008 000.00
Profit carried forward	109 951.75
	70 100 000.00

Other information

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

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

Our investments are managed by HDI Asset Management GmbH.

BALANCE SHEET *as at 31 December 2000*

Assets *Figures in EUR thousand*	2000				1999
A. Subscribed capital unpaid				–	12 782
- called-up capital					
- (1999: -)					
B. Intangible assets:					
Other intangible assets				8 817	22 220
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			49 468		48 663
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		1 145 961			949 725
2. Loans to affiliated companies		232 620			158 994
3. Participating interests		112 546			111 204
4. Loans to enterprises in which the company has a participating interest		21 976			
			1 513 103		1 219 923
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1 401 034			1 221 508
2. Bearer debt securities and other fixed-income securities		1 759 641			1 932 882
3. Mortgages and loans secured on land and buildings		2 937			3 050
4. Other loans					
a) Registered debt securities	273 827				295 047
b) Debentures and loans	121 224				98 486
c) Sundry loans	28 121				28 121
		423 172			421 654
5. Deposits with banks		212 618			269 688
6. Other investments		5			5
			3 799 407		3 848 787
IV. Deposits with ceding companies			2 212 015		2 142 481
				7 573 993	7 259 854

Liabilities
Figures in EUR thousand

	2000				1999
A. Capital and reserves					
I. Subscribed capital			75 493		75 493
II. Capital reserve			201 794		201 794
III. Retained earnings					
1. Statutory reserve		511			511
2. Reserve for own shares					
as at 1.1.2000	230				
Withdrawal	(230)	–			230
3. Other retained earnings					
as at 1.1.2000	51 302				
Allocation	1 798	53 100			51 302
			53 611		52 043
IV. Disposable profit			70 100		50 300
				400 998	379 630
B. Surplus debenture (Genussrechtskapital)				76 694	76 694
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		578 543			422 025
2. Less: reinsurance ceded		146 345			105 348
			432 198		316 677
II. Life assurance provision					
1. Gross		1 743 077			1 485 704
2. Less: reinsurance ceded		548 207			479 473
			1 194 870		1 006 231
III. Provisions for outstanding claims					
1. Gross		6 058 017			5 515 993
2. Less: reinsurance ceded		1 585 058			1 464 099
			4 472 959		4 051 894
IV. Provision for bonuses and rebates					
1. Gross		2 164			2 268
2. Less: reinsurance ceded		1 065			937
			1 099		1 331
V. Equalisation reserve and similar provisions			802 248		746 637
VI. Other technical provisions					
1. Gross		74 888			63 098
2. Less: reinsurance ceded		2 222			25 429
			72 666		37 669
				6 976 040	6 160 439

Assets *Figures in EUR thousand*			*2000*		*1999*
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			1 164 513		684 811
- from affiliated companies:					
83 106 (1999: 78 167)					
II. Other receivables			145 589		59 174
- from affiliated companies:				1 310 102	743 985
81 539 (1999: 54 686)					
E. Other assets					
I. Tangible assets and stocks			7 129		7 734
II. Current accounts with banks, cheques and cash in hand			90 107		66 098
III. Own shares			–		230
Nominal or par value:				97 236	74 062
- (1999: 8)					
F. Prepayments and accrued income					
I. Accrued interest and rent			48 254		52 636
II. Other accrued income			1 877		885
				50 131	53 521
G. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)				52 555	45 746
				9 092 834	8 212 170

Liabilities *Figures in EUR thousand*			2000		1999
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			21 619		19 330
II. Provisions for taxation			89 145		88 808
III. Other provisions			33 619		43 522
				144 383	151 660
E. Deposits received from retrocessionaires				895 819	846 308
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			546 443		505 773
- to affiliated companies:					
103 291 (1999: 242 156)					
II. Miscellaneous liabilities			47 286		86 792
- from taxes:				593 729	592 565
257 (1999: 270)					
- for social security :					
524 (1999: 524)					
- to affiliated companies :					
36 430 (1999: 61 658)					
G. Accruals and deferred income				5 171	4 874
				9 092 834	8 212 170

PROFIT AND LOSS ACCOUNT *for the 2000 financial year*

Figures in EUR thousand	2000			1999
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	4 491 415			3 611 278
b) Retrocession premiums	1 734 745			1 408 931
		2 756 670		2 202 347
c) Change in the gross provision for unearned premiums (+/-)	(147 025)			11 896
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	39 362			2 285
		(107 663)		14 181
			2 649 007	2 216 528
2. Allocated investment return transferred from the non-technical account, net of retrocession			58 658	95 582
3. Other technical income, net of retrocession			23	3
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	2 867 613			2 269 405
bb) Retrocessionaires' share	1 246 366			833 239
		1 621 247		1 436 166
b) Change in provisions for outstanding claims				
aa) Gross	(250 931)			(755 371)
bb) Retrocessionaires' share	67 189			549 157
		(183 742)		(206 214)
			1 804 989	1 642 380
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		(209 553)		(206 814)
b) Other net technical provisions		811		(833)
			(208 742)	(207 647)
6. Bonuses and rebates, net of retrocession			402	866
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 555 448		1 147 646
b) Less: commissions and profit commissions received on retrocession		668 576		532 603
			886 872	615 043
8. Other technical charges, net of retrocession			2 109	2 785
9. Subtotal			(195 426)	(156 608)
10. Change in the equalisation reserve and similar provisions			(55 611)	(53 919)
11. Net technical result			(251 037)	(210 527)

Figures in EUR thousand	2000				1999
Balance brought forward:				(251 037)	(210 527)
II. Non-technical account					
1. Investment income					
a) Income from participating interest		84 254			58 717
- affiliated companies:					
70 776 (1999: 54 143)					
b) Income from other investments					
- affiliated companies:					
53 897 (1999: 46 813)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4 825				4 833
bb) Income from other investments	292 295				292 413
		297 120			297 246
c) Appreciation on investments		30 001			28 504
d) Gains on the realisation of investments		204 985			225 703
			616 360		610 170
2. Investment charges					
a) Investment management charges, including interest		11 152			10 278
b) Depreciation		24 816			47 008
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
1 447 (1999: 3 168)					
c) Losses on the realisation of investments		6 901			28 461
			42 869		85 747
			573 491		524 423
3. Allocated investment return transferred to the technical account			(74 530)		(108 910)
				498 961	415 513
4. Other income			32 851		52 685
5. Other charges					
a) Special allocation to provisions for outstanding claims		75 822			58 387
b) Miscellaneous charges		83 423			90 507
			159 245		148 894
				(126 394)	(96 209)
6. Profit or loss on ordinary activities before tax				121 530	108 777

Figures in EUR thousand	2000				1999
Balance brought forward:				121 530	108 777
7. Taxes on profit and income		38 599			8 792
plus allocation for group assessment		10 097			3 134
			48 696		11 926
8. Other taxes		631			1 058
plus allocation for group assessment		542			(52)
			1 173		1 006
				49 869	12 932
9. Profit or loss for the financial year				71 661	95 845
10. Profit brought forward from previous year				7	158
11. Withdrawal from retained earnings:					
from the reserve for own shares				230	42
12. Allocation to retained earnings:					
to other retained earnings				1 798	45 745
13. Disposable profit				70 100	50 300

Valuation of assets

The valuation was carried out in accordance with the provisions of §§ 341 ff. of the Commercial Code (HGB). The methods have been retained unaltered.

Other intangible assets were valued at the acquisition costs less scheduled depreciation in accordance with the normal operational useful life or the average period of the underlying contracts.

Property has been valued at the purchase or construction cost less permitted depreciation under tax law.

Shares in affiliated companies and participations were valued on a purchase cost basis. Lower valuations were retained to the extent that write-offs were made in previous years due to permanent diminution in value. No write-offs were necessary in the financial year.

Loans to affiliated companies and loans to enterprises in which the company has a participating interest are valued at nominal value less amortisation taking into account write-downs to going-concern value.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict principle of cost or market value – whichever is lower – in accordance with § 341b (2) in conjunction with § 253 (3) of the Commercial Code (HGB).

The valuation of derivative instruments was carried out on a mark-to-market basis.

We valued mortgages and loans secured on land and buildings, registered debt securities, debentures and loans at nominal value taking into account amortisation and depreciation.

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

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

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

Valuation of liabilities

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

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

Where the provisions indicated by the ceding companies are not expected to be adequate, we have increased them by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralised. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year. The estimated gross premium income is less than 8% of the total volume.

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

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

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

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

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

The employee-funded pension commitments are established according to the present value of the expectancy.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. In the case of tax expenditure which relates to the financial year under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HBG). This relates to corporation tax based on a rate of taxation of 25% (previous year: 40%), the German reunification charge and trade earnings tax.

Other liabilities are valued at nominal amounts.

Currency conversion

We converted the assets and liabilities entered in the balance sheet and the expenses and profit shown in the profit and loss account, which were carried in foreign currencies, into Euros at the average exchange rates for the respective balance sheet date.

Balance sheet items taken over from the previous year were also converted into Euros at the average exchange rates as at the end of the year. In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is congruent cover for liability elements by setting up corresponding asset elements in the different currencies. In the case of foreign currencies in which we hold investments, we allocated the profits arising out of revaluation – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

Miscellaneous

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

Notes on assets

The change in asset items B., C.I. to C.III. was as follows during the 2000 financial year:

Figures in EUR thousand	*Book values 31.12.1999*	*Additions*	*Transfers*	*Disposals*	*Write-ups*	*Depreciation*	*Book values 31.12.2000*
B. Intangible assets:							
Other intangible assets	22 220	1 714	–	9	–	15 108	8 817
C.I. Land and buildings, rights to land and buildings, leasehold	48 663	2 734	–	–	–	1 929	49 468
C.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	949 725	138 693	58 818	1 275	–	–	1 145 961
2. Loans to affiliated companies	158 994	78 481	–	4 855	–	–	232 620
3. Participating interests	111 204	1 791	–	449	–	–	112 546
4. Loans to enterprises in which the company has a participating interest	–	22 031	–	–	–	55	21 976
5. Total C.II.	1 219 923	240 996	58 818	6 579	–	55	1 513 103
C.III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	1 221 508	580 408	(58 818)	336 840	11 520	16 744	1 401 034
2. Bearer debt securities and other fixed-income securities	1 932 882	858 676	–	1 043 593	16 372	4 696	1 759 641
3. Mortgages and loans secured on land and buildings	3 050	132	–	245	–	–	2 937
4. Other loans							
a) Registered debt securities	295 047	13 089	–	34 309	–	–	273 827
b) Debentures and loans	98 486	46 195	–	23 582	125	–	121 224
c) Sundry loans	28 121	–	–	–	–	–	28 121
5. Deposits with banks	269 688	145 201	–	202 271	–	–	212 618
6. Other	5	–	–	–	–	–	5
7. Total C.III.	3 848 787	1 643 701	(58 818)	1 640 840	28 017	21 440	3 799 407
Sum total	5 139 593	1 889 145	–	1 647 428	28 017	38 532	5 370 795

Land and buildings and rights to land and buildings

On 31 December 2000 the company had at its disposal five developed properties with business and other buildings, one property with residential buildings, one floor of offices, shares of EUR 17,424 thousand in two developed properties and a share of EUR 1,301 thousand in land without buildings.

Shares in affiliated companies and participations

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

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
E+S Rückversicherungs-AG, Hannover/Germany	50.09	EUR	121 881	EUR	33 300
holds 45.00% of the shares in:					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany		EUR	28 458	EUR	885
holds 100.00% of the shares in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		EUR	180 039	EUR	9 123
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	699	EUR	223
holds 50.00% of the shares in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	153 998	AUD	13 730
holds 56.93% of the shares in:					
Hannover Finance, Inc., Wilmington/USA		USD	204 595	USD	(18 069)
holds 25.00% of the shares in:					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany		DEM	152 107	DEM	76 282
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	28 458	EUR	885
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich/Germany	99.77	EUR	(2 581)	EUR	(128)
Companies resident abroad					
Hannover Life Reassurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	102 188	EUR	2 140
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	217 025	EUR	35 246

Name and registered office of the company *Figures in currency units of 1 000*	*Participation* *(in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	699	EUR	223
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	153 998	AUD	13 730
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	96.85	ZAR	306 533	ZAR	(3 396)
holds 100.00% of the shares in:					
Hannover Reinsurance Africa Ltd., Johannesburg/South Africa		ZAR	276 435	ZAR	52 503
Hannover Life Reassurance Africa Ltd., Johannesburg/South Africa		ZAR	17 500	ZAR	–
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	6 139	ZAR	4 404
Indoc Holdings S.A., Luxembourg/Luxembourg		CHF	6 206	CHF	(34)
holds 100.00% of the shares in:					
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius		MUR	148 164	MUR	(25 192)
Hannover Life Reassurance Company of America, Orlando/USA	100.00	USD	102 985	USD	(18 583)
Hannover Re Real Estate Holdings, Inc., Orlando/USA	86.52	USD	96 377	USD	2 301
Insurance Corporation of Hannover, Chicago/USA	100.00	USD	187 249	USD	(3 990)
Hannover Finance (UK) Limited, Virginia Water/UK	100.00	GBP	101 271	GBP	195
holds 100.00% of the shares in:					
Hannover Services (UK) Ltd., Virginia Water/UK		GBP	240	GBP	5
International Insurance Company of Hannover Ltd., Virginia Water/UK		GBP	58 114	GBP	1 164
Hannover Life Reassurance (UK) Ltd., Virginia Water/UK		GBP	19 967	GBP	854

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden	100.00	SEK	125 304	SEK	2 392
Hannover Finance Inc., Wilmington/USA	43.07	USD	204 595	USD	(18 069)
holds 100.00% of the shares in:					
Lion Holding, Inc., Wilmington/USA		USD	277 275	USD	(864)
holds100.00% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	275 482	USD	1 074
holds 100.00% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	281 983	USD	(2 325)
holds 100.00% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	64 521	USD	(382)
Clarendon Select Insurance Company, Tallahassee/USA		USD	23 233	USD	4 283
Harbor Specialty Insurance Company, Trenton/USA		USD	22 982	USD	5 288
Lion Insurance Company, Tallahassee/USA		USD	6 228	USD	(188)
Redland Insurance Company, Council Bluffs/USA		USD	49 997	USD	59 383
Participations					
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany	32.91	DEM	132 918	DEM	28 784
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	DEM	152 107	DEM	76 282
Heizkraftwerk Römerbrücke ZWO GmbH & Co., Betriebs OHG, Saarbrücken/Germany	26.32	DEM	(14 597)	DEM	5 174
ITAS Vita SpA, Trient/Italy	43.74	ITL	60 999 930	ITL	2 241 784
ITAS Assicurazioni SpA, Trient/Italy	43.74	ITL	93 031 310	ITL	1 893 358

Other investments

Assets with a balance sheet value of EUR 747,439 thousand (EUR 623,977 thousand) were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Due to the Tax Relief Act of 24 March 1999, increased valuations of special write-downs from previous financial years were effected in the amount of EUR 28,017 thousand.

Current values pursuant to § 54 RechVersV

The current values of land and buildings were largely determined using a combined asset value and gross rental method (2000). In individual cases book values were used.

Income values were determined for shares in affiliated companies and participating interests, and in the case of life insurance companies embedded values were calculated. In individual cases the book values or stock market price were reported.

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

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

Other investments were reported at nominal values.

Current values pursuant to § 54 RechVersV of asset item C.I. to C.III. for the 2000 financial year *Figures in EUR thousand*	*Book values 31.12.2000*	*Current values 31.12.2000*	*Difference 31.12.2000*
C.I. Land and buildings, rights to land and buildings, leasehold	49 468	86 013	36 545
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	1 145 961	1 492 090	346 129
2. Loans to affiliated companies	232 620	232 620	–
3. Participating interests	112 546	191 656	79 110
4. Loans to enterprises in which the company has a participating interest	21 976	21 976	–
5. Total C.II.	1 513 103	1 938 342	425 239
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	1 401 034	1 688 247	287 213
2. Bearer debt securities and other fixed-income securities	1 759 641	1 817 647	58 006
3. Mortgages and loans secured on land and buildings	2 937	2 937	–
4. Other loans			
a) Registered debt securities	273 827	277 293	3 466
b) Debentures and loans	121 224	124 724	3 500
c) Sundry loans	28 121	28 880	759
5. Deposits with banks	212 618	212 618	–
6. Other investments	5	5	–
7. Total C.III.	3 799 407	4 152 351	352 944
Sum total	5 361 978	6 176 706	814 728

Other receivables

Figures in EUR thousand	2000	1999
Receivables from affiliated companies	81 539	54 686
Receivables from redemption arrears	34 500	–
Receivables from securities due for redemption	16 493	–
Interest and rent due	4 787	660
Receivables from advance payments	3 536	598
Receivables from dividend entitlements	2 675	–
Receivables from the revenue authorities	1 359	1 803
Receivables from representative offices	311	877
Other recivables	389	550
Total	145 589	59 174

Own shares

By a resolution of the Annual General Meeting of Hannover Re adopted on 20 July 2000, the company was authorised to acquire own shares of up to 10% of the share capital existing on the date of the resolution in the period until 31 December 2001. As at 31 December 2000 the company was not in possession of own fully paid-up, no-par value shares.

The details of the portfolio development in 2000 are as follows:

	Number of purchases/sales	Proportion in %	Share capital in EUR thousand	Sales price in EUR thousand
Portfolio as at 31.12.1999	3 000	0.0102	15	
Cumulative sales	3 000	0.0102	15	211
Portfolio as at 31.12.2000	–	–	–	

Accruals and deferred income

Figures in EUR thousand	2000	1999
Accrued interest and rent	48 254	52 636
Accrued administrative expenses	1 215	11
Deferred premium on bonds	662	874
Total	50 131	53 521

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

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 52,555 (1999: 45,746) thousand. Of this amount, EUR 27,400 (1999: 28,532) thousand was attributable to corporation tax and EUR 25,155 (1999: 17,394) thousand to trade tax.

Notes on liabilities

Subscribed capital

The share capital of the company totalled EUR 75,493 thousand as at 31 December 2000. It is divided into 29,530,215 registered no-par value shares, which are fully paid-up.

Authorised capital of EUR 767 thousand with a time limit of 31 August 2002 is available for the issue of employee shares. Additional authorised capital of EUR 20,000 thousand is available until 1 July 2004.

Surplus debenture (Genussrechtskapital)

The surplus debenture issued in 1993 amounting to EUR 76,694 thousand has a term of 10 years. The interest is 7.55%

Provision for unearned premiums

Insurance line	*2000*		*1999*	
Figures in EUR thousand	*gross*	*net*	*gross*	*net*
Fire	103 956	77 150	91 480	66 807
Liability	109 214	71 480	85 066	67 724
Personal accident	7 138	4 863	6 537	4 633
Motor	69 527	50 074	40 030	27 474
Aviation	41 029	31 235	39 652	29 210
Life	63 260	52 858	39 384	32 078
Other lines	184 419	144 538	119 876	88 751
Total	578 543	432 198	422 025	316 677

Life assurance provisions

Insurance line Figures in EUR thousand	2000 gross	2000 net	1999 gross	1999 net
Life	1 743 077	1 194 870	1 485 704	1 006 231

Provisions for outstanding claims

Insurance line Figures in EUR thousand	2000 gross	2000 net	1999 gross	1999 net
Outstanding loss reserve				
Fire	581 241	295 097	495 271	278 620
Liability	2 275 211	1 969 679	2 035 669	1 795 730
Personal accident	73 341	53 255	67 534	53 801
Motor	927 195	773 485	746 333	625 301
Aviation	317 928	186 201	272 165	164 659
Marine	328 176	212 315	284 078	198 568
Life	366 119	257 043	350 606	235 905
Other lines	1 181 802	718 968	1 257 808	692 841
	6 051 013	4 466 043	5 509 464	4 045 425
Provision for annuities				
Liability	545	510	442	410
Personal accident	1 051	1 050	1 305	1 304
Motor	5 408	5 356	4 782	4 755
	7 004	6 916	6 529	6 469
Total	6 058 017	4 472 959	5 515 993	4 051 894

Equalisation reserve and similar provisions

Insurance line *Figures in EUR thousand*	*Position at 1.1.2000*	*Addition*	*Withdrawal and release*	*Position at 31.12.2000*
Equalisation reserve				
Fire	69 971	2 708	6 730	65 949
Liability	179 124	34 366	–	213 490
Personal accident	10 597	–	2 324	8 273
Motor	32 431	11 061	–	43 492
Aviation	59 148	180	7 195	52 133
Marine	47 746	71	8 288	39 529
Other lines	327 346	57 626	31 660	353 312
	726 363	106 012	56 197	776 178
Provisions which are similar to the equalisation reserve – major risks –				
Liability	2 992	4 625	–	7 617
Other lines	17 282	1 171	–	18 453
Total	746 637	111 808	56 197	802 248

Other technical provisions

Type of provisions *Figures in EUR thousand*	*2000* *gross*	*2000* *net*	*1999* *gross*	*1999* *net*
Profit commission	62 475	60 877	54 897	29 765
Commissions	10 285	9 735	5 302	5 015
Premium cancellation	2 124	2 050	2 780	2 770
Lay-up reserve	–	–	91	91
Road traffic accident victim assistance	4	4	28	28
Total	74 888	72 666	63 098	37 669

Technical provisions – total

Insurance line *Figures in EUR thousand*	*2000* *gross*	*2000* *net*	*1999* *gross*	*1999* *net*
Fire	761 657	448 594	666 089	419 706
Liability	2 637 876	2 291 283	2 332 378	2 072 380
Personal accident	90 120	67 613	86 243	70 413
Motor	1 048 952	875 305	826 305	691 950
Aviation	415 134	275 197	373 964	245 838
Marine	369 385	253 182	332 967	247 256
Life	2 174 816	1 506 334	1 878 368	1 276 207
Other lines	1 760 997	1 258 532	1 739 411	1 136 689
Total	9 258 937	6 976 040	8 235 725	6 160 439

Provisions for other risks and charges

Figures in EUR thousand	*2000*	*1999*
Provisions for pension and similar liabilities	21 619	19 330
Provision for taxation	89 145	88 808
Sundry provisions		
Provisions for currency risks	11 851	16 463
Provisions for outstanding payments	7 161	3 836
Provision for German Economy Foundation Initiative	5 324	–
Provisions for interest and similar charges	4 113	16 177
Provisions for annual accounts costs	2 592	3 287
Provisions for suppliers' invoices	925	1 723
Provisions for litigation risks	383	383
Provisions for costs of legal action	108	72
Provisions for securities and forward exchange business	–	373
Other provisions	1 162	1 208
	33 619	43 522
Total	144 383	151 660

Miscellaneous liabilities

Figures in EUR thousand	*2000*	*1999*
Liabilities in respect of affiliated companies	36 430	61 658
Liabilities from interest on surplus debenture	5 790	5 790
Liabilities from deliveries and services	1 984	1 238
Liabilities from overpayments	1 542	273
Liabilities from outstanding social security contributions	524	524
Liabilities in respect of permanent establishments	421	5 354
Liabilities in respect of the revenue authorities	257	270
Liabilities under lease agreements	167	97
Liabilities from land and buildings	134	214
Liabilities from the acquisition of participations	–	11 344
Other liabilities	37	30
Total	47 286	86 792

Deferred items

Figures in EUR thousand	*2000*	*1999*
Disagio	2 936	3 478
Long-term tenancy rights	1 169	1 291
Other accruals and deferred income	1 066	105
Total	5 171	4 874

Contingent liabilities

We provided security for a surplus note in the amount of USD 400.0 million issued in the previous year by our subsidiary Hannover Finance, Inc., Wilmington/USA, by way of a guarantee.

No further financial commitments or contingent liabilities relevant to an assessment of the company's financial position existed.

Notes on the profit and loss account

Figures in EUR thousand	*Gross written premiums*		*Gross premiums earned*		*Net premiums earned*		*Technical result for own account*	
	2000	*1999*	*2000*	*1999*	*2000*	*1999*	*2000*	*1999*
Fire	505 059	417 856	494 356	417 249	214 421	208 234	(8 356)	3 501
Liability	498 737	377 274	475 607	362 286	336 736	271 042	(55 006)	(43 944)
Personal accident	107 560	49 317	107 067	49 991	75 096	35 705	2 618	(5 041)
Motor	615 013	424 980	585 797	420 004	430 430	253 923	(65 560)	(63 685)
Aviation	197 071	174 692	198 605	174 929	110 679	94 728	16 429	12 774
Marine	214 390	188 828	214 390	188 828	117 144	105 209	5 844	(4 971)
Other lines	1 357 007	1 170 016	1 295 246	1 173 944	766 259	622 625	(88 012)	(89 282)
Total property and casualty insurance	3 494 837	2 802 963	3 371 068	2 787 231	2 050 765	1 591 466	(192 043)	(190 648)
Life	996 578	808 315	973 322	835 943	598 242	625 062	(58 994)	(19 879)
Total insurance business	4 491 415	3 611 278	4 344 390	3 623 174	2 649 007	2 216 528	(251 037)	(210 527)

Total insurance business

Figures in EUR thousand	*2000*	*1999*
Gross claims incurred	3 118 544	3 024 776
Gross operating expenses	1 555 448	1 147 646
Reinsurance balance	(286 748)	(508 353)

Expenses for personnel

Figures in EUR thousand	*2000*	*1999*
1. Wages and salaries	29 153	24 478
2. Social security payments and expenses for welfare	4 064	4 192
3. Expenses for old-age pension scheme	1 734	1 773
4. Total expenses	34 951	30 443

Expenses for investments

Figures in EUR thousand	*2000*	*1999*
Shares, units in unit trusts	22 847	22 544
Administrative expenses	8 385	7 725
Fixed-income securities	4 986	46 707
Deposit and bank fees	2 768	2 553
Land and buildings	1 930	2 148
Deposits	1 392	1 913
Shares in affiliated companies and participations as well as loans to affiliated companies and enterprises in which the company has a participating interest	561	2 157
Total	42 869	85 747

Other income

Figures in EUR thousand	*2000*	*1999*
Exchange rate gains	15 635	14 983
Allocated investment return	6 679	4 886
Profit from services	3 917	6 204
Cancellation of value adjustments	2 897	481
Release of non-technical provisions	1 438	1 084
Income from repayments	921	364
Profit from clearing transactions	172	43
Amounts realised	–	23 659
Other income	1 192	981
Total	32 851	52 685

Other expenses

Figures in EUR thousand	*2000*	*1999*
Allocations to the provisions for outstanding claims	75 822	58 387
Exchange rate losses	31 508	32 354
Deposit interest	25 666	24 089
Expenses for the whole company	10 473	7 670
Interest charges on surplus depenture (Genussrechtskapital)	5 790	5 790
Participation in Germany Economy Foundation Initiative	5 324	–
Separate value adjustment on accounting debts	5 277	7 570
Expenses from services	3 936	4 620
Expenses for letters of credit	3 773	1 588
Financing interest	3 048	5 481
Allocation to interest provisions	1 542	4 686
Interest charges on old-age pension scheme	1 140	1 057
Interest charges from clearing transactions	697	8 293
Other interest and expenses	1 121	637
	175 117	162 222
Less: Technical interest	15 872	13 328
Total	159 245	148 894

Other information

The names of the members of the Supervisory Board and Executive Board are listed on pages 1 to 4.

Emoluments of EUR 196 thousand were received by the Supervisory Board and EUR 2,347 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to EUR 286 thousand, and a liability of EUR 3,986 thousand was entered.

No loans secured on mortgages or by land charges were granted to board members.

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

The average number of employees was 469 in the financial year.

HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover, informed us that it holds a majority interest (§ 16 (1) of the Stock Corporation Act (AktG)) in our company. The figures from our annual accounts are included in its consolidated annual accounts. The consolidated annual accounts are deposited with the Commercial Register at Hannover county court.

Hannover, 22 May 2001

Executive Board

Zeller	Dr. Hecker	Dr. Becke
Gräber	Haas	Dr. Steiner
	Dr. Pickel	

Auditors' Report

We have audited the annual financial statements, together with the bookkeeping system and the management report of Hannover Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2000. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 23 May 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD *of Hannover Re*

We supervised the management of the company regularly during 2000 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at four meetings and once by way of written resolutions in accordance with § 10 section 5 of the Articles of Association. The audit mandate for the 2000 annual financial statements was awarded by the Supervisory Board. The audit report was distributed to all members of the Supervisory Board, and the auditor participated in the meeting of the Supervisory Board held to discuss the annual financial statements. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

As part of the implementation of important individual projects, the Supervisory Board considered the introduction of a virtual stock option plan for the members of the Executive Board and the domestic and foreign managerial staff as well as the issue of a subordinated loan in the amount of EUR 350 million (hybrid capital). Due to the rapid growth of business at our US subsidiary Hannover Life Reassurance Company of America in Orlando/Florida, we authorised a capital increase at this company in order to strengthen its solvency and competitiveness. In the light of the vigorous expansion of the business volume written by the operational risk-carriers of the Clarendon Group, the Supervisory Board further approved a capital increase at Hannover Finance Inc., Wilmington/Delaware, USA (HFI) as well as the granting by HFI of a loan in the form of an equity substitute to Clarendon National Insurance Company in Trenton/New Jersey, USA.

The accounting, the annual financial statements and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. The Supervisory Board has no comment to make on the auditors' report, and we agree with their findings.

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

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

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high,
3. in the case of the measures specified in the report, there are no circumstances which would point to an assessment which differs significantly from that of the Executive Board."

We examined both the Executive Board's report and the auditors' report on the company's relations with affiliated companies, and we found everything to be in order. In the light of our examination, we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

Nor had we any objection to the Executive Board's overall report; we agreed to the 2000 annual financial statements, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 2000.

With effect from 1 January 2000, Dr. Michael Pickel was appointed a deputy member of the Executive Board. On 31 December 2000 Udo Schubach's service on the Executive Board came to a close. The Supervisory Board expressed its appreciation and recognition of the work performed by Mr. Schubach in more than thirteen years on the Executive Board, and thanked him for his contribution to the company's development.

Hannover, 1 June 2001

For the Supervisory Board

Baumgartl
Chairman

Glossary

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

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitisation of natural catastrophe risks, if such risks are no longer fully insurable by the insurance and reinsurance industries.

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

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

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

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

Cost ratio: operating expenses in relation to the net premiums written.

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

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

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

Economic loss: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the insured loss. The insured loss reflects the total amount of losses covered by the insurance industry (direct insurers and reinsurers).

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

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

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

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

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

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

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

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

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

Life assurance provision: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

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

Loss ratio: percentage share of loss expenditure in the → retention relative to the net premiums earned.

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

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

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

Net: cf. → Gross/Retro/Net

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

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

Portfolio: all risks assumed by a direct insurer or reinsurer on an overall basis or in a defined sub-segment (e.g. line of business, country).

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

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

Program business: A speciality of the US insurance market written by insurers working in very close cooperation with reinsurers and highly specialised managing general agents. The segment is typically focused on niche and non-standard coverages and hard-to-place risks.

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

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

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

Provision for unearned premiums: premiums written in a financial year which are to be allocated to the following period on an accrual basis. This item is used to defer written premiums.

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

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