hannover re

PRESS RELEASE

- **Hannover Re keeps on its successful course**
- **Property and casualty reinsurance continues to be extremely favourable**
- **Forecast year-end profit after tax remains unchanged**

Hannover, 20 November 2002: In its interim report presented today Hannover Re expresses considerable satisfaction with its business development for the first nine months in view of an extremely difficult environment. With its third-quarter performance the company built on the favourable development of the preceding quarters.

As announced by Hannover Re in a press release, EBIT totalled EUR 352.2 million as at 30 September 2002. This represents an increase of EUR 435.0 million compared to the same period in the previous year. Net income amounted to EUR 207.8 million (previous year: -EUR 84.7 million), corresponding to earnings per share of EUR 2.14 (-EUR 0.96). When making comparisons with the previous year, it should, however, be borne in mind that the terrorist attacks of 11 September 2001 heavily distorted the figures for the third quarter and first nine months of the previous year.

Premium income again increased substantially, although growth rates in this quarter were not as vigorous as in the three previous quarters. Gross written premiums across all four business groups totalled EUR 9.1 billion (EUR 7.3 billion) as at 30 September. This corresponds to an increase of 24.3% compared to the same period in the previous year. Had it not been for the strengthening of the euro, especially against the US dollar, the rise would have been as much as 28.7%. Net premiums earned amounted to EUR 5.3 billion (EUR 4.3 billion, +24.3%).

The development of **property and casualty reinsurance** continued to be particularly gratifying. It remains Hannover Re's largest and currently most profitable business group. As Wilhelm Zeller, Chairman of the Executive Board, emphasised: "The treaty renewals in the third quarter – especially in the USA – showed that the market for reinsurers is currently exceptionally favourable". Gross written premiums consequently rose by 74.3% as at 30 September to EUR 4.8 billion (EUR 2.7 billion). Net premiums earned increased by 48.0% to EUR 2.9 billion (EUR 1.9 billion). The profitability of the business is borne out by the underwriting result, which climbed to EUR 139.5 million (-EUR 472.6 million). Even leaving aside the losses associated with the events of 11 September 2001, the increase still amounts to EUR 212 million. This underlines how the quality of the business has been enhanced within the past 12 months.

On the claims side Hannover Re was primarily affected by the flood catastrophe in central and eastern Europe in the third quarter. The total burden of major claims stood at EUR 46.5 million. This corresponds to 4.5% of net premiums. Major losses over the first nine months accounted for 5.2% of net premiums, which is within the multi-year average. The fact that a combined ratio of 95.1% (124.4%) was still recorded demonstrates the quality of the business that has been achieved meantime.

EBIT across all three quarters grew – despite significantly reduced net investment income – to EUR 237.9 million (-EUR 200.1 million). Net income totalled EUR 134.5 million following a deficit of EUR 155.5 million in the previous year. Earnings per share of EUR 1.38 (-EUR 1.76) were therefore generated.

Life and health reinsurance business again developed rather modestly in the third quarter. Gross premium income as at 30 September totalled EUR 1,614 million (EUR 1,635 million), a figure slightly below that of the previous year. Net premiums grew by 10.3% to EUR 1.4 billion due to a sharply higher retention. EBIT amounted to EUR 26.1 million (EUR 39.2 million), with a gratifying underwriting experience opposed by not inconsiderable write-offs on investments, especially at foreign subsidiaries. On balance EBIT therefore declined by 33.4%. Net income stood at EUR 17.9 million (EUR 21.5 million), a drop of 17,2%. This corresponds to earnings per share for life and health reinsurance of EUR 0.18 (EUR 0.24) as at 30 September. The performance of the first three quarters in life and health reinsurance does not, however, provide a reliable indication of the premium growth and result as at year-end. This is due to the fact that premiums for life reinsurance treaties with financing components, the area in which Hannover Re’s activities are concentrated, tend to accrue increasingly towards the end of each year. Experience shows, therefore, that the development of premiums and results is significantly more favourable in the fourth quarter than in the first nine months.

Program business continues on its successful track. Clarendon Insurance Group, New York, substantially boosted its business volume – particularly the level of retained premiums – and its result. Gross written premiums rose by 10.3% to EUR 2.0 billion. Net premiums earned grew by as much as 63.3% to EUR 578.9 million. The underwriting result was almost doubled to EUR 41.4 million following EUR 21.2 million in the same period of the previous year. The combined ratio of 92.9% (94.0%) was remarkably low. As Mr. Zeller stressed: "These improvements clearly show that the reorganisation which we initiated at Clarendon enabled us to substantially enhance the quality of the business". EBIT surged by 59,9% to EUR

48.3 million (EUR 30.2 million). The net income generated from program business stood at EUR 25.5 million, an increase of 74.7% compared to the previous year's figure of EUR 14.6 million. Program business consequently contributed earnings per share of EUR 0.26 (EUR 0.17).

Financial reinsurance developed modestly but nevertheless according to plan in the third quarter and hence through the first nine months of the year. As in life and health reinsurance, the trend to date in premiums and results does not provide a pointer to the development for the year as a whole. Experience shows that financial reinsurance treaties tend to be concluded towards year-end. The decline in premium volume – both gross and net – was attributable to extraordinary premium effects in the previous two years that were not repeated in the reporting period. Gross written premiums consequently fell by 36.4% to EUR 732.6 million (EUR 1.2 billion). The decline in net premiums earned, which sank by 31.8 % to EUR 516.5 million, was somewhat smaller owing to a higher level of retained premiums. EBIT contracted by 16.9% to EUR 39.9 million. Net income generated on this basis totalled EUR 30.0 million (EUR 34.8 million), a decline of 13.8%. Earnings per share amounted to EUR 0.31 (EUR 0.39).

Net investment income deteriorated as anticipated due to the difficult state of the capital markets. Hannover Re was, however, able to avoid more substantial losses thanks to its low equity ratio of just 7% and the high quality of its portfolio of fixed-income securities. Write-offs on investments amounted to EUR 58.4 million in the third quarter and totalled EUR 120.0 million for the first nine months of the year. Ordinary investment income grew favourably due to the increased asset volume and reached EUR 727.8 million on a cumulative basis. Net investment income of EUR 194.0 million was generated in the third quarter; for the first nine months it totalled EUR 574.1 million, EUR 137.3 million less than in the same period of the previous year.

Outlook

It is evident from the report on the third quarter and the first nine months of the year that Hannover Re – as is borne out by the adverse news from the majority of its competitors – achieved a highly favourable performance in an extremely difficult environment.

The property and casualty reinsurance markets remain extremely profitable. In 2002 this business group – subject to the absence of extraordinary major losses – should close with a combined ratio well under 100%. Preliminary negotiations for the 2002/03 renewal season in property and casualty reinsurance clearly indicate that Hannover Re has excellent opportunities to generate further profitable growth, since the demand for high-quality reinsurance protection substantially exceeds supply. As Mr. Zeller underlined: "It is our assumption that this advantageous market situation will continue until at least 2004".

The volume of business in life and health reinsurance should again grow appreciably towards the end of the year. Given a continued favourable underwriting experience, Hannover Re anticipates a positive profit contribution from this segment in line with expectations.

Program business will continue to progress satisfactorily. The company's selective underwriting policy, combined with higher levels of retained premiums, has already proven its worth. It is to be expected that Clarendon can further enlarge its market share while safeguarding adequate profitability. The systematic expansion of program business to other countries outside the USA will continue.

In financial reinsurance a surge in business is anticipated towards the end of the year. The individually tailored solutions offered by Hannover Re in this segment will remain attractive for many companies.

Developments on the capital markets are difficult to forecast. As Mr. Zeller emphasised: "With the defensive structure of our equity and bond portfolios we were well positioned in the insecure market environment of recent quarters". Following the low point in October an upward trend is to be expected on equity markets, and the year should therefore close with a modest recovery. As a basic principle Hannover Re is currently maintaining its defensive investment strategy.

"In view of the trend in the first nine months and the expectations described above, we stand by our after-tax profit forecast for the 2002 financial year", affirmed Mr. Zeller. This is conditional, firstly, on an average major loss incidence in the final weeks of the year. It further depends on a moderate recovery in the capital markets; last but not least, the attainment of the profit target is contingent on the accustomed favourable fourth-quarter development of life/health and financial reinsurance as recorded in recent years. Primarily due to the strains deriving from the capital markets, Hannover Re expects EBIT to be lower than originally planned. However, thanks to the outstanding development to date of natural catastrophe reinsurance, which is written by the subsidiary established last year in Bermuda, the tax load will also be lower than anticipated. Hannover Re therefore remains confident of generating net income of around EUR 300 million and earnings per share of EUR 3.

For further information, please contact Dr. Lutz Köhler (tel. +49/511/56 04-15 00; fax +49/511/56 04-16 48, e-mail lutz.koehler@hannover-re.com).

***Hannover Re,** with gross premiums of approx. EUR 12 bn., is the fifth-largest reinsurer in the world. It transacts all lines of property/casualty, life/health and financial/finite-risk reinsurance as well as program business. It maintains business relations* *with more than 2,000 insurance companies in over 100 countries. Its worldwide network consists of more than 100 subsidiaries, branch and representative offices in 19 countries. The American rating agencies Standard & Poor’s and A.M. Best have awarded Hannover Re a rating of AA ("Very Strong“) and A+ ("Superior“), respectively*

Key Figures of the Hannover Re Group

in Mio. EUR	*2002* *1.1.- 30.6.*	*Q 3*	*+/- previous year*	*1.1.-30.9.*	*+/- previous year*	*2001* *Q 3*	*1.1.-30.9.*
Hannover Re Group							
Gross written premiums	6 154.3	2 974.1	5.5%	9 128.4	24.3%	2 818.1	7 344.5
Net premiums earned	3 327.5	2 005.1	34.3%	5 332.6	24.3%	1 493.2	4 290.7
Net underwriting result	(29.1)	(66.2)	89.1%	(95.4)	87.9%	(604.7)	(788.8)
Net investment income	380.1	194.0	(32.6%)	574.1	(19.3%)	287.9	711.4
Operating profit/loss (EBIT)	284.3	67.9	122.7%	352.2	525.4%	(298.5)	(82.8)
Net income	146.3	61.5	130.2%	207.8	345.3%	(203.4)	(84.7)
Earnings per share in EUR*	1.51	0.63	127.4%	2.14	322.9%	(2.30)	(0.96)
Retention	64.2%	72.2%		66.8%		58.1%	63.8%
Property and casualty reinsurance							
Gross written premiums	3 334.2	1 448.5	45.3%	4 782.7	74.3%	996.7	2 744.5
Net premiums earned	1 829.4	1 037.8	42.4%	2 876.2	48.0%	728.9	1 937.6
Net underwriting result	80.3	59.2	114.3%	139.5	129.5%	(415.0)	(472.6)
Operating profit/loss (EBIT)	196.2	41.7	112.2%	237.9	218.6%	(337.3)	(200.1)
Net income	90.7	43.8	119,5%	134.5	186.5%	(224.6)	(155.5)
Earnings per share in EUR*	0.93	0.45	117.7%	1.38	178.4%	(2.54)	(1.76)
Retention	67.8%	71.6%		69.0%		79.5%	79.7%
Combined ratio	95.6%	94.3%		95.1%		156.9%	124.4%
Life and health reinsurance							
Gross written premiums	1 098.5	515.8	(7.5%)	1 614.3	(1.3%)	557.9	1 634.8
Net premiums earned	797.3	572.7	33.9%	1 369.9	10.4%	427.7	1 241.5
Operating profit/loss (EBIT)	22.5	3.6	(76.6%)	26.1	(33.4%)	15.4	39.2
Net income	15.3	2.5	(68.4%)	17.9	(17.2%)	7.9	21.5
Earnings per share in EUR*	0.16	0.03	(66.7%)	0.18	(20.8%)	0.09	0.24
Retention	73.8%	110.2%		85.5%		77.7%	76.4%
Program business							
Gross written premiums	1 216.8	782.0	20.7%	1 998.8	10.3%	647.8	1 812.9
Net premiums earned	395.9	183.0	120.0%	578.9	63.3%	83.2	354.5
Net underwriting result	36.3	5.1	377.8%	41.4	95.3%	(1.8)	21.2
Operating profit/loss (EBIT)	36.8	11.5	56.8%	48.3	59.9%	7.4	30.2
Net income	19.3	6.2	138.5%	25.5	74.7%	2.6	14.6
Earnings per share in EUR*	0.20	0.06	100.0%	0.26	52.9%	0.03	0.17
Retention	35.8%	40.0%		37.5%		23.8%	24.8%
Combined ratio	90.8%	97.3%		92.9%		102.2%	94.0%
Financial reinsurance							
Gross written premiums	504.7	227.9	(63.0%)	732.6	(36.4%)	615.6	1 152.3
Net premiums earned	304.9	211.6	(16.5%)	516.5	(31.8%)	253.3	757.1
Operating profit/loss (EBIT)	28.9	11.0	(31.7%)	39.9	(16.9%)	16.1	48.0
Net income	21.0	9.0	(15.9%)	30.0	(13.8%)	10.7	34.8
Earnings per share in EUR*	0.22	0.09	(25.0%)	0.31	(20.5%)	0.12	0.39
Retention	88.1%	99.9%		91.8%		41.8%	69.5%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

INTERIM REPORT

3/2002

Hannover
Rückversicherungs-AG

Karl-Wiechert-Allee 50
30625 Hannover
Germany

Telephone +49/5 11/56 04-0
Fax +49/5 11/56 04-11 88
info@hannover-re.com

www.hannover-re.com

Investor Relations/
Public Relations

Dr. Lutz Köhler

Telephone +49/5 11/56 04-15 00
Fax +49/5 11/56 04-16 48
lutz.Koehler@hannover-re.com

Investor Relations

Gabriele Bödeker

Telephone +49/5 11/56 04-17 36
Fax +49/5 11/56 04-16 48
gabriele.boedeker@hannover-re.com

Public Relations

Gabriele Handrick

Telephone +49/5 11/56 04-15 02
Fax +49/5 11/56 04-16 48
gabriele.handrick@hannover-re.com

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KEY FIGURES *of the Hannover Re Group*

in EUR million	*2002* 1.1.-30.6.	*2002* 1.7.-30.9.	*2002* +/- previous year	*2002* 1.1.-30.9.	*2002* +/- previous year	*2001* 1.7.-30.9.	*2001* 1.1.-30.9.
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Net investment income	380.1	194.0	(32.6%)	574.1	(19.3%)	287.9	711.4
Operating profit/loss (EBIT)	284.3	67.9	122.7%	352.2	525.4%	(298.5)	(82.8)
Net income	146.3	61.5	130.2%	207.8	345.3%	(203.4)	(84.7)
Investments	11 879.9	682.7	417.7%	12 562.6	11.2%	(214.9)	11 296.9
Total Stockholders' equity (incl. minority interests)	1 966.7	119.1	145.6%	2 085.8	22.3%	(261.0)	1 705.7
Net underwriting provisions	17 390.5	528.8	(14.1%)	17 919.3	16.0%	615.3	15 442.8
Total assets	32 928.9	309.8	(84.8%)	33 238.7	19.2%	2 037.1	27 885.8
Earnings per share in EUR*	1.51	0.63	127.4%	2.14	322.9%	(2.30)	(0.96)
Retention	64.2%	72.2%		66.8%		58.1%	63.8%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

Dear shareholders, Ladies and Gentlemen,

In the third quarter of this year your company continued to build on its success in the previous three quarters.

We again used the excellent conditions prevailing on the reinsurance markets – especially in property and casualty reinsurance – to favourably enlarge existing treaty relationships and write profitable new business. Whilst it is true that the situation on the capital markets was even more difficult than in the first and second quarters, we were nevertheless able to close the third quarter and hence the first nine months of 2002 on a highly successful note overall. As at 30 September we generated EBIT of EUR 352.2 million, thereby surpassing the figure for the first nine months of the previous year by EUR 435.0 million. Net income totalled EUR 207.8 million, a rise of EUR 292.5 million or 345.3%. This corresponds to earnings per share of EUR 2.14 (previous year: -EUR 0.96). When making comparisons with the previous year, it should, however, be borne in mind that the terrorist attacks of 11 September in New York and Washington heavily distorted the figures for the third quarter and first nine months of the previous year.

Each of our four business segments played its part in the favourable development of the past nine months.

Property and casualty reinsurance remains our largest and currently most profitable business segment; it posted another outstanding result in the third quarter. The present treaty renewals within the calendar year have demonstrated that this gratifying trend towards improved rates and conditions will be sustained. Under the strategy that we pursue in property and casualty reinsurance, we not only grow with the market in phases of cyclical upswing but also expand our market share by writing an exceptionally large volume of profitable business. In the third quarter we again achieved this goal with impressive success.

Life and health reinsurance as well as financial reinsurance developed according to plan. Program business yielded gratifying profit contributions and hence confirmed the success of this segment's reorientation.

On the capital markets equities continued to decrease in value, in some cases experiencing dramatic falls. We took this into account in the valuation of our investments and made further write-offs of EUR 58.4 million on investments in the third quarter. Despite these appreciable charges, overall net investment income was still within the anticipated parameters. The sharp reduction made last year in our equity ratio was a positive factor in this context.

On the claims side special reference should be made to the devastating flooding suffered by central and eastern Europe in the third quarter, an event which inevitably also had a significant impact on our account. In relation to the first three quarters of 2002 our loss expenditure for natural catastrophes and other major claims remained in line with the multi-year average. Provided this trend is sustained in the fourth quarter and assuming that the capital markets have bottomed out, we expect to close 2002 on a favourable note. I continue to remain optimistic that we shall recoup the losses incurred in the wake of the September 2001 terrorist attacks within three years.

Equity markets plunged sharply going into the third quarter, a downward slide which your company too could not entirely escape. The decline continued in October, with your share falling to its lowest point (EUR 15.90) on 9 October. Of late, however, there have been some signs of recovery on the markets. By early November the share price had climbed back to more than EUR 23, a level comparable with the beginning of the year. Yet it continues to be the case that the Hannover Re share is heavily undervalued. This is immediately evident from all the analyses performed by leading German and international securities houses: there is scarcely a single analyst who puts the fair value of your share at less than EUR 30. It is my hope, therefore, that the recovery in our share price witnessed in recent weeks is an indicator of the fact that the market is beginning to correctly appreciate this potential. Measured by the standard indices it is true that our share has performed highly satisfactorily this year; nevertheless, we are convinced that the current price level is still far from commensurate with the clearly better-than-average development of our business and our highly promising prospects for the future.

On behalf of my colleagues on the Executive Board and myself, I would like to thank you for the confidence that you show in our company. We shall continue to strive to bring about a sustained enhancement in the value of your company.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

Boards and Officers of Hannover Re

Supervisory Board (Aufsichtsrat)

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

Staff representative

Executive Board (Vorstand)

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

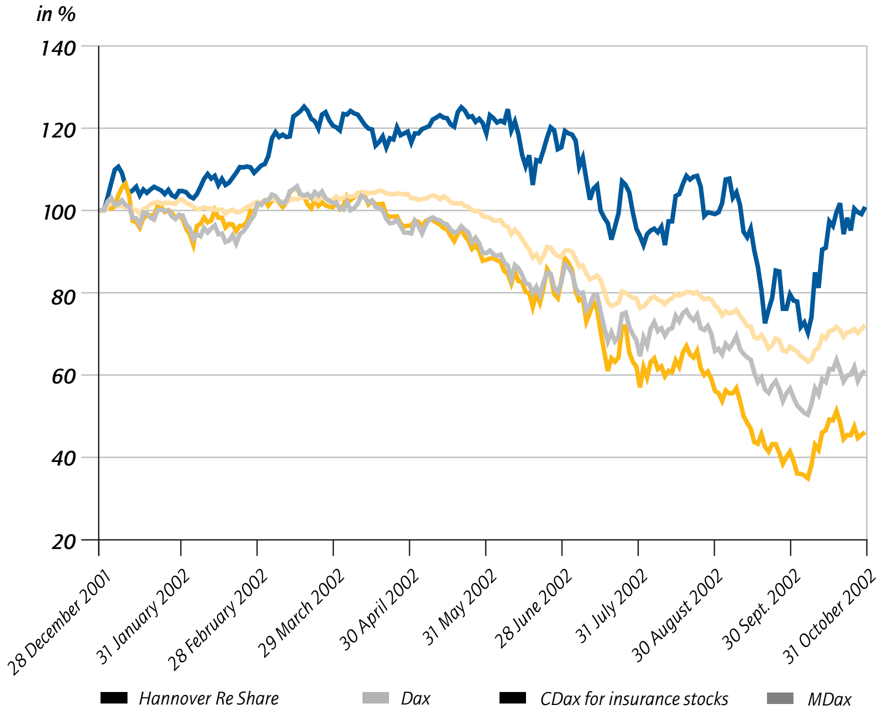
The Hannover Re Share

In the third quarter of 2002 the capital market environment remained poor. The downhill slide was self-perpetuating: painful price declines caused the capital cushion of many institutional investors to contract so sharply that they sold off their equities at prices that consistently led to new multi-year lows. The result was a seemingly endless downward spiral.

The figures speak for themselves: the Dax shed 37% of its value in the third quarter alone. The development of the leading German index was thus the second-worst of all the world's major stock indices; only the Brazilian Bovespa turned in a worse performance. The Euro-Stoxx-50 and S&P 500 fell by nearly 30%. Since the beginning of the year the Dax has given back as much as 46.5% – close to half – of its value, and it has fallen to its lowest level in almost eight years. The US stock exchanges also fared poorly, although not quite as markedly as many European markets. The Dow Jones, for example, declined by around 24% in the third quarter. The market considered the difficult position of the insurance industry – owing to its frequently high ratio of equity holdings – to pose a special risk. Consequently, the Stoxx sectoral index for insurance stocks was the heaviest loser with a minus of 44.8% of the 18 single-industry indices in the third quarter – falling even more sharply than technology stocks.

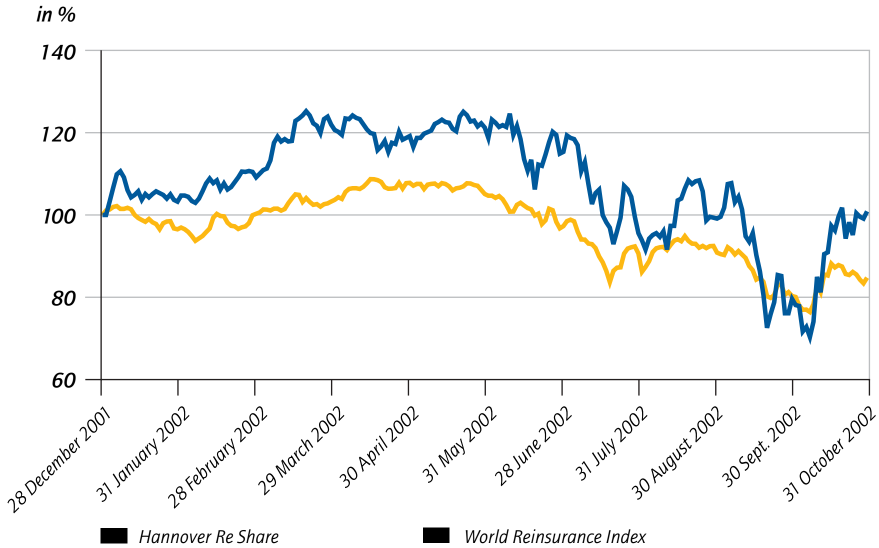
Since the beginning of the year our share has significantly outperformed the relevant benchmark indices. In September, however, the capital markets came under massive pressure to sell, and even our share was unable to escape being caught up in the wake of adverse news coming out of the industry. On 9 October the Hannover Re share was listed at EUR 15.90, 30% under its price at the beginning of the year, although by mid-October it had recovered strongly and at the end of the month it had already settled above the EUR 20 mark. In early November the share climbed above EUR 23 and reclaimed its initial value at the turn of the year; with a difference of 30 percentage points in relation to the MDax, 41 percentage points compared to the Dax and as much as 55 percentage points relative to the CDax for insurance stocks, the performance of our share was superbly consistent.

Index trend relative to HNR



In the light of the 3-for-1 stock split all share prices recorded up until 15 July 2002 have been adjusted retrospectively so as to facilitate comparison with current prices.

Comparison of HNR and the "Reactions" World Reinsurance Index



**The unweighted "Reactions" World Reinsurance Index includes all publicly listed reinsurers worldwide. Our strategic objective is to achieve a price trend that outperforms this benchmark over a three-year moving average.*

We measure our share performance first and foremost not by the standard indices, but by taking the unweighted "Reactions" World Reinsurance Index* as an internal benchmark. In the period between the beginning of the year and September 2002 our share consistently outperformed this index as well. In the middle of September, caught up in the massive slump on equity markets, our share briefly dipped just under the benchmark; by early November, however, the price had already recovered sharply and outperformed the average value for our global competitors by 16 percentage points.

Due to the changed business climate and the "hard" market conditions, especially in property and casualty reinsurance, insurers and most notably reinsurers continue to enjoy a very strong potential. The reinsurance sector ranks among the few industries that are currently recording appreciable growth and offer good profitability prospects. We expect to see further hardening on the reinsurance market in the 2003 renewal season.

For the 2002 financial year we again intend to distribute a dividend in order to enable our shareholders to share in the company's profit. Following the exceptional 2001 year, we hope in this way to follow on from the previous successful years.

Share information

in EUR	*30.9.2002*	*2001*	*2000*	*1999*	*1998*	*1997*
Earnings per share (diluted)	2.14*	0.11*	12.38	6.86	5.83	3.13***
Dividend per share	–	–	2.30	2.05	1.94	1.74
Corporation-tax credit	–	–	1.09**	0.86	0.24	0.24
Gross dividend	–	–	3.64**	2.91	2.18	1.98

** Stock split in a ratio of 3 for 1 considered*
*** incl. bonus of EUR 0.25*
**** DVFA earnings per share in accordance with German accounting principles*

Security identification number:	840 221
Majority shareholder:	HDI Haftpflichtverband der Deutschen Industrie V.a.G. (75%)
Common stock as at 30 September 2002:	EUR 97,163,.928.00
Number of shares as at 30 September 2002:	97,163,928 no-par value registered shares
Stock split as at 15 July 2002:	Ratio 3 for 1
Capital measure as at 6 June 2002:	Increase of capital stock by EUR 14,365 382.11 out of company funds without issuing new shares
Market capitalisation as at 30 September 2002:	EUR 1,671.2 million

Business development

The third quarter of 2002 built on the success of the three previous quarters, although the growth rates in this quarter were not as vigorous as in the preceding ones. This was due to the fact that strong increases in volume had already been recorded in the third quarter of 2001 – something that was not the case in the first two quarters of 2001. From the third quarter of 2001 onwards Hannover Re had already successfully exploited the opportunities offered by the favourable market conditions, especially in property and casualty reinsurance.

Gross written premiums across all business goups were in the order of EUR 9,128.4 million after the first nine months of the year under review. This corresponds to an increase of EUR 1,783.9 million or 24.3%. Had it not been for the strengthening of the euro, particularly against the US dollar, the increase would have been as much as 28.7 percentage points. Net premiums earned totalled EUR 5,332.6 million (+ 24.3 %). The capital market situation cast a cloud over the general picture, but did not alter the favourable overall impression. We boosted EBIT by EUR 435.0 million to EUR 352.2 million. When making comparisons with the previous year, it must, however, be borne in mind that the figures for the third quarter and first nine months of the previous year were burdened by the losses associated with the terrorist attacks of 11 September. Consolidated net income reached EUR 207.8 million, an increase of EUR 292.5 million compared to the same period in the previous year. Earnings per share of EUR 2.14 were therefore generated, following -EUR 0.96 EUR in the previous year.

Property and casualty reinsurance

The treaty renewals concluded in the third quarter in property and casualty reinsurance – particularly in the USA – clearly showed that the current market climate is exceptionally favourable for reinsurers. Even the present renewal negotiations for aviation fleet business have yielded further modest rate rises, despite the fact that this line recorded dramatic premium increases in the previous financial year. In this market environment we have been able to substantially boost our premiums and results. We generated gross written premiums of EUR 4,782.7 million, a figure 74.3% higher than in the first nine months of the previous year. After retrocessions and deferred premiums this produced net premiums earned of EUR 2,867.2 million (+EUR 929.6 million or 48.0%). The profitability of the business was reflected in the underwriting result, which rose to EUR 139.5 million – an improvement of EUR 612.1 million on the first nine months of 2001. Even leaving aside the losses attributable to the events of 11 September, the increase would still amount to EUR 212.1 million. It is thus evident that the quality of the business has been substantially enhanced within the past 12 months.

On the claims side our account was primarily affected by the disastrous flooding in central and eastern Europe in the third quarter. The total burden of major losses in the quarter amounted to EUR 46.5 million. This corresponds to 4.5% of net premiums. Across the full nine-month period major losses accounted for 5.2% of net premiums, a proportion in line with the multi-year average. The combined ratio stood at 95.1%, and is therefore 29.3 percentage points lower than in the previous year.

We subject our loss reserves to regular actuarial review and evaluate major individual losses on an ongoing basis. In the third quarter there was again no need to establish additional reserves for previous occurrence years.

Despite significantly reduced net investment income we generated EBIT of EUR 237.9 million as at September 30, an increase of EUR 438.0 million on the same period in the previous year. This produced net income of EUR 134.5 million, following a deficit of EUR 155.5 million in the previous year. Earnings per share consequently were EUR 1.38 (-EUR 1.76).

Key figures for property and casualty reinsurance

in EUR million	2002					2001	
	1.1.-30.6.	1.7.-30.9.	+/- previous year	1.1.-30.9.	+/- previous year	1.7.-30.9.	1.1.-30.9.
Gross written premiums	3 334.2	1 448.5	45.3%	4 782.7	74.3%	996.7	2 744.5
Net premiums earned	1 829.4	1 037.8	42.4%	2 867.2	48.0%	728.9	1 937.6
Net underwriting result	80.3	59.2	114.3%	139.5	129.5%	(415.0)	(472.6)
Operating profit/loss (EBIT)	196.2	41.7	112.2%	273.9	218.6%	(337.3)	(200.1)
Net income	90.7	43.8	119.5%	134.5	186.5%	(224.6)	(155.5)
Earnings per share in EUR*	0.93	0.45	117.7%	1.38	178.4%	(2.54)	(1.76)
Retention	67.8%	71.6%		69.0%		79.5%	79.7%
Combined ratio	95.6%	94.3%		95.1%		156.9%	124.4%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

Life and health reinsurance

In the third quarter of 2002 life and health reinsurance again developed in accordance with our strategic targets and planning. Gross written premiums in the first nine months were roughly on a par with the previous year at EUR 1,614.3 million. Net premiums earned grew by 10.4% to EUR 1,369.9 million due to a markedly higher level of retained premiums than in the previous year. EBIT reached EUR 26.1 million (EUR 39.2 million) as at 30 September, with a gratifying underwriting experience opposed by not inconsiderable write-offs on investments, most notably at our foreign subsidiaries. On balance EBIT consequently declined by 33.4% or EUR 13.1 million. Net income amounted to EUR 17.9 million (EUR 21.5 million), a decrease of 17.2%. Earnings per share in life and health reinsurance therefore totalled EUR 0.18 (EUR 0.24) as at 30 September 2002.

Key figures for life and health reinsurance

in EUR million	2002					2001	
	1.1.-30.6.	1.7.-30.9.	+/- previous year	1.1.-30.9.	+/- previous year	1.7.-30.9.	1.1.-30.9.
Gross written premiums	1 098.5	515.8	(7.5%)	1 614.3	(1.3%)	557.9	1 634.8
Net premiums earned	797.3	572.7	33.9%	1 369.9	10.4%	427.7	1 241.5
Operating profit/loss (EBIT)	22.5	3.6	(76.6%)	26.1	(33.4%)	15.4	39.2
Net income	15.3	2.5	(68.4%)	17.9	(17.2%)	7.9	21.5
Earnings per share in EUR*	0.16	0.03	(66.7%)	0.18	(20.8%)	0.09	0.24
Retention	73.8%	110.2%		85.5%		77.7%	76.4%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

The result of the first three quarters in life and health reinsurance does not provide a reliable indication of the year-end result. This is due to the fact that premiums for life reinsurance treaties with financing components, the area in which our activities are concentrated, tend to accrue increasingly towards the end of each year. In our experience, therefore, the development of premiums and results is significantly more favourable in the fourth quarter than in the first nine months.

Program business

The third quarter of 2002 followed up on the successes of the preceding quarters and showed that the earlier problems in this segment have been overcome. The Clarendon Insurance Group, New York, significantly boosted its business volume – especially the level of retained premiums – and its result. The transfer of the program business model to markets outside the USA also progressed satisfactorily.

Gross written premiums grew by 10.3% to EUR 1,998.8 million. Due to a sharp increase in the level of retained premiums from 24.8% to 37.5% net premiums earned climbed by 63.3% to EUR 578.9 million. The underwriting result was almost doubled to EUR 41.4 million from EUR 21.2 million in the previous year. The combined ratio stood at 92.9% following 94.0% in 2001. These improvements clearly demonstrate that the quality of the business has been substantially enhanced as a consequence of the reorganisation that we initiated at Clarendon. EBIT increased by 59.9% to EUR 48.3 million (previous year: EUR 30.2 million). The net income generated from program business climbed by 74.7% to EUR 25.5 million (EUR 14.6 million). Program business therefore contributed earnings per share of EUR 0.26 (EUR 0.17).

Key figures for program business

in EUR million	*2002* 1.1.-30.6.	1.7.-30.9.	+/- previous year	1.1.-30.9.	+/- previous year	*2001* 1.7.-30.9.	1.1.-30.9.
Gross written premiums	1 216.8	782.0	20.7%	1 998.8	10.3%	647.8	1 812.9
Net premiums earned	395.9	183.0	120.0%	578.9	63.3%	83.2	354.5
Net underwriting result	36.3	5.1	377.8%	41.4	95.3%	(1.8)	21.2
Operating profit/loss (EBIT)	36.8	11.5	56.8%	48.3	59.9%	7.4	30.2
Net income	19.3	6.2	138.5%	25.5	74.7%	2.6	14.6
Earnings per share in EUR*	0.20	0.06	100.0%	0.26	52.9%	0.03	0.17
Retention	35.8%	40.0%		37.5%		23.8%	24.8%
Combined ratio	90.8%	97.3%		92.9%		102.2%	94.0%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

Financial reinsurance

Financial reinsurance developed according to plan in the third quarter of 2002 and hence over the first nine months of the year. The decline in premium volume – both gross and net – was attributable to extraordinary effects in the two previous years that were not repeated in the reporting period. Gross written premiums consequently fell by 36.4% to EUR 732.6 million (EUR 1,152.3 million). The decline in net premiums earned, which sank by 31.8% to EUR 516.5 million, was somewhat smaller owing to a sharply higher level of retained premiums. EBIT amounted to EUR 39.9 million following EUR 48.0 million in the previous year (-16.9%). On this basis we generated net income of EUR 30.0 million, a decrease of 13.8% year-on-year. Earnings per share in this business group totalled EUR 0.31 (EUR 0.39).

As in life and health reinsurance, the trend in premiums and results does not provide a pointer to the development for the year as a whole in financial reinsurance. Experience shows that financial reinsurance arrangements are largely concluded towards year-end, and we therefore anticipate a substantial increase in the premium volume and result for the full financial year.

Key figures for financial reinsurance

in EUR million	*2002*					*2001*	
	1.1.-30.6.	*1.7.-30.9.*	*+/- previous year*	*1.1.-30.9.*	*+/- previous year*	*1.7.-30.9.*	*1.1.-30.9.*
Gross written premiums	504.7	227.9	(63.0%)	732.6	(36.4%)	615.6	1 152.3
Net premiums earned	304.9	211.6	(16.5%)	516.5	(31.8%)	253.3	757.1
Operating profit/loss (EBIT)	28.9	11.0	(31.7%)	39.9	(16.9%)	16.1	48.0
Net income	21.0	9.0	(15.9%)	30.0	(13.8%)	10.7	34.8
Earnings per share in EUR*	0.22	0.09	(25.0%)	0.31	(20.5%)	0.12	0.39
Retention	88.1%	99.9%		91.8%		41.8%	69.5%

* Stock split in a ratio of 3 for 1 considered (also for previous year's period)

Net investment income

In the third quarter, as in the first two quarters, we reaped the benefits of both our low equity ratio of just 7% and the high quality of our portfolio of fixed-income securities. Only in this way were we able to avoid more substantial losses. Write-offs on investments amounted to EUR 58.4 million in the third quarter and totalled EUR 120.0 million in the first nine months of the year. Ordinary income grew favourably in step with our increased investment volume and reached EUR 727.8 million on a cumulative basis, enabling us to record net investment income of EUR 194.0 million in the third quarter. Net investment income in the first nine months of the financial year totalled EUR 574.1 million, a figure EUR 137.2 million lower than in the same period of the previous year.

Outlook

It is evident from the report on the third quarter and the first nine months of the year that Hannover Re – as is underlined by the adverse reports from the majority of our competitors – achieved a highly favourable performance in an extremely difficult business climate.

For 2002 property and casualty reinsurance – subject to the absence of extraordinary major losses – should close with a combined ratio well below 100%. The preliminary negotiations for the 2002/03 renewal phase in this business group clearly show that we have excellent opportunities to generate further highly profitable growth, since the demand for high-quality reinsurance protection substantially exceeds supply. It is our assumption that this advantageous market situation will continue until at least 2004.

As has already been explained, the volume of business in life and health reinsurance should grow appreciably towards the end of the year. Given a continued favourable underwriting experience, we anticipate a positive profit contribution in line with our expectations.

In program business we shall continue to pursue the path which we have successfully embarked on. Our selective underwriting policy, combined with higher levels of retained premiums, has already proved itself. The enhancement of our reporting and controlling systems has similarly demonstrated its worth. We are convinced that Clarendon will succeed in further enlarging its market share while safeguarding adequate profitability. We shall also continue to strive to extend program business to other countries outside the USA.

Financial reinsurance anticipates a similar surge in business towards the end of the year. The individually tailored programs offered in this business group remain attractive for many companies.

It is difficult to foresee developments on the capital markets. With the defensive structure of our equity and bond portfolios we were well positioned in the insecure market environment of recent quarters. Following the low point in October we expect to see an upward trend on equity markets, and the result should therefore close with a modest recovery; as a basic principle we are currently maintaining our defensive investment strategy.

An Extraordinary General Meeting of Hannover Re was held on 14 November 2002. It authorised the Executive Board and Supervisory Board to use all currently recognised capital market instruments as and when necessary on a defined scale. This flexibility is needed in order to continue to profit from the favourable market situation, especially in property and casualty reinsurance. Whether, when and in which form this authorisation will be used depends upon the business development in the coming year. Your company is not currently planning any capital measures. With an eye to the business development on the German market, in particular, the General Meeting of our subsidiary E+S Rück on 5 November 2002 approved an equity increase of EUR 300 million.

In view of the trend in the first nine months and the expectations described above, we stand by our profit forecast for the 2002 financial year. This is conditional, firstly, on an average loss incidence in the final weeks of the year. It further depends on a moderate recovery in the capital markets; last but not least, the attainment of our profit target is contingent on the accustomed favourable fourth-quarter development of life/health and financial reinsurance as recorded in recent years. Mainly due to the strains deriving from the capital markets, we expect EBIT to be lower than originally planned. Due to the outstanding development to date of natural catastrophe reinsurance, which is being underwritten by our Bermuda subsidiary that was founded in the previous year, the tax burden will also be less than originally expected. Therefore we remain confident to reach a net income of around EUR 300 million and earnings per share of EUR 3 for the year.

CONSOLIDATED BALANCE SHEET *as at 30 September 2002*

Assets *Figures in EUR thousand*	*30.9.2002*	*31.12.2001*
Fixed-income securities – held to maturity	400 782	284 070
Fixed-income securities – available for sale	8 887 560	8 422 878
Fixed-income securities – trading	–	46 895
Equity securities – available for sale	655 810	1 021 451
Equity securities – trading	8 374	8 879
Real estate	291 767	311 207
Other invested assets	622 873	578 578
Short-term investments	1 077 688	622 569
Total investments without cash	11 944 854	11 296 527
Cash	617 731	830 659
Total investments and cash	12 562 585	12 127 186
Prepaid reinsurance premiums	988 478	910 068
Reinsurance recoverables on benefit reserve	469 833	493 650
Reinsurance recoverables on unpaid claims	6 241 173	6 758 763
Reinsurance recoverables on other reserves	51 299	113 017
Deferred acquisition costs	1 274 183	1 196 459
Accounts receivable	3 932 856	3 148 683
Funds held by ceding companies	6 936 206	7 150 799
Goodwill	243 226	263 258
Other assets	343 066	291 574
Accrued interest and rent	195 754	194 137
	33 238 659	32 647 594

Liabilities *Figures in EUR thousand*	*30.9.2002*	*31.12.2001*
Loss and loss adjustment expense reserve	18 856 705	18 859 679
Policy benefits for life and health contracts	3 700 594	3 908 584
Unearned premium reserve	2 962 269	2 312 432
Provision for contingent commission	144 721	144 228
Other technical provisions	5 753	35 323
Reinsurance payable	1 675 163	1 336 760
Funds held under reinsurance treaties	1 563 839	1 744 536
Contract deposits	174 411	261 250
Minorities	298 740	307 811
Other liabilities	473 171	460 673
Taxes	71 496	99 070
Provision for deferred taxes	655 125	588 555
Notes payable	750 068	797 148
Surplus debenture	119 513	119 517
Total liabilities	31 451 568	30 975 566
Stockholders' equity		
Common stock	97 164	82 799
Nominal value 97 164 Authorised capital 12 694		
Additional paid-in capital	374 451	388 816
Cumulative comprehensive income		
Unrealised appreciation/depreciation of investments, net of deferred taxes	76 342	31 164
Cumulative foreign currency conversion adjustment, net of deferred taxes	(86 265)	(58 192)
Other changes in cumulative comprehensive income	(44 455)	(15 893)
Total comprehensive income	(54 378)	(42 921)
Retained earnings		
Beginning of period	1 243 334	1 232 615
Net income	207 797	11 084
Dividend paid	–	(69 990)
Other changes	(81 277)	69 625
	1 369 854	1 243 334
Total stockholders' equity	1 787 091	1 672 028
	33 238 659	32 647 594

CONSOLIDATED STATEMENT OF INCOME *for the period 1.1. to 30.9.2002*

Figures in EUR thousand	*1.7.-30.9.2002*	*1.1.-30.9.2002*	*1.1.-30.9.2001*
Gross written premiums	2 974 115	9 128 374	7 344 458
Ceded written premiums	828 067	3 029 713	2 656 967
Change in gross unearned premiums	(157 105)	(839 899)	(551 238)
Change in ceded unearned premiums	16 148	73 791	154 490
Net premiums earned	2 005 091	5 332 553	4 290 743
Ordinary investment income	250 470	727 770	696 235
Realised gains on investments	37 512	110 843	107 066
Realised losses on investments	20 511	88 317	80 927
Unrealised gains and losses on investments	(2 542)	(17 603)	18 178
Other investment expenses/depreciations	70 882	158 566	29 178
Net investment income	194 047	574 127	711 374
Other technical income	6 755	18 879	3 762
Total revenues	2 205 893	5 925 559	5 005 879
Claims and claims expenses	1 424 003	4 017 328	3 929 977
Change in policy benefits for life and health contracts	144 532	216 772	250 905
Commission and brokerage	427 176	955 737	682 618
Other acquisition costs	5 576	6 870	9 769
Other technical expenses	23 654	82 253	63 644
Administrative expenses	53 121	167 832	146 376
Total technical expenses	2 078 062	5 446 792	5 083 289
Other income and expenses	(60 014)	(126 603)	(5 379)
Operating profit/loss (EBIT)	67 817	352 164	(82 789)
Interest on hybrid capital	15 016	45 248	41 135
Net income before taxes	52 801	306 916	(123 924)
Taxes	(2 099)	84 002	(45 409)
Minority interest	6 555	(15 117)	(6 160)
Net income	61 455	207 797	(84 675)

Figures in EUR thousand	*1.7.-30.9.2002*	*1.1.-30.9.2002*	*1.1.-30.9.2001*
Other comprehensive income			
Net unrealised appreciation/ depreciation of investments	63 025	45 178	(65 000)
Cumulative foreign currency conversion adjustments	20 895	(28 073)	76 959
Other comprehensive income	(29 025)	(28 562)	(3 348)
Net comprehensive income	116 350	196 340	(76 064)
Earnings per share			
Earnings per share in EUR*	0.63	2,14	(0.96)

** Stock split in a ratio of 3 for 1 considered (also for previous year's period)*

CASH FLOW STATEMENT *as at 30 September 2002*

Figures in EUR thousand	*1.1.-30.9.2002*	*1.1.-31.12.2001*
I. Cash flows from operating activities		
Consolidated net income (after tax)	207 797	11 084
Appreciation/depreciation	139 984	54 434
Net realised gains and losses on investments	(22 526)	(55 953)
Amortisation of investments	(9 067)	(2 650)
Changes in funds held	(603 760)	(2 179 236)
Changes in prepaid reinsurance premiums (net)	672 111	603 500
Changes in tax assets/provisions for taxes	49 023	(212 995)
Changes in benefit reserves (net)	(25 462)	569 958
Changes in claims reserves (net)	1 502 017	2 695 687
Changes in deferred acquisition costs	(125 292)	(482 738)
Changes in other technical provisions	32 696	(89 396)
Changes in clearing balances	(533 148)	119 083
Changes in other assets and liabilities (net)	(53 235)	93 182
Cash flows from operating activities	1 231 138	1 123 960
Income taxes paid (-)/refunded (+)	(21 388)	(97 620)
Interest paid	(92 678)	(88 554)
II. Cash flows from investing activities		
Fixed income securities – held to maturity		
Maturities	3 317	15 705
Purchases	(122 969)	(31 745)
Fixed income securities – available for sale		
Maturities, sales	2 685 114	3 377 429
Purchases	(3 505 751)	(4 986 378)
Equity securities – available for sale		
Sales	306 546	831 694
Purchases	(213 233)	(400 488)
Other invested assets		
Sales	101 773	312 654
Purchases	(173 580)	(300 176)
Affiliated companies and participating interests		
Sales	17 733	26 500
Acquisitions	(15 866)	(53 939)
Real estate		
Sales	–	1 094
Acquisitions	(1 701)	(84 360)
Short-term investments		
Changes	(437 670)	(151 176)
Other changes (net)	(58 893)	(7 972)
Cash flows from investing activities	(1 415 180)	(1 451 158)

Figures in EUR thousand	1.1.-30.9.2002	1.1.-31.12.2001
III. Cash flows from financing activities		
Inflows from capital increases	–	209 644
Net changes in contract deposits	(75 448)	156 214
Dividend paid	–	(69 990)
Changes in notes payable	–	350 646
Other changes	–	30 594
Cash flows from financing activities	(75 448)	677 108
IV. Exchange rate differences on cash	46 562	(1 513)
Change in cash and cash equivalents (I.+II.+III.+IV.)	(212 928)	348 397
Cash and cash equivalents at the beginning of the period	830 659	482 262
Change in cash and cash equivalents according to cash flow statement	(212 928)	348 397
Cash and cash equivalents at the end of the period	617 731	830 659

SEGMENTAL REPORT *as at 30 September 2002*

In the following table we have allocated the underwriting assets and liabilities as at 30 September 2002 and 31 December 2001 to our business segments after eliminating intergroup transactions across segments.

Segmentation of underwriting assets and liabilities

Figures in EUR thousand	*Property/ casualty reinsurance 30.9.2002*	*Property/ casualty reinsurance 31.12.2001*	*Life/ health reinsurance 30.9.2002*	*Life/ health reinsurance 31.12.2001*
Assets				
Prepaid reinsurance premiums	244 831	135 664	452	503
Deferred acquisition costs (net)	295 082	218 873	897 066	889 117
Reinsurance recoverables on benefit reserves	–	–	469 833	493 650
Reinsurance recoverables on incurred claims and others	3 382 965	3 309 175	140 167	187 807
Funds held by ceding companies	193 133	376 714	2 751 525	3 007 960
Total underwriting assets	4 116 011	4 040 426	4 259 043	4 579 037
Liabilities				
Loss and loss adjustment expense reserve	9 756 826	10 120 457	972 555	1 087 888
Policy benefits for life and health contracts	–	–	3 700 594	3 908 584
Unearned premium reserve	1 468 990	1 016 839	24 160	15 926
Other technical provisions	114 655	135 574	30 425	36 661
Funds held under reinsurance treaties	979 618	735 653	315 729	331 418
Total underwriting liabilities	12 320 089	12 008 523	5 043 463	5 380 477

Program business 30.9.2002	Program business 31.12.2001	Financial reinsurance 30.9.2002	Financial reinsurance 31.12.2001	Total 30.9.2002	Total 31.12.2001
729 741	773 901	13 454	–	988 478	910 068
66 349	86 879	15 686	1 590	1 274 183	1 196 459
–	–	–	–	469 833	493 650
2 366 439	2 540 021	402 901	834 777	6 292 472	6 871 780
37 961	34 693	3 953 587	3 731 432	6 936 206	7 150 799
3 200 490	3 435 494	4 385 628	4 567 799	15 961 172	16 622 756
3 198 320	3 107 002	4 929 004	4 544 332	18 856 705	18 859 679
–	–	–	–	3 700 594	3 908 584
1 173 704	1 153 976	295 415	125 691	2 962 269	2 312 432
–	2 841	5 394	4 475	150 474	179 551
234 051	309 520	34 441	367 945	1 563 839	1 744 536
4 606 075	4 573 339	5 264 524	5 042 443	27 233 881	27 004 782

Segmental statement of income

Figures in EUR thousand	*Property/ casualty reinsurance 1.1.-30.9.2002*	*Property/ casualty reinsurance 1.1.-30.9.2001*	*Life/ health reinsurance 1.1.-30.9.2002*	*Life/ health reinsurance 1.1.-30.9.2001*
Gross written premiums	4 782 744	2 744 494	1 614 311	1 634 795
Net premiums earned	2 867 216	1 937 649	1 369 943	1 241 504
Claims and claims expenses	2 076 782	1 970 725	866 255	749 865
Change in policy benefits for life and health contracts	–	–	(216 772)	(250 905)
Commission and brokerage and other technical income and expenses	577 508	363 993	361 830	349 646
Investment income	189 989	263 576	145 073	186 244
Administrative expenses	73 433	75 517	28 226	35 935
Other income and expenses	(91 599)	8 873	(15 876)	(2 214)
Operating profit/loss (EBIT)	237 883	(200 137)	26 057	39 183
Interest on hybrid capital	34 503	29 977	4 182	4 802
Net income before tax	203 380	(230 114)	21 875	34 381
Taxes	60 241	(74 570)	3 776	12 551
Minority interest	(8 675)	24	(246)	(372)
Net income	134 464	(155 520)	17 853	21 458

Program business 1.1.-30.9.2002	Program business 1.1.-30.9.2001	Financial reinsurance 1.1.-30.9.2002	Financial reinsurance 1.1.-30.9.2001	Total 1.1.-30.9.2002	Total 1.1.-30.9.2001
1 998 753	1 812 853	732 566	1 152 316	9 128 374	7 344 458
578 926	354 504	516 468	757 086	5 332 533	4 290 743
452 127	275 316	622 164	934 071	4 017 328	3 929 977
–	–	–	–	(216 772)	(250 905)
21 859	26 127	64 784	12 503	1 025 981	752 269
27 610	22 331	211 455	239 223	574 127	711 374
63 581	31 847	2 592	3 077	167 832	146 376
(20 668)	(13 351)	1 540	1 313	(126 603)	(5 379)
48 301	30 194	39 923	47 971	352 164	(82 789)
4 986	3 428	1 577	2 928	45 248	41 135
43 315	26 766	38 346	45 043	306 916	(123 924)
14 494	12 075	5 491	4 535	84 002	(45 409)
(3 337)	(100)	(2 859)	(5 712)	(15 117)	(6 160)
25 484	14 591	29 996	34 796	207 797	(84 675)

1. General accounting principles

The parent company of Hannover Rückversicherungs-Aktiengesellschaft (Hannover Re) is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i et seq of the German Commercial Code (HGB). The annual financial statements of Hannover Re and its subsidiaries are included in these consolidated annual accounts. As of 19 July 2002 the HGB has been changed. According to § 291, paragraph 3, no. 1 HGB the consolidated financial statements of the parent company are no longer operative as a discharge from preparing consolidated financial statements of Hannover Re.

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

All Statements of Financial Accounting Standards (SFAS) issued by the Financial Accounting Standards Board (FASB) on or before 30 September 2002 with binding effect for the 2002 financial year have been observed in the consolidated financial statement.

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

2. Accounting principles including reporting and valuation methods

The quarterly accounts included in the consolidated financial statement were drawn up as at 30 September 2002. The reader is also referred to the corresponding information contained in the consolidated financial statement drawn up as at 31 December 2001.

3. Consolidated companies and consolidation principles

3.1 Consolidated companies

The consolidated financial statement includes Hannover EURO Private Equity Partners II GmbH & Co. KG, Hannover (the participation in the company amounts to 52.8%). HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich/Germany was wound up and the company's assets were transferred to Hannover Re. After the complete disposal of its shares the Protection Reinsurance Intermediaries Ltd., London/UK has left the consolidated group companies during the third quarter. For further details of the consolidated companies the reader is referred to the corresponding information in the consolidated financial statement drawn up as at 31 December 2001.

3.2 Capital consolidation

At the end of June 2001 the Financial Accounting Standards Board (FASB) adopted the accounting standards SFAS 141 "business combinations" and SFAS 142 "goodwill and other intangible assets". Hannover Re has applied these rules with effect from 1 January 2002. Scheduled depreciation on goodwill was therefore omitted. No unscheduled depreciation was necessary on the basis of the initial application of these standards.

3.3 Debt consolidation

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

3.4 Consolidation of expenses and profit

The effects of business transactions within the Group were eliminated.

4. Acquisitions/new establishments

Hannover EURO Private Equity Partners II GmbH & Co. KG (HEPEP)

HEPEP commenced business operations on 28 January 2002. The company has capital resources of EUR 8.52 million, in which Hannover Re and E+S Rück each hold participations of 35.21%. The object of the company is to build, hold and manage a portfolio of assets.

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

5.1 Investments including income and expenses

Investments were valued in accordance with SFAS 115 (accounting for certain investments in debt and equity securities). The allocation and valuation of investments are guided by the investment intent.

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

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

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

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

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

Contractual maturities of the fixed-income securities in the held-to-maturity portfolio, available-for-sale portfolio and trading portfolio as at the balance sheet dates of 30 September 2002 and 31 December 2001

Figures in EUR thousand	*30.9.2002* Cost or amortised cost	*30.9.2002* Estimated fair value	*31.12.2001* Cost or amortised cost	*31.12.2001* Estimated fair value
Held-to-maturity				
Due in one year	37 320	38 294	7 950	7 978
Due after one through five years	191 836	205 351	197 670	206 654
Due after five through ten years	148 800	156 980	75 095	64 465
Due after ten years	22 826	24 868	3 355	18 279
Total	400 782	425 493	284 070	297 376
Available-for-sale				
Due in one year	978 427	981 716	800 467	799 807
Due after one through five years	4 295 171	4 424 438	4 571 102	4 631 074
Due after five through ten years	2 248 061	2 338 993	1 815 000	1 859 462
Due after ten years	1 067 105	1 142 413	1 163 738	1 132 535
Total	8 588 764	8 887 560	8 350 307	8 422 878
Trading				
Due after one through five years	–	–	7 832	7 878
Due after five through ten years	–	–	38 789	39 016
Total	–	–	46 620	46 895

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

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

30.9.2002 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised* *gains*	*losses*	*Fair value*
Investments held to maturity				
Fixed-income securities				
US Treasury Notes	28 222	2 275	–	30 497
Other foreign government debt securities	2 036	32	–	2 068
Corporate securities	242 449	14 461	60	256 850
Asset-backed securities	86 067	6 624	–	92 691
Other securities	42 008	1 419	40	43 387
Total	400 782	24 811	100	425 493

31.12.2001 *Figures in EUR thousand*	*Cost or amortised cost*	*Unrealised* *gains*	*losses*	*Fair value*
Investments held to maturity				
Fixed-income securities				
US Treasury Notes	32 893	1 573	–	34 466
Other foreign government debt securities	2 289	73	–	2 362
Corporate securities	174 238	8 250	299	182 189
Asset-backed securities	56 031	3 862	–	59 893
Other securities	18 619	36	189	18 466
Total	284 070	13 794	488	297 376

Amortised costs and unrealised gains and losses on the portfolio of investments classified as available for sale and trading

30.9.2002 Figures in EUR thousand	*Cost or amortised cost*	*Unrealised gains*	*Unrealised losses*	*Fair value*
Available-for-sale portfolio				
Fixed-income securities				
Government debt securities of EU member states	1 761 076	59 196	58	1 820 214
US Treasury Notes	1 471 910	86 431	30	1 558 311
Other foreign government debt securities	443 531	15 612	1 962	457 181
Corporate securities	3 309 255	166 138	67 318	3 408 075
Asset-backed securities	857 982	35 079	23 898	869 163
From investment funds	446 538	14 940	–	461 478
Other securities	298 472	16 759	2 093	313 138
	8 588 764	394 155	95 359	8 887 560
Dividend-bearing securities				
Equities	225 120	15 580	36 134	204 566
From investment funds	643 190	241	193 057	450 374
Other dividend-bearing securities	1 232	–	362	870
	869 542	15 821	229 553	655 810
Short-term investments	1 077 688	–	–	1 077 688
Total	10 535 994	409 976	324 912	10 621058
Available-for-sale portfolio				
Dividend-bearing securities				
Derivatives	–	8 374	–	8 374
Total	–	8 374	–	8 374

31.12.2001 Figures in EUR thousand	*Cost or amortised cost*	*Unrealised gains*	*Unrealised losses*	*Fair value*
Available-for-sale portfolio				
Fixed-income securities				
Government debt securities of EU member states	1 696 999	20 010	8 453	1 708 556
US Treasury Notes	1 381 566	39 156	2 435	1 418 287
Other foreign government debt securities	383 918	8 075	14 393	377 600
Corporate securities	3 284 762	98 143	64 378	3 318 527
Asset-backed securities	788 316	15 138	16 692	786 762
From investment funds	562 144	–	5 545	556 599
Other securities	252 602	4 930	985	256 547
	8 350 307	185 452	112 881	8 422 878
Dividend-bearing securities				
Equities	309 407	33 027	21 089	321 345
From investment funds	746 787	884	47 993	699 678
Other dividend-bearing securities	728	–	300	428
	1 056 922	33 911	69 382	1 021 451
Short-term investments	622 569	–	–	622 569
Total	10 029 798	219 363	182 263	10 066 898
Trading portfolio				
Fixed-income securities				
Corporate securities	46 620	275	–	46 895
Dividend-bearing securities				
Derivatives	–	9 287	408	8 879
Total	46 620	9 562	408	55 774

Investment income

Figures in EUR	*30.9.2002*	*30.9.2001*
Real estate	25 627	17 055
Dividends	52 290	28 309
Ordinary investment income on fixed-income securities	354 317	343 516
Other income	295 536	307 355
Ordinary investment income	727 770	696 235
Realised gains on investments	110 843	107 066
Realised losses from investments	88 317	80 927
Unrealised gains and losses	(17 603)	18 178
Depreciation on real estate	6 066	4 543
Depreciation on equities	96 881	5 532
Depreciation on fixed-income securities	23 122	–
Other investment expenses	32 497	19 103
Total investment income	574 127	711 374

5.2 Staff

The number of staff at the companies included in the consolidated financial statement of the Hannover Re Group was 1,881 (31.12.2001: 1,780). Of this number, 724 (31.12.2001: 707) were employed in Germany as at the balance sheet date. The majority of staff were employed at the consolidated Group companies abroad.

5.3 Stockholders' equity and minority interests

The stockholders' equity is shown as a separate component of the financial statement and is in accordance with SFAS 130 (reporting of comprehensive income). The stockholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items which do not impact the statement of income.

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

Authorised capital of EUR 0.8 million was available for the issue of employee shares until 31 August 2002.

In addition, authorised but unissued capital of EUR 12.7 million is available until 1 July 2004.

The common stock was increased as of 6 June, 2002 by EUR 14.4 million through a conversion out of the additional paid-in capital.

Consolidated statement of changes in stockholders' equity

30.9.2002 Figures in EUR thousand	*Balance as at 1 January*	*Capital increase/ additions*	*Change in the current period less deferred taxes*	*Change in retained earnings*	*Group stock-holders' equity*	*Minority interests*	*Group stock-holders' equity incl. minority interests*
Common stock	82 799	14 365	–	–	97 164		
Additional paid-in capital	388 816	(14 365)	–	–	374 451		
Cumulative comprehensive income	(42 921)	–	(11 457)	–	(54 378)		
Treasury stock	–	–	–	–	–		
Retained earnings	1 243 334	–	–	–	1 243 334		
Net income	–	–	–	207 797	207 797		
Dividends paid	–	–	–	–	–		
Other changes	–	–	–	(81 277)	(81 277)		
Total	1 672 028	–	(11 457)	126 520	1 787 091	298 740	2 085 831

31.12.2001 Figures in EUR thousand	*Balance as at 1 January*	*Capital increase/ additions*	*Change in the current period less deferred taxes*	*Change in retained earnings*	*Group stock-holders' equity*	*Minority interests*	*Group stock-holders' equity incl. minority interests*
Common stock	75 493	7 306	–	–	82 799		
Additional paid-in capital	201 794	187 022	–	–	388 816		
Cumulative comprehensive income	63 477	–	(106 398)	–	(42 921)		
Treasury stock	–	–	–	–	–		
Retained earnings	1 232 615	–	–	–	1 232 615		
Net income	–	–	–	11 084	11 084		
Dividends paid	–	–	–	(69 990)	(69 990)		
Other changes	–	–	–	69 625	69 625		
Total	1 573 379	194 328	(106 398)	10 719	1 672 028	307 811	1 979 839

6. Other notes

6.1 Contingent liabilities

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

As security for our technical liabilities to our US clients, we have established a master trust in the USA. As at the balance sheet date this master trust amounted to EUR 1,479.8 million (31.12.2001: EUR 1,403.6 million). The securities held in the master trust are shown as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount of the letters of credit as at the balance sheet date was EUR 3,499.9 million (31.12.2001: EUR 3,314.4 million).