

Annual Report | **2004**

e+s rück

CALENDAR OF EVENTS IN 2005

27 January 2005	Second Management Forum "IAS/IFRS and Solvency II – Implications for Asset Management and Reinsurance"
21 April 2005	Expert conference „Fifth Directive on Motor Third-Party Liability Insurance: Settlement of Bodily Injury Claims in Foreign European Markets"
28/29 April 2005	Reinsurance Seminar I: Basic Reinsurance Know-how
9 June 2005	Hannover Forum "Are Natural Catastrophes Still Quantifiable for the Insurance Industry?"
9 June 2005	Examination Concert held by E+S Rückversicherung AG
23/24 June 2005	Reinsurance Seminar II: Specialist Reinsurance Topics
8/9 September 2005	Reinsurance Seminar III: Workshop: "Development of a Reinsurance Programme"
12 October 2005	Expert conference "Emerging Risks – Loss Potentials for the Future"
10/11 November 2005	Reinsurance Seminar IV: Reinsurance of Natural Hazards

KEY FIGURES

of E+S Rückversicherung AG

Figures in EUR million	2004	+/- previous year	2003	2002	2001	2000
Gross written premiums	2 149.5	(3.7%)	2 232.9	2 483.1	1 904.5	1 550.4
Net premiums earned	1 327.9	(9.3%)	1 464.3	1 384.3	1 041.3	904.6
Underwriting result	113.0	(46.6%)	211.6	20.5	(148.6)	(119.0)
Change in the equalisation reserve and similar provisions	86.1	(57.4%)	201.9	26.5	(23.1)	17.4
Investment result	229.1	+20.8%	189.6	169.5	223.3	229.6
Pre-tax profit	87.5	+8.3%	80.8	46.8	27.8	27.8
Profit or loss for the financial year	44.0	+12.8%	39.0	20.0	12.0	1.6
Investments	6 179.9	+44.3%	4 283.4	4 390.8	3 603.3	3 166.8
Capital and reserves	420.3	(8.9%)	461.2 ¹⁾	461.2 ¹⁾	161.2 ¹⁾	161.2 ¹⁾
Equalisation reserve and similar provisions	584.6	+17.3%	498.5	296.6	270.1	293.2
Net technical provisions	4 998.3	+41.4%	3 533.8	3 282.3	2 952.0	2 543.1
Total capital, reserves and technical provisions	6 003.2	+33.6%	4 493.5	4 040.1	3 383.3	2 997.5
Number of employees	227	+7	220	215	198	193
Retention	61.7%		65.8%	58.2%	57.0%	59.6%
Loss ratio ²⁾	64.0%		67.0%	75.5%	91.7%	78.4%
Expense ratio ²⁾	20.9%		17.1%	18.8%	23.9%	26.9%
Combined ratio ²⁾	84.9%		84.1%	94.3%	115.6%	105.3%

¹⁾ incl. surplus debenture (Genusrechtskapital)

²⁾ excluding life reinsurance

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Dear clients and shareholders,

I am delighted to be able to report that our company enjoyed another successful financial year.

As the specialist insurer for the German market, E+S Rück succeeded in making the most of the favourable competitive situation and further expanded its already good position as the third-largest reinsurer in the world's second-largest non-life reinsurance market.

Our long-standing, strong customer relationships – in which we emphasise continuity and reliability – coupled with our "AA-" rating are the decisive factors in our success.

The findings of a survey that we commissioned from a research institute in June 2004 confirmed that our efforts are well worthwhile. Overall, E+S Rück was praised for its high level of customer orientation. We are valued in the market as a knowledgeable and sympathetic partner. Our seminars and informational events on topical issues are particularly appreciated.

We feel invigorated by these findings and shall continue to cultivate our exacting quality standards in the years ahead.

In a positive market climate showing healthy growth the profitability and underwriting result in property and casualty reinsurance developed favourably in the year under review. Thanks to a broadly unremarkable loss burden, incurred claims fell by almost 23%. The impressive underwriting result bears witness to significant successes in quality enhancement. While gross premium income contracted by 14.8%, the underwriting result improved to EUR 61.7 million (-EUR 5.3 million) in the year under review.

Alongside property and casualty reinsurance, life and health reinsurance generates approximately 36% of our gross premium income. Parallel to the market development, this business group profited from the surge in demand associated with changes in the tax framework governing retirement provision products in Germany. With an increased premium volume and through the establishment of new business relationships, we were able to further cement our position as the second-largest life reinsurer in the German market.

We view the increase of 20.8% in our net investment result as an affirmation of our prudent investment policy. Making the most of the movement in yields in the first quarter, we shortened the duration of our bond portfolio in order to be better protected against a looming rise in interest rates. On the stock exchange floor too our steps were cautious, as we invested primarily in index-tracking instruments within the Eurozone.



Having already generated the largest profit in E+S Rück's 80-year history in the previous year, we are now all the more pleased to report another record profit for the year under review.

Thanks to the loyalty and partnership-based cooperation that we enjoy with our clients and shareholders, and backed by the dedication of our highly motivated team of staff, we further improved our result in the year just-ended. We are more than satisfied with the profit for the year of EUR 44.0 million (EUR 39.0 million).

We look forward to our continued successful future together.

Yours sincerely,



Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS

of E+S Rückversicherung AG

Supervisory Board (Aufsichtsrat)

<p>Wolf-Dieter Baumgartl Hannover Chairman</p>	<p>Chairman of the Board of Management Talanx AG HDI Haftpflichtverband der Deutschen Industrie Va.G.</p>
<p>Gerd Kettler Münster Deputy Chairman</p>	<p>Chairman of the Executive Board LVM Landwirtschaftlicher Versicherungs- verein Münster a.G.</p>
<p>Dr. Heinrich Dickmann Freiburg</p>	<p>Former Chairman of the Executive Board VHV Vereinigte Hannoversche Versicherung V.a.G.</p>
<p>Dr. Heiner Feldhaus Hannover</p>	<p>Chairman of the Executive Board CONCORDIA Versicherungs-Gesellschaft a.G.</p>
<p>Herbert K. Haas Burgwedel</p>	<p>Member of the Board of Management Talanx AG HDI Haftpflichtverband der Deutschen Industrie Va.G.</p>
<p>Frauke Heitmüller* Hannover</p>	
<p>Ass. jur. Tilman Hess* Hannover</p>	
<p>Marga Hetzel* Wedemark (since 16 June 2004)</p>	
<p>Rolf-Peter Hoenen Coburg</p>	<p>Speaker of the Executive Boards HUK-COBURG Versicherungsgruppe</p>

Advisory Board (Beirat)

<p>Dr. Edo Benedetti Trento</p>	<p>President ITAS Mutua, Trento, Italy</p>
<p>Josef Beutelmann Wuppertal (since 24 March 2004)</p>	<p>Chairman of the Executive Boards Barmenia Versicherungen</p>
<p>Wolfgang Bitter Itzehoe</p>	<p>Chairman of the Executive Board Itzehoe Versicherung/ Brandgilde von 1691 Versicherungsverein a.G.</p>
<p>Hans-Joachim Haug Stuttgart (since 24 March 2004)</p>	<p>Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.</p>
<p>Dieter Holl Stuttgart (until 24 March 2004)</p>	<p>Former Chairman of the Executive Board Württembergische Gemeinde-Versicherung a.G.</p>
<p>Dr. Erwin Möller Hannover</p>	<p>Former Member of the Board of Management HDI Haftpflichtverband der Deutschen Industrie Va.G.</p>

* Staff representative

EXECUTIVE BOARD

of E+S Rück



Dr. Wolf Becke

Life and Health markets
worldwide

Dr. Michael Pickel

Property and Casualty Treaty
Reinsurance Germany, Austria,
Switzerland and Italy; Credit,
Surety & Political Risk worldwide;
Group Legal Services;
Run-Off Solutions

Jürgen Gräber

Coordination of all Non-Life
Reinsurance; Property and
Casualty Treaty Reinsurance
North America and English-
speaking Africa; Financial
Reinsurance worldwide



Wilhelm Zeller
Chairman

Controlling, Internal Auditing;
Investor Relations, Public Relations;
Corporate Development;
Human Resources Management;
Underwriting & Actuarial
Services; Program business

Dr. Elke König

Finance and Accounting;
Asset Management;
Information Technology;
Facility Management

Ulrich Wallin

Specialty Division (worldwide
Facultative Business; worldwide
Treaty and Facultative Business
Marine, Aviation and Space);
Property and Casualty Treaty
Reinsurance Great Britain and
Ireland; Retrocessions

André Arrago

Property and Casualty
Treaty Reinsurance Arab,
European Romance and Latin
American countries, Northern
and Eastern Europe,
Asia and Australasia

INSURANCE FOR SENIORS – A Target Market with a Future

The demographic trend in Germany makes senior citizens one of the most attractive target groups for the insurance industry. In Germany alone there are currently roughly 20 million people aged 60 or older. By the year 2030 one in three of the population will be 60 or over. The over-sixties thus constitute the largest population group in Germany – one which includes around two million persons needing care, and the tendency is rising.

The usual insurance products do not adequately satisfy the special needs of elderly people. There is a demand for tailored products in the areas of annuity and personal accident as well as in long-term care insurance. Some insurers have already recognised this potential: they are gearing their new products to the financial needs

and special life circumstances of their policyholders.

As a specialist insurer for the German market, E+S Rück – in cooperation with a research and consultancy firm – took a closer look at the elderly as a target group for the insurance market in a two-part study published in May 2004 under the title "Secure and Mobile".

The first phase examined – by way of a preliminary study – the needs profile: in group discussions new insurance products were mapped out and possible ways of addressing this target group were explored with a view to gaining inspiration for future product designs and communication strategies.

Probability of attaining a certain age

Probability of a 60-year-old man reaching age:		Probability of a 60-year-old woman reaching age:	
80	79.3%	80	87.3%
90	49.0%	90	63.5%
100	13.7%	100	24.5%

(Source: mortality table DAV 2004 R)

The second step was to put the findings of the preliminary study into concrete form with the aid of persons from the 60 to 75-year-old age group: their insurance status was analysed in interviews on the basis of five difference types of insurance and certain mentality criteria. The opportunities for age-specific insurance prod-

ucts – not only within life and health insurance – were then explored and clarified.

E+S Rück was able to derive from this study crucial pointers concerning the strategic orientation of seniors' insurance in the German market. The particular needs of the elderly – such as



financial independence and mobility – are reflected in the new coverage contents.

In annuity insurance products such as enhanced annuities are especially significant: they offer individuals with pre-existing conditions, such as diabetes, stroke or heart attack, immediate annuity insurance upon payment of a single premium. Compared to standard tariffs, the policyholder receives a higher annuity and at the same time a guaranteed overall benefit level. In this context E+S Rück was able to draw on experiences in the United Kingdom, where enhanced annuities have already been established as an attractive annuity insurance product for many years.

In addition to the enhanced annuity product, an immediate long-term-care annuity was developed for those needing care. This immediate LTC annuity is priced individually on the basis of an individual's state of health or forecast life expectancy. In this case too the policyholder enjoys a higher annuity compared to standard tariffs, improved planning reliability and protection of the (inherited) assets.

Social assistance benefits are at the heart of personal accident insurance for seniors. The German healthcare system is increasingly tending to impose limits on core components of medical care. Uninsured items, such as home helps or sickness and death benefits, have to be covered at an individual's own responsibility. Personal accident insurance for seniors already ranks

among E+S Rück's greatest successes – in terms of both the number of product launches and the number of reinsured policies.

The so-called assistance benefits cover gaps in provision and constitute supplementary modules that complement traditional personal accident insurance and LTC insurance following an accident. In addition to covering care required after accidental injuries, they include care following accident-related operations, the organisation of rehabilitation services and the provision of a medical advice hotline. The emphasis is on preserving the mobility and medical care that are so vital to elderly people living alone. The assistance product, for which we have been able to recruit a highly respected provider of emergency and assistance services as our exclusive partner, offers help, support and care. Within Germany the medical assistance service gives advice and support in matters relating to health, illness, care, travel planning and insurance. In addition, it provides a telephone hotline for questions on medical care abroad and return transportation to the insured's home country.

It is precisely this linking of assistance benefits with new elements of personal accident insurance – as exemplified by the LTC annuity following an accident – that responds to the needs of elderly people and thus explains the success of our innovative products.



MANAGEMENT REPORT

of E+S Rückversicherung AG

Economic climate

The global economy continued to expand at a rapid pace in 2004, although the strong increases of the first quarter were not sustained throughout the year as a whole. China and the Asian countries – excluding Japan – proved to be the principal drivers of growth. This gratifying development was overshadowed by the tragic natural disaster in Asia in late December 2004.

Economic growth in the Eurozone was modest, but sustained. Internal inflationary pressure withstood high crude oil prices and a beleaguered US dollar. The inflation rate increased slightly to 2.3% in December.

The German insurance industry

Recording slightly weaker but none the less solid premium growth of 3.5% (previous year: 4.1%), the German insurance industry remained on its expansionary path in the year under review. Total gross premiums increased to more than EUR 150 billion. While most lines posted reduced growth rates, private health insurance – with a premium gain of almost 7% – surpassed the industry average.

With the adoption of the Retirement Income Act and the Pensions Insurance Stability Act in the middle of the year, lawmakers in Germany have mapped out the course for the future: private pension insurance will gain in importance alongside state provision. The rethink among the population is, however, progressing only gradually, not least because low income growth and high unemployment are serving to dampen what is an obvious need for provision. Growth rates in new private annuity insurance business clearly reflect this caution.

Property and casualty insurance built on the modest claims experience of the previous year in 2004. While premium increases were slightly lower, claims expenditure and the under-

Real gross domestic product in Germany posted renewed growth in the year under review after two years of decline. Supported by vigorous foreign demand, GDP was 1.7% higher than in the previous year. Exports increased by 8.2% despite the strong euro. As in previous years, private consumer spending remained the Achilles heel of the German economy due to the weak wage trend and widespread job uncertainty. Private consumption – with a year-on-year fall of 0.3% – failed to give any impetus to demand for consumer goods. Unemployment remained stubbornly high at 10.8%.

writing result were roughly on a par with the previous year.

The days of strong premium increases in motor insurance seem to be a thing of the past. They have been diminishing every year since 2001. In the year under review motor insurance recorded a gain of just 0.5%. This decline in premium growth contrasts, however, with a favourable loss experience. Claims expenditure in both the motor third party liability and motor own damage lines showed gratifying decreases. Towards the end of the year new cut-price tariffs offered by some providers for selected customer segments caused a stir. Major motor insurers have now entered into partnerships with networks of repair shops with an eye to reducing claims expenditures. The medium-term goal is to establish an own damage policy on the market that is tied to a particular workshop.

Industrial property insurance was able to build on the premium level of the previous year. Although in absolute terms the growth of around 4% (15.7%) failed to keep up the pace of the previous year, premium income was again in excess of EUR 4 billion. Despite slightly higher

claims expenditure, another underwriting profit of over EUR 1 billion was generated in the year under review. Declining claim trends in industrial fire business were a supportive factor here. With a market premium of roughly EUR 3 billion, an underwriting profit of more than 30% was achieved.

In commercial property insurance the unsatisfactory trend of the previous year – as regards both premiums and claims – continued.

With a combined ratio of around 108% homeowners' insurance turned in the worst performance of the private property lines. Householders' insurance, with modest premium growth and unchanged favourable claims expenditure, closed with a loss ratio of 50% to build on the stable experience of the previous year. The total premiums of roughly EUR 14.1 billion in property insurance were almost 2% higher than in the previous year; with insurance benefits also slightly higher, another underwriting profit of 11.3% was generated.

Tightening of the legal framework continued to influence the development of casualty insurance. The contraction in the commercial liability market – attributable to a rising number of company insolvencies – was cushioned by growth in private customer business. The loss ratio improved to around 67% (69.4%), as overall premium income increased by a modest 3.5% (2.6%) and claims expenditure fell marginally. The combined ratio after run-off was in the order of 90%.

The results of credit insurance in Germany were overshadowed by sustained cyclical weakness and a further slight increase in the number of insolvencies. It is gratifying to report that this line of business was able to divorce itself from these developments and profitability was boosted further. With major claims largely absent, the combined ratio of around 79% was marginally lower than in the previous year (80.7%). Generating premium volume of EUR 1.4 billion

(EUR 1.3 billion), credit insurance – along with marine insurance – ranks among the smallest lines of German property and casualty insurance.

German marine insurance can look back on a year with virtually unchanged gross premium income of EUR 1.9 billion (EUR 1.9 billion). The only major loss was the builders' risk involving the "MS Pride of America" cruise ship. With an otherwise lower burden of losses, the total claims expenditure rose slightly to EUR 1.2 billion (EUR 1.16 billion). Overall, underwriting results in this line are not yet adequate.

Since 1 January 2004 the German Aviation Pool has performed purely a service function. Following the cessation of joint reinsurance arrangements each company participating in the pool must obtain its reinsurance independently. This reorientation became necessary in light of changes in both European and national competition and anti-trust laws. After rising in 2002 as a consequence of the events of 11 September 2001 premiums are now declining again. It was only thanks to a relatively favourable claims experience that results in some underpriced areas – such as general aviation insurance – did not deteriorate further.

Reinsurers also profited from the favourable state of the insurance industry and reaped the rewards of the improved premium rates and conditions obtained in recent years. The extensive portfolio rehabilitation measures implemented in past years left a clear mark on underwriting results, as illustrated by the performance of industrial property insurance. In view of the natural catastrophe events witnessed of late, the calculation of commensurate premiums has come to be a dominant issue in the field of risk modelling. Enhancement of the risk management systems used by reinsurers will be crucial to future profitability.

Given the volatility of equity markets and the continuing low yield level, maintaining a risk-appropriate investment structure constitutes a

challenge not only for life insurers. In the second quarter yields climbed to their highest point of the year, followed by a steady downward trend in the second half to close the year at virtually their lowest point. Movements on equity markets were inconsistent. The August turnaround to a modest upward trend was sustained until

year-end. Insurance companies continue to approach stock markets with caution following their unpleasant experiences in the first half of 2003. The duration of bond portfolios was reduced sharply in order to counter the risk of rising interest rates and hence substantial price losses.

Business development

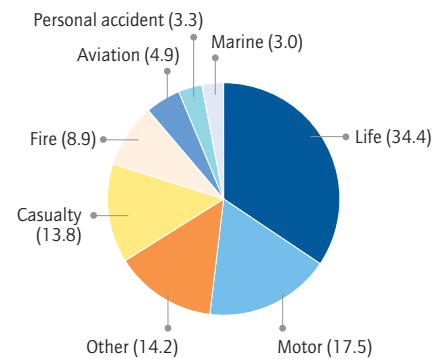
E+S Rück made the most of its advantageous competitive position and further optimised its portfolio. Our underwriting policy focuses on profitability rather than premium volume in absolute terms. This is reflected in both our own German portfolio and the foreign business accepted from Hannover Re. The latter is assumed by way of internal retrocession arrangements. By adding risks from foreign markets we are able to achieve significantly better geographical and technical diversification across all lines of our portfolio.

On account of our restrictive underwriting policy the gross premium volume contracted by 3.7% to EUR 2.1 billion. As in the previous years, we again generated an underwriting profit – a clear indicator of the high quality of our portfolio.

The effects of our "More from less" initiative were apparent in the development of our gross premium income in property and casualty reinsurance, especially in foreign business. As a consequence of our focus on lower-volume non-proportional business and the deliberate relinquishment of unprofitable treaties, gross premiums contracted by 14.8% to EUR 1,375.5 million (EUR 1,614.5 million). The share of our total portfolio attributable to property and casualty reinsurance thus fell to 64.0% (72.3%). While most lines recorded declines in premium – sometimes appreciably so – the volume in personal accident reinsurance increased by 8.3%, not least due to fresh impetus from insurance products for senior citizens.

All in all, property and casualty reinsurance can look back on a normal loss experience. The most spectacular major claim in motor business was the accident on the Wiehltalbrücke motorway bridge. The portfolio was largely spared natural hazards losses, e.g. from hail or wind-storm events. Net incurred claims consequently fell by 22.9% in the year under review to EUR 611.6 million (EUR 793.4 million). This favourable experience was reflected in a combined ratio of 84.5%.

Line-of-business breakdown in %



The good performance of our business enabled us to boost the equalisation reserve and similar provisions by EUR 86.1 million (EUR 201.9 million).

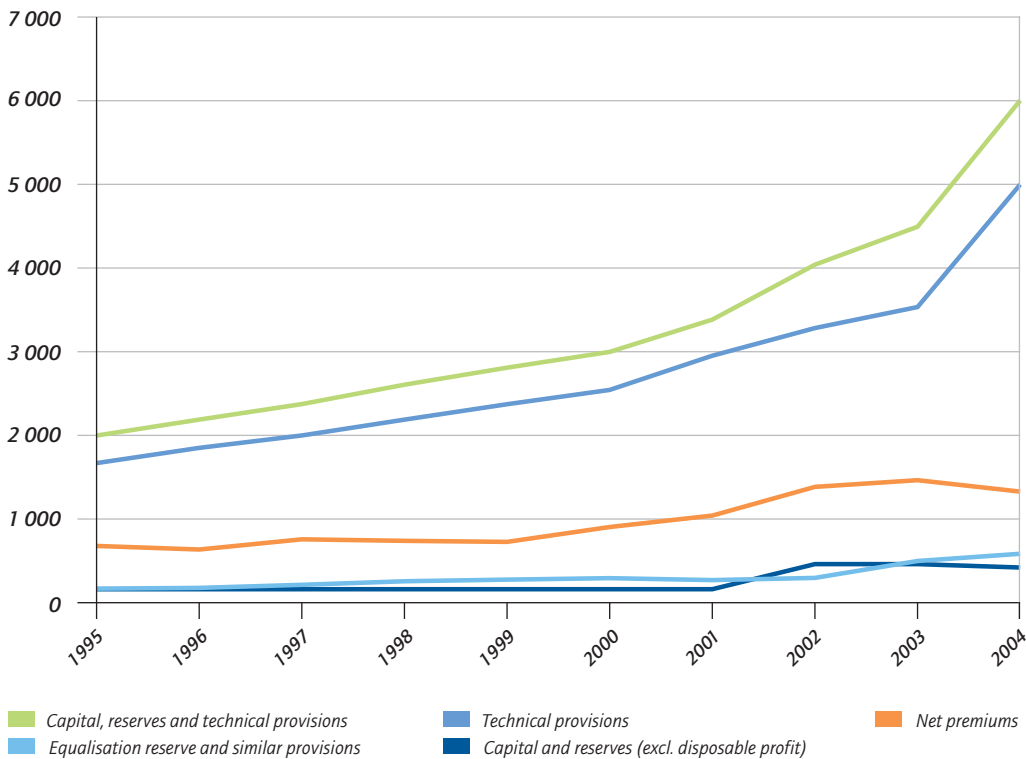
Life and health reinsurance can report gratifying growth in the year under review. Invigorated by the amendment of the tax framework for retirement provision products and the

expansion of our position as a partner for senior citizens' insurance products, we grew our gross premium volume by 25.2% to EUR 774.0 million (EUR 618.3 million). This business group thus accounted for 36.0% (27.7%) of our total portfolio.

We stood by our conservative investment strategy in the year under review and invested available liquidity in index-tracking equities or high-quality bonds with medium durations.

Growth in capital, reserves and technical provisions and in net premiums

in EUR million

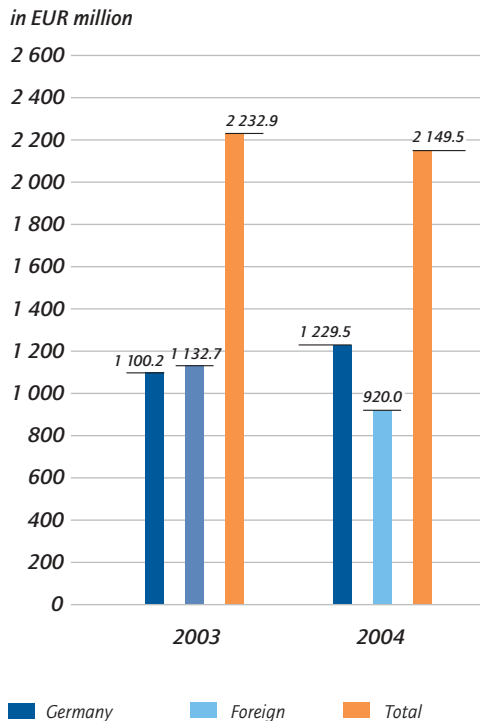


Driven by strong growth in life reinsurance and the associated rise in deposits with ceding companies, our investments climbed by 44.3% in the year under review to EUR 6.2 billion (EUR 4.3 billion). While the previous year's results had still been dragged down by write-downs on equities, the stock market moved back into calmer waters in 2004. Investment decisions were complicated only by the historically low yield levels that persisted on bond markets. Overall, we were satisfied with the performance

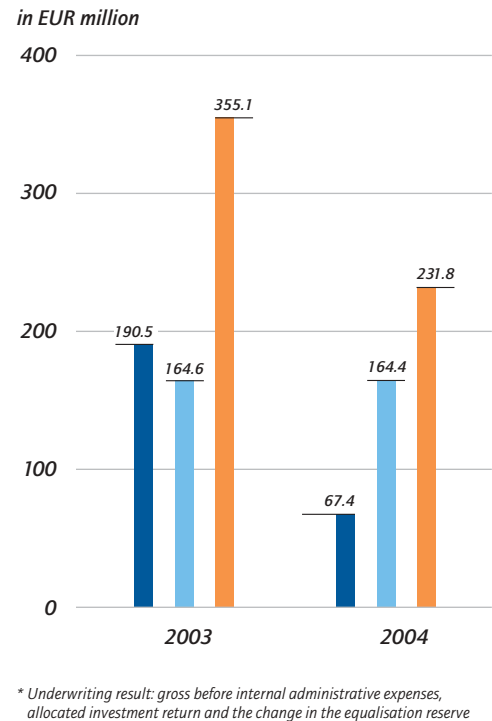
of our asset portfolio. The net investment result increased by 20.8% to EUR 229.1 million (EUR 189.6 million).

After allowing for tax expenditure of EUR 43.5 million (EUR 41.8 million), we were once again able to boost the profit for the year to EUR 44.0 million (EUR 39.0 million).

Development of gross premium income – breakdown into German and foreign business



Development of underwriting results* – breakdown into German and foreign business



Development of the individual lines of business in Germany

The following sections explain the development of each line of business. Due to our orientation as a specialist reinsurer for the German market, we have subdivided our management report on underwriting business into two

sections. The following commentaries on the various lines of business refer solely to our German portfolio; we then provide a summary of our international business accepted from Hannover Re under retrocession arrangements.

Fire

Following the heavy losses incurred by insurers and reinsurers in German industrial business – most notably in the fire lines – during the 1980s and 1990s up to and including 2001, the situation began to improve appreciably from 2003 onwards. This pleasing general climate – for reinsurers as well as insurers – was fostered by the withdrawal of some providers from the industrial segment and successful portfolio rehabilitation activities.

Having suffered considerable losses as a consequence of exceptional major claims burdens in fire insurance in the years 1993 to 2002,

reinsurers are now sharing disproportionately strongly in the positive results. This is primarily attributable to the fact that commissions in proportional business are not yet on a par with gross original costs due to the poor results in the past. Against the backdrop of the massive net cost deficit some insurers have abandoned proportional reinsurance and now reinsure their industrial portfolios on a non-proportional basis.

The All Risk covers typically found in a soft market have now been largely replaced by traditional fire/fire loss of profits and extended coverage (EC) protection with clear risk definitions.

Especially important is transparent communication of the scope of cover, loss prevention standard and natural hazards exposure as well as the provision of relevant information. In the year under review adherence to these treaty standards was once again maintained – a sign of broad-based interest in building on recent rehabilitation successes and preserving underwriting discipline.

Traditionally, we also reinsure large industrial fire risks on a facultative basis. As with the obligatory portfolio, the year under review passed off in rather unspectacular fashion. With a stable premium level and an unremarkable claims experience, the underwriting result was satisfactory.

Gross premium volume grew by 45.0% to EUR 77.0 million in an attractive market environment. After achieving a satisfactory underwriting performance for the first time in some years in

2003, this trend was sustained in the year under review. The underwriting profit of EUR 14.3 million (EUR 10.8 million) was influenced inter alia by the high run-off profits of the previous year.

An amount of EUR 18.1 million was allocated to the equalisation reserve.

Fire

in EUR million	2004	2003
Gross written premiums	77.0	53.1
Loss ratio (%)	54.0	54.5
Underwriting result (gross)	14.3	10.8

Casualty

With premium volume of EUR 76.3 million casualty insurance is one of our major lines – after motor insurance –, although in the year under review we reported a marked premium decline and exceptional loss reserve run-offs owing to a special development.

The situation in casualty insurance continued to intensify following changes in court practice. On the claims side insurers and reinsurers alike got a grip on developments surrounding the drug Lipobay and the recall of the drug VIOXX in September 2004. Settlement of the Lipobay claim served to close one of the largest product casualty losses ever incurred by a German company. For a loss of this size the settlement was reached with remarkable speed by insurance industry standards.

Increasingly alarming news is emerging from the hospital liability sector, where the premiums paid still have not been adjusted in line with the claims expenditure.

Results in directors' and officers' liability insurance continued to deteriorate. Increasing

importance is attached to internal losses, i.e. claims asserted within a company. E+S Rück writes these risks selectively, predominantly on a non-proportional or facultative basis. The transparent description of individual risks facilitates greater insight, more accurate pricing and a rapid response to unwelcome developments. Thanks to our cautious underwriting policy we do not have any obligatory participation in the major market claims.

Our general approach to underwriting industrial liability business is defensive. We attach great importance to tightly defined coverage concepts with clear trigger definitions and exclusions.

Our premium income contracted by 30% in the year under review as we substantially scaled back our share in a large treaty. As a further factor, a considerable volume of IBNR reserves from previous years had to be written back, thus producing an atypically positive gross underwriting result. What is more, our strategically designed coverage concepts absorbed the sharply higher claims experience recorded in

some areas. Last but not least, as part of a move initiated in the previous year, we continued to replace proportional business – wherever possible – with excess of loss covers.

We contributed an amount of EUR 39.6 million to the equalisation reserve and strengthened the IBNR reserve with an allocation of EUR 42.3 million from the non-technical account.

Personal accident

Measured by premium volume, personal accident insurance ranks among the smaller lines of non-life business. The premium level alone, however, inadequately reflects the consistent and strong profitability of this line.

After the relatively limited growth of recent years a new direction has opened up of late, especially thanks to the impetus that E+S Rück has injected into the area of senior citizens' insurance products. The number of companies offering insurance benefits for seniors has consequently risen sharply.

We support insurance companies of every size with our product development services. Not only major players, but also mid-sized and smaller providers can access our know-how. Policyholders are offered extensive assistance benefits, as appropriate supplemented by an advice hotline for questions relating to medical care abroad.

Motor

With premium income of EUR 300.9 million, motor insurance is our highest-volume non-life line. E+S Rück further expanded its position in the motor sector. Reinsurance treaties exist with six of the ten largest motor insurers, and we consequently enjoy a market observation share of around 50%.

Motor third party liability insurance suffered the largest motor loss ever incurred in Germany

Casualty

in EUR million	2004	2003
Gross written premiums	76.3	109.0
Loss ratio (%)*	(30.2)	56.3
Underwriting result (gross)	94.8	23.5

*Special effect of loss reserve write-backs

Gross premiums showed stable growth of 13.2%. With a virtually unchanged claims experience, an underwriting profit of EUR 11.4 million was generated.

We allocated an amount of EUR 3.0 million to the equalisation reserve.

Personal accident

in EUR million	2004	2003
Gross written premiums	58.3	51.5
Loss ratio (%)	28.4	43.2
Underwriting result (gross)	11.4	0.4

with the accident on the Wiehltal motorway bridge. The original claim amounted to around EUR 25.0 million gross.

The favourable overall experience in the original business – with a decrease in the loss ratio from 93% to roughly 91% – was reflected in our portfolio due to the predominance of proportional covers. It is gratifying to note in this connection that a limitation on liability has now

been put into place under the original policies for more than 60% of the portfolio.

With a reduced gross premium volume of EUR 231.6 million (EUR 264.6 million) we were unable to build on the previous year's excellent underwriting profit in motor liability insurance despite lower claims expenditure of EUR 187.2 million (EUR 192.7 million). The generated profit of EUR 3.0 million (EUR 35.6 million) was, however, still in line with our expectations.

No significant major claims were reported in full or partial own damage insurance. The downward trend in claims expenditure was sustained in the year under review. The loss ratio for our motor own damage portfolio improved further from 70.9% to 63.6%.

Proportional covers account for a substantially smaller share of our own damage portfolio than is the case with our motor liability portfolio. The attachment points under the excess of loss treaties are often so high that our coverage does not become operative. While the premium

volume of EUR 67.9 million (EUR 92.8 million) was lower than in the previous year, a good claims experience produced an adequate underwriting profit of EUR 11.3 million (EUR 21.9 million).

Reflecting the reduced gross premiums and a slightly increased loss ratio, our total motor business nevertheless closed with a satisfactory underwriting profit of EUR 14.9 million (EUR 58.2 million).

We contributed EUR 23.6 million to the equalisation reserve and strengthened the IBNR reserve with an allocation of EUR 30.4 million from the non-technical account.

Motor

in EUR million	2004	2003
Gross written premiums	300.9	358.3
Loss ratio (%)	76.7	72.2
Underwriting result (gross)	14.9	58.2

Marine

In marine reinsurance our primary concern in the year under review was again the consolidation of our portfolio. First and foremost, we sought to defend the good rate level – an endeavour in which we were very largely successful. We again focused on writing profitable non-proportional business, especially middle and upper programme layers.

Some framework conditions have changed, however: clauses connected with terrorism risks were revised in accordance with international market standards. The otherwise favourable claims experience was overshadowed by the "Pride of America" dock accident. Having generated a relatively good underwriting result in the previous year, the higher loss ratio of 76.4% produced a marginal underwriting profit of EUR 0.5 million (EUR 1.2 million).

An amount of EUR 12.4 million was withdrawn from the equalisation reserve since the required level had been reached.

Marine

in EUR million	2004	2003
Gross written premiums	7.4	11.9
loss ratio (%)	76.4	70.8
Underwriting result (gross)	0.5	1.2

Aviation

In the year under review we stood by our selective underwriting policy in a softening market, maintaining our market shares and further extending our position as one of the leading reinsurers in the aviation sector.

In general, we are guided by profitability rather than volume targets. The volume of non-proportional aviation fleet business consequently contracted due to premium erosion and our reduced aggregates. On the other hand, following the discontinuation of acceptances by the German Aviation Pool, we systematically made the most of new opportunities that opened up in general aviation business.

Life

The changes in the tax framework for retirement provision products that came into effect in Germany on 1 January 2005 fuelled a surge in demand for life insurance products in the year under review that far outstripped the so-called "Eichel boom" of 1999. Compared to previous years many German life insurers reported growth of between 30% and 100% in their new business.

With the stabilisation of their declared profits for the year under review – the situation in the current year is a similar one – life insurers have been able to regain the trust that they had forfeited in past years.

E+S Rück shared in this favourable trend to the fullest extent. It profited from the enlarged business volume of most existing accounts and from the acquisition of a number of new customer relationships, most notably among Northern and Western German mutual insurance societies. These new accounts were to some degree already reflected in both premiums and results in the year under review, but the full effects will only really be felt over the next three to five years.

Both German aviation insurance and our own portfolio were spared significant major losses in the year under review.

An amount of EUR 9.0 million was allocated to the equalisation reserve.

Aviation

in EUR million	2004	2003
Gross written premiums	28.4	31.1
Loss ratio (%)	24.1	23.5
Underwriting result (gross)	9.1	22.4

Total gross premium income grew by around 50% to EUR 550.3 million (EUR 367.3 million). Crucial to this increase was a large block assumption transaction (BAT) relating to a life insurer's entire book of traditional individual life business.

We consider the life sector – which in Germany is heavily preoccupied with the insurance needs of the 60-plus generation – to be a growth market par excellence. With this in mind we have taken a number of initiatives to optimally exploit this market's long-term potential in cooperation with expert partners. We are keen to participate in the growth of this new market and are seeking to apply insights that we have gained from other markets, including for example the United Kingdom.

The underwriting results were in line with our expectations. An underwriting deficit of EUR 72.4 million was reported due to sizeable financing expenditures incurred in connection with new business from unit-linked life insurance products and the existing portfolio of block assumption transactions.

It is also important to remember the development of the "value of in-force business" in this context. Using a method certified by a highly reputed external firm of actuaries, the value of our in-force life business was calculated to be EUR 271.1 million (EUR 214.3 million).

Other lines

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

Reflecting their significance, our comments on the other lines will concentrate on credit and surety insurance and natural hazards covers.

The climate in which credit insurance is operating continues to be dominated by the high level of insolvencies associated with the prevailing depressed state of the German economy. Insurers were nevertheless able to divorce themselves from the adverse credit cycle thanks to the rehabilitation measures implemented in previous years. For reinsurers too this produced significantly improved results. We made the most of the hard market to substantially enlarge our market share and extend our leading position. True to our selective underwriting policy and the prioritisation of non-proportional business, we continued to optimise our portfolio. In a year that was spared major claims and thanks to the impressive rehabilitation achievements, credit and surety insurance closed on a highly successful note.

The claims experience in natural hazards insurance was normal. With the exception of a

Life

in EUR million	2004	2003
Gross written premiums	550.3	367.3
Underwriting result (gross)	(72.4)	70.5

sizeable summer hailstorm in Southern Germany and localised storms, no significant loss events were recorded. The attachment points of our excess of loss covers were often sufficiently high that most treaties remained loss-free.

The year under review ended with winter storms, although losses were within the bounds of the multi-year average and did not spoil the favourable business development.

Despite the good performance of both credit and surety and natural hazards business, the overall underwriting experience in the other lines was unremarkable; the loss ratio increased marginally to 75.8%, and an underwriting deficit of EUR 5.2 million (profit of EUR 3.6 million) was reported.

An amount of EUR 0.9 million was allocated to the equalisation reserve.

Other lines

in EUR million	2004	2003
Gross written premiums	130.9	118.0
Loss ratio (%)	75.8	74.6
Underwriting result (gross)	(5.2)	3.6

Results of our foreign business

As a member of the Hannover Re Group, we share in the experience of the international (re-)insurance markets via internal retrocessions within the Group. By adding blocks of foreign business to our portfolio we are able to ensure better geographical diversification, which serves to stabilise results from the medium- to long-term perspective. Furthermore, a large portion of

profitable life and health reinsurance business can be contributed to the portfolio in this way.

The following sections discuss developments in the markets with the largest premium volume from Hannover Re's perspective, with special emphasis on the key lines of business:

Europe

United Kingdom

In a generally stable reinsurance market, Hannover Re stood by its selective underwriting policy and relinquished unsatisfactory business. Although rates in the property lines flattened out on a high level, further improvements in rates and conditions were obtained in the casualty lines.

Against this attractive backdrop Hannover Re expanded its position in selected segments, especially in long-tail casualty lines. Both the contraction in available market capacity and our very good ratings made Hannover Re a sought-after partner in this area for ceding companies.

In addition to the focus on profitable non-proportional covers, new business relationships were established with numerous smaller companies.

The property business written on the London Market was impacted by several major loss events in the year under review. Most notable here were the four hurricanes in the USA as well as a gas explosion at a petrochemical liquefied gas plant in Algeria.

The London Market is also a prominent centre for the underwriting of marine and aviation risks. Aviation business, in particular, was affected by declining insurance and reinsurance rates as well as surplus capacities in the reinsurance market.

Despite reduced premium income in aviation business Hannover Re continues to be one of the leading reinsurers in this line.

In marine reinsurance the primary concern was to consolidate the portfolio. Non-proportional covers, especially middle and upper programme layers, were the business of choice. By far the largest loss event for marine business was Hurricane "Ivan", the third of the four hurricanes to make landfall in Florida in the year under review. The damage to the oil platforms in the Gulf of Mexico produced the largest insured loss ever recorded in offshore business. Estimates range from approximately USD 2.5 to 2.7 billion. As a consequence of this loss event Hannover Re reported a substantial deficit in offshore business. The downward trend in primary insurance rates was, however, halted following these losses; reinsurance conditions showed further improvement.

United Kingdom

in EUR million	2004	2003
Gross written premiums	144.4	171.1
Underwriting result (gross)	30.8	39.4

France

Since 2004 the French insurance market has been subject to closer regulatory supervision. Insurers and reinsurers are now obliged to provide the state insurance regulator (CCAMIP) with a detailed report on the structure of their reinsurance. In this way the agency is seeking, inter alia, to exert a greater influence on the controlling of risks, including for example accumulations.

The reinsurance market in France found itself facing more intense competition from Bermuda-based providers in the year under review. Still, no significant price erosion was observed.

The most spectacular major loss in the French market was the collapse of a section of a terminal roof at the Charles de Gaulle Airport outside Paris. Hannover Re's exposure in this case was not, however, appreciable.

Credit and surety insurers recorded very low loss ratios due to light basic losses and the absence of major claims. In the year under review it was finally possible to uncouple underwriting results from the persistent adverse credit cycle. In the reinsurance sector the dramatic tightening of conditions has thus entirely proven its worth.

All in all, business results in France were satisfactory – as indicated by an underwriting profit of EUR 6.6 million (EUR 10.6 million).

France

in EUR million	2004	2003
Gross written premiums	45.3	46.9
Underwriting result (gross)	6.6	10.6

North America

Despite the accumulation of hurricane losses in the third quarter of 2004, American insurers found themselves in a largely favourable situation in the year under review.

One event that occurred in the year under review was of special significance not only to the North American market, namely the probe conducted by New York Attorney General Eliot Spitzer. The presentation of the findings that emerged from these investigations into business dealings on the primary insurance market culminated in mid-October in a lawsuit against the world's largest insurance broker in connection with questionable commission practices. This also led to hearings with a number of reinsurers. Yet it quickly became clear that Spitzer's allegations were first and foremost a matter for the primary insurance sector.

In a 2004 study published by the highly reputed US Flaspöhler Research Group Hannover Re emerged as the best reinsurer overall on

the North American reinsurance market. This favourable assessment from the brokers is particularly valuable because in the American market almost 70% of reinsurance business is handled through these intermediaries rather than directly between insurer and reinsurer.

True to an anticyclical underwriting strategy, the premium volume in attractive subsegments – such as casualty business – was further enlarged; involvement in unsatisfactory property lines, on the other hand, was scaled back and the portfolio was increasingly reweighted in favour of more profitable non-proportional programmes at the expense of proportional covers.

Thanks to a conservative reserving policy and the reduced participation in soft market years, it is gratifying to report that there was again no need in the year under review to establish additional reserves for past underwriting years.

On the claims side the year under review was overshadowed by the damaging hurricanes in the USA, which caused a market loss in excess of USD 25 billion and thus ranked among the most costly natural catastrophe losses in the history of the (re-)insurance industry.

Despite these strains, US property lines still generated a significant profit overall.

A very hard market environment prevailed in credit and surety reinsurance following the withdrawal of numerous US reinsurers in the preceding years. In view of these conditions Hannover Re enlarged its market share despite the growing competition from Bermuda; in so doing, it adhered strictly to the profitability criteria dictated by its underwriting policy. No significant loss events were recorded. All in all, the result in credit and surety reinsurance continued to improve thanks to a reduced loss ratio.

Asia

Japan is by far the largest market in Asia. Hannover Re enjoys the status of so-called "core reinsurer" with most of the major insurers. Natural catastrophe reinsurance, which is written primarily on a non-proportional basis, is the most important single line here. The share of this business was further expanded in the year under review.

While private natural perils business in Japan is for the most part reinsured by a government-run consortium rather than on the open market, most industrial business there is reinsured by the private sector. Since typhoons "Songda" and "Chaba" largely affected less industrialised regions, the strains incurred by reinsurers were correspondingly modest.

The area of South and Southeast Asia was struck by the severe undersea earthquake off the

coast of Sumatra in the year under review. A seismic tidal wave, known as a tsunami, devastated the coastlines of several countries and cost almost 300,000 people their lives. Since the insurance density in these regions is extremely low, however, the losses for the insurance industry were relatively manageable.

North America

in EUR million	2004	2003
Gross written premiums	326.8	446.3
Underwriting result (gross)	(3.0)	27.5

Business in Taiwan and Hong Kong, where the focus was increasingly on excess of loss covers, developed satisfactorily. Following the failure of a number of market players, clients attach even greater importance to credit status considerations – with the result that in this region too Hannover Re is a sought-after reinsurance partner thanks to its very good rating.

China remains a target market for the international insurance and reinsurance industry, and the competition is correspondingly intense.

Hannover Re's premium volume is therefore not particularly significant at present – as it waits for more attractive market conditions.

Overall, the development of Asian business was satisfactory.

Asia

in EUR million	2004	2003
Gross written premiums	31.8	43.8
Underwriting result (gross)	10.4	9.9

International life and health reinsurance

Generating premium volume of EUR 223.7 million, the international life and health reinsurance business written by Hannover Life Re on a local basis in the various markets accounts for roughly 29% of the total life and health reinsurance premium.

Within a broadly diversified international portfolio the United Kingdom constitutes one of the largest markets. For more than ten years now Hannover Life Re has made a name for itself in this market as a specialist reinsurer for various UK enhanced annuity programmes. Following the loss of the most important account – the client was the undisputed market leader in this segment – premiums declined in the 2004 financial year. In the autumn of 2004, however, a successor company was established with the backing of British capital sources – for which Hannover Life Re serves as lead reinsurer.

In the Romance-speaking markets, such as France, Italy, Spain and some Arab countries, we continued our activities in the bancassurance sector and in the area of independent distributors.

On the North American market Hannover Life Re has positioned itself as a reinsurer of small and mid-sized US life insurers. The focus was on specialty products for the senior citizens' market, Latin American risks and block assumption transactions (BATs) in life and annuity business.

Hannover Life Re is monitoring with considerable interest the development of "Regulation XXX", a supervisory provision governing the reserving of long-duration term life policies with guaranteed premiums. A substantial risk potential could build up here for the US life reinsurance market over the next ten years. The market players are working intensively on capital market solutions in order to be able to cope with the rising collateral requirements in the years ahead.

A number of block assumption transactions were again completed in 2004. Working in consultation with clients, preference was given to those transactions that triggered only a minimal flow of liquidity.

In Australia and New Zealand Hannover Life Re operates primarily as a risk-oriented reinsurer in the life and critical illness lines as well as in Australia's important disability pension sector.

The business written on the African continent consists of risk-oriented life, critical illness and disability lines from the markets of southern Africa. The focus is on South Africa, which contributes more than 90% of the entire region's premium volume.

Towards the middle of the year a sizeable block assumption transaction was concluded with a prominent South African life insurer that has established itself in recent years as one of the market leaders for term life policies.

The health portfolio was further scaled back by means of a substantial portfolio withdrawal as at year-end 2004, thus moving forward with the envisaged portfolio optimisation in South Africa.

The Asian markets exhibited dynamic growth impetus in the year under review.

As part of the deregulation of the Japanese market, banks are progressively being permitted to market various life and annuity products. This process, which will primarily benefit the Japanese subsidiaries of foreign life insur-

ers, is to be completed by 2007. Attractive new business opportunities are also opening up in this context for reinsurers such as Hannover Life Re.

International life and health reinsurance business

in EUR million	2004	2003
Gross written premiums	223.7	251.1
Underwriting result (gross)	60.1	2.1

Investments

From the outset of 2004 the issue of interest rate rises dominated expectations among players on the bond markets. By the middle of June 10-year euro yields had initially climbed to roughly 4.5%. While the US Federal Reserve Board initiated a change of course in monetary policy on 30 June 2004, hiking the prime rate by altogether 125 basis points to 2.25% by year-end, the European Central Bank stood by a base rate of 2%. The downward trend in long-term bond yields that set in during the second half of the year was sustained until year-end. The decline in yields in the Eurozone was a reflection first and foremost of disappointed growth expectations, the temporary strain on financial markets caused by high oil prices and the upward revaluation of the euro against the US dollar in the fourth quarter.

The second half of the year saw erratic movements on the foreign exchange markets. The euro appreciated against the US currency to USD 1.3640 by year-end, boosting the annual average exchange rate to USD 1.2474 (USD 1.1342).

Supported by the improved earnings situation of companies in the Eurozone and the de-

clining yield level, European equity prices rose steadily from the end of August onwards.

Parallel to the development of US indices, European equity markets also moved upwards. The EuroStoxx 50 gained 6.9%, while the Dax closed up 7.3% on the year.

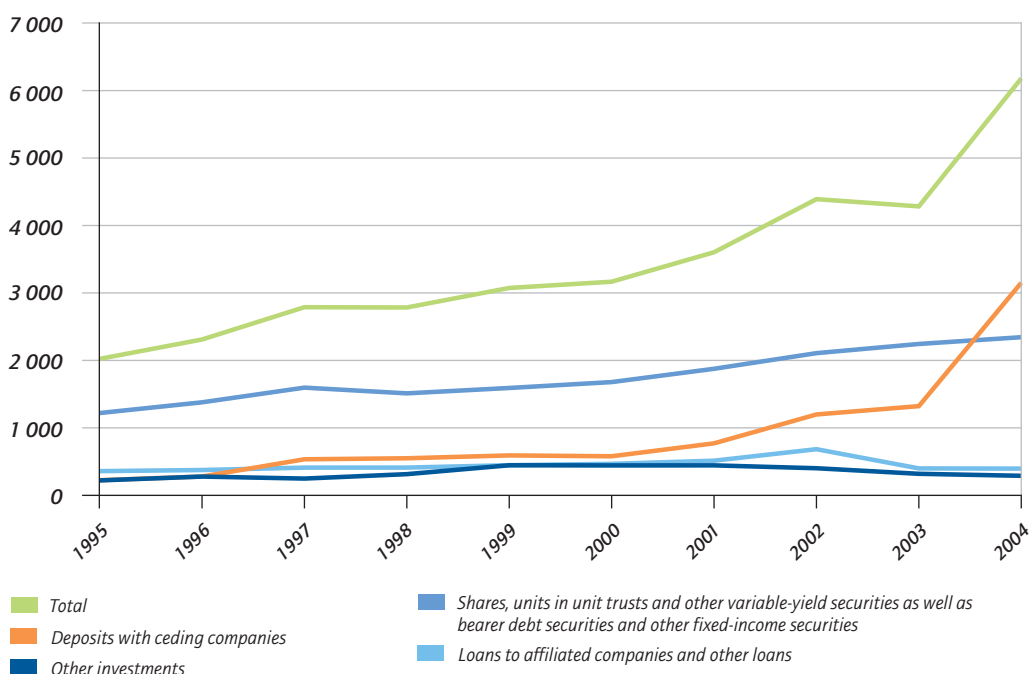
In the year under review we enlarged our total investment portfolio – excluding deposits with ceding companies – by 2.3% to EUR 3.0 billion.

We used the modest upward trend on stock markets to realise profits and reposition ourselves tactically. Equity investments in the year under review were made predominantly in index-tracking investment instruments from the Eurozone in order to achieve a performance in line with the Dax 30 and EuroStoxx 50. We also invested in shares of undervalued European enterprises with the goal of generating long-term, above-average capital growth and a high dividend yield. The weighting of 13.8% (13.4%) as at year-end remained virtually unchanged.

Due to the volatile movements on bond markets the unrealised gains in our portfolio of

Investments

in EUR million



fixed-income securities increased slightly overall from EUR 48.4 million to EUR 50.0 million as at the balance sheet date.

Caution was the hallmark of our investment policy in the area of fixed-income securities in 2004. The quality of the securities remained on a high level since greater exposure to lower-grade corporate bonds appeared inadvisable in light of the risk/yield ratio on the credit markets. Our primary focus was on government bonds as well as liquid issues of sovereign entities and jumbo mortgage bonds. In addition, our duration management had a defensive posture, enabling us to respond appropriately at short notice to movements in interest rates. New investments were made predominantly in short- and medium-duration instruments. As at year-end the proportion of our total asset portfolio – excluding deposits with ceding companies – attributable to fixed-income securities stood at 73.7% (71.9%).

The quality of our investments remains very high, with 86.8% of bonds rated "AA" or better.

We used the decline in yields in March 2004 to reduce the interest rate sensitivity of the bond portfolio and boost the existing hidden reserves. Including regroupings from the equity portfolio, we generated extraordinary income of EUR 20.3 million (EUR 25.8 million).

Ordinary income from interest and dividend payments climbed by EUR 48.0 million year-on-year to EUR 222.0 million (EUR 174.0 million). This gratifying income growth derived primarily from the sharply higher deposits with ceding companies, which increased in part due to the enlarged business volume in life and health reinsurance.

In accordance with § 341b German Commercial Code, securities are to be valued differ-

ently depending on their allocation to fixed assets or current assets. Our investments are allocated primarily to current assets.

Given the far from straightforward conditions on equity and bond markets, we are highly gratified by the increase of 20.8% in the net investment result to EUR 229.1 million (EUR 189.6 million). This satisfaction is even greater in view of the very defensive posture of the entire portfolio, which consequently does not contain any significant risks despite the difficult market environment.

Risk report

Our business consists of the systematic acceptance of underwriting risks. In our understanding, the concept of risk has both positive and negative connotations (opportunities and dangers). We assume our business partners' risks on the basis of advanced methods and proced-

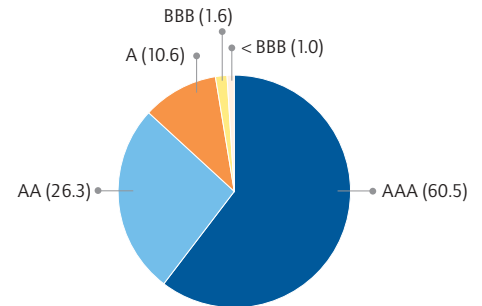
Organisation of risk management

Risk management at E+S Rück is characterised by central process coordination and local risk responsibility in the various areas of business:

- Local staff bear primary responsibility for the monitoring of risks and risk-policy measures within their specific areas.
- Local risk controllers are charged – on the level of specific business groups – with aggregating and controlling individual risks and, where necessary, initiating appropriate risk-minimisation measures.
- Centralised risk controlling steers the entire process and describes the risk situation of the company across all business groups.

Our internal risk reporting consists primarily of standard and ad hoc reports that are made available to decision-makers within a central risk

Rating structure of fixed-income securities



ures, although only if the associated opportunities promise a commensurate increase in the value of the company. A professional set of tools for the appropriate controlling of risk acceptances is therefore indispensable for our company.

information system on a periodic basis or, where necessary, immediately. Constant monitoring of mission-critical factors ensures early detection of undesirable developments and facilitates implementation of appropriate countermeasures. In addition, an annual risk inventory, in which all risks or risk groups that could potentially jeopardise the company's survival are thoroughly analysed and quantified, ensures that the risk portfolio is up-to-date. Regular process-independent controlling of the entire risk management system ensures that developments which could threaten the company's continued existence are detected at an early stage,

We have categorised E+S Rück's risks as follows:

- global risks,
- strategic risks,
- operating risks, which we subdivide into

- technical risks,
- investment risks and
- operational risks.

Global risks

Global risks derive, inter alia, from:

- developments in legislation and court practice, including questions of liability,
- political and social changes,
- environmental changes.

Risks of this type can be reduced only to a limited extent, nor can they necessarily be avoided because they are beyond our direct sphere of influence. Our risk management measures must therefore ensure that unfavourable developments, in particular, are identified as early as possible and appropriate actions taken. We counter these potential risks, inter alia, by means of the following measures:

- Diversification of our portfolio into four largely autonomous business groups. In this way we reduce the capital adequacy otherwise required in property and casualty reinsurance by altogether around 50%. At the same time we achieve optimal risk spreading.
- Constant monitoring of claims trends (e.g. electromagnetic fields, toxic mould, silica, biotechnology, pharmaceutical risks as well as analyses of claims and major losses). Our underwriting policy is regularly adjusted on the basis of these analyses, e.g. through the use of appropriate contractual exclusions or through technical and geographical diversification of the portfolio.
- Analysis of the findings of worldwide scientific research studies into possible changes in the risk situation associated with natural catastrophes (e.g. storm frequencies and intensities due to climate change) and their implications for potential losses. To this end we use recognised simulation models and also employ our own scientists, who control the quality of licensed models and develop our own tools. The most significant events for E+S

Rück in the year under review were the hurricanes "Charley", "Frances", "Ivan" and "Jeanne" (Caribbean and USA) as well as typhoon "Songda" (Japan).

- Tracking of relevant trends in court practice around the world (anti-trust and regulatory law, liability issues, corporate compliance) and changes in relevant accounting standards (US GAAP/IFRS) by specialised service units within E+S Rück.

Strategic risks

Strategic risks derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating business environment. Ongoing monitoring of mission-critical parameters and regular review of our underlying assumptions are therefore essential. The following components are crucial to our long-term success:

- Optimal diversification,
- Systematic cycle management,
- Efficient capital management and risk-optimised investments,
- Opportunistic use of retrocessions,
- Low administrative expenses,
- Internationally optimised tax policy.

Technical operating risks

Technical operating risks are of special importance to reinsurance enterprises. They derive principally from the possibility that payment flows vital to the insurance business may deviate from the expected amounts. Possible reasons here may be incorrect pricing assumptions, inaccurate estimations of the claims experience and an associated failure to establish adequate reserves or shortcomings in accumulation control.

One of the tools used to monitor the risk of losses exceeding premiums in property and casualty reinsurance is tracking of the combined ratio over time (both inclusive and exclusive of catastrophe losses).

The loss reserves in property and casualty reinsurance are determined by our own specially

trained insurance actuaries. Their calculations are also regularly checked by external actuaries and auditors. In addition to the losses reported to us by our clients, we establish additional reserves where necessary on the basis of our own claims investigations. Furthermore, we constitute a so-called IBNR (incurred but not reported) reserve for claims that have probably already occurred but have not yet been reported to us. The latter, which are especially relevant in the liability lines, are calculated using recognised actuarial methods. The IBNR reserve established by E+S Rück is calculated according to a breakdown into risk categories and regions. Asbestos- and pollution-related claims constitute a special issue in IBNR reserving. In this area years or sometimes even decades may elapse between causation of the loss and reporting of the claim. E+S Rück's exposure to asbestos-related claims and pollution damage is relatively slight.

The reserves in life and health reinsurance are always based upon the information provided by our clients. These reserves are reviewed on the basis of secure biometric actuarial bases with statistically adequate safety margins. Biometric risks lie in the miscalculation of probabilities, e.g. of death, disablement or longevity. For example, the morbidity risk (e.g. in the case of health, critical illness or disability risks) is estimated and monitored through actuarial studies of the morbidity experience. Furthermore, local supervisory authorities ensure that the reserves calculated by ceding companies satisfy all local requirements with respect to actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.).

Retrocession is another key tool for risk limitation. The business that we accept is not always fully retained, but instead portions are retroceded as necessary. Assumed risks are examined in order to determine the extent to which they spread the overall risk in the portfolio in question. The levels of retained premiums are determined on this basis and our retrocession arrangements structured accordingly. It is

therefore particularly important to carefully select retrocession partners in light of credit considerations. Our Security Committee classifies the reinsurers acceptable to E+S Rück with binding effect.

Large portions of our receivables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle receivables can potentially be set off against our own liabilities. As an additional step, since 2001 we have consistently reduced the level of receivables.

Investment operating risks

The overall success of a reinsurance enterprise is determined by two main components: the "underwriting result" and the "investment income". The profit-oriented steering of E+S Rück's business activities thus gives rise to the following subtasks:

- Steering of the underwriting portfolio (liability management),
- Steering of the investment portfolio (asset management),
- Linking and matching of these two subsegments through asset/liability management.

The consistent principle underlying our investment activities is the goal of generating an optimal contribution to the business result. For us this means:

- We strive for stable, plannable and tax-optimised income while at the same time preserving the high quality standard of the portfolio.
- It must be ensured that E+S Rück is liquid and solvent at all times.
- Our investment policy is governed by the principle of risk diversification.
- Currency exposures are managed according to the principle of matching currency cover.

Risks in the investment sector consist most notably of market, credit and liquidity risks. E+S Rück has adopted detailed investment guidelines, compliance with which is constantly monitored. On the basis of an asset/liability management approach and making allowance for the overall entrepreneurial risk, the basic parameters for the weighting of assets are defined in the investment guidelines.

An essential component of risk management is the principle of separation of functions – i.e. keeping a distinction between portfolio management, settlement and risk controlling. Risk controlling – which is organisationally and functionally separate from portfolio management – bears responsibility for monitoring all risk limits, evaluating financial products and verifying that all transactions are effected in line with market conditions. In this respect our management and control mechanisms are geared to the rules adopted by the Federal Financial Supervisory Authority (BaFin).

Currency exposures are largely avoided because we adhere systematically to the principle of matching currency cover. We use short-call and long-put options as well as swaps to partially hedge portfolios against price, exchange and interest rate risks. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with such transactions.

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

Scenarios for changes in the fair value of our securities as at balance sheet day

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices +10%	44.3
	Stock prices +20%	88.5
	Stock prices -10%	(44.3)
	Stock prices -20%	(88.5)
	Fair value as at 31.12.2004	442.7
Fixed-income securities	Yield increase +100 basis points	(64.9)
	Yield increase +200 basis points	(124.9)
	Yield decrease -100 basis points	69.8
	Yield decrease -200 basis points	144.4
	Fair value as at 31.12.2004	2 280.3
Exchange-rate-sensitive investments	Exchange rate change* +10%	(81.2)
	Exchange rate change* -10%	81.2
	Fair value as at 31.12.2004	812.3

* Exchange-rate fluctuations of +/- 10% against the euro

Rating structure of our fixed-income securities*

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	68.1	1 159.1	12.2	35.6	88.7	154.3	–	–
AA	22.4	380.4	55.8	162.6	8.6	15.0	46.6	30.0
A	8.5	144.9	23.0	66.9	–	–	37.7	24.3
BBB	0.3	5.0	7.3	21.3	–	–	15.7	10.1
< BBB	0.7	12.3	1.7	5.0	2.7	4.7	–	–
Total	100.0	1 701.7	100.0	291.4	100.0	174.0	100.0	64.4

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

Operational risks

Operational risks are generally defined as the risk of losses occurring because of

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

The most important operational risks include:

- risks of business interruption and system failure,
- process management risks,
- risks of fraud.

The availability of applications, protection of confidentiality and integrity of its data are of vital importance to E+S Rück. The global sharing of information, increasingly via e-mail, also exposes us to attack from computer viruses. We invest systematically in the security and availability of our information technology in order to maintain and enhance the current high level

Assessment of the risk situation

All in all, we do not currently see any indications of developments that could significantly impact E+S Rück's assets, financial position or

of security. For example, the existing contingency and disaster recovery plans are presently being updated and tested under realistic conditions. Coordination is the responsibility of the Corporate Information Security Officer appointed in the year under review.

Breaches of antitrust law can lead to not inconsiderable fines and damage the company's image. Particularly for staff who come into contact with cedents or other reinsurers, systematic training sessions were held in the year under review in order to avoid conduct that might breach antitrust provisions. What is more, a detailed guideline was drawn up with company-wide validity setting out a code of conduct for all employees in accordance with antitrust law. On the basis of this guideline Internal Auditing will also include relevant antitrust issues within the scope of its audits. The company's offices abroad have similarly been instructed to adopt appropriate local guidelines. In this way we ensure that our actions comply with antitrust provisions.

net income. No risks can be discerned that could jeopardise the continued existence of the company.

Human resources

Like all other organisational units within our company, the Central Division of Human Resources Management constantly seeks to analyse and enhance its value contribution to E+S Rück. Using our holistic management system "Performance Excellence" (PE) we continuously review the value-added contribution made by our core processes and measures and determine key figures that facilitate transparent and goal-directed steering of our personnel management policy. In accordance with our decentralised PE approach we have thus been able to simply, but efficiently dovetail our strategy with the overall Group strategy.

The overriding goal of our human resources development is to ensure that our company continues to function and remain competitive within a constantly changing environment. The following measures enable us to achieve this objective:

- Needs-oriented enhancement of employee skills,
- Assignment of challenging and responsible duties,
- Attracting and retaining high-performance, motivated staff,
- Preparing managerial staff for their tasks and equipping them with the necessary skills,
- Establishing an entrepreneurial mindset on all levels.

For us, human resources development begins with our personnel marketing activities and the selection process prior to recruitment. Personnel development supports every member of staff, starting with their job familiarisation, through all positions and levels of their career with our company. In this context we see per-

sonnel development as an interplay between management, staff and Human Resources. To this end our Personnel Development team provides a range of development tools that are used by management and employees in consultation with personnel advisors and developers. Needless to say, the personnel development measures and tools employed by our company are constantly reviewed and regularly expanded and optimised.

Having successfully implemented specialist software for, inter alia, salary accounting and applicant management some time ago, we shall in future apply such technology to the area of personnel development, too. Central data input in this module will enable us – while maintaining the greatest possible objectivity – to bring together the various personnel development tools and obtain a comprehensive overview of employee skills. This systematic identification of potential junior managers within the company facilitates structured, fair and efficient successor planning.

The Applicant Management System was also optimised with the aid of information technology. Thanks to our innovative "eRecruiting" approach more than half of all applications were received online in the year under review – and the tendency is rising. The online application form already available in the Internet was improved such that all data are now transferred directly to an applicant database, thereby substantially cutting administrative expenses.

In the year under review we participated in the study "Germany's best employer 2004", conducted by a highly reputed Cologne research and consulting institute in cooperation with the business magazine Capital. Staff from more than 100 companies were surveyed. With an overall mark of 2 we rank among Germany's most popu-

lar employers. This score was based, in part, on the findings of the employee survey with regard to quality criteria such as credibility, respect, fairness, pride in one's work and company as well as team orientation; the results of this anonymous survey accounted for two-thirds of the total score. The rating also included a so-called "culture audit", in which the programmes, concepts and activities that make up our personnel development work were evaluated. We were one of the few companies to participate in this study by way of a comprehensive survey, in which a response rate of 75.6% was achieved. Our company received an impressive mark from its workforce: 92% of respondents rated their company as a very good employer, nine out of ten staff are proud to tell others that they work here and a further 90% closely identify with the company: today, they would again choose to work for us and would recommend us as an employer to a good friend.

The Group Performance Bonus enables not only the Executive Board and senior manage-

ment but also – for the first time – a significantly extended group of staff to participate to a greater extent than before in the company's success and profit from its favourable performance. For this purpose a new variable component was introduced that allows the annual salary to be reduced by a maximum of 0.85 monthly salary payments and increased by a maximum of 1.7 monthly salary payments. The benchmark used in the calculation is the earnings per share – and hence the performance of the entire Group.

The number of staff increased in the year under review by 3.2% to 227 (220). Seven new jobs were thus created.

In the year just-ended our staff again pursued their company's ambitious goals with exceptional dedication and to a considerable extent achieved these objectives. We would like to thank all our staff as well as the employee council and the senior management committee most sincerely for their efforts.

Outlook for 2005

The crucial factors for the global economy in the current year will be movements in the price of crude oil and other raw materials, the US dollar's performance against other key currencies and the approach to monetary policy adopted by the major economic powers.

All in all, the world economy is expected to experience a slowdown in 2005, although this is not tantamount to a downturn. Growth in domestic demand and capital spending will be of critical importance. The situation here will be complicated by the fact that as energy costs increase real incomes are slow to rise, a state of affairs that is hardly likely to really drive consumption.

The economic picture in Germany will probably improve only hesitantly. Although capital spending will rise, the increase will be far less marked than was the case in previous upswings. Private consumption also promises a modest re-

vival. Overall, though, growth is likely to remain on the weak side.

The emerging picture in the German primary insurance sector is an uneven one. While life and health insurance will profit from a favourable market climate in 2005, property and casualty insurers find themselves facing a more intensive competitive environment.

We expect the implementation of Solvency II requirements to generate positive impetus for the reinsurance industry that may lead to increased cessions from our clients, especially in the area of proportional business.

Premiums in motor third party liability insurance are likely to flatten out. The dominant topic of debate at the moment is an increase in insured limits to EUR 75.0 million or as much as EUR 100.0 million.

In industrial fire insurance we expect the market to soften somewhat after the very good years of 2003 and 2004. The limit of satisfactory premium levels with unchanged deductibles has already been reached. Rising cost reimbursement for primary insurers under proportional treaties can be observed. All in all, the profit potential of our treaties is likely to decline slightly. It cannot be anticipated that the exceptionally good major claims situation of the past year will be repeated in 2005.

There are currently no tendencies towards a softening of treaty terms and conditions.

The premium trend in our casualty portfolio will again remain stable in 2005. A rising number of contracts in original business is coupled with a higher premium volume, not least due to the effect of the premium adjustment clause as at 1 July 2004. In industrial liability insurance the claims situation with respect to recalls in the pharmaceutical, medical and automotive component sectors remains tense. Insurers are sceptical towards the recently discussed introduction of compulsory casualty coverage, since this could restrict both policyholders and insurers in their freedom of contract and risk policy. The planned implementation of the EU Environmental Directive in German law will still take a while because the Federal Environment Ministry has first been requested to provide clarification before the directive can be implemented by the federal states. All in all, we expect to post a satisfactory result in casualty insurance.

Personal accident insurance will assume growing importance in our portfolio. In 2005 the market will be shaped by further product differentiation that will also be reflected in our range of services.

In German motor third party liability insurance we are monitoring the development of the claims frequency with considerable interest. The already emerging disproportionately high claims inflation, especially in the settlement of bodily injury cases, as well as the average loss costs will continue to rise in 2005. It is evident from the development of the primary market

that the decrease in the proportion of unlimited covers will be sustained.

Results in own damage insurance are directly related to the prevalence of natural hazards events in the financial year. As far as premiums were concerned, the renewals were unremarkable.

Despite the strained credit climate we also expect our German credit and surety portfolio to record a gratifying claims experience in 2005. Sustained underwriting discipline among insurers has to some extent made it possible to uncouple the claims experience from the insolvency trend. The positive effects will similarly be reflected in our results.

In the countries of Northern Europe, too, the current year promises to develop favourably in property and casualty reinsurance. It is our assumption that primary insurance rates in the United Kingdom will come under pressure and conditions – especially in property business – will gradually deteriorate. The reinsurance market will be impacted accordingly. Given our focus on non-proportional business, however, the effect on our portfolio will be less severe. The reinsurance market in North America will not be able to entirely resist the softening tendencies on the original market. Nevertheless, there are currently no indications of a significant deterioration in rates for reinsurers. We expect to generate further profitable business, especially in the casualty lines, since Hannover Re is a sought-after partner for casualty business due to its excellent rating. In catastrophe reinsurance, where the hurricanes halted any price erosion, rates are stable.

Treaty renewals in the Asian markets take place predominantly on 1 April. An exception here is Taiwan, where most treaties are renegotiated on 1 January. Rates on the original market here deteriorated. Acceptances in this market – especially proportional covers – have been scaled back accordingly. Rates and conditions for catastrophe business in Japan are likely to improve for windstorm risks, while they are expected to remain stable for earthquake risks.

All in all, reinsurers continue to enjoy a gratifying business climate.

Especially in European markets, life and health reinsurance is expected to generate vigorous new business in the current year. The most notable growth is anticipated in unit-linked life insurance (Germany) and the traditional products of term life and critical illness (United Kingdom). After enjoying a boom year in 2004, the German market will likely be somewhat calmer, although the overall pace of market growth will surpass the average level of recent years.

The European bancassurance sector offers outstanding potential for international life and health reinsurers. An increasing level of support is being given to Northern European insurance groups seeking to enter the Baltic markets.

In the US the successful niche strategy focussed on high-value financing transactions, the steadily growing senior citizens' market and Latin American risks will be maintained.

All in all, double-digit growth in premium volume is forecast for selected European markets, the United States and South Africa in the current year. The value of in-force business, a key figure that reflects the long-term earnings potential of the portfolio, should also rise appreciably.

Affiliated companies

We received an appropriate consideration in respect of all legal transactions with affiliated companies according to the circumstances known to us at the time when the transactions were

Other information

Joint administration arrangements exist between our company and Hannover Rückversicherung AG. They extend to all functions of the two companies.

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

The European Central Bank currently finds itself caught between the pull of depressed economic activity and expectations of higher inflation. The first interest rate hike is now not expected until the summer of 2005. Measured by the economic prospects, increasing price risks and probably a tighter monetary policy by the middle of the year, the current yield level both in Europe and the USA is too low. With this in mind we expect yields to rise somewhat in the course of the year. Since the profit outlook for corporations remains gloomy this year, we continue to view the development of equity markets with caution.

In accordance with our assessment we shall invest free liquidity prudently. Given modestly rising interest rates and a positive underwriting cash inflow, investment income should again increase as the volume of investments grows. We shall maintain our equity allocation on a slightly elevated level of around 14%. In the area of fixed-income securities we shall continue to stress the high quality of the portfolio.

In view of the expected development of our business groups and the economic climate, we are optimistic that we can increase our profitability. It is our expectation that we shall again be able to achieve our earnings targets and pay our shareholders an appropriate dividend.

effected. We did not incur any losses which required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act (AktG).

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

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total funds theoretically available to our company to cover actual and possible obligations. If the Annual General Meeting ap-

proves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows.

Figures in EUR million	2004	2003
Subscribed capital and reserves	420.3	420.3
Surplus debenture (Genussrechtskapital)	–	40.9
Equalisation reserve and similar provisions	584.6	498.5
Technical provisions	4 998.3	3 533.8
Total capital, reserves and technical provisions	6 003.2	4 493.5

The capital, reserves and technical provisions amounted to 453.0% (305.9%) of net premiums; this includes the capital and reserves

(including surplus debenture) at 31.7% (31.4%) of net premiums.

Proposal for the distribution of profits

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

	EUR
Distribution of a dividend on the participating paid-up subscribed capital of EUR 42 621 941.81	44 000 000.00

The dividend is payable on 23 March 2005.

BALANCE SHEET

as at 31 December 2004

Figures in EUR thousand	2004	2003
Assets		
A. Intangible assets		
Other intangible assets		273
B. Investments		
I. Land and buildings, rights to land and buildings, leasehold	37 113	42 064
II. Investments in affiliated companies and participating interests		
1. Shares in affiliated companies	210 326	209 640
2. Loans to affiliated companies	40 000	40 000
3. Participating interests	17 755	17 755
	268 081	267 395
III. Other financial investments		
1. Shares, units in unit trusts and other variable-yield securities	642 322	597 210
2. Bearer debt securities and other fixed-income securities	1 701 698	1 646 567
3. Mortgages and loans secured on land and buildings	392	612
4. Other loans		
a) Registered debt securities	64 795	96 163
b) Debentures and loans	226 561	198 185
c) Sundry loans	64 429	64 429
	355 785	358 777
5. Deposits with banks	23 572	48 627
6. Other investments	5	5
	2 723 774	2 651 798
IV. Deposits with ceding companies	3 150 934	1 322 118
	6 179 902	4 283 375

Figures in EUR thousand	2004	2003
Liabilities		
A. Capital and reserves		
I. Subscribed capital	42 622	42 622
II. Capital reserve	372 166	372 166
III. Retained earnings		
1. Statutory reserve	256	256
2. Other retained earnings	5 237	5 237
	5 493	5 493
IV. Disposable profit	44 000	39 000
	464 281	459 281
B. Surplus debenture (Genussrechtskapital)		–
C. Technical provisions		
I. Provision for unearned premiums		
1. Gross	220 343	231 428
2. Less: reinsurance ceded	52 577	51 711
	167 766	179 717
II. Life assurance provision		
1. Gross	2 702 667	1 117 865
2. Less: reinsurance ceded	519 733	389 230
	2 182 934	728 635
III. Provisions for outstanding claims		
1. Gross	3 394 685	3 407 682
2. Less: reinsurance ceded	783 277	811 464
	2 611 408	2 596 218
IV. Provision for bonuses and rebates		
1. Gross	664	1 459
2. Less: reinsurance ceded	60	15
	604	1 444
V. Equalisation reserve and similar provisions	584 560	498 463
VI. Other technical provisions		
1. Gross	44 197	33 122
2. Less: reinsurance ceded	8 522	5 286
	35 675	27 836
	5 582 947	4 032 313

Figures in EUR thousand	2004	2003
Assets		
C. Receivables		
I. Accounts receivable arising out of reinsurance operations	399 116	854 657
from affiliated companies:		
261 876 (2003: 555 485)		
II. Other receivables	145 940	19 923
from affiliated companies:		
125 168 (2003: 13 941)		
		874 580
D. Other assets		
I. Tangible assets and stocks	5	7
II. Current accounts with banks, cheques and cash in hand	14 272	6 892
		6 899
		14 277
E. Prepayments and accrued income		
I. Accrued interest and rent	43 781	42 278
II. Other accrued income	183	509
		42 787
		43 964
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		
		4 929
		4 929
		6 788 128
		5 212 843

Figures in EUR thousand	2004	2003
Liabilities		
D. Provisions for other risks and charges		
I. Provisions for pensions and similar obligations	12 470	12 053
II. Provisions for taxation	48 075	46 901
III. Other provisions	12 276	13 409
	72 821	72 363
E. Deposits received from retrocessionaires		369 841
F. Other liabilities		
I. Accounts payable arising out of reinsurance operations	58 760	228 371
to affiliated companies:		
37 818 (2003: 156 110)		
II. Miscellaneous liabilities	1 206	9 627
from taxes:		237 998
162 (2003: 137)		
for social security:		
261 (2003: 202)		
to affiliated companies:		
59 (2003: 5 800)		
G. Accruals and deferred income		144
	6 788 128	5 212 843

PROFIT AND LOSS ACCOUNT

for the 2004 financial year

Figures in EUR thousand	2004		2003	
	1.1.–31.12.		1.1.–31.12.	
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2 149 546			2 232 870
b) Retrocession premiums	824 271			763 747
		1 325 275		1 469 123
c) Change in the gross provision for unearned premiums (+/-)	1 287			(22 923)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	1 353			18 093
		2 640		(4 830)
			1 327 915	1 464 293
2. Allocated investment return transferred from the non-technical account, net of retrocession			70 025	23 258
3. Other technical income, net of retrocession			–	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 235 752			1 300 302
bb) Retrocessionaires' share	398 504			738 495
		837 248		561 807
b) Change in provisions for outstanding claims				
aa) Gross	17 713			33 198
bb) Retrocessionaires' share	(29 811)			(309 706)
		(12 098)		(276 508)
			849 346	838 315
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(87 337)		(215 193)
b) Other net technical provisions		(1 113)		254
			(88 450)	(214 939)
6. Bonuses and rebates, net of retrocession			(410)	574
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		586 396		475 589
b) Less: commissions and profit commissions received on retrocession		240 562		255 192
			345 834	220 397
8. Other technical charges, net of retrocession			1 712	1 708
9. Subtotal			113 008	211 618
10. Change in the equalisation reserve and similar provisions			(86 097)	(201 854)
11. Net technical result			26 911	9 764

Figures in EUR thousand	2004		2003
	1.1.–31.12.		1.1.–31.12.
Balance brought forward:		26 911	9 764
II. Non-technical account			
1. Investment income			
a) Income from participating interests	26 075		13 978
affiliated companies:			
23 575 (2003: 13 978)			
b) Income from other investments			
affiliated companies:			
39 918 (2003: 43 413)			
aa) Income from land and buildings, rights to land and buildings, leasehold	3 842		4 343
bb) Income from other investments	192 130		155 645
		195 972	159 988
c) Appreciation on investments	3 794		7 085
d) Gains on the realisation of investments	32 110		96 674
		257 951	277 725
2. Investment charges			
a) Investment management charges, including interest	9 446		9 903
b) Depreciation	13 756		19 707
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):			
2 323 (2003: 12 096)			
c) Losses on the realisation of investments	5 655		58 532
		28 857	88 142
		229 094	189 583
3. Allocated investment return transferred to the technical account		(78 163)	(32 775)
		150 931	156 808
4. Other income		20 151	19 748
5. Other charges			
a) Special allocation to provisions for outstanding claims	72 736		64 149
b) Miscellaneous charges	37 713		41 344
		110 449	105 493
		(90 298)	(85 745)
6. Profit or loss on ordinary activities before tax		87 544	80 827
7. Taxes on profit and income	43 445		43 436
plus allocation for group assessment	(51)		(1 725)
		43 394	41 711
8. Other taxes	83		129
plus allocation for group assessment	67		(13)
		150	116
		43 544	41 827
9. Disposable profit		44 000	39 000

NOTES

Valuation of assets

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

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the average period of the underlying contracts.

Property was valued at the purchase or construction cost less tax-allowable depreciation.

Shares in affiliated companies and participations were valued on a purchase cost basis. Write-offs were not necessary.

Loans to affiliated companies were valued at nominal value less amortisation or at the lower fair value.

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

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

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

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

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

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

Fixed assets and stock were valued at purchase cost less straight-line or declining-balance depreciation.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In

marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years following the year in which the business was written.

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from cedents, 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 outstanding. Outstanding ceding company accounts involving a low premium income are included in the following year. The estimated gross premium income for treaties of the 2004 underwriting year is 21.5% of the total volume.

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

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

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).

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

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

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 1998 standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

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

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

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

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

Figures in EUR thousand	2003			2004			
	Change in asset items A., B.I. to B.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depre- ciations	Book values 31.12.
A. Intangible assets							
Other intangible assets		273	–	–	–	273	–
B.I. Land and buildings, rights to land and buildings, leasehold		42 064	–	–	–	4 951	37 113
B.II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies		209 640	12 350	11 664	–	–	210 326
2. Loans to affiliated companies		40 000	–	–	–	–	40 000
3. Participating interests		17 755	–	–	–	–	17 755
4. Total B.II.		267 395	12 350	11 664	–	–	268 081
B.III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities		597 210	207 009	161 819	905	983	642 322
2. Bearer debt securities and other fixed-income securities		1 646 567	960 536	899 818	725	6 312	1 701 698
3. Mortgages and loans secured on land and buildings		612	–	220	–	–	392
4. Other loans							
a) Registered debt securities		96 163	–	31 368	–	–	64 795
b) Debentures and loans		198 185	151 046	124 817	2 147	–	226 561
c) Sundry loans		64 429	–	–	–	–	64 429
5. Deposits with banks		48 627	–	25 055	–	–	23 572
6. Other		5	–	–	–	–	5
7. Total B.III.		2 651 798	1 318 591	1 243 097	3 777	7 295	2 723 774
Sum total		2 961 530	1 330 941	1 254 761	3 777	12 519	3 028 968

Land and buildings and rights to land and buildings

As at 31 December 2004, the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 17,028 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,264 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

A complete list of shareholdings has been compiled separately in accordance with § 287 of the Commercial Code (HGB) and is deposited with the Hannover Commercial Register under HRB 6117.

Name and registered office of the company Figures in currency units of 1 000	Participations (in %)	Capital and reserves (§ 266 (3) of the Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	60 013	EUR	1 214
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	158 192	EUR	11 550
■ holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	31	EUR	(765)
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	189 760	AUD	22 600
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	73 689	EUR	34 933

Other notes on investments

Assets with a balance sheet value of EUR 105,016 (EUR 122,858) thousand have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Current values pursuant to § 54 RechVersV

The current values of land and buildings were determined using the gross rental method.

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, book values were used.

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value.

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 valued at nominal values and in individual cases at book value.

Figures in EUR thousand	2004		
Current values pursuant to § 54 RechVersV of asset items B.I. to B.III. for the 2004 financial year	Book values 31.12.	Current values 31.12.	Difference 31.12.
B. I. Land and buildings, rights to land and buildings, leasehold	37 113	57 873	20 760
B. II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	210 326	263 129	52 803
2. Loans to affiliated companies	40 000	40 000	–
3. Participating interests	17 755	18 137	382
4. Total B. II.	268 081	321 266	53 185
B. III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	642 322	721 192	78 870
2. Bearer debt securities and other fixed-income securities	1 701 698	1 719 895	18 197
3. Mortgages and loans secured on land and buildings	392	392	–
4. Other loans			
a) Registered debt securities	64 795	68 132	3 337
b) Debentures and loans	226 561	240 993	14 432
c) Sundry loans	64 429	69 483	5 054
5. Deposits with banks	23 572	23 572	–
6. Other investments	5	5	–
7. Total B. III.	2 723 774	2 843 664	119 890
Sum total	3 028 968	3 222 803	193 835

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

Of the units in unit trusts totalling EUR 604,636 (EUR 561,150) thousand shown under the "Other financial investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 336,189 (EUR 347,994) thousand was allocated to fixed assets. The fair value amounts to EUR 367,663 (EUR 361,901) thousand. Based on the assumption that the diminutions in value will not be permanent, write-downs of EUR 2,787 (EUR 15,461) thousand were not taken.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 5,969 (EUR 7,768) thousand and a fair value of EUR 8,606 (EUR 7,820) thousand were allocated to fixed assets. Write-downs of EUR 18 (EUR 1,139) thousand were not taken since a permanent diminution in value is not anticipated.

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

The portfolio contains two derivative financial instruments that were valued at the fair value of -EUR 5,206 thousand. The fair value was determined on the basis of individual prices of potential buyers on the balance sheet date. Disclosure was made as a single unit with the underlying transaction under the "Other financial investments" in the item "Debentures and loans". The financial instruments involve interest rate currency swaps denominated in JPY and USD in order to correspond to the currencies of the underlying transaction.

Other receivables

Figures in EUR thousand	2004	2003
Receivables from affiliated companies	125 168	13 941
Receivables from assigned claims	12 694	–
Receivables from reinsured pension schemes	7 075	5 505
Interest and rent due	344	199
Receivables from the revenue authorities	306	261
Receivables from land and buildings	179	–
Receivables from dividend entitlements	161	–
Other receivables	13	17
Total	145 940	19 923

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 64 (EUR 384) thousand.

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 4,929 (EUR 4,929) thousand. Of this amount, EUR 2,424 (EUR 2,424) thousand was attributable to corporation tax and EUR 2,505 (EUR 2,505) thousand to trade tax.

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2004. It consists of 75,783 no-par-value registered shares.

Surplus debenture (Genussrechtskapital)

The surplus debenture issued in 1993 amounting to EUR 40,903 thousand had a term of ten years and was repaid on 2 November 2004. The interest was 7.75%.

Provision for unearned premiums

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Fire	29 892	27 812	40 076	35 731
Casualty	43 795	39 070	57 937	53 924
Personal accident	5 054	3 537	5 133	4 157
Motor	15 417	10 205	20 098	14 413
Aviation	33 606	27 233	23 792	21 828
Life	54 635	31 870	39 314	17 255
Other lines	37 944	28 039	45 078	32 409
Total	220 343	167 766	231 428	179 717

Life assurance provisions

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Personal accident	21	21	402	402
Life	2 698 517	2 178 784	1 113 065	723 835
Other lines	4 129	4 129	4 398	4 398
Total	2 702 667	2 182 934	1 117 865	728 635

Provisions for outstanding claims

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	172 072	131 483	175 621	146 076
Casualty	1 060 283	847 240	1 107 177	817 539
Personal accident	65 353	47 882	70 641	58 700
Motor	1 304 685	1 037 345	1 289 016	1 035 186
Aviation	195 713	131 722	219 549	133 416
Marine	105 681	81 856	100 904	86 408
Life	112 130	94 224	100 781	88 210
Other lines	337 955	207 458	308 658	204 605
	3 353 872	2 579 210	3 372 347	2 570 140
Provision for annuities				
Casualty	2 806	2 755	2 078	2 011
Personal accident	3 381	2 535	1 744	1 479
Motor	34 626	26 908	31 513	22 588
	40 813	32 198	35 335	26 078
Total	3 394 685	2 611 408	3 407 682	2 596 218

Equalisation reserve and similar provisions

Insurance line	2004			
	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	65 401	18 537	419	83 519
Casualty	111 633	39 612	–	151 245
Personal accident	18 002	3 038	–	21 040
Motor	144 122	44 852	21 235	167 739
Aviation	21 511	8 954	–	30 465
Marine	43 418	–	12 361	31 057
Other lines	78 807	22 559	21 682	79 684
	482 894	137 552	55 697	564 749
Provisions which are similar to the equalisation reserve – major risks –				
Fire	3 956	3 284	–	7 240
Casualty	4 288	152	189	4 251
Personal accident	–	28	–	28
Motor	9	2	–	11
Marine	280	129	–	409
Other lines	7 036	890	54	7 872
Total	498 463	142 037	55 940	584 560

Other technical provisions

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Profit commission	41 917	33 912	32 388	27 060
Premium cancellation	1 998	1 518	418	406
Commissions	282	245	316	370
Total	44 197	35 675	33 122	27 836

Technical provisions – total

Figures in EUR thousand	2004		2003	
	gross	net	gross	net
Fire	297 395	253 493	289 005	255 018
Casualty	1 275 535	1 057 503	1 292 142	998 325
Personal accident	95 109	75 215	96 157	82 937
Motor	1 529 410	1 248 586	1 489 971	1 221 441
Aviation	261 614	190 594	266 575	177 486
Marine	138 204	114 363	145 512	130 976
Life	2 867 425	2 307 020	1 253 958	830 097
Other lines	482 424	336 173	456 699	336 033
Total	6 947 116	5 582 947	5 290 019	4 032 313

Provisions for other risks and charges

Figures in EUR thousand	2004	2003
Provisions for pensions and similar liabilities	12 470	12 053
Provisions for taxation	48 075	46 901
Sundry provisions		
Provisions for outstanding payments	3 886	3 304
Provisions for interest	3 263	2 804
Provisions for currency risks	2 835	5 192
Provisions for annual accounts costs	1 138	1 071
Provisions for litigation risks	394	331
Provisions for costs of legal action	270	208
Provisions for suppliers' invoices	209	357
Other provisions	281	142
	12 276	13 409
Total	72 821	72 363

Miscellaneous liabilities

Figures in EUR thousand	2004	2003
Liabilities from overpayments	562	121
Liabilities from outstanding social security contributions	261	202
Liabilities in respect of the revenue authorities	162	137
Liabilities from leases	161	155
Accounts due to affiliated companies	59	5 800
Liabilities from interest on surplus debenture (Genussrechtskapital)	–	3 170
Other liabilities	1	42
Total	1 206	9 627

Deferred items

Figures in EUR thousand	2004	2003
Disagio	54	118
Other accruals and deferred income	53	26
Total	107	144

Contingent liabilities

Liabilities for remaining calls exist with respect to special investments in the amount of EUR 88,787 (EUR 62,844) thousand. There were no other contingent liabilities or other financial commitments not shown in the annual balance sheet which are relevant to an assessment of the financial position.

Notes on the profit and loss account

Figures in EUR thousand	2004	2003	2004	2003	2004	2003	2004	2003
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	190 684	218 243	199 566	215 459	119 148	152 507	(8 445)	3 718
Casualty	298 427	369 517	308 526	351 884	275 783	301 290	4 780	(13 547)
Personal accident	70 108	64 710	70 169	65 801	39 380	42 924	8 113	1 316
Motor	375 494	473 040	379 263	475 412	277 408	375 654	(6 851)	(29 471)
Aviation	104 868	131 911	92 973	135 252	67 844	92 862	11 973	15 915
Marine	63 888	78 165	63 888	78 165	37 687	64 014	30 179	4 309
Other lines	306 033	333 372	312 036	336 971	171 081	211 006	24 885	14 858
Total property and casualty insurance	1 409 502	1 668 958	1 426 421	1 658 944	988 331	1 240 257	64 634	(2 902)
Life	740 044	563 912	724 412	551 003	339 584	224 036	(37 723)	12 666
Total insurance business	2 149 546	2 232 870	2 150 833	2 209 947	1 327 915	1 464 293	26 911	9 764

Total insurance business

Figures in EUR thousand	2004	2003
Gross claims incurred	1 218 039	1 267 104
Gross operating expenses	586 396	475 589
Reinsurance balance	213 663	61 673

Expenses for investments

Figures in EUR thousand	2004	2003
1. Wages and salaries	15 005	13 646
2. Social security payments and expenses for welfare	2 477	2 282
3. Expenses for old-age pension scheme	122	1 152
4. Total expenses	17 604	17 080

Expenses for investments

Figures in EUR thousand	2004	2003
Administrative expenses	8 204	8 738
Fixed-income securities	7 668	36 198
Land and buildings	5 555	2 966
Shares, units in unit trusts	5 282	25 542
Deposits	1 510	44
Deposit and bank fees	638	496
Futures and options contracts	–	14 158
Total	28 857	88 142

Other income

Figures in EUR thousand	2004	2003
Profit from services	7 648	5 480
Exchange rate gains	6 193	12 741
Cancellation of value adjustments	4 052	69
Allocated investment return	936	576
Release of non-technical provisions	487	262
Income from allocation of administrative expenses	72	205
Other income	763	415
Total	20 151	19 748

Other expenses

Figures in EUR thousand	2004	2003
Special allocations to the provisions for outstanding claims	72 736	64 149
Deposit interest	13 841	12 467
Expenses from services	7 327	5 565
Expenses for the whole company	7 149	6 652
Exchange rate losses	6 813	12 228
Allocation to interest provisions	3 427	3 050
Separate value adjustment on accounts receivable	2 908	4 264
Interest charges on surplus debenture (Genussrechtskapital)	2 651	3 170
Interest charges on old-age pension scheme	699	673
Expenses for letters of credit	415	1 065
Interest charges on reinsurance operations	262	746
Financing interest	23	58
Depreciation on receivables	–	568
Other interest and expenses	336	354
	118 587	115 009
Less: Technical interest	8 138	9 516
Total	110 449	105 493

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 3 to 5.

The total emoluments paid to the Supervisory Board in the year under review totalled EUR 151 thousand, those to the Advisory Board EUR 66 thousand, those to the Executive Board EUR 1,044 thousand and those to former members of the Executive Board EUR 376 thousand. The amount of EUR 3,814 thousand was shown on the liabilities side for current pensions of former members of the Executive Board.

No mortgage loans 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 224 in the financial year.

Hannover Rück Beteiligung Verwaltungs-GmbH informed us that it holds a majority interest (§ 16 (1) of the Stock Corporation Act (AktG)) in our company.

Hannover Rückversicherung AG includes the figures from our annual accounts in its consolidated financial statements. The financial statements of Hannover Rückversicherung AG are included in the consolidated financial statements of Talanx AG, Hannover. The consolidated financial statements of Talanx AG are deposited at Hannover County Court. Talanx AG is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. , Hannover.

Hannover, 11 March 2005

Executive Board



Zeller



Arrago



Dr. Becke



Gräber



Dr. König



Dr. Pickel



Wallin

AUDITORS' REPORT

We have audited the annual financial statements together with the bookkeeping system and the management report of E+S Rückversicherung AG for the business year from 1 January to 31 December 2004. 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 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 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 accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion 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, 14 March 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl
Wirtschaftsprüfer

Schuster
Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD of E+S Rückversicherung AG

We supervised the management of the company regularly during 2004 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at two meetings as well as on one occasion by way of a written resolution in accordance with § 12 section 4 of the Articles of Association. The Standing Committee also met on two occasions. Between the meetings we received quarterly written reports from the Executive Board on the course of business and the position of the company. In addition, the Chairman of the Supervisory Board was kept informed of major developments and impending decisions by the Chairman of the Executive Board on a continuing basis. 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.

The Supervisory Board selected the auditor for the 2004 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts.

As in previous years, the Supervisory Board again deliberated on the enlargement of the company's shareholder group and in this context it approved the addition of the Barmenia Group to the circle of shareholders. The Executive Board also provided us with an explanation of the profit expectations for the 2004 financial year and the operational planning for the 2005 financial year. Major areas of discussion in this regard were strategies for the further enhancement of the company's market position and market penetration. With an eye to the expansion of the company's business volume in recent years, the Rules of Procedure of the Executive Board were re-

viewed and the decision was taken to hold three Supervisory Board meetings annually from 2005 onwards instead of only two.

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. As a final outcome of the Supervisory Board's examination of the annual financial statements and the Executive Board's report, we concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

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 cases of the transactions detailed in the report, the expenditure of the company was not unreasonably high."

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 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.

The annual financial statements are thus approved and hereby duly adopted. We agree with the Executive Board's proposal for the distribution of the disposable profit for 2004.

At the request of the Executive Board and by a resolution dated 16 June 2004 Hannover County Court, which is competent in this matter, appointed Ms. Marga Hetzel as a staff representative on the company's Supervisory Board pursuant to § 104 Para. 2 Sentence 1 Stock Corporation Act (AktG). Ms. Hetzel succeeds Mr. Manfred Bieber, who stepped down from the Supervisory Board on 11 November 2003.

Mr. Dieter Holl stepped down from the company's Advisory Board with effect from 24 March 2004. The Supervisory Board thanked Mr. Holl for his constructive work and praised his long-

standing contribution to the company's development. With effect from 24 March 2004 Mr. Josef Beutelmann and Mr. Hans-Joachim Haug were appointed to the company's Advisory Board.

Hannover, 22 March 2005

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

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

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

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

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

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

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

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

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

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

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

Creditworthiness: cf. → credit status

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the 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 (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

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

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

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

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

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

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

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

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

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

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

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

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

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

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in

the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

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

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

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

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

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → air 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 (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a → cedent's total, precisely defined insurance portfolio. This is in contrast to → facultative reinsurance.

Policy benefits for life and health contracts: 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.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

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

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

Primary insurer: cf. → direct insurer

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

Program business: a well-established business model in the US primary insurance market. It is transacted by primary insurers ("program insurers") in very close cooperation with highly specialised managing general agents (MGAs). The business group is focused on strictly defined, homogeneous primary insurance portfolios (programs), typically comprising niche and non-standard coverages, i.e. risks that are impossible or difficult to place with conventional insurers. Functions normally performed by the insurer, such as sales, closing contracts, issuing policies, collection, policy administration and claims settlement, are assumed by the MGAs or by other external service-providers.

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

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

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

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

Provision for unearned premiums (also: unearned premium reserve): 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.

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

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

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

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

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

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

Technical result: the balance of income and expenditure allocated to the insurance business and shown in the technical statement of income (after additional allow-

ance is made for the allocation to/withdrawal from the equalisation reserve: net technical result).

Treaty reinsurance: cf. → obligatory reinsurance

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

Unearned premium reserve: cf. → provision for unearned premiums

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

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