ANNUAL REPORT
1997

e+s rück

CONTENTS

KEY FIGURES *E+S Rückversicherungs-AG*

Figures in DM million	*1997*	*± previous year*	*1996*	*1995*
Gross premiums written	2 282.9	+45.3 %	1 571.4	1 575.5
Net premiums earned	1 481.5	+19.2 %	1 243.3	1 317.0
Technical result	-87.7	-18.1 %	-107.1	-35.7
Allocation to the fluctuation reserve and similar provisions	72.4	+328.4 %	16.9	54.1
Investment result	301.0	+16.0 %	259.5	190.8
Profit or loss on ordinary activities before tax	24.8	-31.1 %	36.0	28.4
Profit or loss for the financial year	16.5	+9.1 %	15.1	20.9
Investments	5 454.4	+20.7 %	4 517.9	3 955.9
Capital and reserves incl. surplus debenture (Genußrechtskapital)	315.3	–	315.3	315.3
Fluctuation reserve and similar provisions	418.3	+20.9 %	345.9	328.9
Net technical provisions	3 909.1	+8.0 %	3 619.1	3 263.3
Total capital, reserves and technical provisions	4 642.7	+8.5 %	4 280.3	3 907.5
Number of employees	190	+10	180	173
Retention	64.8 %	–	78.2 %	84.2 %
Loss ratio*	76.0 %	–	84.3 %	80.7 %
Expense ratio*	27.2 %	–	23.3 %	21.1 %
Combined loss/expense ratio*	103.2 %	–	107.6 %	101.8 %

*excluding life and health reinsurance

ANNUAL REPORT
1997

74th financial year

e+s **rück**

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl, Wedemark, Chairman

Gerd Kettler, Münster, Deputy Chairman

Manfred Bieber, Hannover * (from 4.8.1997)

R. Claus Bingemer, Hannover

Dr. Heinrich Dickmann, Burgwedel

Tilman Hess, Hannover * (from 4.8.1997)

Rolf-Peter Hoenen, Coburg

Dr. Manfred Mücke, Hamburg

Anita Suing-Hoping, Godshorn *

Andreas Thois, Ronnenberg * (until 4.8.1997)

Martin Wethkamp, Hannover * (until 4.8.1997)

* Staff representative

Advisory Board (Beirat)

Dr. Edo Benedetti, Trient

Wolfgang Bitter, Itzehoe

Ernst Köller, Hannover

Dr. Erwin Möller, Hannover

Adolf Morsbach, Wedemark

Executive Board (Vorstand)

Wilhelm Zeller, Burgwedel, Chairman

Udo Schubach, Hannover, Deputy Chairman

Dr. Wolf Becke, Hannover

Dr. Jürgen Brenzel, Hannover (until 28.2.1997)

Herbert K. Haas, Burgwedel

Dr. Andreas-Peter Hecker, Hannover

Dirk Lohmann, Burgwedel (until 31.8.1997)

Jürgen Gräber, Ronnenberg, Deputy Member (from 1.9.1997)

Ecomomic climate

Subdued development of the German economy

Minimal growth in the primary insurance sector

Unexpected upsurge in share prices

Widespread mergers in insurance markets

Absence of major losses

Gratifying growth in life and health reinsurance

Premium growth affected by Skandia acquisition and new market profile

Developments in the world's leading national economies varied greatly in the course of 1997. Low economic growth and further strains on the disposable income of private households hampered economic growth in Germany. As in most areas of continental Europe, the key factors here were the savings forced on the government in order to comply with the Maastricht criteria and the high level of unemployment. In addition, attempts to transform Germany into a more attractive industrial location in the international arena were neglected, as exemplified by the failure of tax reform. Consequently, the primary insurance market recorded only minimal premium growth of around 2 % across all classes of business.

An international comparison reveals widely differing trends. Japan was additionally hit by the Asian crisis towards the end of the year. In the USA and the United Kingdom, on the other hand, vigorous economic development ensured high growth rates and low unemployment. These countries succeeded in exploiting their locational advantages and attracting investment.

Stock markets throughout the world experienced an unexpected and at times explosive upsurge in share prices, a development which was promoted by the very low interest rates. The search for investment alternatives to the now scarcely lucrative fixed-income securities resulted in a "flight to shares". The underlying corporate data did not always appear to justify the price rises.

As was the case in virtually all branches of the economy, the process of concentration in the insurance and reinsurance industries continued. Under pressure to constantly increase the global reach of their operations, companies still regard acquisitions as the preferred instrument for gaining access to a target market. In the future, therefore, further corporate take-overs and mergers are to be anticipated.

Natural catastrophe losses again decreased sharply in the year under review, following a substantial reduction in the previous year. This development was due partly to a decrease in the total number of such events, and partly to the absence of very expensive losses. The most significant loss event was the catastrophic flooding in Eastern Europe, which caused insured damage of almost USD 1 billion.

This comparatively favourable trend further exacerbated the existing competitive pressure in the insurance and reinsurance markets, resulting in a predominantly downward trend in premium volumes for property and casualty classes of insurance. The premium decline of 1.5 % in Germany was partly attributable to the poor state of the domestic economy and sluggish consumer incomes, and partly to the large number of company closures and insolvencies. In addition, the enormous pressure of competition meant that it was virtually impossible to push through the necessary premium adjustments.

Life and health business, on the other hand, posted pleasing growth rates. Alternative forms of risk transfer were increasingly evident. Securitization was used to transfer insurance risks to the capital markets. It should, however, be pointed out that the total volume of such innovative products has not as yet had any appreciable influence on the traditional insurance and reinsurance markets.

Business development

Our company's 1997 annual accounts were distinguished by two notable events compared to the previous year: First, with effect from 1.1.1997 we repositioned ourselves within the Hannover Re Group; second, together with Hannover Re, we acquired major parts of the portfolio of Skandia International Insurance Company, Stockholm, in September 1997.

Since 1.1.1997 our company has borne exclusive responsibility for the Hannover Re Group's German business. We are the only specialist reinsurer of this type in the German market. For its part, Hannover Re - together with its subsidiaries - writes the Group's international business. For the purpose of risk spreading, the two companies participate in each other's acceptances in their respective business segments. The technical account thus continues to be influenced by developments in the international reinsurance markets. In other words, in "net" terms after deducting all retrocessions, the distribution of our reinsurance portfolio has remained virtually unchanged.

Our new market profile - including the acquisition of practically all the Hannover Re Group's German business - was a crucial factor in boosting our gross premium income by 45.3 % to DM 2,282.9 million. The acquisition of the Skandia portfolio and movements in the major foreign currencies for the retrocessions accepted from Hannover Re also contributed to the expansion of the business volume. Apart from the facultative portfolio, which spans all classes of insurance, we also acquired Skandia International's life and aviation business, thereby accounting for the disproportionately large growth of these classes in particular.

Although the technical account was influenced by the transfer of the Skandia portfolio, and despite the continued investment in the expansion of life reinsurance business through the conclusion of prefinancing transactions, the technical deficit decreased to DM 87.7 million (previous year: DM 107.1 million). This improvement was attributable to a number of factors, including a further reduction in the burden of major losses from the low level of the previous year.

The positive loss experience also constituted the basis for an increased allocation to the fluctuation reserve of DM 72.4 million, as a consequence of which the net technical result deteriorated by DM 36.1 million to a deficit of DM 160.1 million.

On the other hand, the favourable state of the capital markets led to an appreciable rise in the investment result, which climbed by 16.0 % to DM 301.0 million. Although we again realized capital gains on investments in the year under review, this did not take place at the expense of the hidden reserves in our securities portfolio, which also increased from DM 225.4 million to DM 389.2 million.

Following another increased allocation to the IBNR reserve from the non-technical account and lower tax expenditure than in the previous year, the profit for the financial year climbed by 9.1 % to DM 16.5 million. We shall propose to the Annual General Meeting that this amount be distributed in full.

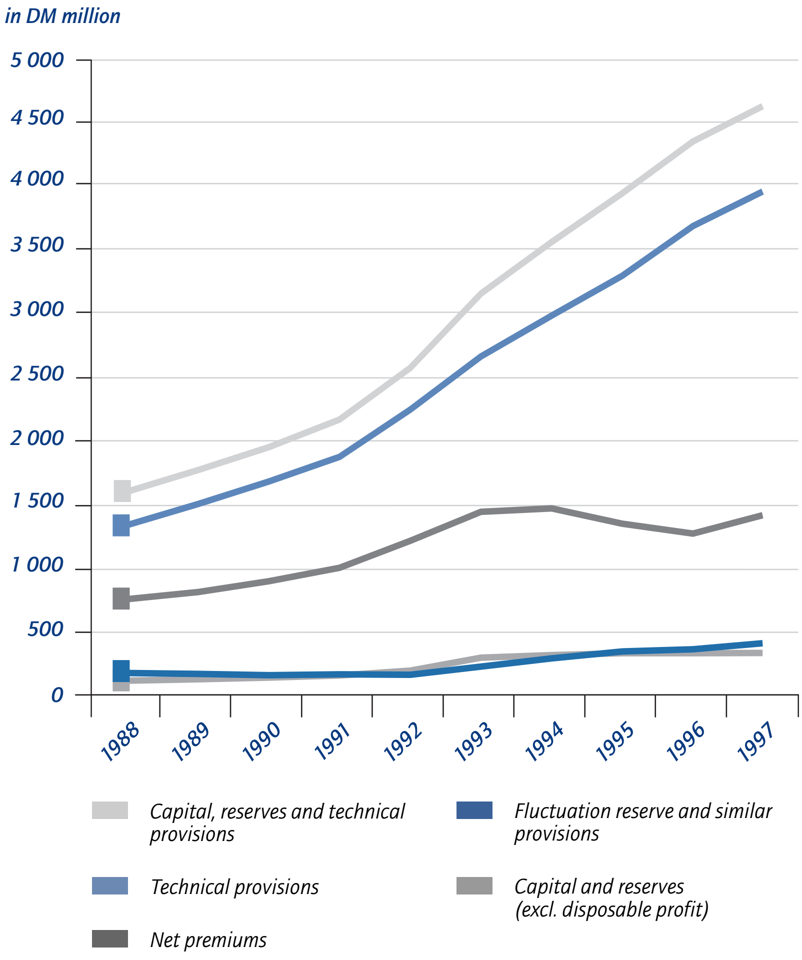
Disproportionately large premium growth due to exclusive responsibility for the German market

Significant improvement in the technical result

Another excellent investment result

Substantially improved profit for the year

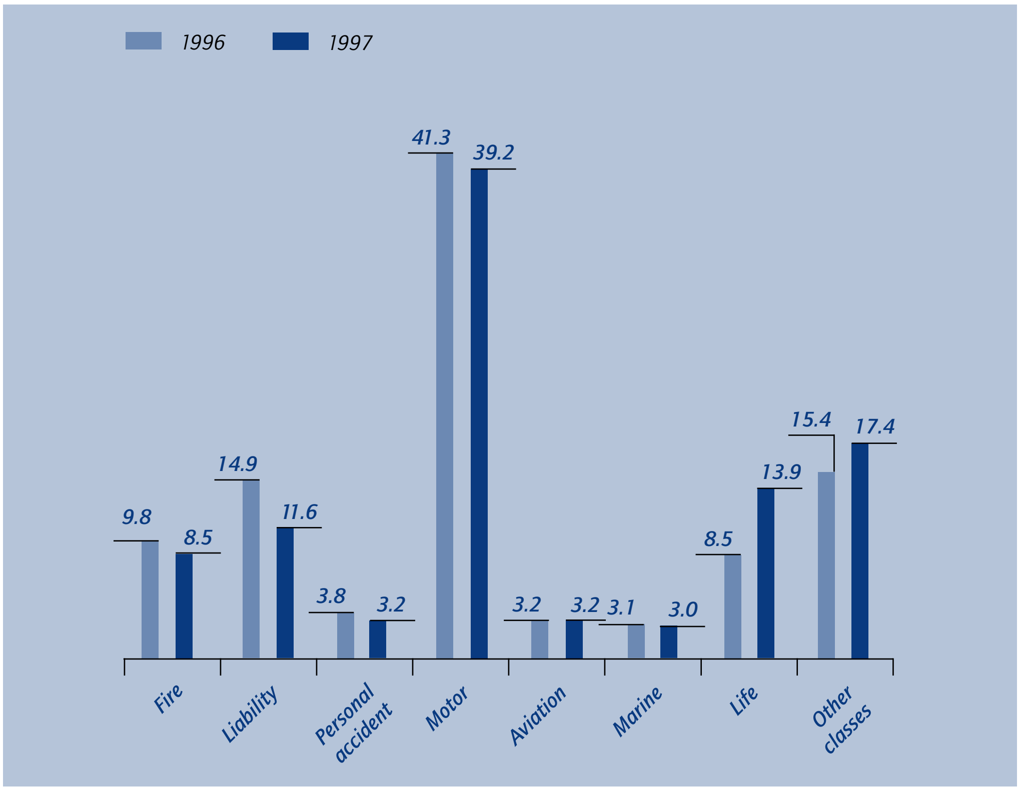
Growth in capital, reserves, technical provisions and in net premiums



Premium growth

In the light of the factors described above, gross premium income increased to DM 2,282.9 million (45.3 %). Of this amount, 31.9 % was apportionable to the foreign business retroceded by Hannover Re. Net premiums rose to DM 1,479.2 million (20.3 %).

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



Fire

Fire *in DM million*	*1997*	*1996*
Gross premiums written	194.9	154.3
Loss ratio (%)	55.6	53.6
Technical result (net)	10.9	16.9

Fire business is currently undergoing profound changes in Germany. Massive premium reductions accompanied by extremely generous extensions in terms and conditions have substantially impaired results. Only the fortuitous absence of major losses enabled us to record another satisfactory result. The amount of DM 11.5 million was allocated from the technical profit to the fluctuation reserve.

Liability

Personal lines business remained unproblematic in Germany, but in the area of major commercial and industrial risks - as in the case of industrial fire business - trends towards lower premium rates and more generous terms and conditions could be discerned.

We posted premium growth of 13.2 % in liability business. The increase was derived from our domestic premium, whereas the volume of our foreign business declined slightly.

Primarily due to the absence of a special influencing factor from the previous year, the technical result improved substantially compared to 1996. The resolution of losses tends to be more protracted in liability business, resulting in a disproportionately large share of the resultant income being distributed to the class, thereby contributing to the positive result.

Liability		
in DM million	*1997*	*1996*
Gross premiums written	264.6	233.7
Loss ratio (%)	81.5	97.0
Technical result (net)	- 13.8	- 33.9

The amount of DM 0.2 million was withdrawn from the fluctuation reserve. We allocated DM 35.0 million from the non-technical result to the IBNR reserve.

Personal accident

Personal accident business in Germany witnessed not only a slight expansion in the primary insurance portfolio - although the available potential is by no means exhausted - but also a greater range of new product variants (such as extended personal accident insurance for children). With loss expenditure remaining at a moderate level, results continued to be satisfactory. The support which we provided for clients with regard to the development of new products was a particularly important factor in enabling us to consolidate our market position. We were thus able to achieve further double-digit growth (+ 24.4 %) in our personal accident business in the year under review.

As far as the technical result is concerned, however, the increased commission expenditure virtually cancelled out the reduction in the loss ratio. The overall improvement was therefore only slight.

Personal accident		
in DM million	*1997*	*1996*
Gross premiums written	73.4	59.0
Loss ratio (%)	62.9	72.5
Technical result (net)	- 2.4	- 3.8

The amount of DM 0.9 million was withdrawn from the fluctuation reserve.

Motor

The fierce competition in German motor business continued unabated in the year under review and caused premiums to fall by 4.7 % compared to the previous year. While the motor hull classes posted a very good performance, their results were not quite sufficient to offset the losses in motor third party liability. With a market-wide premium volume of DM 40.5 billion, the overall technical deficit for the market as a whole amounted to DM 0.4 billion (as against the profit of DM 0.9 billion achieved in the previous year).

Our sizeable growth of 37.8 % was in large part attributable to the assumption of the Hannover Re Group's German activities, as discussed above. Movements in exchange rates were a major factor in the increased income from foreign business.

Motor		
in DM million	*1997*	*1996*
Gross premiums written	893.6	648.6
Loss ratio (%)	91.5	101.9
Technical result (net)	- 54.5	- 86.8

In contrast to the previous year, there was no requirement for disproportionately large additional reserves, and the technical deficit therefore decreased.

Due to the pleasing drop in the loss ratio, an amount of DM 23.3 million was allocated to the fluctuation reserve. The IBNR reserve for motor third party liability insurance was strengthened by an allocation of DM 38.2 million from the non-technical account.

Aviation

Aviation		
in DM million	*1997*	*1996*
Gross premiums written	73.0	50.8
Loss ratio (%)	66.4	68.6
Technical result (net)	1.0	5.4

We receive the bulk of our aviation business from Hannover Re by way of retrocession. The premium growth of 43.6 % was largely attributable to the acquisition of Skandia International's aviation portfolio. The expansion of this class of business reflects the priority attached to it within our overall strategy.

Results were unremarkable, despite a small number of major losses in the aviation and space sectors. This class of business, is also experiencing intense competition, and rate levels have declined throughout the market. Our result was also influenced by the acquisition of the Skandia business.

Marine

Marine		
in DM million	*1997*	*1996*
Gross premiums written	68.2	49.4
Loss ratio (%)	66.9	90.8
Technical result (net)	3.7	2.7

In marine business, as in other classes, we can discern a distinct intensification of competition.

The considerable rise in premium income in this class was principally due to systematic expansion in preferred markets and business segments. We achieved gratifying growth in both our non-proportional and our facultative portfolio.

Despite the more difficult market conditions, this strategic orientation enabled us to improve the technical result and allocate an additional DM 13.1 million to the fluctuation reserve.

Life

Life		
in DM million	*1997*	*1996*
Gross premiums written	317.5	133.7
Technical result (net)	- 46.6	- 19.9

Life reinsurance constitutes a strategic priority segment for our company. The year under review was marked by an accumulation of the effects caused by the assumption of both Hannover Re's German business and the Skandia International portfolio as well as the further systematic expansion of financing transactions in foreign markets. In the light of these factors, the business volume climbed by 137.6 %.

The technical result reflected the acquisition of the Skandia business and the payments made under prefinancing transactions. We regard the resulting deficit as an investment in the future, which even in the short term will generate profitable returns.

The portfolio of life insurance reinsured developed as follows (foreign currency amounts have been converted at the exchange rates applicable as at 31 December 1997):

Life reinsurance portfolio in DM million	1997	1996
Total business reinsured		
sum insured	43 600.7	17 262.5
of which retroceded	6 101.7	898.2
Endowment insurance		
sum insured	41 291.7	16 711.0
of which retroceded	5 323.2	864.2
Annuity and pension insurance		
12 times annual annuity	2 309.0	551.5
of which retroceded	778.5	34.0

Other classes

The following classes of business are shown combined under other classes: 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, nuclear plant property, other property damage, fire loss of profits, other and engineering loss of profits, other pure financial losses and fidelity.

The general property classes were affected by a number of loss events in 1997. Results deteriorated due to frost damage at the beginning of the year and several minor windstorm and hailstorm events. The most notable event to hit natural hazards reinsurance was the Oder river flooding. For Germany alone the economic losses are estimated to be in the order of DM 600 million, although considerably less than DM 100 million of these losses were insured. In view of the fact that natural catastrophes are largely reinsured at the very high end of the risk scale, reinsurance covers remained for the most part free of losses.

We are striving to expand further our credit and surety business in the light of strategic considerations. This segment is currently highly competitive; however, now that the steps taken to restore this business to profitability in Germany have begun to bear fruit, the loss ratio here has dropped sharply - despite a new record number of insolvencies. For this reason, unlike in previous years, the profits generated in the international markets were no longer overshadowed by losses on German business, and our technical result therefore improved considerably in the year under review.

Other classes in DM million	1997	1996
Gross premiums written	397.6	242.0
Loss ratio (%)	63.5	58.2
Technical result (net)	14.0	12.3

On an overall basis, we again showed a satisfactory technical profit in the "other classes" and allocated the amount of DM 17.7 million to the fluctuation reserve.

Investments

Stock markets performed very well

Proportion of shares increased

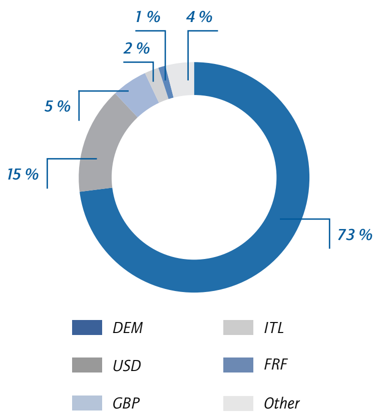
Substantially increased investment portfolio

Highly satisfactory result

In the year under review the stock market continued its good performance of the previous year. The Dax opened 1997 at 2,848.77 points, a level which was also to be its lowest all year. The equity markets were helped by the interest trend in the bond markets and the movement of the US dollar. The weakness of the mark made German exports cheaper and thus enhanced companies' earnings prospects.

On 28.11.1997 a new electronic trading system by the name of Xetra was launched. This innovation has substantially boosted Germany's standing as a financial centre, and securities transactions have become more transparent and convenient. Since the trend on stock markets continues to be assessed as favourable, in the first half of 1997 we further increased the proportion of shares in the portfolio of investments which we manage ourselves. We invested primarily in reputable, liquid stocks listed in the major stock exchange indices.

Breakdown of investments according to currency



The German bond market made a dynamic start to 1997. Yields on 10-year government bonds decreased in the course of the year from 5.98 % to 5.35 % as at year-end. This decline in yields was by no means linear. The turmoil on the US bond market carried over to the German capital market due to their close reciprocal relations. Money market interest rates, on the other hand, stabilized in the first half of the year at around 3 %. Yields only began to pick up again in October, when the German Bundesbank raised the securities repurchase rate from 3.0 % to 3.3 %. Developments here were also foreshadowed by the debate surrounding which countries would participate in the future European economic and monetary union. The differences in yields between the so-called high yielders - such as Spain and Portugal - and Germany decreased dramatically. Towards the end of the year bond markets benefited from the looming Asian crisis. Negative growth prospects for the global economy triggered a "flight to quality" from which both the US and the German bond market profited. We progressively extended the residual maturity of our fixed-income securities in the course of the year, thereby enabling our company to participate in the favourable trend on the bond markets.

1997 was a highly changeable year on the currency markets. The US dollar surprised traders in January with its sharp upturn. Confidence in the German mark was weakened by intense discussions regarding the emergence as well as the pros and cons of European Economic and Monetary Union. The mark's performance against the currencies of South-East Asia (with the exception of China) was quite different, posting strong gains across the region.

In accordance with the principle of congruent currency coverage, a large proportion of our investment portfolio is in currencies where the investments are matched by liabilities in the same currency. As a result of the conversion of investment income generated in foreign currencies, the weakness of the German mark impacted favourably upon the amount of the investment result.

The total investment portfolio increased in the year under review by 20.7 % from DM 4.5 billion to DM 5.5 billion.

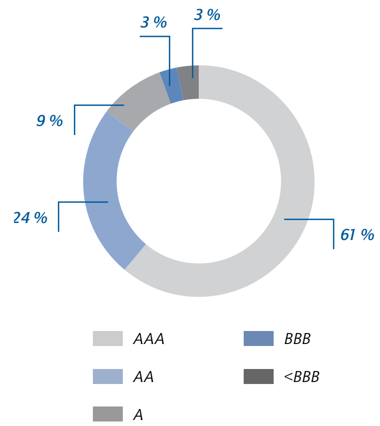
We continued to attach great importance to the quality of our investments in the year under review. More than 80 % of the fixed-income bearer and registered bonds, notes and loans in our direct portfolio have a security rating of AA or better.

Investment income increased by 9.7 % to DM 267.1 million in the 1997 financial year.

As in the previous year, we achieved an extraordinarily satisfying investment result in the year under review. The balance from realized gains and losses on the disposal of investments and on depreciation generated a profit of DM 40.0 million, following DM 19.3 million in the previous year. Allowing for management expenses, the net investment result totalled DM 301 million, an increase of 16.0 % compared to 1996.

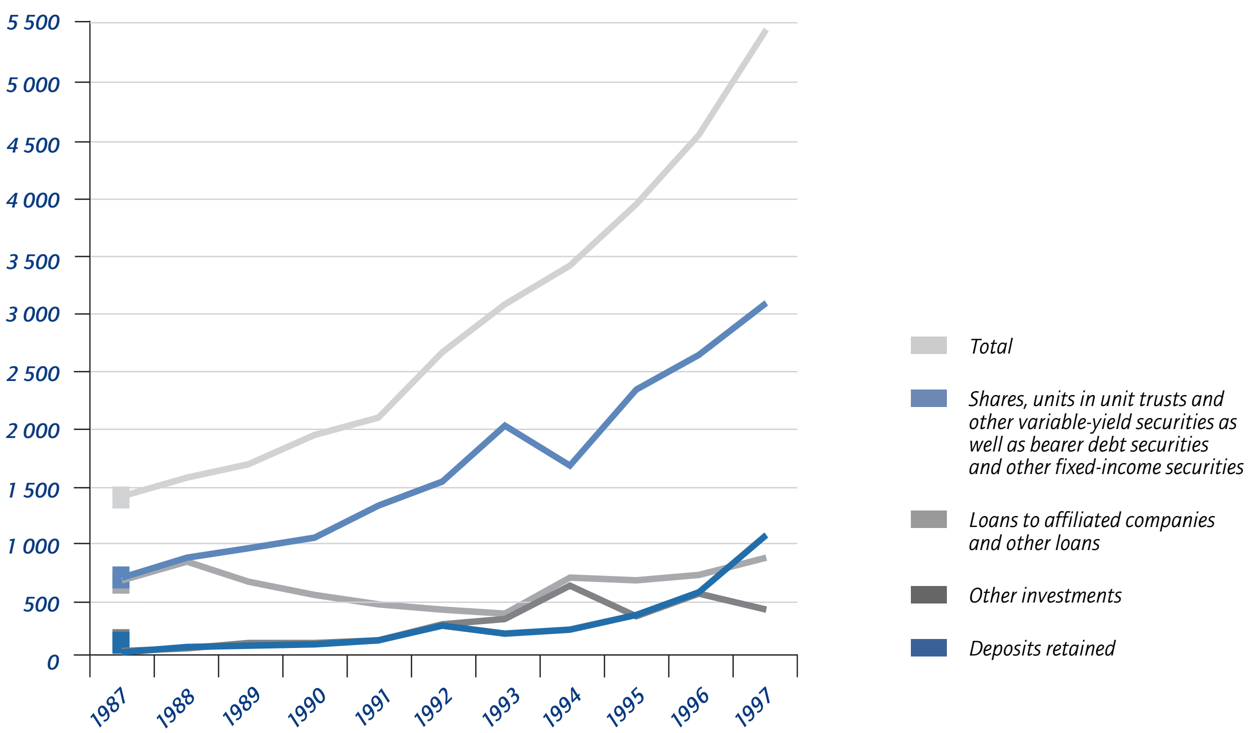
The current value of the investments which we manage internally exceeded the corresponding book values by DM 483 million or 10.9 %.

Rating of fixed-income securities



Investments

in DM million



Human Resources

Highly skilled and motivated staff are the key factors which guarantee our commercial success as a professional reinsurer. Needless to say, this fact has clear implications even as far as recruitment is concerned. In order to be able to draw upon qualified applicants among university graduates, for example, we further extended our contacts with universities offering courses in insurance studies.

Personnel development a central issue

Introduction of a system of agreed objectives

Steady growth in the workforce

It is imperative that staff continue to expand their personal know-how and skills after joining our company. Internal human resources development thus remained a central issue of our personnel management in the year under review. With this in mind, the new personnel development concept introduced in the previous year was refined and extended to include additional elements. We organized numerous inhouse seminars and workshops, which were led by experienced practitioners from within our company. Furthermore, we made greater use of opportunities for our staff to receive training at primary insurers.

Complementing the general training courses available to our staff both within and outside the company, we are making increased use of project management assignments. In addition to their technical tasks, project managers receive a temporary management commission. Such assignments thus constitute a form of probation for all those who would like in future to assume greater management responsibility within their line duties. However, it is hardly ever the case that disciplinary management tools are assigned under a project management brief; in this way, we foster a cooperative style of management which relies upon powers of persuasion and argumentation rather than hierarchical authority.

In order to attune our work in the long term even more closely to the needs of our clients, we have introduced a comprehensive quality management process throughout the company. One of the products of this process as regards personnel policy is the determination of agreed objectives, which in the first place apply primarily to senior management staff.

Such a system of agreed objectives ultimately only makes sense when it gives rise to individual objectives for all members of staff. These are determined, among other things, by means of periodic staff reviews, the implementation and contents of which were entirely restructured in the year under review. Our aim in this regard is to ensure that all our members of staff gear themselves on a sustained and comprehensible basis to the needs and wishes of our clients.

As at year-end 1997, 190 employees were working at our headquarters in Hannover, 110 of whom were women and 80 men. This figure represents an increase of 10 in the number of staff compared to the previous year.

The continued success of the company development in 1997 was to a great extent attributable to the engagement and commitment shown by our employees. We would therefore like to take this opportunity to express our sincere appreciation to our members of staff, the employee council and the senior management committee for their contribution to this success.

Outlook

As the Asian crisis of 1997 clearly demonstrated, reliable forecasts of global economic developments are virtually impossible to make. In addition to recognizing that an entire - apparently flourishing - region can very quickly get into economic difficulties, it should be noted on the positive side that a considerable degree of consolidation has already been achieved in a relatively short space of time. This has taken place with the help of international aid mechanisms.

Profound changes in basic economic trends are not anticipated. Given the efforts to hold down inflation rates and maintain a favourable investment climate, substantial interest rate rises are unlikely. As for Germany, we trust that by improving the country's attractiveness as an industrial location - for example through implementation of the long overdue tax reform - the basic conditions can be created for higher growth with a view to stimulating domestic demand and reducing unemployment.

The premium volume in the insurance markets, especially in the highly developed markets of North America and Western Europe, is scarcely expanding. Furthermore, due to the increased number of corporate mergers, larger insurance groups are already tending to reduce their reinsurance cessions. Moreover, the generally sluggish growth in the volume of reinsurance contrasts with an increasing supply of available reinsurance capacity, partly as a result of the substantial profits posted in recent years. Competition is therefore intensifying and both prices and conditions have come under pressure. The highly favourable loss experience in recent years - which has continued to date in the current year - means that there is no end in sight to this development. It is, however, notable that in some segments - such as German motor business - the first indications of a trend reversal can be discerned.

This assessment of the state of the market only applies to property and casualty reinsurance. Life and health reinsurance continues to offer profitable growth opportunities. Accordingly, we expect to achieve only a slight increase in property and casualty reinsurance premiums, and in some markets our premium income may even contract.

Too early to foresee the full repercussions of the Asian crisis

Terms and conditions in property and casualty reinsurance still under pressure

Low burden of major losses

Our portfolio has been affected by two extraordinary losses to date in the current year. At the beginning of 1998 large parts of Canada were hit by an ice-storm on a hitherto unheard-of scale. More recently, in June, Germany suffered a major railway accident. The loss is insubstantial for our company from these two events.

Assuming that we are not burdened by any additional extraordinary major losses and that the capital markets are spared any further turmoil, we expect 1998 to close with another improved profit for the year.

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

Proposal for the distribution of profits

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

	DM
Dividend on the participating subscribed capital of DM 29 570 400.–	16 485 500.–
Profit carried forward to new account	14 500.–
Disposable profit	16 500 000.–

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 approves our proposals for the distribution of the disposable profit, the composition of our capital, reserves and technical provisions will be as follows:

Figures in DM million	*1997*	*1996*
Subscribed capital and reserves	235.3	235.3
Surplus debenture (Genußrechtskapital)	80.0	80.0
Fluctuation reserve and similar provisions	418.3	345.9
Technical provisions	3 909.1	3 619.1
Total capital, reserves and technical provisions	4 642.7	4 280.3

The capital, reserves and technical provisions amounted to 313.9 % (348.1 %) of net premiums; this includes the capital and reserves (including surplus debenture) at 21.3 % (25.6 %) of net premiums.

ACCOUNTS

BALANCE SHEET *as at 31 December 1997*

Assets *Figures in DM thousand*	1997				1996
A. Subscribed capital unpaid - called-up capital - (1996: -)				18 900	18 900
B. Intangible assets: Other intangible assets				17 508	-
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			90 706		78 166
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		283 143			285 472
2. Participating interests		12 538			12 538
			295 681		298 010
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		978 059			676 813
2. Bearer debt securities and other fixed-income securities		2 144 231			2 019 360
3. Mortgages and loans secured on land and buildings		5 536			5 372
4. Other loans					
a) Registered debt securities	413 116				
b) Debentures and loans	344 549				
c) Sundry loans	45 000	802 665			733 512
5. Deposits with banks		93 065			161 575
6. Other investments		10			10
			4 023 566		3 596 642
IV. Deposits with ceding companies			1 044 494		545 102
				5 454 447	4 517 920
D. Receivables					
I. Accounts receivable arising out of reinsurance operations - from affiliated companies: 68 878 (1996: 11 707)			268 020		183 061
II. Other receivables - from affiliated companies: 16 500 (1996: 37 347)			23 277		45 158
				291 297	228 219

Liabilities
Figures in DM thousand

	1997			1996
A. Capital and reserves				
I. Subscribed capital		48 470		48 470
II. Capital reserve		114 036		114 036
III. Retained earnings				
1. Statutory reserve	500			
2. Other retained earnings	72 243	72 743		72 743
IV. Disposable profit		16 500		15 100
			251 749	250 349
B. Surplus debenture (Genußrechtskapital)			80 000	80 000
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	202 421			
2. Less: reinsurance ceded	42 599	159 822		154 481
II. Life assurance provision				
1. Gross	825 730			
2. Less: reinsurance ceded	403 686	422 044		312 916
III. Provisions for outstanding claims				
1. Gross	4 062 592			
2. Less: reinsurance ceded	806 996	3 255 596		3 084 085
IV. Provision for bonuses and rebates				
1. Gross	2 287			
2. Less: reinsurance ceded	645	1 642		1 566
V. Fluctuation reserve and similar provisions		418 273		345 881
VI. Other technical provisions				
1. Gross	77 794			
2. Less: reinsurance ceded	7 742	70 052		66 081
			4 327 429	3 965 010
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		15 789		14 237
II. Provisions for taxation		30 283		25 243
III. Other provisions		33 968		33 242
			80 040	72 722

Assets *Figures in DM thousand*	1997				1996
E. Other assets					
I. Tangible assets and stocks			28		9
II. Current accounts with banks, cheques and cash in hand			16 169		28 559
				16 197	28 568
F. Prepayments and accrued income					
I. Accrued interest and rent			72 541		72 187
II. Other accrued income			1 825		2 162
				74 366	74 349
				5 872 715	4 867 956

Liabilities
Figures in DM thousand

	1997			1996
E. Deposits received from retrocessionaires			597 556	268 971
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations - to affiliated companies: 103 707 (1996: 52 782)		513 935		207 821
II. Miscellaneous liabilities		11 678		11 707
- from taxes: 526 (1996: 4 116) - for social security: 391 (1996: 557) - to affiliated companies: 3 526 (1996: 4 609)			525 613	219 528
G. Accruals and deferred income			10 328	11 376
			5 872 715	4 867 956

PROFIT AND LOSS ACCOUNT *for the 1997 financial year*

Figures in DM thousand	*1997*			*1996*
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	2 282 908			1 571 439
b) Retrocession premiums	803 715			341 873
		1 479 193		1 229 566
c) Change in the gross provision for unearned premiums (+/-)	-26 405			10 067
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	28 702			3 654
		2 297		13 721
			1 481 490	1 243 287
2. Allocated investment return transferred from the non-technical account, net of retrocession			13 473	11 321
3. Other technical income, net of retrocession			1	1
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 246 039			977 681
bb) Retrocessionaires' share	184 069			135 907
		1 061 970		841 774
b) Change in provisions for outstanding claims abgewickelte Versicherungsfälle				
aa) Gross	-411 065			-262 568
bb) Retrocessionaires' share	407 109			91 188
		-3 956		-171 380
			1 065 926	1 013 154
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-71 850		-41 588
b) Other net technical provisions		-803		408
			-72 653	-41 180
6. Bonuses and rebates, net of retrocession			1 237	608
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		584 288		389 002
b) Less: commissions and profit commissions received on retrocession		145 450		86 538
			438 838	302 464
8. Other technical charges, net of retrocession			4 067	4 351
9. Subtotal			-87 757	-107 148
10. Change in the fluctuation reserve and similar provisions			-72 392	-16 932
11. Net technical result			-160 149	-124 080

Figures in DM thousand	1997				1996
Balance brought forward:				-160 149	-124 080
II. Non-technical account					
1. Investment income					
a) Income from participating interests		17 048			15 517
- affiliated companies:					
16 500 (1996: 15 000)					
b) Income from other investments					
- affiliated companies:					
14 629 (1996: 7 900)					
aa) Income from land and buildings, rights to land and buildings, leasehold	6 736				
bb) Income from other investments	243 365	250 101			231 667
c) Appreciation on investments		678			210
d) Gains on the realization of investments		63 319			48 674
			331 146		296 068
2. Investment charges					
a) Investment management charges, including interest		6 851			7 199
b) Depreciation		14 891			18 595
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
1 000 (1996: 1 252)					
c) Losses on the realization of investments		8 419			10 762
			30 161		36 556
			300 985		259 512
3. Allocated investment return transferred to the technical account			-21 290		-12 813
				279 695	246 699
4. Other income			7 958		9 627
5. Other charges					
a) Special allocation to provisions for outstanding claims		73 230			61 381
b) Miscellaneous charges		29 512			34 872
			102 742		96 253
				-94 784	-86 626
6. Profit or loss on ordinary activities before tax				24 762	35 993

Figures in DM thousand	1997				1996
Balance brought forward:				24 762	35 993
7. Taxes on profit and income		76			1 519
plus allocation for group assessment		5 506			16 831
			5 582		18 350
8. Other taxes		206			622
plus allocation for group assessment		2 493			1 921
			2 699		2 543
				8 281	20 893
9. Profit or loss for the financial year				16 481	15 100
10. Profit brought forward from previous year				19	–
11. Disposable profit				16 500	15 100

Valuation of assets

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

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

Property has been valued at the purchase or construction cost less scheduled depreciation where permitted, allowing for special depreciation in accordance with § 4 of the Federal Assisted Areas Act (FördG).

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

Loans to affiliated companies and participations are valued at original cost. Write-offs were not necessary.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict principle of cost or market value – whichever is lower – in accordance with § 341b (2) in conjunction with § 253 (3) of the Commercial Code (HGB). Lower valuations were retained in accordance with § 280 (2) of the Commercial Code (HGB).

The valuation of derivative instruments was carried out on a Mark-to-Market basis.

We valued mortgages and loans secured on land and buildings, registered debt securities, debentures and loans at nominal value taking into account amortisation and depreciation. Non-interest-bearing securities were discounted with an interest rate of 5.5 %.

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

Fixed assets and stock are valued at the purchase cost less straight-line depreciation.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5 % of the reinsurance commission in accordance with the NRW order dated 29.5.1974. 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, we have increased them by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralized. 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; these transactions probably amount to roughly 3 % of gross premiums.

In the Liability and Motor Third Party Liability classes we set up IBNR reserves for excess of loss treaties. The calculation was largely carried out in accordance with statistical mathematical methods.

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

The fluctuation reserve was set up in accordance with the annex to § 29 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 provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG). The standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6 %.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and unknown liabilities. A provision was set up in accordance with § 249 (1) of the Commercial Code (HGB) in conjunction with § 274 (1) of the Commercial Code (HGB) for the taxation expenses imputable to the financial year under commercial law which affect subsequent years under tax law. This provision covers corporation tax – based on a tax rate of 45 % – and trade tax.

Other liabilities are valued at nominal amounts.

Currency conversion

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

Balance sheet items taken over from the previous year were also converted into German marks at the average exchange rates as at the end of the year. In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is congruent cover for liability elements by setting up corresponding asset elements in the different currencies. Where losses have however arisen, these have been shown as such under other expenses. Where profit occurred, we allocated this to the reserve for currency risks as non-realized profit. This reserve is released on an annual basis to be added to the profit. In this respect, profits from carry-forwards may be neutralized, although currency transactions within the year produced losses.

Miscellaneous

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

The change in asset items B., C.I. to C. III. was as follows during the 1997 financial year:

Figures in DM thousand	Book values 31.12.1996	Additions	Disposals	Depreciation	Book values 31.12.1997
B. Intangible assets: Other intangible assets	–	23 217	–	5 709	17 508
C. I. Land and buildings, rights to land and buildings, leasehold	78 166	18 086	–	5 546	90 706
C. II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies	285 472	–	2 329	–	283 143
2. Participating interests	12 538	–	–	–	12 538
3. Total C.II.	298 010	–	2 329	–	295 681
C. III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities	676 813	350 053	43 168	5 639	978 059
2. Bearer debt securities and other fixed-income securities	2 019 360	2 197 707	2 070 130	2 706	2 144 231
3. Mortgages and loans secured on land and buildings	5 372	699	535	–	5 536
4. Other loans					
a) Registered debt securities	325 145	104 355	16 384	–	413 116
b) Debentures and loans	363 367	16 582	34 400	1 000	344 549
c) Sundry loans	45 000	–	–	–	45 000
5. Deposits with banks	161 575	–	68 510	–	93 065
6. Other	10	–	–	–	10
7. Total C.III.	3 596 642	2 669 396	2 233 127	9 345	4 023 566
Sum total	3 972 818	2 710 699	2 235 456	20 600	4 427 461

Land and buildings and rights to land and buildings

On 31.12.1997 the company owned one developed site in Bad Cannstatt and one developed site in Leipzig, in respect of which there was special depreciation in accordance with § 4 of the Federal Assisted Areas Act (FördG) amounting to DM 29 thousand. The company also owned a property under construction in Bielefeld-Vilsendorf as well as shares worth DM 47,187 thousand in developed sites in Düsseldorf, Frankfurt and Stuttgart.

Shares in affiliated companies

Name and registered office of the company Figures in currency units of 1 000	Participation (in %)	Capital and reserves (§266 (3) of the Commercial Code)	Result for the last financial year
Companies resident in Germany			
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany	45.00	DM 69 055	DM -1 508
Companies resident abroad			
E+S Reinsurance (Ireland) Ltd., Dublin, Ireland	100.00	DM 231 001	DM 21 907
holds 33.33 % of shares in: Hannover Services (Ireland) Ltd., Dublin, Irland (renamed Hannover Re Advanced Solutions Ltd. in 1998)		DM 131	DM -49
Hannover Life Re of Australasia Ltd, Sydney, Australia	50.00	AUD 117 529	AUD 4 309

Other notes on investments

In accordance with § 280 (2) of the Commercial Code (HGB), increased valuations of DM 31,364 thousand were omitted in the 1997 financial year.

Assets with a balance sheet value of DM 246,395 thousand (DM 234,446 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 largely determined using a combined asset value and gross rental method. Unfinished buildings were valued at cost of acquisition.

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

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

The 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.

Current values pursuant to § 54 RechVersV of asset items C.I to C.III. for the 1997 financial year Figures in DM thousand		*Book values 31.12.1997*	*Current values 31.12.1997*	*Difference 31.12.1997*
C.I.	Land and buildings, rights to land and buildings, leasehold	90 706	142 848	52 142
C.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	283 143	320 816	37 673
	2. Participating interests	12 538	16 053	3 515
	3. Total C.II.	295 681	336 869	41 188
C.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	978 059	1 204 172	226 113
	2. Bearer debt securities and other fixed-income securities	2 144 231	2 264 252	120 021
	3. Mortgages and loans secured on land and buildings	5 536	5 536	–
	4. Other loans			
	a) Registered debt securities	413 116	434 186	21 070
	b) Debentures and loans	344 549	361 189	16 640
	c) Sundry loans	45 000	50 367	5 367
	5. Deposits with banks	93 065	93 065	–
	6. Other investments	10	10	–
	7. Total C.III.	4 023 566	4 412 777	389 211
Sum total		4 409 953	4 892 494	482 541

Other receivables

Figures in DM thousand	*1997*	*1996*
Receivables from affiliated companies	16 500	37 347
Receivables from the revenue authorities	3 094	1 694
Interest and rent due	2 121	1 168
Reveiveables from derivative financial instruments	1 307	1 274
Receivables from investment deposits	214	483
Receivables from the sale of securities	–	2 868
Other receivables	41	324
Total	23 277	45 158

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to DM 1,816 thousand.

Subscribed capital

The subscribed capital consists of 44,064 registered shares in nominal value of DM 1,100.–. A total of 61.01 % = DM 29,570 thousand is paid up at differing percentages for each individual group of shares.

Surplus debenture (Genußrechtskapital)

The surplus debenture issued in 1993 amounting to DM 80,000 thousand has a term of 10 years. The interest is 7.75 %.

Provision for unearned premiums

Insurance class Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Fire	35 886	31 354	31 593	30 632
Liability	35 017	30 135	33 884	29 850
Personal accident	9 987	9 538	8 940	8 673
Motor	19 833	11 581	12 636	11 520
Aviation	6 006	5 580	6 299	5 502
Life	38 200	27 423	26 128	23 328
Other classes	57 492	44 211	48 581	44 976
Total	202 421	159 822	168 061	154 481

Life insurance provisions

Insurance class Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Life	825 722	422 036	413 306	310 137
Other classes	8	8	2 779	2 779
Total	825 730	422 044	416 085	312 916

Provisions for outstanding claims

Insurance class *Figures in DM thousand*	*1997* *gross*	*1997* *net*	*1996* *gross*	*1996* *net*
Provision for reimbursements and surrenders (except annuities)				
Fire	126 754	109 283	117 235	109 848
Liability	1 398 496	1 167 897	1 190 286	999 864
Personal accident	82 522	76 538	70 972	68 039
Motor	1 928 225	1 467 397	1 694 522	1 532 318
Aviation	73 492	62 030	58 610	51 694
Marine	94 575	87 258	77 915	77 888
Life	34 507	32 588	26 461	25 604
Other classes	273 385	208 259	195 114	178 260
	4 011 956	3 211 250	3 431 115	3 043 515
Provision for annuities				
Liabilitiy	2 199	2 157	2 477	2 412
Personal accident	2 135	2 056	1 549	1 531
Motor	46 302	40 133	43 000	36 627
	50 636	44 346	47 026	40 570
Total	4 062 592	3 255 596	3 478 141	3 084 085

Fluctuation reserve and similar provisions

Insurance class *Figures in DM thousand*	*Position at 1.1.1997*	*Addition*	*Withdrawal and release*	*Position at 31.12.1997*
Fluctuation reserve				
Fire	98 191	11 518	–	109 709
Personal accident	6 102	–	933	5 169
Motor	13 748	23 286	–	37 034
Aviation	52 441	7 897	–	60 338
Marine	25 314	13 066	–	38 380
Other classes	132 335	31 223	14 039	149 519
	328 131	86 990	14 972	400 149
Provisions which are similar to the fluctuation reserve – major risks –				
Liability	6 295	–	171	6 124
Other classes	11 455	545	–	12 000
Total	345 881	87 535	15 143	418 273

Other technical provisions

Type of provision Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Profit commission	57 497	51 549	49 340	48 314
Commissions	14 672	14 181	14 266	14 266
Premium cancellation	5 314	4 075	3 395	3 199
Premium credit	199	134	245	187
Road traffic accident victim assistance	113	113	116	115
Total	77 795	70 052	67 362	66 081

Technical provisions – total

Insurance class Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Fire	275 111	251 580	249 273	240 915
Liability	1 462 950	1 228 073	1 253 339	1 058 767
Personal accident	100 283	93 898	87 853	84 535
Motor	2 061 957	1 584 834	1 791 784	1 620 925
Aviation	141 426	128 144	118 835	111 087
Marine	133 464	126 704	103 777	103 750
Life	899 656	483 274	466 280	359 446
Other classes	514 250	430 922	406 167	385 585
Total	5 589 097	4 327 429	4 477 308	3 965 010

Provisions for other risks and charges

Figures in DM thousand	1997	1996
Provisions for pensions and similar liabilities	15 789	14 237
Provisions for taxation	30 283	25 243
Sundry provisions		
Provisions for interest	13 200	10 800
Provisions for currency risks	11 055	11 857
Provisions for outstanding payments	3 573	3 462
Provisions for option business	2 742	4 861
Provisions for forward exchange business	1 531	–
Provisions for annual accounts costs	756	755
Provisions for litigation risks	750	750
Other provisions	361	757
	33 968	33 242
Total	80 040	72 722

Other liabilities

Figures in DM thousand	*1997*	*1996*
Liabilities from interest on surplus debenture	6 200	6 200
Liabilities in respect of affiliated companies	3 526	4 609
Liabilities from overpayments	682	–
Liabilities in respect of the revenue authorities	526	201
Liabilities from outstanding social security contributions	391	359
Liabilities from deliveries and services	125	156
Liabilities from leases	102	42
Liabilities from land and buildings	71	118
Other liabilities	55	22
Total	11 678	11 707

Deferred items

Figures in DM thousand	*1997*	*1996*
Disagio	9 734	10 777
Other accruals and deferred income	594	599
Total	10 328	11 376

Contingent liabilities

There are no contingent liabilities which are not shown in the annual balance sheet or liabilities arising from the issue of bills or cheques.

Figures in DM thousand	Gross premiums written 1997	Gross premiums written 1996	Gross premiums earned 1997	Gross premiums earned 1996	Net premiums earned 1997	Net premiums earned 1996	Technical result for own account 1997	Technical result for own account 1996
Fire	194 942	154 273	191 971	159 080	150 329	141 094	-585	9 115
Liability	264 645	233 700	265 735	240 058	164 413	157 123	-13 606	-6 419
Personal accident	73 400	59 016	72 434	58 563	63 563	54 610	-1 478	3 280
Motor	893 614	648 556	886 574	650 844	492 720	498 602	-77 832	-89 366
Aviation	72 954	50 810	74 059	49 438	54 613	42 621	-6 923	-151
Marine	68 204	49 380	68 204	49 380	55 885	33 743	-9 404	1 605
Other insurance classes	397 602	242 048	390 287	248 558	285 621	204 656	-3 740	-22 189
Total property and casualty insurance	1 965 361	1 437 783	1 949 264	1 455 921	1 267 144	1 132 449	-113 568	-104 125
Life	317 547	133 656	307 239	125 585	214 346	110 838	-46 581	-19 955
Total insurance business	2 282 908	1 571 439	2 256 503	1 581 506	1 481 490	1 243 287	-160 149	-124 080

Total insurance business

Figures in DM thousand	1997	1996
Gross claims incurred	1 657 104	1 240 249
Gross operating expenses	584 288	389 002
Reinsurance balance	38 385	24 586

Expenses for personnel

Figures in DM thousand	1997	1996
1. Wages and salaries	17 164	15 330
2. Social security payments and expenses for welfare	3 005	2 986
3. Expenses for old-age pension scheme	1 750	1 531
4. Total expenses	21 919	19 847

Expenses for investments

Figures in DM thousand	*1997*	*1996*
Land and buildings	6 212	8 826
Shares, units in unit trusts	6 069	4 129
Derivative financial instruments	5 919	4 154
Administrative expenses	5 354	4 867
Fixed-income securities	4 876	6 642
Registered debt securities, debentures and loans	1 000	6 169
Deposit and bank fees	731	517
Deposits	–	1 252
Total	30 161	36 556

Other income

Figures in DM thousand	*1997*	*1996*
Exchange rate gains	3 331	5 492
Allocated investment return	1 710	2 089
Release of non-technical provisions	1 269	251
Profit from services	877	484
Cancellation of value adjustments	–	845
Other income	771	466
Total	7 958	9 627

Other expenses

Figures in DM thousand	1997	1996
Special allocations to the provisions for outstanding claims	73 230	61 381
Deposit interest	12 604	2 977
Interest charges on surplus debenture (Genußrechtskapital)	6 200	6 200
Exchange rate losses	4 820	5 634
Expenses for the whole company	4 557	4 270
Allocation to interest provisions	2 400	10 800
Interest charges on portfolio acquisitions	1 857	–
Expenses for letters of credit	1 543	1 083
Expenses from services	911	462
Interest charges on old-age pension scheme	848	785
Interest charges on reinsurance operations	624	508
Separate value adjustment on accounting debts	485	2 161
Financing interest	314	446
Depreciation on other assets	40	131
Other interest and expenses	126	908
	110 559	97 746
Less:		
Technical interest	7 817	1 493
Total	102 742	96 253

Other information

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

The total emoluments paid to the Supervisory Board in the year under review totalled DM 339 thousand, those to the Advisory Board DM 172 thousand, those to the Executive Board DM 1,640 thousand and those to former members of the Executive Board DM 590 thousand. The amount of DM 6,563 thousand was shown on the liabilities side for current pensions of former members of the Executive Board.

The following mortgage loans have been granted to board members:

Figures in DM thousand	Position at 1.1.1997	Amortisation	Deduction transfer	Position at 31.12.1997	Interest rate %
Supervisory Board	131	–	131	–	5.5
Executive Board	248	6	–	242	5.5

The loans end in 2018.

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

The average number of employees was185 in the financial year.

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

Hannover, 16th July 1998

Der Vorstand

Zeller	Schubach	Dr. Becke
Gräber	Haas	Dr. Hecker

Certification by the Independent Auditors

The original German financial statements for E+S Rückversicherungs-Aktiengesellschaft which we have audited in accordance with professional standards comply with the legal regulations. The financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the company. The management report is in agreement with the financial statements.

Hannover, 17th July 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

During 1997 we supervised the management of the company on the basis of regular written and verbal reports from the Executive Board. In the year under review, we took the decisions required of us and followed proceedings through four meetings and frequent written communication. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries was also included in our consultations.

As part of the implementation of important individual projects, we considered - including at a special meeting - the acquisition of the active portfolio of Skandia International Insurance Company, Stockholm, and the acquisition of all the shares of Skandia Reassurance (UK) Ltd., London. The acquisition was realized jointly with the company's major shareholder, Hannover Re, which is to assume a share of 80 %. E+S Rück gained attractive business through its participation in this acquisition. The purchase also enabled it to achieve substantial premium growth in business segments of major strategic importance, such as life reinsurance, facultative reinsurance and aviation/space insurance. We received regular written reports on progress with the integration of the acquired business and on the activities of the various project groups which were formed for this purpose.

The Supervisory Board also gave its consent to the transfer of a 14 % holding in the company's share capital from HANNOVER Organisationssysteme GmbH to CiV Lebensversicherung AG in Düsseldorf.

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

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

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

1. its factual details are correct,

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

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

Nor have we any objection to the Executive Board's overall report; we agree to the 1997 annual accounts, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 1997.

Following the conclusion of its three-year term of office, new elections to the Supervisory Board were due to be held on 4 August 1997, the date of the Annual General Meeting. Having completed one term of office on this board, Mr. Andreas Thois and Mr. Martin Wethkamp did not seek re-election as employees' representatives and stood down from the Supervisory Board. As their successors, the employees elected Mr. Manfred Bieber and Mr. Tilman Hess to be their new representatives on the Supervisory Board.

Immediately following the election of the shareholders' representatives by the Annual General Meeting on 4 August 1997, the acting Supervisory Board assembled for its constitutive meeting. Mr. Wolf-Dieter Baumgartl was reelected as Chairman of the Supervisory Board, and Mr. Gerd Kettler was chosen to be Deputy Chairman.

Mr. Dirk Lohmann's membership of the Executive Board ended on 31 August 1997. Mr. Lohmann had belonged to the Executive Board since 1 January 1994. The Supervisory Board expressed its appreciation of Mr. Lohmann's service, and thanked him for his contribution to the development of the company. With effect from 1 September 1997, Mr. Jürgen Gräber was appointed as a deputy member of the company's Executive Board. Mr. Gräber bears regional responsibility for English-speaking Africa, Asia, Australia and New Zealand, and he is also responsible for the aviation and marine sectors as well as financial reinsurance.

Hannover, 3rd August 1998

For the Supervisory Board

Baumgartl
Chairman

Glossary of technical terms

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

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

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

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

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

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

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

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

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

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

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

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

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

Fluctuation reserve: provision for the equalization of substantial fluctuations in the claims experience of individual classes of business over several years.

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

Property and casualty (re-)insurance: collective term for all classes 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 classes of property and liability insurance.

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

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

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

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

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

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

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

Retro: cf. → Gross / Retro / Net

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

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

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