Annual Report 2003

e+s rück

KEY FIGURES
of E+S Rückversicherungs-AG

in EUR million	2003	+/- previous year	2002	2001	2000	1999
Gross written premiums	2 232.9	(10,1%)	2 483.1	1 904.5	1 550.4	1 272.3
Net premiums earned	1 464.3	+5.8%	1 384.3	1 041.3	904.6	727.0
Underwriting result	211.6	+932.2%	20.5	(148.6)	(119.0)	(57.5)
Change in the equalisation reserve and similar provisions	201.9	+661.9%	26.5	(23.1)	17.4	19.5
Investment result	189.6	+11.9%	169.5	223.3	229.6	160.1
Pre-tax profit	80.8	+72.6%	46.8	27.8	27.8	19.0
Profit or loss for the financial year	39.0	+95.0%	20.0	12.0	1.6	9.8
Investments	4 283.4	(2.4%)	4 390.8	3 603.3	3 166.8	3 074.2
Capital and reserve incl. surplus debenture (Genussrechtskapital)	461.2	–	461.2	161.2	161.2	161.2
Equalisation reserve and similar provisions	498.5	+68.1%	296.6	270.1	293.2	275.8
Net technical provisions	3 533.8	+7.7%	3 282.3	2 952.0	2 543.1	2 372.1
Total capital, reserves and technical provisions	4 493.5	+11.2%	4 040.1	3 383.3	2 997.5	2 809.1
Number of employees	220	+5	215	198	193	207
Retention	65.8%		58.2%	57.0%	59.6%	56.9%
Loss ratio*	67.0%		75.5%	91.7%	78.4%	83.1%
Expense ratio*	17.1%		18.8%	23.9%	26.9%	25.1%
Combined ratio*	84.1%		94.3%	115.6%	105.3%	108.2%

** Excluding life reinsurance*

Calendar of events in 2004

30 April 2004	Settlement of bodily injury claims in European markets abroad: Claims adjustment practice in France and the United Kingdom
29/30 April 2004	Reinsurance Seminar I
17 June 2004	Hannover Forum "Senior Citizens– A new Market?"
17 June 2004	Examination Concert held by E+S Rückversicherungs-AG Start: 6.00 p.m.
24/25 June 2004	Reinsurance Seminar II
9/10 September 2004	Reinsurance Seminar III
28 September 2004	Round Table "General Casualty"
6 October 2004	Expert conference on "Medical malpractice and hospital liability between the Hippocratic Oath and the juridification of medicine"
11/12 November 2004	Reinsurance Seminar IV

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Dear clients and shareholders of E+S Rück,

Together we can look back on another successful financial year for E+S Rück, the specialist reinsurer for the German market. This excellent performance coincides with E+S Rück's 80th birthday and in many respects underscores the remarkable development of our company.

In this, our anniversary year, we succeeded in further expanding our market position as the third-largest reinsurer in the world's second-largest non-life reinsurance market despite facing an at times troubled economic climate. Once again, we were able to enlarge our portfolio of clients.

In the most recently completed renewals phase we again demonstrated the strength of our capital resources. While the (re-)insurance industry struggled to cope with the unfavourable assessments of the rating agencies, we succeeded in defending our "AA-" rating from Standard & Poor's – a vital prerequisite for writing profitable business in an attractive market cycle. Our emphasis here is on quality rather than quantity. True to our underwriting strategy, we parted with unprofitable business and scaled back capacities in market segments with diminishing returns. While gross premium income contracted by around 10% to EUR 2.2 billion, the enduring value of our portfolio was reflected in an increased underwriting profit of EUR 211.6 million before changes in the equalisation reserves. The rehabilitation efforts undertaken by insurers in recent years in both industrial fire insurance and liability business began to bear fruit. The claims frequency in motor insurance fell to an all-time low and led to an outstanding underwriting result.

In life and health reinsurance we consolidated our position as one of the leading life reinsurers in the German market. As part of our Customer Relationship Management activities we further expanded existing client relationships and acquired new accounts. We lived up to our reputation as an innovative reinsurer by launching a bodily injury claims express service for immediate claims assessment following accidents. Although premium growth was adversely impacted by a number of factors, not least the lack of clear direction emerging from the social policy arena, the underwriting profit improved substantially on the previous year.

A highlight of the year was the publication in September 2003 of the results of what was then the only multiple trauma study of its kind in the world. In a collaborative project with the participation of the scientific community, clients and E+S Rück, the long-term consequences of accidents were examined and the success of the patients' treatment was analysed.

Despite the unchanged difficult state of capital markets, we boosted the investment result by 12% to EUR 189.6 million. The adjustments made to the equities portfolio were thus more than offset by investment income that surpassed the previous year.

With a profit for the year of EUR 39.0 million in 2003, E+S Rück generated the best result in its 80-year history. This performance could not have been achieved were it not for the reliable partnership between our clients, shareholders and motivated staff. We would like to express our appreciation of this trust, which also inspires us with confidence in our continuing partnership-based cooperation in the years to come.

We look forward to sharing a successful future together.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

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of E+S Rückversicherungs-AG

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*Staff representative

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

80th Anniversary of E+S Rück – the specialist reinsurer for the German market

The year under review gave E+S Rück – the specialist reinsurer for the German market – several grounds to celebrate. In addition to recording an excellent profit for the year, E+S Rück celebrated its eightieth birthday in August 2003. We consider this reason enough to review the company's successful history, since there are few reinsurers that can look back on such an illustrious past and at the same time lay claim to profitability.

On 23 August 1923 E+S Rück was established in Cologne under the name Eisen und Stahl Versicherung AG by Haftpflichtverband der Deutschen Eisen- und Stahlindustrie V.a.G. and Gerling-Konzern Allgemeine Versicherungs-AG. The company initially operated as an insurer with the primary goal of offering fire insurance – along with other lines – at reasonable premiums and conditions to the industrial customers of Haftpflichtverband der Deutschen Eisen- und Stahlindustrie V.a.G. In 1937 the company was transformed into a reinsurance enterprise.

In the year when Eisen und Stahl was established Germany was still suffering from the after-effects of the First World War. The entire economy was paralysed by inflation on an unimaginable scale. With the implementation of currency reform in mid-November 1923, however, the worst was over. The so-called "golden years" of the 1920s followed, only to give way to the global economic crash of the years 1929 to 1932.

The young Weimar Republic came to an end, and 1933 marked the dawn of the darkest period in German history: the national-socialist dictatorship. By 1945 Germany lay in ashes, and its currency was once again devastated. It was not until the currency reform of 1949 that the course was set for a fresh economic resurgence.

Aided not least by the "Marshall Plan", the economy in the young Federal Republic of Germany began to gather impetus. Both the need and the demand for insurance and reinsurance consequently grew.

1966

Eisen und Stahl relocated its headquarters from Düsseldorf to Hannover, and there were significant changes in the group of shareholders. In addition to Haftpflichtverband der Deutschen Industrie (HDI), various renowned mutual insurers participated in Eisen und Stahl. Since that time the reinsurance of the shareholding enterprises has formed the core of the company's business, and it remains a firm pillar of its corporate philosophy.

1973

Under joint administration arrangements with its then affiliate Hannover Re, Eisen und Stahl accepted the reinsurance cessions of its shareholders and retroceded this business to the worldwide reinsurance market. The relationships thereby established with foreign companies led to greater involvement in international business.

From 1978 onwards Eisen und Stahl grew rapidly under the leadership of Claus Bingemer, the Chairman of the Executive Board.

1984

Eisen und Stahl and Hannover Re moved into their own shared Home Office building on Karl-Wiechert-Allee. Owing to the companies' rapid growth, the premises were soon unable to accommodate all their staff and had to be expanded in two further construction phases.

1995

Hannover Re acquired a majority interest in Eisen und Stahl. This served to further consolidate the union between the two companies and their strong market position both at home and abroad.

1988

The joint administration arrangements existing between Hannover Re and Eisen und Stahl since the seventies were reinforced through the establishment of joint underwriting arrangements with effect from 1 January 1988. All acceptances were then divided between the companies according to a previously agreed procedure.

While Hannover Re's original focus had been on property business – first and foremost in foreign markets –, Eisen und Stahl's portfolio was dominated by the casualty, personal accident and motor lines, principally in Germany.

1992

Eisen und Stahl established Eisen und Stahl Reinsurance (Ireland) Ltd. in Dublin, thereby tapping into the advantages offered by the International Financial Services Centre in Ireland.

1994

Eisen und Stahl acquired 50% of the capital stock of Life Reinsurance of Australasia Ltd., Sydney.

The Group was reorganised after Wilhelm Zeller took over as Chairman of the Executive Board at Hannover Re and Eisen und Stahl in January 1996. The most significant event occurred in the summer of 1997 with the launch of the new brand structure. Under its new name of E+S Rück, the company serves exclusively the German market, while Hannover Re operates only in international markets.

1998

75th anniversary of E+S Rück –
a reason to celebrate!

The company can look back on its success story with pride. A festival was held for clients in the Royal Gardens of Herrenhausen on 28 August. The celebratory address was given by Roland Berger – from the management consulting agency of the same name – on the topic "Is big really beautiful? – Ways out of merger mania". In the evening staff celebrated under the motto "It's party time".

Increasing international integration and take-overs have fundamentally changed the German reinsurance landscape in recent years.

E+S Rück has remained one of the few German companies and guarantees its clients – now as in the past – reliability and continuity.

2000

E+S Rück was awarded the highest marks for quality. The marketing division responsible for Germany, Austria and Switzerland was the first reinsurance unit to be certified according to the DIN EN ISO 9001 standard. This certification is a tangible product of E+S Rück's business policy geared to customer value with no ifs or buts.

2002

E+S Rück implemented a capital increase of altogether EUR 300 million. Based on this capital increase, guarantee funds of EUR 4.0 billion and an "AA-" rating, the company is well-equipped to make further optimal and unrestricted use of its market opportunities in the future.

E+S Rück – successful collaboration between science and practice

The anniversary in August 2003 was followed in September by the presentation of a study on multiple trauma. The only work of its kind in the world, this research was the product of a successful collaboration between the scientific community, clients and E+S Rück. The results were presented on 17 September 2003 at E+S Rück's Home Office on the occasion of an event held jointly with the Medizinische Hochschule Hannover (MHH) and Provinzial Nord.

In the case of multiple trauma, injuries are caused to various regions of the body or to systems of organs that individually or in combination can be life-threatening.

In his opening speech Dr. Michael Pickel highlighted the implications of the findings for insurers and reinsurers: "This study is of considerable significance to the insurance industry. Insurers and reinsurers have acquired valuable data that will enable them to better predict claims experiences and costs. What is more, it has become clear that the current products available in personal accident insurance do not provide adequate protection in all respects. The present results will enable us to give important fresh impetus to risk protection and product development."

A team led by Professor Dr. Christian Krettek, MHH, and Dr. Nicola-Alexander Sittaro, E+S Rück, examined 637 patients with multiple traumas who had been seriously injured at least ten years ago and cared for at the MHH. Most of the participants in the study had suffered serious injuries to lower extremities (altogether 82.7% of those involved) or serious head injuries (65.5%) as a consequence of the accident. The statistical analysis was performed by E+S Rück.

The study is the only one in the world to have observed such a large number of patients more than ten years after their accident.

In addition to medical considerations, the study looked at the patient's social environment, occupation, pension situation, sports and hobbies as well as his or her financial position, rehabilitation activities and insurance issues.

The analysis revealed, inter alia, that the number of deceased was larger than originally supposed. Social problems were particularly apparent. Almost half of the patients had fewer friends after the accident than before, and more than 60% found their leisure time pursuits restricted by their accident injuries. Almost 40% complained that their relationship with their partner or their family life had suffered from the consequences of the accident. A similarly high number were financially worse off after suffering serious injury than before the accident.

Their injuries also had major implications for the patients' professional lives. 16.6% had to undergo retraining, and roughly 20% were disabled as a consequence of the accident and had to retire on a pension. In most cases disability was the result of injuries to the pelvis or lower extremities. 30% of patients had lost their job due to the accident. Rehabilitation for those who managed to return to working life took more than two years. Despite the adverse impacts, participants rated their current situation as good or satisfactory. Nevertheless, 56% of patients indicated that they had experienced difficulties with their life situation after the accident.

MANAGEMENT REPORT
of E+S Rückversicherungs-AG

Economic climate

The German economy again failed to experience any significant recovery in the year under review. Measured in terms of real gross domestic product, Germany recorded virtually zero growth. Urgently needed reforms in the labour market and changes to welfare programmes were delayed. This crippling situation was exacerbated by turmoil abroad, including the sharply higher price of oil, the war on Iraq, the respiratory disorder SARS and fears of fresh terrorist attacks, all of which hampered economic recovery. The emerging turnaround in the global economy in the course of 2003 also promised to stimulate the Eurozone. Initial signs of cyclical upturn could be discerned in the manufacturing sector from the third quarter onwards. Lower interest rates and a stable cost situation should provide good conditions conductive to boosting capital spending among companies. The European Central Bank cut refinancing rates twice during the year as part of its mandate to maintain price stability.

Exports gathered substantial momentum after a depressed first half-year. Companies gained in optimism despite the appreciation of the euro. Private households, on the other hand, took a substantially gloomier view of the future. With unemployment rising towards year-end, 10.4% of the labour force was out of work in Germany. Private households compensated for increasing social security payments by showing a greater propensity to save. Consumer spending contracted sharply owing to the decline in real disposable incomes.

The German insurance industry

Demand for insurance products was strong despite the protracted sluggish state of the economy. For the year under review the German Insurance Association (GDV) expects the premium volume booked by German insurers to grow by 4.0% to EUR 146.9 billion.

In October 2003 Protektor, the rescue company set up to assist troubled life insurers, demonstrated its working capability for the first time. All life insurers operating in Germany participate in Protektor according to their market share. The company assumes a life insurer's portfolio with the aim of passing it on to a buyer within two years. The company Medikator AG was established in July 2003 with similar goals in mind. It serves as a rescue company for health insurers in financial difficulties.

The market environment for the German life insurance industry was difficult in the year under review. Overall, life insurers in Germany failed to build on the growth figures of the previous year. Influenced by the discussions surrounding fiscal and social policy as well as movements on capital markets, premiums grew by a mere 3.5% (previous year: 4.3%). In view of the problems facing the statutory pension insurance scheme, the demand for private old-age provision is unmistakable. However, the unsatisfactory state of the labour market combined with high taxes and welfare contributions prevented a shift in market sentiment.

Property and casualty insurance again booked positive premium growth in the year under review. Following a year overshadowed by natural hazards losses, the year under review saw a normalisation on the claims side. Claims expenditure declined by a good 5%, while gross premium income grew by around 3% (3.6%) in the year under review.

Motor insurance is expected to post an underwriting profit in the year under review for the first time since 1996. A key factor in the favourable result is the performance of motor third party liability business, with an underwriting profit of approximately EUR 500 million. Own damage insurance, on the other hand, is set to close with an underwriting deficit of roughly EUR 200 million despite reduced claims expenditure, thereby placing a strain on the overall performance of motor insurance.

The gratifying claims experience in property insurance made up for what was only modest premium growth by the previous year's standards. Gross premium income in industrial fire insurance climbed by around 20% (31.1%) to EUR 2.8 billion. In the general property lines the growth of 1.1% was slightly slower than in the previous year (1.9%), while premiums in the engineering lines were boosted by 3% (0.7%). The overall result for 2003 in property insurance improved considerably due to reduced claims expenditure. In all subsegments of property insurance the claims expenditure was lower than the premium income.

The gross premium volume in casualty insurance increased slightly year-on-year. Amounting to EUR 6.1 billion, the rate of growth was 2.9% (3.8%). Claims for the financial year increased by 5.6% (-7.9%), and the downward trend was therefore not sustained in the year under review.

Conditions on the reinsurance side were still dominated by the hard market climate in 2003. The tendencies seen in 2002 as regards premium growth and treaty terms and conditions continued in the year under review. The sharp reduction in claims expenditure produced satisfactory underwriting results for most market players.

The price decline on equity markets in the first quarter initially threatened to have a significant adverse impact on the non-underwriting result. In the course of the year, however, a convincing turnaround set in and the initial losses were forgotten. As far as interest rates were concerned the picture was uneven. Although new investments in the second quarter were only possible at extremely low returns, the yield level on long-term bonds picked up slightly towards year-end.

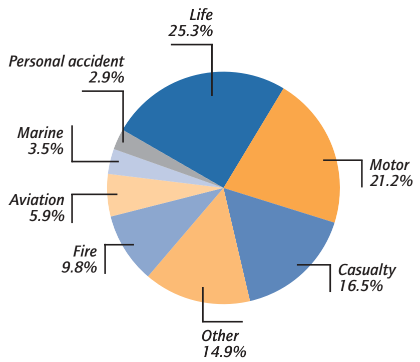
Business development

In contrast to 2002, when reports were dominated by natural disasters and their implications for the insurance industry, Germany was largely spared sizeable natural catastrophe events in the year under review. Numerous smaller events took a toll on the insurers' results, but our portfolio was scarcely affected by natural hazards risks since it consists primarily of non-proportional covers. Our gross premium income of EUR 2.2 billion was once again more than satisfactory, despite a slight decrease compared to the previous year.

We used the hard market to gear our portfolio to long-term profitability considerations and also scaled back certain acceptances. In addition, since 1 January 2003 we have no longer accepted the entire reinsurance volume of HDI but only the portion that we wish to carry in our retention.

Property and casualty reinsurance experienced a relatively loss-free year. Accounting for 72.3% of total gross premiums or EUR 1.6 billion, property and casualty reinsurance – leaving aside health business – is the largest source of premium volume. Substantial improvements in premiums and conditions were obtained in certain lines on the basis of the hard market environment. Personal accident was the highest-growth line. The efforts made in recent years to restore industrial fire insurance to profitability began to bear fruit. True to our internal standard of only writing business with a strict eye to profitability considerations, we further reduced our share of proportional business. With

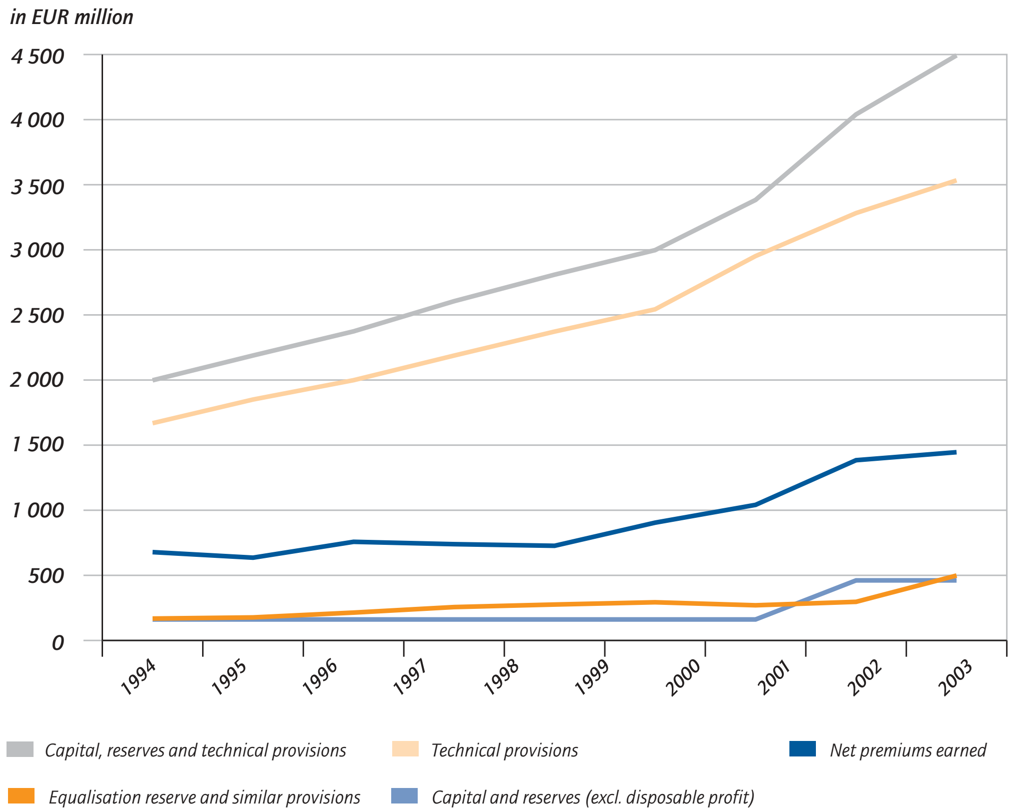
Line-of-business breakdown



the level of retained premiums standing at 73.9%, net premiums earned in property and casualty reinsurance climbed by 25.9% to EUR 1.2 billion (EUR 0.9 billion). The low burden of natural hazards losses and the successful rehabilitation efforts in casualty insurance led to moderate claims expenditure. Although the loss ratio in the previous year had already dropped to its lowest level in five years, it was cut even further in the year under review. The net loss ratio of 66.8% in non-life reinsurance was an all-time low. Our generally conservative underwriting and reserving policy also proved its worth. We had no need to constitute additional reserves for asbestos-related claims or environmental impairment liability policies.

In life and health reinsurance we further expanded our market position. Thanks to targeted marketing activities and the expansion of our range of services, we succeeded in cultivating new client relationships. We were not able, however, to sustain the premium volume on the high level of the previous year in a rather modest growth climate. Generating premiums of EUR 563.9 million (EUR 727.2 million), life reinsurance is our most important line. Our life portfolio consists primarily of transactions under which the focus is on the prefinancing of new business commissions, although the proportion without financing components – at 37% – is steadily increasing.

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



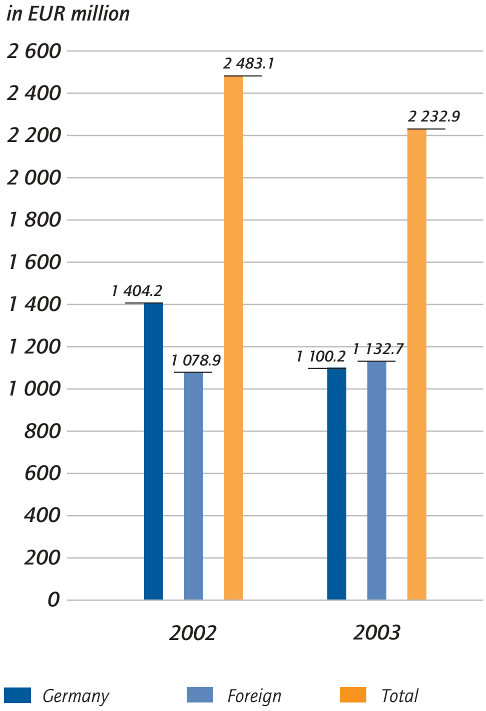
Our cautious equity exposure and our conservatively structured bond holdings generated a good investment result in the course of the year. Investment income climbed by EUR 36.4 million to EUR 277.7 million, while expenditure increased by EUR 16.3 million to EUR 88.1 million. The overall investment result improved by EUR 20.1 million to EUR 189.6 million.

The good result of the previous year was almost doubled with a profit for the year of EUR 39.0 million (EUR 20.0 million). On the basis of the favourable loss experience we further strengthened our equalisation reserve, constituting additional provisions of EUR 196.3 million in the year under review.

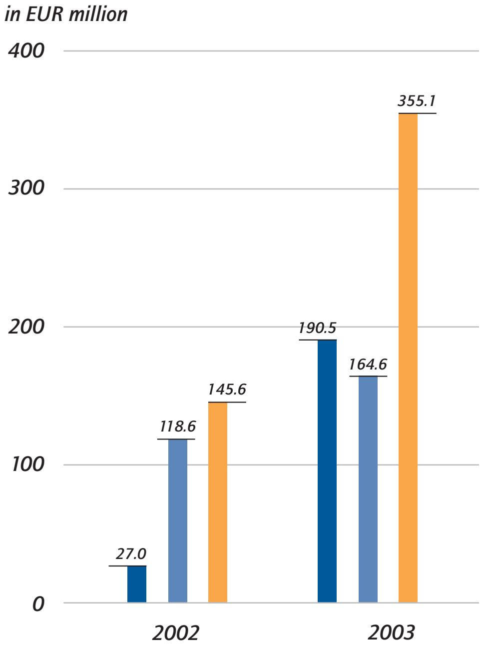
Premium development and results

The contraction of 10% in our gross written premiums to EUR 2.2 billion (EUR 2.5 billion) can be attributed to our profitability-oriented underwriting policy, reduced new business in life reinsurance and the restructuring of our approach to accepting and retroceding the reinsurance volume of HDI. Making the most of our excellent standing, we selectively expanded our position in the German market. We improved the geographical and risk diversification of the portfolio that exists on the basis of internal retrocession arrangements with Hannover Re through the addition of foreign risks. Overall, the underwriting result before allocations to and withdrawals from the equalisation reserve was extremely gratifying. The profit of EUR 211.6 million surpassed the previous year's figure of EUR 20.5 million many times over.

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



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



* Underwriting result: gross before internal administrative expenses, allocated investment return and the change in the equalisation reserve

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. Due to the volume written in the German market and the international nature of aviation business, this is also described within the foreign section.

Fire

In industrial fire insurance, one of the largest lines of German property insurance by premium volume, the rehabilitation efforts initiated in recent years were sustained. Premium increases were obtained and higher deductibles implemented. On the conditions side, a decrease in unclear multi-peril covers could be observed. Similarly, the multi-year policies widely offered in past years were also scarcely available. Yet, it proved impossible to build on the previous year's impressive premium growth of 31.1%. Gross premium income grew by around 20% to roughly EUR 2.8 billion. With major claims on a par with the previous year, this volume was still sufficient to generate an adequate overall result.

Fire

in EUR million	2003	2002
Gross written premiums	53.1	52.1
Loss ratio (%)	54.5	91.5
Underwriting result (gross)	10.8	(10.6)

We were satisfied with the development of our fire portfolio in the year under review. Thanks to a normal claims experience and premiums that are generally commensurate with the risk, the situation in industrial fire insurance has improved considerably. Additional deductibles and the insureds' excesses in the original business had a favourable effect on the loss frequency. Relatively low reinsurance costs reimbursement as well as the inclusion of loss participation clauses in the reinsurance treaties led to positive results that were urgently needed in view of the losses recorded in previous years.

Industrial fire insurance witnessed a marked return to traditional products. Fire and fire loss of profits as well as EC covers put the squeeze on the All Risk policies that had become so popular in recent years. Based on modest claims expenditure, the calculation of risk-adequate premiums and the return to traditional treaty terms and conditions, we showed a satisfactory underwriting profit of EUR 10.8 million (-EUR 10.6 million).

In addition to treaty reinsurance we also transact fire business on a facultative basis. Facultative reinsurance tends to reflect the original market. Treaties are written largely on a proportional basis and are closely tied to the fortunes of the ceding company. In a development similar to that seen in treaty reinsurance, rate increases, improved deductible arrangements on the insureds' side and shifts in the scope of cover away from All Risk towards Extended Coverage – combined with an acceptable claims experience – served to produce a satisfactory underwriting result.

An amount of EUR 35.0 million was allocated to the equalisation reserve.

Casualty

The premium growth of 2.9% in liability insurance on the German market fell fractionally short of the previous year's figure. Gross written premiums increased to roughly EUR 6.1 billion. Expenditure on claims in the financial year climbed by 5.6%, following a decrease of 7.9% in the previous year. Premium developments varied across the individual lines. Premiums in industrial liability business stabilised, whereas in commercial business the prevailing competition ensured that premium income – bearing in mind the expense ratios – was still inadequate. The volume of losses in liability insurance was influenced by major claims in US business and the expensive settlement of such claims as well as by various recalls among automobile manufacturers. The adoption of the Second Law Amending the Legislation on Damages ("Schadensersatz-Änderungsgesetz") in 2002 served to exacerbate the scope of liability in the pharmaceutical sector. There was an increasing tendency to convert the trigger for pharmaceutical and chemical risks from a "loss-occurring" to a "claims-made" basis.

In our portfolio, too, the claims experience in casualty insurance was more favourable in the year under review than in the previous year. Our account was largely spared major losses. Our clients nevertheless experienced a rising number of minor claims. Since we predominantly write casualty business on a non-proportional basis we were to a large extent unaffected by these losses as they remained within the cedants' retentions.

In industrial liability insurance we recorded a further rise in premiums in line with the market trend. We also stood by our cautious underwriting policy. As at 1 January 2004 we introduced an exclusion for asbestos-related claims under the reinsurance treaties. In Germany, however, the exposure to asbestos-related claims cannot be compared with the situation in the United States because occupational diseases are handled by employees' industrial compensation societies. Thanks to our conservative reserving policy we had no need in the past years to constitute additional reserves.

Casualty

in EUR million	2003	2002
Gross written premiums	109.0	160.3
Loss ratio (%)	56.3	78.4
Underwriting result (gross)	23.5	(2.0)

The hard reinsurance market also had favourable implications for our facultative portfolio, which consists primarily of industrial risks. The necessary adjustments were made to the treaty terms and conditions in order to appropriately reflect the exposure borne by the reinsurer. Contracting capacities and an advantageous claims experience served to produce a satisfactory underwriting result.

Our prudent underwriting policy was also evident from the change in the gross premium volume. Total gross premiums in casualty insurance declined year-on-year to EUR 109.0 million (EUR 160.3 million). Our loss ratio improved considerably on the previous year, decreasing by 22.1 percentage points to 56.3%. The sharply lower claims expenditure produced a good underwriting result for gross account of EUR 23.5 million (-EUR 2.0 million).

The favourable claims experience enabled us to make an allocation of EUR 27.8 million to the equalisation reserve. We also strengthened the IBNR reserve with an allocation of EUR 39.4 million from the non-technical account.

Personal accident

Personal accident

in EUR million	2003	2002
Gross written premiums	51.5	38.7
Loss ratio (%)	43.2	32.0
Underwriting result (gross)	0.4	4.5

The German personal accident insurance market is a relatively consistent market not subject to significant fluctuations. Slightly lower premium growth combined with a stable claims volume produced satisfactory results. Personal accident insurers booked premiums of almost EUR 5.7 billion, thereby building on the previous year's level. New stimuli are currently deriving principally from the demographic trend in Germany.

In this business segment E+S Rück considers itself an innovative reinsurer that supports its clients with a broad range of services. We develop and price products for our clients and assist them with underwriting. Our bodily injury claims express service is a special service that we offer our clients for immediate claims assessment following accidents. The personal accident product with assistance components for senior citizens launched in the previous year was rounded off with additional features in the year under review. Special reference should be made to the fact that we have been able to recruit a provider of assistance services for exclusive cooperation with E+S Rück.

Claims expenditure in the year under review was higher than in the previous year. With a traditionally low loss ratio of 43.2% (32.0%) we were once more in the middle of the market pack. The winding up of the German Aviation Pool opened up further opportunities. For the first time we were able to reinsure aviation personal accident covers from the German market. The total gross premium volume improved by 33.1% to EUR 51.5 million. Claims expenditure was also higher, and we generated an underwriting profit of EUR 0.4 million (EUR 4.5 million).

We further reinforced the equalisation reserve with an allocation of EUR 5.6 million.

Motor

Motor

in EUR million	2003	2002
Gross written premiums	358.3	407.9
Loss ratio (%)	72.2	89.1
Underwriting result (gross)	58.2	(18.3)

For the first time since 1996 the German motor insurance sector will close with an underwriting profit in the year under review. With the claims frequency continuing to drop to an all-time record low and the implementation of important rating measures, the combined ratio stood at roughly 98%.

This gratifying performance was driven by the motor third party liability line, whereas own damage insurance posted an underwriting deficit despite the lower prevalence of storm events. The good result in motor third party liability was principally attributable to the fall of around 3% in the claims frequency. One of the reasons for this reduction may be the fact that insureds in the commercial sector are driving less due to the depressed state of the economy. The German Insurance Association consequently anticipates a trend reversal once business activity begins to pick up again. In total own damage the premium increases of 4.5% to EUR 6.7 billion were largely offset by claims expenditure on a par with the previous year at EUR 5.7 billion. Numerous minor natural hazards losses, notably due to hail and windstorm events, led to a high claims frequency in the own damage lines. Partial own damage business also recorded another underwriting loss in the order of EUR 20.0 million.

Total premium income in German motor insurance climbed by roughly 2.0% in the year under review to EUR 22.4 billion, compared to EUR 22.0 billion in the previous year.

Accounting for 32.6% of total domestic gross premiums, German motor reinsurance is our largest non-life line. The pleasing development of original business was similarly reflected in our portfolio. Although gross premiums declined by 12.2% to EUR 358.3 million (EUR 407.9 million) in the year under review, results were highly gratifying. The loss ratio improved by almost 17 percentage points to 72.2% (89.1%), and we generated an outstanding gross underwriting profit of EUR 58.2 million (-EUR 18.3 million).

The largest and most profitable subsegment is motor third party liability business, in which proportional treaties constitute the dominant type of reinsurance. Through proportional treaties we enjoy unrestricted participation in the growth and quality improvement of the original business. Yet, non-proportional motor third party liability treaties also play an important role in our portfolio. Our market observation share of approximately 55% enables us to monitor claims in this business segment, analyse them and take due account of them in the pricing. Although the gross premium volume of EUR 264.6 million (EUR 291.0 million) in motor third party liability business fell short of the previous year's level, an appreciably more favourable loss experience helped us to record an underwriting profit of EUR 35.6 million (-EUR 34.2 million).

Alongside proportional treaties, non-proportional covers are of vital importance in our own damage portfolio. The claim amounts per event normally did not exceed the agreed priorities, and the covers that we wrote consequently did not attach. The general trend towards higher retentions under excess of loss covers was sustained. The profitability of the business was clearly borne out by the underwriting result of EUR 21.9 million (EUR 15.1 million) and the loss ratio of 70.9%.

Based on the favourable results, we allocated EUR 103.6 million to the equalisation reserve. We strengthened the IBNR reserve with an allocation of EUR 24.7 million from the non-technical account.

Marine

German marine insurance is recovering slowly. Since this line is heavily dependent on the development of global trade, a far-reaching rally will only be possible once there is a sustained revival in the world economy. The rehabilitation efforts initiated in recent years have already begun to bear fruit. Gross premiums rose by appreciably more than 3% in the year under review, compared to just 2.7% in 2002. Furthermore, a new feature was added to the definition of the scope of cover. A new clause regarding the handling of terrorism and nuclear risks was introduced market-wide. The burden of losses, as in other lines, was below average. The loss ratio before run-off of the reserve for the previous year was around 67% in German marine insurance, an improvement on the previous year (70%).

The efforts made in recent years to bring about adequate reinsurance rates were successful in the year under review.

Marine

in EUR million	2003	2002
Gross written premiums	11.9	10.7
Loss ratio (%)	70.8	85.9
Underwriting result (gross)	1.2	(0.8)

Our gross premium income grew to EUR 11.9 million (EUR 10.7 million). We further stepped up our strategic emphasis on non-proportional covers during the treaty renewals. Our entire portfolio now consists almost exclusively of non-proportional arrangements. Overall, our selective and prudent underwriting policy combined with our focus on profitable new business produced an underwriting profit that surpassed the previous year: we improved the result to EUR 1.2 million (-EUR 0.8 million) and thus returned to underwriting profitability.

An allocation of EUR 18.4 million was made to the equalisation reserve.

Aviation

Thanks to the hardening in market conditions German aviation reinsurers were able to put the inadequate rate levels of the previous years behind them. The portfolio rehabilitation successes achieved in 2002 and the additional war premiums also had beneficial effects.

Aviation

in EUR million	2003	2002
Gross written premiums	31.1	26.8
Loss ratio (%)	23.5	82.9
Underwriting result (gross)	22.4	(1.8)

In the airline and industrial business segments, however, the premium increases have already given way to a countertrend. These sectors suffered, inter alia, under the fallout from the Iraq war, the ongoing terrorist threat and the SARS epidemic in China.

The development of our German aviation portfolio, with an adequate rate level and low claims frequency, was highly satisfactory. The winding-up of the German Aviation Pool announced for 2004 already opened up new business opportunities in the year under review, enabling us to substantially enhance our position on the German aviation market. Overall, the gross underwriting profit improved to EUR 22.4 million following a deficit of EUR 1.8 million in the previous year.

Life

The prolonged debates surrounding social policy and the hesitant implementation of new concepts for old-age provision had significant implications for results in German life insurance. While regular premiums had grown by 4.3% in the 2002 financial year, the increase in the year under review was a mere 3.3%. Traditional endowment and annuity insurance showed a marked rise in new business. In endowment insurance, for example, new business surged by more than 30%, while disability insurance recorded new business growth of around 10%. In unit-linked life and annuity insurance, on the other hand, there was a sharp drop in the number of new policies taken out. The portfolio of in-force business remained largely unchanged. Payments to life insurance customers climbed by 14.4% to approximately EUR 64.4 billion. The reserves constituted by a life insurance provider are also of great importance to its policyholders. Against a backdrop of low bond yields and in some cases massive write-downs on equities, life insurers were only able to build up reduced provisions and surpluses for future benefit payments. Life insurance continues to gain in importance as a means of provision for retirement, disability and dependants.

Life

in EUR million	2003	2002
Gross written premiums	367.3	575.5
Underwriting result (gross)	70.5	69.8

Within E+S Rück the German life reinsurance market is served by the Central Division for Life and Health Reinsurance.

In the course of the year we made the most of our good market positioning and expanded our client relationships. We were particularly successful in acquiring new clients among the ranks of large mutual insurers.

Pressing ahead with our efforts of previous years, we further extended our Customer Relationship Management (CRM) concept. With the aid of this tool we seek to offer our clients discernible value-added and acquire loyal customers as long-term partners. Launched in 1997, this concept is put into practice by making systematic use of measures from the field of CRM. They include, inter alia, the idea of Customer Lifetime Value – something we determine on an annual basis for all major clients.

We expanded the range of services offered to our clients in the year under review. One focus of our activities was the German senior citizens' market, which we believe holds considerable promise for the future. Working together with our customers we have developed bespoke products with additional benefits tailored to the special needs of senior citizens.

There were also developments as regards the transactions concluded in past years for the securitisation of new business costs. At the end of June 2003 we closed the L4 facility, bought back the retroceded block of German unit-linked policies and took it into our retention.

Using an unchanged analysis method agreed with external actuaries, in the year under review we once again calculated the so-called "value of in-force business" as at the balance sheet date. This refers to the net present value of future technical profit flows before taxes. The value of our in-force German life business closed roughly on a par with the previous year at EUR 214.3 million (EUR 228.0 million).

The premium income of EUR 367.3 million (EUR 575.5 million) fell short of the previous year's figure. The bulk of the premiums derive from a number of high-volume financing transactions for unit-linked life and annuity products. The decline was principally attributable to a reduction in significant cessions from certain cedants as well as restrained new business under existing treaty relationships, developments that reflected the general state of the market – especially in the area of unit-linked life insurance. The claims experience in all components was as favourable as anticipated, and the underwriting result of EUR 70.5 million consequently surpassed the previous year.

Other lines

In compliance with German accounting principles 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 and other pure financial losses and fidelity.

The development of credit and surety insurance is closely linked to the economic environment in Germany. The continuing depressed business climate and a further rise in insolvency figures heavily impacted the results of German credit insurers.

It was therefore all the more gratifying that we were able to detach ourselves from this adverse credit cycle in original business. We virtually offset the decline in premium volume in some areas by building up new market shares. Proportional types of treaty typically predominate on the German credit and surety market. In accordance with our strategic orientation we further enlarged the share of non-proportional covers in our portfolio.

Other lines

in EUR million	2003	2002
Gross written premiums	118.0	132.3
Loss ratio (%)	74.6	82.7
Underwriting result (gross)	3.6	(13.8)

Germany was spared major storm events in the year under review. The claims experience in natural hazards insurance was, if anything, below average. Only towards year-end was an increased prevalence of storms observed, although our portfolios – based on non-proportional covers – were scarcely affected. The underwriting result remained balanced with stable premium rates.

Overall, an amount of EUR 2.2 million was withdrawn from the equalisation reserve.

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 a 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 note developments in the markets with the largest premium volume, with special emphasis on the key lines of business.

Europe

United Kingdom

Rates in the UK motor sector began to flatten out after two years of increases. In the property lines rates and conditions in the year under review were at their highest level in decades, and a similar situation prevailed on the market for professional indemnity covers.

The same was true of the reinsurance sector, in which favourable market conditions set the tone in virtually all lines.

Generating gross premium volume of EUR 228.6 million, the United Kingdom is the largest portfolio in Europe. In the year under review the company's position in this market was extended and premium income boosted by EUR 22.6 million. Particularly in the attractive casualty segment Hannover Re was a highly sought-after partner. This is due to the superb rating as well as the contraction in market capacity. Based on adherence to a systematic underwriting policy it was increasingly possible to profit from the hard market in casualty business while at the same time consolidating the market position in property business.

United Kingdom

in EUR million	2003	2002
Gross written premiums	228.6	206.0
Underwriting result (gross)	39.5	17.5

A significant portion of marine and aviation business is written on the London Market. The position here was consolidated despite an increase in available market capacity. The underwriting policy remains focused on the middle and upper programme layers of non-proportional business, a segment in which Hannover Re is one of the market leaders. Although the exposure was scaled back in some areas, most notably in aviation business, the market penetration continues to be optimal. In marine business Hannover Re similarly ranks as one of the major providers. Overall, the year under review was a highly successful one, and this line, too, was spared any unusually large losses.

The underwriting result was boosted to EUR 39.5 million (EUR 17.5 million), thereby building on the gratifying development of the previous year.

France

In contrast to the difficult economic climate in France, the insurance market developed exceptionally well. Total premium volume climbed by 8.5% in the year under review to EUR 143.4 billion. The most notable innovations occurred in casualty insurance, with French legislators approving two new casualty laws.

The portfolio was further enlarged in the year under review, primarily in the areas of motor and credit/surety business.

As in other European markets, credit insurance in France benefited in the year under review from the portfolio rehabilitation measures taken by insurers. In a very hard market clearly impacted by the withdrawal of two leading reinsurers, the financial year closed on a highly satisfactory note.

The underwriting account did not suffer any appreciable strain from claims. The only sizeable market loss was the flooding in the south of France in December 2003. Since a large share of this loss was carried by France's state-run flood insurance scheme, the burden amounted to less than EUR 1.0 million.

Total gross premiums grew by 14.7% to EUR 46.9 million. With a generally favourable claims experience the underwriting result was once again in positive territory at EUR 10.6 million (EUR 6.3 million).

France

in EUR million	2003	2002
Gross written premiums	46.9	40.9
Underwriting result (gross)	10.6	6.3

North America

As in the previous year, the trend in results among North American property and casualty insurers was not satisfactory. Casualty business, in particular, again suffered under the need to constitute additional reserves for asbestos-related claims and pollution damage.

For reinsurers, on the other hand, the year was considerably more successful. Double-digit premium increases were observed in many instances, combined with strict underwriting discipline.

True to the policy of cycle management, optimal use was made of the hard market climate and the market position in North America – especially in the casualty sector – was expanded. Participation in certain less profitable segments of property business, however, has already been scaled back.

The strategy of replacing proportional arrangements with non-proportional covers was continued in the year under review. The most important type of reinsurance here is the excess of loss treaty. Measured by the number of treaties, this attractive form of coverage already accounts for more than 90% of the total portfolio.

Following sharp rises in previous years, premium growth in property reinsurance was a mere 10% in the year under review, contrasting with over 20% in casualty business. Total premium volume in North America was boosted to EUR 507.2 million (EUR 467.3 million).

North America

in EUR million	2003	2002
Gross written premiums	507.2	467.3
Underwriting result (gross)	24.8	37.8

Industrial fire insurance continues to be the most prominent property line in North America. In the casualty sector the primary focus is on commercial liability and professional indemnity.

The bulk of the numerous small and mid-sized catastrophe losses incurred in the year under review had to be carried by the insurers themselves, since most claims were not large enough to fall under the layers of the reinsurance programmes. The property and casualty reinsurance portfolio was thus impacted by only one sizeable natural catastrophe loss. Current estimates put the loss attributable to hurricane "Fabian", which devastated Bermuda in September 2003, at a maximum of EUR 2.5 million.

It is gratifying to report that no additional reserves had to be constituted for past underwriting years thanks to the conservative reserving policy and the scaled-back exposure during the soft market phase. This is in stark contrast to many rival market players. The share of asbestos-related claims is low owing to the late entry into the market in the 1980s. Nor was there any increase in the share of the losses associated with the World Trade Center event.

Rates and conditions in marine reinsurance were flat, albeit on a high level. Results benefited from the sharp rate increases of the past two years and the simultaneous reduction in the scope of coverage. The claims frequency was within normal bounds, and 2003 was spared major losses. Capacities were adequate in all segments of marine reinsurance.

The United States is by far the largest single regional market in this segment. Catastrophe risks are for the most part traditionally written on a non-proportional basis.

In the second year after the strains of 11 September 2001 the underwriting result in North America was again gratifying, although the profit of EUR 24.8 million failed to match the good underwriting result of EUR 37.8 million for gross account in the previous year.

Asia

Japanese insurers saw their balance sheets impacted by three sizeable earthquakes in May, June and September of the year under review. However, none of the aforementioned events produced significant losses for reinsurers.

Japan is the largest market in the Asian region. Japanese business is renewed as at 1 April in accordance with the divergent financial year. Overall, the renewal phase proved highly successful. As a so-called "core reinsurer" for four of the five most prominent insurers, Hannover Re writes both proportional and non-proportional business.

Asia

in EUR million	2003	2002
Gross written premiums	64.1	75.7
Underwriting result (gross)	(4.4)	(3.7)

The Korean market had to absorb the repercussions of typhoon "Maemi" in 2003, a once-in-a-century event that produced insured losses of USD 600 million. Amounting to EUR 1.4 million, the share of these losses was below the major loss threshold of EUR 5.0 million.

China, Taiwan and Hong Kong are still considered difficult, and the hard market has yet to take hold. Despite two sizeable claims in Hong Kong and Shanghai, there were even signs of further deterioration in rates and conditions during the renewal phase.

Premium volume contracted to EUR 64.1 million (EUR 75.7 million) due to the prevailing state of the market. The underwriting deficit in the year under review amounted to EUR 4.4 million.

International life and health reinsurance

With premium volume of EUR 196.6 million in life reinsurance and EUR 54.5 million in health business, international life and health reinsurance accounts for more than one-third of the total life reinsurance premium. The United Kingdom is one of the most important markets in Europe. Alongside traditional life and critical illness business, specialist expertise has been built up over the past 10 years as a provider for enhanced annuity policies. Several sizeable programmes of this type are supported in the United Kingdom.

The Romance-speaking countries, in which activities are principally concentrated on the bancassurance sector and large independent distributors, continue to rank as priority markets. Bancassurance is an emerging segment in a number of Arab countries. In cooperation with a major commercial bank in Saudi Arabia an innovative approach to life insurance concepts – so-called "Takafol" products – has been developed in conformity with Islamic principles.

The target clients in North America are small and mid-sized life insurers active in niche segments of life, annuity and health business. These companies are offered a comprehensive range of reinsurance products, ranging from the acceptance of peak risks through underwriting services and audit programmes to the optimisation of solvency and liquidity. As in Germany, the senior citizens' market in the United States is considered a target market. Policy riders, which tend to produce very stable results, are offered to cover defined risks in the health line. The vast bulk of health business is transacted by Hannover Life Re of America.

African business is concentrated on the English-speaking markets of southern Africa, with a clear focus on South Africa. As the second-largest reinsurer in Africa, Hannover Life Re Africa in Johannesburg writes a risk-oriented portfolio of life and health business. Since results in the previous two years had failed to meet expectations, extensive portfolio rehabilitation was undertaken. The fruits of this portfolio restructuring will be reflected in the underwriting results over the coming years.

Considerable progress was made in the ASEAN markets of Malaysia and Singapore as well as in China, where an initial financing transaction was concluded with a major client.

International life and health reinsurance business

in EUR million	2003	2002
Gross written premiums	251.1	225.7
Underwriting result (gross)	2.1	(3.7)

The premium volume is generated primarily in the markets of Hong Kong, Japan and Malaysia. The claims experience varied widely in the year under review. While an important Japanese life treaty produced an unexpectedly high number of claims, the claims experience in Greater China was very good while in the ASEAN markets it was excellent.

Hannover Life Re Australasia actively writes business in Australia and New Zealand. In the year under review it further consolidated its position as Australia's market leader despite a reduced premium volume. The bulk of the business written is risk-oriented, with concentrations in life, disability annuities and critical illness policies. Direct group life business is a particular speciality in which the company has made a name for itself in Australia as one of the leading providers for occupational pension schemes.

Investments

Following three exceptionally weak stock market years, the major equity indices developed favourably across a broad front in the year under review.

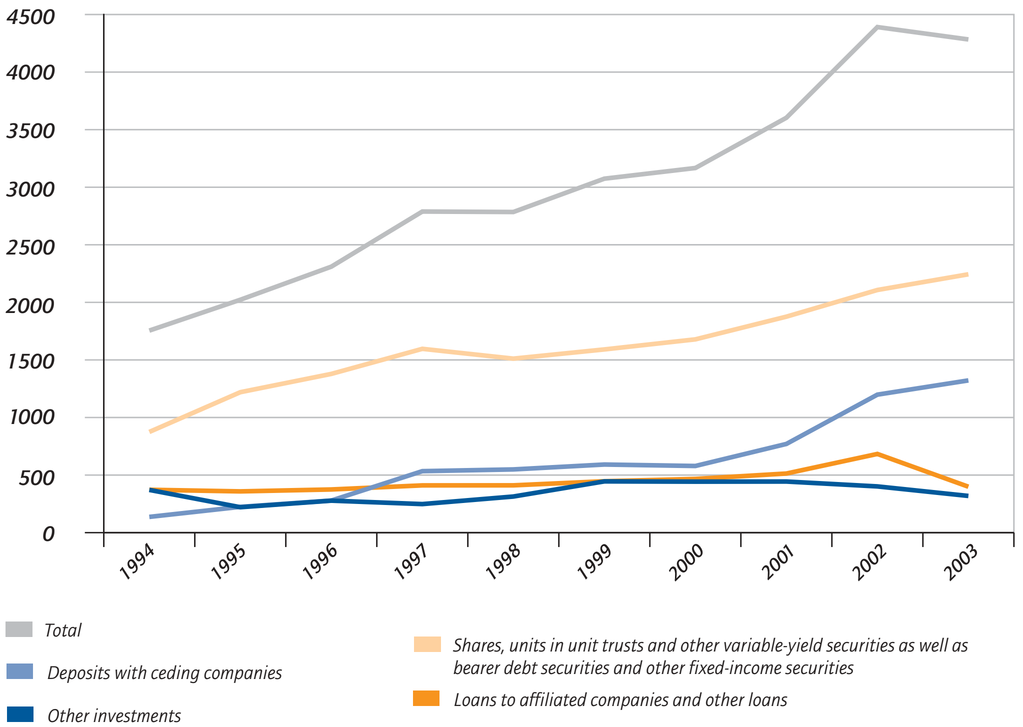
Until the middle of March, however, the prevailing downward trend had gathered further impetus in 2003. The months of February and March witnessed a veritable sell-off on equities. Banks and insurers parted with their holdings on a massive scale in order to avoid financial difficulties. On 12 March the Dax plummeted to 2,188 points, its lowest level in eight years. The upturn, which got underway in March, fed into a year-end rally in December. The mood of optimism on the stock markets was reinforced by the growth figures coming out of America. In the lee of the US economic recovery European indices also showed significant improvement. The EuroStoxx 50 put on 15.7%, while Germany's leading index – the Dax – had gained as much as 37.1% by year-end.

Bond markets profited in the first quarter from the depressed state of the equity markets. The yield on 10-year German government bonds declined to 3.8% in March, to be followed by a vigorous pick-up after the outbreak of the Iraq war. Incipient fears of deflation prompted a trend reversal in the following months. On 13 June 2003, the yield on 10-year government bonds plunged to its low point of the year at 3.47%. The downward slide was halted when a cut in interest rates made by the US Federal Reserve Board proved smaller than expected. Fears of deflation receded as economic prospects in the USA steadily brightened, also pushing up yields in Germany to 4.29% by year-end.

In this difficult market climate and against the backdrop of adverse exchange-rate influences, the development of our investments was satisfactory. While our deposits with ceding companies increased by 10.3% to EUR 1.3 billion due to the enlargement of US business, exchange

Investments

in EUR million



rate effects obscured the net growth in our investments. Our total investment portfolio contracted slightly to EUR 4.3 billion (EUR 4.4 billion).

Thanks to the balanced structure of the portfolio, our unrealised gains showed a gratifying increase to EUR 162.6 million as against EUR 105.6 million in the previous year.

In the course of the year we made the most of the turmoil on stock markets and progressively boosted our equity allocation from 10.7% to 13.4%. We mainly used passive approaches when investing in equities, i.e. we did not focus on specific stocks but took our lead from the composition of the leading European and American indices. Since the bulk of our asset portfolio is invested in euros and US dollars, the EuroStoxx 50 and the Dow Jones were our preferred bellwether indices.

The majority of our investments are, however, held in fixed-income securities. With a volume of EUR 1,646.6 million – corresponding to 55.6% of the self-managed assets (i.e. excluding deposits with ceding companies) – bearer debt securities account for the lion's share of our total portfolio. We invested available liquidity primarily in first-class securities and further enlarged our traditionally conservatively structured portfolio. With the decline in yields in the first half of the year we shortened the average duration of the portfolio from 3.9 years at the end of the previous year to 3.1 years so as to minimise the potential for losses in the event of a yield increase. The quality of our investments remains high. More than 80% of the fixed-income securities are rated "AA" or better, despite widespread downgrades in the course of the year.

At the end of the previous year we had held substantial cash assets in order to be able to participate in future favourable market situations. Investment opportunities opened up in the course of the year under review, and the deposits with banks of EUR 48.6 million as at year-end were therefore in line with the multi-year average.

We used the decline in yields on bond markets in the first half of the year to realise profits. The profits on disposals in the amount of EUR 96.7 million clearly surpassed the previous year's figure (EUR 53.7 million). Yet we also parted with instruments, most notably equities, whose future prospects we assessed critically for the medium term. On balance we generated extraordinary income of EUR 38.1 million (EUR 50.6 million) on the disposal of investments.

Ordinary income from interest and dividend payments decreased by EUR 9.2 million year-on-year to EUR 174.0 million (EUR 183.2 million). This decline was attributable to the sharply lower yield level compared to the previous year; the average yield on 5-year government bonds fell from 4.3% in 2002 to 3.3% in 2003. With around 90% of the portfolio allocated to interest-bearing securities – including deposits with ceding companies – our account, too, could not escape the effects of this trend.

In accordance with § 341b German Commercial Code, securities are to be valued differently depending on their allocation to fixed assets or current assets. Our investments are allocated primarily to current assets. In addition to write-downs taken on the basis of the lower-of-cost-or-market principle, we tested our fixed assets for impairment and made adjustments in the area of bearer debt securities. The total unscheduled depreciation of EUR 12.1 million was significantly lower than in the previous year (EUR 39.2 million).

Given the difficult situation on equity markets, the lower returns on reinvestments in bearer debt securities and the strength of the euro, we are highly satisfied with the net investment result. Compared to the previous year we boosted the result by 11.8% to EUR 189.6 million (EUR 169.5 million). The current gross return on our investments – excluding deposits with ceding companies and interest on deposits – fell to a still satisfactory 4.4% after 4.7% in the previous year.

Risk report

Through their activities all divisions of E+S Rück are exposed to a variety of risks that are inseparably linked to their entrepreneurial activities. The acceptance of risks and their professional management constitute our core business as a reinsurance company. This means that we do not in principle seek to avoid risks, but rather to enter into them on a pinpoint basis using advanced methods and procedures – provided the associated opportunities promise a commensurate increase in the value of the company. The risk management system is geared to the systematic identification, assessment, controlling and documentation of risks. The centralised risk controlling of E+S Rück, which in the year under review was certified for the first time in accordance with EN DIN ISO 9001:2000, testifies to the reliability and credibility of our risk management system.

Solvency II has given the issue of risk management a new, highly privileged status. Consequently, risk management assumes critical importance in the value-oriented corporate steering of E+S Rück. As a professional reinsurer – integrated into one of the five largest reinsurance groups in the world, the Hannover Re Group – we concentrate exclusively on the German market. Hannover Re, for its part, writes international business jointly with its subsidiaries. In order to ensure advantageous overall international risk spreading each of the two companies participates in the other's business groups. Through these reciprocal retrocessions our business is therefore influenced by developments on the global reinsurance markets.

Organisation of risk management

Risk management within E+S Rück is centrally coordinated, but based on local responsibility in the various areas of business. Local staff bear responsibility for risk monitoring and risk-policy measures within their specific areas and local risk controllers are charged – on the level of individual business groups – with identifying increased risk potentials as quickly as possible and initiating counteraction without delay. Centralised risk controlling steers the entire process and describes the risk situation of the company as a whole across all business groups. The system of local responsibility ensures that we can identify and control risks as quickly as possible in order to effectively minimise the potential risk. Decision-makers are kept informed – primarily online – through standard and ad hoc reports. An annual risk inventory is also carried out.

The core risk management elements are set out in guidelines. Acting independently of these clearly defined procedures, Internal Auditing verifies compliance with the stipulated processes in all functional areas of our company. Furthermore, the auditors examine whether the risk early-warning system integrated into the risk management system is capable of detecting at an early stage developments that could jeopardise the survival of the company.

Essentially, the risk situation of E+S Rück can be comprehensively described by the following risk categories:

- global risks,
- strategic risks,
- operating risks, which we subdivide into
  - technical risks,
  - investment risks and
  - operational risks.

Global risks

Global risks may result, for example, from changes in legislation and court practice, from political and social changes, from questions of liability or from natural catastrophes or environmental changes. Risks of this type can scarcely be reduced and there are limits to the extent to which they can be avoided because they are beyond the company's direct sphere of influence. We counter these potential risks, inter alia, by constantly monitoring claims trends and by analysing claims and major losses. Underwriting policy is regularly adjusted on this basis, e.g. through the use of appropriate contractual exclusions or through technical and geographical diversification of the portfolio.

Trends in the various national environments are monitored by our responsible local market representatives. Global changes, on the other hand, are tracked centrally within our specialised service units. Group Legal Services, for example, investigates trends in court practice around the world, e.g. the underwriting implications of the EU's eastern enlargement, asbestos-related risks in Europe and legal decisions connected with the World Trade Center event. One of the central problems facing the reinsurance industry is the growing number of natural disasters around the world and the associated potential for considerable losses. Using precise simulation models we analyse the increase in the frequency of natural catastrophes caused by global climate changes and in the extent of the losses that they cause. On the basis of these analyses we determine the maximum exposure that we are prepared to accept for such risks and calculate our own reinsurance requirements.

Strategic risks

Strategic risks have a bearing on our corporate objectives. They derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating business environment. Value and cost drivers must be transparent if strategic corporate objectives are to be achieved. This is only possible with optimal organisational, decision-making and reporting structures. Risk management coordinates the activities and thereby supports the controlling of opportunities and risks. In order to survive in the fierce competitive environment we thoroughly review our strategy every three years and adjust our structures and processes accordingly. The most recent review was conducted in 2002.

Technical operating risks

The technical risk is that the actual claims expenses can diverge from the expected amount and exceed the total available premium income (including security funds). Possible reasons here may be an incorrect risk assessment or risk spread, excessive interdependencies between risks or default on the part of retrocessionaires. E+S Rück uses various mechanisms – both for the portfolio as a whole and for specific business groups – in order to control technical risks.

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. These reserves are established for claims that have been incurred and reported to the insurer, but whose amount has not yet been fixed and which cannot therefore be paid. There are also claims which only materialise later and which the policyholder consequently only reports to the insurer – and the insurer subsequently to the reinsurer – some time after they are incurred. Reserves also have to be constituted for these so-called IBNR (incurred but not reported) claims since years or even decades often elapse until the final run-off of such claims. This is especially true of casualty claims. Uncertainties in reserving are thus unavoidable, not least, because reinsurers find themselves at the end of the information chain and ultimately depend on the data provided by ceding companies.

Recent years have witnessed an accumulation of lawsuits around the world due to bodily injuries resulting from the use of asbestos. E+S Rück's exposure to asbestos- and pollution-related claims is, however, relatively slight. In view of the increased risks related to asbestos and pollution claims we nevertheless further reinforced our reserves. We do not therefore anticipate any significant risks in this area in future years.

The reserves in life and health reinsurance are always based upon the information provided by our clients. Actuarial analyses ensure that the actuarial bases (interest rate, biometrics, costs) used to determine the policy benefits for life and health contracts are appropriate and that the safety margins contained therein are adequately calculated. Furthermore, local supervisory authorities monitor the reserves calculated by ceding companies to ensure that they 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.).

We do not fully retain the business that we accept, but retrocede portions as necessary. By systematically retroceding individual risks, exposed lines or blocks of business we are able to reduce and diversify the risk portfolio and stabilise the result. It is therefore particularly important to carefully select retrocession partners in light of credit considerations. Our assessment of the financial strength of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own balance sheet and market analyses. Our Security Committee classifies the reinsurers used by E+S Rück with binding effect. Although the default rate in recent years was very low, we nevertheless secured the bulk of the recoverables existing as at 31 December 2003 by means of deposits or letters of credit. Last but not least, recoverables can be paired off with corresponding liabilities under the same business relationship, thereby significantly reducing the remaining risk.

Investment operating risks

The overriding maxim of our investment strategy is capital preservation while taking due account of the security, liquidity, mix and spread of our asset portfolio. The principles of risk diversification and matching currency cover are applicable in this context. The goal of obtaining a high return on investments is subordinate to capital preservation. Risks in the investment sector consist most notably of market, credit and liquidity risks. E+S Rück has adopted investment guidelines, compliance with which is constantly monitored. A further essential component of risk management is the strict separation of functions – i. e. keeping a distinction between trading, settlement and risk controlling. Risks in the investment sector are countered using a broad range of efficient management and control mechanisms, which are geared to the rules adopted by the Federal Financial Supervisory Authority (BaFin). We control the liquidity risk, for example, by allocating a liquidity code to each security. The breakdown of assets across the various liquidity classes is then shown in the monthly investment reports and controlled on the basis of limits. Importance also attaches to the risk associated with our portfolio of participations. We use a tightly organised system to direct and monitor our participations, with plans drawn up and regularly reviewed for each unit.

Asset/liability management (ALM) is particularly important in the reinsurance industry. We control assets and liabilities using a scientifically well-founded asset/liability management approach, which enables us to optimise E+S Rück's overall position with an eye to its financial risk/return target. The risk preferences defined by the Executive Board are taken into account. One component of risk management in this context is dynamic financial analysis on the basis of US GAAP. Depending upon the simulation results, the findings produced by these financial analyses enable us to prioritise risk-policy measures.

Operational risks

Operational risks refer to the risk of direct or indirect losses attributable to the inadequacy or failure of technical systems, human error or organisational shortcomings. In particular, the failure of the data processing infrastructure and associated unavailability of our IT applications constitutes a major risk for our company. We invest systematically in improving the security and availability of our information technology in order to minimise these risks. Company-wide guidelines direct staff in the handling of information and secure use of information systems.

A major integral component of our safeguards is the Internal Controlling System (ICS), which encompasses all harmonised and interlinked checks, activities and rules. Adequate management of operational risks has also taken on additional importance in the light of supervisory developments. Within the framework of Solvency II it is to be anticipated that operational risks will in future have to be backed by stockholders' equity. The controlling of such risks will therefore become a crucial competitive factor.

As a reinsurance enterprise we must be able to conduct projects in a professional and timely manner in order to realise new reinsurance products and concepts, offer services and meet legal requirements with a high quality standard. Multi-stage project management ensures that all projects are executed on time and on budget according to their prioritisation.

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

Human resources report

In the year under review we purposefully expanded our strategic human resources management activities. In this context personnel development remains a major preoccupation. Alongside the recruitment of qualified staff, we use a new method – the personnel development workshop – for identifying potential among the employees already with our company. With this technique we seek to ascertain the skills requirements of our staff and clarify development potential for specialist and leadership abilities as well as to establish the foundation for and promote acceptance of successor planning. In this way we support managerial staff and provide them with valuable pointers for the professional advancement of the employees under their supervision.

Further tools introduced in recent years to promote management performance are management feedback and 270° feedback. For us, management feedback refers to the appraisal of managerial performance from the perspective of the supervised staff in contrast to employee assessment by superiors. The 270° feedback process is conducted from the standpoint of a manager's superior and colleagues. We have blended both systems in a single tool. The criteria used for systematic assessment are values (e.g. customer orientation, profitability and reliability), knowledge (e.g. languages and technical know-how) and skills (e.g. communication, readiness to take decisions, organisational talents). With these measures we are seeking to enhance leadership attitudes and match job profiles with personal profiles. In this way we are able to systematically check the quality of core competencies, determine training requirements and at the same time identify career opportunities as part of successor planning.

The purpose of human resources marketing is to find qualified people for the company. This task is geared to continuity and is not influenced by labour market factors. We have commissioned internal and external studies to examine our company's appeal as an employer and defined action fields on this basis: introductory events, job familiarisation plans and sponsor arrangements are the keywords in this context.

In order to identify motivated, well-educated university graduates we conduct marketing activities aimed at target groups and institutions of higher education. We therefore maintain close contacts with universities covering fields related to our work. By giving a diverse range of specialist presentations we recruit directly from among the students and establish lasting relationships with department chairs. We also attend university career fairs and relevant recruiting events and take every opportunity to profile our company and our business. In our assessment, the doubling in the number of qualified applications received in recent years is in part due to these activities.

"Employee Self-Service" (ESS) and "Manager Self-Service" (MSS) are important elements of our human resources activities: ESS gives our staff online access to selected personal data and enables them to obtain information about their working-time account, pay slips and event management. Managerial staff can use MSS to view relevant data concerning the employees under their supervision.

We have made our company pension schemes even more secure by taking out insurance protection outside the Group. Furthermore, sufficient provision has been made for biometric risks and the necessary pension adjustments. The current model is a contribution-based, insured support fund set up in 2000.

The number of staff increased in the year under review by 2.3% to 220 (215). Women make up 58% of our workforce.

We would like to thank our staff for their personal dedication, energy and flexibility. Our gratitude also extends to the employee council and the senior management committee for their trusting cooperation.

Outlook

A slight decline in the Ifo Business Climate Index for the manufacturing sector in February 2004 has put a damper on the economic recovery that has been emerging in Germany over recent months. We nevertheless expect industrial output in the course of the year to benefit from the rebounding global economy. A continuing upward revaluation of the euro would to some extent entail an element of uncertainty. The labour market will not gain impetus in 2004 without a significant economic upturn and a structural austerity programme. Real gross domestic product is therefore forecast to rise by a mere 1.7% on an annual average.

In view of the rally on equity markets it is unlikely in the current year that write-downs will need to be taken on investments to the same extent as before. Owing to the low interest on investments, the underwriting result is taking on considerably greater importance. This is particularly true of life and health insurance, where (prospective) customers are looking more closely at the financial strength of insurance providers. The effects of the reform of the health system remain to be seen. The trend towards private old-age provision is, however, likely to be sustained.

Following the outcome of the latest renewals, we expect premiums and results in the reinsurance sector to show a stable development. Based on our good "AA-" rating from Standard & Poor's we have profited from the "flight to quality" among insurers and in most areas maintained our business on the high level of the previous year.

In our German motor third party liability portfolio we expect gross premium income for the 2004 financial year to slightly exceed the previous year's level. This is due to the premiums in motor third party liability insurance, which will have a similarly favourable impact on proportional reinsurance business to that seen in 2003. Further rate increases were also obtained in non-proportional reinsurance business. Overall, given a favourable claims experience on a par with the year under review, the underwriting results should be satisfactory.

In own damage insurance the premiums for our portfolio, composed principally of non-proportional covers, remained on the high level of the previous year, although in certain cases initial rate decreases were observed. Since the loss experience in the highly changeable own damage line is heavily dependent on the development of natural hazards claims, results here are difficult to forecast.

Rising premium levels are key to the profitability of our casualty portfolio. We expect the buoyant premium trend to be reaffirmed for a major industrial programme due to be renewed as at 1 July. It is still to early to foresee what effect the entry into force on 1 May 2004 of a new product safety directive pursuant to the Act on the Reorganisation of the Safety of Technical Work Equipment and Consumer Products (Equipment and Product Safety Act = GPSG) will have on casualty insurance. The same is true of new liability rules in the farming sector and food industry relating to genetically processed seed and foods as well as tighter EU provisions regarding environmental impairment liability.

In Germany we expect to see more claims by mid-sized enterprises under Directors' & Officers' insurance. We have responded by writing obligatory covers very selectively and accepting the risk only on an isolated facultative basis.

In life and health reinsurance the 2004 financial year will be dominated first and foremost by the prolonged tax debate, which is expected to stimulate business. A new annuity table is expected for 2005, and this will lead to a strengthening of pension reserves. We shall support our clients with appropriate reinsurance solutions as they cope with the resulting financial burdens.

We consider the profit outlook in credit and surety business to be good despite the depressed economic prospects. Along with the hard reinsurance market, the rehabilitation of portfolios achieved by reducing limits and introducing deductibles will favourably impact the results trend. What is more, we are striving to further reduce the share of proportional covers in favour of non-proportional arrangements.

The other European markets also offer the prospect of favourable developments in 2004. In the United Kingdom we expect the reinsurance market for casualty business to show further hardening. Double-digit percentage increases in reinsurance rates are anticipated for non-proportional motor business. In France, too, further improvements in rates and conditions were obtained across large sections of the portfolio in the renewals as at 1 January 2004. The motor and general third party liability lines, amongst others, experienced further hardening, while property reinsurance saw initial rate decreases.

It is likely that reinsurers will have to gear up for more vigorous competition in property business in North America, primarily due to the relatively low claims expenditure incurred in the year under review. Casualty business, however, is expected to develop in quite another direction. Ceding companies will continue to place their covers only with the best and most secure reinsurers, especially in view of the emerging need for some players to establish substantial additional reserves for past underwriting years.

The main renewals in a number of Asian markets take place as at 1 April of each year. In Japan we again expect the situation to remain stable and intend to further enlarge the portfolio as planned. In Korea the renewals of excess of loss business as at 1 April 2004 are likely to be favourable in the wake of typhoon "Maemi"; most notably, further hardening and higher retentions are to be expected in natural catastrophe business. In Taiwan, on the other hand, we scaled back our exposure as at 1 January 2004 in response to a rather soft market environment. At the same time, in South and Southeast Asia we successfully converted a number of our proportional treaties to excess of loss arrangements, and overall we remain highly satisfied with local market conditions.

As far as the portfolio of international life and health reinsurance is concerned, increased new business in the area of unit-linked products, particularly unit-linked annuity insurance, is anticipated in the major insurance markets of the United States and Japan as well as in Continental Europe. There will be no change in the considerable importance attached to traditional products for risk-oriented protection such as term life insurance, disability covers and critical illness policies.

The growth of the money supply and the rate of inflation are not currently putting any pressure on the European Central Bank (ECB). There is a good chance of the ECB leaving refinancing rates unchanged for 2004.

In this climate we expect long-term yields to rise slightly. We have therefore reduced the interest-rate sensitivity of our bond portfolio and prefer to make new investments in high-quality instruments in the medium maturity range. Equity markets are set to rise and gather impetus in the recovering economic climate as consumers and the manufacturing sector regain confidence. Within the scope of our tactical asset allocation we shall respond to the changing market situation and flexibly adjust our equity allocation in the context of our overall strategic orientation. All things considered, we anticipate a satisfactory investment result on a par with the previous year.

Assuming the claims experience is in line with the multi-year average and given a steady development on capital markets, we shall generate another good profit for the financial year. Subject to these conditions, we shall again be able to meet our profit targets for the 2004 financial year and distribute an appropriate dividend to our shareholders.

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 that required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act (AktG).

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.

Our investments are managed by Ampega Asset Management GmbH and real estate matters are handled by Ampega 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 approves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows.

Figures in EUR million	2003	2002
Subscribed capital and reserves	420.3	420.3
Surplus debenture (Genussrechtskapital)	40.9	40.9
Equalisation reserve and similar provisions	498.5	296.6
Technical provisions	3 533.8	3 282.3
Total capital, reserves and technical provisions	4 493.5	4 040.1

The capital, reserves and technical provisions amounted to 305.9% (279.7%) of net premiums; this includes the capital and reserves (including surplus debenture) at 31.4% (31.9%) 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	39 000 000.00

BALANCE SHEET
as at 31 December 2003

Figures in EUR thousand		2003			2002
Assets					
A. Intangible assets					
Other intangible assets				273	–
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			42 064		44 361
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		209 640			206 114
2. Loans to affiliated companies		40 000			250 000
3. Participating interests		17 755			17 755
			267 395		473 869
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		597 210			565 006
2. Bearer debt securities and other fixed-income securities		1 646 567			1 542 355
3. Mortgages and loans secured on land and buildings		612			935
4. Other loans					
a) Registered debt securities	96 163				138 225
b) Debentures and loans	198 185				228 171
c) Sundry loans	64 429				67 090
		358 777			433 486
5. Deposits with banks		48 627			132 237
6. Other investments		5			5
			2 651 798		2 674 024
IV. Deposits with ceding companies			1 322 118		1 198 505
				4 283 375	4 390 759

Figures in EUR thousand		2003		2002
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
VI. Disposable profit		39 000		20 000
			459 281	440 281
B. Surplus debenture (Genussrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	231 428			234 542
2. Less: reinsurance ceded	51 711			34 411
		179 717		200 131
II. Life assurance provision				
1. Gross	1 117 865			1 061484
2. Less: reinsurance ceded	389 230			431 149
		728 635		630 335
III. Provisions for outstanding claims				
1. Gross	3 407 682			3 555 739
2. Less: reinsurance ceded	811 464			1 147 231
		2 596 218		2 408 508
IV. Provision for bonuses and rebates				
1. Gross	1 459			1 180
2. Less: reinsurance ceded	15			112
		1 444		1 068
V. Equalisation reserve and similar provisions		498 463		296 609
VI. Other technical provisions				
1. Gross	33 122			48 722
2. Less: reinsurance ceded	5 286			6 460
		27 836		42 262
			4 032 313	3 578 913

Figures in EUR thousand	2003		2002
Assets			
C. Receivables			
I. Accounts receivable arising out of reinsurance operations	854 657		491 531
from affiliated companies:			
555 485 (2002: 325 546)			
II. Other receivables	19 923		14 787
from affiliated companies:		874 580	506 318
13 941 (2002: 10 593)			
D. Other assets			
I. Tangible assets and stocks	7		10
II. Current accounts with banks, cheques and cash in hand	6 892		12 293
		6 899	12 303
E. Prepayments and accrued income			
I. Accrued interest and rent	42 278		44 954
II. Other accrued income	509		1 121
		42 787	46 075
F. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		4 929	4 948
		5 212 843	4 960 403

Figures in EUR thousand	2003		2002
Liabilities			
D. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	12 053		11 305
II. Provisions for taxation	46 901		37 476
III. Other provisions	13 409		14 351
		72 363	63 132
E. Deposits received from retrocessionaires		369 841	495 753
F. Other liabilities			
I. Accounts payable arising out of reinsurance operations	228 371		315 184
to affiliated companies:			
156 110 (2002: 231 346)			
II. Miscellaneous liabilities	9 627		24 022
from taxes:		237 998	339 206
137 (2002: 155)			
for social security:			
202 (2002: 234)			
to affiliated companies:			
5 800 (2002: 20 191)			
G. Accruals and deferred income		144	2 215
		5 212 843	4 960 403

PROFIT AND LOSS ACCOUNT
for the 2003 financial year

Figures in EUR thousand		2003		2002
		1.1.–31.12.		1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2 232 870			2 483 052
b) Retrocession premiums	763 747			1 038 357
		1 469 123		1 444 695
c) Change in the gross provision for unearned premiums (+/-)	(22 923)			(56 031)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	18 093			(4 381)
		(4 830)		(60 412)
			1 464 293	1 384 283
2. Allocated investment return transferred from the non-technical account, net of retrocession			23 258	31 486
3. Other technical income, net of retrocession			–	1
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 300 302			1 259 140
bb) Retrocessionaires' share	738 495			497 677
		561 807		761 463
b) Change in provisions for outstanding claims				
aa) Gross	33 198			(155 786)
bb) Retrocessionaires' share	(309 706)			61 440
		(276 508)		(94 346)
			838 315	855 809
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(215 193)		(280 176)
b) Other net technical provisions		254		320
			(214 939)	(279 856)
6. Bonuses and rebates, net of retrocession			574	45
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		475 589		491 748
b) Less: commissions and profit commissions received on retrocession		255 192		233 883
			220 397	257 865
8. Other technical charges, net of retrocession			1 708	1 694
9. Subtotal			211 618	20 501
10. Change in the equalisation reserve and similar provisions			(201 854)	(26 531)
11. Net technical result			9 764	(6 030)

Figures in EUR thousand	2003				2002
	1.1.–31.12.				1.1.–31.12.
Balance brought forward:				9 764	(6 030)
II. Non-technical account					
1. Investment income					
a) Income from participating interests		13 978			15 426
affiliated companies:					
13 978 (2002: 12 926)					
b) Income from other investments					
affiliated companies:					
43 413 (2002: 41 064)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4 343				4 322
bb) Income from other investments	155 645				163 414
		159 988			167 736
c) Appreciation on investments		7 085			4 442
d) Gains on the realisation of investments		96 674			53 719
			277 725		241 323
2. Investment charges					
a) Investment management charges, including interest		9 903			8 353
b) Depreciation		19 707			60 320
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
12 096 (2002: 39 203)					
c) Losses on the realisation of investments		58 532			3 116
			88 142		71 789
			189 583		169 534
3. Allocated investment return transferred to the technical account			(32 775)		(35 895)
				156 808	133 639
4. Other income			19 748		14 635
5. Other charges					
a) Special allocation to provisions for outstanding claims		64 149			53 964
b) Miscellaneous charges		41 344			41 455
			105 493		95 419
				(85 745)	(80 784)
6. Profit or loss on ordinary activities before tax				80 827	46 825
7. Taxes on profit and income		43 436			26 720
plus allocation for group assessment		(1 725)			–
			41 711		26 720
8. Other taxes		129			118
plus allocation for group assessment		(13)			(13)
			116		105
				41 827	26 825
9. Disposable profit				39 000	20 000

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 aquisition – 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 2003 underwriting year is 17.5% 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). 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 (HBG). 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 trinominal 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	2002	2003				
Change in asset items A., B.I. to B.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depre-ciation	Book values 31.12.
A. Intangible assets						
Other intangible assets	–	545	–	–	272	273
B.I. Land and buildings, rights to land and buildings, leasehold	44 361	–	–	–	2 297	42 064
B.II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	206 114	8 465	4 939	–	–	209 640
2. Loans to affiliated companies	250 000	40 000	250 000	–	–	40 000
3. Participating interests	17 755	–	–	–	–	17 755
4. Total B.II.	473 869	48 465	254 939	–	–	267 395
B.III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	565 006	292 445	258 074	3 914	6 081	597 210
2. Bearer debt securities and other fixed-income securities	1 542 355	1 227 046	1 114 766	1 070	9 138	1 646 567
3. Mortgages and loans secured on land and buildings	935	–	323	–	–	612
4. Other loans						
a) Registered debt securities	138 225	–	42 062	–	–	96 163
b) Debentures and loans	228 171	17 500	45 339	–	2 147	198 185
c) Sundry loans	67 090	10 000	12 661	–	–	64 429
5. Deposits with banks	132 237	7 677	91 287	–	–	48 627
6. Other	5	–	–	–	–	5
7. Total B.III.	2 674 024	1 554 668	1 564 512	4 984	17 366	2 651 798
Sum total	3 192 254	1 603 678	1 819 451	4 984	19 935	2 961 530

Land and buildings and rights to land and buildings

As at 31 December 2003, the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 17,956 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,275 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 Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	59 108	EUR	1 207
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	226 844	EUR	104 091
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	797	EUR	218
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	177 160	AUD	13 940
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	106 971	EUR	37 543

Other notes on investments

Assets with a balance sheet value of EUR 122,858 (EUR 268,739) 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 a combined asset value and 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. 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 and in individual cases at book value.

Figures in EUR thousand	2003		
Current values pursuant to § 54 RechVersV of asset items B.I. to B.III. for the 2003 financial year	Book values 31.12.	Current values 31.12.	Difference 31.12.
B.I. Land and buildings, rights to land and buildings, leasehold	42 064	69 617	27 553
B.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	209 640	258 491	48 851
2. Loans to affiliated companies	40 000	40 000	–
3. Participating interests	17 755	18 575	820
4. Total B.II.	267 395	317 066	49 671
B.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	597 210	646 103	48 893
2. Bearer debt securities and other fixed-income securities	1 646 567	1 665 384	18 817
3. Mortgages and loans secured on land and buildings	612	612	–
4. Other loans			
a) Registered debt securities	96 163	101 409	5 246
b) Debentures and loans	198 185	208 290	10 105
c) Sundry loans	64 429	66 788	2 359
5. Deposits with banks	48 627	48 627	–
6. Other investments	5	5	–
7. Total B.III.	2 651 798	2 737 218	85 420
Sum total	2 961 257	3 123 901	162 644

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

Of the units in unit trusts totalling EUR 561,150 (EUR 543,185) thousand shown under the other investments in the item "shares, units in unit trusts and other variable-yield securities", an amount of EUR 347,994 (EUR 430,874) thousand was allocated to fixed assets. To this extent, depreciation of EUR 15,461 (EUR 66,367) thousand was omitted.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 7,768 (EUR 17,131) thousand were allocated to fixed assets. The omitted depreciation totalled EUR 1,139 (EUR 6,878) thousand.

Other receivables

Figures in EUR thousand	2003	2002
Receivables from affiliated companies	13 941	10 593
Receivables from reinsured pension schemes	5 505	–
Receivables from the revenue authorities	261	3 487
Interest and rent due	199	172
Receivables from dividend entitlements	–	390
Receivables from investment deposits	–	85
Other receivables	17	60
Total	19 923	14 787

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 384 (EUR 1,098) 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 4,948) thousand. Of this amount, EUR 2,424 (EUR 2,434) thousand was attributable to corporation tax and EUR 2,505 (EUR 2,514) 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 2003. 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 has a term of 10 years. The amount repayable is due on 2 November 2004. The interest is 7.75%.

Provision for unearned premiums

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Fire	40 076	35 731	41 833	38 185
Casualty	57 937	53 924	48 173	45 426
Personal accident	5 133	4 157	6 323	5 726
Motor	20 098	14 413	25 973	22 850
Aviation	23 792	21 828	32 184	28 677
Life	39 314	17 255	27 601	20 230
Other lines	45 078	32 409	52 455	39 037
Total	231 428	179 717	234 542	200 131

Life assurance provisions

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Personal accident	402	402	422	422
Life	1 113 065	723 835	1 054 787	623 638
Other lines	4 398	4 398	6 275	6 275
Total	1 117 865	728 635	1 061 484	630 335

Provisions for outstanding claims

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	175 621	146 076	233 483	141 707
Casualty	1 107 177	817 539	1 095 447	715 478
Personal accident	70 641	58 700	65 738	58 722
Motor	1 289 016	1 035 186	1 376 302	991 620
Aviation	219 549	133 416	226 648	113 937
Marine	100 904	86 408	115 946	91 989
Life	100 781	88 210	101 514	86 790
Other lines	308 658	204 605	308 634	183 989
	3 372 347	2 570 140	3 523 712	2 384 232
Provision for annuities				
Casualty	2 078	2 011	1 529	1 466
Personal accident	1 744	1 479	895	861
Motor	31 513	22 588	29 603	21 949
	35 335	26 078	32 027	24 276
Total	3 407 682	2 596 218	3 555 739	2 408 508

Equalisation reserve and similar provisions

Figures in EUR thousand	2003			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	30 371	37 354	2 324	65 401
Casualty	83 787	27 846	–	111 633
Personal accident	12 427	5 575	–	18 002
Motor	40 524	103 795	197	144 122
Aviation	13 392	8 119	–	21 511
Marine	25 050	18 368	–	43 418
Other lines	81 001	10 581	12 775	78 807
	286 552	211 638	15 296	482 894
Provisions which are similar to the equalisation reserve – major risks –				
Fire	–	3 956	–	3 956
Casualty	3 858	430	–	4 288
Motor	–	9	–	9
Marine	–	280	–	280
Other lines	6 199	837	–	7 036
Total	296 609	217 150	15 296	498 463

Other technical provisions

Figures in EUR thousand	2003		2002	
Type of provision	gross	net	gross	net
Profit commission	32 388	27 060	44 275	38 591
Premium cancellation	418	406	1 418	659
Commissions	316	370	3 029	3 012
Total	33 122	27 836	48 722	42 262

Technical provisions – total

Figures in EUR thousand	2003		2002	
Insurance line	gross	net	gross	net
Fire	289 005	255 018	308 096	212 575
Casualty	1 292 142	998 325	1 241 867	859 032
Personal accident	96 157	82 937	85 833	78 141
Motor	1 489 971	1 221 441	1 489 784	1 093 481
Aviation	266 575	177 486	273 885	156 015
Marine	145 512	130 976	141 691	117 701
Life	1 253 958	830 097	1 184 876	731 401
Other lines	456 699	336 033	472 244	330 567
Total	5 290 019	4 032 313	5 198 276	3 578 913

Provisions for other risks and charges

Figures in EUR thousand	2003	2002
Provisions for pensions and similar liabilities	12 053	11 305
Provisions for taxation	46 901	37 476
Sundry provisions		
Provisions for currency risks	5 192	7 459
Provisions for outstanding payments	3 304	2 883
Provisions for interest	2 804	2 346
Provisions for annual accounts costs	1 071	1 025
Provisions for suppliers' invoices	357	–
Provisions for litigation risks	331	354
Provisions for costs of legal action	208	102
Other lines	142	182
	13 409	14 351
Total	72 363	63 132

Miscellaneous liabilities

Figures in EUR thousand	2003	2002
Accounts due to affiliated companies	5 800	20 191
Liabilities from interest on surplus debenture (Genussrechtskapital)	3 170	3 170
Liabilities from outstanding social security contributions	202	234
Liabilities from leases	155	132
Liabilities in respect of the revenue authorities	137	155
Liabilities from overpayments	121	99
Other liabilities	42	41
Total	9 627	24 022

Deferred items

Figures in EUR thousand	2003	2002
Disagio	118	2 128
Other accruals and deferred income	26	87
Total	144	2 215

Contingent liabilities

Liabilities for remaining calls existed with respect to special investments in the amount of EUR 62,844 (EUR 78,163) 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	2003	2002	2003	2002	2003	2002	2003	2002
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	218 243	228 721	215 459	214 897	152 507	145 226	3 718	(6 046)
Casualty	369 517	365 163	351 884	349 187	301 290	237 450	(13 547)	(7 840)
Personal accident	64 710	55 781	65 801	54 777	42 924	44 149	1 316	(2 399)
Motor	473 040	506 939	475 412	502 187	375 654	230 586	(29 471)	12 087
Aviation	131 911	136 150	135 252	126 266	92 862	81 246	15 915	12 350
Marine	78 165	86 294	78 165	86 294	64 014	71 031	4 309	(3 508)
Other lines	333 372	376 776	336 971	361 620	211 006	207 282	14 858	19 156
Total property and casualty insurance	1 668 958	1 755 824	1 658 944	1 695 228	1 240 257	1 016 970	(2 902)	23 800
Life	563 912	727 228	551 003	731 793	224 036	367 313	12 666	(29 830)
Total insurance business	2 232 870	2 483 052	2 209 947	2 427 021	1 464 293	1 384 283	9 764	(6 030)

Total insurance business

Figures in EUR thousand	2003	2002
Gross claims incurred	1 267 104	1 414 926
Gross operating expenses	475 589	491 748
Reinsurance balance	61 673	249 738

Expenses for investments

Figures in EUR thousand	2003	2002
1. Wages and salaries	13 646	12 923
2. Social security payments and expenses for welfare	2 282	2 065
3. Expenses for old-age pension scheme	1 152	913
4. Total expenses	17 080	15 901

Expenses for investments

Figures in EUR thousand	2003	2002
Fixed-income securities	36 198	12 998
Shares, units in unit trusts	25 542	46 046
Futures and options contracts	14 158	–
Administrative expenses	8 738	6 522
Land and buildings	2 966	3 567
Deposit and bank fees	496	561
Deposits	44	2 095
Total	88 142	71 789

Other income

Figures in EUR thousand	2003	2002
Exchange rate gains	12 741	7 371
Profit from services	5 480	5 624
Allocated investment return	576	668
Release of non-technical provisions	262	446
Income from allocation of administrative expenses	205	–
Cancellation of value adjustments	69	193
Other income	415	333
Total	19 748	14 635

Other expenses

Figures in EUR thousand	2003	2002
Special allocations to the provisions for outstanding claims	64 149	53 964
Deposit interest	12 467	11 254
Exchange rate losses	12 228	9 197
Expenses for the whole company	6 652	5 033
Expenses from services	5 565	5 703
Separate value adjustment on accounts receivable	4 264	6 676
Interest charges on surplus debenture (Genussrechtskapital)	3 170	3 170
Allocation to interest provisions	3 050	819
Expenses for letters of credit	1 065	1 266
Interest charges on reinsurance operations	746	616
Interest charges on old-age pension scheme	673	624
Depreciation on receivables	568	910
Financing interest	58	439
Other interest and expenses	354	157
	115 009	99 828
Less: Technical interest	9 516	4 409
Total	105 493	95 419

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 141 thousand, those to the Advisory Board EUR 52 thousand, those to the Executive Board EUR 836 thousand and those to former members of the Executive Board EUR 352 thousand. The amount of EUR 3,957 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 219 in the financial year.

Hannover Rückversicherung AG, Hannover, transferred its majority interest to the newly established Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, effective 19 November 2002 (existing portfolio shares) and 20 January 2003 (shares from the capital increase). 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, 18 March 2004

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 Rückversicherungs-Aktiengesellschaft, Hannover, for the business year from January 1 to December 31, 2003. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law and supplementary provisions in the articles of incorporation agreement are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and the management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 19 March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Schuster
(German Public Auditor)	(German Public Auditor)

REPORT OF THE SUPERVISORY BOARD
of E+S Rückversicherungs-AG

We supervised the management of the company regularly during 2003 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 two occasions by way of written resolutions 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 constantly informed by the Chairman of the Executive Board of major developments and impending decisions. 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 2003 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.

Following on from its deliberations in the previous year, the Supervisory Board again considered the restructuring and enlargement of the company's group of shareholders. The Executive Board provided us with an explanation of the profit expectations for the 2003 financial year and the operational planning for the 2004 financial year. The revised arrangements for and simplification of the exercise of voting rights at the Annual General Meeting were proposed to the Annual General Meeting. Following the adoption of an appropriate resolution, the voting right shall now commence upon complete payment of the capital contribution, with each no-par-value registered share granting an entitlement to one vote.

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 case 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 the light of our examination, we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

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 2003.

As of 11 November 2003 Mr. Bieber stepped down from the Supervisory Board as a staff representative.

As of 1 September 2003 Mr. André Arrago and Mr. Ulrich Wallin were appointed as full members of the Executive Board. Dr. Elke König was also appointed as a full member of the Executive Board as of 1 January 2004.

Hannover, 24 March 2004

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

GLOSSARY

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e.g. hurricane, 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 transactions (BAT): proportional reinsurance treaties on our clients' 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 (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 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.

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

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

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

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

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 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.

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.

Insurance pool: an insurance pool is a risk-sharing partnership formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. An insurance pool is based upon a civil-law partnership. Under the pool agreement 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. Management of the pool is entrusted either to one of the member companies or to a special pool management office. 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.

Insured loss: the insured loss reflects the total amount of losses.

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.

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.

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

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

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

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

Net: cf. → Gross/Retro/Net

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

Obligatory reinsurance (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.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined subsegment (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.

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 liability insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or → portfolio are reinsured under the prevailing 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: 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: ratings are systematic evaluations of companies with respect to their → credit status or the credit status of issuers regarding 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.

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

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: Process o 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.

Value of in-force business: 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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