Annual REPORT
2001

e+s rück

KEY FIGURES *of E+S Rück*

Figures in EUR million	*2001*	*+/(-) previous year*	*2000*	*1999*
Gross written premiums	1 904.5	+22.8%	1 550.4	1 272.3
Net premiums earned	1 041.3	+15.1%	904.6	727.0
Underwriting result	(148.6)	(24.9%)	(119.0)	(57.5)
Change in the equalisation reserve and similar provisions	(23.1)	(232.8%)	17.4	19.5
Investment result	223.3	(2.7%)	229.6	160.1
Pre-tax profit	27.8	–	27.8	19.0
Profit or loss for the financial year	12.0	+650.0%	1.6	9.8
Investments	3 603.3	+13.8%	3 166.8	3 074.2
Capital and reserves incl. surplus debenture (Genussrechtskapital)	161.2	–	161.2	161.2
Equalisation reserve and similar provisions	270.1	(7.9%)	293.2	275.8
Net technical provisions	2 952.0	+16.1%	2 543.1	2 372.1
Total capital, reserves and technical provisions	3 383.3	+12.9%	2 997.5	2 809.1
Number of employees	198	+5	193	207
Retention	57.0%		59.6%	56.9%
Loss ratio*	91.7%		78.4%	83.1%
Expense ratio*	23.9%		26.9%	25.1%
Combined ratio*	115.6%		105.3%	108.2%

* excluding life reinsurance

CONTENTS

Dear clients and shareholders of E+S Rück,

We are pleased to report that our company enjoyed another successful financial year.

For the insurance industry 2001 was a year of upheaval, triggered by an extraordinary incidence of major losses. The most devastating event occurred on 11 September in the United States – the horrific images of that day will take a long time to fade. On the German market, too, the losses caused by the terrorist attacks as well as further sizeable major losses prompted an appreciably heightened level of risk awareness and a review of existing coverages – especially those for major risks. Whilst the 2001 treaty renewals had already produced improvements, the loss experience in the year under review necessitated significant premium increases and limitations of liability. This was most apparent in industrial fire and liability insurance, lines that had been under strain for years and where premiums were not commensurate with the risk. In the present annual report we would like to explain how we pursued our anti-cyclical approach in this difficult year.

Wilhelm Zeller

We enlarged our total gross premium income in the year under review by an impressive 22.8% to EUR 1.9 billion. Disproportionately strong growth was generated once again in our strategic segment of life and health reinsurance, which now accounts for 33% of our overall premium volume. The German life insurance market showed further sustained growth and was given added impetus by the launch of state-subsidised, private old-age provision. Our acceptances in property and casualty reinsurance are guided by strict profitability considerations, as a consequence of which premium income showed growth in absolute terms but was further reduced in the context of its share of our total portfolio. It goes without saying that our profit and loss account – like that of other market players – was impacted by the major losses of the year under review. We are therefore particularly proud to report that even in such a difficult market climate we actually generated an increased profit for the year, which we intend to distribute in full to our shareholders.

Dr. Wolf S. Becke

Dr. Michael Pickel

For some years now you have been accustomed to the importance that we not only attach to the profit-oriented management of our underwriting business but also to the areas of quality management and individual customer care. In the year under review we conducted our activities in this respect under the motto "standing still is a step backwards". In the previous year we were the first reinsurer in the world to obtain ISO 9001 certification confirming the efficiency of our quality management system. In the year under review we underwent our first annual review. The results were highly satisfactory and produced fresh insights that we look forward to acting on within our organisation. We also set great store by enhancing our Customer Relationship Management in life and health reinsurance. By pursuing an approach that goes above and beyond traditional marketing concepts, our goal here is to enter into long-term, mutually beneficial partnerships with our loyal customers. Last but not least it may be noted that E+S Rück was the only reinsurer in the German market to keep up its treaty quotations without interruption in the wake of 11 September. As a specialist reinsurer for the German market, we thus sent out a clear signal that we stand by our clients even – or more accurately – especially in difficult times.

Summing up, 2001 was in many respects a turbulent year in which we systematically moved forward on our chosen path and equipped ourselves well for future challenges as your reinsurer serving the German market.

Yours sincerely,

Wilhelm Zeller
Chairman of the
Executive Board

Dr. Wolf S. Becke
Member of the
Executive Board

Dr. Michael Pickel
Member of the
Executive Board

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl Hannover Chairman	Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Gerd Kettler Münster Deputy Chairman	Chairman of the Executive Board of LVM Landwirtschaftlicher Versicherungs- verein Münster a.G.
Manfred Bieber Hannover*	
R. Claus Bingemer Hannover	Former Chairman of the Executive Boards of Hannover Rückversicherungs-AG, E+S Rückversicherungs-AG
Dr. Heinrich Dickmann Burgwedel	Chairman of the Executive Board of Vereinigte Haftpflichtversicherung V.a.G.
Ass. jur. Tilman Hess Hannover*	
Rolf-Peter Hoenen Coburg	Speaker of the Executive Boards of HUK-Coburg Versicherungsgruppe
Dr. Ing. Manfred Mücke Hamburg	Chairman of the Executive Boards of - KRAVAG-SACH VaG, - KRAVAG-LOGISTIC Versicherungs-AG,
	Member of the Executive Board of - R+V Versicherung AG - R+V Allgemeine Versicherung AG
Anita Suing-Hoping Godshorn*	

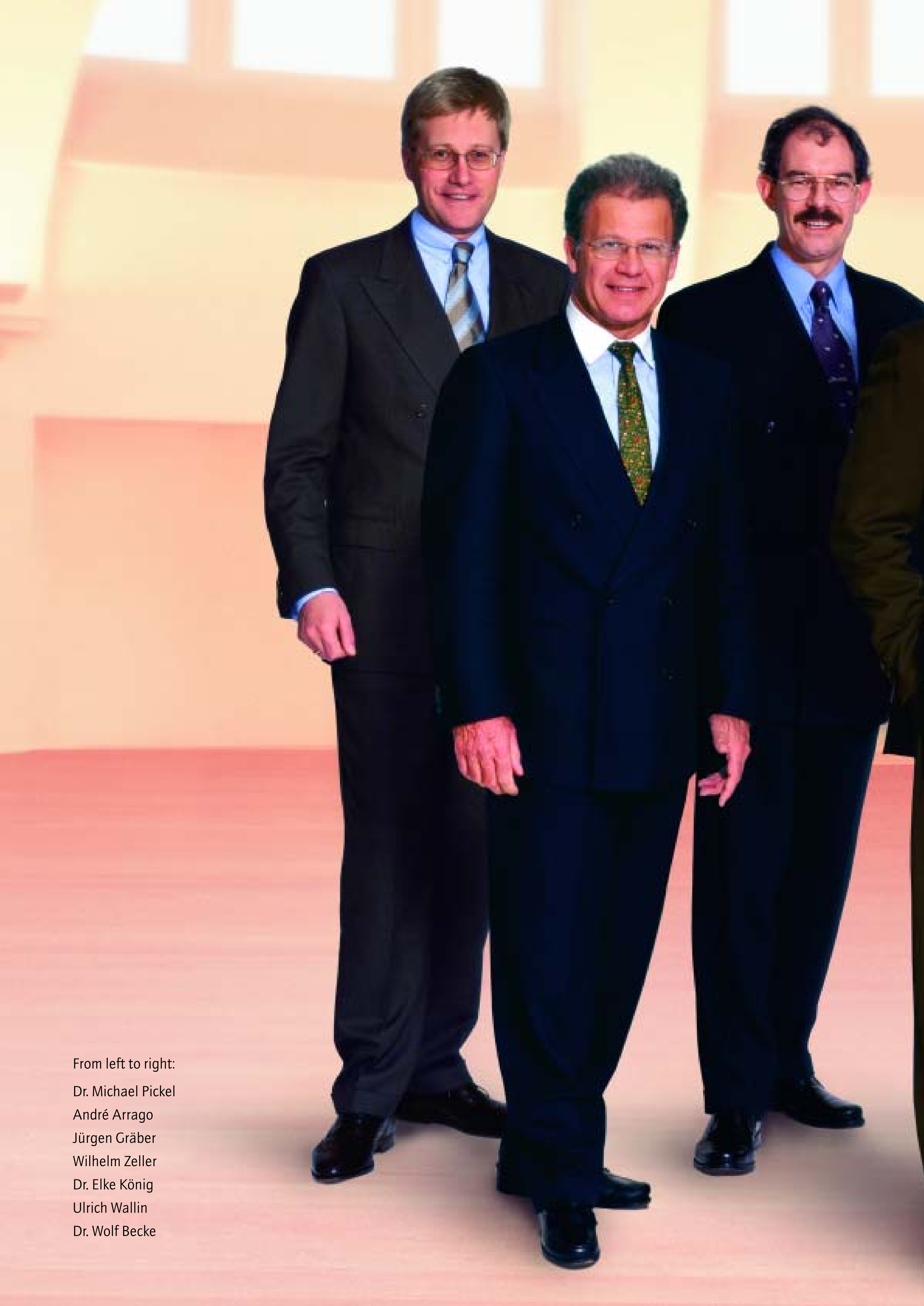
*Staff representative

Advisory Board (Beirat)

Dr. Edo Benedetti Trient	President of the ITAS Istituto Trentino-Alto Adige per Assicurazioni, Italy
Wolfgang Bitter Itzehoe	Chairman of the Executive Board of Itzehoer Versicherungsverein – Brandgilde von 1691 VVaG
Dieter Holl Stuttgart	Chairman of the Executive Board of Württembergische Gemeinde-Versicherung a.G.
Ernst Köller Hannover	General Director and Chairman of the Executive Board of CONCORDIA Versicherungs- Gesellschaft a.G. (until 28 February 2002)
Dr. Erwin Möller Hannover	Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G. and Talanx AG
Adolf Morsbach Wedemark	Former Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Executive Board (Vorstand)

Wilhelm Zeller Burgwedel Chairman	Program business; Planning/Controlling, Investor Relations, Public Relations, Internal Auditing; Underwriting Services and Controlling; Human Resources; Corporate Development
Dr. Wolf Becke Hannover	Life and Health reinsurance worldwide
Jürgen Gräber Ronnenberg	Coordination of all non-life reinsurance; international Property and Casualty treaty reinsurance, Credit and Surety business worldwide; Financial reinsurance worldwide
Herbert K. Haas Burgwedel (until 31 January 2002)	Finance and Accounting; Capital Markets; Information Technology; General Administration
Dr. Andreas-Peter Hecker Hannover (until 31 August 2001)	
Dr. Michael Pickel Gehrden (Full Member since 1 January 2002)	German Property and Casualty treaty reinsurance; non-life reinsurance of the HDI Group, Retrocessions; Claims Service; Legal Department
Dr. Detlef Steiner Hannover (until 31 August 2001)	
André Arrago Hannover Deputy Member (since 1 September 2001)	International Property and Casualty treaty reinsurance
Dr. Elke König Hannover Deputy Member (since 1 January 2001)	Finance and Accounting; Capital Markets; Information Technology; General Administration
Ulrich Wallin Hannover Deputy Member (since 1 September 2001)	Specialty Division (worldwide facultative business in Casualty and Property lines; worldwide treaty and facultative business in aviation, space and marine insurance worldwide) international Property and Casualty treaty reinsurance



From left to right:

Dr. Michael Pickel
André Arrago
Jürgen Gräber
Wilhelm Zeller
Dr. Elke König
Ulrich Wallin
Dr. Wolf Becke

Economic climate

The cyclical trend in the global economy showed a marked downturn in the year under review. This was especially true of the major industrial nations, with the USA and Japan actually going into recession. The strains in the USA were primarily triggered by the muted growth expectations and the low personal savings ratio of private households. The economies of the developing and emerging countries also declined, with Asia particularly impacted by the tense state of the technology sector. Macroeconomic expansion in the Eurozone similarly fell away sharply in the year under review. Particularly notable here was the abrupt fall in manufacturing output, triggered on the demand side by the deteriorating global economy and the associated contraction in export and domestic demand. The terrorist attacks of 11 September exacerbated the already appreciable economic problems on a worldwide scale.

Economic growth in Germany was in the order of just 0.6% in the year under review, an unexpectedly large decline compared to the previous year. While a mood of optimism still prevailed at the beginning of the year due to extensive tax cuts, adverse factors increasingly gained the upper hand as the year progressed. The level of prices rose sharply as the cost of petrol and food increased. What is more, growing unemployment served to reduce disposable incomes, thus hampering personal consumption and again curbing domestic demand. Furthermore, industry's willingness to make capital investments suffered under the deterioration in the general business outlook as well as the drop in incoming orders. The growth in real gross domestic product thus came to a virtual standstill in the summer of 2001. Most notably, export demand – the decisive motor for economic growth in recent years – lost impetus as the global cyclical trend took an increasingly downward turn.

The economic slowdown also took a heavy toll on capital markets, making 2001 one of the most difficult years in stock market history. Alarming corporate announcements warning of – sometimes multiple – downward revisions in profit expectations provoked a general mood of uncertainty and caused stock prices to decline across virtually all sectors. Against the backdrop of this already very tense environment, the terrorist attacks of 11 September unleashed near-panic selling on the equity markets. Although the crucial national and international indices had recovered appreciably by year-end, the Dax showed a decline of more than 20% for the year as a whole. Movements on interest rate markets were also impacted by the flagging economy. The most drastic reaction came from the US Federal Reserve Board, which in the course of the year – and prompted in part by the terrorist attacks – incrementally cut the prime rate by a total of 475 basis points to 1.75%. The European Central Bank, by contrast, was relatively slow to start cutting rates and did so in less pronounced fashion. Overall, it reduced base rates by 150 basis points to 3.25% by year-end. These interest rate cuts of course gave bond markets a corresponding impetus, with securities issued by first-rate borrowers showing the greatest gains. The development of the euro was unsatisfactory: despite a modest upswing early in the second half of the year it continued to depreciate, especially against the US dollar.

The German insurance industry

The German insurance industry experienced another difficult year in 2001. While premium income in property and casualty insurance is forecast to have risen by around 3% to EUR 50 billion, this growth does not constitute improved income in real terms once the increase in insured values is taken into account. Most strikingly, the situation in German industrial property insurance remained under considerable strain. Predatory competition continued to prevail in this segment. It was at least gratifying to note that total premium income increased – the first rise since 1994. Yet this higher income was offset by a larger burden of losses. On balance, the loss ratio for the financial year was around 100% (previous year: 98.5%). Allowing for run-off profits and losses of previous years, the resulting market loss is expected to be in the order of EUR 0.6 billion (previous year: EUR 0.5 billion). The situation in fire and liability insurance remained especially critical – with both lines additionally burdened by large major claims which cut heavily into profits. The consistently unacceptable level of profitability compelled insurers to improve premiums and conditions. The development of German motor insurance was more favourable from a profitability standpoint. Premium increases in this line combined with a decreased claims frequency – due to higher petrol prices and lower usage of motor vehicles – generated surprisingly good results.

Marked hardening of the German reinsurance market

Marked hardening could be observed on the German reinsurance market in the course of the year under review. This was triggered by the poor – in some areas intolerable – results of the previous years in conjunction with sharply lower investment income. The renewal season for 2001 thus showed a clear tendency towards more adequate pricing as well as conditions that were more commensurate with the risk. Furthermore, the heavy burden of major losses intensified the pressure on reinsurers to obtain improved terms and conditions or withdraw the accustomed level of capacity from the markets – a trend that was given significant added impetus by the terrorist attacks of 11 September in the USA. For the German reinsurance industry, as was true of reinsurers around the world, these loss events signalled a decisive turning point that transformed the market. On the one hand, reinsurers – first and foremost international players – temporarily or even permanently suspended their underwriting activities on the German market. On the other hand, this unprecedented loss underlined the significant role played by reinsurers as vital risk-carriers and highlighted the importance of adequate reinsurance cover. Whereas in past years the pricing component was virtually the sole focus of attention, considerations of quality, security and continuity have now reclaimed greater importance.

Stronger emphasis on quality, security and continuity

Since the effects of the 11 September terrorist attacks did not make themselves felt until the fourth quarter, they did not give rise to any dramatic improvements in the accounting figures reported for the year under review. The decisive factors continued to be the strained state of the market in German property and casualty (re-)insurance and the large burden of major losses. The depressed situation in industrial fire and liability insurance – both as regards premiums and claims – particularly impacted the reinsurers' results. Yet as the year progressed, these lines also showed the most far-reaching rehabilitation successes, and the prospects for the current financial year are therefore considerably brighter. The performance of German motor insurance, on the other hand, was exceptionally favourable for the reinsurance industry. In this line reinsurers were able to share in the premium increases on the original market and they generated substantially improved results.

German life insurance continued to be attractive, both in the insurance and reinsurance sectors. Following a decline in new business in the previous year the number of new policies taken out increased in the year under review. Premium income grew by around 8%. Pension and term insurance products as well as unit-linked life insurance continued to be high-growth areas. Yet the greatest impetus derived from disability insurance, which profited from the reduced protection afforded younger employees under the statutory pension scheme. The most significant event in the 2001 financial year was the passage of legislation relating to the so-called "Riester pension" and the introduction of state-subsidised, private old-age provision. Although the favourable implications of this aspect of pension reform did not make themselves felt in the year under review, they open up the prospect of enormous growth potential for the German life insurance industry.

Business development

Higher loss burden due to increased major losses

E+S Rück bears exclusive responsibility for German business within the Hannover Re Group. We are the specialist reinsurer for the German market. For its part, Hannover Re – together with its subsidiaries – writes the international business. In order to safeguard advantageous international risk spreading, the two companies participate in each other's respective business segments. Our technical account thus continues to be influenced by developments in the international reinsurance markets via these retrocessions.

Gratifying rise in premium income

Our gross premium income posted a highly gratifying increase of 22.8% compared to the previous year to reach a total of EUR 1.9 billion. Growth derived from the expansion of both property/casualty and life/health reinsurance. In absolute terms gross premium income in the latter segment grew by EUR 144.5 million to EUR 625.8 million, and the proportion of our total portfolio attributable to life and health reinsurance now stands at 32.9% (previous year: 31.0%). The key driver of growth here was sustained strong demand for products in the area of old-age provision, especially pension and term insurance policies as well as unit-linked life insurance. In these subsegments we support our clients with reinsurance solutions designed to finance their new business.

Investment result almost on a par with the previous year

The state of the market in German property and casualty reinsurance remained tense in the year under review. Inadequate premiums and inappropriate conditions were most striking in industrial fire and liability insurance. This continued to be the case despite the fact that premiums and conditions were improved – sometimes substantially – in the course of the year in response to the heavy burden of major losses. Motor insurance, however, where a good premium level and favourable claims situation facilitated surprisingly positive results, produced a gratifying performance. Whilst our internal standard of writing business only in accordance with strict profitability considerations thus permitted an overall expansion of the premium volume in absolute terms, it consequently caused the proportion of our total portfolio attributable to property and casualty reinsurance to contract further to 67.1% (previous year: 69.0%).

Owing to a slightly lower retention, our net premiums grew in the year under review by 15.1% to EUR 1.0 billion.

The loss expenditure climbed sharply by 29.2% year-on-year to EUR 838.6 million. The key factors here were the major loss incidence and especially the terrorist attacks of 11 September in the USA, which also impacted our profit and loss account through intra-group risk spreading with Hannover Re. The loss ratio excluding life insurance thus increased to 91.7% (previous year: 78.4%). Operating expenses, on the other hand, were reduced from EUR 328.1 million to EUR 269.2 million. This decrease was primarily attributable to earnings that accrued back to our technical account from securitisation transactions – i.e. from the transfer of reinsurance risks to the capital markets – concluded jointly with Hannover Re. The heavy losses of the year under review resulted in reimbursements under these contracts. Overall, the net underwriting result before changes in the equalisation reserve deteriorated to -EUR 148.6 million (previous year: -EUR 119.0 million).

On the basis of the loss experience in the year under review an amount of EUR 23.1 million (previous year: allocation of EUR 17.4 million) was withdrawn from the equalisation reserve, and the net underwriting result consequently improved slightly year-on-year to -EUR 125.5 million (previous year: -EUR 136.4 million).

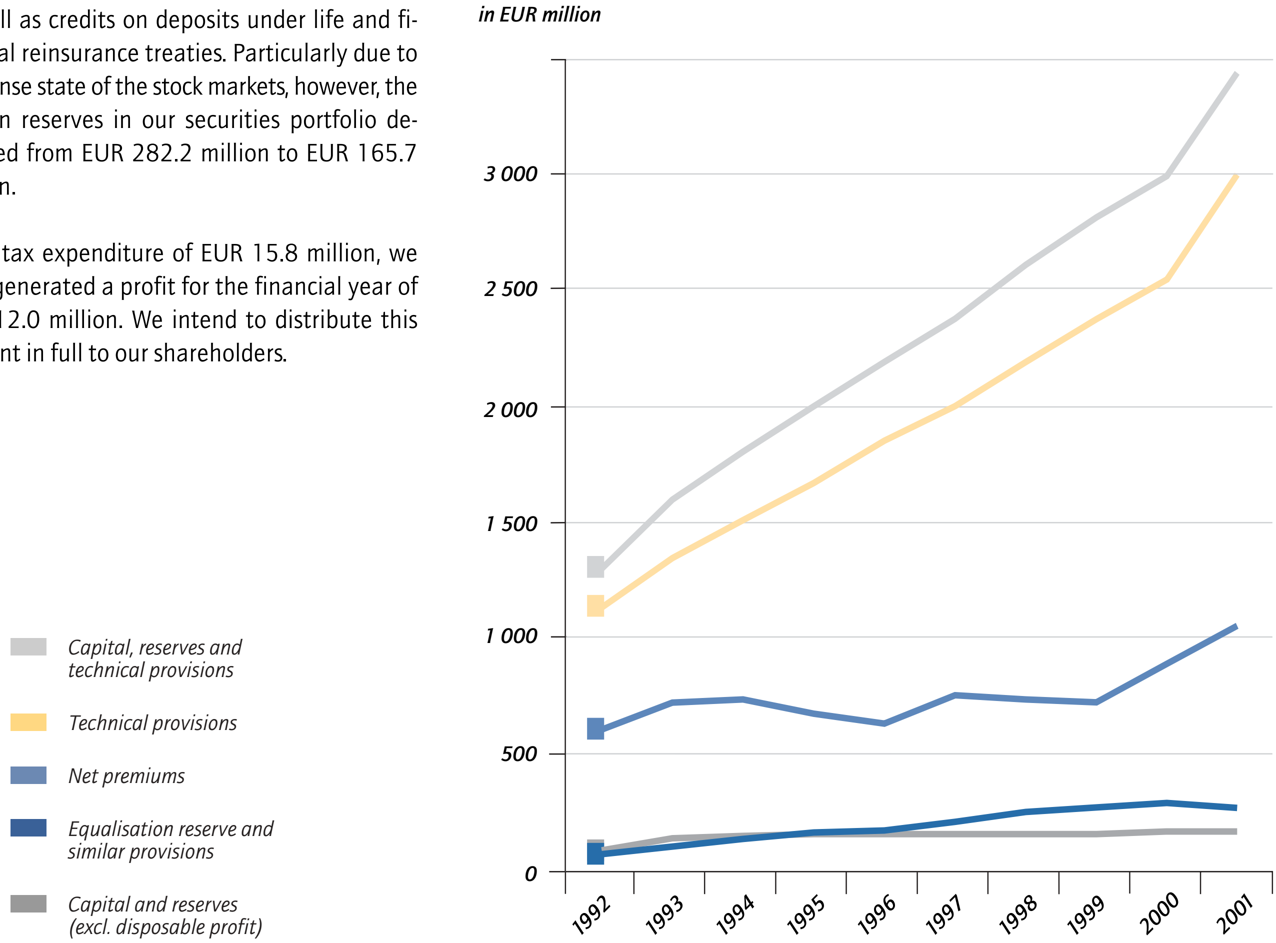
We also strengthened the IBNR reserve in the year under review with an allocation of EUR 35.6 million (previous year: EUR 34.5 million) from the non-technical account.

Even given the difficult conditions prevailing on the capital markets, we succeeded in generating an investment result of EUR 223.3 million – a figure almost on a par with the previous year

(EUR 229.6 million). The main positive factors here were the increased portfolio of investments as well as credits on deposits under life and financial reinsurance treaties. Particularly due to the tense state of the stock markets, however, the hidden reserves in our securities portfolio decreased from EUR 282.2 million to EUR 165.7 million.

After tax expenditure of EUR 15.8 million, we thus generated a profit for the financial year of EUR 12.0 million. We intend to distribute this amount in full to our shareholders.

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



Premium growth and results

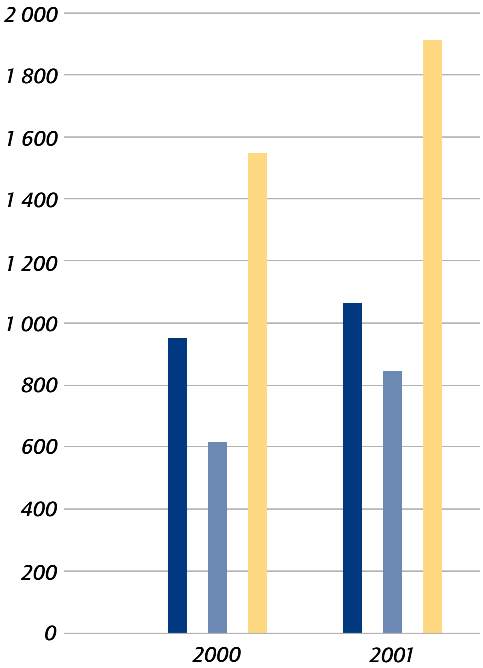
Our gross premium income increased by 22.8% to EUR 1.9 billion in the year under review. This growth derived from the expansion of our own directly written German business and an increase in the foreign business accepted from Hannover Re. We assume the latter under an internal retrocession agreement that enables us – by adding foreign risks – to improve the geographical spread and risk diversification of our portfolio across all lines of business. However, this internal balancing of risks within the Group – which over the years has proven advantageous and helped stabilise profits – placed a considerable strain on our results in the year under review. This was due to the heavy international major losses, most notably those associated with the terrorist attacks on 11 September in the USA. We reserved in full the burden of losses resulting from these attacks in the year under review. Furthermore, since we have no reason to doubt the stability of our retrocession arrangements, we do not expect these events to have any further adverse impacts on subsequent years.

Our German business, on the other hand, showed a more satisfactory development and recorded a slightly improved underwriting result*. It should, however, be borne in mind that the strong growth in our domestic life portfolio and the associated prefinancing expenditures – the full amount of

** Underwriting result: gross before internal administrative expenses, allocated investment return and the change in the equalisation reserve* which must be booked as expenses in the first year under German accounting requirements – of course place a drag on the reported earnings. We attach considerable importance to our retrocession facilities in order to be able to shoulder these prefinancing components. In conjunction with Hannover Re these investment-oriented expenditures were transferred to the capital markets by way of securitisations.

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

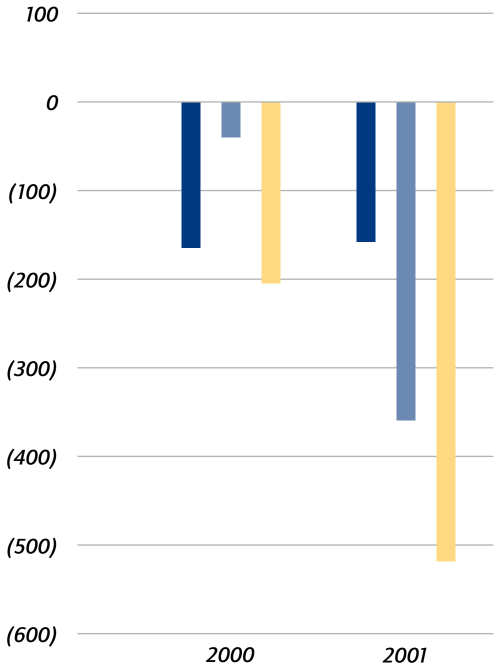
in EUR million



	2000	2001
Germany	940	1 061
Foreign	610	844
Total	1 550	1 905

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

in EUR million



	2000	2001
Germany	(165)	(157)
Foreign	(40)	(361)
Total	(205)	(518)

* 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 technical business. 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 international nature of aviation business, this is also described within the foreign section.

Fire

The state of the German fire insurance market remained tense in the year under review. Premium income in the traditional lines of industrial fire and fire loss of profits is expected to show another substantial decline of around 9% to EUR 0.9 billion. With loss expenditure for the two segments virtually unchanged year-on-year at approximately EUR 1.2 billion, the loss ratio climbed markedly to 128% (previous year: 117.8%). The situation in industrial fire insurance – which had been unsatisfactory for a number of years – prompted the implementation of urgent remedial action in the course of 2001. Primary insurers initiated this rehabilitation by restricting their available capacity, exerting a squeeze on the market which made initial rate increases possible. Insurance conditions also showed a favourable trend, as exemplified by the introduction of special limitations of liability for natural hazards.

In the reinsurance sector the poor results of previous years coupled with a sharply higher burden of major losses in the year under review gave added impetus to the trend towards non-proportional types of coverage. Particularly in industrial fire insurance, lower layers virtually ceased to be reinsured because they could only have been written with substantial premium increases owing to the heavy burden of losses. Mid-range and higher layers continued to be accepted, albeit only with appreciable premium adjustments. Progress was also made with regard to terms and conditions. For example, it is now virtually impossible to place multi-year policies on the reinsurance market. The terrorist attacks of 11 September and the ensuing reappraisal of the risk situation considerably boosted these efforts to restore business to profitability. German fire business thus showed pleasing improvements in the course of the year, although these were not yet sufficient to offset the dramatic price cuts and deteriorations in terms and conditions witnessed over the past eight years.

In response to the unsatisfactory state of German fire insurance we only accepted new risks on a highly selective basis. As a consequence our gross premium income posted a merely modest increase of EUR 4.7 million. In keeping with the market-wide trend, we emphasised the expansion of our non-proportional portfolio. The number of treaties written rose by 5% compared to the previous year. In this context, we primarily supported companies that have demonstrated their special commitment to a long-term partnership. In proportional fire business, too, the heavy losses of the previous years brought about improvements in terms and conditions. In this area, for example, we were able to obtain reductions in commissions and include loss participation clauses. In cases where it appeared impossible to attain the break-even point in the medium term, we consciously decided against treaty renewal. The number of proportional treaties consequently decreased by around 20%.

This cautious approach has enabled us to limit the adverse effects of the altogether still unsatisfactory situation in German fire insurance. Nevertheless, even our portfolio experienced a deterioration of 12.3 percentage points in the loss ratio, closing with an underwriting deficit. It was, however, gratifying to note that our loss ratio was still above average compared to other market players, since with few exceptions we had no participations in the significant major losses recorded in the year under review.

Fire

in EUR million	*2001*	*2000*
Gross written premiums	35.3	30.6
Loss ratio (%)	77.6	65.3
Underwriting result (gross)	(3.7)	0.9

In contrast to other large professional reinsurers we – very deliberately – maintained our quotation service in the wake of the terrorist attacks of 11 September. In the continuity-oriented environment of the German market, this was an opportunity for us to live up to our promise that E+S Rück – as a specialist reinsurer for German clients – stands ready as a reliable partner even in difficult times. Thanks to this policy, we were able to establish extensive new business relationships and we succeeded in consolidating and expanding our positioning in the market. With an eye to the changed significance of the terrorism risk, we implemented the necessary adjustments to terms and conditions. To a very large extent our modified reinsurance treaties contain an exclusion for terrorism-related losses or damage with respect to all fire and industrial risks with total sums insured in excess of EUR 50 million. Lower sums insured are subject to event limits in the obligatory reinsurance treaties. Furthermore, terrorism risks are now reinsured only on a non-proportional basis against payment of a separate premium and with a limitation of liability.

Liability

Following the slight premium decline in the previous year, German liability insurance expects to grow by a modest 1.5% to around EUR 6.0 billion in the year under review. Yet the market climate in liability business remained tense in the 2001 financial year and was further burdened by an exceptional claims experience. Whilst the overall level of loss expenditure is forecast to remain roughly unchanged year-on-year at EUR 4.7 billion, the year under review was enormously impacted by major claims under US-related pharmaceutical covers. The most prominent examples for the German market were the Lipobay group of claims as well as product liability claims resulting from contaminated implants, which gave rise to extensive claims for damages. Taken together, these two events produced a market loss in the order of almost EUR 1 billion. Yet these losses ushered in a trend towards market hardening, causing the price of (re-)insurance cover for pharmaceutical and other major risks to rise sharply. In response to this changed market situation many policyholders were compelled to drastically increase their deductibles, with the result that in some cases they now carry a not insignificant portion of individual risks themselves.

Liability

in EUR million	2001	2000
Gross written premiums	105.5	105.6
Loss ratio (%)	212.6	55.0
Underwriting result (gross)	(141.4)	23.4

Against the backdrop of this unsatisfactory environment we continued to withdraw from problematic segments of German liability business. At the same time we did not renew a number of special treaties written in the previous year, thus causing our premium income to contract slightly. Nevertheless, the strained situation that has prevailed in recent years in German liability insurance and the major losses recorded in 2001 enabled us to implement initial premium increases in the course of the year. The most marked effects were felt in non-proportional reinsurance, most notably industrial liability. It was gratifying to see that the deterioration in terms and conditions also observed in previous years did not continue. The return towards more risk-appropriate conditions that was thereby set in motion for our portfolio was fostered by the terrorist attacks of 11 September, which triggered a fundamental review of the situation with corresponding adjustments of premiums and conditions. What is more, these loss events prompted our clients to focus more closely on the quality and security of our company; preference was given market-wide to reinsurers equipped with a sound capital structure and long-standing expertise in liability business. As a seasoned reinsurer that has concentrated exclusively on the special requirements of the German market, we meet these criteria and were therefore able to further enhance our competitive position.

Yet the positive changes which set in during the year were not sufficient to offset the unfavourable experience of the previous years and the heavy burden of major losses incurred in the year under review. The two most significant major losses for our account alone produced a gross strain of around EUR 130 million for our portfolio. Overall, our liability business closed with a considerably poorer loss ratio and a marked underwriting deficit for gross account, although it was substantially more favourable in net terms. Furthermore, the treaty renewals for 2002 enabled us to generate additional sizeable premium increases and improvements in terms and conditions, and we therefore anticipate a far-reaching recovery for the current financial year.

Personal accident

German personal accident insurance showed another increase in its market-wide premium income in the year under review, although the growth of around 1% to approximately EUR 5.5 billion was less than in previous years. The highest-growth areas continued to be personal accident insurance with a premium refund and personal accident annuities. The loss ratio is expected to reach 55% due to a moderate increase in the burden of losses, and it will therefore be virtually unchanged from the gratifying level of the previous year. Since the competitive climate remained favourable, 2001 can be rated as a positive year for German personal accident insurance.

Owing to the relatively small share of the total volume of the German (re-)insurance market attributable to personal accident business, this line is clearly not of pre-eminent importance in our portfolio. In view of the sustained attractive trend and earnings situation, however, we again stepped up our involvement in this segment in the year under review. By offering services specifically tailored to support our clients, our goal here was to acquire new market shares in accordance with profitability considerations. We advise ceding companies on personal accident products for children as well as on underwriting and claims investigation. In addition, we expanded our range of services in the area of personal accident products for senior citizens. In cooperation with welfare and nursing organisations we developed a package of measures that complements pure claims handling with assistance components such as the organisation of care and the provision of advice and support during illness. On the basis of these special services we succeeded in establishing new business relationships in the year under review and paving the way for further expansion of our portfolio.

Personal accident

in EUR million	*2001*	*2000*
Gross written premiums	39.4	33.3
Loss ratio (%)	53.8	56.5
Underwriting result (gross)	(1.1)	0.4

Overall, our portfolio showed a premium increase of 18.3% in the year under review – growth that was well in excess of the market average. The quality of our personal accident business as reflected in the gratifying loss ratio was also more than satisfactory. The deterioration in the underwriting result derived from increased commissions, although these essentially take the form of prefinancing expenditures that will accrue to our account in the coming financial years and boost earnings then.

Motor

In the year under review motor business was the line that showed the most far-reaching improvements within German property and casualty (re-)insurance. Premium income market-wide is expected to climb by a sizeable 5% to more than EUR 21 billion. Notwithstanding a slight increase in the insured risks, this growth derived primarily from the tariff increases implemented by insurers. The reduction of numerous discounts – some of which were unjustifiable from the underwriting standpoint – also had a favourable impact. On the claims side the experience in the year under review was satisfactory: claims expenditure decreased by around 3 percentage points overall, producing a remarkably low loss ratio of around 93% (previous year: 99.8%). It should be pointed out, however, that some of this reduction in the claims expenditure will probably only be of a temporary nature: the higher price of transportation fuel and the associated cutbacks in vehicle usage – especially in the first half of the year – resulted in a decreased claims frequency. This trend had already begun to moderate later in the year.

Since retentions in proportional business were only increased in isolated cases, the recovery of German motor insurance also had implications for the reinsurance market. Further positive tendencies could be discerned in the non-proportional sector. Particularly in motor third party liability insurance, premium increases were achieved despite a reduced burden of major losses.

Motor

in EUR million	*2001*	*2000*
Gross written premiums	382.1	417.5
Loss ratio (%)	70.3	85.1
Underwriting result (gross)	62.0	19.6

Our portfolio also benefited from the favourable state of the market in German motor insurance. This was true despite an 8.5% reduction in premium volume compared to the previous year. This decrease bears witness to our selective underwriting policy and reflects the cancellation of unattractive treaties. Most notably, we maintained our cautious stance with respect to commercial fleet business. Leaving aside these portfolio optimisation measures, the traditionally high importance attached to proportional reinsurance in our portfolio enabled us to share unreservedly in the growth and improved quality of the insurance market.

The attractive general market conditions similarly had a favourable effect on our non-proportional acceptances.We were able to secure slight premium increases in this sector, which led to a modest overall rise in our premium income despite higher priorities in some instances. This upward trend in premiums was even more pronounced in the 2002 renewals. Compared to previous years, the volume of claims that were reported very belatedly under excess of loss treaties for motor third party liability insurance was also considerably lower. This even led to appreciable run-off profits in some portfolios and generated positive underwriting results – sometimes of sizeable dimensions. Overall, our loss expenditure showed a highly satisfactory decrease of 14.8 percentage points. We were thus successful in achieving a good result in the year under review that surpassed our expectations.

Marine

Following a decline in premium income in the previous year, German marine insurance generated modest growth of around 2% to reach a volume of approximately EUR 1.7 billion. The burden of losses also improved, and with lower claims expenditure of around EUR 1.4 billion (previous year: EUR 1.5 billion) the loss ratio contracted to roughly 81% (previous year: 89.3%). Fierce competition and excess capacities continued to be the hallmarks of the German marine insurance market. It was thus impossible to secure the desired level of premium increases that would have provided the basis for more satisfactory pricing. Positive developments were limited in scope, although offshore business showed the most significant advances.

Marine

in EUR million	*2001*	*2000*
Gross written premiums	9.2	11.2
Loss ratio (%)	93.4	108.9
Underwriting result (gross)	(2.2)	(3.5)

The situation in German marine reinsurance was also strained, although a large burden of major losses prompted a turnaround in the course of the year under review. This was primarily true of non-proportional business, where premiums increased by more than 20% in some areas.

In the year under review we stood by our restrained underwriting policy in German marine insurance business. Furthermore, we stepped up our strategically defined orientation towards non-proportional business with the goal of divorcing ourselves as far as possible from original rates on the primary insurance market. The number of these treaties in our portfolio increased again and they now account for considerably more than two-thirds of our total inventory. Responding to changes in the market, we also stepped up our offshore acceptances in order to profit from the more favourable premiums and conditions. Our facultative acceptances, in particular, were concentrated on this segment. Elsewhere, however, we were highly conservative in our facultative underwriting.

Overall, premium income declined by 17.9% due to our restrictive underwriting policy. Nevertheless, our cautious approach enabled us to considerably ease the strain on our loss ratio, and the underwriting result consequently improved by EUR 1.3 million.

Life

The German life insurance industry generated renewed growth in new business in the year under review. Following the record year in 1999 and a decline in 2000, around 8.4 million (previous year: 7.3 million) new policies are anticipated for the year under review. New business premium is also likely to grow by around 8% to more than EUR 13 billion. This growth derived primarily from pension and term insurance products. In unit-linked life insurance the expansion of previous years also continued, although with premium growth of 5% at a less vigorous pace. However, this development came as no surprise since in recent years the rates of increase had been outstanding; furthermore, the depressed state of the stock markets in the year under review had created a mood of uncertainty. The market share of endowment insurance, on the other hand, declined again with below-average premium growth of around 1.8%. A key event in the year under review was the enactment of legislation relating to the state-subsidised, private supplementary pension. The launch of private old-age provision initiated by this so-called "Riester pension" opened up new growth areas for the German life insurance industry. The figures for the 2001 financial year were only minimally affected, however, since certification of "Riester-compliant" products did not occur until year-end and state support only began in 2002.

Against this backdrop we further enlarged our strategic priority segment of life reinsurance in the year under review. Our activities remained focused on financing our clients' new business and supporting their growth with specifically designed reinsurance concepts. In this context we concentrated especially on financing solutions for pension insurance and unit-linked life insurance. The sustained strong demand for our financing products combined with the above-average growth generated by our clients enabled us to achieve another gratifying premium increase for our portfolio. Additionally, we completed a number of block assumption transactions – a special type of financing arrangement that enables our clients to realise the value of a portfolio before its actual maturity. Overall, the loss experience of our portfolio was once again very favourable and the persistency of the business in force also remained with the anticipated actuarial parameters.

Life

in EUR million	*2001*	*2000*
Gross written premiums	362.3	246.7
Technical result (gross)	(46.1)	(219.2)

The year under review also clearly demonstrated that our life reinsurance business will profit from the restructuring of the German pension system. Firstly, the so-called "Riester" products will create additional demand for financing assistance; secondly, we anticipate that notable beneficiaries of this reform will be bancassurers – a customer group that we have especially focused on.

We set particularly great store in the year under review in the intensification of our Customer Relationship Management (CRM). The philosophy to which we adhere in this context is a deliberate departure from traditional marketing approaches. For us, Customer Relationship Management means that formation of a reinsurance treaty is no longer considered to mark the end of a purely price-driven and product-oriented marketing transaction. On the contrary, we strive for long-term, evolving relationships. We devote particular attention to clients who demonstrate their loyalty to us and generate above-average value added within our portfolio. These core customers are offered preferred access to our financial and knowledge resources.

With growth of 46.9% the development of premium income was once again gratifying in the year under review. The continuing lively demand for our financing products is of course directly reflected in accounting losses in our profit and loss statement, since under German accounting requirements the full amount of the prefinancing provided must be written off in the first year. However, due to substantial earnings which accrued back to our account from prefinancing transactions of earlier years, the underwriting deficit was significantly lower than in the previous year.

It should generally be borne in mind that the negative result of our life business must be considered an investment which will be amortised by corresponding repayments in the coming years and thereby boost our earnings. We continued to retrocede substantial portions of these investment-oriented financing expenditures, a factor, which further improved the underwriting result for net account. The "allocated investment return" item in our profit and loss account is also of great significance in life reinsurance. Of the total reported amount of EUR 15.4 million, the largest portion is attributable to our German life business.

Other lines

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

Other lines

in EUR million	*2001*	*2000*
Gross written premiums	98.4	84.1
Loss ratio (%)	50.8	56.2
Underwriting result (gross)	16.3	12.5

German credit and surety business is one of our strongest sources of premium income among the other lines. In the year under review this segment suffered under the generally adverse economic conditions, which were the primary cause of a conspicuously high number of insolvencies – especially in the areas of trade and logistics. Overall, the German insurance and reinsurance sectors were faced with rising loss ratios and worsening results. Our acceptances were also impacted by these developments. On the one hand, the repercussions of a generally ongoing soft market placed a strain on the 2001 renewals, and for the most part we were only able to obtain premium increases and improved conditions in non-proportional business. On the other hand, the major claims resulting from insolvencies also left their mark on our portfolio. In the second half of the year, however, these events induced hardening in the market, which enabled us to secure appreciable premium increases and improvements in conditions. Against this backdrop we enlarged our premium income by EUR 5.5 million to EUR 32.1 million. However, the heavy burden of losses in the year under review produced an underwriting deficit of EUR 2.0 million.

German windstorm insurance experienced quite literally a quiet year. On the insurance market both premiums and claims continued on at roughly the same level as the previous year, and acceptable results were thus once again possible. On the reinsurance side the picture varied: treaties burdened by heavy losses in past years showed substantial premium increases, whereas loss-free risks posted only modest gains. As far as the burden of losses was concerned, the reinsurance sector profited from the higher retentions run by ceding companies, which absorbed the bulk of the claims in the year under review. In this environment we stood by our tried and tested underwriting policy of previous years. Our windstorm portfolio is traditionally dominated by non-proportional covers, under which we prefer to participate in the less loss-prone middle and upper layers. In this segment too we were successful in obtaining improvements – sometimes markedly so – in programmes that had suffered heavy losses in past years, as a consequence of which our premium income in the year under review grew by 32.4% to EUR 8.7 million. With a highly gratifying loss experience we recorded a good profit of EUR 5.8 million for our portfolio.

In overall terms, we achieved a year-on-year increase of 17.0% in gross premium income for the other lines in the year under review. Since the loss ratio also decreased by 5.4 percentage points, we were pleased to generate another clearly positive underwriting result.

Results of our foreign business

As a member of the Hannover Re Group, we share in the experience of the international (re-)insurance markets via internal retrocessions within the Group. By adding blocks of foreign business to our portfolio we are able to ensure better geographical diversification, which serves to stabilise results from the medium- to long-term perspective. In the year under review, however, the international markets were severely impacted by the terrorist attacks of 11 September. For the Hannover Re Group, too, these events produced a substantial loss that is reflected in our profit and loss account. Overall, then, with a gross underwriting deficit of EUR 360.7 million the international portion of our business deteriorated considerably compared to the previous year. Yet the events in the USA triggered a hitherto unprecedented market hardening with massive increases in premiums and deductibles as well as far-reaching exclusions and limitations of liability. We are therefore confident that over the next two to three years we can recoup our losses in the year under review through a very favourable results trend in foreign business, provided the loss experience at least remains in line with the multi-year average.

In the wake of the terrorist attacks of 11 September the following tendencies could be observed on our key international markets:

Insurance and reinsurance markets in Europe revived appreciably in the year under review. In the United Kingdom the reinsurance sector improved disproportionately strongly, and premium increases were attained in virtually all lines. Many companies intensified their concentration on their true core business, consequently leading to the relinquishing of non-strategic segments. The withdrawal of some market players following the events of 11 September – amongst others, some Lloyd's syndicates stopped writing business or at least heavily reduced their acceptances – further cut into the volume of available reinsurance capacity and made additional premium increases possible. Hannover Re exploited these positive changes to expand its portfolio, continuing to prefer middle and higher layers of non-proportional programmes.

The French insurance industry was still overshadowed in the year under review by the aftereffects of the 1999 winter storms. Since they occurred so late in the year these events did not significantly impact the 2000 renewals, and it was not until the year under review that appreciable premium increases – from which our portfolio also benefited – were achieved. The 2001 financial year also witnessed two large corporate mergers, as part of which highly active reinsurers on the French market were absorbed into larger groups. The drop in reinsurance capacity triggered further premium increases. The most prominent local loss event was the explosion at a fertiliser plant in Toulouse, which caused economic losses in the order of EUR 1.5 billion. This event similarly constituted a sizeable major loss for our account. Following the terrorist attacks of 11 September in the USA the French insurance and reinsurance industry joined forces with the French government to set up a pool for terrorism risks in which Hannover Re also participated.

In the North American insurance market rising loss ratios provided a good basis for sweeping premium increases, which averaged around 30% in the reinsurance sector. Yet these increases were not sufficient to significantly improve results in all lines of business. Many market players responded by cutting their proportional capacity. 2001 also witnessed substantial major loss events, of which tropical storm "Allison" – with insured losses of almost USD 5 billion – was the most prominent. In the year under review we benefited from our adherence to a profit-oriented underwriting policy in the previous years and our strict orientation towards non-proportional covers. Hannover Re expanded its portfolio in sharply hardening lines, such as liability business. The terrorist attacks of 11 September further transformed the US market. Premium increases in some cases reached levels comparable to the mid-1980s during the liability insurance and reinsurance crisis in the United States. Furthermore, terrorism risks were excluded from most reinsurance treaties and transferred to non-proportional treaties priced on a basis commensurate with the risk. Hannover Re was one of the leading reinsurers to offer these covers.

Asian business was hampered by soft insurance and reinsurance markets. The price level for natural hazard coverage, in particular, remained unsatisfactory. In response to the market situation Hannover Re continued to prioritise non-proportional treaties in the year under review, since it was able here to achieve adequate premiums. It also focused on improving the diversification of the portfolio in order to bring about more effective risk spreading. Unprofitable participations, on the other hand, were reduced. It is gratifying to note that in Malaysia Hannover Re was able to expand its market position via its own branch office. Satisfactory results were posted thanks to the absence of conspicuous major losses.

The international aviation market, which Hannover Re serves from a central division bearing worldwide responsibility, was heavily impacted in the year under review by the terrorist attacks of 11 September. While premium increases could already be discerned at the beginning of the year in both the insurance and reinsurance sectors, the terrorist attacks in the USA fundamentally changed the aviation market. The losses resulting from these events surpassed all previous loss events many times over and placed a heavy strain on results – including those of Hannover Re. Aviation insurers reacted immediately with massive premium increases and a limitation of liability for third-party losses on the ground to USD 50 million. Furthermore, additional premiums were required for the war and terrorism risks under liability policies. Substantial premium increases were also implemented in aviation product liability and general aviation insurance, with the result that premiums and conditions improved markedly in the aviation sector as a whole. Hannover Re optimally exploited this market situation with its underwriting policy and – compared to the market in general – generated disproportionately strong premium growth in its treaty renewals while at the same time obtaining considerably more satisfactory conditions. The most notable loss event subsequent to 11 September was the crash of an Airbus passenger jet over New York, although our account was only minimally affected.

Investments

The year under review was once again remarkable in many respects for the worldwide financial markets. While the forecasts of economic growth in the leading national economies were still positive at the beginning of the year, clear signs of a slowdown – including in Germany – very quickly emerged and steadily grew over the course of the year. The terrorist attacks on 11 September in the USA added considerably to the strain. The international central banks reacted to the general cyclical downturn with massive interest rate cuts. In contrast to the numerous sweeping interest rate reductions by the US Federal Reserve Board, the European Central Bank was relatively slow to cut interest rates and took less aggressive action. Overall, it trimmed prime rates by a mere 150 basis points to 3.25% as at year-end. The flagging economy and repeated interest rate cuts naturally gave corresponding impetus to bond markets in the short to intermediate maturity range. Uncertainty among investors, especially in the wake of 11 September, prompted a flight to quality, as a consequence of which the strongest price gains were on securities issued by first-rate borrowers and government bonds.

On the international equity markets 2001 will go down as one of the most difficult years in history. Falling capital market rates as well as tax and pension reforms in Europe created a fundamentally favourable environment. Yet alarming corporate news in the course of the year – with some companies repeatedly compelled to revise downwards their profit expectations – gave rise to dramatic price declines on all major stock exchanges. In this general climate the terrorist attacks in the USA triggered virtual panic selling, causing stocks to nosedive to new record lows for the year. Although equity markets had recovered appreciably by year-end, the major national and international indices still closed with heavy losses; the Dax and the Euro Stoxx 50, for example, gave up around 20% of their value on the year. The euro continued to depreciate in the course of the year, especially against the US dollar. This held true despite a rally in the summer months, since August subsequently ushered in another protracted downslide.

Given these extremely difficult circumstances, our investment portfolio and the net investment income generated from these holdings developed highly satisfactorily in the year under review.

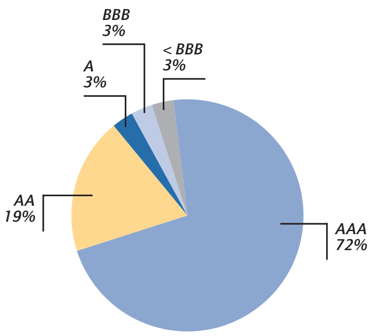
Satisfactory growth in net investment income

Our total portfolio of self-managed assets (i.e. excluding deposits with ceding companies) increased in the reporting period by an impressive 9.5% or EUR 245.0 million to EUR 2,832.8 million. This growth was due not only to movements in exchange rates but also to the higher inflow of liquidity from the technical account. Extraordinary cash outflows, on the other hand, were booked in merely a moderate amount. Claims payments associated with the terrorist attacks in the USA did not significantly impact the development of our investment portfolio in the year under review.

In light of our unfavourable assessment of the stock markets, we systematically continued the reduction of our equity holdings that we had initiated towards the end of the previous year. The volume of dividend-carrying securities in our total investment portfolio therefore decreased significantly by EUR 103.8 million to EUR 298.6 million as at year-end. The equity allocation consequently fell by around 5.0 percentage points to 10.5% as at 31 December 2001. We continue to limit our equity exposure to liquid Blue Chips listed on major indices such as the Euro Stoxx 50, S&P 500 etc. In the year under review we again did not make any stock purchases on the New Market or in comparable market segments.

The focus of our self-managed assets continued to be on fixed-income securities, which accounted for a share of 66.2% (previous year: 65%). When selecting securities we always ensure that issuers have a first-class rating. The proportion of highly liquid fixed-income securities with a rating of AA or better – of whom 72% were rated AAA – thus increased by 4% year-on-year to 91% of our total portfolio of fixed-income securities. We used the sometimes very drastic declines in yields on fixed-income securities – especially in the wake of the events of 11 September – to realise profits and shorten the maturity pattern of the portfolio. Realised price gains on the disposal of fixed-income securities consequently totalled EUR 49.3 million and were clearly in excess of the previous year (EUR 6.3 million).

Rating of fixed-income securities



With the implementation into law of § 341b German Commercial Code, the insurance industry was for the first time permitted to subdivide investments into fixed assets and current assets in the year under review. The company made partial use of the opportunity to apply the associated modified lower-of-cost-or-market principle in the case of asset items allocated to fixed assets. The total portfolio of investments valued as fixed assets amounted to EUR 533.8 million. Had these holdings been valued in accordance with the provisions relating to current assets, the additional volume of depreciation would have totalled EUR 21.1 million.

Bearing in mind the loss payments that we still have to meet for major losses incurred in the year under review, most notably those associated with the terrorist attacks in the USA, we substantially increased our short-term investments. As at year-end 2001 we held a total amount of EUR 92.0 million (previous year: EUR 65.8 million) in short-term assets, including overnight money and time deposits.

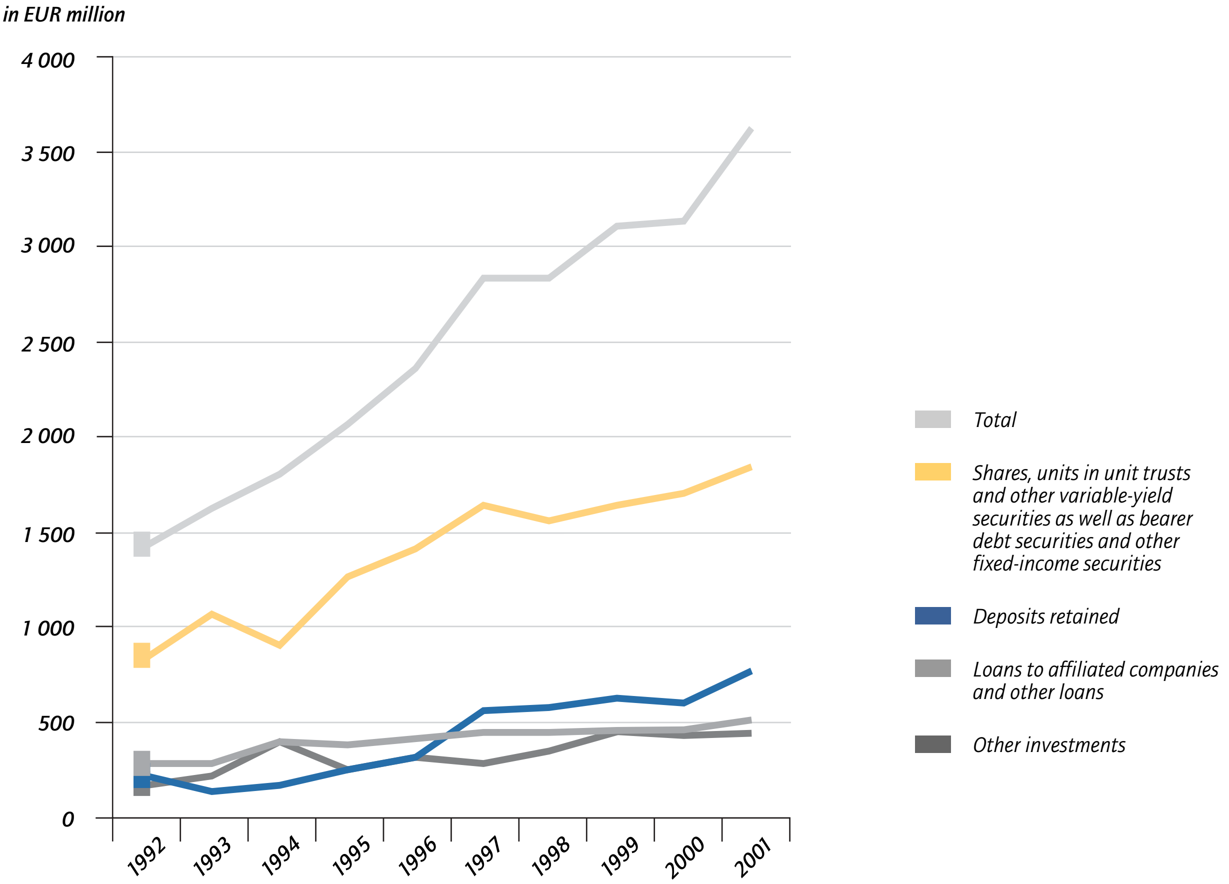
The volatile state of the financial markets had corresponding implications for the unrealised gains remaining in our investment portfolio as at year-end. While unrealised price gains in our portfolio of fixed-income securities decreased to EUR 35.0 million (previous year: EUR 61.6 million), the valuation reserves in our equity portfolio shrank by EUR 109.8 million to EUR 19.4 million. This decline contrasted with realised gains from active portfolio management. On balance, therefore, unrealised price gains for our total investment portfolio stood at EUR 165.7 million as against EUR 282.8 million in the previous year.

Despite the decreased average yield on investments and the shortening of the maturity pattern, ordinary investment income fell by a mere EUR 1.5 million to EUR 259.1 million in the year under review. This modest decline was due not only to exchange rate factors and the increased investment portfolio, but also – and most importantly – to considerably higher deposit interest credited principally under life and financial reinsurance treaties. These credits are generally opposed by corresponding expenditures, which are booked to the technical account.

In view of the tense state of the financial markets, we were highly satisfied with the extraordinary income from investments. Realised profits on disposals of EUR 102.1 million contrasted with losses on the disposal of investments totalling EUR 7.9 million, thus generating another positive balance (including appreciation/depreciation) of EUR 75.0 million (previous year: EUR 60.4 million).

Overall, then, we generated a gratifying net investment result of EUR 223.3 million (previous year: EUR 229.6 million). Excluding deposits with ceding companies and interest on deposits, this corresponded to a net return of 7.7% on our investment portfolio.

Investments



Risk report

Overall system of risk monitoring and management

As a reinsurer, our business naturally involves economic risks of various types in our individual business segments. The acceptance of risks and the professional management of this risk portfolio constitute the core business of a reinsurance company. Our risk management is based upon a corporate strategy geared to generating a sustained increase in the value of the company. This means that we purposefully enter into entrepreneurial risks provided the associated opportunities promise an appropriate increase in the value of the company. We have at our disposal a large number of efficient management and control systems, which vary in their design and degree of reporting detail. The core risk management elements are set out in guidelines that apply to all areas of E+S Rück. Within the scope of our risk management system all conceivable risks from the current perspective which could jeopardise the performance and survival of our company are recorded systematically and comprehensively. The up-to-date status of our risk portfolio, both on the level of individual risks and accumulation risks, is ensured by means of defined reporting procedures and an annual risk inventory. Risks are quantified with an eye to their probability of occurrence and the potential loss. This approach also takes into consideration the effectiveness of the implemented control measures.

Indicators tailored to individual risks provide prompt information about potentially undesirable developments

Overall responsibility for risk management is determined according to the specific strategic segments, within which the responsible board members define the operating objectives. Risk management is locally integrated into our organisation. This local allocation of responsibility is intended to ensure that risks can be identified, reported and managed as quickly as possible. To this end, we use a number of different indicators that are tailored to individual risks and provide prompt information about any potentially undesirable developments.

A central risk coordinator ensures that all risk management activities are monitored, documented and coordinated; the coordinator also bears responsibility for describing the risk situation of the company as a whole within the scope of the reporting system.

The efficiency of the risk management system is regularly reviewed by internal and external instances and adjusted according to the constantly changing economic environment. Our company's risk situation can be comprehensively described by the following risk categories:

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

Risk categories

Global risks

We understand global risks to mean external risks upon which we are unable to exert any direct influence. They may arise, for example, as a result of changes in the legal framework (including changes in the general regulatory or tax situation), through social trends or as a consequence of developments in the insurance industry.

By way of illustration, a significant decline in demand for reinsurance coverage would constitute a major risk for our company. In life reinsurance, for example, this could be caused by the elimination of tax assistance for old-age provision. We therefore systematically monitor, inter alia, the tendencies in legislation as well as the new business statistics (number of policies, sums insured, and annual premiums).

Strategic risks

Stable positioning as a reinsurer of above-average profitability

Strategic risks refer to specific factors that may jeopardise achievement of our strategic objectives in the individual business segments. The paramount goal is to safeguard our stable positioning as a reinsurer of above-average profitability. Our profit target is to generate an above-average return on the equity made available to us by our shareholders. A system of agreements on targets has been introduced for our managerial staff in order to ensure that the various strategic objectives are also pursued on the operating level. Under this system, individual targets are derived from the higher-order strategic objectives. We used company-wide ratios in order to measure objectively the profit contribution made by each segment or unit to the overall corporate performance. These key figures facilitate performance controlling and hence are also reflected in the remuneration received by our managerial staff.

Technical operating risks

Technical operating risks are of special significance to reinsurance companies. The technical risk lies primarily in the fact that cash flows, which are vital to the insurance business, may deviate from their expected values. Possible reasons here may be inaccurate pricing assumptions, incorrect estimations of the claims experience – especially with respect to the so-called risk of random fluctuations and change – or failures in accumulation controlling.

We have at our disposal various sets of rules in order to counteract technical risks. In life and health reinsurance these include the use of reliable biometric actuarial bases with statistically adequate safety margins. For example, the morbidity risk (e.g. for health and critical illness risks) is assessed and monitored on the basis of actuarial studies of the morbidity experience.

Retrocession is a further key instrument of risk limitation. The business that we accept is not always carried entirely in our own retention but is retroceded where necessary. Written risks are scrutinised in order to ascertain the extent to which they promote a balance within a given portfolio. Our retentions and retrocessions are calculated and structured accordingly. Whereas premiums are always payable at the beginning of a contract, risks chiefly derive from the fact that long periods may elapse until we can call on our retrocessionaires and collect on the losses. This entails the risk that retrocessionaires may default on payment. When ceding business it is therefore essential to carefully select our retrocession partners with an eye to their long-term ability to meet such financial obligations.

In recent years roughly 93% of our retrocessionaires on average have received a so-called investment grade rating – with around 89% of them being rated A or better. In this context it should, however, be added that the remaining 7% of our retrocessionaires are not all rated as sub-investment grade; many of them do not have a rating because they transact only a minimal volume of reinsurance or have discontinued such business.

Our assessment of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own research based on market knowledge and balance sheet analyses.

Investment operating risks

The consistent principle underlying our investment strategy is the goal of generating an optimal contribution to the business result. This is primarily accomplished by means of soundly based asset/liability management. Risks in the investment sector consist most notably of market, credit and liquidity risks. Company-wide investment guidelines are in force throughout Hannover Re, and compliance is subject to constant monitoring. The principle of separation of functions – i.e. keeping a strict distinction between trading, settlement and risk controlling – is applied up to the level of management and constitutes a further integral element of our risk management. 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 Banking Supervisory Office and the Federal Supervisory Office for Securities Trading.

Investment structure optimised by means of soundly based asset/liability management

Subject to the following assumptions as at the balance sheet date, the fair market value of our investments would develop as follows:

Portfolio	*Scenario*	*Portfolio change based on fair value in EUR thousand*
Equities	Stock prices -20%	(76 294)
Fixed-income securities	Yield increase +1 percentage point	(65 040)
Fixed-income securities	Yield decrease - 1 percentage point	68 853

The rating structure of our fixed-income securities was as follows:

Rating	*Government bonds*		*Corporate bonds*		*Other fixed-income securities*	
	in %	*in EUR thousand*	*in %*	*in EUR thousand*	*in %*	*in EUR thousand*
AAA	77.1	917 311	6.3	25 383	82.6	325 331
AA	21.5	255 687	47.9	193 727	0.5	2 127
A	0.8	9 494	17.3	69 908	8.8	34 655
BBB	–	–	10.4	41 958	–	–
< BBB	0.6	6 918	18.1	73 730	8.1	31 951
Total	100.0	1 189 410	100.0	404 706	100.0	394 064

Operational risks

By operational risks we have in mind unexpected losses attributable to operational hazards such as human error, criminal intent, inadequate controls or organisational shortcomings. The failure of technical equipment, especially in the case of the data processing infrastructure and the availability of the applications it provides also poses a significant risk to our company. In order to minimise these risks we invest systematically in improving the security and availability of our information technology. This includes, for example, the comprehensive use of virus protection and filtering software as well as measures to optimise network stability. We shall continue to meet the exacting security standards to which our information processing is subject, and with this aim in mind the position of IT Security Officer has been created to coordinate all security-related IT issues.

Assessment of the risk situation

Given the information currently available to us, we do not perceive any risks which could jeopardise the continued existence of our company in the short or medium term or which could impair the assets, financial position or net income in a significant or sustained manner.

Human resources

As a reinsurer and highly specialised financial services provider, skilled and motivated staff are a crucial success factor for our company. We consequently implemented further improvements in our personnel advancement and assessment systems in the year under review.

We set great store in the further training of our employees. Our internal training programmes largely cover the requirements pinpointed at the annual staff interviews. In this context, our "pool of experts" once more proved its worth in the year under review – especially with regard to training in specific reinsurance topics. The aim is that experienced staff should pass on their expertise to new employees in a modular series of seminars. In addition to these reinsurance courses increasing importance is attached to seminars on so-called "soft skills" such as presentation techniques, project management and team leadership. We draw upon outside specialists to provide these courses. Our executive simulation game has evolved into a particularly popular component within our overall advanced training scheme. Further enhanced over the past year, this simulation of real situations in the corporate world confronts groups of employees, each representing a reinsurance company, with the complex issues that abound on the reinsurance market. This alternative mode of learning teaches both specialist expertise and management qualities.

As a further step, we improved the opportunities for our staff to structure their working environment on a flexible basis. In this connection, we enlarged the scope of our telecommuting. Our positive experiences of the previous year encouraged us to offer this type of "out-of-office" work to a larger group of employees – an alternative that was once again well received. We also expanded our online job service. This in-house employment market makes it easier for all employees to obtain information about vacant positions and perhaps to move into a new area of responsibility.

In the year under review we also refined our personnel development tools for our managerial staff. As a first step, we set up an employee feedback system: in a process that is transparent for both staff and managers, the executive first assesses him- or herself in order to arrive at a self-image. This is then compared with the findings of the employee survey, thereby revealing discrepancies, which are then analysed in a feedback discussion between the manager and his or her staff – under the auspices of an impartial facilitator. As a special measure aimed at the two upper levels of management, we also conducted a skill analysis in which managerial staff and the entire executive board assessed each other's competencies. The final outcome produced a point score that was incorporated as a new criterion into our remuneration system.

The further development of our staff is of central importance

A system of agreements on targets was also newly integrated into the variable remuneration of our managerial staff. At the heart of this model stands the optimised breakdown of our corporate strategy into the various organisational units and the definition on this basis of detailed agreements on targets. It is thus possible to concretely measure individual contributions to the attainment of corporate objectives. It is therefore logical that part of our managerial staff's variable remuneration is geared to the achieved operating results – an approach which establishes a strong link between individual contributions to the company's performance and individual earnings. In addition, as a long-term incentive scheme, managerial staff participates in the virtual stock option plan set up by the Hannover Re Group.

We overhauled our Internet website in order to ensure that we will have unimpeded access to qualified new staff in the future. We now offer a comprehensive Internet job market, which has already met with a favourable response. The number of online job applications increased steadily in the year under review and this tool constitutes now an integral component of our recruitment activities. In addition, we stepped up our marketing efforts at universities by introducing ourselves to students and highlighting the appeal of our company. Furthermore, we maintain contacts with the relevant chairs at various universities and polytechnics, offering internships and supporting diploma and doctoral students in their work on reinsurance-related topics by providing appropriate stipends.

As at the end of the year under review we employed 198 staff (previous year: 193); the majority, specifically 56%, were women. Personnel expenses totalled EUR 13.7 million. Expenses for pensions and part-time working arrangements for older employees amounted to EUR 151,000.

We would like to take this opportunity to thank our staff for their personal dedication and strong commitment, without which our company could not have been successful. We would also like to express our appreciation to the employee council and the senior management committee for their constructive and trusting cooperation.

Outlook

Markedly improved premium level expected for the current year

Both for the global economy and the German market, current indications point to the onset of economic recovery in the course of the current financial year. Developments in the USA will be of great significance in this regard. Although not all the early pointers in the United States are striking an optimistic note, industrial capital investments and consumer spending among private households are expected to rebound as the country comes to terms with the shock of the terrorist attacks on 11 September 2001. The massive interest rate cuts of the previous year should give added impetus in the second half of 2002. An upswing in the USA would be an important precondition for economic revival in Europe and especially Germany: stronger export demand would greatly accelerate the growth of the German economy. What is more, since there are no grounds to anticipate a fundamental reversal in the current expansionary monetary policy, this could provide a basis for an upturn in equipment spending and in the production of such plants and machinery. The prospects of private consumption in Germany picking up are, however, viewed with more scepticism; it remains to be seen how the price level and unemployment will develop. Overall, an appreciable improvement in business activity in Germany will probably not set in before the second half of the year.

Based on the experience of our latest treaty negotiations with our clients – most renewals being concluded as at 1 January of each year –, the outlook for our various business segments in the current year is in all respects favourable. In property and casualty reinsurance the terrorist attacks in the USA also led to a considerably heightened risk awareness on the German market, which generated greater demand for reinsurance protection. Furthermore, the occurrence of such an immense loss event also stepped up the pressure for pricing commensurate with the risk in reinsurance business, and we consequently anticipate premium increases – which in some areas will be sizeable. Since terms and conditions were also adjusted according to the changed risk situation – primarily with respect to limitations of liability and higher deductibles – we expect the current year to show a marked overall improvement in the premium level. From the perspective of the individual lines of business, German industrial fire insurance will especially profit from these developments. Following the rehabilitation measures that had been initiated in the year under review due to the inadequate profitability in recent years, the current year promises significantly more extensive premium increases and improvements in conditions. It may further be noted that these positive tendencies are not restricted to major risks, but also encompass medium-sized and even smaller risks.

The situation in German liability insurance is similar. A feature of the 2002 treaty renewals in this line was even more detailed risk analysis, which provided the basis for higher and more appropriate premiums. Improvements in terms and conditions can also be observed, making it possible to limit the risk on the reinsurance side through progressive increases in deductibles at ceding companies and reduced limits of indemnity.

We continue to take a positive view of the German motor insurance market. As far as premiums and conditions are concerned, no significant changes are to be expected in the previous year's favourable state of affairs on either the insurance or reinsurance market. The claims experience will thus be crucial to results in this line. It is open to question, however, whether the good claims experience of the previous year can be repeated since this was in large measure due to the drop in motor vehicle usage associated with high petrol prices.

Our assessment of foreign business is similarly optimistic. The improvements in premium and conditions prompted by the terrorist attacks in the USA will be felt much more strongly in major foreign markets than in Germany. The most extensive improvements inevitably ensued in those markets and lines directly impacted by the terrorism losses, such as the USA, the London Market and aviation business.

Life and health reinsurance remains attractive and again offers promising potential for the current year. The highest-growth areas are likely to be unit-linked life insurance as well as pension and term insurance. We have specialised in these products with specially tailored reinsurance solutions aimed at financing our clients' new business; for the current financial year we therefore anticipate further growth in this area. German life insurance expects the market to gain significant impetus from the commencement of state-subsidised, private old-age provision with the launch of the so-called "Riester pension". While the number of new policies taken out in the previous year was still modest, the current year – the first year of state subsidies – is likely to produce impressive new business. Nevertheless, the "Riester products" will also generate acquisition costs for life insurers and increase the demand for financial assistance through reinsurance. Since we have prepared for this situation with special reinsurance solutions tailored to the financing of our clients' new business, we believe that the effects on our portfolio will be positive. Further impetus should derive from private disability and strict "any occupation" disability insurance. Following the deterioration in the statutory protection afforded to younger employees brought about by the Pension Reform Act, corresponding individual provision took on greater significance. In this sector, too, we shall do our utmost to support our clients as they expand their portfolios.

Forecasts regarding investment income are by their very nature difficult to make. Assuming that there are no major changes in the interest rate level, the state of the equity markets will once again assume considerable importance. Nevertheless, in a calmer environment without the recent sharp falls in stock prices, we expect to generate a satisfactory investment result in the current year.

Gratifying outcome of 2002 treaty renewals

Overall, therefore, we expect to meet our profit targets for the current financial year. Furthermore, based on the gratifying outcome of our 2002 treaty renewals – as regards both to German and foreign business – we anticipate that we can recoup a substantial part of our losses from the events of 11 September 2001 in the current financial year.

Affiliated companies

We received an appropriate consideration in respect of all legal transactions with affiliated companies according to the circumstances known to us at the time when the transactions were effected. We did not incur any losses that required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act (AktG). The measures taken did not adversely affect our company.

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	*2001*	*2000*
Subscribed capital and reserves	120.3	120.3
Surplus debenture (Genussrechtskapital)	40.9	40.9
Equalisation reserve and similar provisions	270.1	293.2
Technical provisions	2 952.0	2 543.1
Total capital, reserves and technical provisions	3 383.3	2 997.5

The capital, reserves and technical provisions amounted to 311.7% (324.5%) of net premiums, which includes the capital and reserves (including surplus debenture) at 14.9% (17.4%) of net premiums.

Proposal for the distribution of profits

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

	EUR
Dividend on the participating subscribed capital of EUR 20 336 113.37	12 000 000.00

ACCOUNTS

BALANCE SHEET *as at 31 December 2001*

Assets *Figures in EUR thousand*		*2001*			*2000*
A. Subscribed capital unpaid				9 663	9 663
- called up capital					
- (2000: -)					
B. Intangible assets					
Other intangible assets				217	576
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			46 658		50 426
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		330 365			307 605
2. Loans to affiliated companies		44 155			–
3. Participating interests		17 755			17 755
			392 275		325 360
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		552 124			785 700
2. Bearer debt securities and other fixed-income securities		1 323 704			892 895
3. Mortgages and loans secured on land and buildings		1 127			1 154
4. Other loans					
a) Registered debt securities	238 864				271 399
b) Debentures and loans	173 144				172 086
c) Sundry loans	57 090				23 008
		469 098			466 493
5. Deposits with banks		47 844			65 833
6. Other investments		5			5
			2 393 902		2 212 080
IV. Deposits with ceding companies			770 443		578 899
				3 603 278	3 166 765

Liabilities

Figures in EUR thousand

	2001			2000
A. Capital and reserves				
I. Subscribed capital		30 000		24 783
II. Capital reserve		84 788		58 305
III. Retained earnings				
1. Statutory reserve	256			256
2. Other retained earnings	5 237			5 237
		5 493		5 493
IV. Disposable profit		12 000		33 300
			132 281	121 881
B. Surplus debenture (Genussrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	196 630			147 683
2. Less: reinsurance ceded	39 629			37 559
		157 001		110 124
II. Life assurance provision				
1. Gross	711 110			469 662
2. Less: reinsurance ceded	329 885			170 009
		381 225		299 653
III. Provisions for outstanding claims				
1. Gross	3 510 602			2 788 611
2. Less: reinsurance ceded	1 121 238			698 852
		2 389 364		2 089 759
IV. Provision for bonuses and rebates				
1. Gross	1 429			688
2. Less: reinsurance ceded	179			2
		1 250		686
V. Equalisation reserve and similar provisions		270 078		293 180
VI. Other technical provisions				
1. Gross	47 946			44 682
2. Less: reinsurance ceded	24 731			1 810
		23 215		42 872
			3 222 133	2 836 274

Assets *Figures in EUR thousand*	2001				2000
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			277 435		172 789
- from affiliated companies:					
152 744 (2000: 41 200)					
II. Other receivables			25 702		40 760
- from affiliated companies:				303 137	213 549
16 350 (2000: 37 447)					
E. Other assets					
I. Tangible assets and stocks			12		14
II. Current accounts with banks, cheques and cash in hand			7 176		7 591
				7 188	7 605
F. Prepayments and accrued income					
I. Accrued interest and rent			40 133		36 299
II. Other accrued income			1 612		1 733
				41 745	38 032
G. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)				4 936	4 936
				3 970 164	3 441 126

Liabilities
Figures in EUR thousand

	2001		2000
D. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	10 460		10 337
II. Provisions for taxation	17 892		47 703
III. Other provisions	13 652		14 978
		42 004	73 018
E. Deposits received from retrocessionaires		408 891	259 653
F. Other liabilities			
I. Accounts payable arising out of reinsurance operations	89 332		97 706
- to affiliated companies:			
44 257 (2000: 44 658)			
II. Miscellaneous liabilities	31 716		8 184
- from taxes:		121 048	105 890
136 (2000: 141)			
- for social security:			
214 (2000: 206)			
- to affiliated companies:			
27 719 (2000: 4 367)			
G. Accruals and deferred income		2 904	3 507
		3 970 164	3 441 126

PROFIT AND LOSS ACCOUNT *for the 2001 financial year*

Figures in EUR thousand	2001			2000
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	1 904 511			1 550 365
b) Retrocession premiums	819 193			626 573
		1 085 318		923 792
c) Change in the gross provision for unearned premiums (+/-)	(45 828)			(29 310)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	1 821			10 076
		(44 007)		(19 234)
			1 041 311	904 558
2. Allocated investment return transferred from the non-technical account, net of retrocession			15 369	13 395
3. Other technical income, net of retrocession			4	55
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	899 902			887 108
bb) Retrocessionaires' share	295 245			289 656
		604 657		597 452
b) Change in provisions for outstanding claims				
aa) Gross	(651 061)			(95 134)
bb) Retrocessionaires' share	417 122			43 310
		(233 939)		(51 824)
			838 596	649 276
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(95 595)		(58 447)
b) Other net technical provisions		217		168
			(95 378)	(58 279)
6. Bonuses and rebates, net of retrocession			751	232
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		653 699		637 849
b) Less: commissions and profit commissions received on retrocession		384 461		309 733
			269 238	328 116
8. Other technical charges, net of retrocession			1 279	1 077
9. Subtotal			(148 558)	(118 972)
10. Change in the equalisation reserve and similar provisions			23 102	(17 415)
11. Net technical result			(125 456)	(136 387)

Figures in EUR thousand	2001				2000
Balance brought forward:				(125 456)	(136 387)
II. Non-technical account					
1. Investment income					
a) Income from participating interests		26 226			43 730
- affiliated companies: 16 000 (2000: 37 467)					
b) Income from other investments					
- affiliated companies: 13 324 (2000: 14 198)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4 084				3 897
bb) Income from other investments	125 608				128 000
		129 692			131 897
c) Appreciation on investments		1 078			11 368
d) Gains on the realisation of investments		102 118			73 576
			259 114		260 571
2. Investment charges					
a) Investment management charges, including interest		7 685			6 446
b) Depreciation		20 302			19 363
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB): 10 896 (2000: 534)					
c) Losses on the realisation of investments		7 862			5 197
			35 849		31 006
			223 265		229 565
3. Allocated investment return transferred to the technical account			(22 754)		(17 705)
				200 511	211 860
4. Other income			8 788		6 939
5. Other charges					
a) Special allocation to provisions for outstanding claims		35 631			34 462
b) Miscellaneous charges		20 390			20 101
			56 021		54 563
				(47 233)	(47 624)
6. Profit or loss on ordinary activities before tax				27 822	27 849
7. Taxes on profit and income		9 314			15 806
plus allocation for group assessment		1 806			10 351
			11 120		26 157
8. Other taxes		902			124
plus allocation for group assessment		3 800			(32)
			4 702		92
				15 822	26 249
9. Profit for the financial year				12 000	1 600
10. Withdrawal from retained earnings:					
from other retained earnings				–	31 700
11. Disposable profit				12 000	33 300

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 scheduled depreciation.

The portfolio of securities was for the first time allocated to fixed assets or current assets depending on the intended use and valued in accordance with the provisions of the Amending Act on the Valuation of Insurance Company Assets (Versicherungskapitalanlagen-Bewertungsgesetz – VersKapAG).

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

Shares, units in unit trusts and other variable-yield securities as well as bearer-debt securities and other fixed-income securities 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 – 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 depreciation.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 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, we have increased them 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 is 21.6% of the total volume.

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

The shares of retrocessionaires in the technical reserves were determined on the basis of the reinsurance 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 (I) 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 employee-funded pension commitments are established according to the present value of the expectancy.

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

The other provisions were established in the amount that will probably be utilised.

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

The change in asset items B., C.I. to C.III. was as follows during the 2001 financial year. Figures in EUR thousand	*Book values 31.12.2000*	*Additions*	*Disposals*	*Write-ups*	*Depre-ciation*	*Book values 31.12.2001*
B. Intangible assets:						
Other intangible assets	576	–	–	–	359	217
C. I. Land and buildings, rights to land and buildings, leasehold	50 426	8	–	–	3 776	46 658
C. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	307 605	23 950	1 190	–	–	330 365
2. Loans to affiliated companies	–	44 155	–	–	–	44 155
3. Participating interests	17 755	–	–	–	–	17 755
4. Total C. II.	325 360	68 105	1 190	–	–	392 275
C. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	785 700	243 039	475 290	408	1 733	552 124
2. Bearer debt securities and other fixed-income securities	892 895	855 463	412 814	199	12 039	1 323 704
3. Mortgages and loans secured on land and buildings	1 154	211	238	–	–	1 127
4. Other loans						
a) Registered debt securities	271 399	11 258	42 695	–	1 098	238 864
b) Debentures and loans	172 086	64 465	63 407	–	–	173 144
c) Sundry loans	23 008	34 948	–	–	866	57 090
5. Deposits with banks	65 833	–	17 989	–	–	47 844
6. Other	5	–	–	–	–	5
7. Total C. III.	2 212 080	1 209 384	1 012 433	607	15 736	2 393 902
Sum total	2 588 442	1 277 497	1 013 623	607	19 871	2 833 052

Land and buildings and rights to land and buildings

As at 31 December 2001, the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 19,722 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,297 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

Name and registered office of the company Figures in currency units of 1 000	*Participation (in %)*	*Capital and reserves (§266 (3) of the Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	26 403	EUR	616
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	160 428	EUR	16 389
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	783	EUR	90
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	158 998	AUD	10 000
Hannover Finance, Inc., Wilmington/USA	56.93	USD	280 420	USD	(12 613)
holds 100% of the shares in:					
Lion Holding, Inc., Wilmington/USA		USD	377 560	USD	16 014
holds 100% of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	369 522	USD	10 835
holds 100% of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	376 398	USD	(13 447)
holds 100% of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	75 683	USD	(809)
Clarendon Select Insurance Company, Tallahassee/USA		USD	24 820	USD	3 398
Harbor Specialty Insurance Company, Trenton/USA		USD	21 096	USD	3 232
Lion Insurance Company, Tallahassee/USA		USD	7 147	USD	184
Redland Insurance Company, Council Bluffs/USA		USD	21 709	USD	601
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	54 925	EUR	6 276

Other notes on investments

Assets with a balance sheet value of EUR 824,145 thousand (EUR 121,290 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.

Due to the Tax Relief Act of 24 March 1999, increased valuations of special write-downs from previous financial years were effected in the amount of EUR 607 thousand (previous year 10,006 thousand).

Current values pursuant to § 54 RechVersV

The current values of land and buildings were largely determined in 2001 using a combined asset value and gross rental method. In individual cases book values were used.

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

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.

Current values pursuant to § 54 RechVersV of asset items C.I. to C.III. for the 2001 financial year Figures in EUR thousand		*Book values 31.12.2001*	*Current values 31.12.2001*	*Difference 31.12.2001*
C.I.	Land and buildings, rights to land and buildings, leasehold	46 658	79 187	32 529
C.II.	Investments in affiliated companies and participating interests			
	1. Shares in affiliated companies	330 365	391 607	61 242
	2. Loans to affiliated companies	44 155	44 155	–
	3. Participating interests	17 755	25 440	7 685
	4. Total C.II.	392 275	461 202	68 927
C.III.	Other investments			
	1. Shares, units in unit trusts and other variable-yield securities	552 124	587 180	35 056
	2. Bearer-debt securities and other fixed-income securities	1 323 704	1 335 504	11 800
	3. Mortgages and loans secured on land and buildings	1 127	1 127	–
	4. Other loans			
	a) Registered debt securities	238 864	247 699	8 835
	b) Debentures and loans	173 144	179 894	6 750
	c) Sundry loans	57 090	58 940	1 850
	5. Deposits with banks	47 844	47 844	–
	6. Other investments	5	5	–
	7. Total C.III.	2 393 902	2 458 193	64 291
Sum total		2 832 835	2 998 582	165 747

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

Of the units in unit trusts totalling EUR 526,992 thousand shown under the other investments in the item "shares, units in unit trusts and other variable-yield securities", an amount of EUR 502,834 thousand was allocated to fixed assets. To this extent, depreciation of EUR 14,772 thousand was omitted.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 30,985 thousand were allocated to fixed assets. The omitted depreciation totalled EUR 6,310 thousand.

Other receivables

Figures in EUR thousand	*2001*	*2000*
Receivables from affiliated companies	16 350	37 447
Receivables from banks	4 573	–
Receivables from the revenue authorities	2 101	2 110
Receivables from dividend entitlements	1 301	–
Interest and rent due	1 290	1 116
Receivables from investment deposits	80	80
Other receivables	7	7
Total	25 702	40 760

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 1,604 thousand (EUR 1,727 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 4,936 (2000: EUR 4,936) thousand: Of this amount, EUR 2,444 thousand (2000: EUR 2,444) thousand was attributable to corporation tax including the German reunification charge and EUR 2,492 (2000: EUR 2,492) thousand to trade tax.

Notes on liabilities

Subscribed capital

The subscribed capital was increased in the 2001 financial year by EUR 5,217 thousand to EUR 30,000 thousand. It consists of 53,340 no-par-value registered shares, each with a nominal value of EUR 0.6 thousand. A total of 67.79% = EUR 20,337 thousand is paid up at differing percentages for each individual group of shares.

Capital reserve

The capital reserve increased in the 2001 financial year by EUR 26,483 thousand to EUR 84,788 thousand through allocation of the premium received from the implemented capital increase.

Surplus debenture (Genussrechtskapital)

The surplus debenture issued in 1993 amounting to EUR 40,903 thousand has a term of 10 years. The interest is 7.75%.

Provision for unearned premiums

Insurance line Figures in EUR thousand	2001 gross	2001 net	2000 gross	2000 net
Fire	31 552	28 418	19 273	17 479
Liability	37 059	34 640	27 218	24 778
Personal accident	5 433	4 891	5 082	4 697
Motor	22 318	18 607	17 614	14 113
Aviation	26 761	25 389	10 575	8 130
Life	33 394	16 233	35 231	14 733
Other lines	40 113	28 823	32 690	26 194
Total	196 630	157 001	147 683	110 124

Life assurance provisions

Insurance line Figures in EUR thousand	2001 gross	2001 net	2000 gross	2000 net
Personal accident	421	410	–	–
Life	710 074	380 200	469 662	299 653
Other lines	615	615	–	–
Total	711 110	381 225	469 662	299 653

Provisions for outstanding claims

Insurance line *Figures in EUR thousand*	*2001* *gross*	*net*	*2000* *gross*	*net*
Provision for reimbursements and surrenders (except annuities)				
Fire	315 997	196 190	96 498	79 192
Liability	1 101 784	729 865	872 385	699 282
Personal accident	69 583	63 292	57 275	50 883
Motor	1 261 845	903 440	1 268 384	881 354
Aviation	221 519	90 655	72 006	51 270
Marine	126 665	99 082	76 198	59 392
Life	89 208	80 615	71 890	63 151
Other lines	288 697	197 408	240 313	177 784
	3 475 298	2 360 547	2 754 949	2 062 308
Provision for annuities				
Liability	1 865	1 829	1 817	1 795
Personal accident	2 028	1 477	1 727	1 470
Motor	31 411	25 511	30 118	24 186
	35 304	28 817	33 662	27 451
Total	3 510 602	2 389 364	2 788 611	2 089 759

Equalisation reserve and similar provisions

Insurance line *Figures in EUR thousand*	*Position at 1.1.2001*	*Addition*	*Withdrawal and release*	*Position at 31.12.2001*
Equalisation reserve				
Fire	39 640	268	32 901	7 007
Liability	50 581	–	3 587	46 994
Personal accident	–	550	–	550
Motor	57 263	44 918	–	102 181
Aviation	11 224	248	10 438	1 034
Marine	23 745	–	14 037	9 708
Other lines	100 814	14 884	23 323	92 375
	283 267	60 868	84 286	259 849
Provisions which are similar to the equalisation reserve – major risks –				
Liability	3 464	92	–	3 556
Other lines	6 449	224	–	6 673
Total	293 180	61 184	84 286	270 078

Other technical provisions

Type of provision Figures in EUR thousand	2001 gross	2001 net	2000 gross	2000 net
Profit commission	42 428	17 561	38 690	37 747
Commissions	3 830	4 667	4 076	3 927
Premium cancellation	1 676	980	1 867	1 153
Lay-up provision	–	–	43	43
Road traffic accident victim assistance	12	7	6	2
Total	47 946	23 215	44 682	42 872

Technical provisions – total

Insurance line Figures in EUR thousand	2001 gross	2001 net	2000 gross	2000 net
Fire	356 995	233 983	157 474	138 837
Liability	1 200 609	827 169	965 417	789 778
Personal accident	78 103	70 701	64 297	57 220
Motor	1 436 866	1 067 841	1 391 121	993 894
Aviation	250 646	96 520	94 551	72 109
Marine	137 008	109 404	100 322	83 505
Life	834 025	478 211	577 364	377 824
Other lines	443 543	338 304	393 960	323 107
Total	4 737 795	3 222 133	3 744 506	2 836 274

Provisions for other risks and charges

Figures in EUR thousand	*2001*	*2000*
Provisions for pensions and similar liabilities	10 460	10 337
Provisions for taxation	17 892	47 703
Sundry provisions		
Provisions for currency risks	7 813	6 048
Provisions for outstanding payments	2 714	3 246
Provisions for interest	1 527	1 428
Provisions for annual accounts costs	1 051	1 033
Provisions for litigation risks	363	383
Provision for German Economy Foundation Initiative	–	2 713
Other provisions	184	127
	13 652	14 978
Total	42 004	73 018

Miscellaneous liabilities

Figures in EUR thousand	*2001*	*2000*
Accounts due to affiliated companies	27 719	4 367
Liabilities from interest on surplus debenture (Genussrechtskapital)	3 170	3 170
Liabilities from overpayments	325	–
Liabilities from outstanding social security contributions	214	206
Liabilities in respect of the revenue authorities	136	141
Liabilities from leases	102	68
Liabilities from deliveries and services	26	72
Liabilities from land and buildings	23	133
Other liabilities	1	27
Total	31 716	8 184

Deferred items

Figures in EUR thousand	2001	2000
Disagio	2 753	3 323
Other accruals and deferred income	151	184
Total	2 904	3 507

Contingent liabilities

Liabilities for remaining calls existed with respect to special investments in the amount of EUR 71,198 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

	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Figures in EUR thousand	2001	2000	2001	2000	2001	2000	2001	2000
Fire	153 612	98 164	141 550	95 737	96 559	65 659	(66 141)	3 060
Liability	225 550	177 324	216 341	175 514	157 590	114 404	(15 639)	(9 190)
Personal accident	50 204	50 201	49 894	50 152	37 395	41 514	(661)	580
Motor	461 468	488 299	457 171	482 720	270 271	267 953	(35 616)	(35 943)
Aviation	102 721	46 309	87 151	45 435	29 323	29 330	(3 156)	6 438
Marine	72 744	44 162	72 744	44 162	61 219	32 553	(6 814)	670
Other lines	288 200	265 701	281 606	261 656	189 135	190 627	17 654	(22 064)
Total property and casualty insurance	1 354 499	1 170 160	1 306 457	1 155 376	841 492	742 040	(110 373)	(56 449)
Life	550 012	380 205	552 226	365 679	199 819	162 518	(15 083)	(79 938)
Total insurance business	1 904 511	1 550 365	1 858 683	1 521 055	1 041 311	904 558	(125 456)	(136 387)

Total insurance business

Figures in EUR thousand	2001	2000
Gross claims incurred	1 550 963	982 242
Gross operating expenses	653 699	637 849
Reinsurance balance	(279 456)	(26 202)

Expenses for personnel

Figures in EUR thousand	*2001*	*2000*
1. Wages and salaries	11 768	12 500
2. Social security payments and expenses for welfare	1 818	1 739
3. Expenses for old-age pension scheme	151	596
4. Total expenses	13 737	14 835

Expenses for investments

Figures in EUR thousand	*2001*	*2000*
Fixed-income securities	14 311	5 296
Shares, units in unit trusts	9 287	15 685
Administrative expenses	6 329	5 031
Land and buildings	4 581	3 772
Deposits	790	534
Deposit and bank fees	551	688
Total	35 849	31 006

Other income

Figures in EUR thousand	*2001*	*2000*
Exchange rate gains	4 262	2 231
Profit from services	2 733	3 120
Release of non-technical provisions	948	587
Allocated investment return	380	421
Cancellation of value adjustments	2	122
Other income	463	458
Total	8 788	6 939

Other expenses

Figures in EUR thousand	2001	2000
Special allocations to the provisions for outstanding claims	35 631	34 462
Deposit interest	6 936	6 513
Expenses for the whole company	5 212	4 348
Separate value adjustment on accounts receivable	4 967	447
Interest charges on surplus debenture (Genussrechtskapital)	3 170	3 170
Expenses from services	2 810	3 124
Exchange rate losses	2 323	1 728
Interest charges on reinsurance operations	766	268
Interest charges on old-age pension scheme	628	579
Expenses for letters of credit	338	682
Financing interest	153	64
Expenses from allocation of administrative costs	132	143
Allocation to interest provisions	99	433
Depreciation on receivables	63	49
Participation in German Economy Foundation Initiative	–	2 713
Other interest and expenses	177	150
	63 405	58 873
Less: Technical interest	7 384	4 310
Total	56 021	54 563

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 147 thousand, those to the Advisory Board EUR 87 thousand, those to the Executive Board EUR 952 thousand and those to former members of the Executive Board EUR 318 thousand. The amount of EUR 4,023 thousand was shown on the liabilities side for current pensions of former members of the Executive Board.

The following mortgage loans were granted to board members

Figures in EUR thousand	Position as at 1.1.2001	Addition Reclassification	Repayments	Position as at 31.12.2001	Interest rate %
Executive Board	–	26	1	25	5.5

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

The average number of employees was 197 in the financial year.

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

Hannover, 17 April 2002

Executive Board

Zeller Dr. Becke Gräber

Dr. Pickel Arrago Dr. König

Wallin

Auditors' report

We have audited the annual financial statements, together with the bookkeeping system and the management report of E+S Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2001. 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, 18 April 2002

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

We supervised the management of the company regularly during 2001 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at three meetings and once by way of written resolution. We received quarterly reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2001 annual financial statements; the chairman of the Supervisory Board awarded the 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 the annual financial statements.

Among the individual projects to be dealt with we concerned ourselves among other things with the impact of the terror attacks of 11 September 2001 in the USA. In light of the vigorous expansion of the business volume written by the operational risk-carriers of the Clarendon Group, the Supervisory Board approved a capital increase at Hannover Finance, Inc. in Wilmington/Delaware, USA (HFI). Furthermore, the Supervisory Board agreed to the formation of an affiliated private-equity company.

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

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

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

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

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

We agreed to the 2001 financial statements, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 2001.

On 31 August 2001, Dr. Andreas-Peter Hecker's service on the Executive Board came to a close. The Supervisory Board expressed its appreciation and recognition of the work performed by Dr. Hecker in more than fourteen years on the Executive Board, and thanked him for his contribution to the company's development. Also as of 31 August 2001, Dr. Detlef Steiner was relieved of his service as a member of the Executive Board. He took over the management of the Clarendon Insurance Group in New York as of 1 September 2001 (at first as Chief Operating Officer, then from 1 January 2002 as Chief Executive Officer). The Supervisory Board expressed its appreciation of Dr. Steiner's contributions to the development of the company. As of 1 September 2001, Mr. André Arrago and Mr. Ulrich Wallin joined the Executive Board as deputy members. Dr. Elke König is a new deputy member of the Executive Board as of 1 January 2002. Mr. Herbert Haas' membership in the Executive Board came to a close as of 31 January 2002, since he is joining the Executive Board of the group parent HDI VaG as of 1 February 2002. The Supervisory Board gave its recognition and appreciation to Mr. Haas for his almost twenty years of service and commitment – eight of them as a member of the Executive Board – and thanked him for his many contributions to the development of the company.

Hannover, 19 April 2002

For the Supervisory Board

Baumgartl
Chairman

Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (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.

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

Combined ratio: sum of loss ratio and expense ratio.

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

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

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

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

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

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.

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.

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

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.

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

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

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

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

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

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

Rate: percentage rate (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.

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.

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

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