Annual Report | 2002

e+s rück

KEY FIGURES
of E+S Rückversicherungs-AG

Figures in EUR million	*2002*	*+/- Previous year*	*2001*	*2000*	*1999*	*1998*
Gross written premiums	2 483.1	+30.4%	1 904.5	1 550.4	1 272.3	1 160.6
Net premiums earned	1 384.3	+32.9%	1 041.3	904.6	727.0	739.4
Underwriting result	20.5	+113.8%	(148.6)	(119.0)	(57.5)	(47.1)
Change in the equalisation reserve and similar provisions	26.5	+214.7%	(23.1)	17.4	19.5	42.4
Investment result	169.5	(24.1%)	223.3	229.6	160.1	159,6
Pre-tax profit	46.8	+68.3%	27.8	27.8	19.0	11.2
Profit or loss for the financial year	20.0	+66.7%	12.0	1.6	9.8	–
Investments	4 390.8	+21.9%	3 603.3	3 166.8	3 074.2	2 784.7
Capital and reserve incl. surplus debenture (Genussrechtskapital)	461.2	+186.1%	161.2	161.2	161.2	161.2
Equalisation reserve and similar provisions	296.6	+9.8%	270.1	293.2	275.8	256.3
Net technical provisions	3 282.3	+11.2%	2 952.0	2 543.1	2 372.1	2 187.9
Total capital, reserves and technical provisions	4 040.1	+19.4%	3 383.3	2 997.5	2 809.1	2 605.4
Number of employees	215	+17	198	193	207	201
Retention	58.2%		57.0%	59.6%	56.9%	64.2%
Loss ratio*	75.5%		91.7%	78.4%	83.1%	77.2%
Expense ratio*	18.8%		23.9%	26.9%	25.1%	29.4%
Combined ratio*	94.3%		115.6%	105.3%	108.2%	106.6%

**Excluding life reinsurance*

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Dear clients and shareholders of E+S Rück,

We are pleased to report that E+S Rück enjoyed another successful financial year.

In 2002 we were highly successful in further expanding our position as a profitable specialist reinsurer for the German market.

With a market share now in excess of 8% we are the third-largest reinsurer in the world's second-largest non-life reinsurance market, while at the same time we assert our position as the second-largest reinsurer in the German life reinsurance market. In the recent renewal season the German reinsurance market in general and E+S Rück in particular have enjoyed a marked resurgence. Against this backdrop, however, a number of renowned market players discontinued their business activities – for reasons that are explained in greater detail below. This led to a capacity shortage on the German reinsurance market, from which we were able to profit – not least thanks to our "AA" rating confirmed last year by Standard & Poor's. We made the most of the market situation, enlarging existing accounts and acquiring numerous new clients. Thanks to our selective underwriting policy in property and casualty reinsurance – focusing on non-proportional covers – and the attractive terms and conditions under which we wrote new business, we succeeded in substantially enhancing the profitability of our portfolio. The combined ratio of 94.3% speaks for itself.

We were highly satisfied with the performance of life and health reinsurance. In the German market we now rank among the most prominent life reinsurers. With a volume of EUR 727.2 million life reinsurance business accounts for around one-third of our total gross premium income. Our experienced team of health professionals in the life sector offers our clients comprehensive product development support as well as advice on assessing claims and benefits. In the year under review we cooperated with clients as part of a product partnership to develop an innovative product in the field of personal accident insurance with assistance benefits for senior citizens.

The development of capital markets was less favourable, and our portfolio, too, was not left unscathed. Although regular income increased due to the growth in the investment portfolio, the total investment result fell short of our planned targets due to write-offs on our equity portfolio.

Despite exceptional loss burdens – the insurance industry suffered a previously unparalleled accumulation of natural catastrophes in the year under review – and the strained state of the capital markets, we closed the year just-ended with an excellent result. We are pleased once again to have generated a remarkable profit for the financial year, which we shall distribute to our shareholders.

In order to safeguard our excellent rating on a long-term basis, we responded to our growth by significantly strengthening our capital and reserves to EUR 4.0 billion in December 2002 through a capital increase of EUR 300.0 million.

We would like to take this opportunity to thank our shareholders for their unconditional support and the confidence that they have shown in our business policy.

Quite apart from the implications of the disastrous flooding of 2002 for our underwriting account, our staff were also greatly distressed by the associated human suffering. We therefore immediately launched an appeal in which the company doubled the donations made by our employees. We hope that in this way we played at least a small part in alleviating this tragedy.

During the past two years of crisis for the reinsurance industry we have demonstrated that we are a partner on whom you can rely – not only in fair weather but also in times of extraordinarily heavy loss burdens. Our proven business policy and not least the motivation and commitment of our staff and management team will ensure that this success is sustained in the future.

We look forward to continuing our successful cooperation.

Yours sincerely,

Zeller Chairman of the Executive Board	Dr. Becke	Gräber
Dr. Pickel	Arrago	Dr. König
	Wallin	

BOARDS AND OFFICERS
of E+S Rückversicherungs-AG

Supervisory Board (Aufsichtsrat)

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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 (until 19 April 2002)	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.
Dr. Heiner Feldhaus Hannover (since 19 April 2002)	Chairman of the Executive Board of CONCORDIA Versicherungs-Gesellschaft a.G.
Herbert K. Haas Burgwedel (since 19 April 2002)	Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Frauke Heitmüller* Hannover (since 19 April 2002)	
Ass. jur. Tilman Hess* Hannover	
Rolf-Peter Hoenen Coburg	Speaker of the Executive Boards of HUK-Coburg Versicherungsgruppe
Dr. Ing. Manfred Mücke Hamburg (until 19 April 2002)	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
Anita Suing-Hoping* Godshorn (until 19 April 2002)	

*Staff representative

Advisory Board (Beirat)

Dr. Edo Benedetti Trento	President of the ITAS Istituto Trentino-Alto Adige per Assicurazioni, Trento, Italy
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Dieter Holl Stuttgart	Chairman of the Executive Board of Württembergische Gemeinde-Versicherung a.G.
Ernst Köller Hannover (until 19 April 2002)	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 (until 28 February 2002)
Adolf Morsbach Wedemark (until 19 April 2002)	Former Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

EXECUTIVE BOARD
of E+S Rückversicherungs-AG

André Arrago

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

Dr. Wolf Becke

Life and Health markets
worldwide

Wilhelm Zeller
Chairman

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

Jürgen Gräber

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

Dr. Elke König

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Dr. Michael Pickel

Property and Casualty Treaty Reinsurance Germany, Austria, Switzerland and Italy; Credit and Bonds worldwide; Claims Management; Legal Department

Ulrich Wallin

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

Herbert K. Haas

(until 31 January 2002)

Economic climate

The global economic situation was overshadowed by considerable uncertainty in 2002. Slumps on equity markets towards the middle of the year, political uncertainties including speculations about a war on Iraq, and the fear of further terrorist attacks had a paralysing effect and dampened consumer habits.

Economic growth in Germany fell short of expectations

After brightening up at the beginning of the year, the economic climate began to cloud over again in the second half of the year. Supported by an expansionary fiscal policy, the US Federal Reserve Board sought to avert the looming recession in the United States with massive interest cuts. In the United Kingdom full employment and a sustained low rate of inflation contributed to respectable economic growth. Economic activities in the Asian emerging and developing nations promoted cyclical growth in the global economy. It was only in the European economic area that the expansion of production output lagged behind. An unusually sharp rise in food prices early in the year, a sense of insecurity associated with the launch of euro notes and coins and – as the year progressed – the upward revaluation of the euro were a drag on economic growth in Europe. The European Central Bank was initially cautious in its response to the interest rate cuts in the USA, waiting until December to trim the prime rate by 50 basis points.

In Germany, contrary to expectations, the upswing failed to gather momentum and fell short of the forecasts made by leading economic research institutes. The primary factor here was the depressed state of the domestic economy. Private consumption was extremely weak during the past year, not least influenced by dubious assessments of Germany's economic future. Capital spending in the industrial sector – on machinery and equipment as well as buildings – was particularly soft throughout the year. The weak state of the German business climate was clearly reflected on the labour market, where unemployment surpassed 4 million as the year progressed.

The German insurance industry

German insurance industry continued its expansionary course despite weak economy

The state of the capital markets, the strains imposed by natural catastrophes, and the tense economic and political situation adversely impacted the outcome of the 2002 financial year. Despite this difficult environment, the German insurance industry was able to maintain its expansionary course of the previous years. For the year under review the German Insurance Association (GDV) expects premium volume to grow by 4.0% (previous year: 2.7%) to EUR 140.8 billion (EUR 135.4 billion). Benefits and claims expenditure increased in the year under review by roughly 6.0% to EUR 158.1 billion (EUR 149.5 billion).

Growth in annuity and pension insurance products through the "Riester effect"

The poor performance of the capital markets hit life insurers especially hard. Falling prices on equity markets and a low interest rate level on bond markets caused considerable problems at numerous companies. Surplus distributions had to be cut again market-wide. In several cases the Federal Financial Supervisory Authority (BAFin) had to intervene in proceedings, usually behind the scenes.

Life insurance nevertheless proved to be a high-growth line. The structural reform of the pension system implemented by the Federal Government was a particularly crucial factor in this gratifying development. While the sales figures actually recorded fell short of forecasts, the "Riester effect" was still reflected in a 4.5% rise in premium income. In the first half-year of 2002 the number of new annuity and pension insurance policies increased by more than 250%.

Property and casualty insurers generated premium increases for the third year in succession.

However, a combined ratio of around 100% highlights the marked pressure on profit margins. Claims expenditure climbed by 8.2% (0.9%) in the financial year to EUR 43.5 billion. This rise was due to a tightening of liability law, several natural catastrophes, and further major claims.

Motor insurance, the growth driver of the industry prior to the turn of the year, lagged behind the gains of the previous year. Hopes of being able to further trim the underwriting deficit in the year under review were not fulfilled. Numerous storms and the disastrous flooding in August of 2002 had a significant adverse impact on the result; own damage insurance was most heavily hit. Despite the natural catastrophes, the underwriting loss in the order of EUR 0.5 billion was on a par with the relatively low level of the previous year.

Motor line heavily impacted by disastrous flooding; underwriting loss nevertheless relatively low

The prolonged premium decline in industrial property insurance was halted in the year under review. What is more, the positive premium trend of the previous year was appreciably enhanced in the year under review. Premium income is expected to climb by 11.2% to roughly EUR 3.4 billion. However, the consequences of the flooding on the Elbe and the Danube caused claims expenditure to rise sharply, and industrial business therefore closed with an underwriting deficit.

The appreciable hardening on the reinsurance market, which had already manifested itself in 2001, was sustained in the year under review. One prominent development was the cessation of underwriting activities by a major German competitor. Additional reserves constituted for asbestos-related claims and write-downs on investments pushed more than a few market players into the red again. Highly reputed market players were downgraded by the rating agencies. One consequence of this market development was also reflected in the treaty structuring; it became increasingly common to require provision of security for loss reserves. As a general rule, reinsurers with good ratings were sought-after partners.

The floods in August clearly demonstrated that such risks had not been adequately priced. The German Insurance Association (GDV) consequently developed insurance software for pricing natural catastrophes, the "Zoning System for Flooding, Backwater and Heavy Rainfall" (ZÜRS), which can be used to retrieve flood risks for Germany on an individual risk basis. There are plans to enhance the program in cooperation with a number of reinsurers so that it can be used to precisely assess accumulation risks.

In response to the disastrous flooding insurance software "ZÜRS" developed for pricing risks

Property insurance experienced a change with respect to the coverage of terrorism losses. While terrorism coverage for major risks was excluded, the state felt compelled to become involved in providing insurance for terrorism risks. This led to the establishment of Extremus AG, a specialist insurer for terrorism covers, which receives reinsurance support from our company.

Extremus AG established as a specialist reinsurer for terrorism covers

Business development

An accumulation of natural catastrophes in Germany during the year under review impacted underwriting results throughout the entire insurance and reinsurance industry, in some cases to a significant extent. The Czech Republic and eastern parts of Germany suffered flooding on a hitherto unseen scale. However, the good diversification of our portfolio, not least thanks to international risk spreading with Hannover Re, ensured that these natural disasters did not materially impair our results.

In the year under review we again substantially enlarged our premium volume: gross premium income increased by 30.4% to EUR 2.5 billion, while net premiums earned climbed by 32.9% to EUR 1.4 billion. This growth derived from the expansion of both property/casualty

E+S Rück again increased gross premium volume

Life reinsurance was one of the strongest lines in terms of premium volume

and life reinsurance. Gross premium income in the latter line grew by EUR 177.2 million to EUR 727.2 million, primarily due to the successful sale of annuity products. The general premium increases and the enlargement of our market share ensured a favourable business development.

The premium income from our total portfolio of property and casualty reinsurance amounted to EUR 1,755.8 million. This corresponds to 70.7% of the total gross premium volume.

In motor reinsurance, one of our largest lines by premium volume, we built upon the favourable premium situation of the previous year: premiums grew by 10% to EUR 506.9 million (previous year: EUR 461.5 million). The substantial claims burden in own damage business due to the flooding affected not only insurers but also our portfolio and impacted the underwriting result.

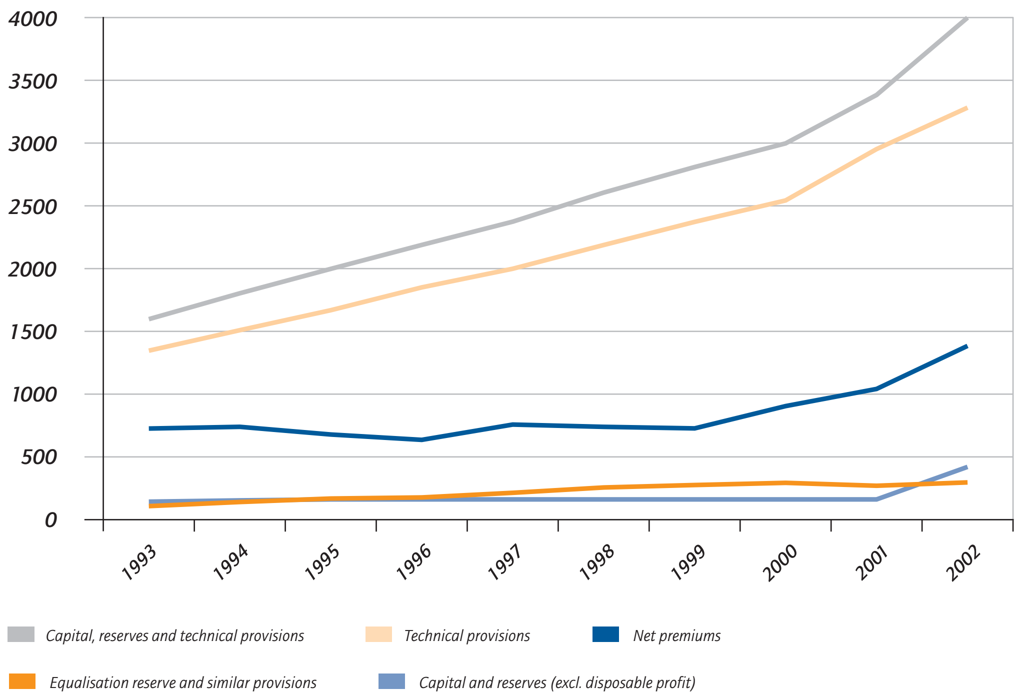
The rehabilitation measures initiated 18 months ago in industrial fire and liability insurance left a favourable mark on the result for the first time. This success was, however, diminished by the disastrous flooding in the summer.

With a slightly increased retention of 58.2%, our total net premiums grew in the year under review to EUR 1.4 billion. Net loss expenditure amounted to EUR 855.8 million in the year under review (EUR 838.6 million), while the loss ratio excluding life insurance improved to 75.5% (91.7%) – the lowest level in the last five years.

Operating expenses, consisting of commissions and profit commissions as well as our own administrative expenses, were reduced in the year under review by EUR 11.4 million to EUR 257.9 million on a net basis. We transformed the previous year's underwriting loss of EUR 148.6 million before changes in the equalisation

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

in EUR million



reserve into a profit in the year under review. The net underwriting result before changes in the equalisation reserve improved by EUR 169.1 million to a gratifying EUR 20.5 million. An amount of EUR 26.5 million was allocated to the equalisation reserve due to the favourable loss experience.

We also strengthened the IBNR reserve in the year under review with an allocation of roughly EUR 54.0 million.

The run-off of our liability treaties confirmed that we have a comfortable level of reserves. In the area of asbestos-related claims – which is in any case scarcely of significance to our company – there was also no need to establish additional reserves.

The adverse state of the capital markets left its mark on our investment result, too. While investment income fell to EUR 241.3 million (EUR 259.1 million), expenditure increased by EUR 35.9 million to EUR 71.8 million; the investment result consequently deteriorated by EUR 53.7 million to EUR 169.5 million. This unsatisfactory decline was primarily attributable to write-downs on our investment portfolio.

After higher tax expenditure of EUR 26.8 million (EUR 15.8 million), we boosted our profit for the financial year from EUR 12.0 million to a gratifying EUR 20.0 million.

In property and casualty reinsurance we successfully built on the low loss level of previous years despite natural catastrophes

Trend reversal in the underwriting result achieved in the year under review

Premium growth and results

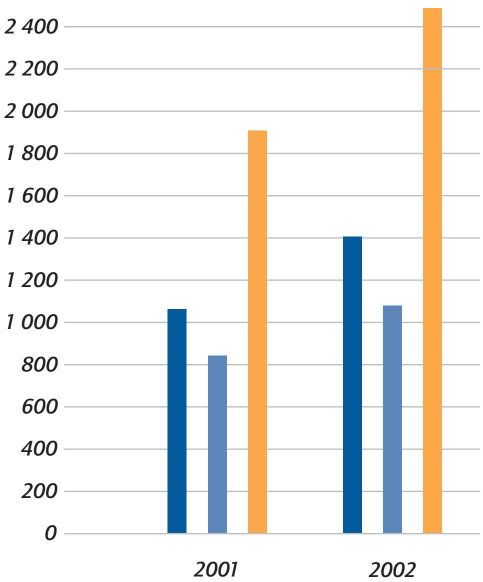
The substantial increase of 30.4% in our gross written premiums to EUR 2.5 billion can be attributed to the market developments as well as to our business policy: On the one hand, the national and international market conditions improved, while on the other hand we were able to profitably enlarge both the German portfolio that we write ourselves and the foreign business accepted from Hannover Re. We assume the latter under an internal retrocession agreement that enables us – by adding foreign risks – to significantly improve the geographical spread and risk diversification of our portfolio across all lines of business.

Given the general circumstances outlined above, the development of our portfolio was highly satisfactory. With a profit of EUR 20.5 million we were able for the first time to restore the underwriting result to positive territory.

Increase of more than 30% in gross written premiums achieved in the year under review

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

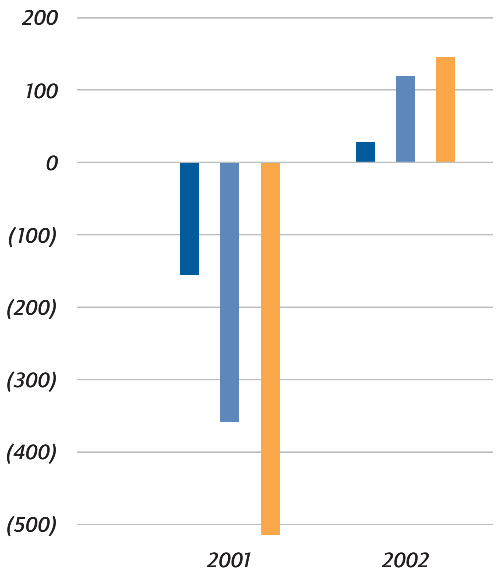
in EUR million



	2001	2002
Germany	1061	1404
Foreign	844	1079
Total	1905	2483

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

in EUR million



	2001	2002
Germany	(157)	27
Foreign	(361)	119
Total	(518)	146

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

Development of the individual lines of business in Germany

The following sections explain the development of each line of business. Due to our orientation as a specialist reinsurer for the German market, we have subdivided our management report on underwriting business into two sections. The following commentaries on the various lines of business refer solely to our German portfolio; we then provide a summary of our international business accepted from Hannover Re under retrocession arrangements. Due to the international nature of aviation business, this is also described within the foreign section.

Fire

The positive trend in premium income in industrial property insurance was maintained in the year under review. The traditional insurance lines of industrial fire and fire loss of profits showed considerable gains thanks to the steps taken to rehabilitate the business. Overall, the premium volume booked by German insurers in industrial property business climbed by around 12% to approximately EUR 3.5 billion.

Not least under pressure from the reinsurers, insurers initiated a far-reaching streamlining of their industrial portfolio. The success of this rehabilitation was already reflected in sharply higher premiums, reduced scope of coverage, and increased deductibles. Premium income consequently grew, most notably in the traditional industrial fire and fire loss of profits lines, by around 18% to more than EUR 1 billion.

The otherwise good result recorded in industrial fire insurance was overshadowed by the high expenditure for the flooding in the summer of 2002. Losses for the financial year in industrial fire and fire loss of profits – including extended coverage and all risks covers – increased to roughly EUR 2.4 billion (EUR 1.96 billion).

In view of the attractive market situation, we were able to boost our gross premium income by EUR 16.8 million to EUR 52.1 million. The adverse experience of our competitors due to the catastrophe losses of previous years safeguarded an uninterrupted trend towards non-proportional covers. We, too, were successful in writing profitable business on a non-proportional basis, thus further improving the quality of the margin on our assumed portfolio. In this context, we cooperate for the most part with companies with whom we already enjoy long-standing business relationships. We continued to scale back our proportional acceptances since conditions were in some cases inadequate.

Despite our cautious underwriting policy, our underwriting result, too, was not able to escape the poor performance of German fire insurance unscathed.

Although the year under review passed without spectacular major claims, the considerable loss expenditure associated with the flooding pushed the loss ratio up to 91.5% (77.6%). Comparatively speaking, however, our loss ratio was still good. Yet the premium increase of 47.6% was insufficient to offset the higher loss burden, in which non-proportional covers – particularly hard hit by the flood event – were also a factor. The underwriting deficit consequently grew by EUR 6.9 million to EUR 10.6 million.

Fire

in EUR million	*2002*	*2001*
Gross written premiums	52.1	35.3
Loss ratio (%)	91.5	77.6
Underwriting result (gross)	(10.6)	(3.7)

An amount of EUR 23.4 million was allocated to the equalisation reserve.

Liability

In the year under review premiums in general third party liability insurance on the German market increased by roughly 1% compared to the previous year to reach EUR 6 billion. The premium trend in industrial liability insurance stabilised, whereas in commercial and personal liability business premiums continued to fall. The year under review experienced a significantly lighter load of major claims than the previous year. Expenditure on claims in the financial year was only marginally higher than in the year before, rising by a mere 0.4% to EUR 5.1 billion. Paralleling moves in industrial property insurance, portfolios in industrial liability business have been rehabilitated over the past two years. A further improvement was achieved through the definition of the coverage trigger. The switch from the "losses-occurring" to "claims-made" principle when renewing liability treaties for certain particularly exposed industries was just as significant a factor as the removal of US permanent establishments from German policies.

In accordance with our selective underwriting policy that is not guided by market share targets, we continued to hold back from problematic segments in German liability business such as liability for pure financial losses. Having already withdrawn from unprofitable segments of German liability business in the previous year, the development of our portfolio in the year under review was extremely gratifying. In light of the favourable state

Liability

in EUR million	*2002*	*2001*
Gross written premiums	160.3	105.5
Loss ratio (%)	78.4	212.6
Underwriting result (gross)	(2.0)	(141.4)

of the market, we enlarged our gross premium volume by 51.9% to EUR 160.3 million. At the same time, we were spared any sizeable claims in the year just-ended. The loss ratio in this line contracted to a normal level of 78.4% after the previous year (212.6%) had been burdened by claims in the pharmaceutical sector. Liability business performed well compared to the previous year and closed with a near-breakeven underwriting result for gross account of -EUR 2.0 million in the year under review.

The relatively good result enabled us to make an allocation of EUR 37.1 million to the equalisation reserve. We also strengthened our IBNR reserve by an amount of EUR 34.1 million in the year under review.

Personal accident

Premiums throughout the entire primary insurance market increased as in the previous year by 1.5% to EUR 5.5 billion. In terms of the total premium volume of the German insurance market the personal accident line is of relatively minor importance, and hence the proportion of personal accident business in our German portfolio is correspondingly small – around 3% – but profitable.

Personal accident

in EUR million	*2002*	*2001*
Gross written premiums	38.7	39.4
Loss ratio (%)	32.0	53.8
Underwriting result (gross)	4.5	(1.1)

As a reinsurer we traditionally support our clients with special services. We offer them advice on innovative products as well as on risk assessment and claims settlement. Working together with key clients, we developed – in addition to already existing personal accident products aimed at children and senior citizens – a new product in the area of personal accident insurance with assistance components for senior citizens. In the year under review we further enlarged our business share guided by profitability considerations and expanded the range of services that we provide to support our clients.

In order to fulfil the required margins that we set for our treaties we concentrated on profitable business. Consequently, our gross premium income decreased slightly by 1.8% to EUR 38.7 million.

The quality of our treaties was reflected most clearly in the low loss ratio and the favourable underwriting result. The loss ratio fell by 21.8 percentage points to 32.0%, thus reverting to the level of earlier years after the increase in 2001. We therefore succeeded in generating a good result of EUR 4.5 million in the year under review that surpassed our expectations. On the basis of this good performance we allocated an amount of EUR 11.9 million to the equalisation reserve.

Motor

The disastrous flooding, the windstorm "Jeanett", and summer hailstorms all took a severe toll on the result of German motor insurance. Although this line was affected considerably more heavily by natural catastrophes in the year under review, the underwriting deficit of around EUR 0.5 billion was only slightly smaller than in the previous year. Gross premium earned grew by 3% to EUR 22.0 billion, while the loss ratio remained virtually unchanged at 84.2% (84.4%).

Motor

in EUR million	*2002*	*2001*
Gross written premiums	407.9	382.1
Loss ratio (%)	89.1	70.3
Underwriting result (gross)	(18.3)	62.0

Whereas the loss ratio in own damage insurance increased by 7.5 percentage points to 85.2% due to the extensive natural hazards claims, it fell to 84.8% (89.7%) in motor third party liability insurance. Thanks to the rise of 3% in gross premium income, it was thus possible to substantially reduce the deficit in motor third party liability insurance.

Accounting for around 30% of our German portfolio, motor reinsurance is a high priority for our company and one of our most important lines. Motor liability premiums climbed by 4.7% year-on-year to EUR 291.0 million.

Echoing the trend in the primary insurance sector, we profited from the lower claims frequency in the proportional motor liability market. We received risk-adequate remuneration for our non-proportional covers in the year under review thanks to the increased premiums.

With the exception of hail damage, the natural hazards events did not produce any excessive strains in motor own damage reinsurance since we write this business predominantly as non-proportional catastrophe covers in conjunction with high priorities. The premium volume grew by EUR 12.7 million to EUR 115.7 million.

Gross premium income in our total German motor business increased by EUR 25.8 million to EUR 407.9 million, while the loss ratio climbed to 89.1% (70.3%) due to higher overall loss expenditure. The bulk of the premium growth was attributable to new accounts.

The underwriting deficit of EUR 18.3 million in the motor line fell well short of the previous year's profit of EUR 62.0 million. An amount of EUR 61.7 million was withdrawn from the equalisation reserve. We strengthened the IBNR reserve with an allocation of EUR 19.9 million from the non-technical account.

Marine

The situation in German marine insurance remained difficult in the year under review. Still, a tendency towards hardening market conditions could be observed. The rehabilitation measures initiated by numerous insurers slowly began to bear fruit as a trend emerged towards premiums commensurate with the risk. Premium growth in German marine insurance was lower in the year under review than in the previous year, while claims expenditure remained consistent.

In accordance with our general underwriting strategy the majority of our treaties are written on a non-proportional basis. Our approach to proportional covers remains cautious, since the anticipated profit potential fails to meet our expectations despite the rehabilitation measures implemented in the primary market.

Contrary to the general trend, we achieved appreciably improved premium volume thanks to E+S Rück's good market positioning – supported by our "AA" rating. We boosted gross premium income by 16.3% to EUR 10.7 million. While the loss ratio had been as high as 93.4% in the previous year, it decreased to 85.9% due to the favourable premium development – but was still unsatisfactory. An allocation of EUR 15.3 million was made to the equalisation reserve.

Marine

in EUR million	2002	2001
Gross written premiums	10.7	9.2
Loss ratio (%)	85.9	93.4
Underwriting result (gross)	(0.8)	(2.2)

Life

Characterised by a shift in demand towards conventional products with guaranteed benefits due to a sharp decline in the market value of dividend-bearing securities – the leading DAX stock index lost more than 40% of its value in the course of 2002 – and a falling interest rate level, the German life insurance market – served by around 120 companies – was a difficult climate in which to operate in 2002. Although the effects varied from company to company, these developments had generally unfavourable repercussions on the financial strength and solvency of life insurers. Against this backdrop, the Federal Financial Supervisory Authority (BAFin) took additional steps to obtain a real-time overview of the financial state of life insurers. In addition, "Protector" was established – a joint venture of German life insurers tasked with rescuing struggling companies – in order to stabilise confidence in the German life insurance market.

Life

in EUR million	*2002*	*2001*
Gross written premiums	575.5	362.3
Underwriting result (gross)	69.8	(46.1)

The German market's hopes of a resounding success with the partial privatisation of the state pension scheme – in the form of the so-called "Riester" pension – were not fulfilled, although in the second half of the year a modest upsurge was observed in this market segment.

In this competitive environment, small and mid-sized life insurers in Germany have found it particularly difficult to hold their ground. This is likely to result in market consolidation.

Within E+S Rück this market is served by the central life and health reinsurance division responsible for German-speaking markets. In the year under review we purposefully expanded our position as a leading reinsurance provider of financing arrangements for unit-linked policies.

Total gross premium income from the German market grew by EUR 213.2 million to EUR 575.5 million. The underwriting result based on the mortality risk and the persistency of the business in force remained favourable.

We continue to attach considerable importance to our positioning as a "stochastic banker", creating added value for our clients through the design and implementation of specially tailored financing solutions. The bancassurance sector is a particularly successful marketing channel on which we also focus very closely. In this area reinsurers are expected to offer innovative solutions in the field of product design and process management, a task which we are able to perform superbly.

As in the previous years, we subjected the retained in-force portfolio of life and health reinsurance to detailed actuarial analysis as at 31 December 2002 in order to determine the present value of future technical profit flows before taxes – the so-called "value of in-force business". The value of our in-force German life business increased slightly to EUR 228.0 million.

Other lines

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

Other lines

in EUR million	*2002*	*2001*
Gross written premiums	132.3	98.4
Loss ratio (%)	82.7	50.8
Underwriting result (gross)	(13.8)	16.3

The result of German credit and surety business, one of our strongest sources of premium income among the other lines, again suffered under the adverse business climate in Germany in the year under review. The number of insolvencies showed another sharp increase, compelling insurers to initiate far-reaching portfolio restructuring. The rehabilitation measures began to bear fruit in the second half of the year, and the effects will not be fully felt until the current year. It was only in the 2003 renewal phase that the claims experience and further capacity shortages brought about an appreciable hardening of conditions, accompanied by the withdrawal of some providers.

Several storms in the year under review and the hail in the summer produced an accumulation of claims and triggered stop loss covers in the reinsurance sector, especially in the area of windstorm insurance. This left a corresponding mark on the insurers' loss ratios. After the previous year had been relatively unencumbered by sizeable natural hazards losses, loss ratios deteriorated appreciably in the year under review.

Our windstorm portfolio is traditionally dominated by non-proportional covers, in which we prefer to write the less loss-prone middle and upper layers. The accumulation of losses within the year prevented us building on the previous year's good result. An amount of EUR 11.8 million was withdrawn from the equalisation reserve.

Results of our foreign business

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

The results of the previous year were heavily impaired by the terrorist attacks of 11 September 2001. The impact of these events on the Hannover Re Group was also significant. Looking back, however, we can assert that we withstood these losses well. Our forecast that we would recoup the loss payments within two to three years appears to be proving correct. We have observed extraordinary premium increases in some lines due to the hardening of markets. Particularly prominent was the development of our US liability business, with increases in excess of 50%. In aviation business, on the other hand, some policies saw initial premium declines in contrast to the sharp rise in the previous year.

US liability business posts an outstanding result

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

Europe

United Kingdom

In the primary insurance sector appreciable market hardening could be felt in virtually all lines of business, with correspondingly favourable implications for reinsurance terms and conditions. On the London Market Hannover Re is considered a leading reinsurer in many segments.

We are well positioned with our "AA" rating. In the year under review we systematically enlarged our property business and benefited from the premium increases that ensued in the wake of the attacks on the World Trade Center. Accounting for 72% of our total gross premium income, the property insurance lines are our highest priority in the UK market. In motor insurance we profited from the restructuring of reinsurance programmes that was triggered by an exceptional individual loss in 2001.

Gratifying underwriting result in the United Kingdom

In marine and aviation business our underwriting policy is normally geared to the middle and upper layers of non-proportional programmes. In hard market phases, however, we are certainly prepared to also write lower layers on an opportunistic basis. We accept proportional business only if the anticipated profitability meets our required margins. Due to the significantly improved treaty terms and conditions and the continuing favourable premium/risk ratio, we selectively

United Kingdom

in EUR million	*2002*	*2001*
Gross written premiums	206.0	206.9
Underwriting result (gross)	17.5	(106.8)

expanded our portfolio on the UK market. The premium volume remained virtually unchanged year-on-year, although the underwriting result showed gratifying improvement. Having reported a loss only last year, we achieved an underwriting profit for gross account in the year under review. In the aviation line we allocated an amount of EUR 12.4 million to the equalisation reserve.

France

The situation as regards premiums and conditions was similar to that on other markets. In general terms, reinsurers benefited from the withdrawal of a number of competitors from the market and enlarged their shares.

France

in EUR million	*2002*	*2001*
Gross written premiums	40.9	29.9
Underwriting result (gross)	6.3	(16.9)

Good result due to low loss expenditure

Along with liability business, property insurance is the most important line in our portfolio. Given the rather hesitant recovery of liability business we adopted a more cautious approach to writing this line. Our focus in the year under review was on property insurance, which we substantially expanded. We preferred to write non-proportional covers, the premium development of which played a gratifying part in our premium growth. Our total premium volume in France grew to EUR 40.9 million (EUR 29.9 million). The claims frequency was considerably lower than in previous years. It was only the disastrous flooding in the south of France in September 2002 that weighed down the result. Overall, we were highly satisfied with the performance of our French portfolio.

North America

Late entry into US business means E+S Rück has no need to constitute additional reserves for asbestos and liability risks

The focus of interest was on US liability business as the year progressed. Also noteworthy was the need for several insurers and reinsurers to constitute substantial additional reserves for asbestos-related claims as well as the overly optimistic reserving policy in liability business during the "soft" market years of 1997-2001.

Owing to Hannover Re's relatively late entry into the US market and its adherence to a conservative reserving policy, E+S Rück was not compelled to constitute additional reserves for asbestos-related risks or liability risks from earlier occurrence years.

North America

in EUR million	*2002*	*2001*
Gross written premiums	467.3	283.8
Underwriting result (gross)	37.8	(207.8)

Liability business is the largest single line in our US portfolio. The premium increases in the year under review meant that our portfolio, too, showed a substantial rise in premium income.

Having written business only cautiously during the soft market, we had already stepped up our activities in the liability sector in the previous year as the market began to harden – a move that we continued in the year under review. Thanks to our profit-oriented underwriting policy we substantially enhanced the profitability of our portfolio.

In addition to the conventional property and casualty reinsurance business, our Bermuda-based company established in 2001 offers natural catastrophe covers. The market for reinsurance of natural catastrophe losses has been steadily hardening since the events of 11 September 2001. What is more, those attacks prompted some ceding companies to pull out of the London Market and to increasingly turn to the newly established companies in Bermuda. We were superbly successful in exploiting the favourable market situation and enlarging our premium volume by writing primarily the middle and upper layers of natural catastrophe reinsurance programmes.

While the 2001 underwriting result in North America was weighed down by the loss expenditure associated with the attacks of 11 September 2001, we were more than satisfied with the gross underwriting profit for the year under review.

Asia

In *Japan* the process of concentration in the primary insurance sector intensified sharply. The five largest providers now enjoy a combined 86% share of the market. On the reinsurance side appreciable hardening in terms and conditions could be observed. While premiums for non-proportional covers increased by between 15% and 20%, commissions under proportional treaties were substantially lower. In this general climate E+S Rück asserted its position well.

In *Korea*, too, the market environment changed in our favour, and we were therefore able to further enlarge our premium volume.

We also wrote business from *Taiwan* and *Hong Kong*. In *Taiwan*, despite the extraordinarily high exposure to natural hazards, we succeeded in further boosting our premium income and enhancing profitability as the market hardened. We increased our market share in Hong Kong by participating in attractively priced excess of loss reinsurance programmes.

Marked increase in our premium volume from the Asian region

Asia

in EUR million	*2002*	*2001*
Gross written premiums	75.7	65.0
Underwriting result (gross)	(3.7)	(5.8)

International life and health reinsurance

The trend on the international life reinsurance market was satisfactory in the year under review, albeit without spectacular developments such as those seen in the non-life sector. Proportional reinsurance continues to be the dominant product line; non-proportional covers are used for the most part in group insurance and as catastrophe excess of loss coverage.

By systematically maintaining its fundamental strategic positions, Hannover Life Re asserted itself well in the year under review in a highly competitive climate. In most insurance markets, including France, the United Kingdom, Italy, the ASEAN countries, and China we now rank among the top three reinsurers, while in Australia and southern Africa we have actually assumed the role of market leader. In the USA we consider ourselves a leading specialty provider for the reinsurance of existing complete life and annuity portfolios.

In addition to our goal of offering our clients individually tailored financing solutions in the role of a "stochastic banker", we devoted particularly close attention both nationally and internationally (especially in southern Europe and Asia) to the bancassurance sector, which we have identified as a highly successful sales channel. We also continue to enjoy success as the worldwide market leader in the area of "enhanced annuities", with special emphasis on the United Kingdom and Canada.

International life and health reinsurance business

in EUR million	*2002*	*2001*
Gross written premiums	237.1	273.4
Underwriting result (gross)	(4.0)	(66.6)

The weakness of almost all foreign currencies against the euro and the continued scaling back of our involvement in health business, particularly in the US market, caused a premium decline of EUR 36.3 million in our international portfolio. On balance, however, the systematic relinquishment of unprofitable health business produced a significant improvement in our underwriting result.

Investments

Yields at historic lows

The first quarter of 2002 was one of general consolidation on the international equity markets, with share prices for the most part caught in a sideways movement. Subsequently a decline set in, however, dragging the major indices down to fourth-quarter levels, even lower than those witnessed after 11 September 2001. This slump was triggered not only by the general uncertainty concerning the future direction of the economy, but also – and more specifically – by the erosion of confidence due to certain manipulations of financial statements and by the fear of further terrorist attacks. The markets remained unsettled until year-end. Geopolitical crises, such as the looming war on Iraq and the repercussions of the general strike in Venezuela, were the final nail in the coffin for any hopes of a year-end rally. For the third year in succession the major stock indices closed in negative territory.

Reduction in the proportion of dividend-carrying securities protected us against excessive value adjustments

Bond markets profited from the uncertainty on equity markets and the sluggish cyclical trend in Europe and the USA. While the US Federal Reserve Board cut the reference interest rate several times in the course of the year, ultimately trimming it to an all-time low of 1.25%, the European Central Bank waited until December to cut the key interest rate by 50 basis points to 2.75%.

Poor performance of the equity markets offset by favourable development of our bond portfolio

Despite opposing effects associated with exchange rate movements, our total portfolio of self-managed assets (i.e. excluding deposits with ceding companies) grew in the reporting period by 12.7% to EUR 3.2 billion. The excellent performance of our reinsurance business, especially in property and casualty reinsurance, and the reinvestment of investment income generated a cash inflow of around EUR 360.0 million. The weakness of the equity markets was more than offset in our portfolio by the favourable performance of our bond holdings. On balance we booked unrealised gains of EUR 37.2 million on our other financial investments.

Since we continue to view equity markets with scepticism, we initially further reduced our equity allocation as the year progressed. We used the market softness at year-end to boost our portfolio in the short term. Our investment universe remains unchanged, comprising liquid Blue Chips listed on major indices (Euro Stoxx, Nikkei, S&P 500). As at year-end a mere 10.7% of our investments were in listed stocks. Thanks to this approach, we suffered considerably less heavily than many of our competitors under the depressed state of the equity markets. Yet, our account, too, was not spared diminutions in value. Total write-downs on exchange-listed equities amounted to EUR 41.6 million in the year under review. The unrealised losses on our equity portfolio totalled EUR 49.5 million as at year-end.

Fixed-income securities were once again our preferred asset category in the year under review. In the course of the year we invested free liquidity from maturities and cash inflows primarily in instruments with a short or medium time to maturity so as to minimise the interest rate risk. Our portfolio of fixed-income securities increased year-on-year from EUR 1.9 billion to roughly EUR 2.1 billion.

In view of the considerable volatility and uncertainty prevailing on the credit markets the excellent quality of our fixed-income securities proved its worth. The proportion of the total portfolio rated "AA" or better stood at 85.5%. The minimal strain produced by the spectacular business failures witnessed in the year under review demonstrated the quality of our corporate bonds.

We used the decline in yields and diminishing yield advantage offered by corporate bonds to realise total price gains of EUR 53.7 million. Despite lower reinvestment returns the unrealised price gains in our portfolio of fixed-income securities climbed from EUR 35.0 million to EUR 79.4 million.

As at year-end we held a total amount of EUR 382.2 million (EUR 92.0 million) in short-term assets, including overnight money and time deposits. Whereas in the previous year anticipated claims payments arising out of catastrophe losses had prompted us to keep relatively high liquidity holdings, in the year under review this action was prompted by the state of the capital markets. We wanted to be able to respond flexibly to advantageous market situations, on the one hand, while also limiting the potential for losses from the portfolio.

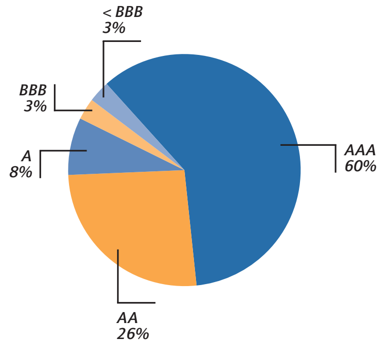
Ordinary income increased by EUR 27.3 million to EUR 183.2 million (EUR 155.9 million), while at the same time the total investment portfolio (including deposits with ceding companies) grew by 21.9% to EUR 4,390.8 million (EUR 3,603.3 million). Although current yields declined worldwide in the year under review, this rise in our income was attributable not least to larger deposits with ceding companies.

The downward slide on equity markets had a significant adverse impact on the investment performance. Write-downs on our investments, primarily on equities, increased by EUR 40.0 million to EUR 60.3 million.

Profits on disposals of EUR 53.7 million (EUR 102.1 million) were generated through the sale of securities. This contrasted with losses on disposals of EUR 3.1 million.

The total net investment result fell from EUR 223.3 million to EUR 169.5 million. However, this decline includes currency effects that were detrimental to our investment result in the year under review. Bearing in mind the current market climate, we are entirely satisfied with the income from our investment portfolio. As in the previous year, our strategic positioning was proven correct.

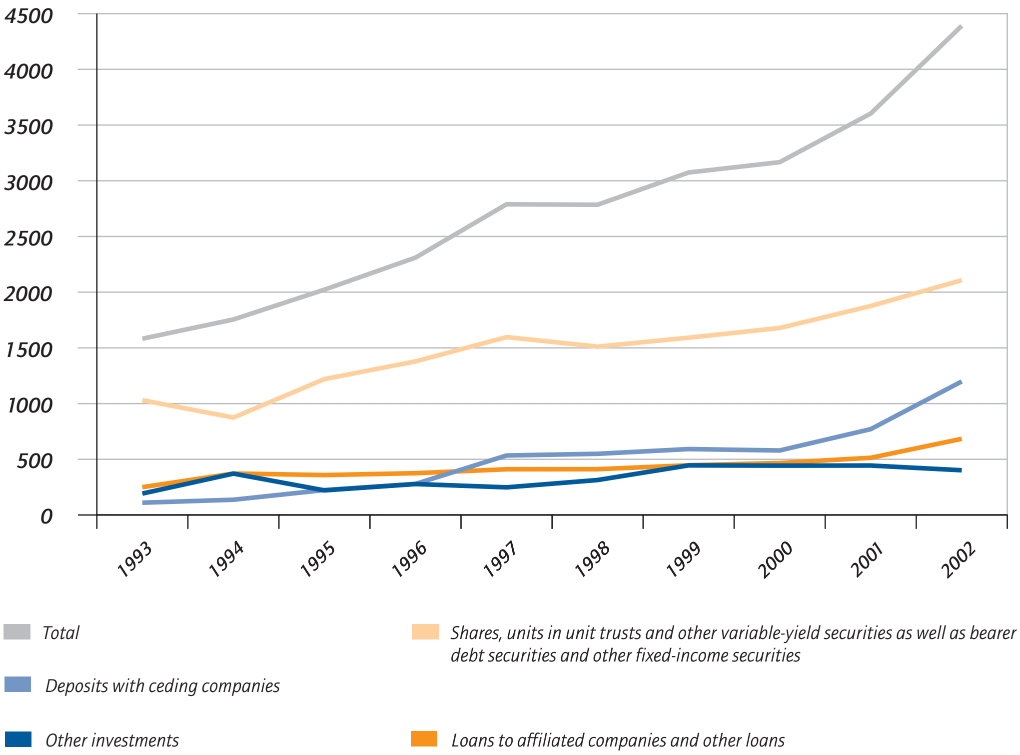
Rating of fixed-income securities



Appreciable rise in our ordinary income compared to the previous year

Investments

in EUR million



Risk report

The acceptance of risks and their professional management constitute our core business as a reinsurance company. To this extent, the professional assessment and handling of risks is a major competitive factor and a crucial element in steering the company. Our corporate strategy is 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 a commensurate increase in the value of the company.

E+S Rück bears exclusive responsibility for German business within the Hannover Re Group. For its part, Hannover Re – together with its subsidiaries – writes the international business. In order to safeguard overall advantageous international risk spreading, the two companies participate in each other's respective business segments. Our business is thus also influenced by risks on the international reinsurance markets via these retrocessions.

Organisation of risk management

Annual risk inventory safeguards up-to-date status of the risk portfolio

Risk management within E+S Rück is centrally coordinated, but based on local responsibility in the various areas of business. Overall responsibility for risk management is determined according to the specific strategic business groups, within which the responsible board members define the operating objectives. The task of local risk controllers is to identify increased risks in the various business groups as quickly as possible and initiate counteraction without delay. To this end, we use a number of different quantifying methods that are tailored to individual risks and vary in their design and degree of reporting detail. 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 comprehensively and systematically. The up-to-date status of our risk portfolio, on the level of both individual risks and accumulation risks, is ensured by means of defined reporting procedures and an annual risk inventory. Our risk reporting consists primarily of standard and ad hoc reports that are created using a specially developed IT application and enable management to assess the overall situation with considerable accuracy. The core risk management elements are set out in guidelines which apply throughout the entire E+S Rück organisation. Acting independently of these clearly defined procedures, Internal Auditing verifies compliance with the stipulated processes in all functional areas of our company.

Our company's risk situation can be comprehensively described by the following risk categories:

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

Global risks

Global risks may arise, for example, as a result of changes in the legal framework (including changes in the general regulatory or tax situation) which are beyond a reinsurer's direct sphere of influence. They may also derive from social or demographic trends or ensue as a consequence of developments in the insurance industry or changes in environmental and climate factors. Such potential risks can scarcely be reduced and there are limits to the extent to which they can be avoided. Risk management measures must therefore be geared to identifying dangerous developments as early as possible in order to be able to react promptly. It is for this reason, for example, that we constantly monitor claims trends. Currently notable in this context are liability risks in the USA due to mould, asbestos-related risks – again primarily in the USA but recently in Europe, too – and the settlement trends in severe motor third party liability bodily injury claims in major European markets.

Claims trends are constantly monitored for early identification of dangerous developments

The various national economic environments, on the other hand, are monitored first and foremost on a local basis within our business groups, whose market intimacy and experience ensure that even "weak signals" can be promptly detected. One of the central problems facing the reinsurance industry is the growing number of natural disasters around the world and the associated potential for losses. Using detailed simulation models we therefore analyse the increase in the frequency of natural catastrophes caused by climate change and in the extent of the losses that they cause. On the basis of these analyses we are then in a position to determine the maximum exposure that we are prepared to accept and can calculate our own reinsurance requirements.

Detailed simulation models are used to analyse the potential for losses

Strategic risks

Strategic risks derive primarily from an imbalance between the defined corporate strategy and the constantly fluctuating framework conditions – an environment shaped, on the one hand, by our clients' requirements and, on the other, by the strategies of our competitors. Our overriding strategic objective is to generate dynamic growth as an optimally diversified and economically independent reinsurer of above-average profitability. E+S Rück's individual business groups thus pursue specific and inherently consistent detailed strategies that are derived from this strategic objective. Company-wide ratios and controlling processes have been defined to monitor achievement of the strategic targets from the operating standpoint. They are used to measure and control the contribution made by each business group to the company's overall performance.

In the year under review we further expanded our value-oriented controlling and management system. Through the progressive introduction of an IVC (intrinsic value creation) approach we are implementing a key ratio by means of which all company-wide management processes can be systematically geared to value creation. In this regard, IVC provides an objective ratio that motivates managerial staff to take value-oriented actions and prevents value-destroying management errors.

Specific mechanisms have been put in place to control underwriting risks

Technical operating risks

The underwriting risk lies primarily in the danger of accepting risks that surpass the available financial resources, but also in such cases where the premiums calculated in advance are insufficient to finance the resulting loss burdens. Possible reasons here may be inaccurate pricing assumptions or pricing models, unexpected claims developments, inadequate reserves, failure to appropriately tailor our own reinsurance, or default on the part of retrocessionaires. E+S Rück employs various mechanisms – both for the portfolio as a whole and geared to specific business groups – in order to control underwriting risks.

The loss reserves in property and casualty reinsurance are determined on an actuarial basis. The point of departure is always the information provided by ceding companies. The reserve is calculated on the basis of a breakdown by risk classes and regions for the property, liability, and motor lines of business and on an aggregate basis for the credit, aviation, and marine lines. The anticipated ultimate loss ratios are calculated using statistical run-off triangles and actuarial methods.

A fundamental instrument of risk limitation and results stabilisation is retrocession. Whereas premiums are always payable at the beginning of a contract, risks derive from the fact that long periods – sometimes decades – may elapse until losses are paid. It is therefore particularly important that retrocession partners not only have a high credit rating at the time when a contract

Retrocession is a tool used to limit risks and stabilise results comes into being, but are also still able to meet their obligations when loss payments are to be made. Our assessment of the credit status of our retrocessionaires is guided by the opinions of internationally recognised rating agencies and supported by our own balance sheet and market analyses. Our Security Committee classifies the reinsurers used by E+S Rück with binding effect for all placements.

A further key component of our risk management across business groups is the use of dynamic, scenario-based financial analysis. These analyses simulate the effects of hypothetical scenarios (e.g. loss events and capital market developments) on the assets, net income, and financial situation. The findings produced by our dynamic financial analysis enable us to prioritise risk-policy measures.

The reserves in life and health reinsurance are always based upon the information provided by our clients. The regulations of the local supervisory authorities ensure that the reserves calculated by ceding companies satisfy all local requirements with respect to the actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse probability etc.).

Investment operating risks

Our investment strategy is shaped by the duration of our commitments and our interest in generating an adequate return. Risks in the investment sector consist most notably of market, credit, and liquidity risks. The risks run by an internationally operating reinsurer also include, however, the exchange risk – which we limit by matching commitments in foreign currencies as far as possible with assets in the corresponding currencies. This strategy very largely offsets exchange gains and losses.

High level of IT security will be maintained

Asset liability management provides linkage between reinsurance and investment activities

Asset portfolios are based to a significant extent on insurance premiums that are set aside for future loss payments. Asset/liability management provides the linkage between reinsurance and investment activities. A strict separation of functions – i.e. keeping a distinction between trading, settlement and risk controlling – supported by defined reports and analyses is just one of the ways in which compliance with the investment guidelines adopted by the Executive Board is ensured.

Risks in the investment sector are countered using a broad range of efficient management and control mechanisms which are geared to the rules adopted by the Federal Financial Supervisory Authority (BAFin).

Operational risks

Operational risks include, inter alia, human error, inadequate controls, and organisational shortcomings. A major integral component of our safeguards and controls is the Internal Controlling System (ICS), which encompasses all harmonised and interlinked checks, activities, and rules. Internal Auditing regularly verifies that the ICS is working correctly in all functional areas of our company.

The dependence of the company's core processes on information technology is rising sharply – a trend which goes hand-in-hand with a commensurately growing IT-related risk potential. Ensuring high availability of our IT applications and protecting the integrity of mission-critical corporate data are tasks to which we attach fundamental economic importance. In the year under review we initiated an Information Security project in order to ensure that the existing high level of security is maintained in the future. This project investigates and, where necessary, supplements the already existing security measures at E+S Rück.

We also classify risks associated with human resources management under operational risks. Fierce competition for qualified specialists and managers is a hallmark of all the markets in which we operate. Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise, motivation, and dedication of our staff. With this in mind we maintain close contacts with, inter alia, a number of universities and set great store by personnel development and training measures.

Assessment of the risk situation

As an internationally active reinsurer we are confronted with numerous potential risks that could have a not inconsiderable impact on our net income, financial position, and assets. Nevertheless, on the basis of the information currently available to us, we do not perceive any risks that could jeopardise the continued existence of our company in the short or medium term or could impair the assets, financial position, or net income in a significant or sustained manner.

Human resources report

The objectives derived from our corporate strategy determine the requirements placed on the Human Resources sector and on its activities. We enhanced our existing personnel tools and subjected them to constant human resources controlling in order to ensure that they satisfy our exacting quality standards – since quality is the key to employee satisfaction and generates motivation.

We use a newly developed three-part executive training programme to promote the personal growth of our new managerial staff; after all, the ability to manage oneself is a precondition for the management of others. In addition to conveying basic know-how relating to the manager's role, this seminar focuses on guiding principles and the skills needed to realistically assess one's own situation. Further issues considered are how to behave in groups and lead teams as well as conflict management and the shaping of change processes. Executives are also able to draw on the support of an experienced coach of their own choosing.

The complexity of reinsurance business and the pressure of competition in the international markets necessitate a constant readiness to learn. We use state-of-the-art teaching methods to encourage and support our staff. Programmed and structured instruction and visual aids assist individual preparation for the subsequent workshops. Computer-aided learning techniques are currently undergoing a trial phase. They are intended to facilitate personal feedback on the acquired level of knowledge and should enable staff to develop their own study rhythm independently of other learners.

Personnel management tools are an important element of our holistic management strategy

Our management simulation game developed in 2000 is now a firmly established part of a complex, holistic system of learning. It provides an excellent learning environment for participants and tutors from our own ranks.

With the introduction of "Employee Self-Service" we took another decisive step in the year under review towards electronic human resources management. Our staff are now able to view online portions of their personal data record. This fosters trust and helps to quickly resolve possible discrepancies. In addition, we shall shortly make a broad range of management information available online to executives via the "Manager Desktop".

We recruit talents through university contacts and career fairs

We devote special energy to cultivating our existing contacts with institutions of higher education and attending the relevant university career fairs. The sharp increase in the number of highly qualified applicants bears out the positive response to these efforts. Trainees at our company pass through an 18-month programme for junior executives and get to know many sides of the organisation by spending periods of 6 to 12 weeks in various departments. We also offer students the chance to gain insights into different areas of the company through internships and we support diploma students writing on reinsurance-related topics with appropriate stipends.

In dual courses of study conducted in cooperation with the internationally oriented Berufsakademie Berlin and the Leibniz-Akademie Hannover we train students of business administration by providing on-the-job instruction.

As at the end of the year under review the number of staff had increased by 17 – or 8.6% – to 215 (198). At 58.6%, the proportion of female staff was on a par with previous years. Personnel expenses totalled EUR 15.9 million. Expenses for pensions and part-time working arrangements for older employees amounted to EUR 913,000.

We would like to thank our staff for their considerable dedication and loyalty in the 2002 financial year. Our gratitude also extends to the employee council and the senior management committee.

Outlook

Insurance industry anticipates growth impetus in Germany due to increased individual provision

The prevailing depressed phase of the German economy will be sustained at least in the first half of the current year, since a number of factors are hampering an appreciable acceleration of economic activity. Owing to the asset erosion caused by the collapse of equity prices in the year under review, the higher burden of social security charges and taxes as well as the unfavourable prospects on the job market, private households will expand their consumer spending only very modestly – if at all. A further factor is the upward revaluation of the euro in real terms, which will continue to slow exports well into 2003. The future trend remains unclear, since thus far exports – on which every fifth job in Germany depends – have compensated for the slack domestic demand. The leading economic research institutes have already factored this into their forecasts and trimmed the anticipated economic growth to well under 1%.

The insurance industry similarly expects weaker premium growth in 2003. In personal insurance lines growth impetus is anticipated in life and health business, in particular, as a consequence of the general trend towards greater individual provision. Against this backdrop, premium growth of around 3.5% is expected in life insurance and roughly 6% in health insurance. Property and casualty insurance in Germany will profit from heightened risk awareness among the population following the catastrophe loss events in the year under review. Owing to the reduced level of disposable income, however, premium growth of a mere 2% appears realistic. For the current year the insurance industry expects gross premium income to rise by around 3%.

In contrast to the muted prospects for insurers, we anticipate significant premium increases on the reinsurance side based on the experience of this year's renewal phase. We were able to obtain substantially improved prices and conditions in our important markets. In addition, the market contracted due to the withdrawal of capacity and downgrading of some competitors. In this environment E+S Rück asserted its position well and with its "AA" rating from Standard & Poor's was a sought-after provider in the 2003 renewal season.

Particularly in liability business, we were able to write treaties with significant rate increases. With an eye to the future development, a general tendency is emerging towards a far-reaching tightening of liability law on both the national and European level, and this could prove problematic for this line of business. It is our assumption that the loss ratio will stabilise on the previous year's level and that an adequate result can be generated in this line.

Our German motor third party liability portfolio is expected to deliver satisfactory results for 2003. We renewed treaties with further increases in the rate level and initiated new business relationships. The scope of cover changed with the 2003 renewals. Since 1 January 2003 the illimité covers – which used to be standard practice – were replaced by defined per-event insured limits of liability. The extent to which these changes will affect results remains to be seen.

Together with motor third party liability business, life, health, and personal accident reinsurance will be our highest-premium segment in the 2003 financial year. We shall further expand our position as the leading German reinsurer providing financing arrangements for unit-linked policies. We shall also step up our involvement – working together with our clients – in the development of innovative products for the German market. The focus here is first and foremost on products for the senior citizens' market.

We continue to take a thoroughly positive view of the development of our foreign portfolio for 2003. The renewal season concluded in January clearly showed that we were able to renegotiate most treaties with improved terms and conditions. We shall continue to concentrate on non-proportional business in property and casualty reinsurance and write treaties on an opportunistic basis guided strictly by profit considerations. In international life and health reinsurance we shall expand further our position as a "stochastic banker", offering clients individually tailored financing solutions – a role which we expect to generate a significant profit contribution as in previous years.

In the absence of favourable corporate news and the resulting impetus from the economy the tense situation on capital markets will continue. In view of the uncertain situation on the stock market we shall keep our equity allocation on a low level and further improve the quality of our fixed-income securities. We intend to reinvest primarily in securities with short to medium times to maturity. The investment result is difficult to forecast in the current climate. Given our portfolio structure, considerably greater importance would be attached to a yield increase than to a further decline on equity markets.

Life, health, and personal accident reinsurance as well as motor third party liability business the highest-premium segments in the current year

Provided our loss expenditure in 2003 remains in line with the multi-year average, we expect our underwriting result in the current financial year to increase appreciably – not least due to the improvement in conditions on the hard market. All in all, it is our assumption that in the current year, too, we shall achieve our profit targets.

Affiliated companies

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

Other information

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

Tax matters are largely handled on a central basis for the Group by HDI Haftpflichtverband der Deutschen Industrie V.a.G.

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

Capital, reserves, and technical provisions

The capital, reserves, and technical provisions constitute the total funds theoretically available to our company to cover actual and possible obligations. If the Annual General Meeting approves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows:

Figures in EUR million	*2002*	*2001*
Subscribed capital and reserves	420.3	120.3
Surplus debenture (Genussrechtskapital)	40.9	40.9
Equalisation reserve and similar provisions	296.6	270.1
Technical provisions	3 282.3	2 952.0
Total capital, reserves and technical provisions	4 040.1	3 383.3

The capital, reserves, and technical provisions amounted to 279.7% (311.7%) of net premiums; this includes the capital and reserves (including surplus debenture) at 31.9% (14.9%) of net premiums.

Proposal for the distribution of profits

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

	EUR
Distribution of a dividend on the participating paid-up subscribed capital until 14 December 2002 of EUR 20 336 113.37	19 068 493.15
Distribution of a dividend on the participating paid-up subscribed capital from 15 December 2002 of EUR 29 999 529.92	931 506.85
Disposable profit	20 000 000.00

ACCOUNTS
of E+S Rückversicherungs-AG

BALANCE SHEET
as at 31 December 2002

Assets Figures in EUR thousand	2002				2001
A. Subscribed capital unpaid				–	9 663
called up capital					
- (2001: –)					
B. Intangible assets					
Other intangible assets				–	217
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			44 361		46 658
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		206 114			330 365
2. Loans to affiliated companies		250 000			44 155
3. Participating interests		17 755			17 755
			473 869		392 275
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		565 006			552 124
2. Bearer debt securities and other fixed-income securities		1 542 355			1 323 704
3. Mortgages and loans secured on land and buildings		935			1 127
4. Other loans					
a) Registered debt securities	138 225				238 864
b) Debentures and loans	228 171				173 144
c) Sundry loans	67 090				57 090
		433 486			469 098
5. Deposits with banks		132 237			47 844
6. Other investments		5			5
			2 674 024		2 393 902
IV. Deposits with ceding companies			1 198 505		770 443
				4 390 759	3 603 278

Liabilities *Figures in EUR thousand*		*2002*		*2001*
A. Capital and reserves				
I. Subscribed capital				
as at 1.1.2002	30 000			
Allocation	12 622			
as at 31.12.2002		42 622		30 000
II. Capital reserve				
as at 1.1.2002	84 788			
Allocation	287 378			
as at 31.12.2002		372 166		84 788
III. Retained earnings				
1. Statutory reserve	256			256
2. Other retained earnings	5 237			5 237
		5 493		5 493
IV. Disposable profit		20 000		12 000
			440 281	132 281
B. Surplus debenture (Genussrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	234 542			196 630
2. Less: reinsurance ceded	34 411			39 629
		200 131		157 001
II. Life assurance provisio				
1. Gross	1 061 484			711 110
2. Less: reinsurance ceded	431 149			329 885
		630 335		381 225
III. Provisions for outstanding claims				
1. Gross	3 555 739			3 510 602
2. Less: reinsurance ceded	1 147 231			1 121 238
		2 408 508		2 389 364
IV. Provision for bonuses and rebates				
1. Gross	1 180			1 429
2. Less: reinsurance ceded	112			179
		1 068		1 250
V. Equalisation reserve and similar provisions		296 609		270 078
VI. Other technical provisions				
1. Gross	48 722			47 946
2. Less: reinsurance ceded	6 460			24 731
		42 262		23 215
			3 578 913	3 222 133

Assets *Figures in EUR thousand*			*2002*		*2001*
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			491 531		277 435
- from affiliated companies:					
325 546 (2001: 152 744)					
II. Other receivables			14 787		25 702
- from affiliated companies:				506 318	303 137
10 593 (2001: 16 350)					
E. Other assets					
I. Tangible assets and stocks			10		12
II. Current accounts with banks, cheques and cash in hand			12 293		7 176
				12 303	7 188
F. Prepayments and accrued income					
I. Accrued interest and rent			44 954		40 133
II. Other accrued income			1 121		1 612
				46 075	41 745
G. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)				4 948	4 936
				4 960 403	3 970 164

Liabilities *Figures in EUR thousand*		*2002*		*2001*
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		11 305		10 460
II. Provisions for taxation		37 476		17 892
III. Other provisions		14 351		13 652
			63 132	42 004
E. Deposits received from retrocessionaires			495 753	408 891
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations		315 184		89 332
- to affiliated companies:				
231 346 (2001: 44 257)				
II. Miscellaneous liabilities		24 022		31 716
- from taxes:			339 206	121 048
155 (2001: 136)				
- for social security:				
234 (2001: 214)				
- to affiliated companies:				
20 191 (2001: 27 719)				
G. Accruals and deferred income			2 215	2 904
			4 960 403	3 970 164

PROFIT AND LOSS ACCOUNT
for the 2002 financial year

Figures in EUR thousand	1.1.–31.12.2002			1.1.–31.12.2001
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2 483 052			1 904 511
b) Retrocession premiums	1 038 357			819 193
		1 444 695		1 085 318
c) Change in the gross provision for unearned premiums (+/-)	(56 031)			(45 828)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	(4 381)			1 821
		(60 412)		(44 007)
			1 384 283	1 041 311
2. Allocated investment return transferred from the non-technical account, net of retrocession			31 486	15 369
3. Other technical income, net of retrocession			1	4
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 259 140			899 902
bb) Retrocessionaires' share	497 677			295 245
		761 463		604 657
b) Change in provisions for outstanding claims				
aa) Gross	(155 786)			(651 061)
bb) Retrocessionaires' share	61 440			417 122
		(94 346)		(233 939)
			855 809	838 596
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(280 176)		(95 595)
b) Other net technical provisions		320		217
			(279 856)	(95 378)
6. Bonuses and rebates, net of retrocession			45	751
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		491 748		653 699
b) Less: commissions and profit commissions received on retrocession		233 883		384 461
			257 865	269 238
8. Other technical charges, net of retrocession			1 694	1 279
9. Subtotal			20 501	(148 558)
10. Change in the equalisation reserve and similar provisions			(26 531)	23 102
11. Net technical result			(6 030)	(125 456)

Figures in EUR thousand			*1.1.–31.12.2002*		*1.1.–31.12.2001*
Balance brought forward:				(6 030)	(125 456)
II. Non-technical account					
1. Investment income					
a) Income from participating interests		15 426			26 226
- affiliated companies:					
12 926 (2001: 16 000)					
b) Income from other investments					
- affiliated companies:					
41 064 (2001: 13 324)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4 322				4 084
bb) Income from other investments	163 414				125 608
		167 736			129 692
c) Appreciation on investments		4 442			1 078
d) Gains on the realisation of investments		53 719			102 118
			241 323		259 114
2. Investment charges					
a) Investment management charges, including interest		8 353			7 685
b) Depreciation		60 320			20 302
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
39 203 (2001: 10 896)					
c) Losses on the realisation of investments		3 116			7 862
			71 789		35 849
			169 534		223 265
3. Allocated investment return transferred to the technical account			(35 895)		(22 754)
				133 639	200 511
4. Other income			14 635		8 788
5. Other charges					
a) Special allocation to provisions for outstanding claims		53 964			35 631
b) Miscellaneous charges		41 455			20 390
			95 419		56 021
				(80 784)	(47 233)
6. Profit or loss on ordinary activities before tax				46 825	27 822
7. Taxes on profit and income		26 720			9 314
plus allocation for group assessment		–			1 806
			26 720		11 120
8. Other taxes		118			902
plus allocation for group assessment		(13)			3 800
			105		4 702
				26 825	15 822
9. Disposable profit				20 000	12 000

NOTES

Valuation of assets

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

Other intangible assets were valued at acquisition cost less scheduled depreciation in accordance with the average period of the underlying contracts. The existing intangible assets were depreciated for the last time in the 2002 financial year.

Property was valued at the purchase or construction cost less tax-allowable depreciation. An exceptional write-down was made on one property in the previous year.

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

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

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

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

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

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

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

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

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

Valuation of liabilities

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 26.1% 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%, and trade earnings tax.

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

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

In order to reduce currency risks as far as possible, 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 2002 financial year. Figures in EUR thousand	*Book values 31.12.2001*	*Additions*	*Disposals*	*Write-ups*	*Depre-ciation*	*Book values 31.12.2002*
B. Intangible assets						
Other intangible assets	217	–	–	–	217	–
C. I. Land and buildings, rights to land and buildings, leasehold	46 658	–	–	–	2 297	44 361
C. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	330 365	14 305	138 556	–	–	206 114
2. Loans to affiliated companies	44 155	250 000	44 155	–	–	250 000
3. Participating interests	17 755	–	–	–	–	17 755
4. Total C. II.	392 275	264 305	182 711	–	–	473 869
C. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	552 124	124 667	65 882	29	45 932	565 006
2. Bearer debt securities and other fixed-income securities	1 323 704	1 684 409	1 458 568	2 805	9 995	1 542 355
3. Mortgages and loans secured on land and buildings	1 127	–	192	–	–	935
4. Other loans						
a) Registered debt securities	238 864	596	102 247	1 012	–	138 225
b) Debentures and loans	173 144	97 500	43 009	536	–	228 171
c) Sundry loans	57 090	10 000	–	–	–	67 090
5. Deposits with banks	47 844	84 393	–	–	–	132 237
6. Other	5	–	–	–	–	5
7. Total C. III.	2 393 902	2 001 565	1 669 898	4 382	55 927	2 674 024
Sum total	2 833 052	2 265 870	1 852 609	4 382	58 441	3 192 254

Land and buildings and rights to land and buildings

As at 31 December 2002, the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 18,793 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,286 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

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

Name and registered office of the company Figures in currency units of 1 000	*Partticipation (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	58 799	EUR	1 265
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	EUR	152 649	EUR	8 221
holds 33.33% of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	578	EUR	(205)
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	173 220	AUD	14 220
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25.00	EUR	74 736	EUR	29 828

In the 2002 financial year we sold our share in Hannover Finance Inc., Wilmington/USA, to Hannover Rückversicherungs-AG.

Other notes on investments

Assets with a balance sheet value of EUR 268,739 (EUR 824,145) thousand have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Current values pursuant to § 54 RechVersV

The current values of land and buildings were largely determined using the gross rental method in 2001.

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

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

The current values of the sundry loans were determined on the basis of yield curves, taking into account the creditworthiness of the specific debtor and the currency of the loan.

Other investments were valued at nominal values and in individual cases at book value.

Current values pursuant to § 54 RechVersV of asset items C.I. to C.III. for the 2002 financial year Figures in EUR thousand	*Book values 31.12.2002*	*Current values 31.12.2002*	*Difference 31.12.2002*
C.I. Land and buildings, rights to land and buildings, leasehold	44 361	69 214	24 853
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	206 114	249 671	43 557
2. Loans to affiliated companies	250 000	250 000	–
3. Participating interests	17 755	17 797	42
4. Total C. II.	473 869	517 468	43 599
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	565 006	534 670	(30 336)
2. Bearer debt securities and other fixed-income securities	1 542 355	1 577 929	35 574
3. Mortgages and loans secured on land and buildings	935	935	–
4. Other loans			
a) Registered debt securities	138 225	147 398	9 173
b) Debentures and loans	228 171	245 800	17 629
c) Sundry loans	67 090	72 224	5 134
5. Deposits with banks	132 237	132 237	–
6. Other investments	5	5	–
7. Total C. III.	2 674 024	2 711 198	37 174
Sum total	3 192 254	3 297 880	105 626

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

Of the units in unit trusts totalling EUR 543,185 (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 430,874 (EUR 502,834) thousand was allocated to fixed assets. To this extent, depreciation of EUR 66,367 (EUR 14,772) thousand was omitted.

Of the bearer debt securities and other fixed-income securities, securities with a book value of EUR 17,131 (EUR 30,985) thousand were allocated to fixed assets. The omitted depreciation totalled EUR 6,878 (EUR 6,310) thousand.

Other receivables

Figures in EUR thousand	*2002*	*2001*
Receivables from affiliated companies	10 593	16 350
Receivables from the revenue authorities	3 487	2 101
Receivables from dividend entitlements	390	1 301
Interest and rent due	172	1 290
Receivables from banks	85	80
Receivables from investment deposits	43	4 573
Other receivables	17	7
Total	14 787	25 702

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 1,098 (EUR 1,604) 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 4,948 (EUR 4,936) thousand. Of this amount, EUR 2,434 (EUR 2,444) thousand was attributable to corporation tax and EUR 2,514 (EUR 2,492) thousand to trade tax.

Notes on liabilities

Subscribed capital

The subscribed capital was increased in the 2002 financial year by EUR 12,622 thousand to EUR 42,622 thousand. It consists of 75,783 no-par-value registered shares. The outstanding capital of EUR 9,663 thousand was called and fully paid up in the 2002 financial year.

Capital reserve

The capital reserve increased in the 2002 financial year by EUR 287,378 thousand to EUR 372,166 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 amount repayable is due on 2 November 2004. The interest is 7.75%.

Provision for unearned premiums

Insurance line *Figures in EUR thousand*	*2002* *gross*	*net*	*2001* *gross*	*net*
Fire	41 833	38 185	31 552	28 418
Liability	48 173	45 426	37 059	34 640
Personal accident	6 323	5 726	5 433	4 891
Motor	25 973	22 850	22 318	18 607
Aviation	32 184	28 677	26 761	25 389
Life	27 601	20 230	33 394	16 233
Other lines	52 455	39 037	40 113	28 823
Total	234 542	200 131	196 630	157 001

Life assurance provisions

Insurance line *Figures in EUR thousand*	*2002* *gross*	*net*	*2001* *gross*	*net*
Personal accident	422	422	421	410
Life	1 054 787	623 638	710 074	380 200
Other lines	6 275	6 275	615	615
Total	1 061 484	630 335	711 110	381 225

Provisions for outstanding claims

Insurance line Figures in EUR thousand	*2002 gross*	*2002 net*	*2001 gross*	*2001 net*
Provision for reimbursements and surrenders (except annuities)				
Fire	233 483	141 707	315 997	196 190
Liability	1 095 447	715 478	1 101 784	729 865
Personal accident	65 738	58 722	69 583	63 292
Motor	1 376 302	991 620	1 261 845	903 440
Aviation	226 648	113 937	221 519	90 655
Marine	115 946	91 989	126 665	99 082
Life	101 514	86 790	89 208	80 615
Other lines	308 634	183 989	288 697	197 408
	3 523 712	2 384 232	3 475 298	2 360 547
Provision for annuities				
Liability	1 529	1 466	1 865	1 829
Personal accident	895	861	2 028	1 477
Motor	29 603	21 949	31 411	25 511
	32 027	24 276	35 304	28 817
Total	3 555 739	2 408 508	3 510 602	2 389 364

Equalisation reserve and similar provisions

Insurance line Figures in EUR thousand	*Position at 1.1.2002*	*Addition*	*Withdrawal and release*	*Position at 31.12.2002*
Equalisation reserve				
Fire	7 007	23 364	–	30 371
Liability	46 994	36 793	–	83 787
Personal accident	550	11 877	–	12 427
Motor	102 181	2 890	64 547	40 524
Aviation	1 034	13 393	1 035	13 392
Marine	9 708	15 342	–	25 050
Other lines	92 375	6 272	17 646	81 001
	259 849	109 931	83 228	286 552
Provisions which are similar to the equalisation reserve – major risks –				
Liability	3 556	305	3	3 858
Other lines	6 673	–	474	6 199
Total	270 078	110 236	83 705	296 609

Other technical provisions

Type of provision *Figures in EUR thousand*	*2002* *gross*	*net*	*2001* *gross*	*net*
Profit commission	44 275	38 591	42 428	17 561
Commissions	3 029	3 012	3 830	4 667
Premium cancellation	1 418	659	1 676	980
Road traffic accident victim assistance	–	–	12	7
Total	48 722	42 262	47 946	23 215

Technical provisions – total

Insurance line *Figures in EUR thousand*	*2002* *gross*	*net*	*2001* *gross*	*net*
Fire	308 096	212 575	356 995	233 983
Liability	1 241 867	859 032	1 200 609	827 169
Personal accident	85 833	78 141	78 103	70 701
Motor	1 489 784	1 093 481	1 436 866	1 067 841
Aviation	273 885	156 015	250 646	96 520
Marine	141 691	117 701	137 008	109 404
Life	1 184 876	731 401	834 025	478 211
Other lines	472 244	330 567	443 543	338 304
Total	5 198 276	3 578 913	4 737 795	3 222 133

Provisions for other risks and charges

Figures in EUR thousand	*2002*	*2001*
Provisions for pensions and similar liabilities	11 305	10 460
Provisions for taxation	37 476	17 892
Sundry provisions		
Provisions for currency risks	7 459	7 813
Provisions for outstanding payments	2 883	2 714
Provisions for interest	2 346	1 527
Provisions for annual accounts costs	1 025	1 051
Provisions for litigation risks	354	363
Other provisions	284	184
	14 351	13 652
Total	63 132	42 004

Miscellaneous liabilities

Figures in EUR thousand	*2002*	*2001*
Accounts due to affiliated companies	20 191	27 719
Liabilities from interest on surplus debenture (Genussrechtskapital)	3 170	3 170
Liabilities from outstanding social security contributions	234	214
Liabilities in respect of the revenue authorities	155	136
Liabilities from leases	132	102
Liabilities from overpayments	99	325
Liabilities from land and buildings	7	23
Other liabilities	34	27
Total	24 022	31 716

Deferred items

Figures in EUR thousand	*2002*	*2001*
Disagio	2 128	2 753
Other accruals and deferred income	87	151
Total	2 215	2 904

Contingent liabilities

Liabilities for remaining calls existed with respect to special investments in the amount of EUR 78,163 (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

Figures in EUR thousand	*Gross written premiums*		*Gross premiums earned*		*Net premiums earned*		*Technical result for own account*	
	2002	*2001*	*2002*	*2001*	*2002*	*2001*	*2002*	*2001*
Fire	228 721	153 612	214 897	141 550	145 226	96 559	(6 046)	(66 141)
Liability	365 163	225 550	349 187	216 341	237 450	157 590	(7 840)	(15 639)
Personal accident	55 781	50 204	54 777	49 894	44 149	37 395	(2 399)	(661)
Motor	506 939	461 468	502 187	457 171	230 586	270 271	12 087	(35 616)
Aviation	136 150	102 721	126 266	87 151	81 246	29 323	12 350	(3 156)
Marine	86 294	72 744	86 294	72 744	71 031	61 219	(3 508)	(6 814)
Other lines	376 776	288 200	361 620	281 606	207 282	189 135	19 156	17 654
Total property and casualty insurance	1 755 824	1 354 499	1 695 228	1 306 457	1 016 970	841 492	23 800	(110 373)
Life	727 228	550 012	731 793	552 226	367 313	199 819	(29 830)	(15 083)
Total insurance business	2 483 052	1 904 511	2 427 021	1 858 683	1 384 283	1 041 311	(6 030)	(125 456)

Total insurance business

Figures in EUR thousand	*2002*	*2001*
Gross claims incurred	1 414 926	1 550 963
Gross operating expenses	491 748	653 699
Reinsurance balance	249 738	(279 456)

Expenses for personnel

Figures in EUR thousand	*2002*	*2001*
1. Wages and salaries	12 923	11 768
2. Social security payments and expenses for welfare	2 065	1 818
3. Expenses for old-age pension scheme	913	151
4. Total expenses	15 901	13 737

Expenses for investments

Figures in EUR thousand	*2002*	*2001*
Shares, units in unit trusts	46 046	9 287
Fixed-income securities	12 998	14 311
Administrative expenses	6 522	6 329
Land and buildings	3 567	4 581
Deposits	2 095	790
Deposit and bank fees	561	551
Total	71 789	35 849

Other income

Figures in EUR thousand	*2002*	*2001*
Exchange rate gains	7 371	4 262
Profit from services	5 624	2 733
Allocated investment return	668	380
Release of non-technical provisions	446	948
Cancellation of value adjustments	193	2
Other income	333	463
Total	14 635	8 788

Other expenses

Figures in EUR thousand	*2002*	*2001*
Special allocations to the provisions for outstanding claims	53 964	35 631
Deposit interest	11 254	6 936
Exchange rate losses	9 197	2 323
Separate value adjustment on accounts receivable	6 676	4 967
Expenses from services	5 703	2 810
Expenses for the whole company	5 033	5 212
Interest charges on surplus debenture (Genussrechtskapital)	3 170	3 170
Expenses for letters of credit	1 266	338
Depreciation on receivables	910	63
Allocation to interest provisions	819	99
Interest charges on old-age pension scheme	624	628
Interest charges on reinsurance operations	616	766
Financing interest	439	153
Expenses from allocation of administrative costs	–	132
Other interest and expenses	157	177
	99 828	63 405
Less: Technical interest	4 409	7 384
Total	95 419	56 021

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 4 to 7.

The total emoluments paid to the Supervisory Board in the year under review totalled EUR 140 thousand, those to the Advisory Board EUR 62 thousand, those to the Executive Board EUR 898 thousand and those to former members of the Executive Board EUR 332 thousand. The amount of EUR 4,040 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 1.1.2002*	*Addition Reclassification*	*Repayments*	*Positions as at 31.12.2002*	*Interest rate %*
Executive Board	25	–	25	–	5.5

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

The average number of employees was 205 in the financial year.

Hannover Rückversicherungs-AG, Hannover, transferred its majority interest to the newly established Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, effective 19 November 2002 (existing portfolio shares) and 20 January 2003 (shares from the capital increase). Hannover Rück Beteiligung Verwaltungs-GmbH informed us that it holds a majority interest (§ 16 (1) of the Stock Corporation Act (AktG)) in our company.

Hannover Rückversicherungs-AG includes the figures from our annual accounts 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, 8 April 2003

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, Hannover, for the business year from January 1 to December 31, 2002. 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, 9 April 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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

Report of the Supervisory Board
of E+SRückversicherungs-AG

We supervised the management of the company regularly during 2002 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at two meetings as well as on three occasions by way of written resolutions in accordance with § 12 section 4 of the Articles of Association. The Standing Committee also met on one occasion. Between the meetings we received quarterly written reports from the Executive Board on the course of business and the position of the company. In addition, the Chairman of the Supervisory Board was kept constantly informed by the Chairman of the Executive Board of major developments and impending decisions. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2002 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts.

As part of its deliberations on important individual projects in a difficult economic climate, the Supervisory Board examined at length the repercussions of the terrorist attacks of 11 September 2001 in the USA. It received regular reports on the development of losses and especially on the progress of the renewals in property and casualty reinsurance. Importance was also attached to considerations relating to the company's capital strength and the preparation of an Extraordinary General Meeting, at which a capital increase was approved and the subscribed capital was raised by roughly EUR 12.62 million to EUR 42.6 million. As part of the bundling of activities conducted by the Hannover Re Group in US program business the 20 percent share held by E+S Rück in Hannover Finance Inc. (HFI), Wilmington/USA, was sold to Hannover Re with the consent of the Supervisory Board. The Supervisory Board further considered on several occasions the restructuring of the company's group of shareholders.

The accounting, the annual financial statements and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. As a final outcome of the Supervisory Board's examination of the annual financial statements and the Executive Board's report, we concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

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

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

1. its factual details are correct,

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

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

The annual financial statements are thus approved and hereby duly adopted. We agree with the Executive Board's proposal for the distribution of the disposable profit for 2002.

On 19 April 2002, the date of the Annual General Meeting, Mr. R. Claus Bingemer and Dr. Manfred Mücke – as representatives of the shareholders – and Ms. Anita Suing Hoping – representing the employees – stepped down from this body. The Supervisory Board thanked them for their many years of constructive work and expressed its appreciation of their contribution to the development of the company. The Annual General Meeting elected Dr. Heiner Feldhaus and Mr. Herbert Haas as new members of the Supervisory Board. In the period until 31 January 2002, Mr. Haas had served for roughly eight years on the company's Executive Board. Ms. Frauke Heitmüller was elected to succeed Ms. Suing Hoping as an employees' representative on the Supervisory Board.

As of 1 January 2002 Dr. Elke König was appointed as a deputy member of the Executive Board.

Hannover, 10 April 2003

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

GLOSSARY

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

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

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

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

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

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

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

Claims 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.

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

Creditworthiness: cf. → credit status

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

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

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

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

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

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

Expense ratio: administrative expenses in relation to the net premiums written.

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

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

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

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

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.

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

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

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

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

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

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

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.

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

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

Photograph: Zippo, Hamburg

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