
Annual **REPORT**

2000

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KEY FIGURES
of E+S Rück

<i>Figures in EUR million</i>	2000	+ / (-) previous year	1999	1998
Gross written premiums	1 550.4	+21.9%	1 272.3	1 160.6
Net premiums earned	904.6	+24.4%	727.0	739.4
Technical result	(119.0)	(107.0%)	(57.5)	(47.1)
Allocation to the equalisation reserve and similar provisions	17.4	(10.8%)	19.5	42.4
Investment result	229.6	+43.4%	160.1	159.6
Profit or loss on ordinary activities before tax	27.8	+46.3%	19.0	11.2
Profit or loss for the financial year	1.6	(83.7%)	9.8	–
Investments	3 166.8	+3.0%	3 074.2	2 784.7
Capital and reserves incl. surplus debenture (Genussrechtskapital)	161.2	–	161.2	161.2
Equalisation reserve and similar provisions	293.2	+6.3%	275.8	256.3
Net technical provisions	2 543.1	+7.2%	2 372.1	2 187.9
Total capital, reserves and technical provisions	2 997.5	+6.7%	2 809.1	2 605.4
Number of employees	193	(14)	207	201
Retention	59.6%		56.9%	64.2%
Loss ratio*	78.4%		83.1%	77.2%
Expense ratio*	26.4%		25.1%	29.1%
Combined ratio*	104.8%		108.2%	106.3%

* excluding life and health reinsurance

Dear shareholders and clients,

I am pleased to be able to report that we entered the new millennium on a successful note.

Our 2000 financial year was marked by an auspicious occasion: the EXPO 2000 world exposition drew visitors to Hannover from far and wide, and we were pleased to welcome many business partners and future clients to our offices and our home city. The German insurance market also developed favourably, with a number of lines gradually recovering a stable footing. Our support and expertise were in particularly strong demand during this phase. We shall set out in detail our successful performance in the present annual report. We intend to distribute another record dividend to our shareholders.



In the year under review our gross premium income increased by 21.9% to EUR 1.6 billion. This growth can be summed up in one catchphrase: "Enhance our strengths – scale back our weaknesses". We enlarged our new strategic segments, most notably life and health reinsurance, whereas we deliberately refrained from further growth in the share of our total portfolio generated by property and casualty reinsurance due to the unsatisfactory state of the market. In this latter segment we continued to pursue our profit-orientated underwriting policy, while otherwise exercising restraint – especially in loss-making industrial fire business. The claims experience in 2000 benefited from the fact that the year was largely spared major loss events.

In addition to improving our portfolio and profitability, we devoted special attention in the financial year just-ended to enshrining quality management in our business processes. In 2000 we were the first reinsurer in the world to obtain the ISO norm 9001 for our quality management system. On the one hand, this quality stamp represents an important recognition of our quality standards; on the other hand, it also testifies to the fact that – thanks to our quality management – our corporate structures are optimally orientated towards our clients. The success of this process was also confirmed by an external customer survey conducted by the Gesellschaft für Konsumforschung (GfK), which similarly affirmed our clients' very favourable opinion of our company.

As your reinsurer exclusively serving the German market, we shall continue to pursue this course. We would like to use this year's annual report to bring fresh aspects of our company to your attention. In the light of the above remarks, a special focus this year will be on our quality management system.

As you will see, all our activities are guided by a single objective: our goal is to be the reinsurer with whom you most enjoy working.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "W. Zeller".

Wilhelm Zeller
Chairman of the Executive Board

Supervisory Board (Aufsichtsrat)

Wolf-Dieter Baumgartl,
Hannover, Chairman,
Chairman of the Executive Board of
HDI Haftpflichtverband der Deutschen Industrie
V.a.G.

Gerd Kettler,
Münster, Deputy Chairman,
Chairman of the Executive Board of
LVM Landwirtschaftlicher Versicherungsverein
Münster a.G.

Manfred Bieber,
Hannover*

R. Claus Bingemer,
Hannover,
Former Chairman of the Executive Boards of
Hannover Rückversicherungs-AG,
E+S Rückversicherungs-AG

Dr. Heinrich Dickmann,
Burgwedel,
Chairman of the Executive Board of
Vereinigte Haftpflichtversicherung V.a.G.

Ass. jur. Tilman Hess,
Hannover*

Rolf-Peter Hoenen,
Coburg,
Chairman of the Executive Boards of
HUK-Coburg Versicherungsgruppe

Dr. Ing. Manfred Mücke,
Hamburg,
Chairman of the Executive Boards of
KRAVAG-SACH VaG,
KRAVAG-LOGISTIC Versicherungs-AG,
Member of the Executive Board of
R+V Versicherung AG

Anita Suing-Hoping,
Godshorn*

**Staff representative*

Advisory Board (Beirat)

Dr. Edo Benedetti,
Trient,
President of the ITAS Istituto Trentino-Alto Adige
per Assicurazioni

Wolfgang Bitter,
Itzehoe,
Chairman of the Executive Board of
Itzehoer Versicherungsverein –
Brandgilde von 1691 VVaG

Dieter Holl,
Stuttgart,
Chairman of the Executive Board of
Württembergische Gemeinde-Versicherung a.G.

Ernst Köller,
Hannover,
General Director and Chairman of the Executive
Board of CONCORDIA Versicherungs-Gesellschaft a.G.

Dr. Erwin Möller,
Hannover,
Member of the Executive Board of HDI Haftpflicht-
verband der Deutschen Industrie V.a.G.

Adolf Morsbach,
Wedemark,
Former Chairman of the Executive Board of HDI
Haftpflichtverband der Deutschen Industrie V.a.G.

Executive Board (Vorstand)

Wilhelm Zeller,
Burgwedel, Chairman

Udo Schubach,
Hannover, Deputy Chairman
(until 31 December 2000)

Dr. Wolf Becke,
Hannover

Jürgen Gräber,
Ronnenberg

Herbert K. Haas,
Burgwedel

Dr. Andreas-Peter Hecker,
Hannover

Dr. Detlef Steiner,
Hannover

Dr. Michael Pickel,
Gehrden, Deputy Member



Dr. Detlef Steiner

International Property
and Casualty Reinsurance,
Program Business

Herbert K. Haas

Finance and Accounting,
Capital Markets, Credit
and Surety worldwide,
Information Technology

Dr. Michael Pickel

Property and Casualty
Reinsurance in Germany,
Claims Service,
Legal Department



Wilhelm Zeller

Corporate Staff Functions (Planning/Controlling, Investor Relations, Public Relations, Internal Auditing), Underwriting Service and Controlling, Corporate Development, Human Resources

Dr. Wolf Becke

Life and Health Reinsurance worldwide

Dr. Andreas-Peter Hecker

Non-Life Reinsurance of the HDI Group, General Administration

Jürgen Gräber

International Property and Casualty Reinsurance, Financial Reinsurance

E+S Rück: Past and present

E+S Rück can look back on a history spanning more than 75 years. Our shareholders have predominantly consisted of renowned German mutual insurance societies since 1966. For decades

our business success has thus been founded on our orientation towards the German market.

Within the Hannover Re Group, we assumed the role of exclusive reinsurer for the German market with effect from 1 January 1997. We thereby further intensified our focus on the German insurance industry.

<i>Capital, reserves and technical provisions</i>	
<i>Figures in EUR million</i>	
	2000
■ Subscribed capital and reserves	120.3
■ Surplus debenture (Genusssrechtskapital)	40.9
■ Equalisation reserve and similar provisions	293.2
■ Technical provisions	2 543.1
■ Total capital, reserves and technical provisions	2 997.5

Our total capital, reserves and technical provisions have grown consistently: as at year-end 2000 they amounted to roughly EUR 3.0 billion. The US rating agencies Standard & Poor's and A.M. Best reflected this financial strength in the award of their second-highest ratings of AA+ ("Very Strong") and A+ ("Superior") respectively.

E+S Rück – The quality reinsurer for Germany

The general climate for reinsurance business has changed significantly in recent years. The German market has been transformed from a rather closed, regulated environment to an arena where corporate mergers and acquisitions are more common. It is therefore becoming increasingly important to consider at least a pan-European perspective. Property insurance continues to be dominated by motor business, and here the need for consulting services is particularly intense in the light of the strained results. Internet marketing and the possibility of outsourcing other areas of a company's traditional value-added chain are steadily growing in importance.

Five years ago, by declaring that "the German insurance market is our sole field of operations", we redefined our strategy and correspondingly aligned all areas of our company with a view to ensuring that we offer our clients the greatest possible benefit. Partnership, joint product innovation and knowledge transfer became vital watchwords. It is here that our quality management process has been particularly helpful.

This is something which we would now like to explain to you, our clients, in greater detail:

Why quality management?

Cost-cutting, time management, productivity, re-organisation and quality are buzzwords which have long been part and parcel of management consultants' vocabulary. Unfortunately, however, the perspective that is adopted is geared to a company's internal needs. The most important questions are overlooked: "How does this help

our clients? How can we harmonise their aspirations with our objectives?" This is precisely where quality management comes into play. It provides all members of staff with guiding principles and serves as an important – if not the most important – management tool for the company across all hierarchical levels.

By means of our quality management system, we have geared ourselves to customer value with no ifs or buts. In concrete terms, this means that through service improvements or shortened processing times we can at the same time optimise our workflows. Optimised processes enable us to offer our clients added value. To put it another way, we are unceasingly enhancing the quality of our products and services for our clients and thereby setting ourselves apart from our competitors.

Given the current state of the market, which can be described in terms of excess capacity on the reinsurance side and constant change in the insurance sector, quality management is particularly important. We are firmly convinced that our clients prefer a reinsurer that provides its business partners with the highest quality of service on a sustained basis. Offering the cheapest price, on the other hand, is a factor which tends to be of lesser significance.



Karsten Faber, Andreas Kelb

Is there such a thing as quality management for reinsurers?

Last year our German market sector was successfully certified in accordance with DIN ISO 9001: 2000 by the Deutsche Gesellschaft zur Zertifizierung von Managementsystemen (DQS). We are thus the first reinsurer in the world to receive from an independent, specially accredited institute a quality stamp which is synonymous with reliability and trustworthiness of the highest level. We are proud of this achievement, since we regard it as confirmation and recognition of our untiring drive for quality.

At this juncture we shall take the liberty of pointing out the fundamental differences between the quality management system of an industrial enterprise and that of a reinsurer. For manufacturing businesses, certification in accordance with DIN EN ISO 9000 et seq. is today a major competitive factor. For this reason, it is frequently the case that every effort is geared purely to the certification process, which entails a not inconsiderable burden of formal activities (such as documentation).

For us, as a reinsurer, the situation is different. We have implemented a holistic quality approach. This system is more extensive than in many other businesses and it places the focus on market activities. Such a certification is therefore more readily comparable with the ranking of hotels by stars or the tests carried out by the German consumer association "Stiftung Warentest". Customers have an enormous interest in such advance checks, which safeguard reliability and quality. The certificate documents and guarantees that the standards described are based upon a system, which secures the quality level on a permanent basis while at the same time subjecting it to constant optimisation.

Clear benefits for our clients

In order to live up to our understanding of quality, we have defined specific, client-orientated quality standards, service undertakings and quality guarantees. We regularly review compliance as well as their relevance by way of client surveys. A number of examples may serve to illustrate this:

- Our client relationships are orientated towards long-term partnership. This is expressly defined and distinguishes us from some of our competitors. We aspire to be a reliable partner who does not leave clients "out in the cold" during difficult times.
- Our customer care is guided by each client's needs. Personal contacts ensure active, always

up-to-date service and consulting. To this end, we offer our clients a broad range of traditional and non-traditional products and solutions.

- Clients need prompt quotations. We guarantee a response within three days. All enquiries and offers are handled quickly and in an uncomplicated fashion. And in those cases where we are unable to fulfil a client's wishes without certain reservations, we suggest alternatives rather than merely declining acceptance.
- Our quality management system clearly requires us to build partnerships with our clients. Building on the work of our underwriters, we have therefore initiated a series of events (Hannover Forum, Round Table) which enjoy considerable popularity among our clients.



Norbert Jungclaus, Christine Scholz, Cornelia Göhring, Dietrich Gersky

It is crucial that all our principles are backed by concretely quantifiable quality targets. The aforementioned examples clearly demonstrate that quality management offers substantial benefits for our clients, since it simplifies the proper determination of the most appropriate reinsurance protection, minimises time spent on procurement and handling and to a very large extent avoids tiresome error correction. Our standards and the quality consciousness of all our staff have been very well received by our clients – as was emphatically borne out by the most recently conducted customer survey.

How is quality management implemented at E+S Rück?

Our quality management system is being implemented in stages. The process was initiated in 1997, and our certification in 2000 marks a major milestone. We must build upon what has been accomplished to date. For in order to retain

the quality stamp, it is not enough to maintain our high standard – we must continually improve on it. In audits conducted at regular intervals, we must demonstrate that our methods of working are in strict compliance with our ambitious, cus-

customer-orientated quality standards. We are confident that in this way the traditional provider/client relationship will evolve into a true partnership, the quality of which will be borne out

especially in difficult times such as those the markets are currently experiencing.

"Quality is what really counts"

In order to ensure that quality management is not only anchored in our inner consciousness but also communicated externally, we launched

a new advertising campaign under the slogan "Quality is what really counts".



Our positioning as a quality leader in the German reinsurance market was the overriding communication goal in designing the current advertising campaign, which has been running in the major trade media since January 2001. We are seeking to convey the following message to potential and existing clients alike: while many competitors put forward abstract criteria such as a company's size, age or tradition to suggest expertise, the only factor which always counts is the real, verifiable benefit that these characteristics give rise to in day-to-day business. For in the final analysis, it is only quality from which clients profit.

similar objects, only one of which offers convincing quality whereas the other two are characterised merely by their size or age.

This advertising campaign is an effective tool for communicating the strengths of E+S Rück and positively capturing our claim to be a quality leader. By optimally addressing our clientele we thereby create the ideal basis for further successful business activities. After all, nobody would wish to deny that "Quality is what really counts".

This is the point of departure for our advertising campaign. A striking correlation between copy and visual motif ensures that the message is conveyed quickly and crisply. The headline "Quality is what really counts" is supported by images which add semantic depth to the message. In each case, the beholder is presented with three

What can E+S Rück offer its clients?

E+S Rück is committed just as much to partnership-based knowledge transfer as it is to culture.

Specialist events

Specialist events on (re)insurance and management issues form an important component of our range of services. For many years E+S Rück has organised a wide variety of events for its cli-

Hannover Forum

The Hannover Forum has been held at E+S Rück's premises since 1990. It deals with current topics in property and casualty insurance and offers our clients an opportunity to discuss insurance industry issues with recognised experts from both academic and practical backgrounds.



Sven Mertens, Stefan Runge, Wilfried Haugwitz, Michaela Bruer

Last year, for the first time in the history of the Hannover Forum, we offered three independent topics in this series of seminars. The selection of topics was guided by the motto of EXPO 2000 – "Humankind – Nature – Technology".

This section is intended to provide you with a brief review of events held in 2000.

ents. We view the growing number of participants as confirmation that we are satisfying an important need among our clients.

Speaking on the EXPO topic of "Nature" on 29 June 2000, for example, expert meteorologist Jörg Kachelmann – familiar from German television's ARD channel – discussed the question "Should we anticipate a once-in-a-century hurricane every ten years?" The talk was prompted by the devastating storms Anatol and Lothar in December 1999, which caused severe damage in Schleswig-Holstein and Baden-Württemberg. Even though the speaker was reluctant to make a final determination, it became clear that even in these latitudes we must expect an intensification in extreme weather phenomena. Every indication would therefore point to increasing demand for windstorm covers.

On 21 September 2000, under the EXPO topic "Technology", we organised a trip with technology-enthused cedants to the town of Lathen in Emsland. It was here that we sought an answer to the question "TRANSRAPID – transportation of the future or a vision which cannot be financed?" As recent sales successes demonstrate, we can echo the conclusions put forward by our speaker Diplom-Soziologe Detlef J. Schubsky, of MVP Versuchs- und Planungsgesellschaft für Magnetbahnsysteme – namely, there can be no doubt that the Transrapid is a promising means of transportation. The construction and operation of this state-of-the-art means of transport will trigger complex underwriting issues and necessitate considerable underwriting capacities in both the property and liability sectors.

Finally, we devoted special attention to the EXPO theme of "Humankind" under the heading "Demographic change and personal injury protection – a future challenge for personal accident insurers". Prof. Dr. Christoph Josten of Leipzig University Hospital explained how, thanks to an expert touch and great technical skill, even an elderly and multimorbid accident patient has good prospects of a complete recovery.

Building on this paper in his own product-related presentation, Dr. med. Nicola-Alexander Sittaro, the head of our life and health service department, concluded that personal accident insurance offers sensible financial protection against the consequences of an accident, even for older people. In this context, he made special reference to the product developments of E+S Rück aimed particularly at this group of people.

Seminars in life and health reinsurance

Similarly inspired by the guiding motif of EXPO 2000, Humankind-Nature-Technology, the seminar event in the life and health reinsurance division was held under the motto "The future of the German life insurance industry in the 21st century". German, British and French speakers, invited from both academic and practical backgrounds, reported on alternative organisational forms in the insurance industry as well as on Internet strategies and current trends at home and abroad. The focus continued to be on the structural transformation of the insurance industry as well as the implications for future product development.

In the insurance industry too, the growing importance of the Internet and e-business is leading to greater market and product transparency. By means of portals, software agents or similar tools, a potential customer can very quickly and comprehensively obtain comparisons of competitors – at least for standard products –, request individually tailored offers and make price comparisons. Overall, the existing "asymmetry of information" is shifting in favour of the customer; the previous seller's market is evolving into a buyer's market.



Christiane Wilken, Uwe Naasner, Annette Kerlin, Martin Wethkamp

This increases the pressure on companies to have a clear strategic positioning.

One possible success strategy will consist of a considerably greater customer orientation. Insurers who develop intelligent, bespoke solutions will achieve substantially high customer affinity than providers of rigid, inflexible "ready-to-wear" products.

As competition intensifies, the pressure on prices and costs will also increase. Favourable prospects are therefore predicted for those companies which have the ability to set themselves apart from their rivals through the rapid development and market launch of innovative products, thereby pre-empting direct price comparisons.

A further strategy open to a company may be to restrict its commercial activities to a narrow sector, which it considers to be the focus of its true core competence. Thus, for example, a company may concentrate on writing insurance risks while the other business fields – e.g. marketing, distribution or even policy administration – are outsourced, without the policyholder's

knowledge, to companies which have specialised in these functions. The optimal selection and structuring of these external services thereby generates clear cost and efficiency benefits.

The range of seminars on life and health reinsurance was rounded off by an event aimed at specific target clients in the service sector of life and health underwriting. In the course of a one-day event, discussions focused on the latest medical and technological developments that will have a lasting impact on insurance medicine and underwriting.

In his presentation entitled "Mortality changes in a period of demographic transformation", Prof. Peter Martin of the German Centre for Ageing Research at the University of Heidelberg considered the determinants of longevity – an issue which is especially crucial to the biometric bases of annuity insurance.

Round tables

In addition to specialist events, we have instituted the so-called "round tables" as a regular feature. These offer our clients a platform to discuss with colleagues from other companies issues which

Round table: Personal accident insurance

In February of last year we played host to 20 experts in the field of personal accident insurance. The wide-ranging list of topics included the modification of compensation scales relative to the sum insured, disability riders for children and personal accident insurance policies with a

Round table: Agricultural liability insurance

With a total number of 28 participants, this event enjoyed a record attendance. This was just one indication that the agricultural sector, too, has not been spared the increasing level of claims-mindedness and the extension of liability standards. Amongst other things, the discussions con-

Prof. Holger Höhn of the Institute of Human Genetics, University of Würzburg, read a paper entitled "The current status and future development of genetic research and genetic engineering". Due to its media impact, this set of issues is already firmly anchored in the public consciousness and must also be tackled by the insurance industry.

Last but not least, speakers from the area of life and health underwriting debated the extent to which automatic risk assessment systems will affect underwriting in the future. The discussion touched on both general aspects of computer-aided selection and underwriting, and specific details of the expert system solutions offered by E+S Rück.

the participants themselves define on the basis of their daily working practice. Depending upon the chosen topic, we provide specialists from E+S Rück to assist with problem solving.

premium refund. The "health pitfall of recreational sports", an issue which will continue to demand close scrutiny given the increasing leisure time available to our society, was also the subject of intense discussion.

sidered at length the effects of the European Commission's white paper on environmental impact liability. It is no wonder then that, along with other issues, the topic of "risk management in agriculture" attracted considerable attention.

Round table: Liability claims

Our event focusing on "Liability claims and the psyche" was well received. The growing importance of psychological injuries following liability claims, which is increasingly reflected in higher court decisions, prompted us to assemble a group of experts to investigate the causes and effects of this phenomenon.

Dr. Dr. Erwin Wehking, Senior Consultant at the Neurological Department of the Klinik am Rosengarten, Bad Oeynhausen, first presented a medical angle on the problem with his discussion of "Psychological disorders following liability claims – fact and fiction". The following speaker, Hermann Lemcke, President of the Sixth Civil Division of Hamm Upper Regional Court, then concentrated specifically on the subject "Whiplash injuries and resulting psychological distress as seen from the perspective of supreme court precedents".

The "Special features of settling bodily injury claims with psychological accident consequences" were outlined by Jürgen Brollowski, a lawyer and head of the motor third-party-liability claims department of Itzehoer Versicherung/Brandgilde von 1691. Using two cases from practice by way of illustration, he explained the economic burden to which insurers are exposed: it is becoming increasingly common that claims for damages are asserted on the basis of consequential psychological injuries. To make matters more difficult, such claims are not infrequently substantially exaggerated through simulation.

Reinsurance courses

We give our clients the opportunity to have their junior management staff trained at our company in courses which are specially tailored to reinsurance issues. On one or more occasions each year, we invite groups of at most ten persons to attend our courses in order to acquire a

Finally, Andreas Kelb, Section Manager at E+S Rück, summed up the insurance industry's perspective and noted in his paper entitled "Bodily injury claims and their economic significance – a challenge for insurers and reinsurers" that the increase in expenditure on major bodily injury claims has been well above average for many years. In this context he stressed the importance of exploiting every potential avenue – especially as regards cost-intensive factors relating to the accident victim's psyche – in order to stem this type of cost inflation.



Winfried Kalkmann, Simone Kaulich, Angela Sprinkmann, Hans-Jörg Wild

basic knowledge of reinsurance or enhance their existing know-how. In total, we were pleased to welcome 21 participants to such courses held at our offices last year.

Cultural events

Each year we organise a special cultural event for friends of our company: our examination concert.

Back in autumn 1997, we were considering a project that would support talented young musicians while also providing enjoyment for our clients.

Together with the Hannover University of Music and Drama, we quickly decided to jointly organise the so-called "examination concerts". Since the first concert was held in the summer of 1998, we have made it possible each year for three or four master students of this school to embark on their career as soloists. At the same time, we are able to offer our clients a musical highlight as part of the "Hannover Forum" seminar.

For the master students, the concert examination marks the culmination of their "solo classes". Understandably, opportunities for them to perform with a large orchestra are few and far between, and without the support of E+S Rück students would therefore face long waits before they could graduate.

The co-operation between the two institutions ultimately produced a wonderful symbiosis. In the baroque atmosphere of the Gallery of the Royal Gardens in Hannover-Herrenhausen, clients of E+S Rück are treated to a very special musical event.



Wolfgang Mergard, Volker Döring

E+S RÜCK: *The reinsurer for Germany*





Economic climate

In the first half-year 2000, the world's leading industrialised nations recorded strong economic growth. As the year progressed, however, the economic cycle in many countries began to lose impetus and the increase in production fell away sharply. Rising oil prices were a notable restraining factor in this regard. Of the major industrial nations, the USA showed the strongest economic growth (at around 5%) and Japan – despite promising indications in the first half-year – the weakest (at 1.5%). The weak euro and surging US demand led to an export boom in the euro zone, where overall economic production rose by approximately 3.3% – the highest increase since 1989.

The German economy recorded growth of 3.1% in 2000. This figure was double the average of the previous decade and the highest since the exceptional 1991 boom associated with German reunification. The German economy was driven primarily by the weak euro and a further sharp rise in export demand compared to the previous year. The failing impetus of global economic activity and a tightening of monetary policy caused the German economy, too, to slow from the summer onwards. The sharp rise in energy costs additionally hampered growth in the fourth quarter.

The labour market improved in 2000. This was due not only to the brighter state of the economy, but also to increased employment of part-time workers as a consequence of the amendment of laws governing jobs paying up to DM 630 per month. Private consumption, on the other hand, rose only slightly after the summer. The increase in the cost of living and the associated drain on purchasing power due to higher oil prices were particularly evident here.

Capital markets were again largely dominated by stock market movements in the year under review. As part of a trend originating in the USA, stocks in the technology, media and telecommunications (TMT) sector were particularly bullish in the first quarter of the year. In Germany the Nemax new market index climbed to successive record highs. From March onwards, however, a

near-dramatic downslide set in, especially among TMT stocks, and by the end of the year the Nemax had given back 70% of its peak high. The Euro Stoxx 50 and the Dax also closed down on the year, although on a considerably more modest scale. The movement of the euro was initially disappointing, as it steadily diminished in value against other major benchmark currencies through into the fourth quarter of the year. Only towards the end of the year under review could indications of a recovery be discerned. For the bond markets and in particular government bonds with longer-range maturities, however, 2000 gave grounds for satisfaction. While the yield on 10-year government bonds had stood at 5.5% at the beginning of the year, by year-end it had decreased to just 4.85%.

The German insurance market experienced a period of upheaval in the year under review, and there were clear signs of increasing momentum in its reorientation. Mergers and acquisitions, the marked interest shown by banks in insurers' distribution networks and the cultivation of new, more cost-effective sales channels such as the Internet clearly demonstrated that the German insurance industry has also been swept up by the tide of globalisation. Some providers believed that size was the key to their business opportunities, while others saw their chances in independence or in a targeted niche policy. At the same time, customers are becoming more sophisticated: the demand is increasing for products tailored to their individual needs at an optimum price.

Following years of massive premium erosion accompanied by rising claims expenditure in German property and casualty insurance, it was possible in the year under review to secure initial premium increases in some lines of business. Nevertheless, at 1.2% overall premium growth was modest. It was therefore all the more gratifying that the deterioration in the claims experience was also halted and the loss ratio of around 86% even showed a slight improvement (previous year: 87%). Positive indications of a recovery on the insurance market derived most notably from motor insurance, where it was possible to implement premium increases for the first time

in years. However, in industrial property insurance, which continued to be the scene of fierce cut-throat competition, the situation remained strained. Summing up then, despite encouraging tendencies in some lines of business it is still too early to assume that the year under review marked a fundamental reversal of the situation.

The assessment of developments in the German life insurance market remains favourable. The year just-ended was clearly overshadowed by the previous year, which had experienced extraordinary demand and generated record results owing to the debate about the taxation of life insurance policies. New business was therefore substantially down on the previous year. Nevertheless, it was striking that the level was still on a par with 1998. The clear winner in the life insurance segment in the year under review was unit-linked life insurance, which posted strong growth surpassing even that of the previous year.

The reinsurance market also underwent a structural transformation in the year under review. The corporate mergers of recent years reduced the number of reinsurance clients and the size of the remaining clients grew, sometimes markedly so. This frequently gave rise to significantly changed reinsurance requirements. Whereas smaller and medium-sized insurance companies generally placed the emphasis on a reinsurer's traditional functions such as risk-spreading (both over time and in geographical terms) and capital replacement, multinational groups purchased more capacity to limit their exposures to natural hazards and extraordinary individual losses in industrial business. Demand also rose for products intended to provide targeted protection for significant balance sheet or earnings ratios. In the year under review this situation compelled reinsurers to show a great degree of flexibility and offer new products geared to a holistic understanding of a company's risk situation.

The improvements in the technical results of German property and casualty reinsurance – especially compared to the previous negative year – point to a recovery. Yet they are by no

means sufficient to justify talk of a satisfactory situation. Unfortunately, the windstorm losses of the previous year, caused by the hurricanes "Anatol" and "Lothar" in December 1999, were not reflected in the treaty negotiations at the beginning of the year due to their late occurrence date. Favourable effects in this regard therefore only made themselves felt as the year progressed. Nevertheless, improvements were recorded, for example in motor business, the largest line of property and casualty reinsurance. The downward slide of the previous years was halted in this area. The heavily reinsured segment of German industrial fire business remained under pressure.

The performance of German life reinsurance business was exceptionally favourable. Although the reinsurance industry too was impacted by the after-effects of the extraordinary 1999 financial year, the sustained high demand for life insurance products offered further good potential. Reinsurers equipped with solid experience in this line and able to support new trends, e.g. in the area of unit-linked life insurance, benefited disproportionately strongly from these opportunities.

In terms of the burden of major losses, the year under review was a good one for the insurance and reinsurance markets. The claims expenditure deriving from major losses was significantly lower than in previous years.

Business development

E+S Rück has borne exclusive responsibility for the Hannover Re Group's German business since 1 January 1997. We are thus the only specialist reinsurer of this type in the German market. For its part, Hannover Re – together with its subsidiaries – writes the Group's international business. In order to safeguard continued advantageous international risk spreading, the two companies participate in each other's respective business segments. Our technical account thus continues to be influenced by developments in the international reinsurance markets via these retrocessions from Hannover Re.

Our gross premium income climbed by a highly gratifying 21.9% compared to the previous year to reach a total of EUR 1.6 billion. Growth derived primarily from the expansion of life and health reinsurance, which increased substantially both in absolute figures (+EUR 203.9 million) and in terms of its share of our overall portfolio – now standing at 31.0% (previous year: 21.8%). Although the year under review recorded a decrease in new business following the exceptional surge of 1999, the continuing uncertainty surrounding the development of state systems of old-age provision, the sustained strong demand for unit-linked insurance policies as well as retrocessions from Group companies were powerful "drivers of growth".

In German property and casualty reinsurance, however, the situation remained strained in the financial year just-ended. Particularly in fire and liability insurance, premiums were still inadequate and conditions unattractive. Nevertheless, in some lines, such as motor insurance, there were also signs of improvement in the state of the market. Our internal standard of writing business solely in strict compliance with profitability requirements thus enabled us to enlarge the premium volume in absolute terms, but caused the proportion of property and casualty reinsurance in our total portfolio to decrease to 69.0% (previous year: 78.2%). With the retention remaining virtually unchanged, net premiums grew by 24.4% to altogether EUR 904.6 million.

The loss expenditure was also higher than in the previous year. Nevertheless, primarily due to the reduced burden of major losses in the year under review, this increase of 13.4% to a total of EUR 649.3 million was proportionately lower than the growth in premium income. The loss ratio excluding life reinsurance therefore dropped from 83.1% to 78.4%. The highly pleasing new business generated in life reinsurance in the year under review and the associated pre-financing volume led to an increase in commission expenditures, thus producing a significant overall rise in operating expenses. This was also the main reason for the deterioration in the net technical result before changes in the equalisation reserve to -EUR 119.0 million (previous year: -EUR 57.5 million).

The total allocation to the equalisation reserve of EUR 17.4 million was almost on a par with the previous year. This produced a net technical result of -EUR 136.4 million (previous year: -EUR 77.0 million).

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

By exploiting the highly favourable state of the capital markets at the beginning of the year under review as well as through distributions from affiliated companies, we succeeded in boosting the investment result by 43.4% to EUR 229.6 million. Since we made use of the particularly upbeat mood of the capital markets at the beginning of the year for profit-taking, the hidden reserves in our securities portfolio decreased to EUR 282.8 million (previous year: EUR 339.8 million).

Our tax burden was again influenced by a special effect in the 2000 financial year. Due to the amendment of corporate tax law, which took effect on 1 January 2001, it made sense to distribute retained earnings with corporate tax credits to our shareholders. Consequently, the probable tax relief of subsequent financial years

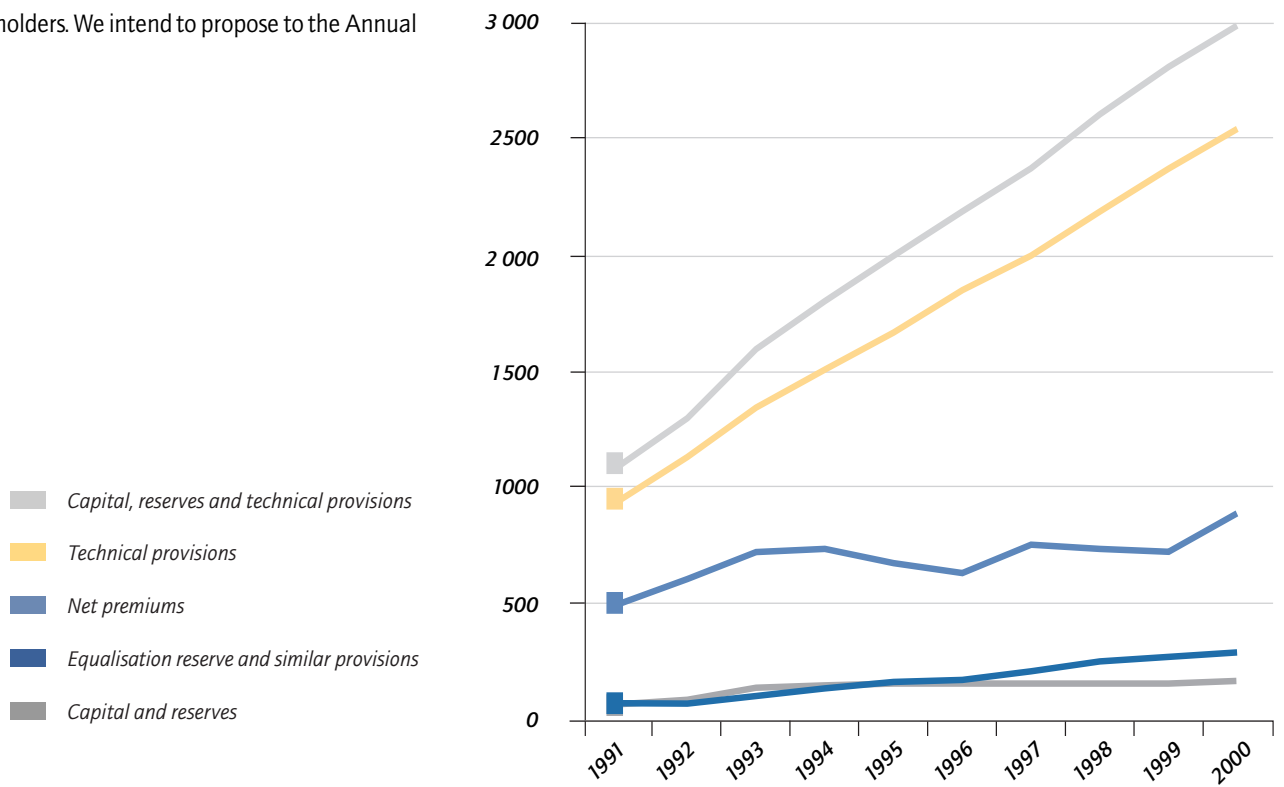
capitalised in the last financial year was to a very large extent written back as a charge to tax expenses. The after-tax profit for the financial year was therefore reduced to EUR 1.6 million (previous year: EUR 9.8 million).

Taking into account the withdrawals from retained earnings, the disposable profit totalled EUR 33.3 million (previous year: EUR: 9.8 million). This amount is to be distributed in full to our shareholders. We intend to propose to the Annual

General Meeting of the company that the withdrawal from retained earnings be clawed back by way of a corresponding increase in the capital stock ("pay-out-take-back" method).

Growth in capital, reserves, technical provisions (including the envisaged capital increase) and in net premiums

in EUR million



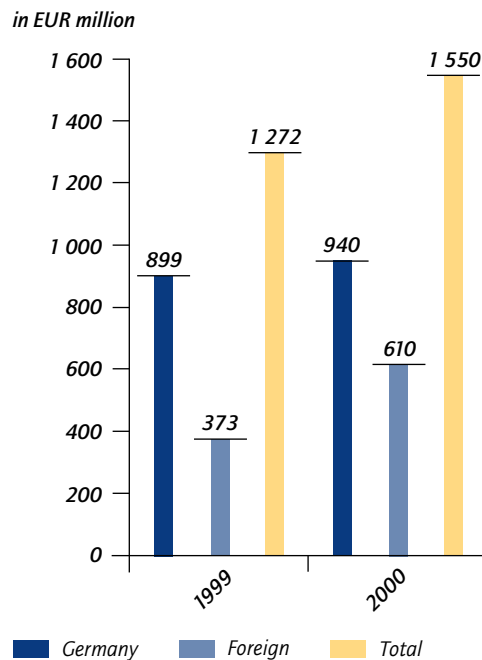
Premium growth

Gross premium income increased by 21.9% to EUR 1.6 billion in the year under review. This growth derived from the expansion of German business and especially from a significant increase in the proportion of foreign business accepted from Hannover Re.

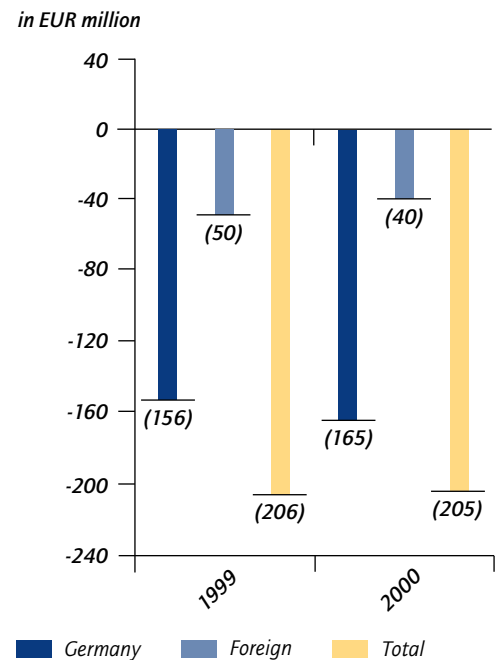
The technical result* was determined principally by the development of our German portfolio. Due to the vigorous growth of our domestic life business and the associated pre-financing expend-

iture, which under German accounting regulations must be booked as expenses in full in the first year, the technical result deteriorated. Considerable importance attaches to our retrocessions, which enable us to carry these pre-financing strains. In conjunction with Hannover Re, we transferred these investment-orientated expenditures to the capital markets by way of securitisations. The performance of foreign business, by contrast, improved.

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



Development of gross technical results* – Breakdown into German and foreign business



* Technical result before internal administrative expenses, allocated investment return and the change in the equalisation reserve. The results also do not include the allocation to the IBNR reserve of the financial year (the figures for previous years were adjusted accordingly in the liability and motor lines of business)

Development of the individual lines of business in Germany

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

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

Fire

As in previous years, the situation on the German fire insurance market was heavily influenced by the continuing poor state of industrial fire insurance. Premium income in this sub-segment declined again, despite the premium erosion in the preceding years. Compared with some of the sharp falls in the years 1995-1999, the decrease in the year under review was relatively modest. Nevertheless, the market-wide premium volume for the industrial fire and fire loss of profits lines was in the order of just EUR 1 billion. The tendency continued towards Extended Coverage and All Risk concepts, under which risks not previously covered in industrial fire business are included in the coverage of a single policy, frequently without sufficient premium adjustments.

On the other hand, with major claims and extraordinary natural catastrophe events largely absent in the year under review, the claims experience in industrial fire business was satisfactory. At around 85%, the loss ratio for the 2000 financial year was average for the German fire insurance industry. Overall, though, a market loss of roughly EUR 0.4 billion must be anticipated.

Generally speaking, the prices which could be achieved in industrial fire business for the insurance industry as a whole fell far short of the level necessary to pay commensurate remuneration for the desired risk capacity as well as the additional services which are expected. Although initial indications of rehabilitation could be discerned in the course of the year under review, this line as a whole continued to generate heavy losses.

The German fire reinsurance market similarly suffered in 2000 under inadequate prices and the ongoing trend towards extended coverage, especially in industrial fire insurance. In response

to these developments, reinsurers sought to convert proportional acceptances to a non-proportional basis. What is more, there was a growing trend towards cutting commissions under proportional covers and including loss-reducing clauses in treaties. As a further counter-move, the facultative reinsurance capacity offered on a proportional basis was again reduced. With a view to identifying possibilities for fundamental improvement in the poor state of the market in fire business, co-operation between insurers and reinsurers intensified – including, for example, the calculation of models for bringing about structural improvements in the portfolio of fire business.

By contrast, the performance of the other sub-segments of fire insurance, agricultural fire and other fire business, was again satisfactory. Premium income was sustained on the level of the previous year. A slight increase in overall losses was observed in the agricultural sector only.

Our business results were similarly influenced by the market conditions described above. In response to the strain on this line of business, we scaled back our acceptances in unprofitable areas, thus resulting in a marked premium decline of more than 30% compared to the previous year. The absence of extraordinary losses, however, caused our loss ratio to improve appreciably. It was therefore gratifying to note that we again generated a slight technical profit in the financial year just-ended.

Fire

<i>in EUR million</i>	2000	1999
Gross premiums	30.6	46.6
Loss ratio (%)	65.3	71.4
Technical result (gross)	0.9	(1.9)

Liability

In the year under review the primary insurance market again recorded growth in general third party liability business, although at roughly one percent the increase was only modest. Overall,

premium income in German liability insurance climbed to around EUR 6 billion. With claims expenditure virtually unchanged at around EUR 5 billion and a loss ratio of approximately 83%, the liability sector thus continued to be a problematic line of business.

Liability

in EUR million	2000	1999
Gross premiums	105.6	110.7
Loss ratio (%)	55.0	57.4
Technical result (gross)	23.4	24.0

Claims were particularly concentrated in extended product liability insurance, professional liability insurance for architects and consulting engineers and product recall insurance. While the former two sub-segments have been recognised as critical for a number of years, the deterioration in product recall insurance was especially marked in the year under review. A large portion of the claims under this type of coverage derived from so-called micro-electronic components, such as computer chips. Such items are now very widely used in a broad spectrum of products. Faulty or even defective components can thus cause substantial compensation amounts if they have to be removed or the affected products recalled. Nevertheless, the decisive factor in the unsatisfactory performance of this sub-segment was not the risks in themselves, but rather the current impossibility of securing premium rates in the market that are commensurate to the risk.

Personal accident

With total premium income increasing by around 2% to roughly EUR 5.3 billion, the rate of expansion in personal accident insurance was slightly lower than in the previous year. Nevertheless, this line still showed above-average growth relative to other types of German property and casualty insurance. In particular, highly gratifying rates of increase were recorded by the sub-segments of personal accident insurance with a

The financial year just-ended also witnessed a strong surge in demand for directors' and officers' liability covers for supervisory board and executive board officers and managing directors. With various companies getting into headline-grabbing difficulties, this so-called D&O insurance attracted increasing public attention. Substantial price losses in the wake of mergers and initial public offerings have heightened investor awareness, causing them to stay on the lookout for the responsible parties as well as for opportunities to obtain compensation.

All in all, the year under review once again clearly demonstrated that adequate risk assessment and rating form the central task in liability insurance. This is true not only with an eye to current trends in the development of various types of claims, but also with regard to future risk segments. Examples here include the as yet incalculable potential for losses associated with latent claims issues, such as the effects of electromagnetic fields or so-called cyberspace liability. These uncertainties have strengthened our resolve to adhere to our cautious approach, especially in industrial liability insurance.

The continued compliance with our restrained underwriting policy caused our gross premium income to contract by roughly 5% in the year under review. In this way, we also succeeded in improving our loss ratio slightly, thus enabling us to record a technical result almost on a par with the previous year.

premium refund and personal accident annuities. With market saturation still standing at scarcely 45%, however, the potential for personal accident insurance in Germany is still far from exhausted. With claims expenditure market-wide unchanged from the previous year, the premium growth led to a marginal reduction in the loss ratio for the first time in several years.

At the end of 1998 the German Insurance Association (Gesamtverband der Deutschen Versicherungswirtschaft = GdV) recommended revised "Terms and Conditions for Personal Accident Insurance" which were well received by German accident insurers. The vast majority of insurers who belong to the GdV have now implemented these recommendations. Nevertheless, it remains the case that competition in personal accident insurance is channelled through product policy rather than prices or conditions. We have recognised this trend and, working in co-operation with our cedents, we have developed products tailored to various customer needs and these have already been placed on the market. In the financial year just-ended our focus was on the design and enhancement of coverage concepts customised to meet the needs of the senior citizens' age group. We also continued to provide

our services relating to the development of a children's disability rider, and amongst other services we offer our clients a software solution designed specially for underwriting this product.

Our overall premium income in this line of business in the year under review was on a par with the previous year. Given an improved loss ratio but also higher expenses, the technical result was virtually unchanged compared to the 1999 financial year.

Personal accident

<i>in EUR million</i>	<i>2000</i>	<i>1999</i>
Gross premiums	33.3	32.9
Loss ratio (%)	56.5	61.8
Technical result (gross)	0.4	0.5

Motor

German motor insurance generated premium income of roughly EUR 20 billion in the financial year just-ended, thus growing by around 3% compared to the previous year. It was striking to note that this increase was the first since 1995 and at the same time marked a return to the important premium threshold of EUR 20 billion. In the year under review almost all German insurers implemented tariff increases for their new business, which also had correspondingly favourable effects on their portfolio. What is more, there was a softening in the aggressive price war combined with the granting of frequently arbitrary discounts, which in recent years had led to a sharp fall in prices.

The situation on the claims front also developed favourably. The estimated loss ratio of approximately 101% showed a pleasing improvement on the previous year's loss ratio of 104.7%. This was attributable, on the one hand, to a decrease in the number of claims to roughly 9.2 million (previous year: 9.3 million) in the year under review. On the other hand, the measures taken by the insurance industry to minimise losses and establish a system of active claims management began to bear their first fruit. Despite these posi-

tive tendencies in the German insurance market, which of course also impacted the reinsurance sector, the improvements in conditions cannot yet be considered sufficient to assume the onset of a fundamental recovery. Although it would appear that the lowest point in the at times dramatic premium erosion of recent years has been reached, the increases on the income side do not yet facilitate adequate risk pricing. The activities which have been initiated to restore motor business to profitability must therefore be systematically pursued.

The general market developments described above are also reflected in the most important sub-segments of motor insurance. The premium volume in motor third party liability insurance grew slightly to approximately EUR 12.6 billion (previous year: EUR 12.2 billion). Considerably more pleasing, however, was the improvement on the claims side. This was true both of the number of claims and the claims expenditure, as a consequence of which the loss ratio in this sub-segment improved to roughly 109% (previous year: 116%) – a figure which nevertheless certainly cannot be considered satisfactory.

The premium volume for fully comprehensive insurance rose to approximately EUR 5.8 billion (previous year: EUR 5.6 billion), the first increase in a number of years. However, since the premium

per risk decreased, this increase was lower than the growth in the portfolio. With a slightly higher loss ratio of around 96% (previous year: 94.9%), the overall result therefore deteriorated. In third party, fire and theft business, on the other hand, the declining premium trend of the previous years continued. With no

let-up in the trend towards fully comprehensive insurance third party, fire and theft premiums contracted to approximately EUR 1.7 billion in the year under review (previous year: EUR 1.8 billion). Claims expenditure remained virtually unchanged, and the loss ratio therefore deteriorated to around 75% (previous year: 72.3%).

Fleet business had been the subject of sometimes intense competition among a number of market players in recent financial years, but in the year under review it developed favourably. The strains of the competitive pressure which had prevailed in the past few years prompted in some cases far-reaching portfolio rehabilitation measures in the primary sector and caused some reinsurers to limit their willingness to accept business.

Marine

In the financial year just-ended, German marine business continued to be affected by overcapacity and the resulting fierce competitive pressure in both the insurance and reinsurance markets. Particularly in the second half of the year, efforts to initiate market consolidation could clearly be discerned among insurers, yet it was scarcely possible to implement premium increases. At around EUR 1.6 billion, market-wide premium income in the year under review thus remained approximately on the level of the previous year. The claims situation, too, was virtually unchanged. As had been the case in the previous year, a sustained high frequency of small and medium-sized losses, in particular, was recorded. This gave

It should, however, be noted that the results indicated to date for the calendar year always consist of a mixture of the results from the current financial year and the run-off results of previous years. For the 2000 year alone – in other words without taking into account the run-off results of earlier occurrence years – German motor business is expected to show a market-wide deficit of around EUR 1.9 billion, i.e. roughly 10% of the premium for the financial year. Although this loss will thus be around EUR 0.3 billion lower than in the previous year, the figure clearly reinforces the fact that while the state of motor business improved in the financial year just-ended, it would be too soon to speak of a fundamental recovery. By looking solely at the results of the risks currently reinsured in the year under review (occurrence-year perspective), the true quality of the result is revealed.

The market-wide increase in premium income was also reflected in our portfolio. Recording growth of roughly 3%, we increased our gross premium income compared to the previous year. With a loss ratio on a par with the previous year and a marked reduction in technical expenses – first and foremost due to lower commission expenditure – we achieved a pleasing overall improvement in our result.

rise to a loss ratio of roughly 76% (previous year: 74.3%), which again placed a further strain on results in the year under review.

The situation on the insurance market similarly impacted the reinsurance sector. Here, however, the first tendencies towards hardening could already be discerned in response to the poor state of the market. On the one hand, proportional covers could only be renewed with difficulty. On the other hand, reinsurers were able in some areas to secure restrictions on the scope of cover. Non-proportional treaties accordingly saw rate increases, with the scope of cover remaining largely unchanged.

Motor

<i>in EUR million</i>	2000	1999
Gross premiums	417.5	406.3
Loss ratio (%)	85.1	84.8
Technical result (gross)	19.6	6.3

Our underwriting policy reflects these developments. In order to divorce ourselves as far as possible from the negative trends prevailing in the insurance markets, we increasingly prefer to write non-proportional treaties. Such arrangements now account for more than two-thirds of our treaty portfolio. In facultative reinsurance our acceptances were concentrated on offshore business as well as selected risks in the hull and cargo lines.

With the market continuing to be under great strain, our selective underwriting policy caused

Life

For the German life insurance industry the year under review was characterised by a substantial decline in new business. This was attributable to the exceptional status of the 1999 financial year, when the debate surrounding the taxation of life insurance policies generated a considerable boom in demand. In growth terms, 1999 went down as the most successful year in the history of the German life insurance industry; for the year under review, a marked decline in new business could therefore be foreseen.

Contrary to the previous year, the discussions concerning reform of the pension system and the unclear terms of reference provoked considerable uncertainty in the year under review among potential policyholders and hence led to a rather cautious mood. It was therefore all the more pleasing that new business in the year under review – with roughly 7.3 million policies on which the first premium was paid – matched the high level of 1998 and thus proved very favourable. Premiums from new policies with regular premium payments totalled roughly EUR 5.7 billion.

The main losers in the decline in production were endowment and annuity policies, which failed to generate even half the new business of 1999. Compared to "classical" life and annuity products, on the other hand, unit-linked life insurance was again the winner in the year under review. With roughly 1.2 million new policies it even surpassed the high level of new business recorded

our premium income to contract significantly in the financial year just-ended. The reduction in the technical deficit was not, however, due to an easing on the claims side, but rather derived primarily from the scaling back of our business volume and our reduced technical expenses.

Marine

<i>in EUR million</i>	2000	1999
Gross premiums written	11.2	20.2
Loss ratio (%)	108.9	106.4
Technical result (gross)	(3.5)	(6.3)

in the previous year. The annual premium from new unit-linked policies, which were taken up with regular premium payments, remained on a par with the previous year at around EUR 1.3 billion. The market share enjoyed by unit-linked life insurance thus almost doubled and is now in the order of 27%. Its significance in terms of new business is therefore now comparable with that of endowment or annuity insurance.

Life

<i>in EUR million</i>	2000	1999
Gross premiums	246.7	160.6
Technical result (gross)	(219.2)	(137.3)

The Pension Reform Act also led to a marked worsening in the statutory protection afforded to younger employees in the event of disability. This gave rise to strong growth impetus for private disability and strict "any occupation" disability, as a consequence of which the year under review posted a repeat of the previous year's good result.

Under these conditions we increased our gross premium income by more than 50% to EUR 246.7 million in the year under review; E+S Rück now ranks among the most significant life reinsurers in the German market. The highly gratifying growth in our gross premium income derived, on the one hand, from our focus on the promising segment of unit-linked life insurance, where we participate in the rapid growth of our clients through bespoke reinsurance solutions for the financing of new business. On the other

hand, the increase in our gross premiums is influenced by a follow-on effect associated with the booking of premiums for new business from 1999. In the latter case, since premiums were only booked pro rata temporis, we were unable to show the full premium volume until the year under review. Given the fact that very many policies commenced in December 1999, this effect is extraordinarily large.

The increased demand from our clients for the pre-financing of their new business is of course directly reflected in accounting losses in our profit and loss account. This is because the full amount of the reinsurance financing provided must be written off, under German accounting requirements, in the first year. This circumstance, combined with our considerable new business, again caused us to show a marked technical deficit in the year under review. It should be remembered, however, that this negative result must

be regarded as investment-orientated expenditure which will be amortised by corresponding, earnings-enhancing returns in the coming years. Since we retroceded sizeable portions of this investment-related pre-financing expenditure, the net technical deficit was reduced to EUR 85 million. The "allocated investment return" item in our profit and loss account is also of great significance in life business. Of the total amount of EUR 13.4 million shown, by far the largest share was attributable to our German life business – a fact which further puts into perspective the negative technical result.

The portfolio of life insurance reinsured (total portfolio, including foreign business) developed as follows (foreign currency amounts have been converted at the exchange rates applicable as at 31 December 2000):

<i>Life reinsurance portfolio (in EUR million)</i>	2000	1999
Total business reinsured		
■ Sum insured	42 445.2	30 096.6
■ Of which retroceded	13 696.0	8 437.7
Endowment insurance		
■ Sum insured	40 991.9	29 173.3
■ Of which retroceded	12 667.6	7 748.9
Annuity and pension insurance		
■ 12 times annual annuity	1 453.3	923.3
■ Of which retroceded	1 028.4	688.8

Other lines

The following lines of business are shown combined under other lines: health, legal expenses, 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, engineering and other loss of profits, other pure financial losses and fidelity.

Generating EUR 27 million in premiums, credit and surety business remained one of our largest sources of premium income among the other lines. A striking trend in credit insurance in the financial year just-ended was the continuing internationalisation of individual insurers. This tendency can also be clearly observed among our German clients, whose increased international activities caused the proportion of foreign business in their portfolios to rise sharply. Whereas in the last financial year we were able to report on the gratifying effects of the measures taken to restore the German credit insurance market to profitability, this trend was unfortunately not sustained in the year under review and German credit insurers suffered under renewed competitive pressure. The claims situation also developed unfavourably. Due to further high insolvency figures and in particular one major retail insolvency at the close of the year under review, the market-wide loss ratio deteriorated to more than 60% (previous year: approximately 55%). 2000 was also not an easy year for German surety insurance. This line continued to feel the negative effects of the crisis in the German construction industry. The market-wide premium growth was consequently attributable exclusively to the outstanding export boom. The aforementioned developments similarly impacted our portfolio, and in credit and surety business we therefore generated a roughly balanced technical result in the year under review.

Windstorm business in the 2000 financial year was primarily influenced by the after-effects of the previous year's winter storms "Anatol" and "Lothar". Since they occurred so late in the year, the two events initially failed to have a positive effect on the negotiation of terms and conditions during the 2000 treaty renewals. As the year under review progressed, however, the windstorm market showed a slight improvement – premium increases and improvements in conditions, albeit for the most part on a modest scale, could again be implemented. There was also a general increase in demand for windstorm reinsurance. The high loss burden of 1999 had clearly demonstrated the necessity of realistic risk assessments and coverage structures. Overall, it is our assumption that the German windstorm market reached its lowest point in the latest negative trend in 1999. Nevertheless, the premium increases of the year under review were by no means sufficient, and the pressure for improvements in premiums and conditions must therefore be sustained in the current financial year. Our premium volume in windstorm business totalled around EUR 7 million in the year under review. Due to the very heavy losses of the previous year and an improvement in the loss ratio, we again showed a technical profit in the year under review.

In overall terms, our gross premium income generated for the other lines of business in the year under review was lower than in the previous year. Significant major loss events were largely absent, thereby exerting a clearly positive influence on the loss ratio. Following the technical deficit of the previous year, we were thus highly satisfied to generate a substantially improved technical profit in the year under review.

Other lines

in EUR million	2000	1999
Gross premiums	84.1	108.3
Loss ratio (%)	56.2	75.4
Technical result (gross)	12.5	(10.1)

Results of our foreign business

As a member of the Hannover Re Group, we are affected by developments on the international (re)insurance markets via internal retrocessions as part of risk-spreading within the Group. For this reason, our most important foreign markets in international business and their most prominent events are described below.

Key segments of the insurance and reinsurance industry in Europe showed signs of recovery in the financial year just-ended. The market in the United Kingdom, for example, hardened appreciably as the year progressed. Motor business, in particular, saw substantial rate increases in the second half of the year, and these also had positive repercussions on the reinsurance side. Our business volume accordingly grew appreciably in this segment in the course of the year under review. Fortunately, the catastrophic flooding at the end of the 2000 financial year had little effect on reinsurers. Although the flood losses were the largest in 40 years, insurers carried them for the most part in their retentions.

The French insurance industry was primarily overshadowed by the repercussions of hurricanes "Lothar" and "Martin" at year-end 1999. Although these events came too late to exert a favourable influence on the treaty renewals, they led to some marked premium increases for insurers and reinsurers in the course of the year in many lines of property and casualty insurance. On the reinsurance side capacity shortages resulting from the withdrawal of a number of market players made possible further premium increases; our premium income from the French market thus grew accordingly and we profited from the improved conditions.

In the North American market property business, in particular, continued to show a favourable trend. While in previous years profitable business could be written primarily in the area of natural catastrophe covers, from the second half of 2000 onwards it was possible to obtain further premium increases. Although our portfolio has benefited for years from the generally more profitable, non-

proportional treaties, proportional covers also became more attractive in some areas as the year under review progressed. One general focus of our North American business continued to be the reinsurance of major losses triggered by natural catastrophe events. In this respect, the year under review proved highly gratifying with a relatively low burden of losses. Our liability business also recorded disproportionately strong growth in the financial year just-ended. In this sector we made the most of the opportunities which presented themselves in selected business segments and, even allowing for a cautious IBNR policy, we generated good results.

Our business in Asia developed satisfactorily overall in the year under review, although severe flood damage in Thailand and Malaysia caused losses in the property sector. The Japanese insurance market was dominated by the development of terms and conditions for the (re)insurance of catastrophe risks. The share of our portfolio attributable to proportional treaties was reduced appreciably in favour of more profitable, non-proportional coverage concepts, thus causing our premium volume from Japan to contract slightly. Due to the random non-occurrence of major losses, however, our results from Japanese business were highly pleasing overall.

Summing up, the international block of our portfolio generated a negative technical result. Nevertheless, taking into account the investment income that is to be allocated to this business, the resulting profit contributions were clearly favourable.

Investments

The performance of the world financial markets in the year under review was dominated by developments in the USA. Notwithstanding a few minor exceptions, Europe and specifically Germany were unable to divorce themselves from this trend. Stock markets experienced a year of two very different halves: through into March 2000 the continuing escalation of the boom in TMT (technology, media and telecommunications) stocks pushed the major indices to record levels which could not be repeated as the year progressed. In Germany the Nemax posted an all-time high of 9,603.46 points on 10 March 2000. Particularly among new technology stocks, this was followed by the onset of a sometimes dramatic collapse in prices. Compared to its high for the year, the Nemax had lost 70% of its value by year-end. The Euro Stoxx 50 and the Dax also closed the year around 5% lower.

Even as late as the summer it was still scarcely possible to foresee the impending far-reaching slump in stock prices. The continued weakness of the euro in the third and fourth quarters and the lengthening shadow cast over the US economy further adversely affected developments. Energy costs – most notably of crude oil, which forms the basis for virtually all sectors of the global economy – rose very sharply in some cases, a factor which additionally depressed prices.

To some extent we were able to divorce ourselves from these negative developments. We made use of the favourable general mood of the stock markets in the early months of the year to systematically regroup our portfolio and thereby realise price gains. We also selectively expanded our equities portfolio as the year progressed. The increase in our holdings was concentrated principally on Stoxx 50 shares as well as other major stocks on the leading European indices.

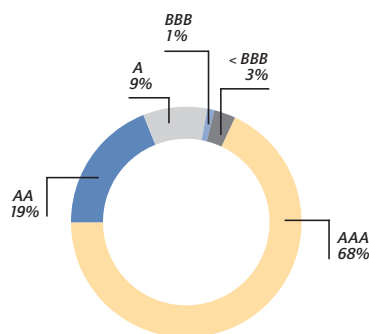
As in the previous year, the euro was initially characterised by an unchecked slide, which pushed it to successive record lows against its most important partner currencies. This trend was halted in the fourth quarter, when fears of an impending

US recession and slight signs of recovery in the European Economic Area enabled the euro to regain some ground.

Bond markets also took their lead from the USA. The increases in interest rates at the short end of the market implemented by the US Federal Reserve and the European Central Bank in the early months of the year gave way to a cautious approach among central banks in the second half of the year. Developments in the longer maturity range were, however, positive. While the yield on 10-year government bonds stood at 5.5% at the beginning of the year, it reached its lowest point of 4.85% in December. We responded to these developments and slightly extended the maturity of our bond portfolio, inter alia through forward purchases, which were called at year-end.

Despite sometimes highly contradictory tendencies on the capital markets, we again succeeded in the year under review in generating a good investment result of EUR 229.6 million (EUR 160.1 million). The increase of 43.4% was due in part to considerably higher income from affiliated companies and interests, while we also made the most of the buoyant mood of the stock markets at the beginning of the year to realise price gains. The profits on the disposal of investments totalling EUR 73.6 million were thus for the most part achieved in the first quarter of the year under review. The extraordinary investment result – in other words, the balance from realised gains and losses on the disposal of investments as well as write-ups and depreciation – consequently doubled to approximately EUR 60.4 million in total. The average net return on the investment portfolio, which we manage ourselves, i.e. excluding deposits retained by ceding companies, thus rose to 8.6% (previous year: 6.2%).

Rating of fixed-income securities

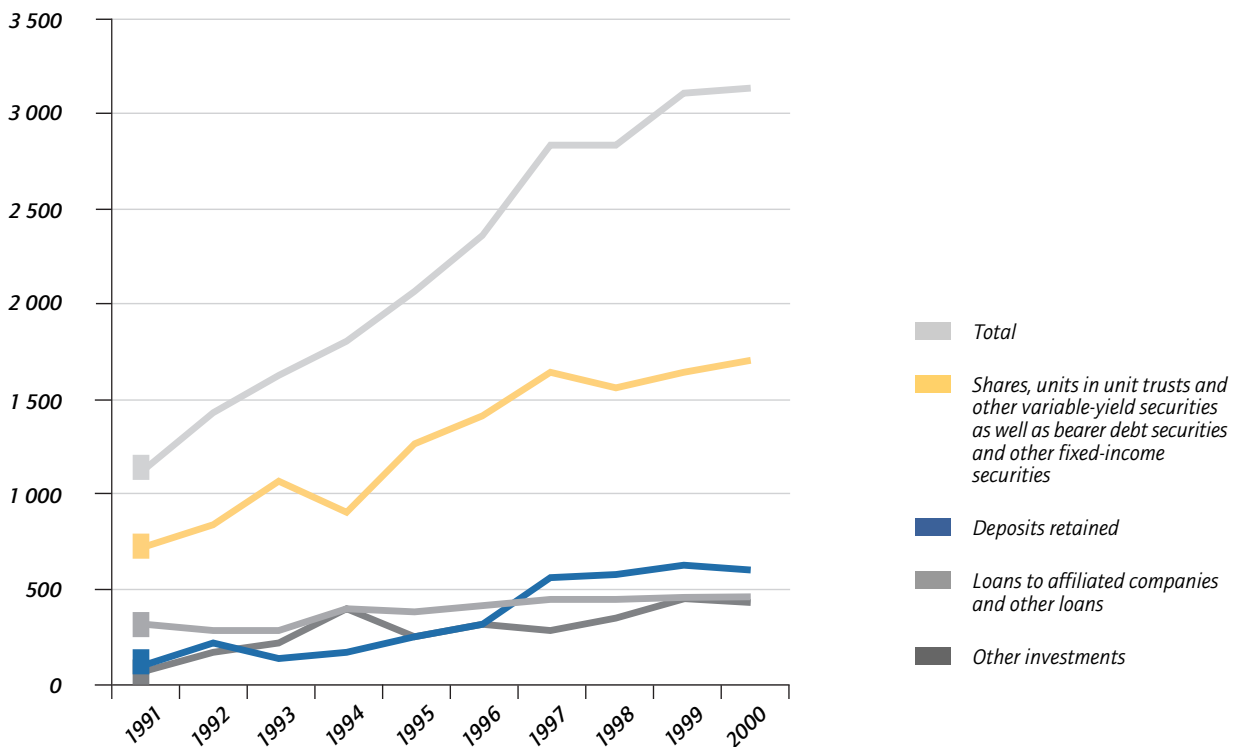


Parallel to the large gains on the disposal of shares and fixed-income securities, unrealised gains in our investment portfolio – most notably the unrealised price gains in our special funds – decreased. Overall, unrealised gains in our investments declined to EUR 282.8 million (previous year: EUR 339.8 million), a figure which corresponds to around 11% (14%) of the book value of our investments excluding deposits retained by ceding companies.

The total investment portfolio including deposits retained by ceding companies amounted to EUR 3.2 billion as at 31 December 2000; this corresponds to growth of 3% compared to the previous year. At 65%, the largest proportion of the investment portfolio, which we manage ourselves, continued to be in fixed-income securities; shares accounted for 15%. The high quality of our investments was maintained in the year under review. Overall, 87% of the fixed-income securities held in our direct portfolio have a security rating of AA or better.

Investments

in EUR million



Risk management

Concern with the issue of risk management has acquired considerable prominence in recent years. Particularly conspicuous examples of glaring control weaknesses and the resulting corporate crises contributed to the adoption in Germany of the Law on Controlling and Transparency in Business (KonTraG) with effect from 1 May 1998. The legislation stipulates that risks which could jeopardise a company's continued existence must be rendered transparent by means of an efficient control and monitoring system; we consider this requirement to be an indispensable prerequisite for the management of our company.

The acceptance and professional management of risks constitute the core business of a reinsurer

and are a major competitive factor. This has a bearing on the concerns and interests of both our business partners and our shareholders. Our business partners expect us to have sufficient risk capital resources and a correspondingly satisfactory security rating, e.g. from renowned rating agencies. Our shareholders, on the other hand, call for returns on their invested capital which are commensurate with the accepted risk. We try to satisfy both these expectations with optimised capital resources, which are nevertheless adequate to meet the risks involved. Consequently, risk management has always played a central role in the management of our company's business.

Within the framework of our comprehensive risk management system, we assess systematically and at regular intervals the risks which could threaten our company's future existence with an eye to determining the possible loss amount, probability of occurrence and time horizon. At the operational level, the system is locally integrated into the organisation of our various business segments. This approach is intended to ensure that risks can be identified and controlled as quickly as possible. To this end, we use a number of quite different measuring methods tailored to the individual risk, and they provide information at an early stage about any potentially undesirable developments. A central risk co-ordinator ensures that all the risk management activities carried out are monitored, harmonised and documented. The co-ordinator also bears responsibility for the comprehensive description of the risk situation of the company as a whole. Independently of these permanently installed procedures, the Internal Auditing Department verifies compliance with defined processes in all functional areas of our company.

Our risk management system essentially distinguishes between three main risk categories:

- Global risks (external risks),
- Strategic risks,
- Operating risks, which we subdivide into
 - technical risks,
 - investment risks and
 - other risks.

Global risks

Global risks may arise as a result of changes in the legal framework (including changes in the tax situation), through social and demographic trends or developments in the insurance industry. Environmental and climate factors can also produce new risks. We counter such risks by constantly monitoring claims trends, analysing claims and major losses and applying precise models in order to control results. Yet it is hardly possible to reduce – let alone avoid – global risks. Risk management measures must therefore be geared to the early identification of dangerous trends.

Global changes in the potential for losses are monitored centrally by the appropriate specialist departments. For example, our legal experts in the claims department keep a close eye on developments in court decisions worldwide, especially with respect to the liability lines of business, in order to correctly assess the potential inherent in new liability risks such as EMFs and environmental hazards as well as the risks associated with the use of new media (so-called cyberspace liability). As a further key area of our central risk assessment, we use sophisticated simulation models to monitor the frequency of natural catastrophes induced by global climate changes. On the basis of these analyses, we then determine both the maximum liability that we are prepared to accept and our own retrocession requirements.

Strategic risks

Within the Hannover Re Group we are the specialist reinsurer serving the German market. Drawing on our particularly intimate knowledge of the needs of the German insurance industry, we develop reinsurance concepts in all lines of property and casualty reinsurance in partnership-based co-operation with our clients. For the purposes of advantageous international risk spreading E+S Rück and Hannover Re (which writes the Group's international business) participate in each other's business segments through internal retrocessions. In order to ensure that our strategic targets are also applied at the operating level, we have, on the one hand, defined company-wide ratios and controlling processes which measure and control the contribution made by each business segment

to the company's overall performance. On the other hand, specific ratios have also been defined which facilitate performance controlling of our strategic objectives for each segment. With a view to further enhancing the efficiency of these processes, we have also begun to implement a uniform system of a lean, top-down approach in which strategic targets are broken down, measured and analysed in the form of reports. In this context too, generally applicable parameters are combined with segment-specific ratios. These defined targets also serve as a basis for the performance assessment and remuneration of our management.

Operating risks – technical risks

The technical risk comprises first and foremost the danger of the premium calculated for an insurance contract proving insufficient to offset the resulting losses. Possible reasons here may be inaccurate calculation assumptions or models, unexpected claim developments or inadequate reserves. Insufficient own reinsurance (retrocession) or the default of a retrocessionaire represent further potential risks.

The level of technical risk we accept is determined by our mandatory underwriting guidelines. These define in detail which risks may be accepted and up to what amount. The contents of the guidelines are reviewed annually, adjustments are made where necessary and compliance is subject to regular control.

In order to ensure that adequate premiums are agreed, we use various instruments to control the profitability of our reinsurance treaties. Detailed minimum returns defined for the various business segments form the basis of the premium calculation. Shortly after conclusion of a new transaction or the renewal of existing business, the so-called first forecast analysis determines the extent to which it was possible to achieve the quoted premiums on the market, while a profit contribution analysis verifies the quality of the result actually generated for individual treaties. Our loss reserve calculations – which in reinsurance business frequently have a significant impact on results – are scrutinised by independent external experts and checked not least by

our auditors. Particularly in property and casualty reinsurance, this multi-layered system ensures that risks are written with an eye to profits, not volume.

A further key instrument of technical risk limitation and results stabilisation is retrocession, in other words the further reinsurance of risks or parts of risks which we have covered. Whereas premiums are always payable at the beginning of a contract, risks in this context derive from the fact that long periods – sometimes even decades – may elapse until incurred losses are settled. An intensive credit investigation must therefore ensure that our business partners will be able to meet their obligations even after such long periods of time. Our retrocessionaires are selected on the basis of a graded approach, which takes account of the probable run-off period of the business in question. In addition, we are guided by the opinions of internationally recognised rating agencies, whose analyses are supplemented by the assessments of our own internal dedicated service.

Operating risks – investment risks

Our risks in the investment sector consist primarily of price, interest rate, default and exchange rate risks. Since investment income constitutes a major source of revenue for reinsurance companies, capital market fluctuations may have significant repercussions on the profit and loss account which are entirely comparable to the effects of sizeable natural catastrophes. For this reason, our investment policy is not geared first and foremost to yield maximisation at any price. Rather, the intention is to optimise investment income subject to the condition that risks are limited and clearly defined.

A reinsurer's investment portfolio is very largely based on inflows (premiums) which are set aside for future loss payments. Consequently, investment activities too are guided by the structure of the reinsurance business. In order to eliminate exchange-rate risks, we invest funds in the currencies in which future losses will be paid (principle of matching currencies). Similarly, maturity commitments and the choice of investment categories take into account the probable periods

until payment (principle of matching maturities). We further limit investment risks through the selection of borrowers with a high credit standing.

Investment decisions are made within the framework of detailed investment guidelines, which are constantly reviewed and where necessary – as determined by the entire Executive Board – revised. Compliance with these guidelines and the associated observance of defined limits are ensured, inter alia, by the strict separation of trading and settlement functions. We also conduct regular reviews which encompass, for example, the weighting of the investments (e.g. proportion of equities), the quality of the investments (e.g. issuer's credit rating) and the defined limits per issuer. Not only that, the entire portfolio as well as the associated profit and loss items pending settlement are evaluated on a daily basis.

Derivative financial instruments are used solely to hedge existing investment portfolios against price, interest rate, currency and default risks and as a substitute for securities purchases; they are controlled using mark-to-market valuations and with the aid of appropriate sensitivity analyses.

Operating risks – other risks

By other operating risks we particularly have in mind risks associated with information technology and human resources. The failure of technical equipment, especially in the case of the data processing infrastructure and the availability of the applications which it provides, poses a major risk to our company. In order to avert such adverse impacts we use state-of-the-art defence technologies and efficient methods of anti-virus protection. Preventive structural measures, active fire protection safeguards and a secure uninterrupted power supply are also intended to ensure the availability of our IT systems. Contingency plans and safety guidelines have also been drawn up to define the measures to be taken and appropriate behaviour in such emergency situations. All safety measures are documented centrally and compliance is subject to regular review. Thus, for example, our systems managed the change of date at the turn of the millennium flawlessly thanks to intensive preparatory measures. Virus attacks at those points where we are connected

with worldwide public data networks have also been prevented.

Reinsurance is a highly complex financial service, the success of which is crucially dependent on the expertise and dedication of our staff. In the future, therefore, it is important that we continue to be able to recruit highly qualified specialists and management staff and secure their long-term loyalty to the company. Consequently, we cultivate close contacts with a number of universities and set great store by our internal personnel development activities and training programme. The implementation of a system for identifying personnel potential as well as an assessment process for superiors is intended to further enhance our human resources management.

Assessment of the risk situation

As a reinsurance company we are confronted with numerous opportunities and risks which are directly connected with our entrepreneurial activities and can therefore impact our net income or financial situation. Given the information currently available to us, however, we do not perceive any risks which could jeopardise the continued existence of our company in the short or medium term or which could impair the assets, financial position or net income in a significant or sustained manner.

Human resources

As a highly specialised financial services provider, the expertise and motivation of our employees are crucial factors in our success. In the year under review we therefore continued to enlarge our range of personnel advancement measures with a view to best supporting the development of our staff through an improved and more attractive general working environment.

With a diverse range of internal and external training courses, we offered targeted activities geared to the individual needs of our employees as determined in annual staff interviews. We drew on the services of external teachers as well as – and even more importantly – an internal coaching pool of our own staff, who thereby pass on their own expert knowledge. Our goal with this form of further training is to support the in-house process of practically orientated knowledge transfer and at the same time to foster the development of social skills and presentation techniques. We introduced an interactive management simulation game as a new component of our training programme. By means of a true-to-life simulation model of an insurance company, this is intended to familiarise young managerial staff, in particular, more closely with the complex overall structure of such an enterprise and to teach them how it can be managed; starting in the year under review, we have also begun to offer this system to our clients.

In order to improve the compatibility of professional demands and personal flexibility, we have investigated the possibilities offered by new types of working-time models based on telecommuting concepts. Our goal was to extend our employees' locational flexibility and their control of working hours so as to enable them to enjoy greater planning freedom through far-reaching individual responsibility. In this context we successfully implemented a pilot project, and in future we shall be able to offer an increased number of staff the opportunity to work "away from the office".

The constant ongoing development of the re-insurance industry and the associated complexity of the challenges facing our company prompted us in the year under review to assess all the

positions held by our managerial staff – including those of the Executive Board – using a detailed system. In this connection, carefully assembled assessment teams guaranteed a high degree of objectivity. We shall continue to expand these activities in the future and use them as a basis for company-wide performance-based remuneration, even including the launch of a virtual stock option plan across the Hannover Re Group.

Last but not least, we contribute to the three pillars of old-age provision. In addition to the contributions to the statutory pension insurance scheme, we initiated a new pension plan in the form of an insured provident fund for all employees and managerial staff. The company pays the full amount of the contributions according to a corresponding scale. We also assist with employees' own expenses for private provision through so-called knock-on financing, on the basis of which old-age provision through sacrificed compensation on a single-premium basis is possible. In this way, our employees can move current income with a subordinated tax liability forwards into the future. Roughly 50% of our staff have now taken up this opportunity.

We employed 193 staff (previous year: 207) as at the end of the year under review; the majority, namely 58%, are women. Personnel expenditure totalled more than EUR 14.2 million. Expenses for pensions and part-time working arrangements for elderly staff amounted to almost EUR 600,000.

We would like to take this opportunity to thank our members of staff for their considerable commitment and personal dedication in the year under review, without which the success enjoyed by our company would not have been possible. This year we would especially like to highlight the efforts of our employees in caring for our many guests from home and abroad who visited us in Hannover during EXPO 2000. We would also like to express our appreciation to the employee council and the senior management committee for their constructive and trusting co-operation.

Outlook

Based on the information presently available, both the global economy and the German market area are expected to show a weakening cyclical trend in the current financial year. The USA, in particular, is likely to show signs of a slowdown due to more sluggish growth in gross domestic product; the same is true of the significant euro-zone countries. In Germany this tendency will probably lead to a slackening in export demand, which has been the decisive "driver of growth" in recent years. A slight upward revaluation of the euro would further hamper exports. Positive impetus, on the other hand, may derive from an increase in private consumption, which will benefit from tax cuts and rising take-home pay. The money markets will in all probability have little effect, since major changes in bank base rates are hardly anticipated prior to year-end.

In the light of the insights which we gained during our last treaty negotiations – generally held once a year and most usually in the run-up to 1 January –, the expectations for our individual business segments again vary widely in the current year. In German property and casualty reinsurance we expect the situation to remain strained, although improvements could be discerned during the treaty renewals. This was especially true of motor business, which – as the largest line of German property and casualty insurance – came under the heaviest pressure for rehabilitation and also showed the greatest success. Improvements in premiums and terms and conditions will therefore continue. In German liability insurance too, further tendencies towards recovery could be observed, thereby making it possible to push through increases in original rates on the insurance side. Insurers and reinsurers alike are still committed to restricting or scaling back coverage extensions and terminating unprofitable treaties, irrespective of a possible reduction in their premium volume. Despite these positive signals, however, we do not anticipate a fundamental recovery in the 2001 financial year – especially in the really problematic sector of industrial liability business. The situation is similar in German industrial fire insurance, where premiums and conditions in the current financial year are still far from adequate to transact this

segment profitably. This remains the case despite a discernible hardening of the market in the last renewal season. Both insurers and reinsurers are now assessing offered risks more systematically on the basis of their profitability. This led to increased cancellations of loss-making treaties and heralded the beginning of a withdrawal from particularly unattractive segments, such as the major risk sector. Nevertheless, we do not expect these rehabilitation trends to bring about decisive improvements in the current financial year.

Our assessment of the foreign business, which E+S Rück receives through Hannover Re in the form of risk-spreading internal retrocessions, is more favourable. In virtually all foreign markets the negative trend of recent years was halted. In some markets the first – sometimes marked – improvements in premiums and conditions were recorded. This was especially true of the London Market, Latin America and certain important segments in the USA.

A reinsurer's profit situation is always dependent in part on the major claims experience. Following the satisfactory development of the year under review, another moderate major loss incidence would make it considerably easier to generate pleasing results in the current financial year. However, forecasts in this area are of course difficult to make. As at the reporting date, the 2001 financial year has fortunately been spared major natural catastrophes. Nevertheless, the large fire at a German printing works as well as the explosion and subsequent sinking of an oil-rig off the coast of Brazil will probably produce sizeable major losses for our portfolio.

Life and health reinsurance continues to perform very favourably. The planned reform of the statutory pension insurance scheme offers particularly good potential. As compensation for the planned reduction in the level of pensions, the so-called "Riester pension" (named after Federal Minister Walter Riester) envisages greater private provision – supported by tax breaks and state assistance. In this respect, private life insurance will constitute a major pillar of supplementary provision for retirement. Although the

precise structural conditions, which are to be imposed on life insurance policies for the granting of state subsidies, had not yet been fully clarified at the time of going to press, we expect the effect on the German life insurance and reinsurance market to be favourable. In general, we anticipate continued strong demand for unit-linked life insurance, which will account for an ever-growing market share at the expense of traditional policies with a savings element. Additional growth impetus should derive from private disability and strict "any occupation" disability insurance. Triggered by the German Pension Reform Act, the statutory protection afforded to employees has deteriorated, and here too the demand for private provision is likely to increase. Last but not least, we shall again strive in 2001 to maintain close contacts with our clients and support them with our expertise in the development of innovative products.

Forecasts regarding investment income are by their very nature difficult to make. Assuming a roughly unchanged interest rate level, even greater importance will attach to the performance of the stock markets. However, given a normal scenario with no prolonged downturns on the stock markets, we again expect to generate satisfactory investment income in 2001.

On balance, we therefore anticipate that we shall again achieve our profit target in the current financial year.

Affiliated companies

We received an appropriate consideration in respect of all legal transactions with affiliated companies according to the circumstances known to us at the time when the transactions were effected. We did not incur any losses that required

offsetting within the meaning of Paragraph 311 (1) of the German Stock Corporation Act [AktG]. The measures taken did not adversely affect our company.

Capital, reserves and technical provisions

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

our proposals for the distribution of the disposable profit and the increase of our capital stock, the composition of these funds will be as follows:

<i>Figures in EUR million</i>	<i>2000</i>	<i>1999</i>
Subscribed capital and reserves	120.3	120.3
Surplus debenture (Genussrechtskapital)	40.9	40.9
Equalisation reserve and similar provisions	293.2	275.8
Technical provisions	2 543.1	2 372.1
Total capital, reserves and technical provisions	2 997.5	2 809.1

The capital, reserves and technical provisions amounted to 324.5% (388.2%) of net premiums – this includes the capital and reserves (includ-

ing surplus debenture) at 17.4% (22.3%) of net premiums.

Proposal for the distribution of profits

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

	<i>EUR</i>
Dividend on the participating subscribed capital of EUR 15,119,105.45	33 300 000,-

In addition, we intend to propose to the Annual General Meeting that the capital stock be increased ("pay-out-take-back" method) in such a

way that – if the resolution is adopted – EUR 31.7 million of the above amount will flow back to the company.

ACCOUNTS

BALANCE SHEET as at 31 December 2000

Assets

Figures in EUR thousand

2000

1999

	2000		1999	
A. Subscribed capital unpaid			9 663	9 663
- called up capital				
- (1999: -)				
B. Intangible assets				
Other intangible assets			576	3 379
C. Investments				
I. Land and buildings, rights to land and buildings, leasehold		50 426		52 159
II. Investments in affiliated companies and participating interests				
1. Shares in affiliated companies	307 605			284 564
2. Participating interests	17 755			17 755
		325 360		302 319
III. Other financial investments				
1. Shares, units in unit trusts and other variable-yield securities	785 700			604 507
2. Bearer debt securities and other fixed-income securities	892 895			986 690
3. Mortgages and loans secured on land and buildings	1 154			1 285
4. Other loans				
a) Registered debt securities	271 399			264 662
b) Debentures and loans	172 086			158 777
c) Sundry loans	23 008			23 008
		466 493		446 447
5. Deposits with banks	65 833			89 346
6. Other investments	5			5
		2 212 080		2 128 280
IV. Deposits with ceding companies		578 899		591 430
			3 166 765	3 074 188

Liabilities

Figures in EUR thousand

2000

1999

A. Capital and reserves				
I. Subscribed capital		24 783		24 783
II. Capital reserve		58 305		58 305
III. Retained earnings				
1. Statutory reserve		256		256
2. Other retained earnings as at 1.1.2000	36 937			36 937
Withdrawal	(31 700)			–
		5 237		36 937
			5 493	37 193
IV. Disposable profit		33 300		9 800
			121 881	130 081
B. Surplus debenture (Genussrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross		147 683		116 627
2. Less: reinsurance ceded		37 559		27 387
			110 124	89 240
II. Life assurance provision				
1. Gross		469 662		473 722
2. Less: reinsurance ceded		170 009		195 723
			299 653	277 999
III. Provisions for outstanding claims				
1. Gross		2 788 611		2 625 818
2. Less: reinsurance ceded		698 852		653 026
			2 089 759	1 972 792
IV. Provision for bonuses and rebates				
1. Gross		688		986
2. Less: reinsurance ceded		2		161
			686	825
V. Equalisation reserve and similar provisions			293 180	275 765
VI. Other technical provisions				
1. Gross		44 682		40 349
2. Less: reinsurance ceded		1 810		9 096
			42 872	31 253
			2 836 274	2 647 874

Assets

Figures in EUR thousand

2000

1999

D. Receivables				
I. Accounts receivable arising out of reinsurance operations		172 789		224 279
- from affiliated companies:				
41 200 (1999: 131 651)				
II. Other receivables		40 760		5 293
- from affiliated companies:			213 549	229 572
37 447 (1999: 3 698)				
E. Other assets				
I. Tangible assets and stocks		14		16
II. Current accounts with banks, cheques and cash in hand		7 591		12 277
			7 605	12 293
F. Prepayments and accrued income				
I. Accrued interest and rent		36 299		37 227
II. Other accrued income		1 733		2 185
			38 032	39 412
G. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)			4 936	25 019
			3 441 126	3 393 526

Liabilities

Figures in EUR thousand

2000

1999

D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations			10 337	9 837
II. Provisions for taxation			47 703	55 302
III. Other provisions			14 978	15 141
			73 018	80 280
E. Deposits received from retrocessionaires			259 653	275 252
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations			97 706	198 450
- to affiliated companies:				
44 658 (1999: 64 102)				
II. Miscellaneous liabilities			8 184	16 568
- from taxes:				
141 (1999: 135)				
- for social security:				
206 (1999: 218)				
- to affiliated companies:				
4 367 (1999: 1 383)				
G. Accruals and deferred income			3 507	4 118
			3 441 126	3 393 526

PROFIT AND LOSS ACCOUNT *for the 2000 financial year*

Figures in EUR thousand

2000

1999

I. Technical account			
1. Earned premiums, net of retrocession			
a) Gross written premiums	1 550 365		1 272 339
b) Retrocession premiums	626 573		548 692
		923 792	723 647
c) Change in the gross provision for unearned premiums (+/-)	(29 310)		(298)
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	10 076		3 681
		(19 234)	3 383
		904 558	727 030
2. Allocated investment return transferred from the non-technical account, net of retrocession		13 395	11 491
3. Other technical income, net of retrocession		55	–
4. Claims incurred, net of retrocession			
a) Claims paid			
aa) Gross	887 108		882 776
bb) Retrocessionaires' share	289 656		340 570
		597 452	542 206
b) Change in provisions for outstanding claims			
aa) Gross	(95 134)		(67 057)
bb) Retrocessionaires' share	43 310		36 875
		(51 824)	(30 182)
		649 276	572 388
5. Change in other technical provisions, net of retrocession			
a) Net life assurance provision		(58 447)	(22 678)
b) Other net technical provisions		168	58
		(58 279)	(22 620)
6. Bonuses and rebates, net of retrocession		232	613
7. Operating expenses, net of retrocession			
a) Gross acquisition expenses		637 849	461 450
b) Less: commissions and profit commissions received on retrocession		309 733	262 922
		328 116	198 528
8. Other technical charges, net of retrocession		1 077	1 906
9. Subtotal		(118 972)	(57 534)
10. Change in the equalisation reserve and similar provisions		(17 415)	(19 499)
11. Net technical result		(136 387)	(77 033)

Balance brought forward:				(136 387)	(77 033)
II. Non-technical account					
1. Investment income					
a) Income from participating interests		43 730			4 050
- affiliated companies:					
37 467 (1999: 3 439)					
b) Income from other investments					
- affiliated companies:					
14 198 (1999: 14 009)					
aa) Income from land and buildings, rights to land and buildings, leasehold	3 897				3 636
bb) Income from other investments	128 000				127 726
		131 897			131 362
c) Appreciation on investments		11 368			9 926
d) Gains on the realisation of investments		73 576			47 352
			260 571		192 690
2. Investment charges					
a) Investment management charges, including interest		6 446			5 971
b) Depreciation		19 363			15 549
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
534 (1999: 690)					
c) Losses on the realisation of investments		5 197			11 073
			31 006		32 593
			229 565		160 097
3. Allocated investment return transferred to the technical account			(17 705)		(16 058)
				211 860	144 039
4. Other income			6 939		15 002
5. Other charges					
a) Special allocation to provisions for outstanding claims		34 462			36 360
b) Miscellaneous charges		20 101			26 654
			54 563		63 014
				(47 624)	(48 012)
6. Profit or loss on ordinary activities before tax				27 849	18 994
7. Taxes on profit and income		15 806			4 459
plus allocation for group assessment		10 351			4 679
			26 157		9 138
8. Other taxes		124			56
plus allocation for group assessment		(32)			-
			92		56
				26 249	9 194
9. Profit for the financial year				1 600	9 800
10. Withdrawal from retained earnings:					
from other retained earnings				31 700	-
11. Disposable profit				33 300	9 800

Valuation of assets

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

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

Property has been valued at the purchase or construction cost less scheduled depreciation.

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

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

The valuation of derivative instruments was carried out on a mark-to-market basis.

We valued mortgages and loans secured on land and buildings, registered debt securities, debentures and loans at nominal value taking into account amortisation and depreciation.

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

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

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

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 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 cedants, 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 10.2% 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 standard tables of 1998 of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. In the case of tax expenditure which relates to the financial year under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HGB). This relates to corporation tax based on a rate of taxation of 25% (previous year: 40%) and trade earnings tax.

Other liabilities are valued at nominal amounts.

Currency conversion

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

Balance sheet items taken over from the previous year were also converted into Euros at the average exchange rates as at the end of the year. In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is congruent cover for liability elements by setting up corresponding asset elements in the different currencies. Where losses have however arisen, these have been shown as such under other expenses. 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 earned on an investment 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 2000 financial year.

<i>Figures in EUR thousand</i>	<i>Book values 31.12.1999</i>	<i>Additions</i>	<i>Transfers</i>	<i>Disposals</i>	<i>Write-ups</i>	<i>Depre- ciation</i>	<i>Book values 31.12.2000</i>
B. Intangible assets:							
Other intangible assets	3 379	–	–	–	–	2 803	576
C. I. Land and buildings, rights to land and buildings, leasehold	52 159	1 312	–	–	–	3 045	50 426
C. II. Investments in affiliated companies and participating interests							
1. Shares in affiliated companies	284 564	14 595	9 660	1 214	–	–	307 605
2. Participating interests	17 755	–	–	–	–	–	17 755
3. Total C. II.	302 319	14 595	9 660	1 214	–	–	325 360
C. III. Other financial investments							
1. Shares, units in unit trusts and other variable-yield securities	604 507	316 729	(9 660)	119 234	3 902	10 544	785 700
2. Bearer debt securities and other fixed-income securities	986 690	201 317	–	294 145	4 273	5 240	892 895
3. Mortgages and loans secured on land and buildings	1 285	–	–	131	–	–	1 154
4. Other loans							
a) Registered debt securities	264 662	31 555	–	24 818	–	–	271 399
b) Debentures and loans	158 777	40 000	–	28 522	1 831	–	172 086
c) Sundry loans	23 008	–	–	–	–	–	23 008
5. Deposits with banks	89 346	–	–	23 513	–	–	65 833
6. Other	5	–	–	–	–	–	5
7. Total C. III.	2 128 280	589 601	(9 660)	490 363	10 006	15 784	2 212 080
Sum total	2 486 137	605 508	–	491 577	10 006	21 632	2 588 442

Land and buildings and rights to land and buildings

As at 31 December 2000, the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 20,743 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,301 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

<i>Name and registered office of the company Figures in currency units of 1 000</i>	<i>Participation (in %)</i>	<i>Capital and reserves (\$266 (3) of the Commercial Code)</i>		<i>Result for the last financial year</i>	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG- Grundstücksgesellschaft, Hannover/Germany	45,00	EUR	28 458	EUR	885
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100,00	EUR	180 039	EUR	9 123
■ holds 33.33 % of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	699	EUR	223
Hannover Life Re of Australasia Ltd, Sydney/Australia	50,00	AUD	153 998	AUD	13 730
Hannover Finance, Inc., Wilmington/USA	56,93	USD	204 595	USD	(18 069)
■ holds 100 % of the shares in:					
Lion Holding, Inc., Wilmington/USA		USD	277 275	USD	(864)
■ holds 100 % of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	275 482	USD	1 074
■ holds 100 % of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	281 983	USD	(2 325)
■ holds 100 % of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	64 521	USD	(382)
Clarendon Select Insurance Company, Tallahassee/USA		USD	23 233	USD	4 283
Harbor Specialty Insurance Company, Trenton/USA		USD	22 982	USD	5 288
Lion Insurance Company, Tallahassee/USA		USD	6 228	USD	(188)
Redland Insurance Company, Council Bluffs/USA		USD	49 997	USD	59 383
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25,00	DEM	152 107	DEM	76 282

Other notes on investments

Assets with a balance sheet value of EUR 121,290 thousand (EUR 112,790 thousand) have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Due to the Tax Relief Act of 24 March 1999, increased valuations of special write-downs from previous financial years were effected in the amount of EUR 10,006 thousand (previous year 9,853 thousand).

Current values pursuant to § 54 RechVersV.

The current values of land and buildings were largely determined in 2000 using a combined asset value and gross rental method. In individual cases book values were used.

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

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

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

Other investments were valued at nominal values.

*Current values pursuant to § 54 RechVersV
of asset items C.I to C. III.
for the 2000 financial year
Figures in EUR thousand*

*Book values
31.12.2000* *Current values
31.12.2000* *Difference
31.12.2000*

	<i>Book values 31.12.2000</i>	<i>Current values 31.12.2000</i>	<i>Difference 31.12.2000</i>
C.I. Land and buildings, rights to land and buildings, leasehold	50 426	78 657	28 231
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	307 605	335 231	27 626
2. Participating interests	17 755	37 551	19 796
3. Total C. II.	325 360	372 782	47 422
C. III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	785 700	947 339	161 639
2. Bearer debt securities and other fixed-income securities	892 895	924 555	31 660
3. Mortgages and loans secured on land and buildings	1 154	1 154	–
4. Other loans			
a) Registered debt securities	271 399	279 181	7 782
b) Debentures and loans	172 086	177 525	5 439
c) Sundry loans	23 008	23 615	607
5. Deposits with banks	65 833	65 833	–
6. Other investments	5	5	–
7. Total C. III.	2 212 080	2 419 207	207 127
Sum total	2 587 866	2 870 646	282 780

Other receivables

<i>Figures in EUR thousand</i>	<i>2000</i>	<i>1999</i>
Receivables from affiliated companies	37 447	3 698
Receivables from the revenue authorities	2 110	857
Interest and rent due	1 116	714
Receivables from investment deposits	80	10
Other receivables	7	14
Total	40 760	5 293

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 1,727 thousand (EUR 2,169 thousand).

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB).

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 4,936 thousand (25,019 thousand). Of this amount, EUR 2,444 thousand (EUR 15,874 thousand) was attributable to corporation tax and EUR 2,492 (EUR 9,145 thousand) to trade tax.

Notes on liabilities

Subscribed capital

The capital stock of the company totalled EUR 24,783 thousand as at 31 December 2000. It is divided into 44,064 registered no-par value shares. A total of 61.01% = DM 15,120 thousand is paid up at differing percentages for each individual group of shares.

Surplus debenture (Genussrechtskapital)

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

Provision for unearned premiums

Insurance line Figures in EUR thousand	2000		1999	
	gross	net	gross	net
Fire	19 273	17 479	16 630	14 459
Liability	27 218	24 778	25 224	22 567
Personal accident	5 082	4 697	5 021	4 715
Motor	17 614	14 113	11 976	8 620
Aviation	10 575	8 130	9 050	7 508
Life	35 231	14 733	20 582	9 595
Other lines	32 690	26 194	28 144	21 776
Total	147 683	110 124	116 627	89 240

Life assurance provisions

Insurance line Figures in EUR thousand	2000		1999	
	gross	net	gross	net
Life	469 662	299 653	473 722	277 999

Provisions for outstanding claims

<i>Insurance line</i> <i>Figures in EUR thousand</i>	<i>2000</i>		<i>1999</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Provision for reimbursements and surrenders (except annuities)				
Fire	96 498	79 192	101 931	79 807
Liability	872 385	699 282	821 181	656 156
Personal accident	57 275	50 883	51 123	45 802
Motor	1 268 384	881 354	1 179 381	835 184
Aviation	72 006	51 270	58 089	42 333
Marine	76 198	59 392	72 676	57 197
Life	71 890	63 151	65 817	59 727
Other lines	240 313	177 784	244 765	169 874
	2 754 949	2 062 308	2 594 963	1 946 080
Provision for annuities				
Liability	1 817	1 795	1 436	1 409
Personal accident	1 727	1 470	1 952	1 472
Motor	30 118	24 186	27 467	23 831
	33 662	27 451	30 855	26 712
Total	2 788 611	2 089 759	2 625 818	1 972 792

Equalisation reserve and similar provisions

<i>Insurance line</i> <i>Figures in EUR thousand</i>	<i>Position at 1.1.2000</i>	<i>Addition</i>	<i>Withdrawal and release</i>	<i>Position at 31.12.2000</i>
Equalisation reserve				
Fire	45 372	1 922	7 654	39 640
Liability	43 720	6 861	–	50 581
Personal accident	4 199	–	4 199	–
Motor	29 389	29 354	1 480	57 263
Aviation	18 451	–	7 227	11 224
Marine	23 340	556	151	23 745
Other lines	103 992	10 778	13 956	100 814
	268 463	49 471	34 667	283 267
Provisions which are similar to the equalisation reserve – major risks –				
Liability	1 166	2 298	–	3 464
Other lines	6 136	313	–	6 449
Total	275 765	52 082	34 667	293 180

Other technical provisions

<i>Type of provision</i> <i>Figures in EUR thousand</i>	<i>2000</i>		<i>1999</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Profit commission	38 690	37 747	31 524	23 103
Commissions	4 076	3 927	6 946	6 728
Premium cancellation	1 867	1 153	1 621	1 284
Lay-up provision	43	43	172	80
Road traffic accident victim assistance	6	2	86	58
Total	44 682	42 872	40 349	31 253

Technical provisions – total

<i>Insurance line</i> <i>Figures in EUR thousand</i>	<i>2000</i>		<i>1999</i>	
	<i>gross</i>	<i>net</i>	<i>gross</i>	<i>net</i>
Fire	157 474	138 837	165 665	140 364
Liability	965 417	789 778	900 056	732 187
Personal accident	64 297	57 220	62 456	56 285
Motor	1 391 121	993 894	1 266 267	914 103
Aviation	94 551	72 109	86 624	66 640
Marine	100 322	83 505	96 268	80 780
Life	577 364	377 824	560 626	347 809
Other lines	393 960	323 107	395 305	309 706
Total	3 744 506	2 836 274	3 533 267	2 647 874

Provisions for other risks and charges

<i>Figures in EUR thousand</i>	<i>2000</i>	<i>1999</i>
Provisions for pensions and similar liabilities	10 337	9 837
Provisions for taxation	47 703	55 302
Sundry provisions		
Provisions for currency risks	6 048	2 775
Provisions for outstanding payments	3 246	1 826
Provision for German Economy Foundation Initiative	2 713	–
Provisions for interest	1 428	8 644
Provisions for annual accounts costs	1 033	1 338
Provisions for litigation risks	383	383
Other provisions	127	175
	14 978	15 141
Total	73 018	80 280

Miscellaneous liabilities

<i>Figures in EUR thousand</i>	<i>2000</i>	<i>1999</i>
Liabilities in respect of affiliated companies	4 367	1 383
Liabilities from interest on surplus debenture (Genussrechtskapital)	3 170	3 170
Liabilities from outstanding social security contributions	206	218
Liabilities in respect of the revenue authorities	141	135
Liabilities from land and buildings	133	138
Liabilities from deliveries and services	72	140
Liabilities from leases	68	40
Liabilities from the acquisition of participations	–	11 344
Other liabilities	27	–
Total	8 184	16 568

Deferred items

<i>Figures in EUR thousand</i>	2000	1999
Disagio	3 323	3 902
Other accruals and deferred income	184	216
Total	3 507	4 118

Contingent liabilities

There are no 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

<i>Figures in EUR thousand</i>	<i>Gross written premiums</i>		<i>Gross premiums earned</i>		<i>Net premiums earned</i>		<i>Technical result for own account</i>	
	2000	1999	2000	1999	2000	1999	2000	1999
Fire	98 164	93 639	95 737	94 022	65 659	66 162	3 060	5 069
Liability	177 324	157 819	175 514	154 938	114 404	82 872	(9 190)	(816)
Personal accident	50 201	38 935	50 152	38 975	41 514	31 547	580	1 119
Motor	488 299	440 955	482 720	440 116	267 953	210 718	(35 943)	(76 630)
Aviation	46 309	41 401	45 435	40 305	29 330	24 995	6 438	12 986
Marine	44 162	46 639	44 162	46 639	32 553	25 771	670	(1 081)
Other lines	265 701	241 032	261 656	242 359	190 627	173 881	(22 064)	(12 084)
Total property and casualty insurance	1 170 160	1 060 420	1 155 376	1 057 354	742 040	615 946	(56 449)	(71 437)
Life	380 205	211 919	365 679	214 687	162 518	111 084	(79 938)	(5 596)
Total insurance business	1 550 365	1 272 339	1 521 055	1 272 041	904 558	727 030	(136 387)	(77 033)

Total insurance business

<i>Figures in EUR thousand</i>	2000	1999
Gross claims incurred	982 242	949 833
Gross operating expenses	637 849	461 450
Reinsurance balance	(26 202)	(95 356)

Expenses for personnel

<i>Figures in EUR thousand</i>	2000	1999
1. Wages and salaries	12 500	10 490
2. Social security payments and expenses for welfare	1 739	1 777
3. Expenses for old-age pension scheme	596	1 036
4. Total expenses	14 835	13 303

Expenses for investments

<i>Figures in EUR thousand</i>	2000	1999
Shares, units in unit trusts	15 685	6 940
Fixed-income securities	5 296	15 468
Administrative expenses	5 031	4 419
Land and buildings	3 772	4 227
Deposit and bank fees	688	422
Deposits	534	690
Derivative financial instruments	–	427
Total	31 006	32 593

Other income

<i>Figures in EUR thousand</i>	2000	1999
Profit from services	3 120	2 351
Exchange rate gains	2 231	4 219
Release of non-technical provisions	587	431
Allocated investment return	421	376
Cancellation of value adjustments	122	1 377
Amounts realised	–	5 915
Other income	458	333
Total	6 939	15 002

Other expenses

<i>Figures in EUR thousand</i>	<i>2000</i>	<i>1999</i>
Special allocations to the provisions for outstanding claims	34 462	36 360
Deposit interest	6 513	7 192
Expenses for the whole company	4 348	4 559
Interest charges on surplus debenture (Genussrechtskapital)	3 170	3 170
Expenses from services	3 124	2 341
Participation in Germany Economy Foundation Initiative	2 713	–
Exchange rate losses	1 728	5 307
Expenses for letters of credit	682	274
Interest charges on old-age pension scheme	579	308
Separate value adjustment on accounting debts	447	2 131
Allocation to interest provisions	433	1 895
Interest charges on reinsurance operations	268	1 379
Expenses from administration costs	143	1 488
Financing interest	64	771
Depreciation on receivables	49	239
Other interest and expenses	150	167
	58 873	67 581
Less: Technical interest	4 310	4 567
Total	54 563	63 014

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 2 and 3.

The total emoluments paid to the Supervisory Board in the year under review totalled EUR 144 thousand, those to the Advisory Board EUR 82 thousand, those to the Executive Board EUR 1,006 thousand and those to former members of the Executive Board EUR 312 thousand. The amount of EUR 3,533 thousand was shown on the liabilities side for current pensions of former members of the Executive Board.

No mortgage loans were granted to board members.

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

The average number of employees was 200 in the financial year.

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

Hannover, 3 May 2001

Executive Board



Zeller



Dr. Becke



Gräber



Haas



Dr. Hecker



Dr. Steiner



Dr. Pickel

Auditors' report

We have audited the annual financial statements, together with the bookkeeping system and the management report of E+S Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 2000. 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, 3 May 2001

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib
(German Public Auditor)

Kollenberg
(German Public Auditor)

We supervised the management of the company regularly during 2000 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at two meetings. The audit mandate for the 2000 annual financial statements was awarded by the Supervisory Board. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss the annual financial statements. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

As part of the implementation of important individual projects, we considered, inter alia, the acquisition of real estate at the company's headquarters in Hannover, the extension of the financing limit of a U.S. real estate company and a capital increase at Hannover Finance, Inc. in Wilmington/Delaware, USA.

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

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

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

1. its factual details are correct,
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high,

3. in the case of the measures specified in the report, there are no circumstances which would point to an assessment which differs significantly from that of the Executive Board."

We 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 have no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

Nor have we any objection to the Executive Board's management report; we agree to the 2000 annual financial statements, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 2000.

With effect from 1 January 2000, Dr. Michael Pickel was appointed a deputy member of the Executive Board. On 31 December 2000 Udo Schubach's service on the Executive Board came to a close. The Supervisory Board expressed its appreciation and recognition of the work performed by Mr. Schubach over nearly forty years – almost thirty of them as a member of the company's Executive Board – and thanked him for his contribution to the company's development.

Hannover, 4 May 2001

For the Supervisory Board

Baumgartl
Chairman

Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event. 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, if such risks are no longer fully insurable by the insurance and reinsurance industries.

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

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

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

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

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

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

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

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

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

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

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

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

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 → cedant'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.

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

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

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

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

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

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; e.g. under an excess of loss treaty). This is in contrast to → proportional reinsurance.

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

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross/Retro/Net

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

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

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