Annual Report | 2005

e+s rück

KEY FIGURES
of E+S Rückversicherung AG

Figures in EUR million	2005	+/- previous year	2004	2003	2002	2001
Gross written premium	2 213.7	+3.0%	2 149.5	2 232.9	2 483.1	1 904.5
Net premium earned	1 370.5	+3.2%	1 327.9	1 464.3	1 384.3	1 041.3
Underwriting result	26.7	(76.4%)	113.0	211.6	20.5	(148.6)
Change in the equalisation reserve and similar provisions	86.1	–	86.1	201.9	26.5	(23.1)
Investment result	277.9	+21.3%	229.1	189.6	169.5	223.3
Pre-tax profit	31.8	(63.7%)	87.5	80.8	46.8	27.8
Profit or loss for the financial year	22.0	(50.0%)	44.0	39.0	20.0	12.0
Investments	7 231.4	+17.0%	6 179.9	4 283.4	4 390.8	3 603.3
Capital and reserves	420.3	–	420.3	461.2[1]	461.2[1]	161.2[1]
Equalisation reserve and similar provisions	670.6	+14.7%	584.6	498.5	296.6	270.1
Net technical provisions	5 556.5	+11.2%	4 998.3	3 533.8	3 282.3	2 952.0
Total capital, reserves and technical provisions	6 647.4	+10.7%	6 003.2	4 493.5	4 040.1	3 383.3
Number of employees	229	+2	227	220	215	198
Retention	62.4%		61.7%	65.8%	58.2%	57.0%
Loss ratio[2]	68.8%		64.0%	67.0%	75.5%	91.7%
Expense ratio[2]	26.1%		20.9%	17.1%	18.8%	23.9%
Combined ratio[2]	94.9%		84.9%	84.1%	94.3%	115.6%

[1] *incl. surplus debenture (Genussrechtskapital)*
[2] *excluding life reinsurance*

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CALENDAR OF EVENTS IN 2006

25 January 2006	Third Management Forum "Investments and Risk Management"
27 April 2006	Expert conference "Settlement of Bodily Injury Claims in Foreign European Markets"
4/5 May 2006	Reinsurance Seminar I: Basic Reinsurance Know-how
22/23 June 2006	Reinsurance Seminar II: Specialist Reinsurance Topics
6 July 2006	Hannover Forum "Personal Accident Insurance"
6 July 2006	Examination Concert held by E+S Rückversicherung AG
7/8 September 2006	Reinsurance Seminar III: Workshop: "Development of a Reinsurance Programme"
11 October 2006	Expert conference "Pharmaceutical Risks"
9/10 November 2006	Reinsurance Seminar IV: Reinsurance of Natural Hazards

Dear clients and shareholders,

In the last financial year I was able to proudly report to you here on another record result in the history of E+S Rück. In 2005 we were unfortunately unable to build on that outstanding performance, since a number of ladies with very stormy tempers left us holding our breath: at the turn of the year winter storm "Gudrun" swept across Northern Europe, followed in the autumn by "Katrina" – the most devastating hurricane in US history – and her sisters "Rita" and "Wilma".

What was the impact of these natural disasters on our result? While we can be satisfied with the experience of our German property and casualty reinsurance portfolio – especially motor business –, our international portfolio was not insignificantly affected by the hurricanes in the Gulf of Mexico. These exceptional strains were nevertheless to a large extent cushioned by the very good diversification of our portfolio.

Along with property and casualty reinsurance, life and health reinsurance – accounting for more than one-third of gross premium income – is a major factor in our portfolio. In the German market we further expanded our position as one of the leading life reinsurers. We worked intensively on new products with our clients, devoting special attention to the senior citizens' market and the associated highly diverse insurance needs of an entirely different generation.

Our investments delivered an important non-technical profit contribution: thanks to a stable inflow of cash from property and casualty reinsurance our asset holdings grew by 17.0% in the year under review to EUR 7,231.4 million. We used the decline in yields in the first half of the year to realise profits in our bond portfolio. New investments were guided primarily by the quality of the instruments. We feel that our rather conservative investment strategy has proven correct, and we are highly satisfied with the net investment result of EUR 277.9 million – an improvement of 21.3% on the previous year.

Have the natural catastrophe events in the year under review damaged E+S Rück's position as the specialist insurer for the German market? Quite the contrary: we have proven our strength. Thanks to our excellent financial strength ratings ("AA-" from S&P and "A" from A.M. Best), we continue to be a sought-after partner, especially in long-tail casualty business. We were able to expand existing relationships, acquire new cedants and further consolidate our position as Germany's second-largest reinsurer.

We would like to thank our clients, employees and shareholders for their loyal cooperation. With your confidence in E+S Rück and the dedication of our highly motivated team of staff, we are optimally poised to enjoy a successful future.

We are pleased to once again pay a dividend to our shareholders, although in view of the strains of the past year it cannot match up to the distribution in the record year of 2004.

Yours sincerely,

Wilhelm Zeller
Chairman of the Executive Board

BOARDS AND OFFICERS
of E+S Rückversicherung AG

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**Staff representative*

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of E+S Rück

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Ulrich Wallin

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Life and Health markets
worldwide

HAIL RISKS IN MOTOR INSURANCE –
the new analysis tool E+S Hagel T

If they had not fully appreciated it before, the Munich hailstorm of 1984 – which caused a market loss of approximately EUR 500 million – clearly demonstrated to German motor insurers the risk that hailstorms pose to their own damage portfolios.

This benchmark event some 21 years ago led to a marked adjustment of risk management: the capacities of the motor own damage programmes were increased for 1985 – in some cases dramatically – because the previously existing treaties had for the most part proven to be wholly inadequate.

Since the current programmes have scarcely changed in recent years, insurers and reinsurers are right to ask themselves whether the purchased capacities – looked at by today's standards – still appear sufficient to cover a new mega event. In many instances the answer must undoubtedly be a resounding "no".

When it comes to categorising a hail risk and the associated potential losses, two primary questions arise:

- What events are conceivable for a specific portfolio and how can they be modelled?
- How should the return periods of the modelled events be assessed?

As a specialist reinsurer for the German market, E+S Rück is now tackling this issue systematically: with our self-designed analysis tool "E+S Hagel T" (translated as "E+S Hail T", but literally German for "it's hailing"), we have developed an appropriately structured modular tool that gives our clients sensible answers to both the aforementioned questions.

A ceding company gains an initial impression of its exposure from the graphical representation of its assumed risks. With the aid of a hail index map that assigns a value of between 0.1 and 2.5 to every postcode in Germany (the average figure for Germany is 1.0), we calculate the specific index for our client. This ratio indicates whether an insurer is tending towards over- or underexposure relative to the market as a whole.

What is more, by working together with our cedant the new program enables us to simulate a fictional hail event. The client is thus able to simulate a scenario in which, for example, a particularly heavily represented region in its portfolio is impacted. In addition, a motor insurer can use "E+S Hagel T" to access the data on numerous actually occurred hailstorms. These insights can similarly be applied to our client's portfolio in any desired manner. Thus it is possible, for example, to "shift" the Munich hailstorm of July 1984 westwards for a ceding company based in Baden-Wuerttemberg and draw up a scenario for its local own damage portfolio. The program can even simulate the Osnabrueck hailstorm of 1903 for a current portfolio: all past events in respect of which information on the location and extent is available have been digitalised and input into the analysis tool's historical database. A 2004 study compiled by the German Insurance Association (GDV) constitutes the basis for this database. In addition, we have consulted expert meteorological opinions on loss reports, assessments of specific events by the German Meteorological Service and data collected from pilot reports.

Following the initial simulation our clients can use "E+S Hagel T" to gain an idea of the number of vehicles affected per postcode. Of course, it is not possible to exactly predict the timing and severity of a hailstorm. However, the forecasts as to how many events will occur with what intensity on average over a certain period of time are based upon empirical values and can be individually customised with our program.

In a further stage of the simulation we therefore take account of cedant-specific data, in particular the regional spread of the portfolio and the breakdown by vehicle type classes. Additional relevant parameters are the impacted area, the density of the hail, the kinetic energy and hence the average claim. Another key factor is the timing of the event – i.e. the day of the week and time of day; for example, does the hailstorm occur during rush-hour traffic or on a Sunday afternoon? By running through all these – sometimes interacting – parameters we can generate numerous theoretically possible hailstorm losses. The simulation normally encompasses 10,000 events.

The second module of our analysis tool assigns estimated return periods to the hail events modelled for a specific portfolio on the basis of the loss frequency curve. For example, based on the original affected areas and the degree of impact we are able to simulate the 1984 Munich hailstorm for the current portfolio of "Cedant A" and determine a total claims amount of EUR 65 million and a loss ratio of 23%. As a second step, "E+S Hagel T" calculates a return period of 33 years for this event.

Our new program "E+S Hagel T" thus provides the key indicators for classification of a hail risk and hence delivers answers to both the core questions formulated at the outset of this article; further considerations relate to inferences concerning appropriate reinsurance protection. Needless to say, we arrive at all the assumptions by working together with our clients – intense cooperation that is vital to the quality of the risk assessment.

MANAGEMENT REPORT
of E+S Rückversicherung AG

Economic climate

The upturn in the global economy was sustained in 2005 despite a sharp surge in oil prices. While the Japanese economy began to lose momentum, real gross domestic product in the United States showed vigorous growth. The picture in the Eurozone was again mixed: the sluggish domestic demand in the first half of the year only began to pick up from the summer onwards. The European Central Bank (ECB) began to tighten the reins of monetary policy with an increase of 25 basis points in key lending rates on 1 December 2005. It thus responded to looming inflationary risks associated with an increase in the money supply.

In Germany, too, cyclical activity began to gather steam in the first half of 2005 – a revival driven by an increased inflow of export orders and a modest price trend. The depreciation of the euro also gave Germany a competitive edge on the pricing side. Private domestic demand for consumer goods remained the Achilles' heel of the German economy. In the year under review spending on consumer goods declined again slightly in real terms owing to the increased cost of energy. The development of employment income and the state of the labour market were both factors here. Statistically speaking, the number of unemployed was slightly lower, but the decrease was ultimately due to labour market policy measures and the entry into force of the "Hartz IV" package of social security benefit reforms.

The German insurance industry

The German insurance industry demonstrated its flexibility and potential in 2005. Changes in the legal framework and a depressed economy cast a long shadow over developments in the insurance industry.

The total premium volume booked by German insurers was around EUR 155 billion in 2005, a little over 1.5% more than in the previous year. While property and casualty lines tended towards declining growth rates, personal lines enjoyed a surge in growth. Yet life and health insurance, occupational pension schemes and pension funds failed to build on the vigorous growth of 2004: the amended tax framework that came into effect on 1 January 2005, and which in 2004 had been responsible for a boom in new business in the area of cash value life insurance, put a significant dampener on new production in the year under review. For many German life insurers the level fell below that of 2002 and 2003.

In property and casualty insurance the economic climate and fierce competition meant that the good results recorded over the past two years could not be sustained.

Intense price competition forced premium cuts across a broad front in both motor third party liability and motor own damage insurance. The gross premium volume in motor third party liability insurance contracted by around 3% to EUR 13.5 billion, compared to EUR 13.9 billion in the previous year. The situation was similar in the motor own damage lines: total and partial own damage both saw premium decreases of almost 2.5%.

Following three years that were largely spared major losses, expenditure in industrial property insurance increased sharply owing to numerous major claims – especially in industrial fire business. With premium income also contracting by 6% to EUR 4.0 billion, the combined ratio climbed to more than 84%.

In casualty insurance the modest premium growth of recent years was sustained. In what was a difficult market environment – as a consequence of amended and tighter legal requirements – satisfactory results were achieved against a backdrop of slightly lower loss ratios.

Credit insurance is impacted more directly than any other line by the economic climate. The depressed state of business activity and continued high level of insolvencies are not reflected in the claims expenditure because the efforts made in recent years to secure adequate prices and contract wordings are gradually bearing fruit. Premium income was again higher, and largely positive underwriting results were generated.

Premium growth in marine insurance was disappointing despite the gratifying rise in exports. The lack of domestic demand was clearly felt. The combined ratio improved thanks to modest claims expenditure and ongoing efforts to rehabilitate portfolios.

In view of the growing risks posed by natural disasters worldwide, demand for reinsurance protection continued to rise. Reinsurers with a responsible approach to risk management and solid capital resources were highly sought after. Yet for their part primary insurers are also raising their level of retained premium. The capital adequacy of insurance enterprises is taking on greater significance in light of the requirements of Solvency II. The 2005 amendment of the Insurance Supervision Act (VAG) has opened up increased room for manoeuvre with broader recognition of hybrid equity instruments.

The asset holdings of German insurers continue to be dominated by fixed-income securities, primarily in the area of registered debt securities. The positive movements on equity markets and also – as the year progressed – on bond markets made possible investment results that surpassed those recorded in recent years.

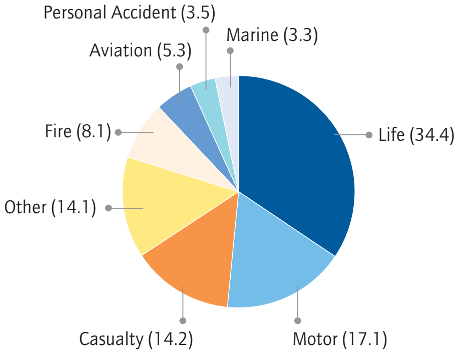
Business development

Thanks to the strong position that it has already secured in the German reinsurance market, E+S Rück was able to further optimise its portfolio. Under an internal retrocession arrangement we assume foreign business from Hannover Re so as to achieve significantly better risk spreading and geographical diversification across our portfolio.

Reinsurers are looking back on another year of turmoil. Just as 2004 had been heavily impacted by hurricanes in the USA, the year under review witnessed further natural disasters: following the destruction caused by winter storm "Gudrun" in Northern Europe at the turn of the year and severe summer flooding in the Alpine region, hurricane "Katrina" – the most expensive in the history of the insurance industry – swept across the Gulf of Mexico in August. It was followed by two more costly hurricanes, namely "Rita" and "Wilma". These events left their mark on the balance sheets of international reinsurers.

The development of our premium income in recent years clearly reflects our strategy of stressing profitability before growth. The gross premium reached its lowest point in 2004 at EUR 2.1 billion, and we did not reduce the volume further in the year under review. Gross premium income thus grew by a modest 3.0% to EUR 2,213.7 million (EUR 2,149.5 million).

Line-of-business breakdown in %



The share of our total portfolio attributable to property and casualty reinsurance remained virtually unchanged in the year under review at 63.9% (64.0%). The largest non-life line – motor reinsurance – developed satisfactorily despite the tense competitive situation on the primary market; the gross premium volume improved slightly on the previous year to EUR 379.0 million (EUR 375.5 million). Aviation, marine and personal accident reinsurance all enjoyed gratifying double-digit growth, while the development of the other property and casualty reinsurance lines was unremarkable.

While the loss expenditure in the first six months of the year under review was below average, major claims took off dramatically in the second half of the year: special mention should be made of the flooding in the Alpine region, several plane crashes and the hurricanes in the USA. Net incurred claims in property and casualty reinsurance climbed 13.9% year-on-year to EUR 696.4 million (EUR 611.6 million).

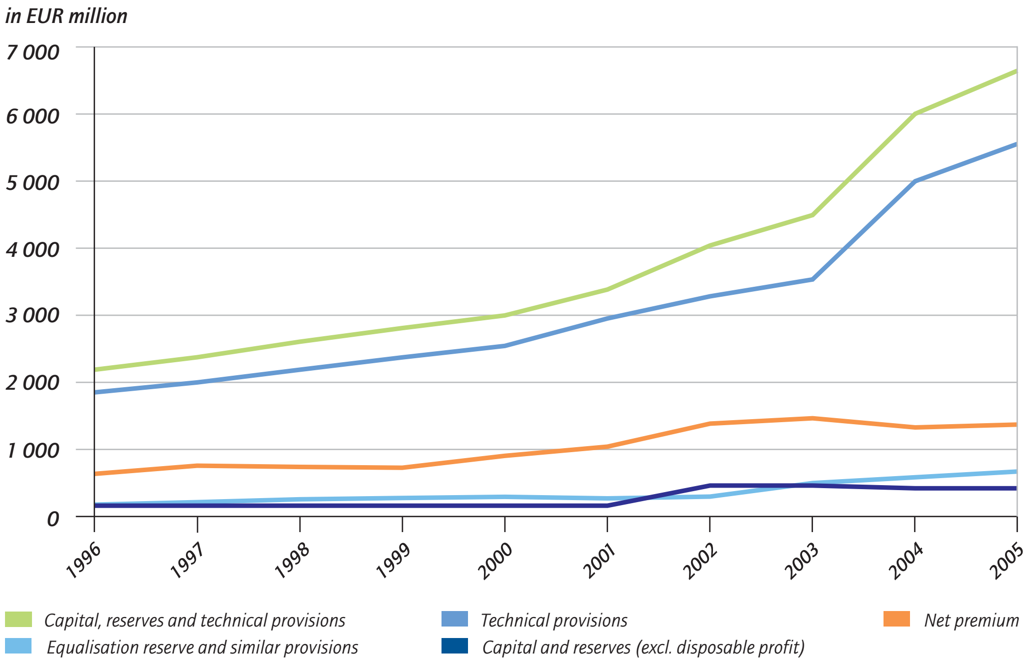
An amount of EUR 86.1 million was allocated to the equalisation reserve.

In life and health reinsurance E+S Rück has cemented its position in the German market as a major partner for life insurers. The ongoing refinement of insurance products aimed at senior citizens and the growing demand for annuity products maintained the favourable momentum of the previous year.

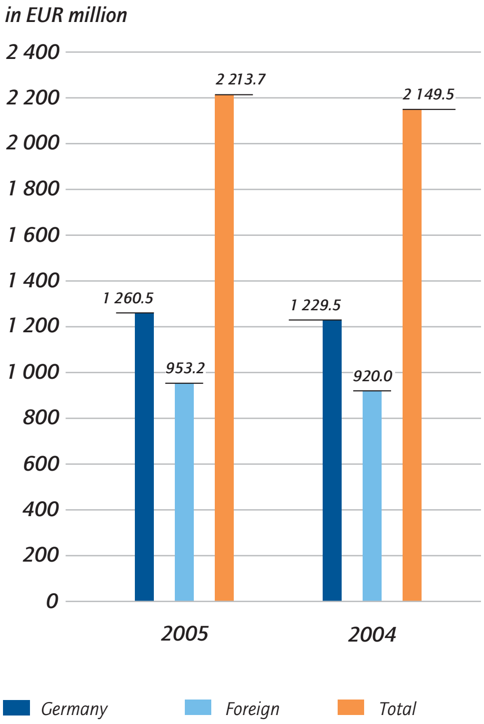
Based on growth of 17.0% in the volume of assets to EUR 7,231.4 million and significantly higher profits on disposals – EUR 103.3 million in the year under review as against EUR 32.1 million in the previous year – the investment income improved substantially. Although current expenditures were slightly higher than in the previous year, the net investment result was boosted by 21.3% to EUR 277.9 million (EUR 229.1 million).

As a consequence of the burden of natural catastrophe losses incurred in the year under review we were unable to build on the outstanding result of the previous year. The profit for the year was halved to EUR 22.0 million (EUR 44.0 million).

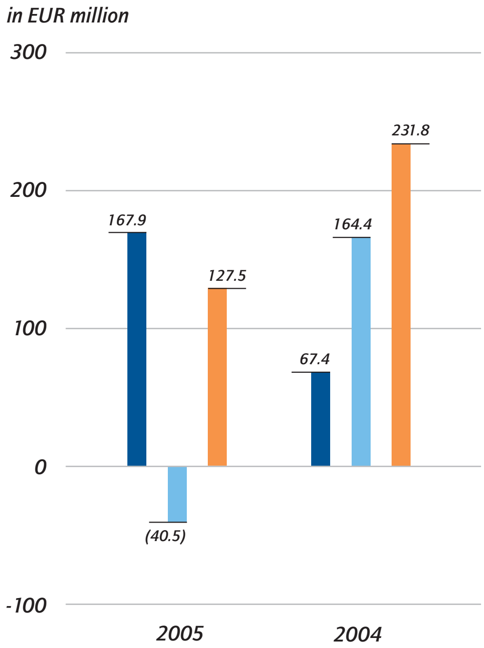
Growth in capital, reserves and technical provisions and in net premium



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



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



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

Development of the individual lines of business in Germany

The following sections explain the development of each line of business. In view of our principal orientation as a specialist reinsurer for the German market, we have subdivided our reporting on underwriting business into two parts. The following remarks on the various lines of business refer solely to our German portfolio; we then provide a summary of our international business accepted from Hannover Re under retrocession arrangements.

Fire

The successful rehabilitation measures undertaken since 2001 and the exceptionally favourable claims experience in 2003 and 2004 generated unexpectedly positive underwriting results in industrial fire insurance. It was this situation that triggered a recurrence of price erosion in 2005. The resurgence of competition was surprising inasmuch as not long ago a number of insurers cast fundamental doubt on their underwriting of industrial business.

It is our assumption that 2004 marked the peak – both in terms of prices and conditions. Premium erosion of between 7% and 10% was already evident on the German market in 2005. Only in respect of certain particularly critical risks – such as those in the wood, paper and recycling industry – is the scope for premium reductions or coverage extensions limited or non-existent.

Considerable advancements could be observed in the area of fire protection, although the scope for further improvement in this respect is by no means exhausted.

In simple and agricultural fire business there have been no significant changes in conditions relative to the previous year. It would appear that the new company tariff for commercial risks up to a sum insured of EUR 50 million recommended by the German Insurance Association (GDV) has not yet been implemented marketwide.

The optimisation efforts of recent years were also clearly felt in our portfolio. Although the burden of losses in 2005 was appreciably higher than in previous years (major claims are already back in line with the average level of earlier years), a modest underwriting profit was reported since the premium level was still adequate.

The marked decline in All Risk covers observed in recent years continued in 2005. The trend towards more non-proportional covers was also sustained, although proportional arrangements – such as the traditional fire surplus treaty – still dominate the market.

Despite several appreciable market losses, premium in facultative fire business came under pressure – especially in the second half of the year. Overall, though, the rate level was still adequate. In isolated cases we withdrew from unprofitable treaties.

In the wake of the previous year's vigorous growth we were unable to enlarge the gross premium volume of our German fire portfolio. The gross written premium contracted by 30.4% to EUR 53.6 million (EUR 77.0 million). The heavy loss burden took a toll on the technical account: the loss ratio climbed 7.6 percentage points to 61.6%. Following the gratifying performance of the previous year the underwriting profit retreated by EUR 11.7 million to EUR 2.6 million (EUR 14.3 million).

An amount of EUR 24.9 million was allocated to the equalisation reserve and similar provisions.

Fire

in EUR million	2005	2004
Gross written premium	53.6	77.0
Loss ratio (%)	61.6	54.0
Underwriting result (gross)	2.6	14.3

Casualty

Casualty insurance continues to pose a challenge on account of the uncertainties of legislation and court practice. Consumer protection is assuming steadily greater importance. Against this backdrop we can nevertheless look back on a modest overall loss experience without significant major claims.

Following the recall of the drug VIOXX in September 2004 proceedings took a new turn in the year under review: German attorneys are increasingly seeking to file claims for compensation in the USA by way of class action lawsuits on behalf of German plaintiffs. There would also be implications for the insurers and reinsurers involved if these lawsuits were to be admitted.

In the area of large industrial risks, such as risks in the automobile sector, chemicals companies and pharmaceutical manufacturers, we maintained our cautious underwriting policy and wrote obligatory treaties only on an isolated basis. In such cases we continue to prefer facultative acceptances.

Our approach to directors' and officers' covers was similarly conservative. Here, too, we prefer to write business on a facultative basis since in this way the risk can be better calculated thanks to the superior information density.

The focus of our casualty business is on private and commercial lines, most especially risks from Germany and the neighbouring markets. As can be deduced from the decrease in quota share cessions, the trend towards non-proportional arrangements has continued. The premium volume almost doubled to EUR 136.6 million (EUR 76.3 million). Such a comparison with the previous year is not, however, helpful since the previous year's result was influenced by special effects associated with the reduction of our share in a large treaty. With an average loss ratio of 27.0% we generated an extremely satisfactory profit of EUR 33.0 million.

An amount of EUR 23.3 million was withdrawn from the equalisation reserve and similar provisions.

Casualty

in EUR million	2005	2004
Gross written premium	136.6	76.3
Loss ratio (%)	27.0	(30.2)
Underwriting result (gross)	33.0	94.8

Personal accident

Personal accident insurance ranks as one of our smaller lines with a premium volume of EUR 62.2 million. The business experience was unremarkable in the year under review despite an increased loss ratio, and reinsurance conditions remained largely unchanged.

In personal accident reinsurance we stress cooperation with our clients on the conceptual design of tailored insurance solutions. Working together with our cedants, we remain heavily involved in the development of senior citizens' insurance products that include assistance benefits.

In addition, we expanded the service that we provide for handling of bodily injury claims and are able to offer rehabilitation management in cases of particularly severe bodily injury. In the area of Internet-assisted sales and marketing E+S Rück similarly supports its clients with bespoke conceptual solutions.

The gross written premium of EUR 62.6 million (EUR 58.3 million) in the year under review was 7.3% higher than in the previous year. With an average burden of losses (the loss ratio stood at 53.5%) we generated a breakeven underwriting result of EUR 0.4 million (EUR 11.4 million) in personal accident insurance.

We allocated an amount of EUR 6.0 million to the equalisation reserve and similar provisions.

Personal accident

in EUR million	2005	2004
Gross written premium	62.6	58.3
Loss ratio (%)	53.5	28.4
Underwriting result (gross)	0.4	11.4

Motor

In premium terms our motor portfolio is the largest line in our German non-life segment. While insurers sought to increase their market shares in the year under review by way of selection criteria and associated discounts and/or special conditions, we consolidated our position as a German reinsurer in this segment. Given our concentration on non-proportional reinsurance, we were scarcely affected by the competition that has erupted among motor insurers; in large areas of our portfolio we were only able to realise our rate expectations to a limited extent.

In motor third party liability insurance the reinsurance exposure traditionally takes its lead from the original policy limits. In this context it should be noted that policies with the coverage limit of EUR 50 million that was introduced for new and substitute business with effect from 1 January 2003 are increasingly replacing policies offering unlimited coverage. In addition, from the first half of 2005 onwards an extension of the policy limit to EUR 100 million could be observed on the market; depending on the individual insurer this was applicable only to new and substitute business or also to the already existing portfolio. Under non-proportional treaties this extension of coverage was honoured with commensurate remuneration.

The shift away from partial towards total own damage insurance that can be observed on the original market has not been reflected on the reinsurance side. Reinsurance protection principally provides against the windstorm/hailstorm accumulation risk for a client's entire own damage portfolio.

Although ceding companies raised their levels of retained premium, E+S Rück made the most of its position as a highly respected German reinsurer and booked a virtually unchanged premium volume of EUR 300.3 million. It is gratifying to report that the year under review was spared any claims comparable to last year's accident on the Wiehltal motorway bridge. All in all, the downward trend in the claims frequency and a stable average loss amount produced an excellent result of EUR 56.2 million (EUR 14.9 million).

We contributed EUR 46.6 million to the equalisation reserve and similar provisions.

Motor

in EUR million	2005	2004
Gross written premium	300.3	300.9
Loss ratio (%)	63.9	76.7
Underwriting result (gross)	56.2	14.9

Marine

The development of German marine business was unspectacular in the year under review; there were no exceptional major losses. E+S Rück has consistently consolidated its portfolio in recent years, and the premium volume has now stabilised at EUR 5.3 million. We again focused on writing the middle and upper layers of non-proportional programmes.

Modest premium reductions were recorded in marine cargo business on both the insurance and reinsurance markets. Overall, our portfolio developed satisfactorily against a backdrop of unchanged conditions. Following a marginal underwriting profit in the previous year, the underwriting result came in at EUR 2.8 million (EUR 0.5 million). The loss ratio stood at 28.1%.

An amount of EUR 29.1 million was withdrawn from the equalisation reserve and similar provisions.

Marine

in EUR million	2005	2004
Gross written premium	5.3	7.4
Loss ratio (%)	28.1	76.4
Underwriting result (gross)	2.8	0.5

Aviation

Aviation business can look back on a mixed year in 2005. After passenger numbers in the previous year had recovered to the same level as before the terrorist attacks on the World Trade Center in 2001, they showed further growth in the reporting period. Yet this gratifying development was not consistently reflected in the premium income. Surplus capacities in the primary sector caused prices to come under pressure, although the reinsurance market held its ground well.

We stood by our strategy of preferring to write non-proportional reinsurance and substantially reducing the existing aggregates in proportional and facultative business. It was pleasing to note that E+S Rück – as one of the leading reinsurers in the German aviation sector – continued to profit from the discontinuation of the German Aviation Pool and assumed the reinsurance of a number of German insurers' portfolios.

Despite an increased claims frequency in the second half of the year under review – the loss ratio climbed to 41.3% – we generated an underwriting profit of EUR 16.0 million on the basis of premium volume totalling EUR 37.5 million (EUR 28.4 million).

An amount of EUR 17.5 million was allocated to the equalisation reserve and similar provisions.

Aviation

in EUR million	2005	2004
Gross written premium	37.5	28.4
Loss ratio (%)	41.3	24.1
Underwriting result (gross)	16.0	9.1

Life

The product mix of life and annuity products shifted more heavily in favour of annuities in the year under review; these products enjoy an unchanged – and indeed in some areas enhanced – tax advantage. Particularly in the second half of 2005 the pension product known as the "Riester-Rente" also became a focus of attention; even during the accumulation phase this enjoys direct assistance in the form of government subsidies.

As far as risk-oriented products are concerned, disability covers now form part of many life insurers' core business, whereas the critical illness covers that are so popular in Anglo-American and Asian markets have to date played only a minor role on the German market. Term life insurance continues to be the province of direct insurers and specialised mutual insurance societies.

The client base of E+S Rück continues to grow – more than 30 life and health insurers on the German market now rank among its cedants, together with a number of personal accident insurers and occupational pension funds. Gross premium amounted to EUR 537.6 million (EUR 550.3 million) in the year under review.

We further stepped up our activities in the growing market for senior citizens' products, which offers solutions tailored to the insurance needs of the 60-plus generation. In this context we are well aware of the long-term nature of this strategically motivated involvement.

The underwriting results of our German business were in line with our expectations, both as regards the biometric risks and the risk associated with the persistency of the business in force; no major individual or accumulation losses were recorded. Deaths resulting from the disastrous tsunami that struck Thailand, Sri Lanka and Indonesia in December 2004 did not have a discernible effect on our portfolio.

The underwriting result in 2004 had reflected strains associated with increased new business and a portfolio acquisition in Germany. The sharp surge in year-on-year underwriting profitability to EUR 23.3 million (-EUR 72.4 million) should therefore be viewed in light of these effects.

Life

in EUR million	2005	2004
Gross written premium	537.6	550.3
Underwriting result (gross)	23.3	(72.4)

Other lines

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

Reflecting their significance, our comments on the other lines will concentrate on natural hazards covers and credit and surety insurance.

Credit and surety insurance continues to operate in a depressed economic climate with the associated high level of insolvencies. It is remarkable that despite this general environment the uncoupling of underwriting results from the protracted adverse credit cycle was once again sustained. Based on their restrictive underwriting policy and thanks to a limited burden of losses, insurers achieved very low loss ratios. This pleasing state of affairs was similarly reflected on the reinsurance side: making the most of the "hard" market we cemented our market share in credit and surety reinsurance and extended it wherever possible. In so doing, however, we continued to concentrate exclusively on profitable business. The only major claim to report in the year under review was the insolvency of a large construction firm, with a strain for our account in the low single-digit million euros. All in all, we booked gross premium income of EUR 34.1 million and an underwriting profit of EUR 8.4 million.

Our expanding position in the German insurance market has gone hand-in-hand with growth in our natural catastrophe portfolio, a segment where the German market incurred few strains in the year under review. The winter storms of January and February primarily impacted Northern Germany; the resulting losses for the primary market were only modest, and for reinsurers even less significant. The largest natural disaster in 2005 was the August flooding in the Alps, which caused considerable damage in Bavaria. Owing to the low insurance density for this peril, claims on insurers and reinsurers were minimal.

With a gratifyingly low loss ratio of 40.7% (75.8%), the underwriting result in all the other lines combined stood at EUR 33.6 million (-EUR 5.2 million).

An amount of EUR 43.5 million was allocated to the equalisation reserve and similar provisions.

Other lines

in EUR million	2005	2004
Gross written premium	127.0	130.9
Loss ratio (%)	40.7	75.8
Underwriting result (gross)	33.6	(5.2)

Results of our foreign business

By adding blocks of foreign business to our portfolio through retrocessions assumed from our parent company Hannover Re we are able to ensure better geographical diversification, which serves to stabilise results from the medium- to long-term perspective. Furthermore, a large portion of profitable life and health reinsurance business can be contributed to the portfolio in this way.

The following sections first discuss the development of property and casualty reinsurance in the markets with the largest premium volume from Hannover Re's perspective, with special emphasis on the key lines of business.

Europe

United Kingdom

The overall state of the reinsurance market was stable in the year under review. Slightly improved rates were obtained in property and casualty business (especially in the motor third party liability line) as well as in the property catastrophe segment.

The property business written on the London Market was hard hit by the hurricane losses in the USA. As a positive effect of these natural disasters, however, it was possible to push through significantly higher rates and markedly better conditions.

The London Market is also a prominent centre for the underwriting of marine and aviation risks. Given the surplus capacity prevailing in aviation insurance, rates here softened further by around 15% compared to the previous year. Surplus capacities on the reinsurance side are limited, however, by the fact that ceding companies still attach considerable importance to their reinsurer's financial standing. Following an initial decline in rates, price increases of as much as 10% were obtained in the aftermath of the severe hurricanes. Hannover Re wrote risks selectively and guided by strict profitability considerations, and it moderately reduced its premium volume. The company nevertheless remains one of the market leaders in aviation reinsurance. It continued to improve the diversification of its portfolio, thereby further scaling back the dominant role played by fleet business. All in all, Hannover Re was highly satisfied with the development of its aviation reinsurance portfolio.

In marine business, too, Hannover Re ranks as one of the foremost reinsurers on the London Market. In this line the primary emphasis continued to be on consolidating the portfolio. The company concentrated systematically on writing profitable non-proportional business. The rate level improved considerably in the wake of hurricane "Ivan" in 2004, which at the time was by far the largest ever loss incurred in marine business. The year under review again saw exceptionally severe losses in marine insurance; in addition to a major claim involving an oil platform in the Indian Ocean, extremely heavy loss expenditure was incurred from hurricanes "Katrina" and "Rita". As had been the case last year with "Ivan", these hurricanes swept across the Gulf of Mexico and caused severe damage to the drilling rigs located there. What is more, Hannover Re suffered a substantial loss burden as a consequence of the subsequent business interruption covers. In this line too, however, the hurricanes also had a positive side: they prompted significant price rises in marine reinsurance, and it is therefore to be expected that the strains incurred in the year under review can be quickly recouped.

United Kingdom

in EUR million	2005	2004
Gross written premium	171.0	144.4
Underwriting result (gross)	(57.3)	30.8

France

Since 2004 the French insurance market has been subject to closer state supervision. In view of a drop in the number of automobile accidents, the government sought to bring pressure to bear on insurers in the year under review to lower prices in motor business. The reinsurance market views this with a certain degree of concern, since – while the number of accidents is falling – spending on seriously injured victims of traffic accidents has risen dramatically.

Hannover Re is the third-largest provider of reinsurance coverage in France. The bulk of the business is written with mid-sized and small insurers. The portfolio was consistently enlarged in all lines, including in personal accident insurance – where Hannover Re ranks as market leader. The company's involvement in builder's risk insurance has also been expanded. Unlike in Germany, insurance for structural defects is mandatory in France for a period of ten years. Good results are anticipated in this line. Both here and in personal accident business Hannover Re is by and large satisfied with the rate level.

France

in EUR million	2005	2004
Gross written premium	48.9	45.3
Underwriting result (gross)	8.1	6.6

North America

Following on the heels of last year's heavy losses, the US market was once more overshadowed by an exceptionally active and highly costly hurricane season. The hurricanes set new records – both meteorologically and economically. Hurricane "Katrina" alone caused a market loss of around USD 50 billion and thus went down as the most expensive insured loss of all time.

North America is by far Hannover Re's largest and most important market. Following the events of 2001 the company had initially expanded its market share substantially. In 2005 it slightly scaled back the business volume on account of softening in the market. With almost all its clients Hannover Re nevertheless ranks among the group of leading reinsurers that are in a position to influence coverage terms and conditions.

In accordance with its anticyclical underwriting policy, Hannover Re's strategy is to reduce its premium volume as the market softens. In the year under review the company therefore identified those business segments that no longer offered sufficiently attractive profitability and wrote smaller shares and/or stopped writing new business. This flexible approach has been made possible by the expanded market position that Hannover Re has cultivated over the past five years and the better appreciation that its clients consequently have of the company's underwriting policy. Cedants now accept its progressive scaling back of market shares in less profitable lines and reduction of peak exposures under catastrophe covers – where necessary – accompanied by a stepping up of market penetration in appealing mid-sized customer segments.

In property insurance the extraordinarily intense hurricanes of the year under review have prompted a particularly marked ratetrend that will continue well into 2006.

The underwriting policy in the casualty sector is geared predominantly towards non-proportional acceptances. Only a small number of proportional treaties under which adequate profitability can be expected are maintained. Based on its very good rating and clients' positive assessment of the company's financial strength, Hannover Re is one of the few reinsurers that ceding companies also approach for the placement of long-tail casualty risks. It was therefore again able to write such treaties highly selectively in the year under review and generate attractive business.

Thanks to its conservative reserving policy and reduced participation in soft market years, Hannover Re again had no need on balance to establish any significant additional reserves for past underwriting years.

Credit and surety reinsurance remained an exceptionally hard market, and Hannover Re thus enjoyed some highly inviting business opportunities. The company ranks among the market leaders in this line. As in the past, the US market is dominated by surety business, and both growth and profitability were highly satisfactory. These lines were in large measure spared losses associated with the hurricanes, and from an overall perspective, too, credit and surety reinsurance did not witness any spectacular major losses in the year under review.

Hannover Re's primary focus in marine reinsurance was the consolidation of its portfolio. While the company writes a relatively broadly spread portfolio in the non-proportional sector, it concentrates its proportional treaty acceptances on just a few lines (e.g. offshore) and works together with providers of niche products. Facultative business is written on a purely opportunistic basis. In North America, too, marine business posted heavy losses in the year under review. Most notably, the severe hurricanes "Katrina" and "Rita" inflicted serious damage on offshore oil facilities in the Gulf of Mexico.

North America

in EUR million	2005	2004
Gross written premium	274.6	326.8
Underwriting result (gross)	(75.7)	(3.0)

Asia

By far Hannover Re's largest market in Asia is Japan. In this country the company enjoys the status of so-called "core reinsurer" with most of the major insurers. In natural catastrophe reinsurance, predominantly written in Japan, Hannover Re was able to obtain appreciable rate increases in the year under review for programmes that had been impacted by the heavy windstorm losses of 2004. All in all, its reinsurance portfolio in Japan developed very favourably and no significant major losses were incurred in the reporting period.

In the Southeast Asian market Hannover Re is one of the five largest providers of reinsurance protection. This region once again fell victim to natural disasters that cost thousands of lives in the year under review: on 8 October Pakistan suffered the most devastating earthquake in the country's history, and in India torrential monsoon rains caused flooding in Mumbai and the surrounding area. The scale of the human tragedy was appalling, but insured losses were insignificant due to the low insurance density.

In Taiwan the portfolio structure was further optimised, with a greater concentration on the personal accident and general casualty lines. On the claims side the year under review was notable for a sizeable fire event.

Despite the soft state of the insurance market in Hong Kong, terms and conditions for reinsurers were satisfactory. Although competition in the casualty sector is growing, the past three years have been very profitable for Hannover Re – especially in the workers' compensation and motor third party liability lines.

All in all, Hannover Re was exceptionally satisfied with its results in Asia.

Asia

in EUR million	2005	2004
Gross written premium	38.7	31.8
Underwriting result (gross)	5.9	10.4

International life and health reinsurance

E+S Rück has participated in the international life business of the Hannover Re Group for many years through a global quota share reinsurance treaty. The international life and health reinsurance portfolio ceded by Hannover Re and its companies abroad amounted to a gross premium volume of EUR 262.0 million in 2005, compared to EUR 223.7 million in the previous year.

This tried and trusted structure optimises the company's technical diversification – in light of both territorial and product considerations – and enables E+S Rück to share indirectly in the growth impetus of key foreign markets.

Through the addition of international business in the life, annuity, disability and personal accident lines, life business has thus for some years now been E+S Rück's most important line in terms of premium volume. In the year under review it accounted for roughly 34% of the company's total gross premium income.

In the United Kingdom further intensive effort was put into the cultivation of enhanced annuities, products that provide an increased annuity payment until death for persons with a shortened life expectancy. This market is growing steadily, and in the assessment of neutral observers already accounts for 20-25% of the total enhanced annuity market.

In the Romance-speaking markets, such as France, Spain and Italy, and in the Scandinavian countries it remains the case that customers in the bancassurance sector are of particular interest. In Greece and Turkey new business acquisition efforts were stepped up and several new clients were added to the portfolio for the current financial year.

On the North American market the positioning as a reinsurer of choice for small and mid-sized life insurers was successfully maintained. In addition, the Group's excellent rating and financial strength caught the attention of several large insurers, thereby making it possible to act selectively on a number of interesting opportunities in the year under review.

In South Africa the withdrawal from only marginally profitable health business was completed and the status of lead reinsurer with a number of the market's innovative life companies was expanded. In Australia and New Zealand the role of market leader was successfully defended, with unchanged good results.

The number of clients in Asia was significantly boosted, especially in the Chinese-speaking economic region. The ongoing licensing procedure for establishment of a branch in Shanghai has not yet been concluded. In the major life market of South Korea treaty participations were entered into with two market leaders in the year under review.

International life and health reinsurance business

in EUR million	2005	2004
Gross written premium	262.0	223.7
Underwriting result (gross)	7.8	60.1

Investments

Once again, expectations among players on the bond markets were dominated in the year under review by the theme of interest rate rises. The US prime rate was hiked 25 basis points on each of altogether 8 occasions to close the year at 4.25%. Ten-year US yields for the most part moved in a range of 4.0% to 4.5% throughout the year, closing at 4.4%.

The European bond market temporarily uncoupled itself from US parameters. European ten-year bonds fell to a yield low of 3.0% in the course of the year, only to recover to 3.3% by year-end. The yield gap between US and European ten-year government bonds thus stood at 105 basis points at the end of the year.

Although growth in the Eurozone economy was weaker than in the United States, the bellwether European indices comfortably outperformed US markets, rising on all 18 stock markets of Western Europe. The UK and French market barometers broke through four-year highs, while the Dax reached its highest level since March 2002 shortly before year-end with 5,459 points.

As 2005 progressed players on the foreign exchange markets profited increasingly from the interest rate advantage enjoyed by the USA over the Eurozone and Japan, causing the US dollar to appreciate significantly. Both the yen and the euro shed around 13% of their value against the greenback. The euro closed 2005 at USD 1.1834.

In the year under review we boosted our total investment portfolio – excluding deposits with ceding companies – by 20.3% to EUR 3.6 billion (EUR 3.0 billion).

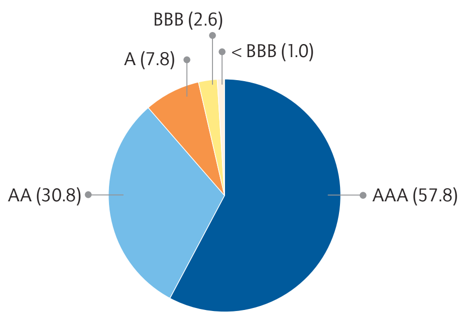
E+S Rück used the positive movements on equity markets to realise profits and adjust its tactical positioning. Equity investments in the reporting period were made predominantly in index-tracking investment instruments from the Eurozone with the aim of sharing in the anticipated performance of the Dax 30 and EuroStoxx 50 – which did indeed live up to expectations. In addition, investments were made in the stocks of specific attractively valued European companies with the goal of generating long-term, above-average value growth and a high dividend yield. As at year-end we slightly reduced our equity allocation to 11.1% (13.8%) in order to consolidate the achieved price gains.

We managed our holdings of fixed-income securities more aggressively than in previous years and modified the duration of the portfolio even more actively by implementing our duration strategy, thereby generating appreciable additional income. Overall, the average duration of our fixed-income securities, including deposits with banks, was increased incrementally throughout the year from 2.9 to 4.2. We did not significantly enlarge our holdings of corporate bonds due to the minimal yield advantage over government bonds. Our preferred asset classes continued to be government bonds and (jumbo) mortgage bonds. The quality of our investments remained on a consistently high level, with 96% of bonds rated "A" or better.

As at year-end the proportion of our total asset portfolio – excluding deposits with ceding companies – attributable to fixed-income securities stood at 81.6% (73.7%).

Our active portfolio management was reflected in the development of ordinary and extraordinary income. We used the decline in yields in

Rating of fixed-income securities in %



the first half of the year to boost the existing hidden reserves. Including regroupings in the equity portfolio, we generated extraordinary income of EUR 89.1 million (EUR 27.9 million).

The unrealised gains in our portfolio of fixed-income securities decreased from EUR 50.0 million to EUR 40.5 million due to the various reshuffling activities.

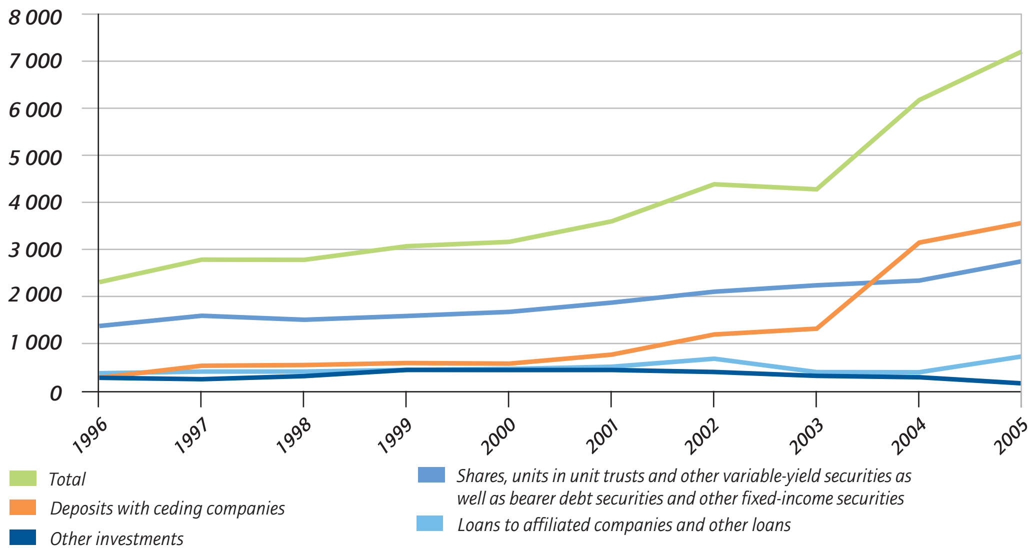
Ordinary income from interest and dividend payments declined by EUR 3.4 million year-on-year to EUR 218.6 million (EUR 222.0 million) despite the growth in the asset portfolio. This reduction was attributable principally to the protracted low interest rate level throughout the entire Eurozone.

In accordance with § 341b German Commercial Code, securities are to be valued differently depending on their allocation to fixed assets or current assets. Our investments are allocated primarily to current assets.

Given the far from straightforward conditions on bond markets and in view of the price movements on equity markets, we are more than satisfied with the rise of 21.3% in the net investment result to EUR 277.9 million (EUR 229.1 million).

Investments

in EUR million



Human resources and social report

Unceasing dedication to customers' needs coupled with the commitment and professionalism of our staff have enabled E+S Rück to achieve the level of success that it enjoys today. The constant fostering of our employees' skills and motivation therefore ranks as one of the most vital tasks in safeguarding our company's future and forms the basis of our personnel management policy. In 2005 therefore, in order to translate this aspiration into the day-to-day practice of personnel management and staff leadership on a systematic and consistent basis, the Central Division of Human Resources Management moved forward with the interlinking of its departmental strategy with the company's holistic management system "Performance Excellence" (PE). Following its successful certification in 2003, the Central Division was subjected to an IBEC assessment (IQNet Business Excellence Class) last year in accordance with the model of the European Foundation for Quality Management. Our human resources management thus received a further seal of quality approval on the European level from an independent, external institute.

E+S Rück employed 229 (227) staff as at 31 December 2005. The staff turnover remains considerably better than the industry average. Along with the current state of the labour market, there can be no doubting the role played here by our continuous and systematic personnel development and leadership.

Continuity is also the hallmark of the esteem in which E+S Rück is held as an employer. Following our successful participation in the 2004 survey "Germany's best employer" conducted on the basis of a standardised questionnaire, we carried out a company-specific survey in the year under review to explore in even greater detail just how our staff rate us as an employer. On the basis of a questionnaire tailored specifically to our company, our staff once again expressed their considerable satisfaction overall: nine out of ten employees – more precisely 92% – consider Hannover Re/E+S Rück to be a very good employer. The overall level of satisfaction was thus even higher than in the previous standardised survey. Irrespective of the highly positive overall findings, we identified room for improvement and advancement in some areas. Working together with the Employee Council we analysed these weakness and initiated appropriate countermeasures. Some areas of the company, for example, expressed a desire for more support in handling in-house conflicts. Since the adverse repercussions of unresolved conflicts are plain to see – e.g. costs in the form of lost working time or employees whose energies are tied up elsewhere –, we offered a cycle of training activities in the year under review designed to convey conflict management skills to our managerial staff.

We reviewed our range of personnel development tools such as appraisal interviews, personnel development workshops and other internal seminar offerings. In their feedback on behaviour-oriented coaching our staff praised the existing range of seminars, but they also expressed additional needs.

Our long-established, highly popular and without reservation favourably rated English-language courses (Presentation/Negotiation Techniques) as well as the seminars covering time management and memory training continue to enjoy strong demand.

We combined our two personnel tools Management Feedback (assessment of a manager's performance from the standpoint of his/her supervised staff) and 270° Feedback (assessment of a manager from the standpoint of his/her supervisor and colleagues) in the year under review with a view to constantly enhancing our customer orientation and streamlining internal processes. With the new, intelligent linking of these tools we have striven to improve managerial performance, on the one hand, while at the same time creating more time for customers.

In the financial year just-ended our staff again pursued their company's ambitious goals with exceptional dedication and to a considerable extent achieved these objectives. We would like to thank all our staff for their efforts and to express our appreciation to the employee council and the senior management committee for their critical yet always constructive cooperation.

In the pursuit of its aspiration to be the leading specialist reinsurer for the German market, E+S Rück strives never to lose sight of its social responsibility. Last year, for the eighth time, E+S Rück organised a so-called "examination concert" in cooperation with Hannover University of Music and Drama. By holding this concert – which features three or four "master students" accompanied by a large orchestra – the company enables a number of music students to embark on their career as soloists, while at the same time offering its clients a musical highlight as part of the "Hannover Forum" seminar event. Were it not for the involvement of E+S Rück these advanced students would face a long wait until their final examination, since opportunities for them to play with a large orchestra are few and far between.

Bearing in mind the ever increasing importance attached to the correct assessment of catastrophe risks, one of our concentrations is on a constant knowledge transfer between business and research that enables our company to apply the very latest insights. To this end we support the highly respected Geo Research Center in Potsdam in its systematic research into earthquakes and their early identification. We also seek to maintain an ongoing dialogue with universities and, last but not least, our own experts are welcome speakers at conferences and institutions of higher learning.

Risk report

Overall system of risk monitoring and management

The business transacted by E+S Rück inevitably involves commercial risks – which take different forms in the various strategic business groups and geographical regions. The acceptance of risks and the professional management of this risk portfolio constitute the core business of a reinsurance enterprise. Our risk management is based on a business strategy geared to sustained enhancement of the company's value. This means that we systematically enter into entrepreneurial risks provided the associated opportunities promise a commensurate increase in the value of the company.

The following elements are the hallmarks of our risk management organisation:

- Central coordination, yet local responsibility in the various areas.
  - *Local risk controllers* bear primary responsibility for the monitoring of risks and risk-policy measures within their specific areas.
  - *Local risk controlling* aggregates and manages individual risks on the level of specific business groups and, where necessary, initiates appropriate risk-minimisation measures.
  - *Centralised risk controlling* steers the entire process and is responsible for mapping the risk situation of the company across all business groups.
- Continuous monitoring of critical performance factors in order to detect undesirable developments at an early stage and facilitate implementation of appropriate countermeasures.
- Annual risk inventory, in which all risks or risk groups that could potentially jeopardise the company's survival are thoroughly analysed and quantified.
- Documentation of the principal elements of risk management in guidelines that are valid throughout the Group.
- Regular internal and external review of the efficiency of the risk management system and adjustment to the prevailing business environment.
- Complete integration into value-oriented enterprise management.

Risk categories

Global risks

Global risks are beyond our direct sphere of influence and there are therefore limits to the extent to which they can be reduced or avoided. Early detection is the top priority here. Global risks derive, inter alia, from:

- changes in the legal framework, including changes in the general regulatory and tax environment,
- social and demographic changes as well as developments in the insurance industry,
- changes due to environmental and climate factors.

We counter these risks, inter alia, by means of the following proactive measures:

- monitoring of claims trends,
- regular adjustment of our underwriting policy (e.g. through appropriate contractual exclusions or by way of material and geographical diversification of the portfolio),
- analysis of the frequency of and extent of losses associated with natural disasters attributable to climate factors using detailed simulation models (e.g. frequency and intensity of windstorm events due to climate change),
- tracking of relevant legal trends and changes in pertinent accounting standards by specialised units within E+S Rück.

Strategic risks

Our overriding strategic objective is to grow as an optimally diversified and economically independent reinsurance group of above-average profitability. All other goals are derived from and subordinate to this overriding objective. Every three years we review the assumptions underlying our strategy. In order to translate our strategic objectives into operating practice, we have defined company-wide ratios and controlling processes that are used to measure and steer the contribution made by each business segment to the overall corporate performance. Performance Excellence is the method used to put our strategy into practice. At annual Excellence workshops we systematically deploy a number of tools – inter alia the SWOT[1] analysis – to examine the implications of strategic decisions. The resulting diverse initiatives lead to consistent refinement of value-enhancing processes.

Technical operating risks

Risks in underwriting business can essentially be subdivided into risks of random fluctuation, risks of error and risks of change.

The aforementioned risks can manifest themselves in a number of ways, including for example:

- inaccurate or incorrect calculation assumptions within risk models (risk of errors),
- random fluctuation of the actual claims experience from the forecast development (risk of random fluctuations),
- permanent change in the actual claims experience as a consequence of changes in court practice, e.g. US casualty business (risk of change).

Despite this definition, it is in practice difficult to allocate a random claim materialisation precisely to these risk types. After each significant claim materialisation it is therefore incumbent on responsible risk management to review the extent to which the risk assessments made prior to the event remain valid.

Generally speaking, the business that we accept is not always fully retained, but instead portions are retroceded as necessary. In order to minimise the default risk it is essential to select retrocession partners carefully in light of credit considerations. Our receivables from reinsurance business are in large measure secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.

Property and casualty reinsurance

- In property and casualty reinsurance the loss reserves are determined on an actuarial basis. The point of departure for our calculations is the information provided by cedants. In addition to the claims reported by our clients, we establish additional reserves that may seem appropriate on the basis of our loss estimations. Furthermore, we constitute an IBNR (incurred but not reported) reserve for losses that have probably already occurred but have not yet been reported to us. This applies primarily to claims in the casualty lines. Furthermore, the calculations made by our own actuaries are regularly reviewed by external actuaries and auditors.
- Aggregate control is a fundamental risk management tool. It is used to determine the strain on the E+S Rück portfolio associated with particular natural catastrophe scenarios and return periods. The aggregate amount of the exposures expected from one or more treaties for a specific combination of countries and hazard zones and a specific probability are calculated.

[1] ***S***trengths, ***W***eaknesses, ***O***pportunities and ***T***hreats

- The diversification of our portfolio is a further risk-minimising measure. Diversification promotes risk-spreading across business groups and also reduces the capital adequacy otherwise required in property and casualty reinsurance. The diversification effect is calculated using mathematical methods (DFA model) and makes allowance for the individual features of the various business groups as well as the correlations between them. It was thanks to E+S Rück's optimal diversification that we were able – despite the extreme loss burden from hurricanes "Katrina", "Rita" and "Wilma" – to show a positive, albeit reduced year-end result.

- E+S Rück analyses the findings of all available scientific research into possible changes in the risk situation associated with natural disasters (e.g. frequency and intensity of windstorm events) with an eye to the implications for potential losses. To this end we use recognised licensed simulation models and also employ our own scientists, who control the quality of the models and develop our own risk management tools. The extreme natural catastrophe events of 2005 revealed structural flaws in the risk models. As an immediate step intended to restore our calculations to a risk-adequate basis, we are adding safety loadings to the output of the simulation models.

Life and health reinsurance

- Biometric risks (miscalculation of mortality, life expectancy and disability probabilities) as well as lapse and credit risks are of special importance in life and health reinsurance.

- The reserves in life and health reinsurance are based principally upon information provided by our clients. E+S Rück reviews the plausibility of the data using secure biometric actuarial bases. Furthermore, local supervisory authorities ensure that the reserves calculated by ceding companies satisfy all local requirements with respect to actuarial methods and assumptions (e.g. use of mortality and disability tables, assumptions regarding the lapse rate etc.). The lapse and credit risks are of crucial importance in the prefinancing of our clients' acquisition costs. The interest rate risk, on the other hand, is of only minimal risk relevance due to contractual exclusions.

Investment operating risks

Since investment income is a major revenue source for a reinsurance enterprise, severe volatility on the capital markets can have a similar impact on the statement of income to natural disasters. Our investment policy is therefore not geared first and foremost to maximising returns at any cost. Rather, investment income should be optimised on a lasting basis subject to a limited and clearly defined risk. The investments are comprised to a very large extent of inflows (premium) that are put aside for future claim payments. For this reason, investments, too, are guided by the requirements of our reinsurance business, for example with respect to currencies and maturities. In this context our management and control mechanisms take their lead from the standards adopted by the Federal Financial Supervisory Authority (BaFin). Risks in the investment sector consist primarily of market, credit and liquidity risks.

- The most significant *market price risks* are share price, interest rate and currency risks. The "value at risk" (VaR) is a vital tool used for managing market price risks. The VaR is determined on the basis of historical data, e.g. for the volatility. As part of these calculations the probability of losing a certain portion of our portfolio is calculated. Our range of tools is complemented by stress tests and sensitivity analyses. Detailed investment guidelines and defined loss limits are in force for E+S Rück, compliance with which is monitored by risk controlling.

  – *Share price risks* derive from unfavourable changes in the value of equities and equity or index derivatives. We spread the equity price risks through systematic diversification across various sectors and regions. We use short-call and long-put options as well as swaps to partially hedge portfolios, especially against price, exchange and interest rate risks. In the year under review we also used derivative financial instruments to optimise our portfolio in light of risk/return considerations. The contracts are concluded solely with first-class counterparties and compliance with the standards defined in the investment guidelines is strictly controlled in order to avoid risks associated with the use of such transactions.

– *Interest rate risks* refer to an unfavourable change in the value of financial assets held in the portfolio due to changes in the general interest rate level. Declining interest rates lead to increases and rising interest rates to decreases in the fair value of fixed-income securities portfolios.

– *Currency risks* are of considerable importance to an internationally operating reinsurance enterprise that writes a significant proportion of its business in foreign currencies. These risks are, however, largely neutralised since we systematically adhere to the principle of matching currency coverage.

- *Credit risks* may arise out of a failure to pay (interest and/or capital repayment) or change in the credit status (rating downgrade) of issuers of securities. We attach vital importance to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

- The *liquidity risk* refers to the risk that it may not be possible to sell holdings or close open positions due to the illiquidity of the markets – or to do so only with delays or price markdowns – as well as the risk that the traded volumes influence the markets in question. Regular liquidity planning and a liquid asset structure ensure that E+S Rück is able to make the necessary payments at all times. We manage the liquidity risk inter alia by allocating a liquidity code to every security. The spread of investments across the various liquidity classes is specified in the monthly investment reports and controlled by limits.

The following tables illustrate the possible effects of price, default and liquidity risks as well as risks from fluctuations in payment flows to which the company – subject to the assumptions set out below – was exposed as at the balance sheet date.

Scenarios for changes in the fair value of our securities as at the balance sheet date

Portfolio	Scenario	Portfolio change based on fair value in EUR million
Equities	Stock prices - 10%	(43.0)
	Stock prices - 20%	(85.9)
	Stock prices +10%	43.0
	Fair value as at 31.12.2005	429.6
Fixed-income securities	Yield increase +50 basis points	(66.3)
	Yield increase +100 basis points	(129.9)
	Yield increase - 50 basis points	68.9
	Fair value as at 31.12.2005	3 058.2

Rating structure of our fixed-income securities

Rating	Bearer debt securities		Registered debt securities, debentures and loans		Bond funds		Sundry loans	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	66.9	1 449.9	25.2	157.6	87.1	137.9	–	–
AA	29.3	635.5	44.5	278.1	9.5	15.0	–	–
A	2.8	62.1	26.8	167.6	–	–	7.7	5.1
BBB	0.2	4.1	2.7	16.8	–	–	85.9	56.8
<BBB	0.8	16.5	0.8	5.0	3.4	5.5	6.4	4.2
Total	100.0	2 168.1	100.0	625.1	100.0	158.4	100.0	66.1

Operational risks

In our understanding, the category of operational risks encompasses the risk of losses occurring directly or indirectly because of

- inadequacy or failure of internal procedures,
- human error or system failure,
- organisational shortcomings,
- external events (e.g. legal risks).

The failure of our data processing infrastructure and associated disruptions in the availability of applications pose a major risk for our company. We invest systematically in the security and availability of our information technology in order to minimise these risks. High availability of mission-critical IT applications is ensured. Contingency plans are in place to facilitate systematic and rapid restoration of the data-processing infrastructure in crisis situations. Controlling these risks consequently constitutes a key competitive factor. The existing risk management measures were therefore expanded in the year under review.

Assessment of the risk situation

As an internationally exposed reinsurance enterprise we face many potential risks that could have a not inconsiderable impact on our assets, finances and earnings. Based on the information currently available, however, we cannot discern any risks that could jeopardise the continued existence of our company in the short or medium term or have a significant, lasting effect on our assets, financial position or earnings.

Forecast

The global economic environment should continue to develop favourably in 2006. The restrictive monetary policy in the USA should actually lead to an economic slowdown in the course of the year. At the same time, though, the cyclical momentum in Japan and Western Europe should pick up somewhat, with the result that overall output in the industrialised nations is expected to maintain the current pace of growth undiminished.

Against this backdrop the ongoing revival of the German economy should be sustained, supported by vigorous foreign demand for exports, on the one hand, and the depreciation of the euro, on the other. Domestic demand in the current year is likely to be stronger than in the previous year, especially as regards capital spending on equipment. Private consumption, however, will remain modest: shrinking real in-comes and high unemployment continue to have a dampening effect. The bringing forward of purchases due to the impending increase in value-added tax scheduled for 2007 could have positive implications.

The broader economic environment will have only minimal implications for the German insurance industry. Stable prices and a modest claims experience will tend to promote premium growth slightly in excess of the previous year's level. Life and health insurers anticipate premium increases, while the volume in property and casualty insurance is likely to contract.

The growing demand for individual retirement provision will be curbed by weak income growth and high unemployment. In 2006 the volume of new business in German life insurance will be only slightly in excess of the previous year. Fierce price competition in many lines of property and casualty insurance will lead to premium reductions, especially in motor insurance and industrial business.

In light of the tense competition in *industrial fire insurance,* we expect further premium erosion – despite several major claims in 2005 – and a tendency towards lower deductibles under the original policies. As in previous years, we shall therefore write industrial fire business selectively and conservatively. Facultative acceptances will only be considered if the premiums are adequate and promise profitable results from a technical standpoint.

In *casualty insurance* we were able to expand existing client relationships and cultivate new accounts. Our focus continues to be on private and commercial casualty business, which makes up the bulk of our clients' portfolios. A gradual softening of the market can be observed on the insurance side, as regards both premium and conditions. Nevertheless, we shall not allow ourselves to diverge from our underwriting standards and required margins in our acceptances. For 2006 we anticipate a stable market premium volume on a par with the previous year. On the reinsurance side the upward trend in the rate level should be sustained. In 2006 casualty insurance will again find itself facing legal requirements, the consequences of which are difficult to assess. Mention may be made here, for example, of the EU Service Directive or the right to assert a direct claim under compulsory insurance, as is envisaged by the reform of the Insurance Contract Act.

In *personal accident insurance* the trend of recent years – characterised by cut-price tariffs and extended conditions – will continue in the primary sector. With this in mind we write our business highly selectively and, in particular, we do not accept global infection inclusions under the terms and conditions – not least with an eye to the emerging debate about pandemics. The reinsurance market has detached itself from the stagnant premium growth on the primary market. Overall, we have increased the number of our treaties and even enlarged our share in the case of companies with a favourable portfolio development. In 2006 we plan to expand our market position by offering additional services. Together with the development of new products tailored to the senior citizens' market, the active transfer of knowledge at specialist events organised for our clients is at the very heart of our service concept.

The marked competition among *motor insurers* is likely to lead to a further decline in original premium in the current year. Given a sustained low claims frequency we expect a reduced, albeit still positive underwriting result for 2006. In this climate E+S Rück intends to stand by its selective underwriting policy and prefers to write non-proportional treaties. At the same time, however, we are prepared to accept increased shares or new clients with proportional treaties if we assess the profit outlook positively.

As far as German marine business is concerned, we expect a slight decline in premium rates on the reinsurance side, although the market environment should develop favourably with respect to terms and conditions. As a matter of principle we prefer to write non-proportional covers. Overall, the premium volume of our portfolio is likely to remain virtually unchanged in 2006.

The price trends for *natural catastrophe covers* were stable during this year's renewal season; positive effects associated with the hurricanes in the Caribbean were only felt sporadically, leading to modest price increases. In our assessment, however, the German natural catastrophe market is, if anything, undersupplied. We maintained our premium volume on the level of the previous year.

In *credit and surety reinsurance* the situation continues to be favourable in the current year. There has been no significant price erosion despite adequate rates and the extremely low loss ratios of the year under review. In some instances this enabled us to write larger shares and acquire new business, thereby in large measure offsetting the decline in premium associated with the sometimes substantially higher retentions carried by primary insurers.

Developments in the *Northern European markets* are expected to be favourable. Rates increased in catastrophe reinsurance as a consequence of the losses from winter storm "Erwin", while in other lines they held steady. The state of the *UK market* was also stable. Non-proportional reinsurance in particular saw modest rate increases. The renewal phase passed off satisfactorily in *France*, and in *Italy* we were able to profitably expand our portfolio.

In *North America*, the largest and most important market, the primary focus in the current financial year will be on the continued optimisation of the portfolio in favour of considerably more profitable non-proportional business. In the casualty sector the portfolio is to be further consolidated. Lines with insufficient premium will be systematically scaled back. In the aftermath of the heavy hurricane losses, the affected natural catastrophe programmes saw substantial price increases combined with reduced coverage limits; rates for treaties that had been spared losses held stable. We expect our North American business – provided it is spared extraordinarily high hurricane losses – to show very strong profitability.

Treaty renewals for *Asian markets* take place predominantly as at 1 April. In Taiwan, however, most treaties were renegotiated on 1 January. Although the market suffered a major fire loss in the year under review, rates have not developed as anticipated. In Japan stronger demand for earthquake covers is expected. The price level for windstorm and flood risks should remain stable. All in all, business in the Asian markets should develop favourably.

Business in *Australia* is progressing very well. In this market some treaties are renewed as at 1 January, others on 1 July. Rates have already stabilised on a high level and promise a further strongly attractive business climate on the Australian market.

In *life and health reinsurance* new business is expected to gather momentum in numerous European markets during the current financial year. The conservative underwriting and pricing policy enshrined in global underwriting guidelines will be retained unchanged.

In the area of unit-linked products – primarily annuities – the financing of clients' new business acquisition costs is to continue in German-speaking markets. Expansion of business is also anticipated in the United Kingdom.

As far as enhanced annuities are concerned, the focus is on the European market – especially Germany, the United Kingdom and Switzerland. Bancassurance business will develop notable momentum, particularly in the German, Italian and Greek markets.

In the USA new opportunities will open up on 1 January 2006 and over the coming years in the field of health insurance for senior citizens with the launch of prescription drug covers for seniors. We are also working intensively on the roll-out of system-supported solutions for the sale of life policies by major US financial services providers.

The South African market offers additional growth potential in already existing customer relationships. In Asia the marketing activities and services aimed at Thailand and Vietnam will be stepped up, although China and South Korea will also figure prominently; cultivation of these markets will be significantly intensified by Hannover Re's Hong Kong office.

The *capital market* is likely to move sideways. Prices have already factored in interest rate hikes by central banks and the high cost of oil. The expected positive cash flow from the technical account should lead to further enlargement of the asset portfolio. Ordinary investment income should also grow as interest rates rise slightly. We shall continue to stress high quality and a well diversified portfolio when investing in fixed-income securities. Taken together with our ongoing investments in equities and alternative asset classes, we should be able to generate a stable profit contribution over the long term.

Bearing in mind the current advantageous market conditions prevailing in both property/casualty and life/health reinsurance, we expect 2006 and indeed 2007 to develop favourably. We should therefore be in a position to achieve our profit targets. Assuming that the loss experience in natural catastrophe business remains in line with the multi-year average and that capital markets remain fairly stable, it is our expectation that the result will build on the successes of previous years and enable us to distribute the accustomed high dividend to our shareholders.

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG).

Other information

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

Tax matters are largely handled on a central basis for the Group by Talanx AG.

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

Capital, reserves and technical provisions

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

Figures in EUR million	2005	2004
Subscribed capital and reserves	420.3	420.3
Equalisation reserve and similar provisions	670.6	584.6
Technical provisions	5 556.5	4 998.3
Total capital, reserves and technical provisions	6 647.4	6 003.2

The capital, reserves and technical provisions amounted to 481.4% (453.0%) of net premium; this includes the capital and reserves at 30.4% (31.7%) of net premium.

Proposal for the distribution of profits

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

	EUR
Distribution of a dividend on the participating paid-up subscribed capital of EUR 42 621 941.81	22 000 000.00

The dividend is payable on 22 March 2006.

CONSOLIDATED ACCOUNTS
of E+S Rück

BALANCE SHEET
as at 31 December 2005

Figures in EUR thousand	2005				2004
Assets					
A. Investments					
I. Land and buildings, rights to land and buildings, leasehold			25 439		37 113
II. Investments in affiliated companies and participation interests					
1. Shares in affiliated companies		79 119			210 326
2. Loans to affiliated companies		40 000			40 000
3. Participating interests		12 704			17 755
			131 823		268 081
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		585 339			642 322
2. Bearer debt securities and other fixed-income securities		2 168 139			1 701 698
3. Mortgages and loans secured on land and buildings		324			392
4. Other loans					
a) Registered debt securities	194 903				64 795
b) Debentures and loans	430 179				226 561
c) Sundry loans	66 097				64 429
		691 179			355 785
5. Deposits with banks		42 357			23 572
6. Other investments		5			5
			3 487 343		2 723 774
IV. Deposits with ceding companies			3 586 792		3 150 934
				7 231 397	6 179 902

Figures in EUR thousand		2005		2004
Liabilities				
A. Capital and reserves				
I. Subscribed capital		42 622		42 622
II. Capital reserve		372 166		372 166
III. Retained earnings				
1. Statutory reserve	256			256
2. Other retained earnings	5 237			5 237
		5 493		5 493
IV. Disposable profit		22 000		44 000
			442 281	464 281
B. Technical provisions				
I. Provision for unearned premiums				
1. Gross	267 204			220 343
2. Less: reinsurance ceded	70 487			52 577
		196 717		167 766
II. Life assurance provision				
1. Gross	3 006 260			2 702 667
2. Less: reinsurance ceded	634 112			519 733
		2 372 148		2 182 934
III. Provisions for outstanding claims				
1. Gross	3 825 295			3 394 685
2. Less: reinsurance ceded	878 838			783 277
		2 946 457		2 611 408
IV. Provision for bonuses and rebates				
1. Gross	312			664
2. Less: reinsurance ceded	–			60
		312		604
V. Equalisation reserve and similar provisions		670 621		584 560
VI. Other technical provisions				
1. Gross	47 679			44 197
2. Less: reinsurance ceded	6 842			8 522
		40 837		35 675
			6 227 092	5 582 947

Figures in EUR thousand	2005		2004
Assets			
B. Receivables			
I. Accounts receivable arising out of reinsurance operations	271 892		399 116
from affiliated companies:			
157 671 (2004: 261 876)			
II. Other receivables	22 070		145 940
from affiliated companies:		293 962	545 056
6 863 (2004: 125 168)			
C. Other assets			
I. Tangible assets and stocks	3		5
II. Current accounts with banks, cheques and cash in hand	16 243		14 272
		16 246	14 277
D. Prepayments and accrued income			
I. Accrued interest and rent	50 427		43 781
II. Other accrued income	64		183
		50 491	43 964
E. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)		–	4 929
		7 592 096	6 788 128

Figures in EUR thousand	2005		2004
Liabilities			
C. Provisions for other risks and charges			
I. Provisions for pensions and similar obligations	13 439		12 470
II. Provisions for taxation	46 358		48 075
III. Other provisions	11 720		12 276
		71 517	72 821
D. Deposits received from retrocessionaires		782 890	608 006
E. Other liabilities			
I. Accounts payable arising out of reinsurance operations	66 953		58 760
to affiliated companies:			
39 615 (2004: 37 818)			
II. Miscellaneous liabilities	1 302		1 206
from taxes:		68 255	59 966
168 (2004: 162)			
for social security:			
282 (2004: 261)			
to affiliated companies:			
124 (2004: 59)			
F. Accruals and deferred income		61	107
		7 592 096	6 788 128

PROFIT AND LOSS ACCOUNT
for the 2005 financial year

Figures in EUR thousand		2005		2004
		1.1.–31.12.		1.1.–31.12.
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	2 213 668			2 149 546
b) Retrocession premiums	832 741			824 271
		1 380 927		1 325 275
c) Change in the gross provision for unearned premiums (+/-)	(27 638)			1 287
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	17 179			1 353
		(10 459)		2 640
			1 370 468	1 327 915
2. Allocated investment return transferred from the non-technical account, net of retrocession			77 898	70 025
3. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 227 250			1 235 752
bb) Retrocessionaires' share	411 019			398 504
		816 231		837 248
b) Change in provisions for outstanding claims				
aa) Gross	(176 718)			17 713
bb) Retrocessionaires' share	70 144			(29 811)
		(106 574)		(12 098)
			922 805	849 346
4. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		(111 060)		(87 337)
b) Other net technical provisions		373		(1 113)
			(110 687)	(88 450)
5. Bonuses and rebates, net of retrocession			(68)	(410)
6. Operating expenses, net of retrocession				
a) Gross acquisition expenses		583 167		586 396
b) Less: commissions and profit commissions received on retrocession		196 723		240 562
			386 444	345 834
7. Other technical charges, net of retrocession			1 758	1 712
8. Subtotal			26 740	113 008
9. Change in the equalisation reserve and similar provisions			(86 061)	(86 097)
10. Net technical result			(59 321)	26 911

Figures in EUR thousand	2005			2004
		1.1.–31.12.		1.1.–31.12.
Balance brought forward:			(59 321)	26 911
II. Non-technical account				
1. Investment income				
a) Income from participating interests		5 640		26 075
affiliated companies:				
3 140 (2004: 23 575)				
b) Income from other investments				
affiliated companies:				
50 477 (2004: 39 918)				
aa) Income from land and buildings, rights to land and buildings, leasehold	3 881			3 842
bb) Income from other investments	209 049			192 130
		212 930		195 972
c) Appreciation on investments		441		3 794
d) Gains on the realisation of investments		103 259		32 110
			322 270	257 951
2. Investment charges				
a) Investment management charges, including interest		8 802		9 446
b) Depreciation		22 494		13 756
extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):				
2 974 (2004: 2 323)				
c) Losses on the realisation of investments		13 090		5 655
			44 386	28 857
			277 884	229 094
3. Allocated investment return transferred to the technical account			(87 283)	(78 163)
			190 601	150 931
4. Other income			18 142	20 151
5. Other charges				
a) Special allocation to provisions for outstanding claims		83 009		72 736
b) Miscellaneous charges		34 575		37 713
			117 584	110 449
			(99 442)	(90 298)
6. Profit or loss on ordinary activities before tax			31 838	87 544
7. Taxes on profit and income		10 237		43 445
plus allocation for group assessment		–		(51)
			10 237	43 394
8. Other taxes		(399)		83
plus allocation for group assessment		–		67
			(399)	150
			9 838	43 544
9. Disposable profit			22 000	44 000

NOTES

Valuation of assets

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

Property was valued at the purchase or construction cost less tax-allowable scheduled and unscheduled depreciation in accordance with § 253 (2) of the Commercial Code (HGB).

Shares in affiliated companies and participations were valued on a purchase cost basis taking into account write-downs at the lower fair value.

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

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

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

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

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

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

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

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5% of the reinsurance commission in accordance with the NRW order dated 29 May 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years following the year in which the business was written.

Where the provisions indicated by the ceding companies are not expected to be adequate, they have been increased by appropriate additional amounts. Where no information was available from 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 for treaties of the 2005 underwriting year is 29.6% of the total volume.

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

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

The equalisation reserve was set up in accordance with the notes to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); the similar provisions were constituted in accordance with § 30 of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for nuclear plants was calculated in accordance with § 30 (2) of the regulation on the presentation of insurance company accounts (RechVersV).

We calculated the major risk provision for pharmaceutical product liability in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

The catastrophe risk provision for terrorism risks was calculated in accordance with § 30 (2a) of the regulation on the presentation of insurance company accounts (RechVersV).

The provision for pensions was established according to the fractional value method as per § 6a of the Income Tax Act (EStG) in conjunction with Paragraph 41 Income Tax Regulations (EStR) 2003. The 2005 G standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6%.

The pension commitments are established according to the present value of the expectancy and are protected by insurance.

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and uncertain liabilities. The accounting option of recognising deferred tax assets was not taken up.

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

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

The other liabilities were valued at the amounts repayable.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

Figures in EUR thousand	2004	2005				
Change in asset items A.I. to A.III.	Book values 31.12.	Additions	Disposals	Write-ups	Depre-ciation	Book values 31.12.
A.I. Land and buildings, rights to land and buildings, leasehold	37 113	–	9 540	–	2 134	25 439
A.II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	210 326	21 924	153 131	–	–	79 119
2. Loans to affiliated companies	40 000	–	–	–	–	40 000
3. Participating interests	17 755	–	3 551	–	1 500	12 704
4. Total A.II.	268 081	21 924	156 682	–	1 500	131 823
A.III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	642 322	216 201	272 039	293	1 438	585 339
2. Bearer debt securities and other fixed-income securities	1 701 698	2 428 330	1 946 396	121	15 614	2 168 139
3. Mortgages and loans secured on land and buildings	392	–	68	–	–	324
4. Other loans						
a) Registered debt securities	64 795	170 559	40 451	–	–	194 903
b) Debentures and loans	226 561	355 131	151 513	–	–	430 179
c) Sundry loans	64 429	6 781	5 113	–	–	66 097
5. Deposits with banks	23 572	18 785	–	–	–	42 357
6. Other	5	–	–	–	–	5
7. Total A.III.	2 723 774	3 195 787	2 415 580	414	17 052	3 487 343
Sum total	3 028 968	3 217 711	2 581 802	414	20 686	3 644 605

Land and buildings and rights to land and buildings

As at 31 December 2005, the company owned two developed sites with business and other buildings in Bad Cannstatt and Leipzig. The company also owned shares worth EUR 16,099 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart as well as a share of EUR 1,252 thousand in land without buildings in Hannover.

Shares in affiliated companies and participations

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

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

Name and registered office of the company Figures in currency units of 1 000	Participations (in %)	Capital and reserves (§ 266 (3) of the Commercial Code)		Result for the last financial year	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherung AG/ E+S Rückversicherung AG Grundstücksgesellschaft, Hannover/Germany	45.00	EUR	61 000	EUR	987
Companies resident abroad					
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	166 537	AUD	22 834
Hannover Re Real Estate Holdings, Inc., Orlando/USA	13.49	USD	131 776	USD	3 700
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	20.01	EUR	70 728	EUR	7 039

E+S Reinsurance (Ireland) Ltd., Dublin/Ireland, was sold to Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland, in the year under review.

Other notes on investments

Assets with a balance sheet value of EUR 51,871 (EUR 105,016) 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. A guarantee fund of EUR 69 thousand has been established to secure commitments under partial retirement arrangements.

Fair values pursuant to § 54 RechVersV

The fair values of land and buildings were determined using the gross rental method.

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

Shares, units in unit trusts, bearer debt securities and other securities were valued at market value.

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

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

Figures in EUR thousand	2005		
Fair values pursuant to § 54 RechVersV of asset items A.I. to A.III. for the 2005 financial year	**Book values 31.12.**	**Fair values 31.12.**	**Difference 31.12.**
A.I. Land and buildings, rights to land and buildings, leasehold	25 439	47 345	21 906
A.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	79 119	140 692	61 573
2. Loans to affiliated companies	40 000	40 000	–
3. Participating interests	12 704	12 779	75
4. Total A.II.	131 823	193 471	61 648
A.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	585 339	712 983	127 644
2. Bearer debt securities and other fixed-income securities	2 168 139	2 179 280	11 141
3. Mortgages and loans secured on land and buildings	324	324	–
4. Other loans			
a) Registered debt securities	194 903	194 807	(96)
b) Debentures and loans	430 179	439 960	9 781
c) Sundry loans	66 097	72 681	6 584
5. Deposits with banks	42 357	42 357	–
6. Other investments	5	5	–
7. Total A.III.	3 487 343	3 642 397	155 054
Sum total	3 644 605	3 883 213	238 608

Notes on § 341b and § 285 of the Commercial Code (HGB)

Of the units in unit trusts totalling EUR 546,456 (EUR 604,636) thousand shown under the "Other financial investments" in the item "Shares, units in unit trusts and other variable-yield securities", an amount of EUR 330,780 (EUR 336,189) thousand was allocated to fixed assets. The fair value amounts to EUR 396,057 (EUR 367,663) thousand. Based on the assumption that the impairments will not be permanent, write-downs of EUR 1,082 (EUR 2,787) thousand were not taken.

Of the bearer-debt securities and other fixed-income securities, securities with a book value of EUR 10,511 (EUR 5,969) thousand and a fair value of EUR 12,435 (EUR 8,606) thousand were allocated to fixed assets. Write-downs of EUR 186 (EUR 18) thousand were not taken since a permanent impairment is not anticipated.

Special investments in private equity funds and asset pools held long term for which no market price was available were valued at acquisition cost or net asset value (NAV). Temporary impairments were disregarded to the extent that a full return flow of funds is anticipated within the aggregate term.

The portfolio did not contain any derivative financial instruments as at the balance sheet date.

Of the total fees paid to the auditor, EUR 304 thousand related to the audit of the financial statements, EUR 84 thousand to tax consulting an EUR 50 thousand to other services.

Other receivables

Figures in EUR thousand	2005	2004
Receivables from reinsured pension schemes	8 212	7 075
Receivables from affiliated companies	6 863	125 168
Claims from settlement of the purchase price of a participation	5 375	–
Receivables from the revenue authorities	900	306
Receivables from land and buildings	325	179
Interest and rent due	284	344
Receivables from dividend entitlements	100	161
Receivables from assigned claims	–	12 694
Other receivables	11	13
Total	22 070	145 940

Accruals and deferred income

Figures in EUR thousand	2005	2004
Accrued interest and rent	50 427	43 781
Accrued administrative expenses	59	119
Deferred premium on bonds	5	64
Total	50 491	43 964

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

The deferred item established in the previous year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 4,929 thousand was written back in the financial year.

Notes on liabilities

Subscribed capital

The subscribed capital of the company amounted to EUR 42,622 thousand as at 31 December 2005. It consists of 75,783 no-par-value registered shares.

Provision for unearned premiums

Figures in EUR thousand	2005		2004	
Insurance line	gross	net	gross	net
Fire	33 905	25 138	29 892	27 812
Casualty	69 357	62 281	43 795	39 070
Personal accident	5 380	3 668	5 054	3 537
Motor	18 485	13 529	15 417	10 205
Aviation	38 426	30 605	33 606	27 233
Life	55 074	27 577	54 635	31 870
Other lines	46 577	33 919	37 944	28 039
Total	267 204	196 717	220 343	167 766

Life assurance provisions

Figures in EUR thousand	2005		2004	
Insurance line	gross	net	gross	net
Personal accident	3	3	21	21
Life	3 002 073	2 367 961	2 698 517	2 178 784
Other lines	4 184	4 184	4 129	4 129
Total	3 006 260	2 372 148	2 702 667	2 182 934

Provisions for outstanding claims

Figures in EUR thousand	2005		2004	
Insurance line	gross	net	gross	net
Provision for reimbursements and surrenders (except annuities)				
Fire	219 646	160 417	172 072	131 483
Casualty	1 182 985	1 002 177	1 060 283	847 240
Personal accident	74 868	45 798	65 353	47 882
Motor	1 318 018	1 071 765	1 304 685	1 037 345
Aviation	235 578	163 011	195 713	131 722
Marine	194 539	152 813	105 681	81 856
Life	96 954	53 225	112 130	94 224
Other lines	458 626	262 926	337 955	207 458
	3 781 214	2 912 132	3 353 872	2 579 210
Provision for annuities				
Casualty	3 009	2 862	2 806	2 755
Personal accident	4 956	3 667	3 381	2 535
Motor	36 116	27 796	34 626	26 908
	44 081	34 325	40 813	32 198
Total	3 825 295	2 946 457	3 394 685	2 611 408

Equalisation reserve and similar provisions

Figures in EUR thousand	2005			
Insurance line	Position at 1.1.	Addition	Withdrawal and release	Position at 31.12.
Equalisation reserve				
Fire	83 519	21 084	–	104 603
Casualty	151 245	–	24 207	127 038
Personal accident	21 040	5 947	–	26 987
Motor	167 739	46 910	267	214 382
Aviation	30 465	17 422	–	47 887
Marine	31 057	–	29 259	1 798
Other lines	79 684	55 066	13 508	121 242
	564 749	146 429	67 241	643 937
Provisions which are similar to the equalisation reserve – major risks –				
Fire	7 240	3 814	–	11 054
Casualty	4 251	954	57	5 148
Personal accident	28	25	–	53
Motor	11	5	–	16
Aviation	–	25	–	25
Marine	409	198	–	607
Other lines	7 872	1 909	–	9 781
Total	584 560	153 359	67 298	670 621

Other technical provisions

Figures in EUR thousand	2005		2004	
Type of provision	gross	net	gross	net
Profit commission	45 748	38 826	41 917	33 912
Premium cancellation	1 146	1 146	1 998	1 518
Commissions	785	865	282	245
Total	47 679	40 837	44 197	35 675

Technical provisions – total

Figures in EUR thousand	2005		2004	
Insurance line	gross	net	gross	net
Fire	374 240	305 811	297 395	253 493
Casualty	1 401 816	1 213 640	1 275 535	1 057 503
Personal accident	112 425	80 269	95 109	75 215
Motor	1 594 895	1 335 023	1 529 410	1 248 586
Aviation	323 919	242 921	261 614	190 594
Marine	198 033	156 293	138 204	114 363
Life	3 154 957	2 449 618	2 867 425	2 307 020
Other lines	657 086	443 517	482 424	336 173
Total	7 817 371	6 227 092	6 947 116	5 582 947

Provisions for other risks and charges

Figures in EUR thousand	2005	2004
Provisions for pensions and similar liabilities	13 439	12 470
Provisions for taxation	46 358	48 075
Sundry provisions		
Provisions for outstanding payments	3 793	3 886
Provisions for interest	3 722	3 263
Provisions for currency risks	1 512	2 835
Provisions for annual accounts costs	909	1 138
Provisions for insurance premiums	524	–
Provisions for suppliers' invoices	397	209
Provisions for litigation risks	394	394
Provisions for costs of legal action	167	270
Other provisions	302	281
	11 720	12 276
Total	71 517	72 821

Miscellaneous liabilities

Figures in EUR thousand	2005	2004
Liabilities from interest not yet due	458	458
Liabilities from outstanding social security contributions	282	261
Liabilities in respect of the revenue authorities	168	162
Liabilities from leases	159	161
Accounts due to affiliated companies	124	59
Other liabilities	111	105
Total	1 302	1 206

Deferred items

Figures in EUR thousand	2005	2004
Disagio	36	54
Other accruals and deferred income	25	53
Total	61	107

Contingent liabilities

Liabilities for remaining calls exist with respect to shares in affiliated companies and special investments in the amount of EUR 118,310 (EUR 88,787) thousand. There were no other contingent liabilities or other financial commitments not shown in the annual balance sheet which are relevant to an assessment of the financial position.

Notes on the profit and loss account

Figures in EUR thousand	2005	2004	2005	2004	2005	2004	2005	2004
	Gross written premiums		Gross premiums earned		Net premiums earned		Technical result for own account	
Fire	180 126	190 684	178 878	199 566	124 061	119 148	(7 709)	(8 445)
Casualty	313 806	298 427	295 574	308 526	248 431	275 783	28 806	4 780
Personal accident	77 927	70 108	77 612	70 169	42 201	39 380	2 855	8 113
Motor	379 007	375 494	377 174	379 263	284 616	277 408	(18 042)	(6 851)
Aviation	116 085	104 868	115 566	92 973	75 361	67 844	9 512	11 973
Marine	72 168	63 888	72 168	63 888	61 772	37 687	(7 457)	30 179
Other lines	312 424	306 033	306 411	312 036	212 439	171 081	(40 312)	24 885
Total property and casualty insurance	1 451 543	1 409 502	1 423 383	1 426 421	1 048 881	988 331	(32 347)	64 634
Life	762 125	740 044	762 647	724 412	321 587	339 584	(26 974)	(37 723)
Total insurance business	2 213 668	2 149 546	2 186 030	2 150 833	1 370 468	1 327 915	(59 321)	26 911

Total insurance business

Figures in EUR thousand	2005	2004
Gross claims incurred	1 403 968	1 218 039
Gross operating expenses	583 167	586 396
Reinsurance balance	137 676	213 663

Expenses for personnel

Figures in EUR thousand	2005	2004
1. Wages and salaries	15 714	15 005
2. Social security payments and expenses for welfare	2 617	2 477
3. Expenses for old-age pension scheme	671	122
4. Total expenses	19 002	17 604

Expenses for investments

Figures in EUR thousand	2005	2004
Fixed-income securities	19 662	7 668
Administrative expenses	7 551	8 204
Registered debt securities and sundry loans	6 625	–
Shares, units in unit trusts	3 805	5 282
Land and buildings	2 826	5 555
Deposits	1 808	1 510
Participating interests	1 551	–
Deposit and bank fees	558	638
Total	44 386	28 857

Other income

Figures in EUR thousand	2005	2004
Profit from services	7 328	7 648
Exchange rate gains	4 278	6 193
Cancellation of value adjustments	3 429	4 052
Allocated investment return	1 662	936
Release of non-technical provisions	504	487
Other income	941	835
Total	18 142	20 151

Other expenses

Figures in EUR thousand	2005	2004
Special allocations to the provisions for outstanding claims	83 009	72 736
Exchange rate losses	13 030	6 813
Deposit interest	11 933	13 841
Expenses from services	7 325	7 327
Expenses for the whole company	6 345	7 149
Separate value adjustment on accounts receivable	2 624	2 908
Expenses for letters of credit	764	415
Interest charges on old-age pension scheme	746	699
Allocation to interest provisions	459	3 427
Interest charges on reinsurance operations	311	414
Depreciation on receivables	239	–
Financing interest	90	23
Interest charges on surplus debenture (Genussrechtskapital)	–	2 651
Other interest and expenses	94	184
	126 969	118 587
Less: Technical interest	9 385	8 138
Total	117 584	110 449

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 3 to 5.

The emoluments paid to the Supervisory Board in the year under review totalled EUR 119 thousand, those to the Advisory Board EUR 63 thousand, those to the Executive Board EUR 1,116 thousand and those to former members of the Executive Board EUR 375 thousand. The amount of EUR 3,838 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 228 in the financial year.

Hannover Rück Beteiligung Verwaltungs-GmbH informed us that it holds a majority interest (§ 16 (1) of the Stock Corporation Act (AktG)) in our company.

Hannover Rückversicherung AG includes the figures from our annual accounts in its consolidated financial statements. The financial statements of Hannover Rückversicherung AG are included in the consolidated financial statements of Talanx AG, Hannover. The consolidated financial statements of Talanx AG are deposited at Hannover County Court. Talanx AG is wholly owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. , Hannover.

Hannover, 17 March 2006

Executive Board

Zeller | Arrago | Dr. Becke

Gräber | Dr. König | Dr. Pickel | Wallin

AUDITORS' REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of the E+S Rückversicherung AG, Hannover, for the business year from 1 January to 31 December 2005. 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 of the articles of incorporation 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 and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (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 expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control 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 based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and 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. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, 20 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Dahl	Schuster
Wirtschaftsprüfer	Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

of E+S Rückversicherung AG

In our function as the Supervisory Board we considered at length during the 2005 financial year – as in previous years – the position and development of the company. We advised the Executive Board on the direction of the company, monitored the management of business on the basis of written and verbal reports from the Executive Board and held three meetings in order to adopt the necessary resolutions. The Standing Committee also met on three occasions. Furthermore, we received quarterly written reports from the Executive Board on the course of business and the position of the company. The Chairman of the Supervisory Board was constantly advised of major developments and impending decisions by the Chairman of the Executive Board. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participations was also included in our consultations.

The Supervisory Board selected the auditor for the 2005 annual financial statements; the Chairman of the Supervisory Board issued the specific audit mandate. The audit report was distributed to all members of the Supervisory Board, and the auditors participated in the meeting of the Supervisory Board held to discuss and approve the annual accounts. Collaboration with the auditors took place on a trusting and cooperative basis.

Against the backdrop of the public discussions surrounding the topic of financial reinsurance, the company's activities in this business segment constituted a core focus of the Supervisory Board's deliberations. The Supervisory Board received an explanation of the fundamentals of the underwriting guidelines and the work of the Compliance Committee, and it satisfied itself that all business activities are in conformity with legal standards. In addition, the Executive Board described to us the profit expected for the 2005 financial year and the operational planning for the 2006 financial year. Key areas considered here were the profitability of the joint underwriting arrangements with Hannover Rückversicherung AG as well as, most importantly, the strains on the company caused by hurricanes "Katrina" and "Rita" and the resulting implications for future strategy in the area of natural catastrophe reinsurance.

The Rules of Procedure for the Executive Board were again reviewed and the list of investment-related measures and transactions requiring approval was updated. Within the scope of adjustment of the Articles of Association to the applicable Corporate Governance standards, a reorganisation of the remuneration arrangements for the members of the Supervisory Board was proposed to the Annual General Meeting. In addition to the introduction of separate remuneration for committee functions, variable remuneration components are to be adopted for the members of the Supervisory Board, the amount of which will be determined by the profit generated by the company in the financial year just-ended. The Annual General Meeting accepted these proposals and approved them unanimously.

The accounting, the annual financial statements and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit, which focused particularly on the handling of current account transactions with ceding companies and retrocessionaires – including transactions within the Group – and the impairment testing of deferred tax assets, did not give rise to any objections; an unqualified audit certificate was therefore issued. In conclusion, having spent several hours examining and discussing the annual financial statements and the Executive Board's report and having received answers to a number of questions, the Supervisory Board concurred with the opinion of the auditors and approved the annual financial statements drawn up by the Executive Board.

The report on the company's relations with affiliated companies drawn up by the Executive Board 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 detailed in the report, there are no facts or circumstances that would suggest a significantly different assessment to 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. As a final result of our examination we had no objections to the statement by the Executive Board at the end of its report on relations with affiliated companies.

The Supervisory Board has thus approved the annual financial statements, which are thereby adopted. We concur with the Executive Board's proposal regarding the appropriation of the disposable profit for 2005.

Hannover, 21 March 2006

For the Supervisory Board

Wolf-Dieter Baumgartl
Chairman

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

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

Bancassurance: partnership between a bank and an insurance company for the purpose of selling insurance products through the banking partner's branches. The link between the insurer and the bank is often characterised by an equity participation or a long-term strategic cooperation between the two parties.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premium), primarily in life and health insurance.

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

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

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

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

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

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

Combined ratio: sum of the loss ratio and expense ratio.

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

Creditworthiness: cf. → credit status

Critical illness coverages: cf. → dread disease coverages

Deposits with ceding companies/deposits received from retrocessionaires (also: Funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that 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 (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

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

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

Expense ratio: administrative expenses in relation to the (gross or net) premium written.

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

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

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

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

Free float: the free float refers to the part of the capital stock held by shareholders with a low stockholding in both absolute and relative terms.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → Deposits with ceding companies/deposits received from retrocessionaires

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.

Issuer: private enterprise or public entity that issues securities, e.g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-) insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): 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.

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

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Loss, economic: 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.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

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

Mark-to-market valuation: the evaluation 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-life business: by way of distinction from business activities in our life and health reinsurance business group, we use this umbrella term to cover our business groups of property and casualty reinsurance, financial reinsurance and specialty insurance.

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 (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.

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

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

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

Primary insurer: cf. → direct insurer

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

Property and casualty (re-)insurance: collective term for all 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 casualty insurance.

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

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

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

Provision for unearned premium (also: unearned premium reserve): premium written in a financial year which is to be allocated to the following period on an accrual basis. This item is used to defer written premium.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15%–20% of the original premium depending upon the market and cost situation.

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

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

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

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

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

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.

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segmental reporting: presentation of items from the annual financial statements separated according to functional criteria such as segments and regions.

Specialty insurance: a specialty form of non-life primary insurance that focuses on narrowly defined, homogenous portfolios of niche or other non-standard risks (specialty business), whereby the typical insurer functions (acquisition, underwriting, policy issuing, premium collection, policy administration, claims settlement, etc.) can be outsourced to specialized managing general agents (MGAs) or third-party administrators (TPAs).

Stochastic partnerships: targeted provision of financial support for primary insurers through reinsurance arrangements under which the reinsurer participates in the original costs of an insurance portfolio and receives as a consideration a share of the future profits of the said portfolio. This approach is used primarily for long-term products in personal lines, such as life, annuity and personal accident insurance.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

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

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-) insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premium

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

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