ANNUAL REPORT
1996

e+s rück

CONTENTS

3 Management

4 Report of E+S Rück

9 Investments

11 Human Resources

13 Outlook

14 Proposal for the distribution of profits

14 Capital, reserves and technical provisions

16 Balance sheet at 31st December 1996

20 Profit and loss account for the year ended 31st December 1996

23 Appendix

25 Notes on assets

28 Notes on liabilities

32 Notes on the profit and loss account

36 Certificate by the Independent Auditors

37 Supervisory Board's Report

38 Glossary of technical terms

KEY FIGURES *E+S Rückversicherungs-AG*

Figures in DM million	*1996*	*± previous year*	*1995*
Gross premiums written	*1 571.4*	*-0.3 %*	*1 575.5*
Net premiums earned	*1 243.3*	*-5.6 %*	*1 317.0*
Technical result	*-107.2*	*200.3 %*	*-35.7*
Allocation to the contingency fund and similar provisions	*16.9*	*-68.8 %*	*54.1*
Net technical result	*-124.1*	*38.2 %*	*-89.8*
Investment result	*259.5*	*36.0 %*	*190.8*
Technical interest income	*12.8*	*85.5 %*	*6.9*
Other charges and income	*-25.2*	*98.4 %*	*-12.7*
Special allocation to the IBNR reserve	*-61.4*	*15.8 %*	*-53.0*
Non-technical result	*160.1*	*35.4 %*	*118.2*
Profit or loss on ordinary activities before tax	*36.0*	*26.7 %*	*28.4*
Profit or loss for the financial year	*15.1*	*-27.8 %*	*20.9*
Investments	*4 517.9*	*14.2 %*	*3 955.9*
Capital and reserves incl. Surplus debenture (Genußrechtskapital)	*330.3*	*2.8 %*	*321.2*
Contingency fund and similar provisions	*345.9*	*5.2 %*	*328.9*
Net technical provisions	*3 619.1*	*10.9 %*	*3 263.3*
Retention	*78.2 %*		*84.2 %*
Loss ratio	*84.3 %*		*80.7 %*
Expense ratio	*24.6 %*		*22.0 %*

ANNUAL REPORT
1996

73rd financial year

e+s rück

Supervisory Board of Directors (Aufsichtsrat)

Wolf-Dieter Baumgartl, Wedemark, Chairman

Gerd Kettler, Münster, Deputy Chairman

R. Claus Bingemer, Hannover

Dr. Heinrich Dickmann, Burgwedel

Rolf-Peter Hoenen, Coburg

Dr. Manfred Mücke, Hamburg

Anita Suing-Hoping, Godshorn *

Andreas Thois, Ronnenberg *

Martin Wethkamp, Hannover *

* Staff representative

Advisory Board (Beirat)

Dr. Edo Benedetti, Trient

Wolfgang Bitter, Itzehoe

Ernst Köller, Hannover

Dr. Erwin Möller, Hannover

Adolf Morsbach, Wedemark

Executive Board (Vorstand)

Wilhelm Zeller, Hannover, Chairman

Udo Schubach, Hannover, Deputy Chairman

Dr. Wolf Becke, Hannover

Dr. Jürgen Brenzel, Hannover (up to 28.2.1997)

Herbert K. Haas, Burgwedel

Dr. Andreas-Peter Hecker, Hannover

Dirk Lohmann, Burgwedel

Review

Little change in the general economic climate

Positive impact of weak German mark

Levelling-off in premium volume due to fierce competition

Hardly any natural catastrophes

Deterioration in the technical result

Exceptionally favourable investment result

Increased pre-tax profit

Hopes of stronger growth in the global economy were only partially fulfilled in 1996. Total output in the industrialized countries increased by 2 %, a figure on a par with the previous year. Developments in the individual countries, however, differed widely. There was expansion in the Japanese economy, and business activity in the USA displayed renewed vigour following a slight cooling-off period in 1995. Economic developments in western Europe, on the other hand, were disappointing. As a result of the cyclical decline which incepted in mid-1995 and continued until early 1996, the growth in total output of 1.5 % was substantially lower than in the previous year.

Conditions on the employment markets remained difficult. Some western European countries even recorded a substantial rise in unemployment, and Japan's jobless figures reached a new record high. In the USA, by contrast, there was virtually full employment.

Inflation rates in the industrialized countries remained low in 1996, and the average figure for more than three years has been around 2.5 %. An important factor here is that monetary policy, while expansionary, has also been geared towards stability.

There was little change in the economic climate affecting the insurance and reinsurance industries in the year under review. In Germany, marginal growth and low public spending with an eye to meeting the Maastricht criteria placed a strain upon the income available to private households. Furthermore, the poor state of the economy led to a devaluation of the German mark against our major foreign currencies. This development had favourable implications for our gross premium volume. The weak German mark also had a positive impact upon our investment portfolio and investment income. The favourable performance of the stock markets enabled us to post growth in this area of our investments.

Germany continues to provide over 65 % of our gross premium income. Competition in this market has been intensified by moves towards Europe-wide deregulation. In the light of the new freedoms which are available, there has been an increasing tendency to use insurance terms and conditions as a vehicle for competition. For insurance customers, this resulted not only in price benefits but also in disadvantages as regards the lack of transparency of the various offers. This trend has already been criticized by consumer protection associations and other organizations.

The reinsurance sector witnessed considerable market shifts in the year under review as a result of company take-overs and changes of ownership. The largest reinsurers, in particular, sought to expand and consolidate their positions. Against the backdrop of this strong concentration process, we have positioned ourselves as a flexible alternative to the industry's heavyweight players.

The favourable technical results of the previous years and the trend among insurers towards higher retentions exerted substantial pressure on reinsurance premiums and conditions, not only in Germany but also in the world-wide markets. For this reason, we accepted new participations on a highly selective basis and only after systematic scrutiny of the prospects for attaining adequate profit margins. Our strictly profit-oriented underwriting policy was reflected in the year under review in a virtual stagnation of gross premium volume.

The sometimes marked reductions in premiums were contrasted by an unexpectedly favourable loss experience. The losses resulting from our acceptances of natural catastrophe risks decreased again in the year under review, following the low level recorded in 1995. Although a number of other notable major losses occurred, such as the fires at the Dusseldorf Airport, the main offices of Crédit Lyonnais in Paris and in the Channel Tunnel, these costs were more than compensated for by the general decline in loss expenditure. An adjustment in the methods which we use to determine technical provisions in a special segment of liability business, however, produced additional loss expenditure.

Overall, these factors generated a technical result which was substantially poorer than that of the previous year. In assessing the quality of the result, however, it is important to bear in mind that it also includes a sizeable expenditure item of an investment nature: on the basis of treaties with prefinancing components, we systematically expanded our portfolio of life and health reinsurance. The technical deficit generated by this business will accrue to our benefit in future years by generating corresponding earnings.

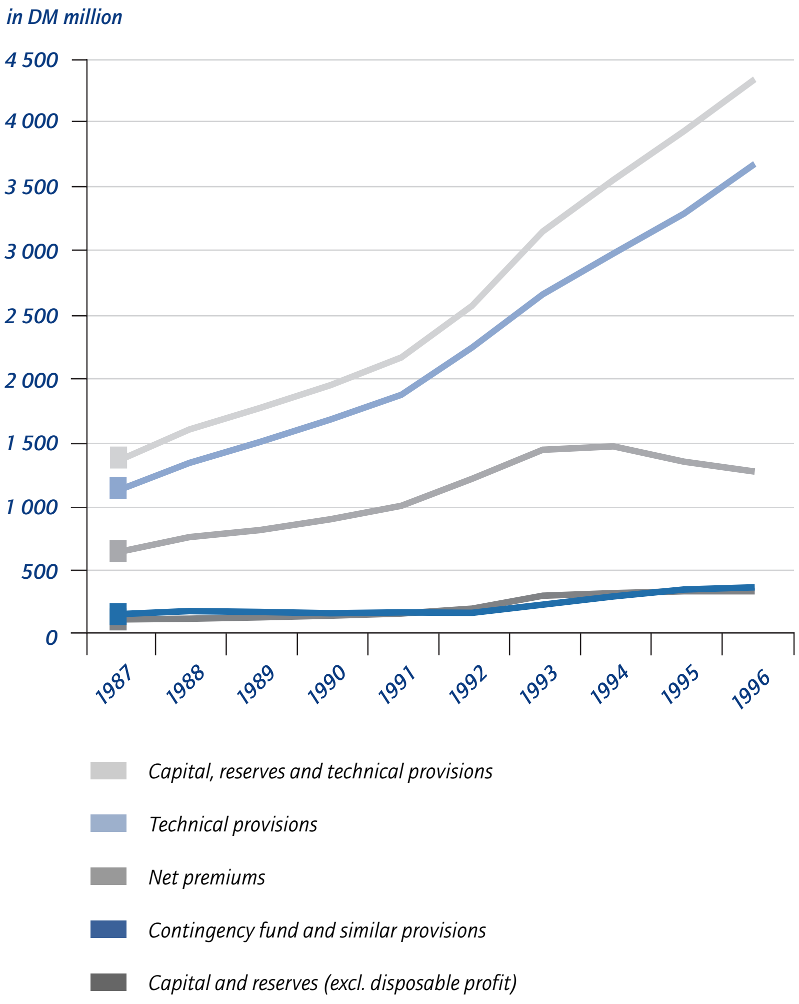
We achieved technical profits in the fire, aviation, marine and windstorm classes of business.

Despite the deterioration in the technical result, the amount of DM 16.9 million was allocated to the contingency fund. This provision now totals DM 345.9 million, a figure which is almost 1.4 times the reported capital and reserves (excluding surplus debenture). In addition, we allocated the amount of DM 61.4 million to the IBNR reserve from the non-technical account.

The poorer technical result contrasts with an exceptionally good non-technical result. Due to favourable conditions on the capital markets and the judicious realization of capital gains in bond and share business during the year, we succeeded in increasing our investment result by more than a third to DM 259.5 million.

The pre-tax profit on ordinary activities rose overall by 26.7 % to DM 36.0 million. We shall propose to the Annual General Meeting that the entire profit for the financial year of DM 15.1 million should be distributed as a dividend to shareholders.

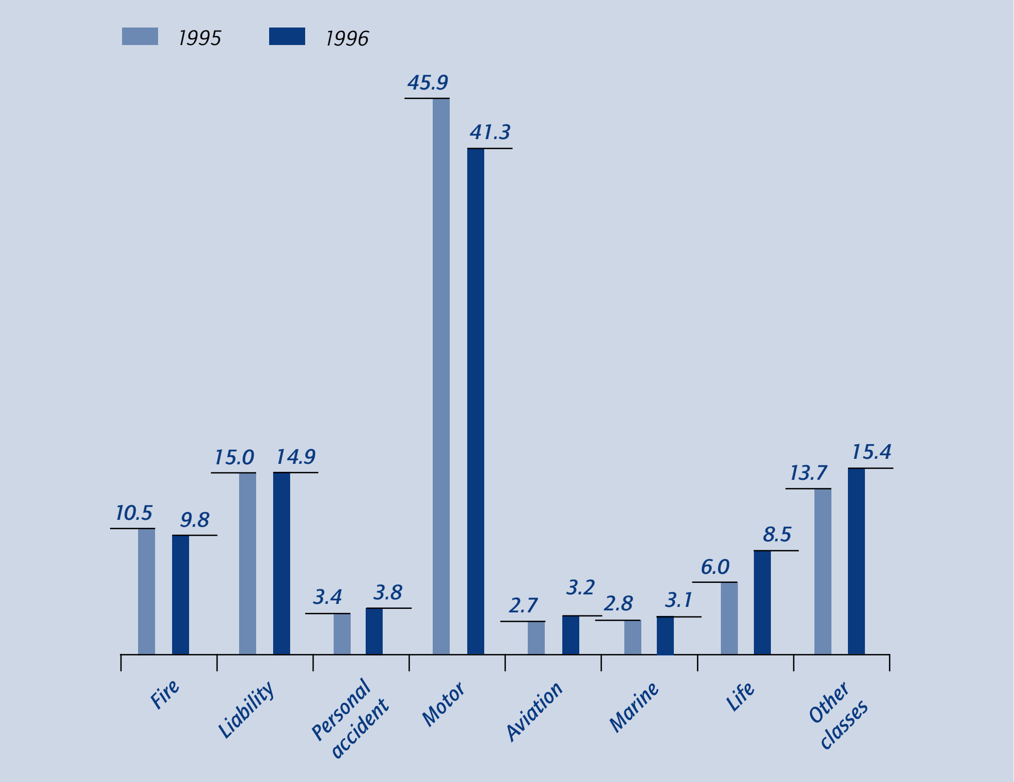
Growth in capital, reserves, technical provisions and in net premiums



Premium growth

Totalling DM 1,571.4 million, gross premium income was almost on a par with the previous year's level (DM 1,575.5 million). Of this figure, 78.2 % (84.2 %) was retained. The proportion of foreign business was 34.8 % (36.1 %). The breakdown of premium income by class of business was as follows:

Class-off-business breakdown in % of the total portfolio



Fire

Technical profit due to favourable loss experience

Fire		
in DM million	*1996*	*1995*
Gross premiums written	*154.3*	*164.7*
Loss ratio (%)	*53.6*	*49.5*
Technical result (net)	*16.9*	*24.4*

Gross premium income in this class of business, roughly 40 % of which derived from the German market, fell by 6.3 % compared to the previous year. This drop was primarily attributable to declining premium income in the direct insurance sector. We achieved decisive growth in Asia and Australia, while in Europe premiums decreased.

The favourable technical result for fire business was due to an unexpectedly good loss experience, especially in Germany. The primary factor in this development was the decrease in medium-sized losses. Major loss events, such as the fires at Düsseldorf airport, at the main offices of Crédit Lyonnais in Paris and in the Channel Tunnel, had only a marginal influence overall on the result.

The amount of DM 7.8 million was allocated from the technical profit to the contingency fund.

Liability

Approximately 67 % of our liability portfolio stemmed from domestic business. The generally intensified level of competition caused premiums to decline in the insurance markets, in some instances to a significant extent. On the other hand, new business fields were opened up for direct – and hence reinsurance – business. In Germany, for example, „Directors' and Officers' Liability Insurance" (a product taken over from the Anglo-American markets) continued to gain in importance. In the international arena, increased opportunities arose to reinsure liability risks in countries which had previously offered predominantly property business. This was true, amongst other regions, of Australia. As a result of certain – in some cases planned – reductions in our shares in certain large business links in Germany, our gross premium income decreased slightly.

We adjusted the calculation methods used for establishing appropriate IBNR reserves in a special segment in line with the latest insights. This gave rise to an additional reserve requirement which burdened the technical result of the year under review. Although this factor led us to post a sizeable deficit, we regard the overall result in this class of business as satisfactory.

The amount of DM 27.5 million was withdrawn from the contingency fund. We allocated DM 28.6 million from the non-technical result to the IBNR reserve.

Liability		
in DM million	*1996*	*1995*
Gross premiums written	*233.7*	*236.0*
Loss ratio (%)	*97.0*	*69.3*
Technical result (net)	*-33.9*	*9.2*

Technical deficit owing to increase IBNR reserve

Personal accident

Following a decline in the previous year, we were able to expand our personal accident business by more than 11 % in 1996. Over 80 % of the portfolio stemmed from the domestic market, where we also achieved the bulk of our growth.

The loss experience was unremarkable and remained stable. The amount of DM 7.1 million was withdrawn from the contingency fund.

Personal accident		
in DM million	*1996*	*1995*
Gross premiums written	*59.0*	*53.1*
Loss ratio (%)	*72.5*	*72.3*
Technical result (net)	*-3.8*	*-5.0*

Motor

Our gross premium income in the motor class of business decreased by 10.3 % in the year under review. Two factors played a role in this development. Firstly, the trend among cedants to run higher retentions had a negative impact on the premium volume; secondly, insurance premiums in Germany fell by an average of around 4.5 % in motor third party liability insurance. This decline directly reflects the new vehicle-class tariffs and the introduction of so-called „soft" tariff criteria. Since the bulk of our motor business derives from the German market, and bearing in mind that motor risks are largely reinsured on a proportional treaty basis in Germany, these trends also play a critical role in determining the development of our business.

The technical result was characterized by differing developments on the loss front. Loss expenditure caused by bodily injury claims increased appreciably and placed a greater strain on our account. Own damage claims, on the other hand, decreased. Motor insurance was another class of business in which the use of new methods to calculate claims provisions led to increased loss expenditure in the case of some cedants, as a consequence of which we recorded a further increase overall in the technical deficit.

The amount of DM 2.5 million was allocated to the contingency fund. We reinforced the IBNR reserve for motor third party liability business with an allocation of DM 32.8 million from the non-technical account.

Motor		
in DM million	*1996*	*1995*
Gross premiums written	*648.5*	*722.9*
Loss ratio (%)	*101.9*	*96.6*
Technical result (net)	*-86.8*	*-67.5*

Decline in volume

Losses from bodily injury claims

Fewer own damage claims

Aviation

Another sizeable technical profit

Aviation in DM million	1996	1995
Gross premiums written	50.8	43.0
Loss ratio (%)	68.6	63.0
Technical result (net)	5.4	7.9

In regional terms, this business is concentrated in the London market and North America; consequently, disproportionately large premium increases arose due to exchange-rate fluctuations. Even after allowing for this factor, however, the rate of increase was substantial and reflects the successful implementation of our objectives.

A number of major losses occurred in the aviation sector in 1996, which led to the highest number of fatalities ever recorded in civil aviation history. For this reason, the loss expenditure rose appreciably compared to the previous year, although it fell well short of the dimensions seen in 1994. As a consequence, we posted another sizeable technical profit.

An allocation of DM 5.5 million was made to the contingency fund.

Marine

Positive result due to favourable loss experience

Marine in DM million	1996	1995
Gross premiums written	49.4	44.8
Loss ratio (%)	90.8	88.8
Technical result (net)	2.7	0.8

Greater competition led to declining rates and more generous terms and conditions in marine reinsurance. Despite this general trend, we were able to achieve a slight increase in our gross premium volume from marine business.

Due to the higher retentions introduced in the preceding years, reinsurers were only marginally affected by small losses. This fact, combined with a generally reduced loss frequency, led to an exceptionally favourable loss experience. We were thus able to generate a technical profit in marine business.

This favourable performance caused us to bolster the contingency fund by the amount of DM 1.1 million.

Life

Systematic expansion

Losses through pre-financing

Life in DM million	1996	1995
Gross premiums written	133.7	94.9
Technical result (net)	-19.9	-8.7

We attach strategic priority to life reinsurance. In the year under review, we succeeded in recording a massive 40.9 % expansion of this business sector. A substantial part of this growth was achieved through treaties which contain a prefinancing element: we support rapidly growing life insurers with the cost-intensive establishment and expansion of their portfolios, inter alia, by assuming some of their new business costs. Our expenditure in the year in which the treaty is concluded is offset by corresponding repayments in subsequent years. In this regard, the technical deficit in the life class of business can thus to a large extent be regarded as an investment.

The portfolio of life insurance reinsured in the year under review developed as follows (foreign currency amounts have been converted at the exchange rates applying on 31 December 1996):

Portfolio at the end of the financial year Figures in DM million	1996	1995
Total amount of assumed reinsurance		
sum insured	16 784.5	12 816.2
amount retroceded	854.4	2 608.0
Endowment insurance		
sum insured	16 233.5	12 246.9
amount retroceded	819.9	2 572.8
Annuities and pension insurance		
12 times annual annuity	551.0	569.3
amount retroceded	34.5	35.2

Other classes

The following classes of business are shown combined under other classes: health, legal expenses, theft and robbery, water damage, glass, windstorm, householder's comprehensive (contents), householder's comprehensive (buildings), hail, livestock, engineering, all risks, credit and bond, extended coverage, nuclear plant property, other property damage, other business interruption, technical business interruption, other consequential loss, fidelity and fire business interruption. We shall focus here on the most significant classes.

We achieved a slight increase in gross premium income from our credit and bond business. Rate levels in foreign business came under pressure because of the favourable technical results in previous years. Despite this, the positive loss experience enabled us to post satisfactory results. In Germany, on the other hand, another set of record insolvency figures resulted in substantial technical losses. The favourable foreign result was outweighed by these negative factors, as a consequence of which credit and bond business showed an overall technical deficit.

Other classes in DM million	1996	1995
Gross premiums earned	242.0	216.1
Loss ratio (%)	58.2	70.8
Technical result (net)	12.3	3.4

Losses in windstorm insurance have been very low for several years, resulting in a decline in premium rates. Our gross premium income therefore showed a corresponding slight decrease. However, since the year under review was again virtually free of windstorm losses world-wide, we posted another set of very good technical results.

On an overall basis, the other classes closed with a satisfactory increase in the technical profit. The amount of DM 34.5 million was therefore allocated to the contingency fund.

Expansion of credit business

Windstorm business virtually loss-free

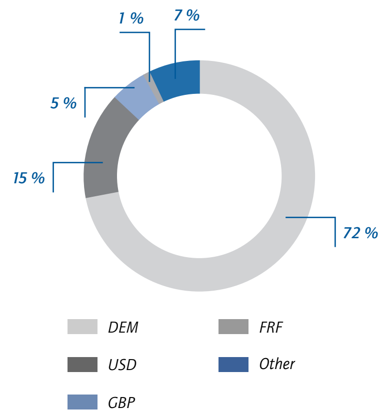
Investments

The past year again failed to witness the hoped-for decoupling of the German capital market from the US bond market. Whereas the trend towards declining yields on the German and US bond markets continued from 1995 into the beginning of the year, there was a significant turnaround in early March 1996. In the light of the vigorous growth of the US economy and the accompanying inflation fears, returns on 10-year securities increased to 6.7 % in Germany by the

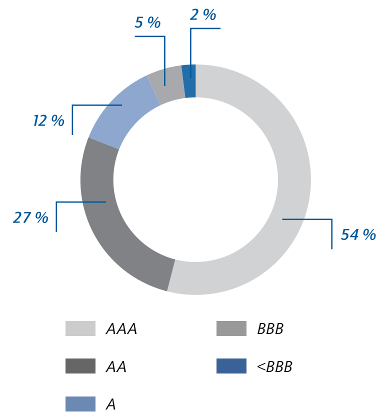
Strong portfolio growth

Excellent result due to favourable general economic conditions

Breakdown of investments according to currency



Rating of fixed-income securities



middle of the year, while the rise in the USA was even more dramatic. Interest rates rose from a low of 5.5 % to 7.1 % within a few weeks. However, this trend was reversed again during the second half of the year. A slow-down in the US economy coupled with a stable price environment gave scope for a softening in returns. Thanks to the encouraging trend in the fourth quarter, the German bond market closed on a more positive note than anticipated at the start of the year. Returns on 10-year US securities, however, were only around 0.8 percentage points higher at the end of 1996 than at the beginning of the year.

Prices on the German stock market really rocketed. Following two rather disappointing years, the Dax climbed by around 28 % in 1996. Chemicals were the market leader, followed by motor shares and utilities. Compared to the Dax, the medium-sized companies listed on the MDax posted a below-average increase of just 15 %. The bright mood on Wall Street also continued to prevail, especially as regards blue-chip stocks. Steady gains in profits combined with moderate economic growth caused the Dow Jones to rise by a further 26 %, following a gain of almost 34 % in 1995.

The international currency markets were again volatile, although the German mark relinquished some of the strength which it had acquired in the preceding years. Since our foreign currency earnings are converted at the exchange rates prevailing at the end of the year, the weakness of the German mark also had favourable repercussions for our total premium income and investment income.

The company's investment portfolio and income again developed highly satisfactorily in the year under review. The total investment portfolio (including deposits) increased by 14.2 % from DM 4.0 billion to DM 4.5 billion. This growth was attributable, on the one hand, to the influx of liquidity from the technical account and from our net investment income and, on the other hand, to exchange-rate movements. Almost one quarter of our total investments are held in foreign currencies, especially the US dollar.

New investments in the year under review were mainly in the area of specialized funds for bonds and shares, items which in accordance with statutory accounting requirements are shown under „units in unit trusts". The proportion of shares, units in unit trusts and other variable-yield securities increased accordingly to 17.0 % (12.2 %) of the investments which we ourselves manage (i.e. excluding deposits). However, accounting for 50.8 % (55.7 %), the most important investment category remains bearer debt securities, in which regard the preferred areas for new investment continued to be government loans and large issues in the German and Euro-money market.

Ordinary investment income increased by almost 12 % to DM 247.2 million. The decline in interest rates and lower payouts from specialized funds were the main reasons for the below-average growth in ordinary income compared with new investments.

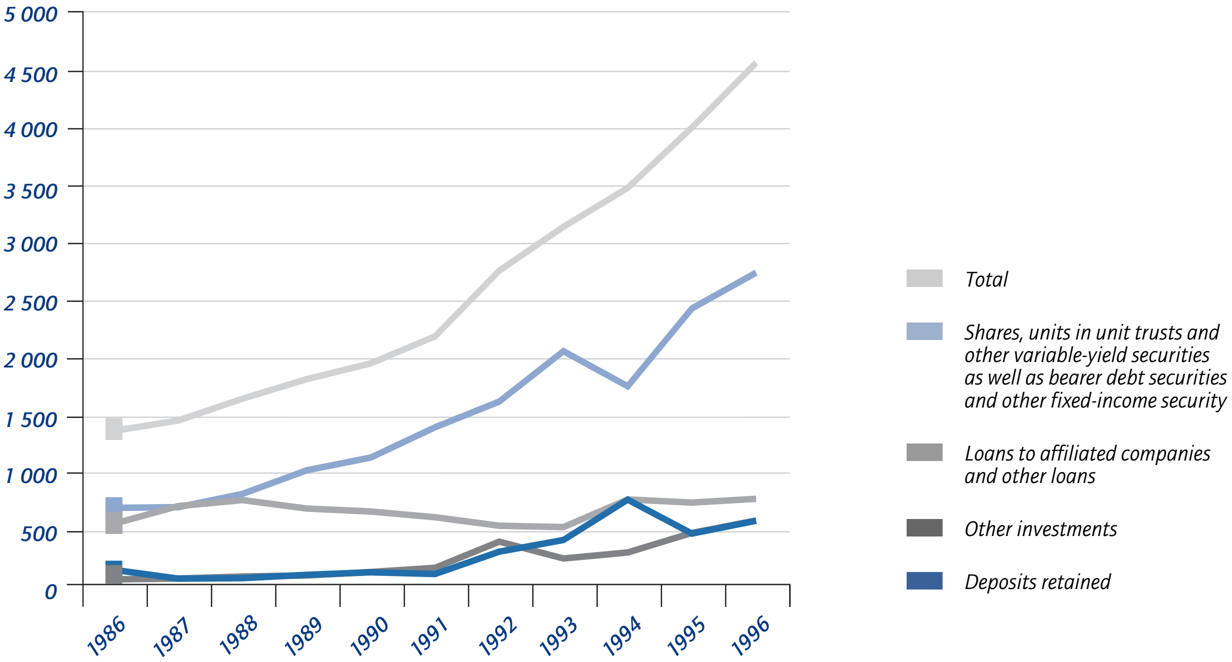
The favourable performance of the stock and bond markets enabled us to realize greater capital gains in the year under review. Income from the disposal of investments increased accordingly to DM 48.7 million (DM 26.3 million). Set against this was a further decrease in the extraordinary expenses arising from depreciation and losses on the disposal of investments totalling DM 29.4 million (DM 46.3 million).

Derivative financial instruments, which – as in previous years – were used to hedge our investment portfolio, produced a balanced result in 1996.

Overall income from investments for the 1996 financial year amounted to DM 296.1 million (DM 248.1 million) compared with expenses (including management costs, interest expenses and other costs) totalling DM 36.6 million (DM 57.3 million). The net result from investments was therefore DM 259.5 million. This corresponds to an improvement of around 36 % on the previous year's figure of DM 190.8 million.

Investments

in DM million



Human Resources

The skills and commitment of our employees are the cornerstones of our company's success. They enable us to present ourselves to our clients as a professional reinsurance partner and to offer the high-quality services which our cedants require. Currently, 180 employees work at our company's headquarters in Hannover, 106 of whom are women and 74 men. This figure represents an increase of seven in the number of staff compared to the previous year. The new appointments were primarily qualified insurance clerks and university graduate recruits.

Since we are aware of the importance of superbly trained and highly motivated staff, we put into practice a new personnel development concept in the year under review together with Hannover Re as part of our joint administration arrangements. This concept sets out the basic principles of our training measures. At our company, training extends both to the acquisition by our employees of additional specialist skills and the enhancement of their communicative and methodical abilities. In order to achieve these objectives, we have set up a flexible training course system: experienced colleagues pass on their knowledge to new recruits, after themselves being suitably coached to take on this training function. Thanks to this individual learning environment, our employees are able to

Emphasis on personnel development

Enhancement of management skills

build up their specialist expertise systematically and assume additional responsibility.

The parallel improvement of the managerial skills of those of our staff with management functions also forms an integral part of this personnel development concept. We have authoritatively defined our company's understanding of management skills in our management guidelines. The key points here are the delegation of responsibility and fostering of independence and self-reliance. Our (potential) management staff pass through a seminar programme which is specially geared to the implementation of these guidelines and which encompasses the entire management spectrum; it makes particular reference to practical examples.

A further key area is the continual enhancement of general staff conditions. Among other things, this includes the additional measures which we have planned for the advancement of women and the expansion of part-time employment opportunities, including management positions. Furthermore, in cooperation with other companies in Hannover, we have created a so-called „family service" in order to make it easier for our employees to better combine their family and professional lives.

We are aware that the expertise and commitment of our employees are of paramount importance to our company. We would therefore like to take this opportunity to express our appreciation to all the members of staff as well as to the employee council and the senior manager committee for their contribution to the successful development of the 1996 business year.

Affiliated companies

We received an appropriate consideration in respect of all legal transactions with affiliated companies according to the circumstances known to us at the time when the transactions were effected. We incurred no losses within the meaning of § 311 (1) of the Federal Companies Act [AktG] which required offsetting.

Membership of associations and similar institutions

Our company is a member of the following associations:

- Gesamtverband der Deutschen Versicherungswirtschaft e.V., Cologne
- Arbeitgeberverband der Versicherungsunternehmer in Deutschland, Munich
- Allgemeine Arbeitgebervereinigung Hannover und Umgebung e.V., Hannover
- Deutscher Verein für Versicherungswissenschaften e.V., Berlin
- RINET S.C., Brussels

Other information

There is a joint administration arrangement between our company and Hannover Re, which covers all the functions of the two companies. Taxation matters and structural property services are largely dealt with centrally by the HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Outlook

In 1994, the cyclical peak of attainable premium rates, terms and conditions in the reinsurance industry was reached; since that time, conditions have been deteriorating, a trend which is continuing during the current year. Premium income in direct insurance is showing only marginal growth, and in some areas it is even declining. Furthermore, following several very favourable business years, there has been a substantial rise in the capacity available in the reinsurance market. Against this backdrop, growth only makes sense on a limited basis and in specially selected markets.

In 1996, the tasks of individual operational units within the Hannover Re Group were redefined on a Group-wide basis. The most significant outcome of this is our new market presence: since the beginning of this year, our company has been exclusively servicing the German market, while Hannover Re is only active in foreign markets. We traditionally possess above-average expertise in our domestic market, and we can now focus even more closely on our clients and their requirements. Our initial experience with this new structure has been most favourable, thus serving to confirm the correctness of our concept. On this basis, we are convinced that we shall be able to expand substantially our significance in the German market in the long term.

Nevertheless, a well-balanced portfolio split across countries and classes of business is essential for optimal risk diversification. The portfolio diversification which has existed to date – and which is highly advantageous in this regard – is safeguarded by intragroup retrocessions on the part of Hannover Re.

Although gross premium income will rise sharply as a result of the above-mentioned intragroup clearing transactions, we expect the net premium volume to remain virtually unchanged. Terms and conditions in the German market are currently inadequate across all classes of business, a consequence of which is that expansion does not make economic sense in the short term.

The loss experience in the current year has again been unexpectedly favourable so far. To date, there have scarcely been any major loss events which will appreciably affect the reinsurance sector.

There are currently no indications of a similarly dynamic development in life and health reinsurance as observed in 1996, a factor which will further ease the strain on the technical account. For this reason, we anticipate a slight improvement in the overall technical result.

Although capital market conditions have so far remained favourable, we cannot anticipate a repeat in 1997 of the accumulation of positive factors experienced in the previous year, and we therefore expect to see a normalization in the investment result. Overall, we expect our technical and non-technical accounts to record another successful performance in 1997, and we anticipate an increase in the profit on ordinary activities before tax.

Deterioration in conditions

Systematic growth in selected markets

Loss experience surprisingly favourable again so far

Improved technical result

Successful new market profile

Proposal for the distribution of profits

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

	DM
Dividend on the participating subscribed capital of DM 29 570 400.-	15 080 904.-
Profit carried forward to new account	19 096 .-
Disposable profit	15 100 000.-

Capital, reserves and technical provisions

If the Annual General Meeting approves our proposals for the distribution of the disposable profit, the composition of our capital, reserves and technical provisions will be as follows:

Figures in DM million	1996	1995
Subscribed capital and reserves	235.3	235.3
Surplus debenture (Genußrechtskapital)	80.0	80.0
Contingency fund and similar provisions	345.9	328.9
Technical provisions	3 619.1	3 263.3
Total capital, reserves and technical provisions	4 280.3	3 907.5

The capital, reserves and technical provisions amounted to 348.1 % (294.5 %) of net premiums; this includes the capital and reserves (including surplus debenture) at 25.6 % (23.8 %) of net premiums.

ACCOUNTS

BALANCE SHEET *at 31st December 1996*

Assets *Figures in DM thousand*	1996				1995
A. Subscribed capital unpaid - called-up capital - (1995: -)				18 900	18 900
B. Investments					
I. Land and buildings, rights to land and buildings, leasehold			78 166		84 523
II. Investments in affiliated companies and particing interests					
1. Shares in affiliated companies		285 472			287 801
2. Participating interests		12 538			19 704
			298 010		307 505
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		676 813			427 669
2. Bearer debt securities and other fixed-income securities		2 019 360			1 958 057
3. Mortgages and loans secured on land and buildings		5 372			5 259
4. Other loans					
a) Registered debt securities	325 145				
b) Debentures and loans	363 367				
c) Sundry Loans	45 000	733 512			700 697
5. Deposits with banks		161 575			34 489
6. Other		10			10
			3 596 642		3 126 181
IV. Deposits with ceding companies			545 102		437 703
				4 517 920	3 955 912
C. Receivables					
I. Accounts receivable arising out of reinsurance operations - from affiliated companies: 11 707 (1995: 16 674)			183 061		204 579
II. Other receivables - from affiliated companies: 37 347 (1995: 24 145)			45 158		34 017
				228 219	238 596

Liabilities
Figures in DM thousand

	1996				1995
A. Capital and reserves					
I. Subscribed capital			48 470		48 470
II. Capital reserve			114 036		114 036
III. Retained earnings					
1. Statutory reserve		500			
2. Other retained earnings					
at 1st January 1996	64 743				
Allocation from disposable profit for 1995	7 500	72 243	72 743		65 243
IV. Disposable profit			15 100		13 414
				250 349	241 163
B. Surplus debenture (Genußrechtskapital)				80 000	80 000
C. Technical provisions					
I. Provisions for unearned premiums:					
1. Gross		168 061			
2. Less:					
reinsurance ceded		13 580	154 481		161 555
II. Life assurance provision:					
1. Gross		416 085			
2. Less:					
reinsurance ceded		103 169	312 916		254 355
III. Provisions for outstanding claims:					
1. Gross		3 478 141			
2. Less:					
reinsurance ceded		394 056	3 084 085		2 787 789
IV. Provisions for bonuses and rebates:					
1. Gross		1 778			
2. Less:					
reinsurance ceded		212	1 566		1 856
V. Contingency fund and similar provisions			345 881		328 949
VI. Other technical provisions:					
1. Gross		67 362			
2. Less:					
reinsurance ceded		1 281	66 081		57 738
				3 965 010	3 592 242

Assets *Figures in DM thousand*			*1996*		*1995*
D. Other assets					
I. Tangible assets and stocks			9		–
II. Current accounts with banks, cheques and cash in hand			28 559		14 290
				28 568	14 290
E. Prepayments and accrued income					
I. Accrued interest and rent			72 187		75 051
II. Other accrued income			2 162		638
				74 349	75 689
				4 867 956	4 303 387

Liabilities *Figures in DM thousand*	1996				1995
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			14 237		12 934
II. Provisions for taxation			25 243		5 995
III. Other provisions			33 242		24 305
				72 722	43 234
E. Deposits received from retrocessionaires				268 971	156 538
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			207 821		173 004
- to affiliated companies: 52 782 (1995: 42 165)					
II.Miscellaneous liabilities			11 707		16 219
- from taxes: 4 116 (1995: 5 397)				219 528	189 223
- for social security: 557 (1995: 521)					
- to affiliated companies: 4 609 (1995: 6 315)					
G. Accruals and deferred income				11 376	987
				4 867 956	4 303 387

PROFIT AND LOSS ACCOUNT *for the year ended 31st December 1996*

Figures in DM thousand	1996			1995
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	1 571 439			1 575 525
b) Retrocession premiums	341 873			248 853
		1 229 566		1 326 672
c) Change in the gross provision for unearned premiums (+/-)	10 067			-10 203
d) Change in the provision for unearned premiums, retrocessioaires' share (+/-)	3 654			494
		13 721		-9 709
			1 243 287	1 316 963
2. Allocated investment return transferred from the non-technical account, net of retrocession			11 321	6 173
3. Other technical income, net of retrocession			1	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	977 681			983 541
bb) Retrocessionaires' share	135 907			123 577
		841 774		859 964
b) Change in provisions for outstanding claims				
aa) Gross	-262 568			-230 221
bb) Retrocessionaires' share	91 188			46 524
		-171 380		-183 697
			1 013 154	1 043 661
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provisions		-41 588		-18 728
b) Other net technical provisions		408		360
			-41 180	-18 368
6. Bonuses and rebates, net of retrocession			608	872
7. Operating expenses, net of retrosession				
a) Gross aquisition expenses		389 002		362 275
b) Less: commissions and profit commissions received on retrocession		86 538		70 890
			302 464	291 385
8. Other technical charges, net of retrocession			4 351	4 514
9. Subtotal			-107 148	-35 664
10. Change in contingency fund and similar provisions			-16 932	-54 155
11. Net technical result			-124 080	-89 819

Figures in DM thousand	1996				1995
Balance brought forward:				-124 080	-89 819
II. Non-technical account					
1. Investment income					
a) Income from participating interests		15 517			15 100
- affiliated companies: 15 000 (1995: 15 000)					
b) Income from other investments					
- affiliated companies: 7 900 (1995: 6 276)					
aa) Income from land and buildings, rights to land and buildings, leasehold	10 647				
bb) Income from other investments	221 020	231 667			206 481
c) Appreciation on investments		210			217
d) Gains on the realization of investments		48 674			26 309
			296 068		248 107
2. Investment charges					
a) Investment management charges, including interest		7 199			10 979
b) Depreciation		18 595			34 652
- extraordinary depreciation in accordance with § 277 (3) item 1 German Commercial Code (HGB): 1 252 (1995: 8 335)					
c) Losses of the realization of investments		10 762			11 698
			36 556		57 329
			259 512		190 778
3. Allocated investment return transferred to the technical account			-12 813		-6 853
				246 699	183 925
4. Other income			9 627		10 963
5. Other charges					
a) Special allocation to provisions for outstanding claims		61 381			52 951
b) Miscellaneous charges		34 872			23 706
			96 253		76 657
				-86 626	-65 694
6. Profit or loss on ordinary activities before tax				35 993	28 412

Figures in DM thousand	1996				1995
Balance brought forward:				35 993	28 412
7. Taxes on profit and income		1 519			3 713
plus allocation for group assessment		16 831			3 050
			18 350		6 763
8. Other taxes		622			204
plus allocation for group assessment		1 921			531
			2 543		735
				20 893	7 498
9. Profit or loss for the financial year				15 100	20 914
10. Allocation to other retained earnings				–	7 500
11. Disposable profit				15 100	13 414

Valuation of assets

The valuation follows the legal requirements of §§ 341 b ff. of the German Commercial Code (HGB). The methods have been left unaltered on principle.

Land and buildings were valued at cost of acquisition or construction less normal depreciation – where permitted, allowing for special depreciation in accordance with § 4 of the Federal Assisted Areas Act (FördG).

Shares in affiliated companies and participations are valued at acquisition cost. No depreciation was necessary.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities were valued in accordance with the strict lowest-value principle pursuant to § 341 b (2) HGB in conjunction with § 253 (3) HGB. Lower valuations were retained in accordance with § 280 (2) HGB. We discounted registered debt securities and borrowers' note loans to a minor extent.

Derivatives were valued on a Mark-to-Market basis.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans were valued at par with an allowance for amortisation and depreciation.

Deposits with banks, cash in hand, retained deposits and accounts receivable arising out of reinsurance business as well as other receivables are shown as nominal amounts. Value adjustments were set up for abnormal risks.

Tangible assets and stocks are valued at the purchase cost less straight-line 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 are shown in accordance with the information provided by 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 order of the federal state of North Rhine-Westphalia dated 29.5.1974. 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 the third year following the year in which the business was written.

Where technical provisions by ceding companies were expected to be insufficient, we increased them appropriately. Where no information was available from cedants, the results of new treaties were at least neutralized; other provisions were estimated in the light of previous business experience. In some cases, provisions have been determined on an actuarial basis. In the case of accounts outstanding from ceding companies involving fairly large amounts of premium, additional or complete estimates were made of the corresponding balance sheet and profit and loss items as necessary. Outstanding cedant accounts involving smaller amounts of premium are included in the following year: such business probably accounts for less than 1 % of gross premiums.

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

The shares of retrocessionaires in the technical reserves were established in accordance with their contractual shares.

The contingency fund was set up in accordance with the annex to § 29 of the regulation on the presentation of insurance company accounts (RechVersV).

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

We calculated the larger risk provision for pharmaceutical product liability in accordance with § 30 (1) 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 Law (EStG). The calculation was based on Dr. Klaus Heubeck's standard tables with an interest rate of 6.0 %.

In our opinion, the provisions for taxation and other provisions take into account all foreseeable risks and unknown liabilities. A provision was set up in accordance with § 249 (1) of the German Commercial Code (HGB) in conjunction with § 274 (1) of the German Commercial Code (HGB) for the taxation expenses imputable to the financial year under commercial law which affect subsequent years under tax law. This provision covers corporation tax – based on a tax rate of 45 % – and trade tax.

Other liabilities are valued at nominal amounts.

Currency conversion

The assets and liabilities shown in the balance sheet and the income and expenditure entered in the profit and loss account which were originally in foreign currencies were converted into German mark at the middle rates of exchange prevailing on the balance sheet date.

Balance sheet items carried forward from the previous year were likewise converted into German mark at the middle rates of exchange prevailing at the end of the year. In order to keep foreign exchange risks to a minimum we have endeavoured to match liabilities to assets in the same currency. Where losses occurred, however, they are disclosed as such under other charges. Where profit occured, we allocated this to the reserve for currency risks as non-realized. That provision is released on an annual basis to be added to the profit.

Miscellaneous

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

Change in asset items B. I. to B. III. in financial year 1996 Figures in DM thousand	*Book value 31.12.1995*	*Additions*	*Transfres*	*Disposals*	*Depreciation*	*Book value 31.12.1996*
B. I. Land and buildings, rights to land and buildings, leasehold	84 523	2 766	–	1 416	7 707	78 166
B. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	287 801	–	–	2 329	–	285 472
2. Participating interests	19 704	–	–	7 166	–	12 538
3. Total B. II.	307 505	–	–	9 495	–	298 010
B. III. Other financial investments:						
1. Shares, units in unit trusts and other variable-yield securities	427 669	335 318	–	82 176	3 998	676 813
2. Bearer debt securities and other fixed-income securities	1 958 057	2 185 324	–	2 118 383	5 638	2 019 360
3. Mortgages and loans secured on land and buildings	5 259	539	–	426	–	5 372
4. Other loans						
a) Registered debt securities	348 173	105 352	-10 000	118 380	–	325 145
b) Debentures and loans	352 524	36 441	- 5 000	20 598	–	363 367
c) Sundry Loans	–	30 000	15 000	–	–	45 000
5. Deposits with banks	34 489	127 086	–	–	–	161 575
6. Other investments	10	–	–	–	–	10
7. Total B. III.	3 126 181	2 820 060	–	2 339 963	9 636	3 596 642
Final total	3 518 209	2 822 826	–	2 350 874	17 343	3 972 818

Land and buildings and rights to land and buildings

On 31.12.1996, the company owned one developed site in Bad Cannstatt and one developed site in Leipzig, in respect of which there was special depreciation in accordance with § 4 of the Federal Assisted Areas Act amounting to DM 1,809 thousand. The company also owned shares worth DM 50,050 thousand in developed sites in Düsseldorf, Frankfurt and Stuttgart.

Shares in affiliated companies

Name and registered office of the company *Currency amounts in thousand*	*Participation (in %)*	*Capital and reserves (§ 266 (3) German Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany	45.00	DM	75 738	DM	-1 657
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd, Dublin, Ireland	100.00	DM	224 094	DM	20 151
holds 33.33 % of shares in: Hannover Services (Ireland) Ltd, Dublin, Ireland		DM	180	DM	-25
Hannover Life Re of Australasia Ltd, Sydney, Australia	50.00	AUD	113 364	AUD	21 514

Other investments

In accordance with § 280 (2) of the German Commercial Code (HGB), increased valuations of DM 23 455 thousand were omitted in the 1996 financial year.

Other receivables

Figures in DM thousand	*1996*	*1995*
Receivables from affiliated companies	37 347	24 145
Receivables from the sale of securities	2 868	3 390
Receivables from the revenue authorities	1 694	3 831
Receivables from derivatives	1 274	304
Interest and rent due	1 168	2 142
Receivables from investment deposits	483	–
Other receivables	324	205
Total	45 158	34 017

Accruals and deferred income

The item covers mainly deferred interest and rent and also share premium reserves amounting to DM 2,156 thousand.

Other

Assets with a balance sheet value of DM 234,446 thousand (DM 204,773 thousand) have been blocked as security for ceding companies. At times security deposits were made available to banks for security loan transactions in favour of third parties.

Subscribed capital

Subscribed capital consists of 44,064 registered shares, each with a par of DM 1,100. A total of 61.01 % = DM 29,570 thousand are paid up at differing percentages for each individual group of shares.

Surplus debenture (Genußrechtskapital)

Surplus debenture (Genußrechtskapital) worth DM 80,000 thousand were issued in 1993. They have a term of 10 years and pay 7.75 % interest.

Provision for unearned premiums

Insurance class	1996		1995	
Figures in DM thousand	gross	net	gross	net
Fire	31 593	30 632	35 311	33 346
Liability	33 884	29 850	38 812	34 798
Personal accident	8 940	8 673	8 373	8 176
Motor	12 636	11 520	14 803	14 133
Aviation	6 299	5 502	4 550	5 033
Life	26 128	23 328	16 834	15 999
Other classes	48 581	44 976	52 672	50 070
Total	168 061	154 481	171 355	161 555

Life assurance provision

Insurance class	1996		1995	
Figures in DM thousand	gross	net	gross	net
Life	413 306	310 137	315 820	254 355
Other classes	2 779	2 779	–	–
Total	416 085	312 916	315 820	254 355

Provisions for outstanding claims

Insurance class Figures in DM thousand	1996 gross	1996 net	1995 gross	1995 net
Provision for claims, redemptions, surrender values and cancellation payments (excluding annuities)				
Fire	117 235	109 848	123 548	115 720
Liability	1 046 242	999 864	1 046 242	906 127
Personal accident	70 972	68 039	61 025	59 511
Motor	1 694 522	1 532 318	1 502 264	1 370 384
Aviation	58 610	51 694	45 959	39 417
Marine	77 915	77 888	70 925	70 050
Life	26 461	25 604	17 892	16 943
Other classes	195 114	178 260	180 785	174 402
Subtotal	3 431 115	3 043 515	3 048 640	2 752 554
Provision for annuities				
Liabilities	2 477	2 412	2 347	2 280
Personal accident	1 549	1 531	1 769	1 741
Motor	43 000	36 627	37 027	31 214
Subtotal	47 026	40 570	41 143	35 235
Total	3 478 141	3 084 085	3 089 783	2 787 789

Contingency fund and similar provisions

Insurance class Figures in DM thousand	Position at 1.1.1996	Addition	Withdrawal and release	Position at 31.12.1996
Contingency fund				
Fire	90 366	7 825	–	98 191
Liability	27 782	–	27 782	–
Personal accident	13 180	–	7 078	6 102
Motor	11 222	2 526	–	13 748
Aviation	46 892	5 549	–	52 441
Marine	24 228	1 086	–	25 314
Other classes	98 816	33 519	–	132 335
	312 486	50 505	34 860	328 131
Provisions wich are similar to the contingency fund – major risks –				
Liabilities	5 963	332	–	6 295
Other classes	10 500	955	–	11 455
Total	328 949	51 792	34 860	345 881

Other technical provisions

Type of provision Figures in DM thousand	1996 gross	1996 net	1995 gross	1995 net
Profit commission	49 340	48 314	40 556	40 133
Commissions	14 266	14 266	13 683	13 683
Premium balances	3 640	3 386	3 793	3 793
Road traffic accident victim assistance	116	115	129	129
Total	67 362	66 081	58 161	57 738

Technical provisions – total

Insurance class Figures in DM thousand	1996 gross	1996 net	1995 gross	1995 net
Fire	249 273	240 915	251 811	241 933
Liability	1 253 339	1 058 767	1 138 818	994 600
Personal accident	87 853	84 535	84 692	82 952
Motor	1 791 784	1 620 925	1 593 788	1 455 425
Aviation	118 835	111 087	97 970	91 880
Marine	103 777	103 750	95 615	94 740
Life	466 280	359 446	350 948	287 869
Other classes	406 167	385 585	352 319	342 843
Total	4 477 308	3 965 010	3 965 961	3 592 242

Provisions for other risks and charges

Figures in DM thousand	1996	1995
Provisions for pensions and similar liabilities	14 237	12 934
Provisions for taxation	25 243	5 995
Provisions for currency risks	11 857	12 431
Provisions for interest	10 800	–
Provisions for option business	4 861	4 165
Provisions for outstanding payments	3 462	2 705
Provisions for annual account costs	755	689
Provisions for litigation risks	750	3 575
Other provisions	757	740
Total	72 722	43 234

Other liabilities

Figures in DM thousand	*1996*	*1995*
Liabilities from interest on surplus debenture (Genußrechtskapital)	6 200	6 200
Liabilities in respect of affiliated companies	4 609	6 315
Liabilities from outstanding social security contributions	359	311
Liabilities in respect of the revenue authorities	201	166
Liabilities from deliveries and services	156	–
Liabilities from land and buildings	118	2 976
Liabilities from interest on registered debt securities	–	186
Other liabilities	64	65
Total	11 707	16 219

Accruals and deferred income

Figures in DM thousand	*1996*	*1995*
Disagio	10 777	942
Other accruals and deferred income	599	45
Total	11 376	987

Liability conditions

Ther were no liability conditions which are not shown in the annual balance sheet or liabilities arising from the issue of bills or cheques.

Figures in DM thousand	*Gross premiums written* 1996	1995	*Gross premiums earned* 1996	1995	*Net premiums earned* 1996	1995	*Net technical result for own account* 1996	1995
Fire	154 273	164 707	159 080	164 410	141 094	150 737	9 115	-8 813
Liability	233 700	236 019	240 058	234 130	157 123	189 891	-6 419	-6 750
Personal accident	59 016	53 066	58 563	53 688	54 610	51 403	3 280	2 592
Motor	648 556	722 854	650 844	724 240	498 602	594 709	-89 366	-72 289
Aviation	50 810	43 014	49 438	42 599	42 621	37 164	-151	-1 533
Marine	49 380	44 854	49 380	44 854	33 743	35 215	1 605	10 527
Other insurance classes	242 048	216 120	248 558	210 792	204 656	181 582	-22 189	-4 829
Total damage and accident insurance	1 437 783	1 480 634	1 455 921	1 474 713	1 132 449	1 240 701	-104 125	-81 095
Life	133 656	94 891	125 585	90 609	110 838	76 262	-19 955	-8 724
Total insurance business	1 571 439	1 575 525	1 581 506	1 565 322	1 243 287	1 316 963	-124 080	-89 819

Total insurance business

Figures in DM thousand	*1996*	*1995*
Gross claims incurred	1 240 249	1 213 762
Gross operating expenses	389 002	362 275
Reinsurance balance	24 586	7 368

Expenses on personnel

Figures in DM thousand	*1996*	*1995*
1. Wages and salaries	15 330	13 588
2. Social security payments and expenses for welfare	2 986	2 318
3. Expenses for old-age pension scheme	1 531	1 909
4. Total expenses	19 847	17 815

Expenses for investments

Figures in DM thousand	*1996*	*1995*
Land and buildings	8 826	14 085
Fixed-income securities	6 642	4 481
Registered debt securities, debentures and loans	6 169	8 594
Administrative expenses	4 867	4 476
Derivative financial instruments	4 154	9 263
Shares, units in unit trusts	4 129	15 460
Deposits	1 252	497
Deposit and bank fees	517	473
Total	36 556	57 329

Other income

Figures in DM thousand	*1996*	*1995*
Exchange rate gains	5 492	7 379
Allocated investment return	2 089	1 985
Cancellation of value adjustments	845	483
Income from services	484	154
Release of non-technical provisions	251	257
Other income	466	705
Total	9 627	10 963

Other expenses

Figures in DM thousand	*1996*	*1995*
Special allocations to the provisions for outstanding claims	61 381	52 951
Allocation to interest provisions	10 800	–
Interest charges on surplus debenture (Genußrechtskapital)	6 200	6 200
Exchange rate losses	5 634	5 912
Expenses for the whole company	4 270	3 471
Deposit interest	2 977	3 502
Seperate value adjustment on accounting debts	2 161	1 388
Credit costs	1 083	800
Interest charges on old-age pension scheme	785	689
Interest charges on reinsurance operations	508	493
Expenses from services	462	126
Financing interest	446	1 351
Depreciation on other assets	131	98
Other interest and expenses	908	357
	97 746	77 338
Less:		
Technical interest	1 493	681
Total	96 253	76 657

Other information

The names of the members of the Supervisory Board and of the Executive Board are listed on page 3.

Total emoluments to the Supervisory Board came to DM 178 thousand in the year under report, those to the Advisory Board to DM 80 thousand, those to the Executive Board to DM 1,244 thousand and to former members of the Executive Board to DM 561 thousand. DM 6,058 thousand were shown on the liabilities side of the balance sheet in respect of current pensions for former members of the Executive Board.

Mortgage loans were made to members of the Board as follows:

Figures in DM thousand	*Position at 1.1.1996*	*Addition*	*Amortisation*	*Position at 31.12.1996*	*Interest rate %*
Supervisory Board	136	–	5	131	5.5
Executive Board	–	250	2	248	5.5

The loans end between the years 2013 and 2018.

The company has not entered into any liability arrangements for members of the boards.

The average number of employees was 177 in the financial year.

Our parent company is the Hannover Re, whose consolidated annual accounts include the figures from our annual accounts. Our holding company is the HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, in whose consolidated annual accounts the figures from our annual accounts appear. The consolidated annual accounts are lodged in the Register of Companies at Hannover county court.

Hannover, 17th July 1997

Executive Board

Zeller	Schubach	Dr. Becke
Haas	Dr. Hecker	Lohmann

Certificate by the Independent Auditors

The original legal German financial statement for E+S Rück is certified by the auditors as follows:

The accounting and the annual financial statement, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to the generally accepted accounting principles, the annual financial statement gives a true and fair view of the assets, liabilities, financial position and profit or loss of E+S Rückversicherungs-Aktiengesellschaft. The management report is consistent with the annual financial statement.

Hannover, 18th July 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

(Certified Public Accountants)

SUPERVISORY BOARD´S *Report*

We supervised the management of the company regularly during 1996 on the basis of written and verbal reports from the Executive Board. In the year under review, we took the decisions required of us at two meetings and several times by written resolutions. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries was also included in our consultations.

As part of the implementation of important individual projects, we were involved in the repositioning of the company with effect from 1 January 1997 as a specialist reinsurer for the German market. From this date onwards, the Hannover Re Group has been exclusively represented in Germany by the company, which was renamed E+S Rückversicherungs-AG. E+S Rück, which prior to this date also concentrated on the German market, is now no longer active abroad. This provides the company with an opportunity to develop a sharper independent profile than was previously the case and to safeguard its profitability on a lasting basis.

Furthermore, the Supervisory Board approved new rules of procedure for the Executive Board. The purpose of the new rules of procedure is to help ensure that in the interests of all the company's shareholders decision-making processes are organized with a view to being cost-effective, quick and unbureaucratic.

The Supervisory Board also gave its consent to the transfer of a 5 % holding in the company's share capital from the Swiss company VERITAS Rückversicherungs-AG to VHV Vereinigte Haftpflichtversicherung V.a.G. in Hannover.

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

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

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

1. its factual details are correct,

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

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

Nor have we any objection to the Executive Board's overall report; we agree to the 1996 annual accounts, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 1996.

Dr. Jürgen Brenzel's term of office on the Executive Board came to an end on 28 February 1997. The Supervisory Board expressed its recognition and appreciation of Dr. Brenzel's service, which spanned almost 10 years, and thanked him for his contribution to the development of the company.

Hannover, 4th August 1997

For the Supervisory Board

Baumgartl
Chairman

Glossary of technical terms

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

Alternative risk transfer: use of the capacity available on the capital markets to cover insurance risks, e.g. through the securitization of natural catastrophe risks if such risks are no longer fully insurable by the direct insurance and reinsurance industries.

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

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

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

Contingency fund: provision for the equalization of substantial fluctuations in the claims experience of individual classes of business over several years.

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

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

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

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

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

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

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

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

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross / Retro / Net

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

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

E+S
Rückversicherungs-
Aktiengesellschaft

Karl-Wiechert-Allee 50
30625 Hannover

Telephone (+ 49 511) 56 04-0
Fax (+ 49 511) 56 04-188

Our Annual Report was printed on chlorine-free bleached paper