ANNUAL REPORT
1996

New record year ❖ gross premium income + 6,7 % ❖ North America + 27 % ❖ Australia + 64 % ❖ ASEAN countries + 38 % ❖ life and health reinsurance + 55 % ❖ investments + 20 % ❖ investment result + 35 % ❖ profit after tax + 60 % ❖ gross dividend + 14 % ❖ market capitalization + 22 %

hannover **re**

CONTENTS

KEY FIGURES *Hannover Re Group*

Figures in DM million	*1996*	*± previous year*	*1995*
Gross premiums written	*6 400.7*	*6.7 %*	*5 999.4*
Net premiums earned	*5 025.4*	*0.8 %*	*4 986.5*
Technical result	*-141.7*	*594.6 %*	*-20.4*
Allocation to the contingency fund and similar provisions	*191.4*	*-25.6 %*	*257.1*
Net technical result	*-333.1*	*-20.0 %*	*-277.5*
Investment result	*876.2*	*35.2 %*	*648.0*
Technical interest income	*55.1*	*83.7 %*	*30.0*
Other charges and income	*-90.5*	*-77.5 %*	*-51.0*
Special allocation to the IBNR reserve	*-171.4*	*-1.2 %*	*-173.4*
Non-technical result	*559.2*	*42.1 %*	*393.6*
Profit or loss on ordinary activities before tax	*226.2*	*94.8 %*	*116.1*
Profit or loss for the financial year	*108.2*	*59.6 %*	*67.8*
Investments	*15 546.7*	*19.8 %*	*12 975.4*
Capital and reserves incl. Surplus debenture (Genußrechtskapital)	*892.6*	*16.0 %*	*769.8*
Contingency fund and similar provisions	*1 348.0*	*16.5 %*	*1 156.6*
Net technical provisions	*12 680.7*	*13.9 %*	*11 134.6*
Retention	*78.9 %*		*84.6 %*
Loss ratio	*70.3 %*		*72.9 %*
Expense ratio	*26.9 %*		*24.1 %*

ANNUAL REPORT 1996

31st financial year

hannover **re**

Supervisory Board of Directors (Aufsichtsrat)

Wolf-Dieter Baumgartl, Wedemark, Chairman,
Chairman of
HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Wolfgang Bühler, Zirndorf, Deputy Chairman,
Chairman of
Schickedanz Holding-Stiftung & Co. KG

R. Claus Bingemer, Hannover,
former Chairman of
Hannover Re/E+S Rück

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Member of the Executive Board of
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Renate Schaper-Stewart, Lehrte *

Eberhard Wild, Grünwald,
Member of the Executive Board of
Bayernwerk AG

* staff representative

Executive Board (Vorstand)

Wilhelm Zeller, Burgwedel, Chairman

Dr. Andreas-Peter Hecker, Hannover, Deputy Chairman

Dr. Wolf Becke, Hannover

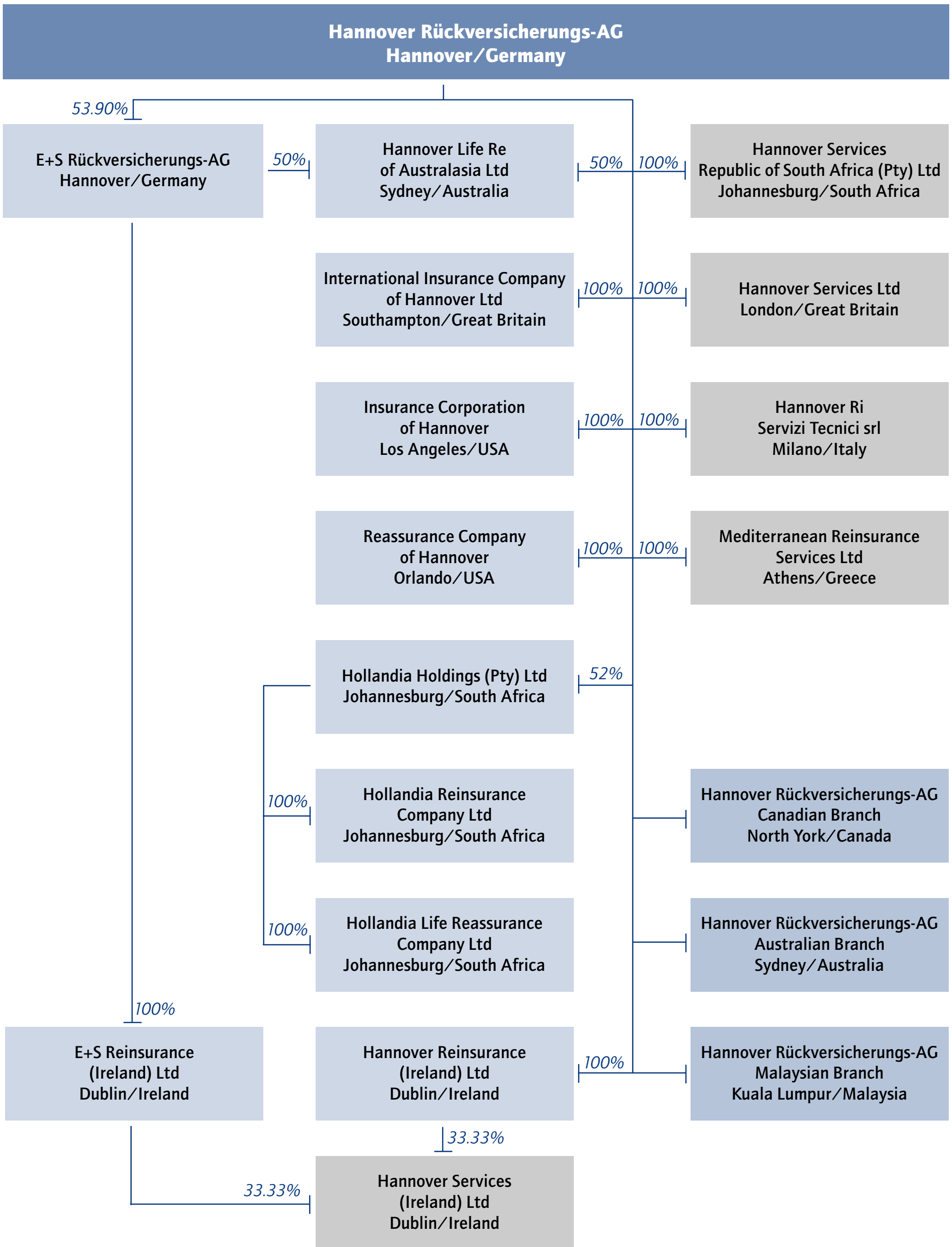
Dr. Jürgen Brenzel, Hannover (up to 28.2.1997)

Herbert K. Haas, Burgwedel

Dirk Lohmann, Burgwedel

Udo Schubach, Hannover

STRUCTURE *of the Hannover Re Group*



As at: July 1997

With gross premiums of DM 6.4 billion, the Hannover Re Group is the fifth-largest professional reinsurer in the world. We operate in all classes of indemnity and life/health reinsurance and maintain business relations with around 2,000 insurance companies in more than 100 countries. Our world-wide network consists of 36 branch offices and subsidiaries in 13 countries. German business is transacted exclusively by our subsidiary E+S Rück.

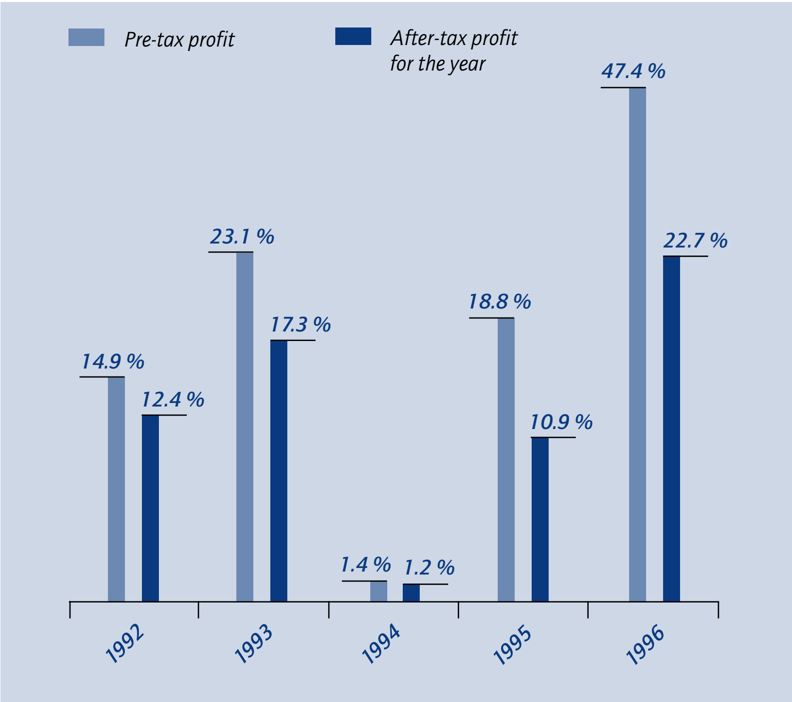
The US rating agencies Standard and Poor's and A.M. Best have awarded us ratings of AA+ („Excellent") and A+ („Superior") respectively. In both cases, these are the agencies' second-highest ratings.

Our strategy clearly puts profitability before premium growth. Our internal yardstick is an operating result on a five-year average of at least 750 base points in excess of the corresponding yield on 10-year Federal Government bonds. We generously surpassed this objective both in the year under review and with regard to the average value of the last five years.

For external purposes, the return on equity of 47 % before tax and 23 % after tax is also well in excess of the German insurance industry average.

In order to continue to safeguard our profit objectives in the future, we have used scientific methods to determine the sharply diverging capital requirements of the altogether 36 individual risk segments. Consequently, all staff with operational responsibility know the precise capital costs which – in addition to the expected loss costs and expenses – have to be generated as a minimum rate of return per segment. It is not permitted to deviate below these minimum rates of return.

Return on equity



1996 – another record year

Our Group accounts for the 1996 financial year are distinguished by another record result following the peak performance recorded in the previous year. The profit for the year increased by almost 60 % to DM 108 million. Gross premium income climbed by 6.7 % to around DM 6.4 billion.

In terms of classes of business, growth was derived principally from the strategically prioritized life and health reinsurance segment, which showed a gain of 55 %. From the regional perspective, our main growth areas were North America (+27 %), Australia (+64 %) and the ASEAN countries (+38 %). Improved exchange rates also played a role in the increased result.

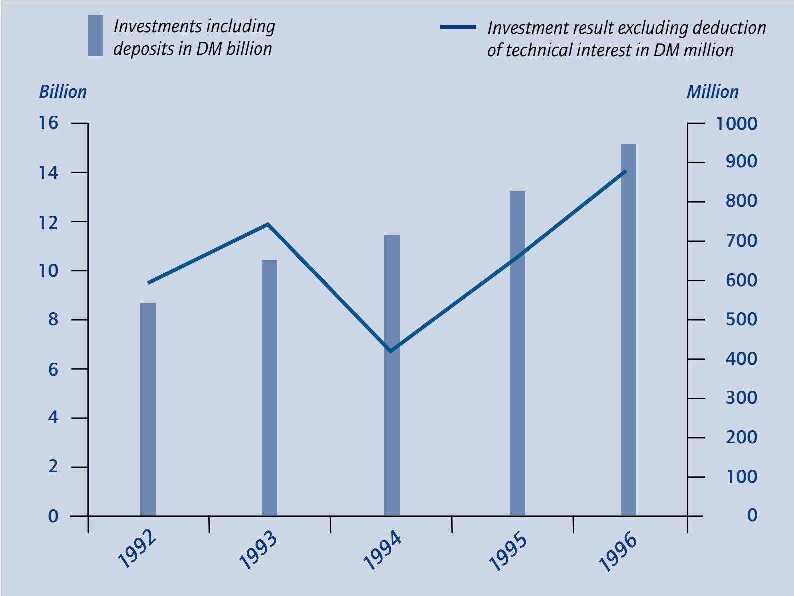
The rise in the technical deficit for own account in the 1996 financial year (DM 333 million as against DM 278 million in the previous year) was primarily attributable to substantial investments in business sectors to which we attach strategic priority, such as life/health reinsurance and financial reinsurance.

Due to favourable developments on the international capital markets, we achieved an excellent investment result in 1996. The volume of investments rose by 20 % to DM 15.6 billion, enabling us to post an investment result of DM 876 million. This figure constitutes a year-on-year gain of 35 %.

Substantial increases in dividend yield and market capitalization

Hannover Re posted an after-tax profit in excess of DM 75.7 million in the 1996 financial year, a figure which corresponds to growth of more than 9 % compared to the previous year. In accordance with the dividend policy introduced last year, it is our principle to distribute the entire after-tax profit as a dividend. That portion of the profit which would have been retained under a traditional dividend policy is clawed back from shareholders by means of a subsequent capital increase. This procedure puts the decision on the appropriation of profit in the shareholders' hands, while also offering tax advantages. Furthermore, this policy is reflected in the fact that our share shows one of the highest dividend yields of all listed German companies (in the year under review around 5 %: gross dividend of DM 3.52, with a year-end price of DM 70.50).

Investments and investment result



By means of our new Shareholder Value and Investor Relations policies, which we launched at the beginning of 1996, we succeeded within a few months in boosting the market capitalization substantially from its low in April 1996. As a result of our systematic communication with investors, analysts and the media both at home and abroad, the price of the Hannover Re share rose by more than 18 % in the year under review.

Varying market developments

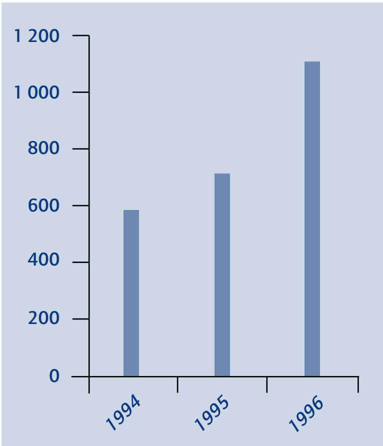
In the 1996 financial year, we expanded or at least consolidated our most important positions in the various markets in accordance with our strategic objectives.

In Germany, by far our largest European market, our premium income of around DM 2.5 billion posted a slight decline. However, due to the special business structure with a considerable proportion derived from our shareholders, we succeeded in escaping the negative trend in results.

In the other European markets, we stood firm against significantly increased competition for market shares and generated satisfactory and in some instances very favourable results. This development was fostered by our excellent international rating and the heavy level of concentration in the industry. We have positioned ourselves as an alternative to the reduced number of large reinsurance groups.

In North America, which is by far our most important foreign market, we strengthened our

Consolidated gross premium in life and health reinsurance in DM million



position despite the marked trend towards concentration in the insurance and reinsurance industries. Our overall results were satisfactory, in part due to the low burden of natural catastrophe losses.

Japan is clearly the most advanced market in Asia, and it is also our most significant market in terms of premium volume and profitability. We further expanded our market share in 1996. Despite increased competition, the result was again highly satisfactory. The markets of South East Asia and China again showed good overall growth last year, although their profitability varied considerably.

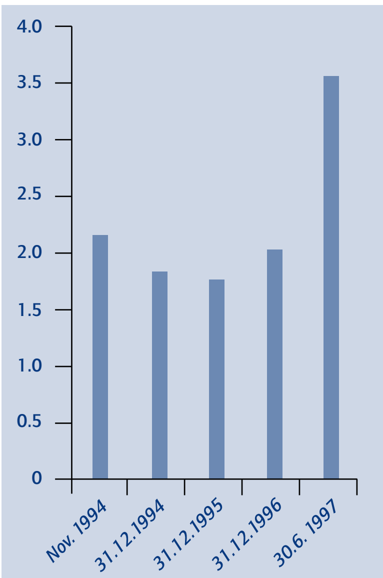
In Australia and New Zealand, we continued to increase our market penetration and secured a good position. Despite a number of regional losses, the African markets also made another favourable contribution to results.

We attach special emphasis to life and health reinsurance under our strategy. In the light of the stable profit expectations in this business segment, we have set ourselves ambitious objectives here for the medium and long term. In the year under review, we made good progress towards reaching these goals.

Our premium income increased by 55 % to more than DM 1.1 billion. A large technical deficit was caused by the substantial volume of pre-financing agreements – a type of treaty in which we have specialized. These investments will accrue to our account as earnings in future years. As a consequence, the value of our portfolio increased to such a great extent that – taking into consideration all elements of the result – we can regard the result of life and health reinsurance as very good.

Prospects for 1997

Market capitalization in DM billion



In view of the softening in the market cycle, we anticipate a growth in gross premium income of approximately 3 % in the current year. The very favourable loss experience in the first half of the year and the non-recurrence of the investment burden incurred in the 1996 financial year will generate a substantially improved technical result.

Following an extraordinarily good year in 1996, we expect investment income to normalize in the current year.

Overall, we are optimistic that we can generate another sizeable increase in our profit for 1997. We plan to continue to distribute the entire profit for the financial year, and should therefore be able to achieve our objective of increasing the gross dividend by 10 % annually and hence attaining a gross distribution of DM 100 million by the year 2000.

We regard the continued steady increase of our market capitalization as a further priority task for the 1997 financial year. It is gratifying to note that in the first half of the current year the share price rose by more than 70 %. On the basis of the sound fundamental data which underlie it, we are convinced that our share offers considerable additional potential for improvement.

THE HANNOVER RE SHARE

At the beginning of the year under review, the price of our share initially continued its unsatisfactory performance of the previous year. We used this untenable situation for our shareholders as an opportunity to fundamentally redefine our Investor Relations policy and resolved to take far-reaching measures.

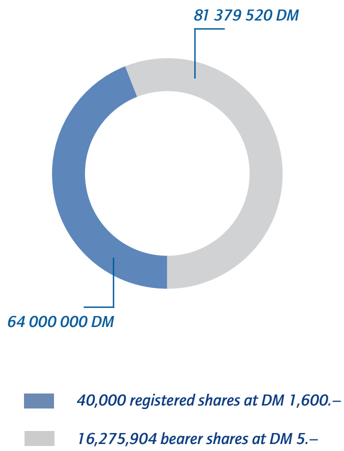
As a first step, we set up an Investor Relations Committee. Headed by the Chairman of the Executive Board, this Committee also comprises two further Members of the Executive Board and representatives of all the relevant areas of our company. Assisted by a renowned Investor Relations agency, we quickly arrived at a crucial insight: it is not sufficient for a quoted company to be better than its competitors – it is also important to communicate this fact aggressively.

We therefore decided to go onto the offensive with an information campaign. The intention was to ensure that the price of our share should finally reflect its intrinsic value. In order to achieve this objective, we actively strove for a dialogue with institutional investors and analysts, and we set up our new InfoBrief as a communication platform. Published at irregular intervals, this newsletter contains background information on developments in our industry and exceptional loss events as well as the latest news on Hannover Re.

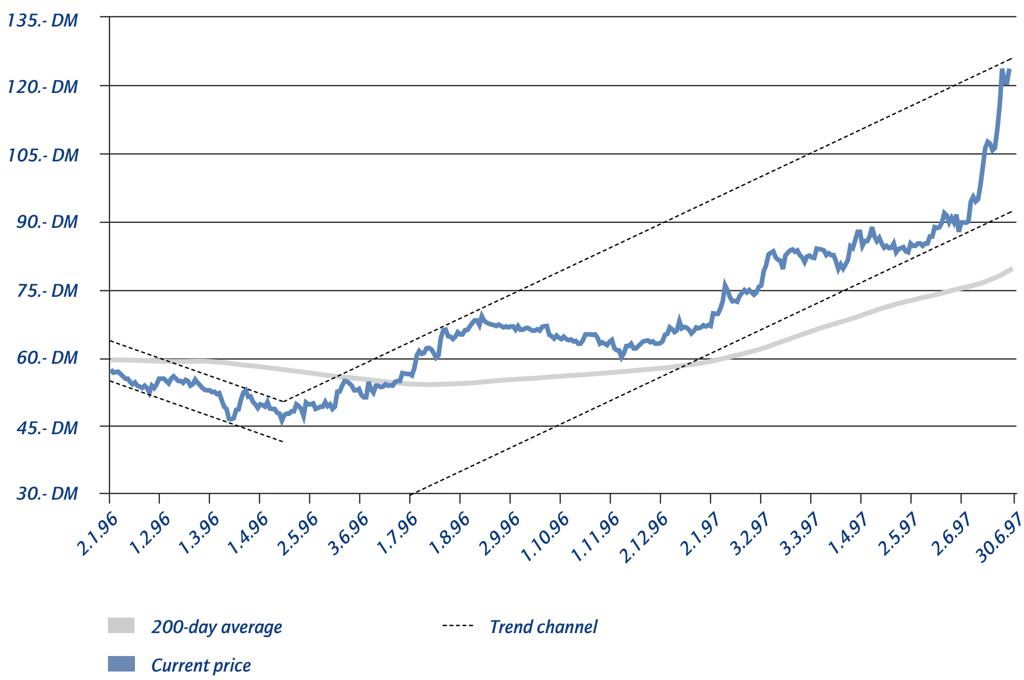
In addition, we established ourselves as a trend-setter as far as transparency is concerned. Thus, for example, in our 1995 annual accounts we were the first German reinsurer to disclose the hidden reserves in its securities portfolio, although such a disclosure will not be obligatory until 1998.

Finally, we decided to adopt a new dividend policy: we distribute the total profit for the financial year and claw back by way of a subsequent capital increase that portion which would have been retained from the outset in accordance with traditional practice. This procedure puts the decision on the distribution of profits in the hands of the shareholders, and is also more advantageous from a tax standpoint. Further-

The capital subscribed is DM 145,379,520.–. It is distributed over the different classes of shares as follows:



Steadily rising since the trend reversal

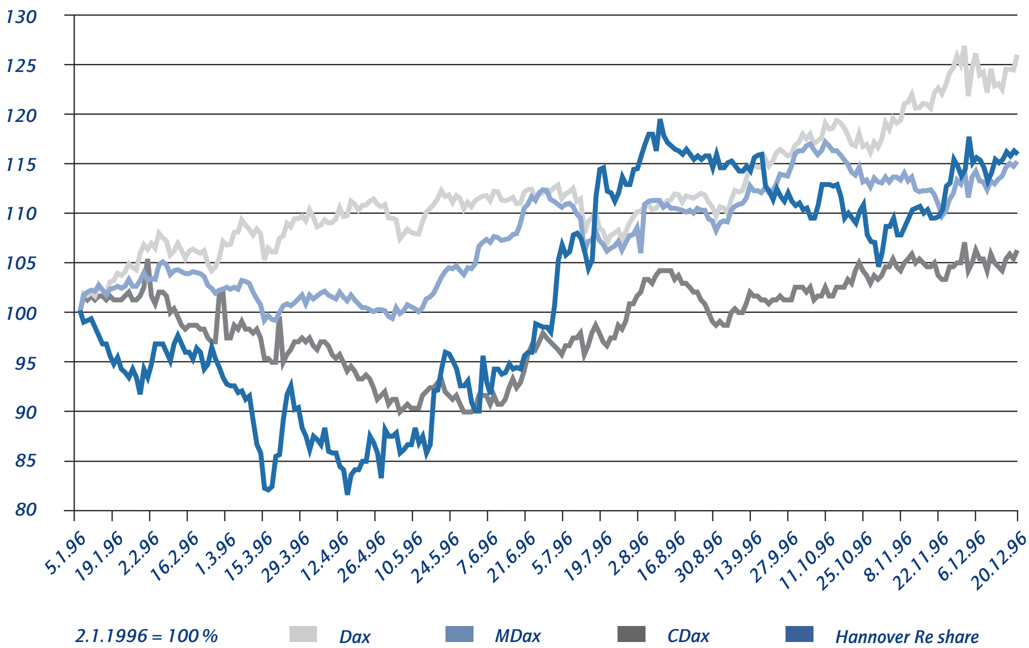


more, this policy has the effect of ensuring that our share shows one of the highest dividend yields on the entire German stock exchange list. In this way, the price is better protected against downward movement and volatility is reduced.

This set of measures soon began to bear fruit. Our new shareholder value policy received favourable reviews in the financial press, both at home and abroad, and was rewarded on the floor of the stock exchange: Since 12 April, when the share price reached its all-time low of DM 47.50, it has experienced an uninterrupted upward trend.

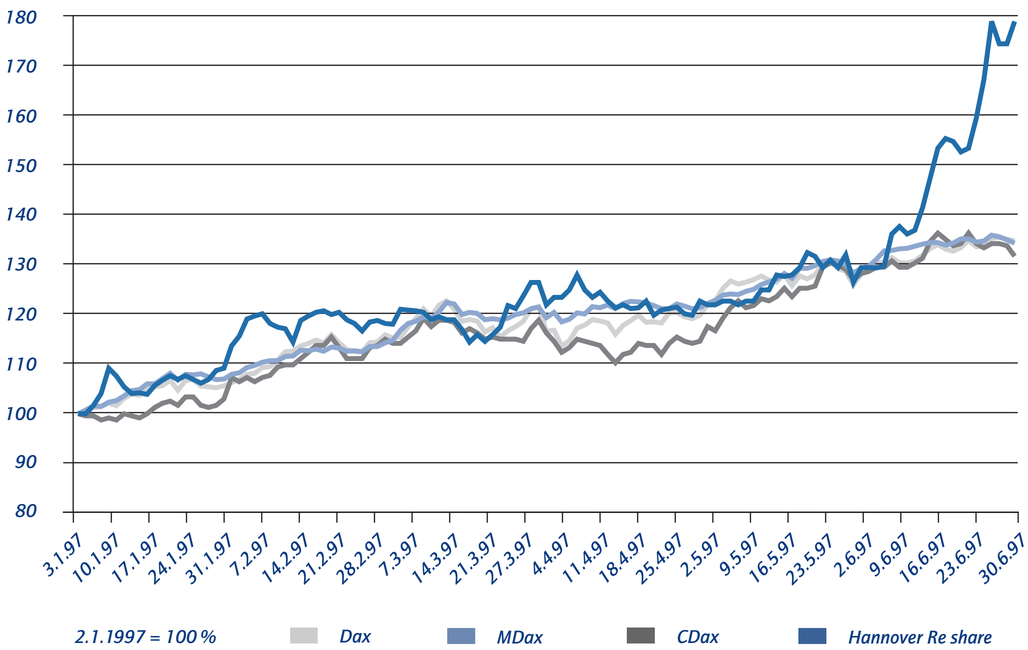
The trend reversal was so impressive that, despite the negative development in the first quarter, we were able to outperform almost all the market indices thanks to the favourable performance over the remaining three quarters. Only the Dax performed even better.

In 1996 we outperformed almost every index



With a price increase of more than 18 % in the year under review, we succeeded in raising the company's market capitalization by over DM 360 million to a figure in excess of DM 2.05 billion. Despite such a gratifying development, this valuation could still by no means be regarded as adequate. Only in the course of the current year has a satisfactory level been attained.

In 1997 we have so far outperformed every index



By 30 June of the current year, we had succeeded in increasing the share price and hence the value of the company by more than 70 % to over DM 3.5 billion. In spite of this boom in the share price, we remain convinced that our share retains considerable potential for further gains. Since our company is a young one, we have virtually no past losses deriving from US asbestos and environmental claims – the heaviest burden for many of our competitors. We are superbly positioned in the world-wide markets and have clear strategic objectives.

Amounting to 47.4 % before and 22.7 % after tax in the year under review, the return on equity* is well in excess of the average for our industry. This is also true of the average figure for the past 5 years (21.1 % before and 12.9 % after tax). Compared to the industry average, the price-earnings ratio of 20.3 % has a considerable amount of catching up to do. The DVFA/GDV result per share should continue its upward trend.

This appraisal of our share's future price potential is confirmed by financial analysts at renowned German banks and international investment companies. Our clearly appreciable pro-shareholder attitude and the Executive Board's active advocacy of shareholder value have received special praise.

Our staff also share this favourite assessment of the further development of our company's value: in April of this year roughly 60 % of the staff at head office took up the offer to purchase employee shares, even though these shares are prohibited from sale for a number of years.

We were very pleased to note that our share was included in the MDax with effect from 21 March 1997. This means that for outward purposes as well the company belongs to the group of leading German public limited companies; since that date it has also been traded in the computer-supported IBIS system.

	1996	*1995*
DVFA result pre share	*6.06*	*5.50*
Dividend per share at nominal value of DM 5.00	*3.15*	*3.00*
Corporate tax credit	*0.37*	*0.09*
Gross dividend	*3.52*	*3.09*

**Return on equity: result of ordinary business activities before tax or the profit for the financial year after tax in relation to the capital and reserves at the beginning of the financial year*

Economic climate

Little change in the general economic climate

Positive impact of movements in exchange rates

Favourable loss experience

Low burden of losses from natural catastrophes

Increased competition

Pioneer in the area of alternative risk transfer

There were no substantial changes in the world-wide economic climate for insurers and reinsurers compared to the previous year. The movement in exchange rates was, however, striking. Following the German mark's gain against the major currencies in each of the preceding years, it lost considerable ground in the year under review. This generated increases in premium, investments and investment income for our company. Interest levels remained very low, and hence failed to give any impetus to current income from investments. Particularly towards the end of the year, stock markets soared to reach some notable highs, as a result of which we recorded substantial capital appreciation in this sector.

The global economy recorded merely modest growth, and only the USA and the United Kingdom lived up to the positive expectations. Although the developing markets of East and South East Asia continued to show high growth rates, the dynamic expansionary force of the previous years slackened in some areas. In western Europe, the efforts of governments to fulfil the Maastricht criteria for joining the European Monetary Union were readily apparent. The resulting drop in public expenditure hampered growth and restricted disposable earnings. The necessary savings made by private households also impacted upon the insurance industry. Manufacturers with a high degree of international flexibility continued to choose locations which offered the most favourable general conditions. Insurers and reinsurers must react to this challenge by expanding their range of products and adopting an even more international structure than has been the case to date. In consequence, the year under review again witnessed processes of concentration in the insurance and reinsurance markets.

The reinsurance sector experienced take-overs with far-reaching implications. In this connection, the largest competitors, in particular, sought to expand and consolidate their market positions. It remains to be seen whether the – in some cases extremely high – purchase prices were justified.

A further important factor for both the insurance and reinsurance industries was the reorganization of the Lloyd's of London insurance market. Serious doubts had arisen in the preceding years as to whether this market would ever be able to reclaim a significant position in the industry, but the restructuring process now appears to have been a success. Aided by an aggressive market approach in some areas, Lloyd's also launched a challenge to its existing competitors in order to reclaim previously forfeited market shares. For reinsurers, however, there was also new scope for cooperation, which we systematically and successfully exploited.

In terms of significant world-wide natural catastrophes, 1996 was an exceptional year. Compared to the record figures of the previous year, the economic losses caused by such events declined sharply. This development was largely unexpected for the insurance industry, since both the insured – and even more appreciably – the reinsured losses from natural catastrophes decreased. However, although this may appear favourable at first glance, it should be put into perspective. The low burden of losses underlying the continuing good results in this business segment is, if anything, fortuitous. This fact tends to distort the general perception of the actual exposure and in some cases leads to rate cuts in the competitive environment which no longer reflect the true risk situation.

As anticipated, the competitive pressure, which had already increased appreciably in 1995 as a result of the previous years' good results, intensified still further: this may be attributed, on the one hand, to the volume-oriented approach of some market players, and, on the other, to the entry of new providers into the market. A trend reversal can only be anticipated when the loss experience shows a substantial deterioration.

In order to protect very large risks which have to date been inadequately (re)insured – especially in the area of natural catastrophe perils –, the utilization of the capital markets' enormous financial resources is a subject under discussion throughout the world. Our company is active as a pioneer in this field, and it is one of the very few which can point to concrete practical experience. In the year under review, for example, we conducted our second transaction with North American institutional investors. This represents for us an equity substitute of USD 100 million.

Business development

Another record profit

Moderate real growth enhanced by exchange-rate movements

Excellent investment result

The gross premium income of the Hannover Re Group increased by 6.7 % to DM 6,401 million in the year under review; in this context, however, it should be noted that 4 percentage points were attributable to fluctuations in exchange rates. The adjusted growth rate to allow for this factor was therefore 2.7 %. In accordance with our strategic orientation, this growth derived principally from life and health reinsurance worldwide and, on a regional basis, from business in North America, Asia and Australia.

The result for the technical account showed a substantial deterioration. However, the significance of this development must be put into perspective. In the life and health reinsurance sector we have specialized in transactions containing sizeable prefinancing components. In accordance with German statutory accounting requirements, such expenses may not be amortized over the term of the underlying policies; rather, the full amount is expensed in the profit and loss account in the year in which it is incurred. To this extent, the systematic and entirely successful expansion of the life and health reinsurance business sector has led to a new business strain of almost DM 144 million. This debit item is clearly of an investment nature. Similar investment effects also arose out of transactions attributable to financial reinsurance. In the final analysis, therefore, we regard the technical result as satisfactory.

A further sizeable allocation of DM 191.4 million was made to the contingency fund, which is only constituted for the property and casualty insurance classes. This provision now totals DM 1.35 billion, a figure which is more than twice the company's reported capital and reserves (excl. Surplus debenture). Parallel to this, the amount of DM 171.4 million was allocated to the IBNR reserve from the non-technical account.

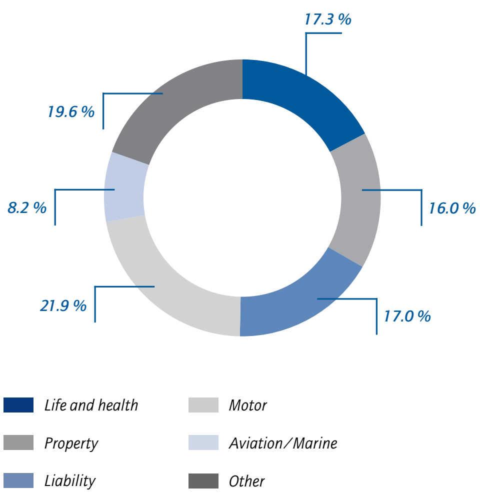
The increased invested assets – associated with improved exchange rates for key currencies against the German mark and high share prices as at the balance sheet date – enabled us to post an outstanding non-technical result. The portfolio of investments grew by 19.8 % to DM 15.5 billion, while the investment result increased by 35.2 %.

Overall, we were therefore able to improve the profit for the financial year by 59.6 % to DM 108.2 million.

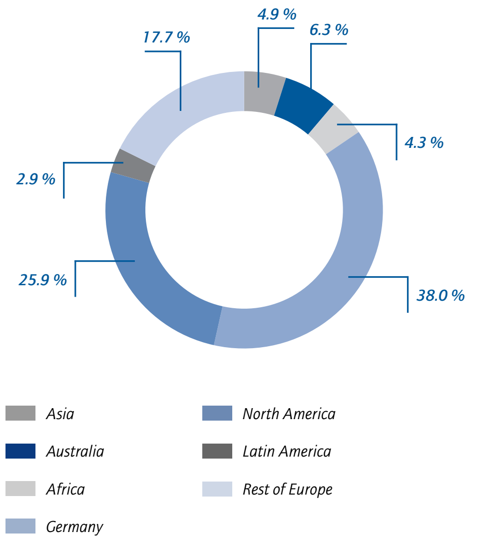
Our markets

The following sections describe the developments in the year under review in our principal countries of activity on the basis of our regional portfolio structure; the emphasis is on indemnity classes of reinsurance. The corresponding business shares accounted for by life and health reinsurance are summarized separately at the end due to the special features of this segment.

Gross premiums written by class of business in 1996



Gross premiums written by region in 1996



Europe

Slight premium decline in Gremany and an adequate result

Fierce competition in motor insurance

German business favourable

In **Germany**, our largest market by a substantial margin, insurance premiums in the indemnity classes declined by around 1.5 %. Motor insurance spearheaded this negative trend, posting a drop of 4.5 %. Despite a decreased loss frequency in the major classes of business, the profit situation deteriorated slightly compared to the previous year.

Our Group achieved gross premium income of DM 2,434 million in the German market, a figure which constitutes a decrease of 3.9 %. A unique feature of our German business is that the bulk of it is derived from shareholder companies. For this reason, we were able to improve our technical result against the general trend.

Europe	1996	1995
Premiums (gross) in DM million	3 568.6	3 653.6
Share of total business as %	55.7	60.9

Accounting for almost 50 % of our domestic portfolio, motor insurance is by far the most important class of business. The considerable competition over both prices and coverage conditions gives grounds for concern here, and is reflective of a markedly predatory competitive environment. With increased loss expenditure, especially due to non-proportional reinsurance, we achieved a result which, while still satisfactory, was not on a par with the favourable result of the previous year.

The slight premium decline in liability insurance, by contrast, is at odds with the development in the insurance markets. The already existing tendency on the part of cedants to increase retentions and give greater preference to non-proportional reinsurance was confirmed. This trend was, however, also associated with a reduction in the technical deficit. Overall, negative technical results in the liability sector should be seen in perspective: since losses tend to be run off over a considerably longer period of time than in other classes, the investment income apportionable to this segment is disproportionately high in operating terms.

Property insurance classes offered an uniformly bright picture. Premium income in industrial fire and fire business interruption insurance declined in the insurance sector by approximately 4.5 % on a market-wide basis. We succeeded in escaping this general trend and achieved a roughly unchanged gross premium volume. Loss expenditure sank to an unexpectedly low level. The most prominent loss event was the fire catastrophe at Düsseldorf airport on 11.4.1996, which caused an industrial fire loss in the region of DM 246 million. The other property classes posted slight growth. The absence of losses caused by natural catastrophes was a particularly important factor in the results, which ranged from satisfactory to good.

With premium income remaining roughly unchanged, credit insurance produced substantial technical losses. This was due to a new record number of insolvencies in Germany.

Following several very profitable years, the **United Kingdom and Republic of Ireland** experienced a return to intense competition for market share, which depressed rate levels in all classes of business. The major composite insurers are making intensive efforts to retain their market position. They have recognized the danger of forfeiting their market share due to the restructuring of personal lines business in favour of direct writing insurers, on the one hand, and the fact that the building societies have stepped up their involvement in this segment via their own insurers, on the other. The merger of two of the largest composite insurers decisively altered the insurance landscape in the United Kingdom, and a continuation of the process of concentration cannot be ruled out. Ever-larger capacities are being used to gain control over the placement of individual risks. This has led to sizeable rate reductions, particularly in commercial and industrial business, which will be reflected in insurers' results in the foreseeable future.

In the wake of its successful reorganization, Lloyd's of London bounced back into the market with fresh energy and new capital in order to recover lost ground. However, if anything, these efforts met with more success in the insurance market than in the reinsurance sector, where reinsurers were firmly resolved to preserve the positions which they had established in recent years. Nevertheless, in some instances this could only be achieved by accepting inadequate terms and conditions for assumed risks. As a result, there was an appreciable decline in rates, especially in the reinsurance of natural catastrophe perils.

As was the case in the preceding years, we again benefited from the so-called „flight to quality" effect in the year under review: outstanding credit ratings from the renowned rating agencies, coupled with an international market presence and professional risk handling, are rewarded by cedants. For this reason, we were able to stand our ground in the market without settling for unjustified compromises.

Furthermore, we used to our benefit the continuing trend towards concentration in the reinsurance industry by positioning ourselves as an alternative in a market which is becoming increasingly dominated by large reinsurance groups. Thanks to new treaties and increased shares in UK and Irish motor third party liability business, we succeeded in consolidating our position.

Intense competition in the UK

Opportunities offered by the „flight to quality" and trend towards concentration

The insurance and reinsurance markets in the **Benelux countries** are also characterized by increasing competition over terms and conditions. This is particularly true for the classes of industrial property and marine insurance. In general terms, the insurance markets posted only moderate growth in the year under review.

The trend towards non-proportional types of reinsurance and the extent of available capacity have intensified price competition, as is particularly evident from the reduced rates for non-proportional natural catastrophe business.

Satisfactory result in the Scandinavian countries

French business makes a positive contribution to results

Previous years' good results put pressure on terms and conditions in Italy

Another good result

We achieved our objective of expanding our portfolio with selected target clients. As a consequence, we recorded a slight gain in gross premium volume for the 1996 business year and a satisfactory technical profit.

The process of concentration witnessed in recent years in the **Scandinavian countries** has largely reached its conclusion, both in the insurance and reinsurance sectors. The market is now dominated by a few large groups which, not least because of the favourable results in recent years, were intent on raising their retentions and cutting their reinsurance requirements. Competition on the reinsurance front therefore intensified.

A so-called „core reinsurer" philosophy is taking ever-greater hold with Scandinavian cedants: companies are seeking to cooperate with a limited number of reinsurers on a broad basis and within the framework of a long-term relationship. Owing to the fact that we belong to virtually all significant cedants' „core reinsurers", we succeeded in boosting our gross premium volume. Overall, results were satisfactory.

The scenario for the **French** insurance and reinsurance markets is a similar one; here, too, the business environment was characterized by take-overs and mergers of large insurance groups.

The insurance industry in France posted moderate growth and another increase in profits compared to the previous year. The upturn was particularly noticeable in the property and motor classes, which together account for 60 % of the market's non-life premium. Although this recovery had been initiated over the past few years by means of increased rates and improved loss prevention, an intensified level of competition became evident in the industrial risks segment during the course of 1996. This tendency was fostered by the growth ambitions of major European insurers and the creation of international structures in this sector. In public liability and professional indemnity business, on the other hand, rate levels remained gratifyingly stable.

The reinsurance business which we accepted in France again generated positive earnings in the year under review. Just as in the previous year, there were no storms in 1996, as a result of which we were able to post a very favourable technical result in this segment. Fire insurance was only the class to suffer major losses, being hit by two spectacular events: the fire at the headquarters of Crédit Lyonnais in Paris and the blaze in the channel tunnel. Consequently, fire business in France closed with a slight deficit. Given our market share, however, the amount of loss incurred in this segment is slight.

Showing further improvements in profitability, the **Italian** insurance market posted real growth of 4.5 % in the year under review. However, the relatively high capital resources of many companies and the sustained positive results over a number of years made themselves felt in the form of increased retentions. The extent of reinsurance capacity on offer also increased. All these factors combined to produce intense competition in the Italian market, which was reflected in the reinsurance terms and conditions. For this reason, we systematically relinquished a number of business connections; at the same time, we succeeded in establishing new client relationships. The technical account shows that earnings were clearly favourable, with gross premium income remaining roughly unchanged.

The development of market conditions in **Spain and Portugal** renders more intensive involvement unattractive. Proportional reinsurance is the dominant type of business in both countries, as a result of which the insufficient premium levels in the insurance market also leave their mark upon the reinsurance sector. There was a corresponding decline in gross premium volume in both these countries, although adequate earnings could still be achieved thanks to our systematic policy of restraint. Portuguese property business stands out favourably in the result, this performance being attributable to two factors: firstly, premium calculations take appropriate account of the existing earthquake risk, and secondly, there were no natural catastrophes during the year under review.

The countries of **eastern Europe** posted only marginal premium growth in real terms in the non-life classes of business. The slight premium gains which we achieved in this segment were primarily attributable to new business.

Reinsurance terms and conditions in this region are increasingly oriented towards the international environment. As a consequence, keener competition and rate cuts, especially in the non-proportional sector, could be observed in this segment too. This tendency was further enhanced by an extraordinarily favourable loss experience.

North America

Although the bulk of our North American business is written in Hannover, our local presence in the market is also particularly important to us. In order to fulfil this objective, we are represented in the area of life reinsurance by the Reassurance Company of Hannover (RCH) in Orlando/Florida, and in non-life business by the Insurance Corporation of Hannover (ICH) in Los Angeles/California. Both companies underwrite specific segments of reinsurance business. In addition, we have expanded our service team in Chicago and maintain a registered office in Toronto to cover the Canadian market.

The Hannover Re Group derives a substantial share of its gross premium income from the North American markets. Although the original markets were relatively weak, we posted an increase in our gross premium volume in 1996. The primary reason for this was the strength of the US dollar. Despite a cautious reserving policy, the technical result continued to be satisfactory.

Overall, the North American insurance market was only marginally affected by natural catastrophes in the year under review, despite the fact that in September 1996 Hurricane Fran caused one of the ten largest economic losses of the last 50 years. In addition, there were winter storms at the beginning and end of the year and, above all, floods on a scale at least worthy of mention. Nevertheless, these events only significantly influenced the loss experience of those companies operating on a regional basis.

It was significant that premium growth was only marginal due to fierce competition. Competition intensified, inter alia on account of the substantially improved equity base of companies following the preceding favourable years. The pressure on technical results consequently increased, and it was not always possible to counterbalance their development with a favourable financial performance in the investment sector.

Hardly any natural catastrophe losses

Expansion of niche business in liability insurance

Satisfactory results in non-life insurance

As was also the case in other markets, insurers in the USA underwent a process of concentration in 1996. With slim market growth, mergers appeared to offer an opportunity to expand market shares. However, past experience shows that it has to date scarcely been possible to establish a direct correlation between size and success. These business link-ups must therefore first prove their efficiency.

North America	*1996*	*1995*
Premiums (gross) in DM million	*1 656.1*	*1 307.9*
Share of total business as %	*25.9*	*21.8*

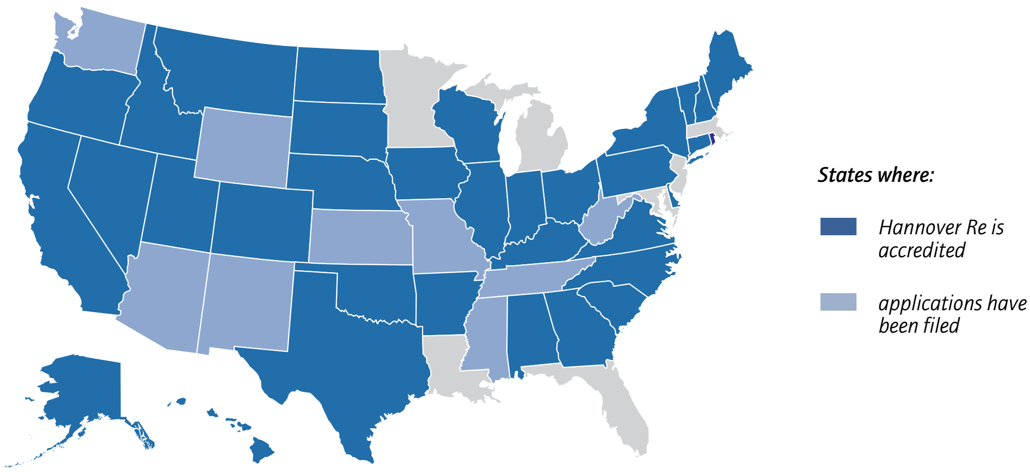
Parallel to this development, there was further consolidation among the major reinsurers in North America. The appreciable reduction in the number of competitors has positive implications for us: the position of our Group – one of the few large, internationally significant reinsurers with an excellent rating – has been enhanced.

The overall results of our North American non-life business can be regarded as satisfactory, not least because of the low loss burden caused by natural catastrophes. Due to inadequate terms and conditions, the proportion of industrial business in this segment decreased significantly. We partially compensated for this loss of volume by stepping up our activities in natural catastrophe business, a sector in which we increased our capacities. We were also able to record a higher volume of business in the US liability sector. An important factor here was our improved market platform due to the accreditation of Hannover Re as Trusteed Reinsurer in most US states.

Hannover Re began applying for Trusteed Status in Hawaii in December 1994. It has now been accredited in 35 states, with New York acting as domiciliary regulator, and has applications pending in 9 more states. In the remaining states, Hannover Re intends to file applications wherever possible under state law. We have established a Trust Fund in New York for the benefit of our US cedents domiciled in those states where we are accredited. The Trust Fund exceeds the sum of Hannover Re's liabilities covered by the Trust (USD 95 million at the end of 1996) by a surplus of USD 20 million.

The Trusteed Status allows Hannover Re's cedents to take full statutory credit for the reinsurance placed with Hannover Re and therefore better serves the market's needs, thus improving Hannover Re's competitive position in the US.

Accreditation status



Latin America

Latin America		
	1996	*1995*
Premiums (gross) in DM million	*186.3*	*210.0*
Share of total business as %	*2.9*	*3.5*

Developments in the insurance and reinsurance markets of Latin America are significantly influenced by the general economic climate. Mexico and Argentina achieved a turn for the better in the year under review, and marked increases can be observed again in the growth ratios. In Venezuela and Colombia, economic conditions did not stabilize until late in the year. In addition, the commencement of significant moves towards concentration could be discerned. In Mexico, for example, the three largest insurance companies joined forces. As a result, in some instances there were already indications in the year under review of a tendency towards higher retentions.

Competition in Latin America became considerably more fierce. This was due to the difficult overall economic conditions at the beginning of the year under review as well as the favourable technical results of the previous years. Nevertheless, the result can still be regarded as satisfactory to good; this is attributable to the fact that the insurance and reinsurance markets in Latin America are heavily dominated by property business – and hence natural catastrophe perils –, a sector which recorded a gratifying loss experience.

In the light of the general market developments, we expanded our premium volume only slightly. Owing to the conditions described above, it was no longer possible to generate the disproportionately large profits of the preceding years.

Intensification of competition

Satisfactory results due to minimal natural catastrophe losses

Asia

In line with the general state of economic development, **Japan's** insurance industry is by far the most advanced in Asia. Japan is, for our Group as well, the most important market in this region, both in terms of premium volume and profitability. For this reason, we have afforded Japan the status of a priority market, which is to receive the preferential allocation of our resources. We succeeded in further expanding our market share in Japan in the period under review. As part of the process of deregulation, major life insurers have taken the opportunity to establish non-life subsidiaries. We have been able to build up substantial business relationships with all these newly established companies.

The 1996 result was again most satisfactory, although there was a further deterioration in prices for the reinsurance of natural catastrophe perils. At the same time, competition within the Japanese market has become more keen due to the Japanese government's policy of deregulation. This development constitutes not only a danger, but also an opportunity: we are increasingly able to offer our clients reinsurance solutions tailored to their specific requirements. The surplus capacity in the reinsurance markets, which continues to exert pressure on prices for natural catastrophe covers, remains a source of concern.

We have systematically exploited the opening up of the insurance market in **China**, and much to our satisfaction have established substantial business relationships with all the insurers licensed there to date. In the light of the potential and dynamic strength of development inherent in this market, we have also accorded China the status of a priority market.

As part of our targeted strategic investments, we prepared the opening of a representative office in Shanghai in 1996. In the meantime we have received licensing from the Supervisory Authorities and have already opened the office.

In **Taiwan**, the loss-making motor business of the preceding years showed an impressive improvement following the introduction of new tariffs in mid-1996. Owing to the fact that our cedants made vigorous efforts to restore their business to profitability, our technical results for this line of business returned to the black in the year under review. Our result was, however, affected by the largest fire loss in the country's history. Due to a set of very unfortunate circumstances, a fire in a manufacturing plant for high-grade electronic products got out of control. Overall, therefore, our result was slightly negative.

Asia	*1996*	*1995*
Premiums (gross) in DM million	*313.6*	*306.0*
Share of total business as %	*4.9*	*5.1*

Continued systematic expansion

Opening of a representative office in China

Provision of increased range of services

The **ASEAN** insurance markets again boasted double-digit growth in the year under review. Economic growth and the accompanying increase in insurance density made this development possible; at the same time, however, these factors led to keener competition between insurers and a consequent drop in rate levels. This was directly reflected in the proportional reinsurance treaties, a type of cover which is typical of this region. In conjunction with a normal loss experience and no significant natural catastrophes, the outcome was a reduction in profitability.

We succeeded in consolidating our position in this important region for our Group, inter alia by systematically stepping up our range of services. These measures, coupled with other marketing activities, led to the extraordinary rise in premium.

Australia and New Zealand

Substantial growth

Greater proportion of liability business

Gratifying results

In the year under review, the gross premium income generated by our subsidiary Life Reinsurance of Australasia Ltd (with effect from 1 May 1997 renamed Hannover Life Re of Australasia Ltd) and our Australian branch again increased substantially. This gain was attributable to a double-digit improvement in the exchange rate vis-à-vis the German mark and the continued expansion of liability business in the year under review. This line of business for the first time accounted for a larger premium share than the property classes.

Our natural catastrophe reinsurance business continued to show satisfactory development. The absence of losses in the previous years had led to a decrease in rates, but following another almost loss-free year we were still able to achieve a good result. The desire for sound creditworthiness on the part of reinsurers coupled with further increases in our capacities enabled us to make further inroads into the market in this strategically important business segment.

Australia and New Zealand	1996	1995
Premiums (gross) in DM million	402.8	246.0
Share of total business as %	6.3	4.1

Transactions with insurance companies in New Zealand continued to develop favourably. After consolidating our presence over a number of years, we have now found our place in this market and enjoy the trust and loyalty of our business partners. Thanks to new treaties, we succeeded in broadening the geographical distribution of our risk acceptances, which previously had been concentrated in the main metropolitan areas. This reduces the risk of suffering disproportionately large losses as a result of a single event.

The availability of local reinsurance in the Australian market had already increased considerably in the previous year, and in 1996 the capacities on offer grew further still. Although the bulk of these capacities were utilized sensibly in the market, we observed an increasing number of offers where the premium was inappropriate to the risk. Finally, it should also be noted that insurers have also increasingly begun to offer reinsurance capacity again, despite a lack of adequate technical expertise.

Africa

We have now firmly established ourselves among the group of professional reinsurers active on the African continent. On an original-currency basis, we achieved double-digit growth in our gross premium income. However, this growth was more than counterbalanced by the substantial depreciation of the South African rand (15.5 %). The South African market continues to offer the largest volume on the entire continent.

Africa	1996	1995
Premiums (gross) in DM million	273.3	276.0
Share od total business as %	4.3	4.6

Double-digit growth rate

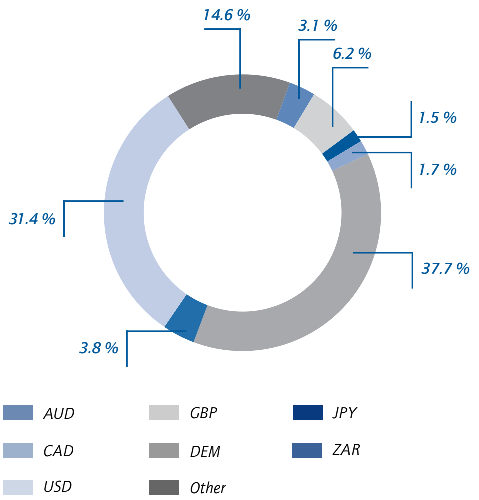
Positive contributions to results

We are operating on the basis of a dual approach in the English-speaking markets of southern Africa, with a representative office of Hannover Re and a majority holding in Hollandia Reinsurance Group (HRG), both located in Johannesburg. This enables us to take account of the widely differing service and capacity requirements.

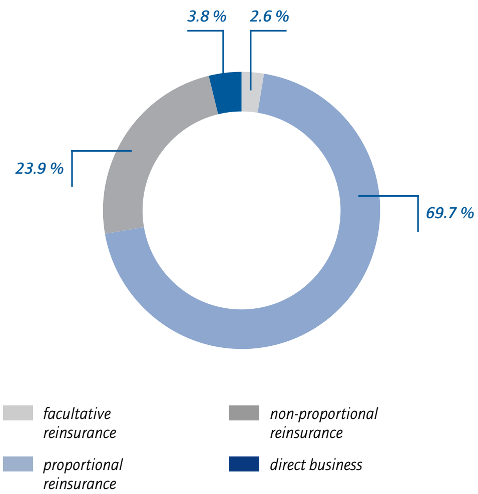
We have been cooperating with a scientific partner in South Africa for some time now in the field of natural catastrophe research. We hope that the publication of the initial results of this analysis will serve to bridge a gap in research. By providing this service, for which we believe there is a substantial demand, we are seeking to further reinforce our position in the market.

The African markets again generated favourable results in 1996, although sizeable losses were incurred in the industrial fire insurance sector and as a consequence of hail damage in South Africa and limited local flooding in Botswana.

Gross premiums written by currency in 1996



Gross premiums written by type of treaty in 1996



International life and health reinsurance

International life and health reinsurance covers individual and group insurance risks reinsured in Germany and a number of foreign markets. In accordance with international business practice, we also cover in this business segment personal accident risks written by foreign life insurers.

The following companies function as operational risk-carriers for this business segment:

- E+S Rück for the German market,
- Reassurance Company of Hannover (RCH), Orlando/Florida for the USA,
- Life Reinsurance of Australasia Ltd (LRA), Sydney (with effect from 1 May 1997 renamed Hannover Life Re of Australasia Ltd) for South East Asia, Australia and New Zealand,
- Hollandia Life Reassurance Company Ltd (HLR), Johannesburg for southern Africa,
- Hannover Re for all other regions.

The key markets for the underwriting of life business – our target markets – are Germany, the United Kingdom, Italy, the USA, South Africa, Malaysia, Australia and New Zealand. Health/personal accident business, on the other hand, is clearly dominated by the USA and the London market.

Our Group's international focus in the life and health reinsurance segment is on proportional treaty reinsurance for individual life business. Lucrative health/personal accident business is accepted from the standpoint of regional and risk diversification.

In the case of the German companies Hannover Re and E+S Rück, approximately 95 % of gross premium income from life business is attributable to treaty reinsurance. Facultative life risks are accepted as a service to existing obligatory cedants, but such risks account for less than 2 % of the premium. The remainder of the premium derives from independent group life and disability policies as well as other special business.

The marketing strategies and acquisition objectives pursued by our subsidiaries in Orlando, Johannesburg and Sydney are similar to those of head office, but are adjusted in line with special local circumstances.

Massive expansion of priority class of business succcessfully achieved

Consolidated gross premium income in excess of DM 1 billion for the first time

Investment deficit due to prefinancing

First block assumption transaction in health insurance

Favourable result in the light of the increase in portfolio value

In our most important target markets, the year under review was characterized by highly successful marketing activities in the area of prefinancing business. Risk acceptances related both to our cedants' new business and to block assumption transactions.

On a Group basis, gross premium income in life and health reinsurance surpassed one billion marks for the first time, totalling DM 1,107.7 million (previous year: DM 715.6 million). In this context, our US subsidiary RCH and the Australian subsidiary LRA showed particularly dynamic growth, this being further enhanced by the revaluation of the US dollar and Australian dollar against the German mark. The net premiums retained for own account climbed to DM 973.5 million (following DM 575.0 million in the previous year). The retention ratio is now in line with our strategic objectives; at over 87.9 %, it is significantly in excess of the previous year's value, which was affected by various non-recurring factors.

The following table compares – on a non-consolidated basis – the development of premiums and results recorded by the operational risk-carriers in Hannover, Orlando, Johannesburg and Sydney in 1996 as compared with the previous year:

Life and health reinsurance	*Gross premiums written*			*Net premiums earned*			*Technical result before tax*	
Figures in DM million	*1996*	*1995*	*± % PY*	*1996*	*1995*	*± % PY*	*1996*	*1995*
Hannover Re	*620*	*384*	*61.5*	*560*	*325*	*72.6*	*-132*	*-42*
E+S Rück	*163*	*108*	*50.9*	*146*	*93*	*57.0*	*-33*	*-11*
RCH	*300*	*146*	*105.5*	*116*	*29*	*300.0*	*-7*	*3*
LRA	*194*	*134*	*44.8*	*123*	*103*	*19.4*	*27*	*5*
HLR	*45*	*38*	*18.4*	*29*	*25*	*16.0*	*1*	*1*
Total	*1 322*	*810*	*63.2*	*974*	*575*	*69.6*	*-144*	*-44*

If the incoming life business for 1996 is considered on a country-by-country basis, particularly favourable developments can be observed in various Anglo-Saxon markets such as the United Kingdom and Australia. Our business volume in Italy, Malaysia and New Zealand also showed notable growth. In Germany, our domestic market, we recorded a moderate premium decrease due to the planned reduction over a multi-year period of a large-volume reinsurance treaty from the early 1990s.

Through our participation in strategic product partnerships, we particularly distinguished ourselves in the year under review with annuity and personal accident products aimed at specific target groups. In the case of such partnerships with domestic and foreign insurers, we contribute our technical expertise to the product development process on an equal footing. For the first time, we extended the scope of block assumption transactions to include the health insurance sector.

The risk experience in life and personal accident insurance was favourable, and we were spared any sizeable individual losses. In the health reinsurance sector, we took the precautionary step of substantially bolstering the technical provisions for certain North American treaties due to the absence of long-term experience for these business segments.

The technical results of Hannover Re and E+S Rück, as well as of RCH, are strongly influenced by the investment expenditure on financing transactions. Our subsidiaries in Johannesburg and Sydney, on the other hand, were able – as the above table shows – to finance their considerable growth internally.

By means of detailed portfolio analyses – in some cases with the aid of external actuaries – we have ensured that the losses shown reflect a disproportionately large increase in the net portfolio value (total value of the portfolio as the cash value of future earnings). This will accrue to our account in the coming years and boost earnings.

Performance of our subsidiaries

The performance of our subsidiaries was again most satisfying. The following table reflects the original annual accounts on the basis of the respective local accounting principles and summarizes the key items at a glance.

Company Currency units in million	E+S Rück DM	HRI DM	ESI DM	HH ZAR	ICH USD	IICH GBP	LRA AUD	RCH USD
Gross premiums written	1 571.4	270.8	227.4	547.3	131.8	44.5	156.5	193.0
Net technical result	-124.1	12.7	1.9	2.9	-2.3	-0.3	5.7	-14.9
Non-technical result	160.1	29.1	20.6	20.3	13.5	4.5	15.8	10.4
Result of ordinary business activities	36.0	41.8	22.5	23.2	11.2	4.2	21.5	-4.5
Profit or loss for the financial year	15.1	37.6	20.2	16.6	7.3	2.8	21.5	-3.9

E+S Rückversicherungs-Aktiengesellschaft (E+S Rück), Hannover

Totalling DM 1,571 million, the gross premium income of our Group's most significant subsidiary was almost exactly on a par with last year's level. Due to the high proportion of German business (65 %), premium increases due to exchange-rate factors were smaller than was the case with the other Group companies; despite this, the exchange-rate-adjusted premium volume declined by approximately 2 %. It is thus evident that, especially in Germany, there has been little expansion in the premium writings of the insurance industry, a fact which reflects a tendency on the part of cedants to increase their retentions.

The technical result deteriorated significantly. However, this was largely attributable to two special factors: firstly, the methods used to calculate IBNR reserves in the liability class of business were adjusted in line with the latest insights, resulting in an one-off additional requirement; secondly, a disproportionately large number of treaties with high prefinancing costs were concluded in life business. The latter expenditure is of an investment nature, and the corresponding amounts will accrue to us as earnings in subsequent years. In view of the fact that the technical result deteriorated, the contributions to the contingency fund were significantly reduced. Overall, the net effect was a further increase for 1996.

The favourable developments on the capital and stock markets generated an exceptionally good investment result. E+S Rück was therefore able to increase the profit on its profits on ordinary activities before tax by more than 26 % in the year under review.

The company's capital and reserves increased to DM 330.3 million (DM 321.2 million).

Levelling-off in premium volume

Increased pre-tax profit

Hannover Reinsurance (Ireland) Ltd (HRI), Dublin
E+S Reinsurance (Ireland) Ltd (ESI), Dublin

Specialization in financial reisurance products

Improved result

Our Irish subsidiaries were able to surpass the satisfying results of the previous year through their activities in the International Financial Services Centre in Dublin. Both companies operate world-wide and have specialized in financial reinsurance business. They market their products in particular in the USA, Canada, Taiwan, Australia, South Africa and Germany.

Following the enormous premium growth of the previous year, both companies experienced a period of consolidation in 1996. Owing to the termination of a number of high-volume treaties, the gross premium income of HRI declined by 5.8 %; ESI's gross premiums climbed slightly by 6.3 %. The technical results were satisfactory and investment income climbed further. Both companies were therefore able to post an improved profit on ordinary activities before tax.

The capital and reserves of HRI and ESI totalled DM 264.8 million (DM 262.1 million) and DM 209.1 million (DM 203.9 million) respectively.

Hollandia Holdings (Pty) Ltd (HH), Johannesburg

Significant growth

We hold a 52 % controlling interest in the parent company of the Hollandia Group. This Group primarily operates in South Africa through its non-life subsidiary Hollandia Reinsurance Company Ltd and its life subsidiary Hollandia Life Reassurance Company Ltd. Although the overall development of the insurance market was negative and characterized by high losses – especially in fire and hail business, our reinsurance subsidiary successfully held its ground. Gross premium income rose by over 20 % in the year under review. Parallel to this, there was a substantial improvement in the technical result.

Investment income increased to ZAR 11.7 million (ZAR 8.3 million), and the profit on ordinary activities before tax more than doubled. The Hollandia Group thus achieved a satisfactory profit for the financial year of ZAR 16.6 million (ZAR 6.2 million).

The company's capital and reserves rose by 33.6 % to ZAR 56.1 million (ZAR 42.0 million).

Insurance Corporation of Hannover (ICH), Los Angeles

Excellent result

Concentration on special segments

The Insurance Corporation of Hannover operates in the USA as an insurer and reinsurer in the non-life market. It achieved another excellent result in the 1996 business year.

The tasks assigned to ICH within the Group were redefined in autumn 1996 within the framework of the Hannover Re Group's strategic objectives. Henceforth, it shall function as our centre of competence in our target market USA for agricultural risks and workmen's compensation insurance as well as for a special segment within motor insurance. ICH is equipped with special expertise in these business sectors. Early repercussions of this reorientation, particularly with respect to agricultural risks, are already reflected in the result for the 1996 business year.

With premium growth in excess of 24 %, the company was – as in the previous year – not significantly affected by natural catastrophe losses in 1996, and the technical result consequently improved. At the same time, ICH also succeeded in improving its non-technical result and the profit on ordinary activities before tax.

The company's capital and reserves totalled USD 114.4 million (USD 109.7 million).

International Insurance Company of Hannover Ltd (IICH), London

IICH operates as an insurer and reinsurer in the United Kingdom. In a market which continued to be characterized by fierce price competition, the company was able to build on the previous year's good result. In accordance with our earnings-oriented, selective underwriting policy, certain business relationships which did not offer a sufficient profit potential were discontinued. As a result, the company's gross premium income experienced a significant decline.

Profit-oriented underwriting policy leads to premium decline

The performance of the individual classes of business, especially travel insurance, was satisfactory, and the net technical result prior to the allocation to the contingency fund showed a slight improvement. The amount of GBP 0.1 million was transferred to the contingency fund, which had to be constituted for the first time in the United Kingdom in 1996.

Investment income was on a par with the previous year. Overall, therefore, the company was able to record a slightly increased profit on ordinary activities before tax.

The company's capital and reserves totalled GBP 27.1 million (GBP 25.0 million).

Life Reinsurance of Australasia Ltd (LRA), Sydney

LRA was renamed Hannover Life Re of Australasia Ltd in May 1997. Hannover Re and E+S Rück each hold 50 % of the capital in this company. It primarily transacts life and disability reinsurance as well as group life insurance in Australia and New Zealand. The company continued to hold its ground well in a market characterized by change and keen competition.

There have been fundamental changes to the statutory accounting requirements in Australia, and comparisons with the previous year's figures are therefore only of qualified significance.

Successfull expansion

Technical profit

Gross premium income expanded by almost 25 %. In view of the competitive market environment, this vigorous growth – especially in new business – is highly satisfactory.

Following a drop in the previous year due to special factors, the net technical result climbed substantially to AUD 5.7 million. Investment income, on the other hand, decreased slightly due to reduced capital gains in the securities portfolio. The profit on ordinary activities before tax rose to AUD 21.5 million. Due to the loss carried forward, this amount also corresponded to the profit for the financial year.

Under the new Australian statutory accounting requirements, the company's capital and reserves totalled AUD 113.4 million.

Reassurance Company of Hannover (RCH), Orlando / Florida

Responsible for our Group's life reinsurance business in the US market, RCH achieved an outstanding business result in the year under review. The company specializes in block assumption transactions. Depending upon the number and scope of transactions concluded in a particular business year, this leads to considerable fluctuations in the gross premium income; 1996 was a successful year, with the premium volume increasing by almost 90 %.

Premium volume almost doubled by special transactions

The block transactions concluded in the year under review produced a technical loss of USD -14.9 million (USD -7.2 million). This burden on results must be regarded as a long-term investment, which will be recaptured in future years through corresponding increased earnings.

Investment income climbed to USD 11.5 million (USD 9.5 million). Taking into account other income and expenditure, the non-technical result came to USD 10.4 million (USD 9.5 million). Overall, the result of ordinary activities before tax totalled USD -4.5 million (USD 2.2 million), and the loss for the financial year amounted to USD -3.9 million (USD 1.4 million).

Following the granting of a surplus note by Hannover Re in the fourth quarter of 1996, the company's capital and reserves totalled USD 46.3 million (USD 25.6 million).

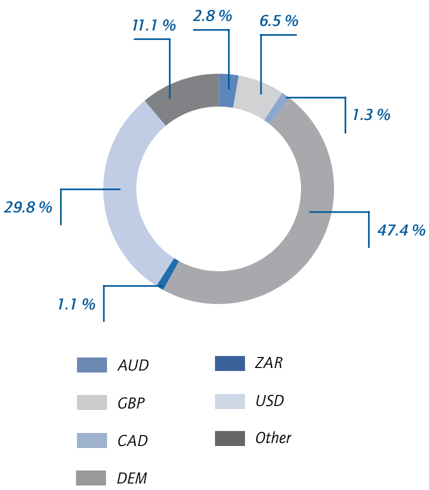
Investments

The development of the German and US capital markets has a particular bearing on the Hannover Re Group's investment result. Virtually 80 % of our total investments are in German marks and US dollars.

The past year again failed to witness the hoped-for decoupling of the German bond market from its US counterpart. Whereas at the beginning of the year the downtrend in returns on the German and US bond markets continued, 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 had increased to 6.7 % in Germany by the 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 in the second half-year. A slowdown in the US economy coupled with a stable price environment in the second half of the year 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 were only around 0.8 percentage points higher at the end of 1996 than at the beginning of the year.

Exchange rates	*1996*	*± PY*	*1995*
AUD	*1.240*	*16.1 %*	*1.068*
CAD	*1.136*	*8.3 %*	*1.049*
GBP	*2.627*	*18.7 %*	*2.214*
JPY	*0.013*	*-7.1 %*	*0.014*
USD	*1.555*	*8.4 %*	*1.434*
ZAR	*0.332*	*-15.5 %*	*0.393*

Breakdown of investments by currency



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. The accompanying table shows the movements in exchange rates affecting the key foreign currencies for our Group. 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.

Against this general backdrop, the Hannover Re Group's investment portfolio and income again developed highly satisfactorily. The good performance of our reinsurance business in conjunction with the favourable effects of movements in exchange rates again generated disproportionately large growth: the total investment portfolio (including deposits) increased by 19.8 %, or DM 2.6 billion, to DM 15.6 billion. Our subsidiaries' investment portfolios posted particularly sizeable gains, increasing by approximately DM 700 million (= 31 %).

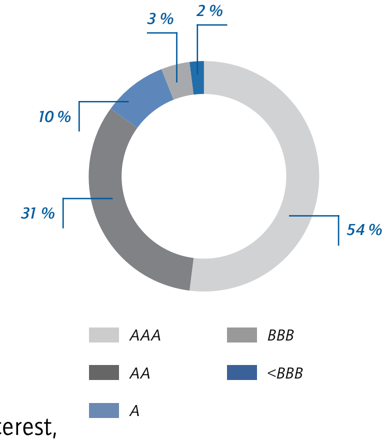
Type of investment *Figures in DM million*	*Balance sheet values at 31. 12. 1996*	*Market values at 31. 12. 1996*	*Difference*
Shares, investment fund shares and other variable-yield securities	*2 342.0*	*2 652.3*	*310.3*
Bearer debt securities and other fixed-income securities	*7 568.0*	*7 972.5*	*404.5*
Total	*9 910.0*	*10 624.8*	*714.8*

Our investments continue to be concentrated on bearer debt securities and other fixed-income securities, which together account for almost 60 % (63 %) of the investments which we manage ourselves (i.e. excluding deposits). Due to the launching and building up of other specialized funds, especially in the area of equities, the proportion of the total investments attributable to investment trust units increased from 12.0 % to 15.1 %. As shown in the table above, we continue to attach particular importance to the fact that the fixed-income securities which we acquire should be of the highest quality, and we also take care to ensure broad diversification. More than 90 % of the bearer and registered bonds, debentures and loans held by our Group have an A rating or better.

The favourable tone of the stock and bond markets and the good timing of our investment decisions enabled us to record high capital gains in the previous year. The unrealized capital gains in our bond and share portfolio increased further, despite the fact that we realized profits of almost DM 200 million on the disposal of investments.

Ordinary income on investments increased by a good 13 % from DM 713.0 million to DM 803.1 million in the 1996 business year. However, the very gratifying development of the extraordinary result was an important factor in the total investment result. Whereas in the previous year the balance from profits and losses on disposals and from depreciation produced a deficit of DM 41.4 million, the year under review generated a favourable extraordinary result of DM 93.5 million, i.e. an improvement of DM 134.9 million. Allowing for investment management charges, including interest, the net investment result was DM 876.2 million. Compared to the previous year's figure of DM 648.0 million, this represents an increase of around 35 %.

Rating of fixed-income securities



Sharp growth in portfolios

Excellent result due to good capital market conditions

Positive effect of the weak German mark

Increase in the proportion of equities

Human Resources

New personnel development concept serves to intensify internal training

Emphasis on management skills

Family service supports part-time working relationship

The extraordinary success of our Group and its rise to become one of the major professional reinsurers of international importance would not have been possible without the superb abilities of our staff. Since we are constantly striving to enhance the quality of our service and our client orientation, we are always careful to foster the already excellent level of skills at our company.

The strong growth which we have achieved in recent years is to a large part due to the fact that we have recruited qualified graduates and insurance clerks, and systematically promoted their development. As a result, we have generated a high level of motivation and identification with our company. Numerous members of our staff have taken a career path which corresponds specifically to their personality profile and set of qualifications.

With a view to further fostering the career opportunities open to our staff, we have particularly promoted the expansion of our personnel development measures. In addition to providing specialist instruction, we are increasingly offering training measures geared to our staff's communicative skills and, not least, managerial qualifications. The type of management which we have in mind here has been authoritatively defined in our company guidelines:

- extensive delegation of responsibility at all levels
- fostering of independence and personal responsibility
- restricting monitoring to the necessary level with a view to promoting awareness of responsibility and motivation
- transparency and comprehensibility of decisions

In this regard, managerial staff constitute both a target group for our personnel development policy and the main instrument of that policy. Personnel development does not merely have a strategic function; it is also an integral part of managerial duties. Human Resources provides the instruments required for this purpose, and offers support and advice. We define individual learning programmes in conjunction with managerial staff. In so doing, we attach importance to the linking of theory and practical exercises at seminars, on the one hand, and to the application and implementation in daily practice of the skills acquired, on the other. Our personnel development policy thus always has a strong practical orientation. Managerial staff play a key role, which covers aspects ranging from the design of individual learning programmes and the interweaving of seminars and practical experience to the monitoring of learning objectives.

The broad international character of our company poses a special challenge to management and personnel development. We currently employ staff from 18 countries, and their average age of around 36 bears witness to our recruitment philosophy, amongst other factors. The total number of staff increased again in the year under review. We currently employ 912 (847) staff.

In order to improve their access to managerial positions, we are relying not only upon measures for the advancement of women but also, and more particularly, on an enhancement of the underlying situation. Recently, for example, we introduced a „family service" aimed at improving the compatibility of a career and family life. We are also continuing to support part-time employment relationships. The extent to which managerial responsibility can be conceivable on a part-time basis will be a crucial factor in the representation of women at managerial level.

Outlook

Developments in the individual reinsurance markets world-wide vary, in some instances considerably. Nevertheless, overall, both prices and terms and conditions display a certain cyclicality: periods of surplus capacity with intense, sometimes aggressive competition („soft" markets) regularly alternate with phases where capacity is in short supply and hence profit opportunities are disproportionately large („hard" markets). On the basis of all regions and classes of business, the last hard market cycle reached its peak in 1994; since that time, we have been in a phase of normalization.

Since the insurance and reinsurance industries have achieved good to very good results in the preceding years, additional market players are being attracted. The intense processes of concentration are leading to increases in cedants' retentions, some of which have been substantial. These factors will step up the competitive pressure worldwide in 1997, which will further impact upon the technical results in the market.

It is striking that the trend towards decreasing loss expenditure has continued unabated in the first half of 1997. The insurance industry has so far largely been spared any major loss events. Those losses which have occurred to date, e.g. the floods in the USA and Canada, will inflict only marginal losses, at least as far as reinsurers are concerned.

Our Group is pursuing a clear and unambiguous strategy in the present soft market phase:

- We have oriented ourselves towards clearly defined classes of business and markets which hold the promise of above-average earnings. In this regard, we steadfastly adhere to our fundamental principle of „profit before turnover".

- In order to ensure that we achieve our profit targets, we have assigned our managerial staff minimum returns for their areas of responsibility; in particular, these minimum returns also include the capital charges.

- Our predominantly centralized organization guarantees flexibility. It enables us to react systematically and swiftly to new situations and facilitates concentration on highly profitable niche segments.

Conditions continuing to normalize

Further concentration among companies is possible

Clear strategy as a success factor

Investment in life/health and financial reinsurance

Successful new market profile

On this basis, the outlook for our strategic classes and markets varies. In Germany, there are no grounds to expect a trend reversal in the short term: further rate cuts can be anticipated in both industrial fire insurance and motor insurance. For this reason, the market is currently unsuited to the implementation of our strategic objectives, which are very deliberately of a long-term nature. Developments in the rest of Europe may be assessed in a less negative light.

In the USA, our most important foreign market, there has been a further deterioration in terms and conditions, especially in standard property insurance. Satisfactory and even good market conditions still prevail in natural hazards reinsurance and in certain segments of liability insurance, where we primarily reinsure highly specialized liability insurers.

In the final analysis, the developments in Asia, Australia, Japan and China remain favourable. These regions will again rank among the key growth markets in the current year.

Considered from the supraregional perspective, credit/bond and especially aviation and marine are the classes which we expect to generate favourable results despite the stiffening of competition.

We have again planned special investments this year to expand our portfolio of personal reinsurance and develop financially-oriented reinsurance products. In the medium to long term, German life insurance in particular will gain in importance.

This overall situation means that strong growth cannot make economic sense for our company. Our technical results continue to be adversely affected by the generally more intense level of competition. On the other hand, the disproportionately large special effects in 1996 deriving from the personal reinsurance sector will probably not be repeated, as a result of which we anticipate a significant overall improvement in the technical account.

It is scarcely likely that an accumulation of exceptionally favourable circumstances in the capital markets – such as that seen in 1996 – will be repeated in the current year. Nevertheless, our investment portfolios have shown another substantial increase compared to the previous year. The further development of returns is to a large extent dependent upon movements in interest levels and exchange rates.

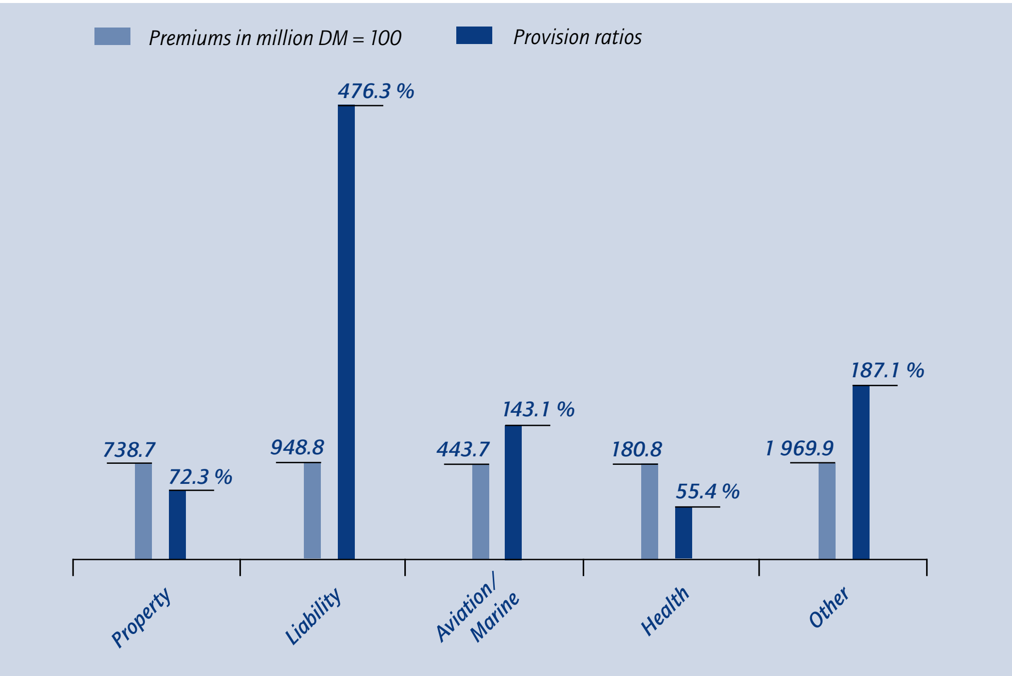
The outstanding event in the current year is our new market profile: with effect from the beginning of this year, E+S Rück exclusively services the German market within our Group, whereas Hannover Re handles only the foreign markets. Our experience to date indicates that this concept will meet with a very positive echo. Even if the current market conditions in Germany would appear to discourage an expansion of our market share, we consider that we are also superbly equipped to substantially enhance our significance in our domestic market in the long term.

Capital, reserves and technical provisions

in DM million	*1996*	*1995*
Capital and reserves	*662.6*	*539.8*
Surplus debenture (Genußrechtskapital)	*230.0*	*230.0*
Contingency fund	*1 348.0*	*1 156.6*
Technical provisions	*12 680.7*	*11 134.6*
Total capital, reserves and technical provisions	*14 921.3*	*13 061.0*

The capital, reserves and technical provisions constitute the total funds theoretically available to our Group to cover actual and possible obligations. These funds showed another substantial increase of 14.2 %. The growth in the capital and reserves was particularly due to the capital increase implemented by Hannover Re in November 1996 and an allocation to the reserves at E+S Rück. The increase in the technical provisions favourably reflects the continuation of our uncompromising, cautious reserving policy. The ratio of capital, reserves and technical provisions in relation to the net premium increased from 257.3 % to 295.3 %.

Technical provisions (excl. life) in % of earned premiums



Consolidated Accounts

BALANCE SHEET *at 31st December 1996*

Assets *Figures in DM thousand*	1996				1995
A. Subscribed capital unpaid - called-up capital - (1995: -)				33 723	33 773
B. Intangible assets:					
I. Goodwill			255 856		275 537
II. Other intangible assets			14 158		13 827
				270 014	289 364
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			302 096		329 982
II. Investments in affiliated companies and participating interests:					
1. Shares in affiliated companies not included in the consolidated annual group accounts		1 498			1 742
2. Loans to affiliated companies not included in the consolidated annual group accounts		56			21
3. Participating interests		138 480			148 520
4. Participating interests in associated companies		26 069			25 931
			166 103		176 214
III. Other financial investments:					
1. Shares, units in unit trusts and other variable-yield securities		2 341 960			1 550 736
2. Bearer debt securities and other fixed-income securities		7 568 021			6 830 505
3. Mortgages and loans secured on land and buildings		17 214			17 584
4. Other loans					
a) Registered debt securities	778 046				
b) Debentures and loans	592 506				
c) Loans and loans on insurance policies	2 737				
d) Sundry loans	100 000				
		1 473 289			1 554 816
5. Deposits with banks		874 684			390 368
6. Other		20			20
			12 275 188		10 344 029
IV. Deposits with ceding companies			2 803 311		2 125 135
				15 546 698	12 975 360

Liabilities
Figures in DM thousand

	1996				1995
A. Capital and reserves					
I. Subscribed capital			143 148		141 341
II. Capital reserve					
As at 1.1.1996		292 532			
Allocation		55 764	348 296		292 532
III. Retained earnings					
1. Statutory reserve		1 773			
2. Other retained earnings					
As at 1.1.1996	–				
Allocation	50 756	50 756	52 529		1 915
IV. Consolidation adjustments			9 520		9 520
V. Group consolidated profit or loss for the financial year			84 435		49 739
VI. Profit or loss brought forward			-108 811		-78 548
VII. Minority interests			133 480		123 274
				662 597	539 773
B. Surplus debenture (Genußrechtskapital)				230 000	230 000
C. Technical provisions					
I. Provision for unearned premiums:					
1.Gross		988 103			
2. Less: reinsurance ceded		182 169	805 934		802 495
II. Life assurance provision:					
1. Gross		1 986 803			
2. Less: reinsurance ceded		393 843	1 592 960		1 224 705
III. Provision for outstanding claims:					
1. Gross		10 989 924			
2. Less: reinsurance ceded		1 246 621	9 743 303		8 915 089
IV. Provision for bonuses and rebates:					
1. Gross		7 529			
2. Less: reinsurance ceded		3 050	4 479		4 941
V. Contingency fund and similar provisions			1 348 024		1 156 583
VI. Other technical provisions:					
1. Gross		533 767			
2. Less: reinsurance ceded		-265	534 032		187 371
				14 028 732	12 291 184

Assets *Figures in DM thousand*		1996			1995
D. Receivables					
I. Receivables in respect of direct insurance from insurance intermediaries			11 480		7 321
II. Accounts receivable arising out of reinsurance operations - from affiliated companies: 3 656 (1995: -)			797 672		720 589
III. Other receivables - from affiliated companies: 17 185 (1995: 110)			51 223	860 375	68 521 796 431
E. Other assets					
I. Tangible assets and stocks			20 077		18 988
II. Cash at bank and in hand			136 511		125 840
III. Own shares - Par or book value: - (1995: -)			–		–
IV. Other assets			33	156 621	75 144 903
F. Prepayments and accrued income					
I. Accrued interest and rent			181 031		175 655
II. Other accrued income			10 660	191 691	6 317 181 972
G. Deferred taxes				–	15 665
				17 059 122	14 437 468

Liabilities
Figures in DM thousand

	1996				1995
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			41 145		37 321
II. Provisions for taxation			85 014		17 750
III. Other provisions			100 567		81 546
				226 726	136 617
E. Deposits received from retrocessionaires				832 161	539 391
F. Other liabilities					
I. Liabilities in respect of direct insurance business to insurance intermediaries			1 628		13 975
II. Accounts payable arising out of reinsurance operations			993 049		591 050
- to affiliated companies not included in the consolidated annual group accounts 127 656 (1995: 311)					
III. Loans			6 645		7 946
IV. Miscellaneous liabilities			51 712		79 907
- from taxes: 14 787 (1995: 9 765)				1 053 034	692 878
- for social security: 1 340 (1995: 1 169)					
- to affiliated companies not included in the consolidated annual group accounts: 4 948 (1995: 1 015)					
G. Accruals and deferred income				25 872	7 625
				17 059 122	14 437 468

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	6 400 736			5 999 353
b) Retrocession premiums	1 347 409			924 186
		5 053 327		5 075 167
c) Change in the gross provision for unearned premiums (+/-)	-116 910			-85 497
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	88 990			-3 139
		-27 920		-88 636
			5 025 407	4 986 531
2. Allocated investment return transferred from the non-technical account, net of retrocession			49 277	26 775
3. Other technical income, net of retrocession			34	7
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	3 612 280			3 177 106
bb) Retrocessionaires' share	469 260			488 829
		3 143 020		2 688 277
b) Change in provisions for outstanding claims				
aa) Gross	-698 962			-1 069 129
bb) Retrocessionaires' share	307 087			121 316
		-391 875		-947 813
			3 534 895	3 636 090
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provisions		-218 742		-159 457
b) Other net technical provisions		-92 739		-2 855
			-311 481	-162 312
6. Bonuses and rebates, net of retrocession			2 359	1 821
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 669 964		1 405 846
b) Less: commissions and profit commissions received on retrocession		311 153		184 788
			1 358 811	1 221 058
8. Other technical charges, net of retrocession			8 859	12 417
9. Subtotal			-141 687	-20 385
10. Change in contingency fund and similar provisions			-191 441	-257 132
11. Net technical result			-333 128	-277 517

Figures in DM thousand	1996				1995
Balance brought forward:				-333 128	-277 517
II. Non-technical account					
1. Investment income					
a) Income from participating interest		11 150			6 331
- affiliated companies not included in the consolidated annual group accounts: 578 (1995: -)					
b) Income from associated companies		861			646
c) Income from other investments					
- affiliated companies not included in the consolidated annual group accounts 3 201 (1995: 1 541)					
aa) Income from land and buildings, rights to land and buildings, leasehold	28 811				
bb) Income from other investments	762 267	791 078			706 067
d) Appreciation on investments		1 414			2 985
e) Gains from the realization of investments		191 698			108 241
			996 201		824 270
2. Investment charges					
a) Investment management charges, including interest		21 770			26 655
b) Depreciation		87 037			116 406
- extraordinary depreciation in accordance with § 277 (3) item 1 German Commercial Code (HGB): 17 301 (1995: 36 997)					
c) Losses of the realization of investments		11 153			33 250
			119 960		176 311
			876 241		647 959
3. Allocated investment return transferred to the technical account			-55 056		-30 030
				821 185	617 929
4. Other income			63 718		48 990
5. Other charges					
a) Special allocation to provisions for outstanding claims		171 388			173 428
b) Miscellaneous charges		154 208			99 899
			325 596		273 327
				-261 878	-224 337
6. Profit or loss on ordinary activities before tax				226 179	116 075

Figures in DM thousand	1996				1995
Balance brought forward:				226 179	116 075
7. Tax on profit and income			114 224		45 653
8. Other taxes			3 797	118 021	2 652 48 305
9. Profit or loss for the financial year				108 158	67 770
10. Profit accruing to outside shareholders				24 261	19 112
11. Loss accruing to outside shareholders				538	1 081
12. Group consolidated profit or loss for the financial year				84 435	49 739

General accounting principles

The parent company of Hannover Re is the HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). The HDI is obliged to prepare consolidated annual accounts in accordance with § 341 k of the Code of Commercial Law (HGB). The annual accounts of Hannover Re and its subsidiary companies are included in these consolidated annual accounts, as a result of which Hannover Re is not obliged to prepare its own consolidated annual accounts. We have prepared our own consolidated annual accounts, although there is no legal obligation to do so, in order to show the activities of the Hannover Re Group. The provisions of the Second Sub-Section of the Second Section of the Third Volume of the Code of Commercial Law have been applied in this respect (§§ 290 ff, HGB).

The structure of the consolidated annual accounts corresponds to the sample balance sheet of individual accounts (form 1) in accordance with § 58 (1) clause 1 of the regulation on the presentation of insurance company accounts (RechVersV).

Consolidated companies

Hannover Rückversicherungs-AG is the parent company of the group. Furthermore four German companies, seven individual foreign companies and a foreign group were included.

Companies which conduct little or no business activity or which are only of minor importance have not been included in the consolidated annual accounts in accordance with § 296 (2) of the Code of Commercial Law (HGB).

One foreign company ceased to be included in the group of consolidated companies in 1996.

Details of the share ownership are set out on pages 44 and 45.

Consolidation principles

Consolidation of capital and reserves

The book value method was used for the consolidation of capital and reserves. The acquisition costs of subsidiary companies were charged at the time of purchase together against the subsidiary companies' capital and reserves. If shares of subsidiary companies are being held by outside shareholders, these are shown as minority interests..

Where differences arose in the assets which could not be allocated to the corresponding asset elements, they were shown in the assets as goodwill under intangible assets and depreciated pro rata. Differences entered as liabilities were shown as a difference from the consolidation of funds in the capital and reserves.

Valuation of associated companies

The valuation took place according to the same principles as for the consolidation of capital and reserves at equity.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated annual accounts were offset against each other. This also applies to technical provisions in the case of intra-group business transactions.

Consolidation of expenses and profit

Intra-group expenses and profit were offset against each other and interim results were eliminated.

Deferred taxes

Tax deferrals have been made on income-related consolidation procedures and on adjustment entries under German accounting rules assuming that the varying tax expenditure is expected to even out in subsequent financial years. Deferred amounts included in local accounts have also been taken into consideration within the Group.

Accounting and valuation

General principles

All the annual accounts included in the consolidated annual accounts were drawn up at 31st December.

The annual accounts of the foreign companies which were included were initially drawn up in accordance with the provisions of the respective national laws and transferred to uniform group accounting and valuation rules under German law. Technical provisions from foreign companies were retained in accordance with § 308 (2) clause 2 of the Code of Commercial Law (HGB) and are the only exception to the principle of uniform valuation in accordance with § 308 (1) clause 1 of the Code of Commercial Law (HGB).

Intangible assets

The goodwill and enterprise value is derived from the original consolidation of companies which have been acquired and will be depreciated over 15 years.

Other intangible assets are valued at the acquisition cost less permitted depreciation.

Investments

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

Shares in affiliated companies – provided they were not consolidated – and participations are recorded on a purchase cost basis. Any necessary depreciation is taken into account.

Loans to affiliated companies are valued at nominal value less amortisation.

Shares, investment certificates and other variable-yield securities as well as bearer bonds and other fixed-income securities are valued according to the lower value principle (acquisition cost, stock market value or previous years' value, whichever is lower); lower valuations were retained.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans are valued at nominal value minus amortisation and depreciation. Premium and discount amounts were taken into account.

We have valued deposits with banks, other investments and deposits with ceding companies at nominal amounts. We have set up valuation adjustments for potential short-fall risks.

Other assets

Accounts receivable arising out of reinsurance operations and other receivables are recorded at nominal values. Valuation adjustments were taken into account.

Tangible assets and stocks are valued at purchase cost less straight-line or declining-balance depreciation. Low-value items were completely written off in the year of acquisition.

Capital and reserves

Exchange rate gains or losses arising from the consolidation of capital and reserves have been offset against retained earnings or the capital reserve. They arose on the one hand because of variations in the average exchange rate at the time the shares were acquired in the consolidated company and the exchange rates at balance sheet date. Differences arising from the consolidation of capital and reserves have been offset against retained earnings and in the capital reserve.

Surplus debenture (Genußrechtskapital)

Surplus debenture are entered as liabilities with repayable amounts.

Technical provisions

The technical provisions of Hannover Re and E+S Rück are set up in accordance with the provisions of German commercial law (see the explanations on the individual accounts). The corresponding provisions for the foreign subsidiaries were established in accordance with the provisions of national law and have been transferred unaltered to the consolidated annual accounts.

Provisions for other risks and charges

Provisions for pensions are in principle established according to the fractional value method as per §6a of the Income Tax Act (EStG). The standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6 %.

The provisions for taxation reserves and other provisions take into account all identifiable risks and liabilities. The amount of DM 2, 784 thousand is attributable to deferred taxes.

Deposits and other liabilities

The valuation was made on the repayable amounts.

Currency conversion

Foreign currency entries in the balance sheets of German companies were converted into German mark at the average exchange rate for the respective balance sheet date.

Balance sheets which were prepared in the respective national currency were also converted at average exchange rates

The change in asset items B, C.I and C.II.1 to 4 was as follows during the financial year:

Figures in DM thousand	*Book values 31.12.1995*	*Accruals*	*Deductions*	*Depreciation*	*Book values 31.12.1996*
B. Intangible assets					
I. Goodwill	275 537	–	–	19 681	255 856
II. Other intangible assets	13 827	3 012	295	2 386	14 158
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold	329 982	3 029	3 561	27 354	302 096
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies	1 742	9 647	6 493	3 398	1 498
2. Loans to affiliated companies	21	35	–	–	56
3. Participating interests	148 520	8 143	8 851	9 332	138 480
4. Participating interests in associated companies	25 931	138	–	–	26 069
Total	795 560	24 004	19 200	62 151	738 213

Property with a book value of DM 70.5 million is primarily for our own use.

Shares in affiliated companies and participations

The companies listed below are those included in the consolidated accounts as well as major participations. Companies of subordinate economic importance which are not relevant to the consolidated accounts are not listed.

Investments in affiliated companies and participating interests Sharholdings as per § 313 (2) of the Code of Commercial Law (HGB) in conjunction with § 296 (2) HGB *Figures in DM thousand*	*Share of the capital in %*	*Capital and reserves*	*Result from the last financial year*
Companies included in the consolidated accounts:			
E+S Rückversicherungs-AG, Hannover	53.9	250 349	15 100
GbR Hannover Rückversicherungs-AG/E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover	69.3	75 738	-1 657
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich	99.8	- 700	-2 322
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover	100.0	-13 053	-883
Insurance Corporation of Hannover, Chicago	100.0	177 914	11 375
Reassurance Company of Hannover, Orlando	100.0	71 979	-6 007
International Insurance Company of Hannover Ltd, London	100.0	71 191	7 441
Hannover Reinsurance (Ireland) Ltd., Dublin	100.0	299 783	37 650
E+S Reinsurance (Ireland) Ltd, Dublin	53.9	244 094	20 151
Hannover Services (Ireland) Ltd, Dublin	51.3	180	-25
Hannover Life Re of Australasia Ltd., Sydney	77.0	140 571	26 677

Investments in affiliated companies and participating interests *Sharholdings as per § 313 (2) of the Code of Commercial Law (HGB) in conjunction with § 296 (2) HGB* *Figures in DM thousand*	*Share of the capital in %*	*Capital and reserves*	*Result from the last financial year*
Hollandia Holdings (Proprietary) Ltd, Johannesburg	52.0	42 097	831
The companies quoted below were not included in the consolidated accounts in accordance with § 296 (2) of the Code of Commercial Law (HGB), since these companies engaged it little or no commercial activity:			
Hollandia Reinsurance Company Ltd, Johannesburg	100.0	47 759	6 502
Hollandia Life Reassurance Company Ltd, Johannesburg	100.0	3 652	498
Hillside House (Proprietary) Ltd, Johannesburg	100.0	6	1
Indoc Holdings S.A., Luxembourg	100.0	3 118	94
Coral Reinsurance Ltd, Port Louis	100.0	3 824	454
Lireas Holdings (Proprietary) Ltd, Johannesburg	100.0	634	57
Creative Response (Proprietary) Ltd, Johannesburg	74.0	-111	-389
Associated companies:			
WeHaCo Kapitalbeteiligungsgesellschaften mbH, Berlin	25.7	78 224	2 583

Foreign currencies were converted into German mark (DM) at the middle rates of exchange prevailing on the balance sheet date.

Capital and reserves

Exchange rate changes affecting the consolidation of capital and reserves were offset against other retained earnings.

Technical provisions

The main technical provisions are as follows:

Figures in DM thousand	*Unearned premiums* 1996 gross	1996 net	1995 gross	1995 net
Direct reinsurance business				
Property and Casualty	16 857	7 332	6 364	2 376
Life insurance	–	–	–	–
Subtotal	16 857	7 332	6 364	2 376
with ceding companies				
Property and Casualty	746 116	623 067	723 346	679 725
Life insurance	225 130	175 535	124 439	120 394
Subtotal	971 246	798 602	847 785	800 119
Total	988 103	805 934	854 149	802 495

Provisions for pensions

Provisions for pensions were established in accordance with actuarial principles.

Life insurance provision 1996 gross	1996 net	1995 gross	1995 net	Provisions for outstanding claims 1996 gross	1996 net	1995 gross	1995 net
–	–	–	–	184 042	41 677	136 195	29 704
–	–	–	–	–	–	–	–
–	–	–	–	184 042	41 677	136 195	29 704
–	–	–	–	10 457 455	9 449 112	9 503 567	8 711 675
1 986 803	1 592 960	1 493 355	1 224 705	348 427	253 514	204 314	173 710
1 986 803	1 592 960	1 493 355	1 224 705	10 805 882	9 703 626	9 707 881	8 885 385
1 986 803	1 592 960	1 493 355	1 224 705	10 989 924	9 743 303	9 844 076	8 915 089

Taxation provisions and other provisions

The taxation provisions also make allowance for the tax deferrals made on the basis of adjustments and consolidating entries in line with German accounting regulations. The calculation was based on local rates of taxation.

Accruals and deferred income

This item covers accruals and deferred income as well as discounts on loans received (DM 12,953 thousand).

Figures in DM thousand	Gross premiums written 1996	Gross premiums written 1995	Net premiums written 1996	Net premiums written 1995	Net claims incurred 1996	Net claims incurred 1995	Net operating expenses 1996	Net operating expenses 1995
Direct reinsurance business								
Property and Casualty	101 719	89 889	36 452	31 613	10 815	15 296	13 927	11 999
Life insurance	–	–	–	–	–	–	–	–
Total	101 719	89 889	36 452	31 613	10 815	15 296	13 927	11 999
with ceding companies								
Property and Casualty	5 437 428	5 248 660	4 245 592	4 485 023	3 129 104	3 318 799	1 045 722	1 025 456
Life insurance	861 589	660 804	771 283	558 531	394 976	301 995	299 162	183 603
Total	6 299 017	5 909 464	5 016 875	5 043 554	3 524 080	3 620 794	1 344 884	1 209 059
Final total	6 400 736	5 999 353	5 053 327	5 075 167	3 534 895	3 636 090	1 358 811	1 221 058

Other income

Figures in DM thousand	1996	1995
Exchange rate gains	27 796	27 788
Other interest earned	12 514	6 113
Income from the cancellation of value adjustments	3 109	4 402
Income from the release of reserves	347	720
Income from service agreements	12 154	5 833
Other income	7 798	4 134
Total	63 718	48 990

Other charges

Figures in DM thousand	*1996*	*1995*
Special allocation to the provisions for outstanding claims	171 388	173 429
Exchange rate losses	23 331	22 357
Interest charges on surplus debenture (Genußrechtskapital)	17 525	17 525
Other interest charges	62 856	39 697
Expenses for the company as a whole	21 134	4 270
Other charges	29 362	16 049
Total	325 596	273 327

Staff

The average number of staff at the companies included in the consolidated accounts was 882. Of this number 327 were employed abroad.

Expenditure on personnel

Expenditure on personnel amounted to DM 84,693 thousand.

Earnings received by the management boards of the parent company and loans granted to them

Salaries of DM 230 thousand were received by the supervisory board and DM 4,146 thousand by the executive board in the year under review. The salaries of former board members and their surviving dependants amount to DM 966 thousand, and a liability of DM 9,465 thousand was entered.

The following loans which are secured on mortgages or by land charges have been granted to board members.

Figures in DM thousand	*Position at 1.1.1996*	*Amortisation*	*Addition*	*Deduction Transfer*	*Position at 31.12.1996*	*Interest rate %*
Supervisory Board	113	5	–	–	108	5.5
Executive Board	448	21	500	223	704	5.5

The loans end between the years 1996 and 2018.

Contingent liability

Hannover Rückversicherungs-AG is a member of the Association for the Reinsurance of Pharmaceutical Risks, the German Aviation Pool and the Association for the Insurance of German Nuclear Reactors. In the event of one of the other members failing to meet its liabilities, we are liable within the framework of our quota participation.

Similar or corresponding obligation also exist with regard to the part-group member E+S Rückversicherungs-AG.

Certificate by the Independent Auditors

The optional part-group consolidated annual accounts, which we have audited in accordance with professional standards, comply with the legal provisions. With due regard to generally accepted accounting principles, the part-group consolidated annual accounts give a true and fair view of the part-group's assets, liabilities, financial position and profit or loss. The management report is consistent with the part-group consolidated annual accounts.

Hannover, 18th July 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

(Certified Public Accountants)

INDIVIDUAL *Accounts*

Individual Accounts

Figures in DM million	1996	± previous year	1995
Gross premiums written	3 819.1	7.1 %	3 566.9
Net premiums earned	2 871.3	6.3 %	2 702.4
Technical result	-33.4	-185.4 %	39.1
Allocation to the contingency fund and similar provisions	174.5	-14.0 %	203.0
Net technical result	-207.9	26.9 %	-163.9
Investment result	546.3	33.2 %	410.1
Technical interest income	42.2	81.9 %	23.2
Other charges and income	-47.7	125.0 %	-21.2
Special allocation to the IBNR reserve	-110.0	-8.7 %	-120.5
Non-technical result	346.4	41.3 %	245.2
Profit or loss on ordinary activities before tax	138.5	70.4 %	81.3
Profit or loss for the financial year	75.7	9.4 %	69.2
Investments	9 608.8	17.2 %	8 197.5
Capital and reserves incl. Surplus debenture (Genußrechtskapital)	729.7	7.5 %	678.6
Contingency fund and similar provisions	1 002.1	21.1 %	827.6
Net technical provisions	7 153.8	11.1 %	6 442.1
Retention	73.9 %		77.6 %
Loss ratio	70.9 %		69.6 %
Expense ratio	28.9 %		27.4 %

Review

Competition in the international reinsurance market, which had intensified in the previous year, remained keen in 1996. The direct markets recorded only marginal overall growth; cedants are moving towards increased retentions – and hence reduced reinsurance cessions – and favour non-proportional types of reinsurance. This business climate gave rise to at times aggressive competition for premium volume, which resulted in lower rates and poorer terms and conditions in some segments. Thus, new business was only accepted on a highly selective basis, and we adhered strictly to our profit targets. This profit-oriented underwriting policy enabled us to achieve satisfactory technical results, a performance which ultimately was also due to the fact that the various markets world-wide differed quite sharply in their development.

Gross premium income grew by 7.1 %. Approximately half of this gain was attributable to exchange rate movements: the key foreign currencies for our company appreciated against the German mark, in some instances considerably. Adjusted to allow for this factor, real premium growth totalled 3.1 %.

The regional growth markets were again Asia, Australia, North America and Europe excluding Germany; in Germany, on the other hand, gross premium income declined slightly.

Whereas natural catastrophes inflicted a record amount of economic losses in the previous year, such losses were largely absent from the year under review. However, the number of other major losses increased. Europe, in particular, experienced a number of notable fire losses. Despite this, the total deficit incurred by the insurance and reinsurance industries as a result of major losses declined again, a fact which was also reflected in our technical account.

In the life and health reinsurance sector, we recorded an exceptionally large volume of transactions involving prefinancing, thereby systematically pursuing our strategic objectives. The technical losses shown in this class of business should be regarded as investments in view of the extent of the prefinancing components. These investments will accrue to our account in the coming years and boost earnings.

Germany and the other European countries as well as Japan and the rest of Asia contributed positively to the technical result. Our investments in life and health reinsurance transactions related principally to the USA and Australia. In these areas, therefore, we posted technical deficits in the year under review.

Although the technical result deteriorated substantially compared to the previous year, we regard it as satisfactory in the light of the special factors mentioned above. This appraisal is borne out by a sizeable allocation of DM 174.5 million to the contingency fund and an allocation of DM 110.0 million to the IBNR reserve from the non-technical account.

Investment results in the year under review were of a particularly high quality. The international capital markets provided favourable conditions for our substantially increased portfolio. Continuing low interest rates failed to boost current income on investments, but by way of compensation we achieved a gratifying level of extraordinary earnings. Moreover, the stock exchanges had just scaled new record heights as at year-end. Finally, depreciation on investments was very low, and the stronger exchange rates of all our major foreign currencies against the German mark were another positive factor. It was against this backdrop that we were able to increase our investment result by more than 30 % to DM 546.3 million.

The profit for the financial year rose by 9.4 % to DM 75.7 million, a figure which constitutes a new record result in our company's history.

The renowned US rating agencies once again gave us their second-highest credit ratings: AA+ („Excellent") from Standard & Poor's and A+ („Superior") from A.M. Best bear witness to the solidity and financial strength of our

Growth in target markets despite increased competition

Hardly any natural catastrophes

Massive expansion of life business

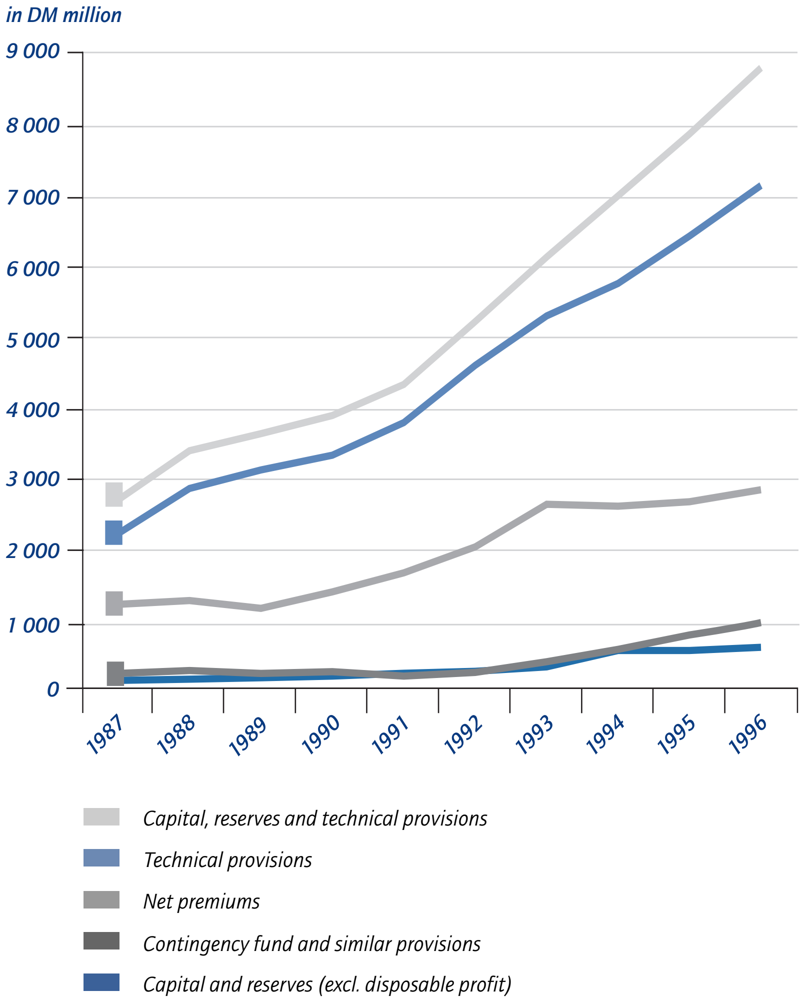
Strain on technical account caused by systematic investments

Excellent investment result

Record profit for the financial year

company. For many of our clients, this remains a powerful argument in favour of striving for long-term cooperation with us.

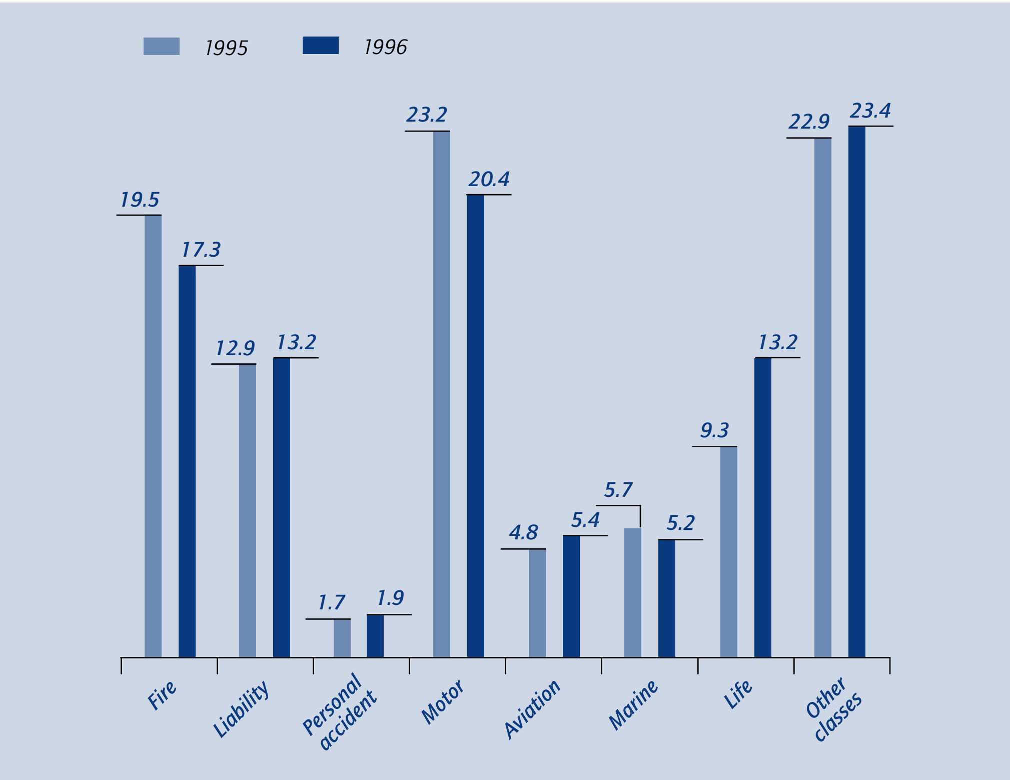
Growth in capital, reserves and technical provisions and in net premiums



Premium growth

Gross premiums written increased in the year under review by 7.1 % to DM 3,819.1 million (DM 3,566.9 million), 37.4 % (41.8 %) of which derived from the German market. The premium breakdown between the various insurance classes was as follows:

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



Fire

Our fire business declined by almost 5 %. In regional terms, the German market was particularly affected by this decrease, whereas we posted growth in Asia and North America.

Approximately 30 % of our fire business stems from the German market. This class of business generated gratifyingly favourable technical results in the year under review, not least because of the unexpectedly low burden of losses in German industrial business.

Furthermore, the generally positive loss experience was marred only slightly by a number of major loss events, such as the fires at Düsseldorf airport, at the headquarters of Crédit Lyonnais in Paris and in the Channel Tunnel.

The amount of DM 1.4 million was allocated from the technical profit to the contingency fund.

Fire in DM million	1996	1995
Gross premiums written	660.5	694.8
Loss ratio (%)	54.4	52.3
Technical result (net)	48.4	53.8

Positive result due to favourable loss experience

Liability

Liability in DM million	1996	1995
Gross premiums written	505.7	459.4
Loss ratio (%)	86.4	76.3
Technical result (net)	-58.4	-16.7

Double-digit growth

Premiums increased in this class of business by over 10 % following a drop in the previous year. In regional terms, our areas of concentration were North America and Europe, where the main emphasis lies in Germany. In these areas, however, our gross premium volume showed below-average growth, and in some instances it even declined slightly. On the other hand, we achieved substantial gains in areas where we had previously accepted predominantly property business, e.g. Australia and Latin America.

Rate cuts due to competitive pressure tended to be smaller in the liability classes than in property business. Particularly by concentrating on niche markets – something which is more readily possible in the USA, for example, because of the highly segmented nature of the market as a whole –, we were still able to achieve adequate technical results.

New business opportunities opened up in Germany, where „Directors' and Officers' Liability Insurance" (a product taken over from the Anglo-American markets) is increasingly gaining in importance.

The liability class of business closed with a substantially higher overall technical deficit. However, disproportionately large investment income must be attributed to this segment due to the run-off period of the loss reserves, which in some instances may be extremely protracted.

The contingency fund was boosted by the amount of DM 21.2 million. In addition, we allocated the amount of DM 82.8 million from the non-technical result to the IBNR reserve for liability business.

Personal Accident

Personal Accident in DM million	1996	1995
Gross premiums written	72.0	59.3
Loss ratio (%)	85.6	75.9
Technical result (net)	-14.8	-4.5

Growth due to a new business relationship

Pre-financing burden

Experience shows that personal accident is a highly profitable class of business. We achieved an unusually high premium increase in this class of business, primarily due to the conclusion of a new treaty in Australia. We also succeeded in substantially expanding our personal accident in the United Kingdom.

The technical deficit was largely attributable to the financing components of the abovementioned new business connection. Other developments in this class of business were generally unremarkable.

Motor

The bulk of our motor premium derives from domestic business. Here, deregulation and the introduction of new vehicle-type tariffs and bonus features led to a reduction in insurance premiums. Since German motor business is predominantly reinsured on a proportional basis, this development was also reflected in the reinsurance sector. Consequently, there was a decline in our gross premium income.

The loss experience shows a very mixed scenario: whereas the overall loss frequency decreased slightly, the average expenditure on bodily injury claims climbed steeply. This impacted in particular our non-proportional business. Own damage claims, on the other hand, dropped appreciably. The car industry's prompt response to the previously high number of vehicle thefts – particularly as regards the installation of engine immobilization systems – bore fruit.

The amount of DM 15.5 million was withdrawn from the contingency fund due to the slight underwriting deficit. We allocated DM 27.2 million from the non-technical account to the IBNR reserve for motor third party liability business.

Motor		
in DM million	*1996*	*1995*
Gross premiums written	*780.2*	*830.9*
Loss ratio (%)	*85.6*	*77.4*
Technical result (net)	*-7.5*	*11.4*

Premium decline caused by deregulation

High bodily injury losses

Aviation

As part of our business strategy, we accorded the aviation class priority status. To this extent, the expansion of gross premium volume by almost 20 % was in accordance with our strategic orientation.

A number of major losses occurred in the aviation sector in 1996, and these also affected the technical account. In addition, the year under review witnessed the highest number of fatalities ever recorded in civil aviation.

Satellite business, on the other hand, experienced only one notable in-orbit loss, as a consequence of which results in this segment were more satisfactory.

Owing to the fact that rate levels for non-proportional treaty business remained adequate, we were again able to generate an appreciable technical profit in the year under review.

An allocation of DM 6.6 million was made to the contingency fund.

Aviation		
in DM million	*1996*	*1995*
Gross premiums written	*206.5*	*172.8*
Loss ratio (%)	*68.9*	*62.6*
Technical result (net)	*20.3*	*30.5*

Another large profit

Marine

As far as premiums are concerned, the effects of the measures taken until the mid-1990s to restore business to profitability have to a great extent been neutralized. However, the retentions which were agreed upon have so far largely been maintained. As a result, insurers and reinsurers were scarcely affected by minor losses. An above-average favourable loss experience therefore enabled us to record another increase in the technical profit in the year under review.

This favourable performance caused us to bolster the contingency fund by the amount of DM 23.9 million.

Marine		
in DM million	*1996*	*1995*
Gross premiums written	*197.5*	*203.5*
Loss ratio (%)	*60.8*	*66.2*
Technical result (net)	*22.1*	*18.5*

Very gratifying result due to the low loss burden

Life

Life in DM million	1996	1995
Gross premiums written	503.9	330.9
Technical result (net)	-82.9	-36.1

Exceptionally successful expansion of business

Deficit caused by pre-financing of an investment nature

The technical account in this class of business displays two special features, which are directly correlated with one another: on the one hand, we increased the gross premium volume by over 50 %, while, on the other hand, the underwriting deficit more than doubled to reach DM 82.9 million.

Life reinsurance is one of the business segments which we are expanding systematically within the framework of our strategy. For this purpose, one of the areas in which we have specialised is treaties which contain not only a risk component – but also – and primarily – a prefinancing element: by prefinancing the costs of new business, it is possible to support rapidly growing insurers as they build up life insurance portfolios.

Due to German statutory accounting regulations, such expenditure cannot be amortised across the period of the underlying policies; rather, the full prefinancing expenditure must be shown as a debit item in the profit and loss account in the year in which the treaty is concluded. This expenditure is offset by corresponding repayments in subsequent years. In this regard, the sizeable technical deficit in this class of business thus reflects our highly successful, systematic investment in a profitable future in this segment.

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 reassurance		
sums assured	63 614.6	47 397.7
amount retroceded	3 368.1	10 439.4
Endowment insurance		
sums assured	62 979.7	46 628.7
amount retroceded	3 264.9	10 336.6
Annuity and pension insurance		
12 times annual annuity	634.9	769.0
amount retroceded	103.2	102.8

Other classes

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

Gross premium income in credit and bond business rose slightly. The favourable result generated by international business failed to compensate for the poor loss experience in

Germany. Overall, therefore, we recorded a slight technical deficit, albeit less than that of the previous year. The loss situation abroad, which continued to be highly satisfactory, and the more intense level of competition caused a decline in original premiums. Nonetheless, overseas profits were gratifying. In Germany, another set of record insolvency figures in commercial credit and construction contract bond business produced an increased loss ratio, resulting in a further deterioration of the technical results when compared to the previous year. The favourable performance of export credit insurance was not enough to offset this negative development.

The result in storm and tempest insurance remained positive and led to a substantial decline in premium rates. Our gross premium income therefore decreased slightly. We were pleased to note that there were again hardly any storms in the year under review. Owing to the fact that reinsurance treaties in this class of business are usually on a non-proportional basis, they were generally spared any losses. Storm and tempest insurance thus closed with a very good result.

The favourable loss experience in fire business interruption enabled us to generate technical profits in this segment as well, following considerable losses in the previous years.

On an overall basis, we showed a highly satisfactory technical profit of DM 39.4 million and allocated the record amount of DM 136.8 million to the contingency fund in the other classes.

Credit business performed poorly in Germany due to insolvencies

Very good windstorm result

Other classes		
in DM million	*1996*	*1995*
Gross premiums written	*892.8*	*815.3*
Loss ratio (%)	*62.2*	*72.8*
Technical result (net)	*39.4*	*-17.8*

Investments

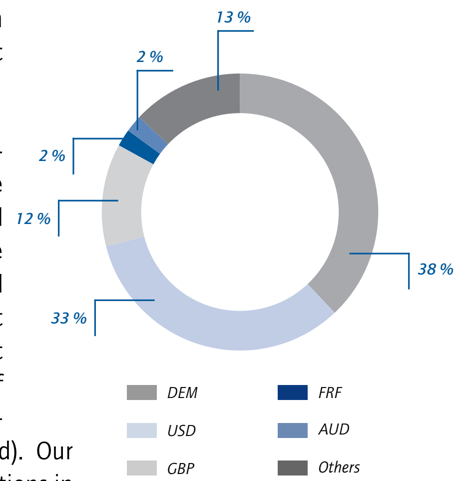
Total investments (including deposits retained) increased by more than DM 1.4 billion in the year under review and now stand at DM 9.6 billion. This development was attributable to two factors: firstly, the influx of liquidity from the technical account continued to be positive and, secondly, life business again posted vigorous growth. The weakness of the German mark – in contrast to its strength in the previous years – was an additional favourable factor in the year under review: the conversion of our initial investment portfolio on the basis of the higher exchange rates prevailing as at year-end 1996 was in itself sufficient to generate growth of DM 462 million.

In the light of the volatile state of the foreign exchange markets, it is essential to observe the principle of matching cover in the investment sector in order to minimize currency exposures. In accordance with this principle, foreign-currency-denominated liabilities (principally provisions for outstanding claims) must be matched by corresponding foreign currency assets. As a consequence, approximately 60 % of our total investments are held in foreign currencies; the US dollar, among which accounting for almost 33 %, is our most important foreign currency.

The structure of our investment portfolio did not change significantly in the year under review. We strongly boosted our units in unit trusts. As a result of the launching or increasing of specialized funds with shares as the investment focus, the percentage of units in unit trusts increased to 16.6 % (13.1 %) of the investments which we manage ourselves (i.e. excluding deposits retained). Our overall share ratio – including participations in private equity funds – thus totalled almost 10 % of our self-managed investments as at year-end 1996.

Our main area of investment remains in bearer debt securities and other fixed-income securities, which continued to account for roughly

Breakdown of investments according to currency



Positive impact of the weak German mark

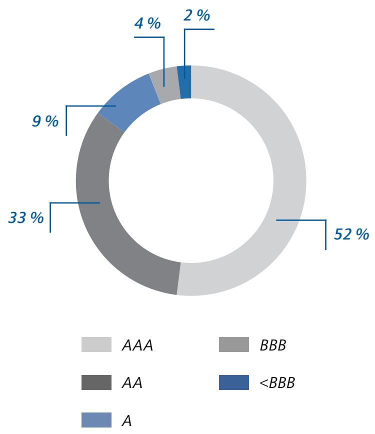
Strong portfolio growth

Good conditions make possible a record result

half of our total portfolio. The additions and disposals listed under this investment category in the investment summary also contain purchases and redemptions of money market instruments (commercial papers) of around DM 3 billion in each case.

Low inflation rates and moderate economic growth meant that capital market rates again remained at a generally low level in 1996. For this reason, new investments could only be made at interest rates below the long-term average. In view of the fact that a fundamental trend reversal is not anticipated at present, this will serve to decrease the average interest on investments.

Rating of the fixed-income securities



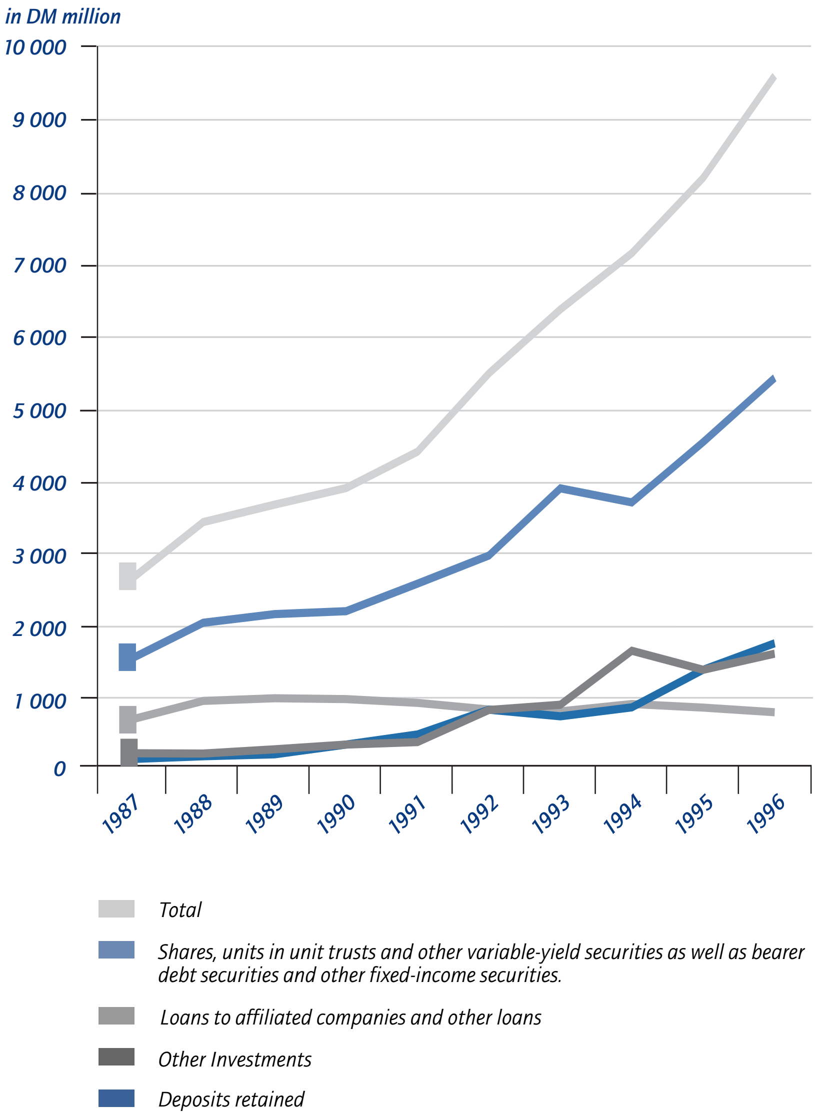
We still attach great importance to the first-class quality of our investments: more than 80 % of the bearer and registered fixed-income securities held in our direct portfolio have a security rating of AA or better.

The ordinary income from investments increased only slightly in 1996 from DM 471.8 million to DM 513.6 million due to higher participation dividends in the prior year. The extraordinary result was, however, very favourable compared to previous years. Whereas the balance from realised gains and losses and from depreciation on investments produced a deficit of DM 48.8 million in 1995, the corresponding item in the year under review showed a profit of DM 44.2 million, i.e. an improvement of more than DM 90 million.

Derivative financial instruments, which – as in previous years – were used to hedge securities and equities, produced overall expenditure of DM 5.2 million. This amount included depreciation of DM 4.9 million on an equity option purchased in connection with a life reinsurance treaty. This expenditure is offset by corresponding profit in the technical account.

Overall income from investments for the year under review amounted to DM 616.6 million compared with expenses (including management costs) totalling DM 70.3 million. The net result from investments was therefore DM 546.3 million, as against DM 410.1 million in the previous year. This corresponds to an improvement of more than a third.

Investments



Human Resources

Hannover Re is the largest single company within the entire Hannover Re Group, also in terms of the number of employees. As at the end of the year under review, a total of 389 employees were employed at our company, 198 of whom were women and 191 men.

Excange of personnel with foreign subsidiaries

Emphasis on management skills

Our world-wide presence in the professional reinsurance market also influences the composition of our staff, who come from a diverse international background; in this context, we substantially stepped up the exchange of staff with our foreign subsidiaries in 1996. A further implication of this policy is that employees who used to work at our head office in Hannover have now assumed new duties at our subsidiaries and representative offices.

In order to prepare our staff even better for their deployment abroad, we shall in future offer seminars aimed at communicating specific cultural and linguistic skills. As with many of our training events, we shall use the expertise available at our company for this purpose. After being appropriately coached to take on the role of trainer, members of staff of different nationalities as well as those with experience of living and working abroad will pass on their knowledge to other employees.

This model corresponds to our philosophy of personnel development and our understanding of a learning organization: less experienced staff learn from more seasoned colleagues. The latter, in turn, acquire through their activities as speakers or trainers new communicative skills which go beyond their specialist and cultural knowledge and can be used to good effect, not least at meetings and in negotiations with clients.

Needless to say, in an international environment the quality of management also plays a key role. For this reason, we have launched a campaign involving all the managerial staff at our company. The programme has three levels, encompassing the entire management spectrum from reflecting management objectives and practising use of management instruments to handling selected problems. In this way, we sensitize our management staff to the specific demands placed on them and equip them with the necessary skills.

In this regard, we have also revised and expanded our management tools. Management staff at all levels thus have at their disposal various tools which offer them significant support in the execution of their managerial duties – from the integration of new employees and leadership in daily work routines to personnel development.

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 adequate consideration for all transactions with affiliated companies according to the circumstances prevailing at the time the transactions were entered into. We incurred no losses requiring compensation as defined by § 311 (1) of the Companies Act (AktG).

Membership of associations and institutions

- Deutsche Gesellschaft für Versicherungsmathematik e. V., Göttingen
- Internationale Vereinigung der Hagelversicherer, Zurich
- Arbeitgeberverband der Versicherungsunternehmen in Deutschland, Munich
- Allgemeine Arbeitgebervereinigung Hannover und Umgebung e. V., Hannover
- LIRMA London Insurance and Reinsurance Market Association, London
- RINET S.C., Brussels

Other information

There is an administrative association between our company and our subsidiary E+S Rück which covers all administrative functions in both companies. Taxation matters and structural property services are largely dealt with centrally by the HDI Haftpflichtverband der Deutschen Industrie V. a. G.

Outlook

In 1995, the cyclical peak of attainable premium rates and conditions in the reinsurance industry was passed; since that time, conditions have been normalizing, a trend which is continuing during the current year. Premium income in 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. Consequently, we anticipate only a restrained rise in premium income for the current year.

The loss experience has been unexpectedly favourable so far. Major loss events, such as the floods in the USA and Canada, will not inflict significant losses on international reinsurers. The slight decline in premiums has thus been offset so far by the minimal loss burden. Overall, in view of the fact that there is currently no indication of a repeat of the unusually high investments in life business, we can anticipate a substantial easing of the strain on the technical result.

As far as investments are concerned, we cannot base our plans on the assumption that the favourable market conditions which have prevailed to date will continue unchanged. A general rise in interest rates, even if only a modest scale, must be anticipated at some point. Although this would generate higher current income, it would also lead to depreciation requirements for our fixed-interest securities. We therefore anticipate that our investment result will not entirely match up to the outstanding result in the previous year.

All in all, on the basis of the insights which are available to date, our objective of steadily increasing the profit for the financial year appears realistic and attainable.

In 1996, we redefined on a Group-wide basis the tasks of individual subsidiaries within the Hannover Re Group. The most significant outcome of this is our new market presence: since the beginning of this year, Hannover Re has only been active in foreign markets, while E+S Rück exclusively services the German market. This specialization enables us to respond even more attentively to our clients' needs. At the same time, the important regional distribution of risks will be maintained unchanged by way of retrocession.

Conditions continuing to normalize

Moderate growth

Virtually no major losses to date

Easing of the strain on the technical result

Normalization of the investment 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
Payment of a dividend of DM 3.15 on each participating bearer share with a nominal value of DM 5.–	51 269 097.60
Payment of a dividend of DM 630.– on each registered share with a nominal value of DM 1, 600.– which is partly paid to the amount of DM 1, 000.– , and of DM 588.– on each registered share which is partly paid to the amount of DM 933.– .	24 570 000.–
Profit carried forward	60 902.40
	75 900 000.–

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total capital 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 our capital, reserves and technical provisions will be as follows:

Figures in million DM	*1996*	*1995*
Subscribed capital and reserves	503.8	458.6
Surplus debenture (Genußrechtskapital)	150.0	150.0
Contingency fund and similar provisions	1 002.1	827.6
Technical provisions	7 153.8	6 442.0
Total capital, reserves and technical provisions	8 809.7	7 878.2

The capital, reserves and technical provisions amounted to 312.2 % (284.8 %) of net premiums; this includes the capital and reserves (including Surplus debenture) at 23.2 % (22.0 %) of net premiums.

HANNOVER RE

BALANCE SHEET *at 31st December 1996*

Assets *Figures in DM thousand*	1996				1995
A. Subscribed capital unpaid - called-up capital - (1995: -)				25 000	25 000
B. Intangible assets: Other intangible assets				13 669	13 190
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			111 053		119 320
II. Investments in affiliated companies and participating interests:					
1. Shares in affiliated companies		999 300			994 492
2. Loans to affiliated companies		116 985			46 129
3. Participating interests		148 573			153 349
			1 264 858		1 193 970
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1 472 408			1 043 751
2. Bearer debt securities and other fixed-income securities		3 957 163			3 498 719
3. Mortgages and loans secured on land and buildings		11 095			11 425
4. Other loans					
a) Registered debt securities	406 923				
b) Debentures and loans	226 116				
c) Sundry loans	55 000	688 039			823 254
5. Deposits with banks		344 877			113 678
6. Other		10			10
			6 473 592		5 490 837
IV. Deposits with ceding companies			1 759 247		1 393 347
				9 608 750	8 197 474
D. Receivables					
I. Accounts receivable arising out of reinsurance operations - from affiliated companies: 6 123 (1995: 7 376)			428 134		401 602
II. Other receivables - from affiliated companies: 46 277 (1995: 26 070)			58 441		57 360
				486 575	458 962

Liabilities
Figures in DM thousand

	1996				1995
A. Capital and reserves					
I. Subscribed capital			145 379		141 341
II. Capital reserve					
at 1st January 1996		304 873			
Addition		41 191	346 064		304 873
III. Retained earnings					
1. Statutory reserve		1 000			
2. Other retained earnings					
at 1st January 1996	11 400				
Allocation from profit for 1996	–	11 400	12 400		12 400
IV. Disposable profit			75 900		70 000
				579 743	528 614
B. Surplus debenture (Genußrechtskapital)				150 000	150 000
C. Technical provisions					
I. Provision for unearned premiums:					
1. Gross		592 627			
2. Less:					
reinsurance ceded		78 786	513 841		533 147
II. Life assurance provision:					
1. Gross		1 564 147			
2. Less:					
reinsurance ceded		346 213	1 217 934		925 837
III. Provisions for outstanding claims:					
1. Gross		6 151 231			
2. Less:					
reinsurance ceded		860 791	5 290 440		4 862 904
IV. Provision for bonuses and rebates:					
1. Gross		5 752			
2. Less:					
reinsurance ceded		2 839	2 913		3 085
V. Contingency fund and similar provisions			1 002 143		827 634
VI. Other technical provisions:					
1. Gross		129 908			
2. Less:					
reinsurance ceded		1 334	128 574		117 080
				8 155 845	7 269 687
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			26 089		23 790
II. Provisions for taxation			57 785		12 292
III. Other provisions			64 902		55 681
				148 776	91 763

Assets *Figures in DM thousand*	1996				1995
E. Other assets					
I. Tangible assets and stocks			13 036		10 366
II. Current accounts with banks, cheques and cash in hand			59 730		66 947
				72 766	77 313
F. Prepayments and accrued income					
I. Accrued interest and rent			91 967		85 790
II. Other accrued income			1 899		365
				93 866	86 155
				10 300 626	8 858 094

Liabilities

Figures in DM thousand

	1996				1995
E. Deposits received from retrocessionaires				568 040	386 251
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations - to affiliated companies: 145 778 (1995: 113 989)			644 671		397 877
II. Miscellaneous liabilities - from taxes: 508 (1995: 438) - for social security: 783 (1995: TDM 648) - to affiliated companies: 22 407 (1995: 9 238)			39 165	683 836	27 323 425 200
G. Accruals and deferred income				14 386	6 579
				10 300 626	8 858 094

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	3 819 090			3 566 903
b) Retrocession premiums	997 314			800 187
		2 821 776		2 766 716
c) Change in the gross provision for unearned premiums (+/-)	17 920			-69 940
d) Change in the provision for unearned premiums, retrocessionaires´ share (+/-)	31 592			5 631
		49 512		-64 309
			2 871 288	2 702 407
2. Allocated investment return transferred from the non-technical account, net of retrocession			37 928	20 602
3. Other technical income, net of retrocession			33	7
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	2 415 953			1 901 061
bb) Retrocessionaires´ share	475 488			416 734
		1 940 465		1 484 327
b) Change in provisions for outstanding claims				
aa) Gross	-165 283			-442 215
bb) Retrocessionaires´ share	147 572			71 070
		-17 711		-371 145
			1 958 176	1 855 472
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-162 397		-60 140
b) Other net technical provisions		-133		-237
			-162 530	-60 377
6. Bonuses and rebates, net of retrocession			1 751	949
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 052 775		899 761
b) Less: commissions and profit commissions received on retrocession		237 094		140 523
			815 681	759 238
8. Other technical charges, net of retrocession			4 508	7 903
9. Subtotal			-33 397	39 077
10. Change in contingency fund and similar provisions			-174 509	-202 977
11. Net technical result			-207 906	-163 900

Figures in DM thousand	1996				1995
Balance brought forward:				-207 906	-163 900
II. Non-technical account					
1. Investment income					
a) Income from participating interests		69 278			81 386
- affiliated companies: 58 200 (1995: 75 525)					
b) Income from other investments					
- affiliated companies: 19 428 (1995: 17 504)					
aa) Income from land and buildings, rights to land and buildings, leasehold	13 506				
bb) Income from other investments	430 796	444 302			390 385
c) Appreciation on investments		1 204			924
d) Gains of realization of investments		101 794			54 975
			616 578		527 670
2. Investment charges					
a) Investment management charges, including interest		12 685			13 840
b) Depreciation		43 709			84 754
- extraordinary depreciation in accordance with § 277 (3) item 1 16 050 (1995: 28 662)					
c) Losses on the realization of investments		13 852			19 021
			70 246		117 615
			546 332		410 055
3. Allocated investment return transferred to the technical account			-42 242		-23 177
				504 090	386 878
4. Other income			29 096		32 334
5. Other charges					
a) Special allocation to provisions for outstanding claims		110 007			120 478
b) Miscellaneous charges		76 818			53 491
			186 825		173 969
				-157 729	-141 635
6. Profit or loss on ordinary activities before tax				138 455	81 343

Figures in DM thousand	1996				1995
Balance brought forward:				138 455	81 343
7. Taxes on profit and income		26 469			8 800
plus allocation for group assessment		35 912			2 499
			62 381		11 299
8. Other taxes		435			985
plus allocation for group assessment		-66			-143
			369		842
				62 750	12 141
9. Profit or loss for the financial year				75 705	69 202
10. Profit brought forward from previous year				195	798
11. Disposable profit				75 900	70 000

Valuation of assets

The valuation was carried out in accordance with the regulations of §§ 341 b ff. of the Code of Commercial Law (HGB). The methods have been left unaltered on principle.

Intangible assets and property were valued at the acquisition or construction costs less permitted tax depreciation.

Shares in affiliated companies and participations are valued on a purchase cost basis. Any necessary depreciation was taken into account.

Loans to affiliated companies are valued at nominal value less amortisation.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict principle of cost or market value whichever is lower in accordance with § 341b (2) in conjunction with § 253 (3) of the Code of Commercial Law (HGB). Lower valuations were retained in accordance with § 280 (2) of the Code of Commercial Law (HGB). Securities or options which are held to cover specific technical provisions (life assurance provision) were combined with these in valuation units. We discounted registered debt securities and borrowers' note loans to a minor extent.

The valuation of derivative instruments was carried out on a Mark-to-Market basis. The provision for future losses was set up on this valuation basis.

We valued mortgages and loans secured on land and buildings, registered debt securities, debentures and loans at nominal value taking into account amortisation. No depreciation was necessary.

We valued deposits with credit institutions, deposit and accounts receivable arising out of reinsurance operations and other debts at nominal amounts. Valuation adjustments were set up for abnormal risks.

Fixed assets and stock are valued at the purchase cost less straight-line or declining-balance depreciation. Low-value items were written off in the year of purchase.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5 % of the reinsurance commission in accordance with the NRW order dated 29.5.1974. 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 three years after the year following the year of subscription.

Where the provisions indicated by the ceding companies are not expected to be adequate, we have increased them by appropriate surcharges. Where no information was available from cedents, 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. 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 missing. Missing ceding company accounts with a low premium income were included in the following year; these transactions would have amounted to less than 1% of gross premiums.

In the Liability, Motor Liability, and Aviation Liability classes we set up IBNR claims reserves for excess of loss contracts. The calculation was largely carried out in accordance with statistical mathematical methods.

The shares of retroceding companies in the technical reserves were determined on the basis of the reinsurance contracts.

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

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and liabilities. We refrained from carrying deferred taxes as assets accounting aid in accordance with § 274 (2) of the Code of Commercial Law (HGB).

Other liabilities are valued at nominal amounts.

Currency conversion

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

Balance sheet headings taken from the previous year were also converted into German mark at average exchange rates for the end of the year. In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is concurrent cover for liability elements by corresponding asset elements in the different currencies. Where losses have however arisen, these have been shown as such under other expenses. Where profit occurred, we allocated this to the reserve for currency risks as non-realised profit. This reserve 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 assets items B., C.I to C. III. in financial year 1996 Figures in DM thousand	*Book values 31.12.1995*	*Additions*	*Transfers*	*Disposals*	*Depreciation*	*Book values 31.12.1996*
B. Intangible assets: Other intangible assets	13 190	3 012	–	295	2 238	13 669
C. I. Land and buildings, rights to land and buildings, leasehold	119 320	56	–	1 416	6 907	111 053
C. II. Investments in affiliated companies and participating interests:						
1. Shares in affiliated companies	994 492	9 647	–	4 164	675	999 300
2. Loans to affiliated companies	46 129	81 380	–	10 524	–	116 985
3. Participating interests	153 349	4 918	–	840	8 854	148 573
4. Total C.II.	1 193 970	95 945	–	15 528	9 529	1 264 858
C. III. Other financial investments:						
1. Shares, units in unit trusts and other variable-yield securities	1 043 751	690 956	–	249 214	13 085	1 472 408
2. Bearer debt securities and other fixed-income securities	3 498 719	5 462 667	–	4 996 556	7 667	3 957 163
3. Mortgages and loans secured on land and buildings	11 425	1 713	–	2 043	–	11 095
4. Other loans						
a) Registered debt securities	425 147	154 432	15 000	187 656	–	406 923
b) Debentures and loans	398 107	64 930	-30 000	206 921	–	226 116
c) Sundry loans	–	40 000	15 000	–	–	55 000
5. Deposits with banks	113 678	231 199	–	–	–	344 877
6. Other	10	–	–	–	–	10
7. Total C.III.	5 490 837	6 645 897	–	5 642 390	20 752	6 473 592
Final total	6 817 317	6 744 910	–	5 659 629	39 426	7 863 172

Land and buildings and rights to land and buildings

On 31.12.1996 the company had at its disposal seven developed properties with business and other buildings, one property with residential buildings, one undeveloped property and shares of DM 42,909 thousand in two developed properties.

Shares in affiliated companies and participations

Our major shares in affiliated companies and participations are shown below. We have not listed companies of subordniate economic importance which have no significant influence on our assets, financial positon or profits.

A complete list of shareholdings has been compiled separately in accordance with § 287 of the Code of Commercial Law (HGB) and is deposited with the Hannover Trade Registry under HRB 6778.

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reverses (§266 (3) German Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
E+S Rückversicherungs-AG, Hannover, Germany	53.90	DM	250 349	DM	15 100
holds 45.00 % of the shares in: GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany		DM	75 738	DM	-1 657
holds 100.00 % of the shares in: E+S Reinsurance (Ireland) Limited, Dublin, Irleand		DM	224 094	DM	20 151
holds 33.33 % of the shares in: Hannover Services (Ireland) Limited, Dublin, Ireland		DM	180	DM	-25
holds 50.00 % of the shares in: Hannover Life Re of Australasia Ltd, Sydney, Australia		AUD	113 364	AUD	21 514
holds 16.67 % of the shares in: WeHaCo Kapitalbeteiligungs-gesellschaft mbH, Berlin, Germany		DM	78 224	DM	2 583
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany	45.00	DM	75 738	DM	-1 657
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover, Germany	100.00	DM	-13 053	DM	- 883
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich, Germany	99.77	DM	- 700	DM	-2 322

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reverses (§266 (3) German Commercial Code)*		*Result for the last financial year*	
Companies resident abroad					
Hannover Life Re of Australasia Ltd, Sydney, Australia	50.00	AUD	113 364	AUD	21 514
Reassurance Company of Hannover, Orlando, USA	100.00	USD	46 295	USD	- 3 864
Hollandia Holdings (Pty) Limited, Johannesburg, South Africa	52.00	ZAR	126 798	ZAR	2 503
holds 100.00 % of the shares in: Hollandia Reinsurance Company Ltd, Johannesburg, South Africa		ZAR	143 851	ZAR	19 583
holds 80.00 % of the shares in: Hillside House (Pty) Ltd, Johannesburg, South Africa		ZAR	18	ZAR	4
holds 100.00 % of the shares in: Hollandia Life Reassurance Company Ltd, Johannesburg, South Africa		ZAR	11 000	ZAR	1 500
holds 20.00 % of the shares in: Hillside House (Pty) Ltd, Johannesburg, South Africa		ZAR	18	ZAR	4
holds 100.00 % of the shares in: Indoc Holdings S.A., Luxemburg, Luxembourg		CHF	2 711	CHF	82
holds 100.00 % of the shares in: Coral Reinsurance Ltd, Port Louis, Mauritius		MUR	48 831	MUR	5 802
holds 100.00 % of the shares in: Lireas Holdings (Pty) Ltd, Johannesburg, South Africa		ZAR	1 911	ZAR	171
Insurance Corporation of Hannover, Chicago, USA	100.00	USD	114 429	USD	7 316
International Insurance Company of Hannover Ltd, London, Great Britain	100.00	GBP	27 103	GBP	2 833
Hannover Reinsurance (Ireland) Ltd, Dublin, Ireland	100.00	DM	299 783	DM	37 650
holds 33.33 % of the shares in: Hannover Services (Ireland) Ltd, Dublin, Ireland		DM	180	DM	- 25

Name and registered office of the company Figures in currency units of 1 000	*Participation (in %)*	*Capital and reverses (§266 (3) German Commercial Code)*		*Result for the last financial year*	
Participations					
Hannover Finanz Vermögens-Verwaltungs GmbH, Hannover, Germany	32.91	DM	106 050	DM	9 179
holds 100.00 % of the shares in: Hannover Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover, Germany		DM	102 965		–
Heizkraftwerk Römerbrücke ZWO GmbH & Co., Betriebs OHG, Saarbrücken, Germany	26.32	DM	30 554	DM	2 784
ITAS Assicurazioni S.p.A., Trient, Italy	40.00	ITL	54 531 837	ITL	426 630
ITAS Vita S.p.A., Trient, Italy	30.00	ITL	55 079 799	ITL	- 922 817
WeHaCo Kapitalbeteiligungsgesellschaft mbH, Berlin, Germany	16.67	DM	78 224	DM	2 583

Other investments

In accordance with § 280 (2) of the Code of Commercial Law (HGB), increased valuations of DM 52,557 thousand were omitted in the 1996 financial year.

Other receivables

Figures in DM thousand	*1996*	*1995*
Receivables from affiliated companies	46 277	26 070
Interest and rent due	4 395	9 720
Receivables from the revenue authorities	4 250	17 780
Receivables from the sale of securities	1 423	933
Reveiveables from the sale of options	1 375	267
Receivables from the sale of property	–	1 802
Other receivables	721	788
Total	58 441	57 360

Accruals and deferred income

Figures in DM thousand	*1996*	*1995*
Accrued interest and rent	91 967	85 790
Deferred premium on bonds	1 845	42
Other accrued income	54	323
Total	93 866	86 155

Other

Assets with a balance sheet value of DM 1,116,387 thousand (DM 979,196 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

The subscribed capital consists of 16,275,904 bearer shares in nominal value of DM 5.- and 40,000 registered shares in nominal value of DM 1,600.-. 25,000 registered shares are paid-up at DM 1,000.-, and 15,000 registered shares are paid-up at DM 933.33. This produces an overall payment ratio of 82.8 % on the total subscribed capital. There is further authorised capital of DM 19,098 thousand with a time limit of 1.7.1999.

Surplus debenture (Genußrechtskapital)

The Surplus debenture issued in 1993 amounting to DM 150,000 thousand has a term of 10 years. The interest is 7.55 %.

Provision for unearned premiums

Insurance class *Figures in DM thousand*	*1996* *gross*	 *net*	*1995* *gross*	 *net*
Fire	134 737	115 491	141 460	127 275
Liabilityt	93 294	85 727	106 520	100 942
Personal accident	8 898	7 438	8 411	7 448
Motor	31 988	23 360	30 071	23 543
Aviation	26 353	21 750	18 185	19 838
Life	117 466	104 125	77 299	74 091
Other classes	179 891	155 950	196 322	180 010
Total	592 627	513 841	578 268	533 147

Life assurance provisions

Insurance class *Figures in DM thousand*	*1996* *gross*	 *net*	*1995* *gross*	 *net*
Life	1 553 032	1 206 819	1 141 923	925 837
Other classes	11 115	11 115	–	–
Total	1 564 147	1 217 934	1 141 923	925 837

Provisions for outstanding claims

Insurance class *Figures in DM thousand*	*1996* *gross*	 *net*	*1995* *gross*	 *net*
Outstanding loss reserve				
Fire	480 602	340 365	492 200	367 828
Liability	2 734 998	2 535 280	2 444 198	2 306 809
Personal accident	80 537	75 034	68 040	62 424
Motor	1 297 209	1 055 239	1 181 185	995 081
Aviation	239 366	202 996	188 825	155 054
Marine	290 980	261 355	265 989	241 726
Life	104 859	100 686	71 487	67 959
Other classes	914 184	711 121	835 059	658 545
	6 142 735	5 282 076	5 546 983	4 855 426
Provision for annuities				
Liability	859	823	460	422
General accident	1 099	1 099	1 178	1 165
Motor	6 538	6 442	6 051	5 891
	8 496	8 364	7 689	7 478
Total	6 151 231	5 290 440	5 554 672	4 862 904

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	205 896	10 907	–	216 803
Liability	112 234	20 117	–	132 351
Motor	48 638	–	15 475	33 163
Aviation	50 609	6 848	284	57 173
Marine	86 542	23 918	–	110 460
Other classes	277 367	144 701	11 103	410 965
	781 286	206 491	26 862	960 915
Provisions which are similar to the contingency fund – major risks –				
Liability	10 249	1 128	–	11 377
Fire	9 500	–	9 500	–
Other classes	26 599	3 252	–	29 851
Total	827 634	210 871	36 362	1 002 143

Other technical provisions

Type of provision Figures in DM thousand	1996 gross	1996 net	1995 gross	1995 net
Profit commission	106 298	106 100	98 602	98 738
Commissions	17 327	17 327	13 296	13 296
Premium cancellation	6 141	5 005	5 267	4 834
Lay-up reserve	142	142	176	176
Road traffic accident victim assistance	–	–	36	36
Total	129 908	128 574	117 377	117 080

Technical provisions – total

Insurance class Figures in DM thousand	1996 gross	1996 net	1995 gross	1995 net
Fire	838 449	678 964	853 988	715 420
Liability	3 052 414	2 842 254	2 741 131	2 595 097
Personal accident	91 689	84 333	78 096	71 498
Motor	1 374 445	1 123 117	1 281 424	1 088 215
Aviation	328 378	287 263	259 588	227 345
Marine	403 290	373 531	354 314	330 026
Life	1 776 863	1 413 109	1 292 391	1 069 959
Other classes	1 580 279	1 353 274	1 364 957	1 172 127
Total	9 445 807	8 155 845	8 225 889	7 269 687

Provisions for other risks and charges

Figures in DM thousand	1996	1995
Provisions for pensions and similar liabilities	26 089	23 790
Provisions for taxation	57 785	12 292
Provisions for currency risks	34 085	37 706
Provisions for interest	12 400	–
Provisions for outstanding payments	7 161	5 843
Provisions for securities and forward exchange business	4 950	4 267
Provisions for annual accounts costs	1 951	1 767
Provisions for litigation risks	1 031	3 575
Other provisions	3 324	2 523
Total	148 776	91 763

Other liabilities

Figures in DM thousand	*1996*	*1995*
Liabilities in respect of affiliated companies	22 407	9 238
Liabilities from interest on surplus debenture	11 325	11 325
Liabilities from deliveries and services	2 736	1 064
Liabilities from outstanding social security contributions	783	648
Liabilities in respect of the revenue authorities	508	438
Liabilities from land and buildings	165	3 060
Liabilities from interest on registered debt securities	–	326
Other liabilities	1 241	1 224
Total	39 165	27 323

Deferred items

Figures in DM thousand	*1996*	*1995*
Disagio	10 797	2 889
Long-term tenancy rights	3 241	3 480
Other accruals and deferred income	348	210
Total	14 386	6 579

Liability conditions

There are 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	Gross premiums written 1995	Gross premiums earned 1996	Gross premiums earned 1995	Net premiums earned 1996	Net premiums earned 1995	Technical result for own account 1996	Technical result for own account 1995
Fire	660 475	694 767	672 580	679 148	434 233	462 132	47 015	6 154
Liability	505 659	459 444	524 934	449 950	479 129	425 293	-79 695	-54 731
Personal accident	72 024	59 308	72 003	58 194	62 192	50 598	-14 785	6 335
Motor	780 227	830 909	778 921	831 592	461 934	600 531	7 968	-23 231
Aviation	206 472	172 748	199 807	169 880	165 046	143 439	13 747	23 990
Marine	197 521	203 496	197 521	203 496	163 572	176 063	-1 796	-17 511
Other insurance classes	892 818	815 339	919 974	784 365	681 956	580 268	-97 456	-68 793
Total damage and accident insurance	3 315 196	3 236 011	3 365 740	3 176 625	2 448 062	2 438 324	-125 002	-127 787
Life	503 894	330 892	471 270	320 338	423 226	264 083	-82 904	-36 113
Total insurance business	3 819 090	3 566 903	3 837 010	3 496 963	2 871 288	2 702 407	-207 906	-163 900

Total insurance business

Figures in DM thousand	1996	1995
Gross claims incurred	2 581 236	2 343 276
Gross operating expenses	1 052 775	899 761
Reinsurance balance	105 567	166 229

Expenses on personnel

Figures in DM thousand	1996	1995
1. Wages and salaries	35 765	31 695
2. Social security payments and expenses for welfare	6 972	5 401
3. Expenses for old-age pension scheme	1 651	2 736
4. Total expenses	44 388	39 832

Expenses for investments

Figures in DM thousand	*1996*	*1995*
Shares, units in unit trusts	13 858	44 139
Shares in affiliated companies and participations	10 183	14 000
Fixed-income securities	9 890	18 926
Administrative expenses	8 744	7 762
Land and buildings	8 389	9 985
Registered debt securities, debentures and loans	8 210	13 125
Deposits	6 520	2 676
Derivative financial instruments	2 689	5 758
Deposit and bank fees	1 763	1 244
Total	70 246	117 615

Other income

Figures in DM thousand	*1996*	*1995*
Exchange rate gains	17 116	17 546
Profit from services	5 291	3 717
Cancellation of value adjustments	2 264	3 919
Allocated investment return	1 982	3 571
Profit from clearing house business	609	1 175
Release of non-technical provisions	96	463
Other income	1 738	1 943
Total	29 096	32 334

Other expenses

Figures in DM thousand	1996	1995
Allocations to the provisions for outstanding claims	110 007	120 478
Exchange rate losses	17 302	13 593
Allocation to interest provisions	12 400	–
Interest charges on Surplus debenture (Genußrechtskapital)	11 325	11 325
Deposit interest	10 833	10 681
Separate value adjustment on accounting debts	9 967	3 435
Expenses for the whole company	7 088	5 173
Expenses for letters of credit	3 319	3 175
Expenses from services	3 171	2 445
Interest charges from the clearinghouse business	2 465	1 951
Interest charges on old-age pension scheme	1 475	1 271
Financing interest	423	501
Depreciation on other assets	150	1 248
Other interest and expenses	1 214	1 268
	191 139	176 544
Less:		
Technical interest	4 314	2 575
Total	186 825	173 969

Other information

The names of the members of the Supervisory Board and Executive Board are listed on page 2.

Salaries of DM 175 thousand were received by the Supervisory Board and DM 2,902 thousand by the Executive Board in the year under review. The salaries of former directors and their surviving dependants amounted to DM 405 thousand, and a liability of DM 5,856 thousand was entered.

The following loans which are secured on mortgages or by land charges have been granted to board members:

Figures in DM thousand	Position at 1.1.1996	Addition	Amortisation	Deduction transfer	Position at 31.12.1996	Interest rate %
Supervisory board	113	–	5	–	108	5.5
Executive board	448	250	19	223	456	5.5

The loans end between the years 1997 and 2018.

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

The average number of employees was 378 in the financial year.

The parent company of the group is the HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover, and the figures from our annual accounts are included in its consolidated annual accounts. The consolidated annual accounts are lodged in the Register of Companies at Hannover county court.

Hannover, 17th July 1997

Executive Board

Zeller	Dr. Hecker	Dr. Becke
Haas	Lohmann	Schubach

Certificate by the Independent Auditors

The original legal German financial statement for Hannover Re is certified by the auditors as follows:

The accounting and the annual final 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 Hannover Rückversicherungs-AG. The management report is consistent with the annual financial statement.

Hannover, 18th July 1997

PMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

(Certified Public Accountants)

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 three 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 inter alia in the approval of the reformulation of the strategic principles and objectives. This strategy document laid the foundation upon which the Hannover Re Group will continue to assert its position in the global market as a profitable, significant and independent reinsurance group.

The repositioning of the Hannover Re Group constituted a further highly significant topic. In accordance with the approved concept, with effect from the beginning of 1997 Hannover Re has no longer been acting as a reinsurer in Germany, and has been concentrating its activities exclusively on foreign markets. Since the above-mentioned date, E+S Rück – in which Hannover Re holds 53.9 % of the share capital – has ceased to operate independently in foreign markets and has developed into a specialist reinsurer for the German market. We expect that in the future this repositioning will enable the Hannover Re Group to continue to expand both its market shares and its profitability in a rapidly changing market environment.

In addition, we again devoted close attention to the company's capital and reserves in the year under review. The share capital was increased from approved capital by the nominal amount of approximately DM 4 million to more than DM 145 million by way of a capital increase though contributions in kind using the pay-out-take-back method.

Furthermore, the Supervisory Board approved new rules of procedure for the Executive Board. The purpose is to 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 accounting, the annual report and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover, and an unqualified audit certificate was issued. We have no comment to make on the auditors' report, and we agree with their findings.

The consolidated Group report and accounts for 1996 prepared voluntarily by the Executive Board as well as the auditors' report on the consolidated accounts were submitted to the Supervisory Board for information.

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,

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

We 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, 5th August 1997

For the Supervisory Board

Baumgartl
Chairman

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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).

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