ANNUAL REPORT
1997

- Third record year in succession
- Gross premium income + 21.0 %
- Life and health reinsurance + 75.3 %
- Investments + 20.4 %
- Investment result in excess of DM 1 billion (+ 23.8 %) for the first time
- Skandia acquisition completed
- Return on equity 15.9 %
- Fifth consecutive dividend increase
- Market capitalization more than doubled

hannover re

CONTENTS

KEY FIGURES *of the Hannover Re Group*

Figures in DM million	*1997*	*± previous year*	*1996*	*1995*
Gross premiums written	7 745.1	+ 21.0 %	6 400.7	5 999.4
Net premiums earned	6 527.8	+ 29.9 %	5 025.4	4 986.5
Technical result	- 204.9	+ 44.6 %	-141.7	- 20.4
Allocation to the fluctuation reserve and similar provisions	231.7	+ 21.1 %	191.4	257.1
Investment result	1 085.7	+ 23.9 %	876.2	648.0
Profit or loss on ordinary activities before tax	177.7	- 21.4 %	226.2	116.1
Profit or loss for the financial year	113.9	+ 5.3 %	108.2	67.8
Investments	18 723.8	+ 20.4 %	15 546.7	12 975.4
Capital and reserves incl. surplus debenture (Genußrechtskapital)	1 003.0	+ 12.4 %	892.6	769.8
Fluctuation reserve and similar provisions	1 579.7	+ 17.2 %	1 348.0	1 156.6
Net technical provisions	15 129.3	+ 19.3 %	12 680.7	11 134.6
Total capital, reserves and technical provisions	17 712.0	+ 18.7 %	14 921.3	13 061.0
Earnings per share (DVFA/GDV) in DM	6.80	+ 12.2 %	6.06	5.50
Dividend (incl. corporation tax credit) in DM million	94.9	+ 12.0 %	84.7	72.0
Dividend (incl. corporation tax credit) per share in DM	3.87	+ 9.9 %	3.52	3.09
Return on equity (after tax)	15.9 %		18.0 %	11.3 %
Retention	83.8 %		78.9 %	84.6 %
Loss ratio*	71.6 %		73.7 %	74.6 %
Expense ratio*	27.3 %		24.2 %	23.0 %
Combined loss/expense ratio*	98.9 %		97.9 %	97.6 %

*excluding life and health reinsurance

ANNUAL REPORT 1997

32nd financial year

hannover **re**

BOARDS AND OFFICERS *of Hannover Re*

Supervisory Board (Aufsichtsrat)

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

Dr. Wolfgang Bühler, Zirndorf, Deputy Chairman (until 19.9.1997),
Chairman of the Executive Board of
Schickedanz Holding-Stiftung & Co. KG

Dr. Paul Wieandt, Königstein, Deputy Chairman (from 19.9.1997),
former Chairman of the Executive Boards of
BfG Bank AG

R. Claus Bingemer, Hannover (until 19.9.1997),
former Chairman of the Executive Board of
Hannover Re and E+S Rück

Karola Böhme, Barsinghausen * (from 19.9.1997)

Horst Brode, Hannover * (until 19.9.1997)

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

Otto Müller, Hannover *

Dr. Bernd H. Müller-Berghoff, Baden (Switzerland),
Chairman of the Supervisory Board of
Fuchs Petrolub AG

Renate Schaper-Stewart, Lehrte *

Rudolf Schwan, Essen (from 19.9.1997),
Member of the Executive Board of
RWE-Holding AG

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 (until 28.2.1997)

Herbert K. Haas, Burgwedel

Dirk Lohmann, Burgwedel (until 31.8.1997)

Udo Schubach, Hannover

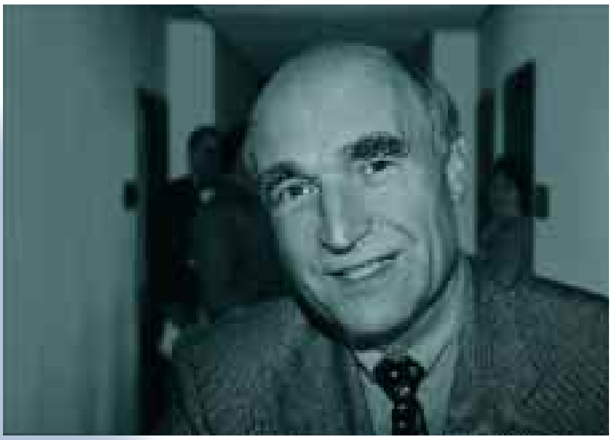
Jürgen Gräber, Ronnenberg, Deputy Member (from 1.9.1997)

THE EXECUTIVE BOARD *of Hannover Re*

Wilhelm Zeller

Corporate Staff Functions (Planning/Controlling, Investor Relations, Public Relations, Internal Auditing), Legal Department, Underwriting Service and Controlling, North America, Facultative Reinsurance, Claims Service

"Everywhere today reinsurers are complaining about the soft market - as if this were a freak phenomenon rather than the general rule. It is not particularly demanding to grow and show profits in a hard market. Management quality, resourcefulness and strategic foresight come to the fore in a soft market."



Dr. Andreas-Peter Hecker

European Romance countries and Arab countries, Non-life Reinsurance of the HDI Group, Retrocessions, Human Resources, General Administration

"The demand for reinsurance is steadily declining in the traditional markets. Emerging markets offer scope to offset this. Only reinsurers who are able to train highly skilled staff will succeed in this business climate."

Dr. Wolf Becke

Life and Health Reinsurance worldwide, Property and Casualty Reinsurance in Northern and Eastern Europe

"Hannover Re's role as a stochastic bank is meeting an increasingly positive response and will continue to provide a solid basis for the further development of life and health reinsurance in the future."

Herbert K. Haas

Corporate Accounting, Reinsurance Accounting, Capital Markets, Information Technology

"Professional asset management, accounting geared to the requirements of the international capital markets and a modern information technology platform are decisive success factors in today's reinsurance industry."

Udo Schubach

Germany, Austria, Switzerland, Credit/Surety worldwide

"We see the current market climate as an opportunity to prove our efficiency. A reliable, continuity-oriented reinsurer is particularly important in difficult times."

Jürgen Gräber

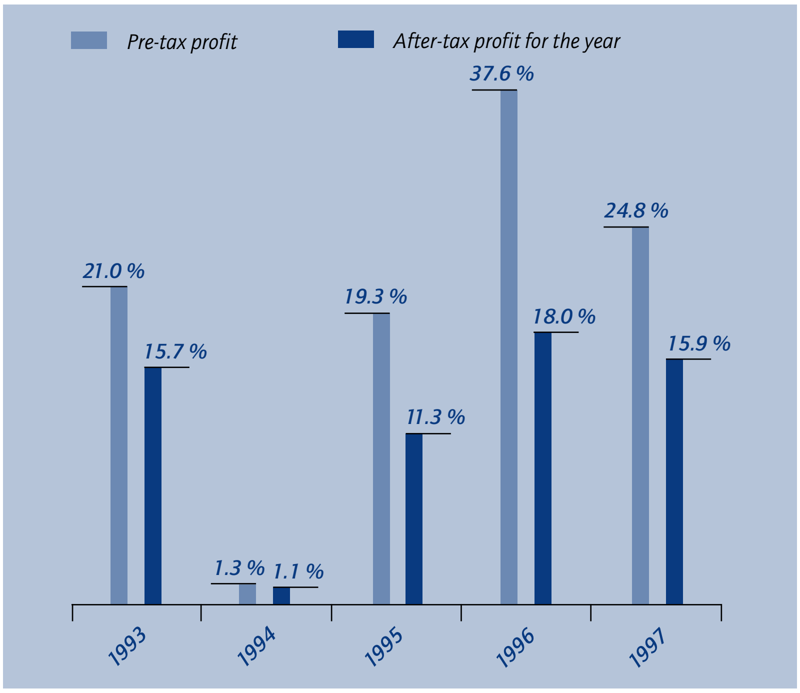
English-speaking Africa, Asia, Australasia, Financial Reinsurance, Aviation and Marine worldwide

"Asia's crisis-ridden insurance markets need reliable partners. With the emphasis which our business policy attaches to continuity and through the provision of support which is tailored to individual needs, we will help our clients to survive this difficult period unscathed."

The Hannover Re Group, with gross premiums of almost DM 8 billion, is the fifth-largest professional reinsurer in the world. We transact all lines of property/casualty and life/health reinsurance and maintain business relations with around 2,000 insurance companies in more than 100 countries. Our worldwide network consists of more than 40 branch offices and subsidiaries in 18 countries.

The American rating agencies Standard & Poor's and A.M. Best have awarded Hannover Re and E+S Rück their second-highest ratings of AA+ ("Excellent") and A+ ("Superior") respectively.

Above-average return on equity



Our strategy

Our strategy clearly puts profitability before premium growth. Our target is that the operating result[1] on a five-year average should generate a minimum return on equity which is 750 basis points in excess of the corresponding yield on 10-year Federal Government bonds. This variable was translated into profit objectives using a scientific model for the calculation of capital requirements in numerous risk segments. Partly in the interests of our shareholders, the purpose of this procedure is to ensure that the available capital is optimally utilized.

For external purposes, the return on equity[2] based on published figures was 24.8 % before tax and 15.9 % after tax in the year under review. In 1997, therefore, we again comfortably surpassed the target of 15 % which is frequently cited in the industry.

1997 – the third record year in succession

With the profit for the year increasing to DM 114 million (+ 5.3 %), the 1997 financial year closed with another record result. Adjusted to allow for minority interests, the Group profit for the year climbed by 13.4 % to almost DM 96 million. Gross premium income grew by 21.0 % to DM 7,745 million. Key factors in this growth were the acquisition of selected segments of the portfolio of Skandia International Insurance Company, Stockholm, and movements in exchange rates. Most notably, however, we also achieved substantial organic growth in our strategically prioritized life and health reinsurance segment.

[1] *Operating result: pre-tax profit + allocation to the fluctuation reserve + strategic investments in the financial year - depreciation on strategic investments in the previous years relative to capital and reserves + fluctuation reserve*

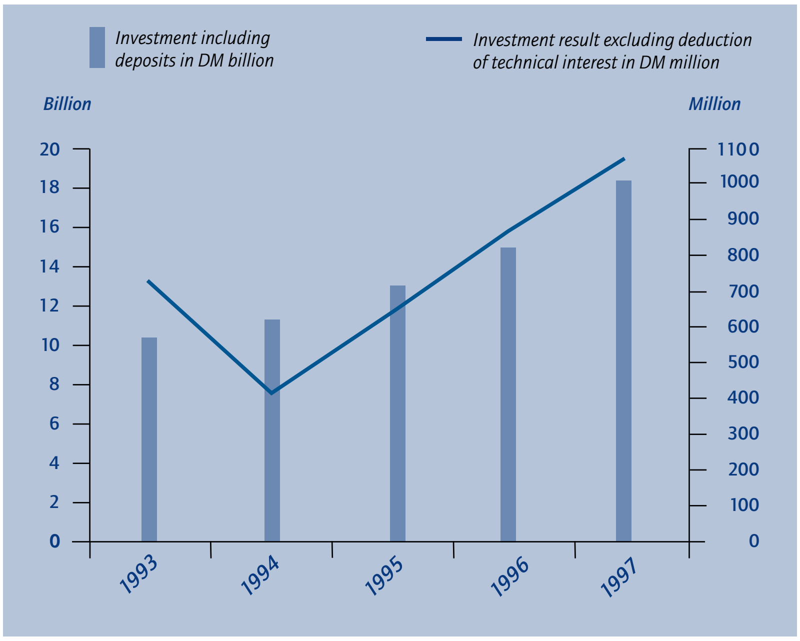
[2] *Return on equity: result of ordinary business activities before tax or the profit for the financial year after tax relative to the average capital and reserves in the financial year*

From the regional perspective, our main growth areas were Europe and the USA. In terms of classes of business - leaving aside life and health reinsurance -, disproportionately large growth was most notable in aviation and aerospace business.

The technical account was burdened by the acquisition of the Skandia International portfolio and further investment expenditure for the expansion of life and health reinsurance. In the light of these factors, combined with a sizeable allocation to the fluctuation reserve, the technical result for our own account deteriorated appreciably.

In contrast, the volume of our investments grew by 20.4 % to DM 18.7 billion. Thanks to the highly favourable state of the capital markets, we generated an excellent investment result of DM 1,086 million (+ 23.8 %).

Sharp increase in investments and the investment result

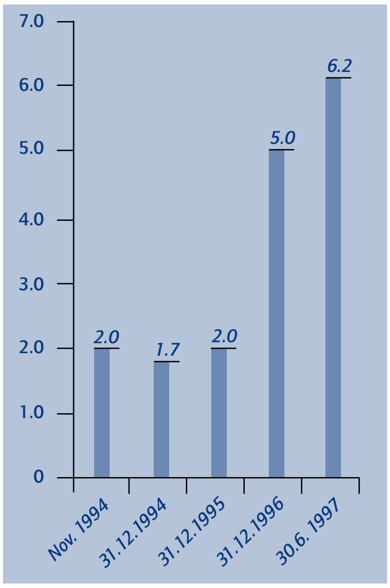


Share price more than doubled

The 1997 stock market year was extraordinarily gratifying for our shareholders. Fostered by the generally very favourable state of the capital markets, the upward trend recorded in the previous year continued in impressive style. The share price climbed by 139 % to DM 168 as at year-end. Our share thus outperformed all the major indices (Dax, MDax, CDax for insurance stocks) in 1997. More risk-loving investors, with purchase warrants for Hannover Re shares, even achieved profits of as much as 1,380 %.

In an analysis of the performance of the most significant insurance stocks in Europe compiled by the US investment bank Salomon Smith Barney, Hannover Re took the number one spot by a wide margin. The respected UK reinsurance journal "reactions" calculated that the Hannover Re share was the best-performing reinsurance stock worldwide in 1997. This stock market success confirms the correctness of our shareholder orientation and our redefined Investor Relations policy.

Impressive growth in market capitalization (in DM billion)



Our share was included in the MDax on 21 March 1997, and since 1 October 1997 it has been available on the New York Stock Exchange in the form of American Depositary Receipts (ADRs). Hannover Re is the first German reinsurance stock to be traded in this form in the USA.

The upward trend of our share has continued in the current year. Standing at DM 208.00, the price at the end of the first half-year had gained a further 23.8 %. On the basis of this favourable development, we have been able to more than triple our company's market capitalization since its listing on the stock exchange.

Varying developments in our business fields

Developments in worldwide reinsurance markets varied greatly. All areas of property and casualty reinsurance were marked by fierce competition, leading to a significant deterioration in prices and conditions. However, claims expenditure - especially on natural catastrophe losses - decreased again. On the one hand, this situation produced further satisfactory results, while on the other hand prospects of a trend reversal in terms and conditions receded into the distant future.

The proportion of German business decreased relative to our international portfolio. This was partly attributable to the weakness of the German mark, and partly due to the fact that prices for industrial fire and motor business came under heavy pressure. Furthermore, the acquisition of the Skandia International portfolio led to a disproportionately large increase in premium income - especially in the rest of Europe -, thereby reducing the relative proportion of domestic business.

With premium income of USD 1.15 billion in North America, we are now the largest reinsurer operating through brokers in this most important of the world's insurance markets. Our growth was particularly attributable to life and health reinsurance business and exchange rate developments. Owing to very low natural catastrophe losses, our overall results were again satisfactory.

The performance of business in Asia was obviously influenced by the Asian crisis, which rocked the entire region towards the end of the year under review. The devaluation of local currencies, which reached an extreme scale in certain cases, substantially dented the premium income shown in German marks. We nevertheless retained a substantial market involvement, and our overall results were satisfactory.

In Australia/New Zealand and Africa, we achieved further gratifying results by withdrawing from bulk business whose profitability had been eroded by competition. We asserted our position in both markets by expanding special niche segments.

In accordance with our strategic orientation, we continued to expand life and health reinsurance and posted impressive growth rates. The consolidated Group premium increased by 75.3 % to more than DM 1.94 billion. The acquisition of Skandia International's life business was a major factor in this growth. However, we also achieved organic growth and recorded premium gains through the successful development of our subsidiaries.

Prospects for 1998

We do not anticipate any profound shift in the basic economic data in 1998. Premium income in property and casualty reinsurance will probably grow only marginally, and in the highly developed markets of North America and Western Europe it will even decline in some cases. Our risk acceptances in this segment are purely profit-oriented, and we have no growth targets.

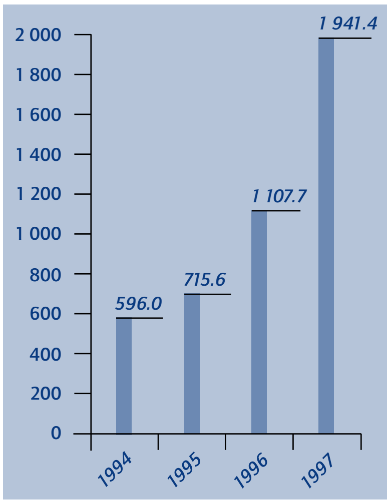
In the area of financial reinsurance, we have concentrated our activities on our Irish subsidiaries at the International Financial Services Centre (IFSC) in Dublin, and they now bear responsibility for all markets worldwide. We are one of the most experienced providers in this relatively new business segment, and our objectives are to retain our edge in expertise and record profit-oriented growth. Financial reinsurance, too, is marked by brisk competition, although this has not as yet led to the at times ill-judged developments seen in property and casualty reinsurance.

Life and health insurance shows the highest growth rates worldwide and continues to offer good scope for development. In view of the very favourable and constant earnings potential, we have set ourselves ambitious goals for the expansion of our life and health reinsurance portfolio. We shall therefore post a further substantial increase in premium. In order to finance this growth, in April 1998 for the first time we transferred acquisition costs associated with life reinsurance treaties to the capital market. We also expect the returns on our high investments of the previous years to contribute to an appreciable improvement in results.

Apart from the winter storm in Canada, the tragic ICE train accident in Germany and the crash of an airbus in Taipei were the only notable major losses in the first half of the year. To date, therefore, the burden of major losses has again been well below the long-term average.

On the capital markets, too, the favourable developments have so far continued almost without exception. Consequently, provided there is no accumulation of exceptional events on the claims side or in the capital markets, we are confident that in the current year we shall again be able to realize our ambitious objectives.

The expansion of life and health reinsurance is in full swing (consolidated gross premium in DM million)



THE HANNOVER RE GROUP *Our global presence*

Hannover Life Reassurance (UK) Ltd.
Virginia Water, Great Britain
(100.0 %)

Hannover Life Services United Kingdom
Virginia Water, Great Britain
(100.0 %)

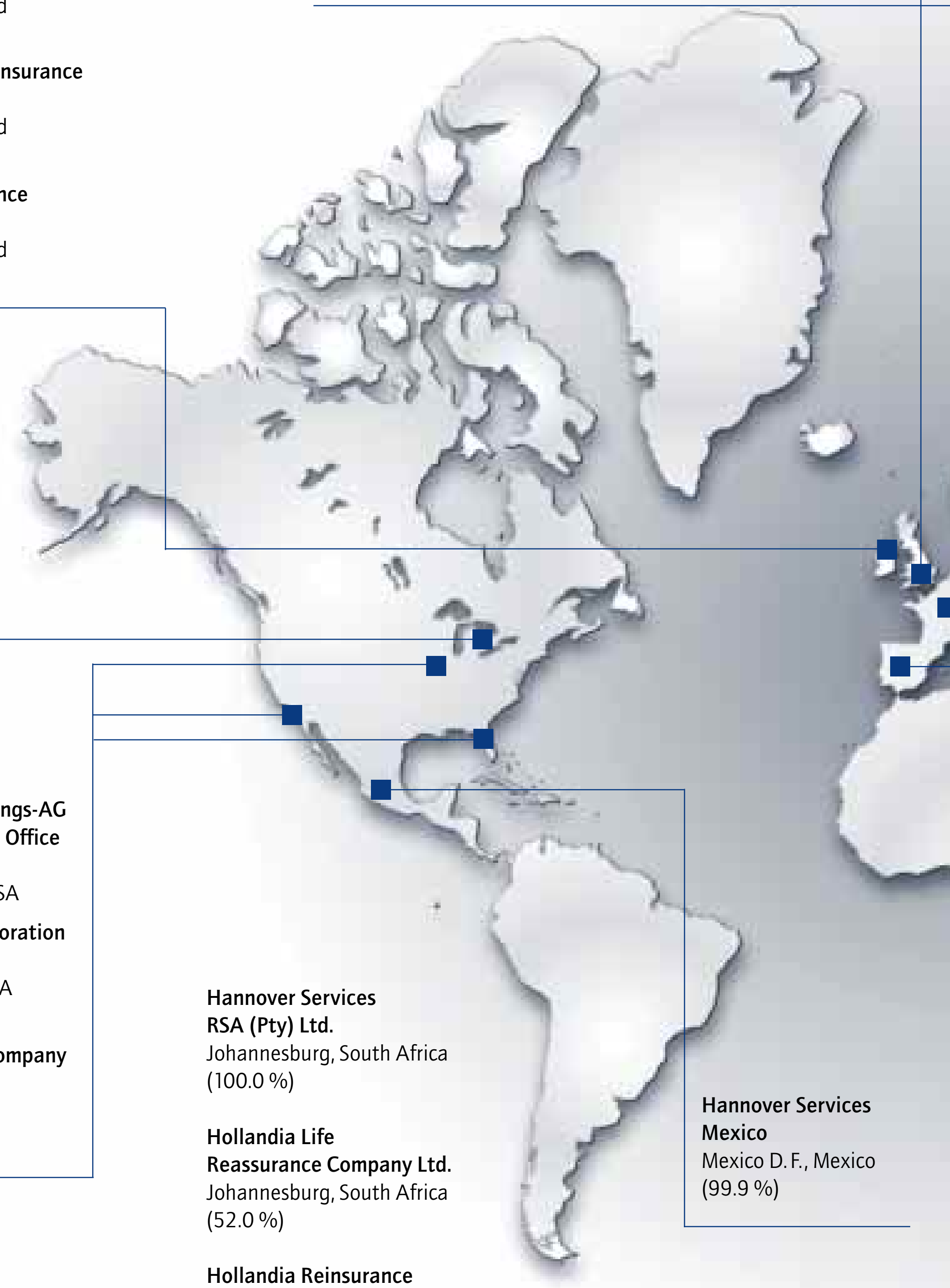
Hannover Rückversicherungs-AG
Hannover, Germany

E+S Rückversicherungs-AG
Hannover, Germany
(53.9 %)

Hannover Re Advanced Solutions Ltd.
Dublin, Ireland
(51.3 %)

Hannover Reinsurance (Ireland) Ltd.
Dublin, Ireland
(100.0 %)

E+S Reinsurance (Ireland) Ltd.
Dublin, Ireland
(53.9 %)



Hannover Rückversicherungs-AG Canadian Branch
Toronto, Canada

Hannover Rückversicherungs-AG Representative Office USA
Schaumburg, USA

Insurance Corporation of Hannover
Los Angeles, USA
(100.0 %)

Reassurance Company of Hannover
Orlando, USA
(100.0 %)

Hannover Services RSA (Pty) Ltd.
Johannesburg, South Africa
(100.0 %)

Hollandia Life Reassurance Company Ltd.
Johannesburg, South Africa
(52.0 %)

Hollandia Reinsurance Company Ltd.
Johannesburg, South Africa
(52.0 %)

Hannover Services Mexico
Mexico D. F., Mexico
(99.9 %)

%-figures = participation

Hannover Re Sweden Insurance Company Ltd.
Stockholm, Sweden
(100.0 %)

Hannover Services Ltd.
London, Great Britain
(100.0 %)

International Insurance Company of Hannover Ltd.
London, Great Britain
(100.0 %)

Hannover Rückversicherungs-AG Stockholm Branch
Stockholm, Sweden

Hannover Re Services France
Le Mans, France
(99.9 %)

Mediterranean Reinsurance Services Ltd.
Athens, Greece
(100.0 %)

International Insurance Company of Hannover Ltd. Scandinavian Branch
Stockholm, Sweden

Hannover Re Services Italy srl
Milan, Italy
(100.0 %)

Hannover Rückversicherungs-AG Representative Office Tokyo
Tokyo, Japan

Hannover Rückversicherungs-AG Shanghai Representative Office
Shanghai, China

Hannover Rückversicherungs-AG Representative Office Taipei
Taipei, Taiwan

Hannover Re Services España
Madrid, Spain
(100.0 %)

Hannover Life Re of Australasia Ltd
Sydney, Australia
(76.9 %)

Hannover Rückversicherungs-AG Malaysian Branch
Kuala Lumpur, Malaysia

Hannover Rückversicherungs-AG Australian Branch
Sydney, Australia

Very favourable price trend

The 1997 stock market year was an exceptionally gratifying one for our shareholders. Aided by the generally very favourable climate on the capital markets, the positive trend of 1996 continued in impressive fashion. Listed at DM 70.50 at the beginning of the year, our share rapidly surpassed - for the first time since its introduction on the stock exchange - the issue price of DM 75.00. Once it had broken through this barrier, there was no stopping the upward trend. By the middle of the year the price had reached three figures, progressively casting aside the slur of undervaluation. The highest point was reached at the end of the year, with a closing price of DM 168.00. This increase of 139 % meant that our share outperformed all key indices (Dax, MDax, CDax for insurance stocks) in 1997. More risk-loving investors, with purchase warrants for Hannover Re shares, achieved profits of as much as 1,380 %.

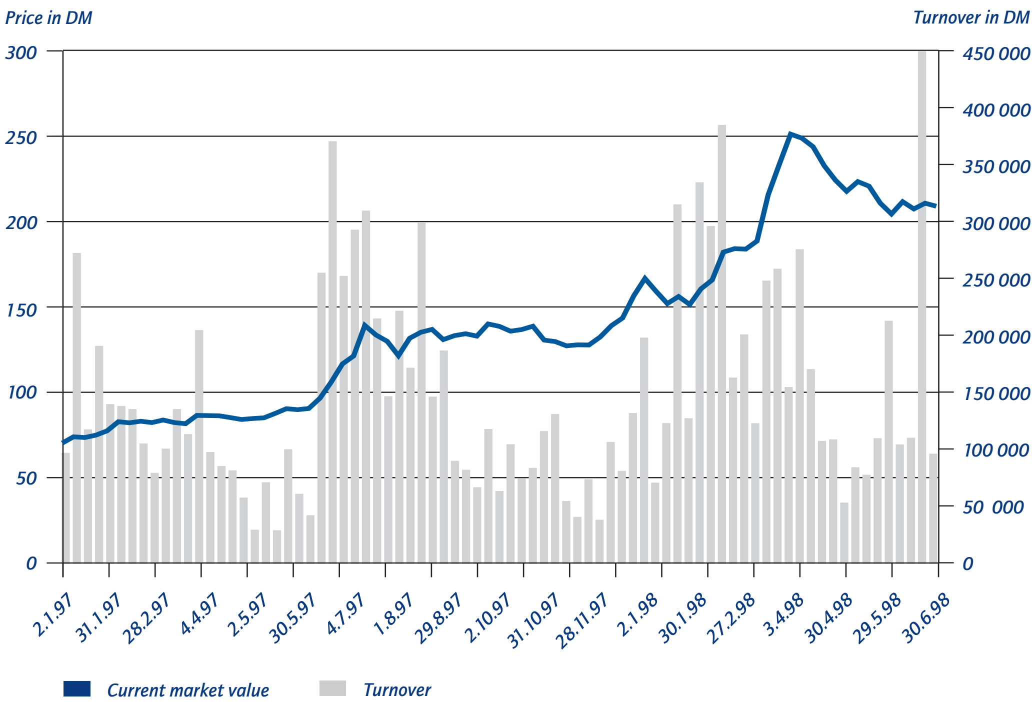
The quality of this impressive development is also confirmed by an analysis of the performance of the most significant insurance stocks throughout Europe compiled by the US investment bank Salomon Smith Barney. Hannover Re took the number one spot by a wide margin. The respected UK reinsurance journal "reactions" assessed Hannover Re in 1997 as the best performing reinsurance stock in the world.

The basis for this upswing was the substantial increase in share turnover attributable to stock market demand. The average number of shares traded shows that the Hannover Re share has now become a highly liquid stock.

This stock market success confirms the correctness of our focus on shareholder interests and of our redefined Investor Relations policy. The cornerstones of this policy are as follows:

- clear and transparent strategic objectives, which can also be understood by those outside the company;
- a transparent policy of information management with regard to investors and financial analysts;

Price movements are motivated purely by turnover

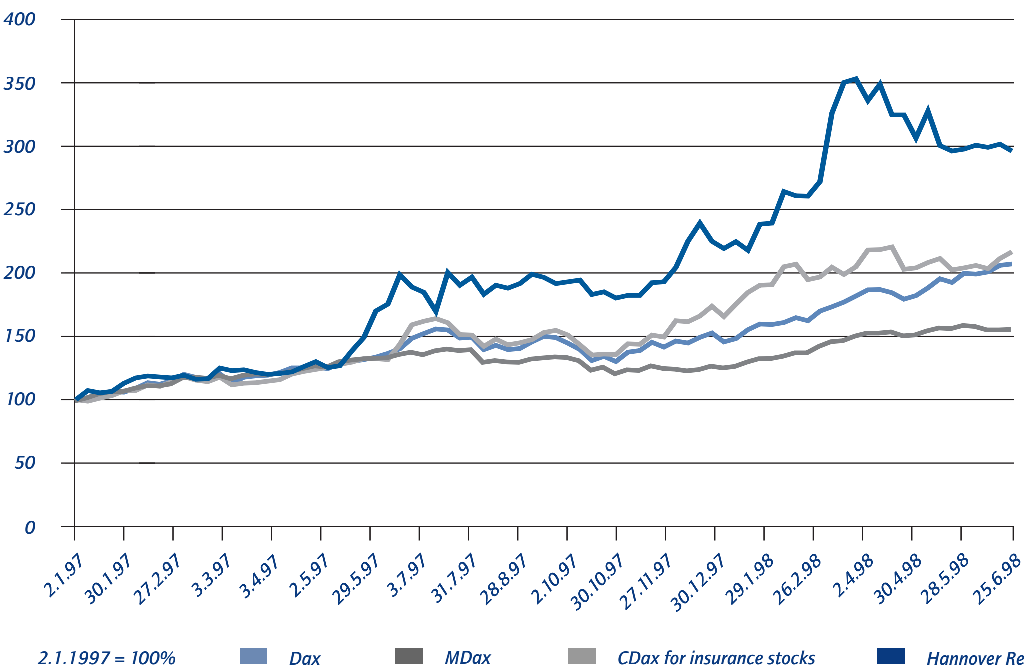


- our new dividend policy, under which the entire profit for the financial year is distributed to shareholders;
- numerous discussions with analysts as well as roadshows at home and abroad;
- the compilation of annual accounts on the basis of US GAAP from September 1998 onwards.

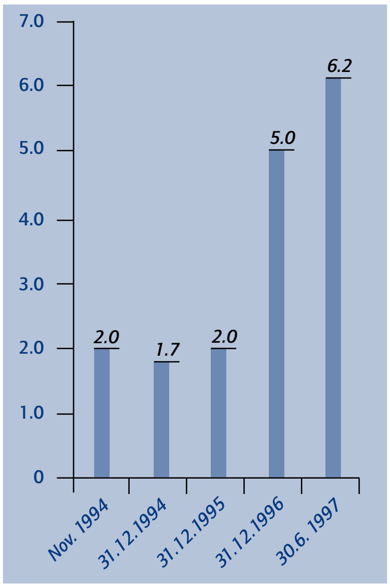
The rise in the price of our share was fostered by a number of factors, including its inclusion in the MDax on 21 March 1997 and the possibility of computerized trading - initially in the IBIS system and more recently in XETRA - which has existed since that date.

Additionally, with effect from 1 October 1997 the share has been traded on the New York Stock Exchange in the form of American Depositary Receipts (ADRs). ADRs are depositary receipts for foreign shares, which are issued by US banks and traded in place of the original shares. This provides US investors with an opportunity to acquire non-US shares in the form of US$-denominated securities. Hannover Re is the first German reinsurance stock to be traded in the USA. This measure has enabled us to widen the shareholder base for our stock and generate additional demand. Furthermore, comparatively speaking, reinsurance stocks are more highly valued in the USA, which means that our shareholders can now also reap the benefits of this enhanced valuation level.

We outperformed all in indices in 1997



Our market capitalization has increased impressively (in DM billion)



Market capitalization

The share capital of Hannover Re currently consists of 40,000 registered shares with a nominal value of DM 1,600.00 and 16,730,215 bearer shares with a nominal value of DM 5.00. The latter are traded on all German stock exchanges and - as explained above - can also be purchased as ADRs in the USA. If the 40,000 registered shares are converted to a nominal value of DM 5.00, the total number of shares amounts to 29,530,215.

Taking into account the development in the price of our share, we have thus succeeded in more than tripling the market capitalization of our company since its stock exchange listing.

Good prospects for the current year

Our share's upward trend has continued in the current year. At DM 208.00, the price as at the end of the first half-year had increased by a further 23.8 %.

Double-digit annual growth rates

	1997	1996	1995
DVFA earnings per share	6.80	6.06	5.50
Dividend per share a nominal value of DM 5.00	3.40	3.15	3.00
Corporation tax credit	0.47	0.37	0.09
Gross dividend	3.87	3.52	3.09

Despite this substantial additional growth in value, we are convinced that our share offers further scope for price gains. Our return on equity amounted to 24.8 % before tax and 15.9 % after tax, and was thus again well in excess of the average value for our industry.

We again achieved double-digit growth rates for the Group profit for the financial year, the DVFA earnings per share and the gross dividend; judging by the course of business to date, we expect 1998 to show further positive developments.

Our strategic objectives have been formulated plainly and openly, and we are pursuing them systematically. Prospects for the future are therefore clearly favourable.

Economic climate

Developments in the worldwide economic environment, especially with regard to the leading industrial nations, varied greatly in 1997. With high growth rates and low unemployment, the economies in the USA and the United Kingdom continued to boom, whereas in Continental Europe hopes of a surge in growth during the year were largely disappointed. Growth rates, which were heavily dependent upon export sales, were minimal. This was also true of Japan, which was additionally hit by the Asian crisis towards the end of the year. Domestic demand in Germany was squeezed by high unemployment and the savings forced upon the government in order to ensure compliance with the Maastricht criteria. Insolvencies reached another record high.

The Asian crisis was the most significant macroeconomic event of the financial year. However, although it began in 1997, the effects remained minimal. The full consequences will not be seen until 1998 and subsequent years.

Interest levels around the world remained low, fostering a healthy investment climate. However, some of these investments were used to exploit potential for productivity increases, as a result of which there was scarcely any easing in the high rates of unemployment.

Stock markets throughout the world experienced an unexpected and at times explosive upsurge in share prices, a development which was promoted by the very low interest rates. The search for investment alternatives to the now scarcely lucrative fixed-income securities resulted in a "flight to shares". The underlying corporate data did not always appear to justify the price rises.

As was the case in virtually all branches of the economy, the process of concentration continued in the insurance and reinsurance industries. Under pressure to constantly increase the global reach of their operations, companies still regard acquisitions as the preferred instrument for gaining access to a target market. In the future, therefore, further corporate take-overs and mergers are to be anticipated.

Natural catastrophe losses again decreased sharply in the year under review, following a substantial reduction in the previous year. This development was due partly to a decrease in the total number of such events, and partly to the absence of very expensive losses. The most significant loss event was the catastrophic flooding in Eastern Europe, which caused insured damage of almost USD 1 billion.

Due to the fact that other major losses such as large fires, aircraft crashes and shipwrecks produced a lower burden than in the previous year, the year under review showed a very favourable overall loss experience.

Varying economic developments worldwide

Real effects of theAsian crisis will only be felt in subsequent years

Surprising upsurge in share prices

Further drop in the burden of major losses

Fierce competition in property and casualty reinsurance

This positive development, however, gave rise to even more intense competition - especially in property and casualty reinsurance. In some segments, the prices and conditions for this business no longer correspond to the long-term loss expectations. We were only able to avoid accepting potential losses by writing reinsurance risks on a more restrictive basis.

Overall premium growth in the property and casualty reinsurance markets, which were characterized by extremely intense competition, was only slight in 1997. Life and health reinsurance, on the other hand, posted above-average growth.

Above-average growth in life and health reinsurance

Millennium risks

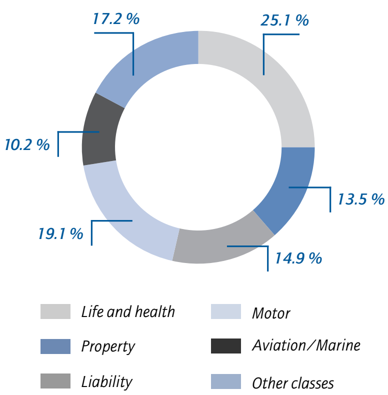
Alternative forms of risk transfer were increasingly evident in the year under review. Securitization was used to transfer insurance risks to the capital markets. It should, however, be pointed out that the total volume of such innovative products has not as yet had any appreciable influence on the traditional insurance and reinsurance markets.

The possible consequences and risks associated with the new millennium constituted a special talking point in the year under review. In the past, computer programs were very often designed in such a way that the necessary date information was stored with just two digits in order to save memory capacity. This seemingly trivial insight conceals undreamt-of risks. With the changeover to "00", there is a danger that vital systems in almost all areas of life and business will cease to function properly. It may also be assumed that many companies and official agencies are inadequately prepared for the new millennium. This scenario may have negative repercussions on the loss experience in the insurance and reinsurance sectors.

We are taking the risks arising in this connection very seriously, and we have been quick to react. As a first step, we assembled a team of specialists which monitors all the latest developments and determines/coordinates the measures to be taken. On the basis of internal checklists and in cooperation with our clients, we began the work of assessing the risks existing under individual treaties. Depending upon our findings, it may be necessary to word appropriate exclusions or even cancel policies. Last but not least, in the year under review we began to determine in detail the modification requirements of our own computer programs and to draw up a plan in order to ensure that the necessary changes can be made safely and in good time.

Business development

Gross premiums written by class of business



The 1997 annual accounts closed with our third record result in succession. We increased our gross premium income by 21.0 % to DM 7,745.1 million. Major factors in this growth were movements in exchange rates (accounting for approximately 6 %) and the acquisition of key segments of the portfolio of Skandia International Insurance Company, Stockholm (roughly 8.8 %). In addition, we substantially expanded our strategic priority segment of life and health reinsurance. This business now accounts for more than 25 % of the total premium. We recorded particularly good growth in the United Kingdom and the USA, not least due to the exchange rate factors.

In the light of our increased retention rate of 83.8 % (previous year: 78.9 %), our net premium posted a disproportionately large increase of 28.5 % to reach DM 6,493.6 million.

The acquisition of parts of the portfolio of Skandia International was backdated to 1.1.1997. This was effected within the framework of reinsurance transactions which burdened our pre-tax result to the amount of roughly DM 185 million. The highly successful expansion of life and health reinsurance again gave rise to disproportionately heavy investment expenditure in 1997. In this business segment, we have specialized in transactions which entail a prefinancing component in addition to the risk transfer, as a result of which investment expenditure is incurred in the year in which the transaction is concluded.

The substantial amount of DM 231.7 million was allocated to the fluctuation reserve. These reserves, which are established for property and casualty business, now stand at DM 1,579.7 million. An amount of DM 292.3 million was allocated to the IBNR reserve from the non-technical account.

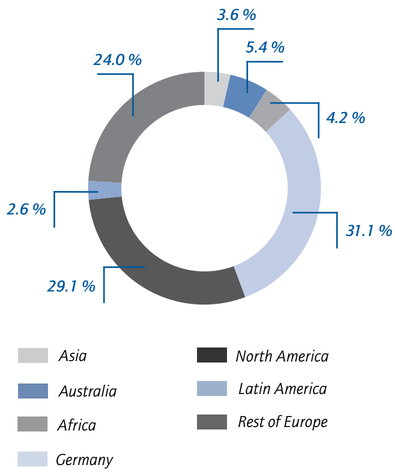
Our investments climbed by 20.4 % to DM 18.7 billion, enabling us to generate an investment result of DM 1,085.7 million. A crucial factor in this growth of 23.9 % was the favourable development of the capital markets. We benefited from the - at times extreme - rise in share prices on the stock markets and the upward revaluation of most of our key foreign currencies against the German mark.

Despite a reduced profit on ordinary activities, the lower tax burden than in the previous year enabled us to show a profit for the financial year of DM 113.9 million; this figure corresponds to an increase of 5.3 %. Adjusted to allow for minority interests, the Group profit for the year increased by 13.4 % to DM 95.7 million.

The parent company also achieved a double-digit increase in its profit for the financial year, which climbed by 10.2 % to DM 83.4 million. As in the previous years, we intend to distribute this amount in full to the shareholders.

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

Gross premiums written by region



Third record profit in a row

Premium and results influenced by acquisition of Skandia portfolio

Investment result in excess of DM 1 billion for the first time

Double-digit growth in the Group profit for the year

Enormous competition in German industrial fire business

Low natural catastrophe losses

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 property and casualty classes of reinsurance. The corresponding business shares accounted for by life and health reinsurance are summarized in a separate section due to the special features of this segment.

Europe

The general state of the economy again showed little change in 1997 in **Germany**. Sluggish growth and high unemployment placed a further strain on the disposable income of private households. This had a corresponding effect on the development of the insurance market, which - across all classes of business - achieved just slight premium growth on the order of 2 %; in property and casualty insurance, the figure even declined by 1.5 %. The intense competitive pressure rendered it impossible to carry out the premium adjustments which were necessary in some areas.

German fire business saw a continuation of the previous year's negative trend in 1997. The premium volume in industrial fire business, which had decreased by 12 % in 1996, fell by a further 15 % in the year under review. In addition, considerable extensions in the insurance

Slight deficit in motor business

Favourable performance in Germany despite market climate

terms and conditions were apparent. Due to its favourable claims experience, industrial fire insurance has developed into an exceptionally buyer-oriented market. It was scarcely possible for the reinsurance industry to escape this trend. Only the low burden of major losses in this class of insurance enabled us to post another positive result, although it was below the level of the previous year.

In the other classes of property insurance, however, reinsurers did succeed in uncoupling themselves from the performance of the insurance sector. Whereas numerous storms and spells of frost in the first half of 1997 impacted negatively on insurance business, reinsurers remained largely unscathed. This was attributable to the fact that non-proportional covers, which are typical of our portfolio, are only affected by more sizeable loss events.

Europe		
	1997	*1996*
Premiums (gross) in DM million	4 271.1	3 568.7
Share of total business as %	55.1	55.8

The insurers' premium volume in the liability and personal accident classes increased slightly. This growth was attributable to new insurance products, such as the extended personal accident policy for children. Particularly in the area of personal accident insurance, we succeeded in strengthening our position by supporting clients with product development. While results for personal accident business were gratifying due to the low loss expenditure, liability results were marked by increased losses. As in the fire class of business, premium reductions and extensions in the terms and conditions of coverage for major commercial and industrial risks were also a factor here.

There was no easing in the extremely intense competition in motor business in 1997. Premium income in the German insurance industry thus declined by 4.7 % compared to 1996. Our results in the own damage classes were very good; these contrasted with losses in the motor third party liability class, which were not entirely offset by the pleasing performance of own damage business. The overall result, therefore, was a technical deficit, which was more marked in the reinsurance sector than in the direct insurance industry.

Despite further record insolvency figures, the efforts made by German credit insurers to restore business to profitability served to considerably improve results.

Overall, in spite of the difficult market climate, we succeeded in maintaining our level of premium income in Germany and generating further positive results.

Corporate mergers were again evident in the insurance sector in the **Benelux countries**. Their primary purpose was to combine insurance and banking services, and their strategic objective was to promote expansion into other European insurance markets. The efforts to increase market shares exacerbated the already fierce competition over prices and conditions. In addition, in the light of the impending launch of the euro and the need to be ready for the new millennium, cost considerations are gaining sharply in importance.

There is a growing tendency among subsidiaries of internationally active insurance groups to buy their reinsurance cover - especially reinsurance for natural catastrophes - in accordance with the available capacities of the parent company. This streamlining approach has stepped up the pressure on reinsurance cessions.

Consequently, our premium income did not increase. Results deteriorated slightly compared to the previous year, but they were still satisfactory.

France, in particular, witnessed highly significant corporate mergers in the year under review, which substantially altered the market environment. Most notably, regional market leaders sought to enhance their position in France, no doubt partly with an eye to the single European market.

The 1997 business year again generated good technical results for the French insurance industry and exceptionally favourable financial in-

come. While motor premiums increased again, the volume of industrial business fell by around 5 %, producing zero growth overall for the non-life classes. In both industrial business and personal lines, the loss expenditure held steady or decreased across all classes of insurance. Despite a number of spectacular losses, motor insurance too did not record any appreciable increase in the frequency or amount of claims.

These factors ensured that conditions for reinsurers deteriorated further. Motor third party liability business suffered an extraordinary burden due to the legally required higher reserves for pension entitlements. Despite this, our French portfolio again generated very favourable earnings in 1997.

Take-overs and mergers were a distinctive feature of the insurance industry in the **United Kingdom** and **Ireland**. In the London market, in particular, numerous Lloyd's syndicates and their management companies were sold or merged. Companies from the USA and Bermuda showed the greatest interest in this regard, thereby increasing the class mix and geographical spread of their portfolios.

Increased underwriting capacities and the search for new areas of activity resulted in substantial price cuts and a deterioration in terms and conditions in the UK market. The technical results were also affected by a higher claims frequency in property business and poorer results in motor insurance. However, excellent income on the capital market more than offset these negative factors. A trend reversal in conditions will only become possible if claims expenditure increases considerably.

We responded to this development by stepping up our involvement in less fiercely contested segments and niche markets and withdrawing - completely in some cases - from more intensely courted business sectors. Our growth is based especially on the expansion of non-proportional and facultative marine business. In addition, we acquired the facultative aviation portfolio of Skandia International, the bulk of which derived from the London market. Our sizeable growth in the United Kingdom is therefore particularly attributable to the expansion of specialist business segments. As an additional factor, the pound sterling strengthened appreciably against the German mark and was therefore partly responsible for premium growth.

One of the effects of the increased competition in the insurance industries of the **Scandinavian countries** is that the markets are largely dominated by just a few major insurance groups. These insurers conduct only limited activities outside their own region, preferring to concentrate their efforts on the local markets.

In the preceding years, the favourable claims experience had served to ensure satisfactory results despite the pressure on prices. In the year under review, however, an increased frequency of medium-sized and major claims in fire insurance generated higher loss expenditure, especially for reinsurers. The financial year therefore closed with a merely balanced result.

The **Italian** insurance market posted real growth of 4.8 % in property and casualty business in the year under review, with premium gains primarily deriving from personal lines. As in other European markets, increased competition over prices and conditions was especially striking in industrial business, with marine business most notable for posting negative results.

While we succeeded in expanding our personal lines business with selected clients, we did not step up our involvement in the fiercely competitive industrial segment. Overall, this restructuring of our Italian portfolio enabled us to achieve slight growth.

Mergers bring about major changes in the French insurance industry

Poorer conditions, but results still adequate

Satisfactory results in Scandinavia

Substantial growth in the UK due to expansion of niche segments, Skandia acquisition and exchange rate movements

Concentration on personal lines in Italy

Hail losses, which affected both traditional crop insurance and motor partial own damage covers, left their mark on the technical result in the year under review. However, the deficits in these classes of business were offset by the favourable loss experience in the other insurance classes, and we therefore posted a balanced technical result in Italy.

Wave of mergers in Spain too

Competition in **Spain** came to a head in both the insurance and reinsurance markets. Legislation regarding the minimum capital requirements for insurance companies came into force at the beginning of the current year, and 1997 witnessed a wave of mergers in the run-up to these new regulations. Due to the resulting erosion of the premium volume, we reduced our overall participation in the market.

The acquisition of Skandia International's portfolio provided us with an office in Madrid. The primary objective of this operation is to expand facultative business; however, it also enables us to step up our service for selected target clients, for example in the life and health reinsurance segment.

The fortunes of the new insurance industries of **Eastern Europe** were dominated by a single loss event in the year under review - the Oder river flooding in Poland and the Czech Republic. This catastrophe led the list of insured losses in 1997 and also impacted negatively on our results. Although more natural catastrophe reinsurance was purchased after these losses, it is striking to note that premium rates only increased marginally due to the highly competitive state of the market. We recorded slight growth in the Eastern European markets, some of which showed dynamic development. Owing to the flooding catastrophe, we closed with a slight technical deficit for this region.

North America

With premium income of USD 1.15 billion, we are the largest reinsurer operating through brokers in the world's most important insurance market.

North America	*1997*	*1996*
Premiums (gross) in DM million	2 255.4	1 656.1
Share of total business as %	29.1	25.9

Our North American business is written on the basis of a clear, segment-oriented distribution of tasks between our head office in Hannover and our local subsidiaries. In this way, working in collaboration with the Reassurance Company of Hannover (RCH) in Orlando/Florida, the Insurance Corporation of Hannover (ICH) in Los Angeles and our office in Toronto, we were again successful in enhancing our level of specialization, our concentration on client requirements and our market penetration.

Hannover Re has now been accredited with Trusteed Status in 41 US states, thereby further simplifying our access to the market. Our clients are able to conclude and settle treaties with us just as they would with any American reinsurer. Accreditation has also helped us make clear to our clients the importance which we attach to the US market. In a difficult market climate, this impacted favourably upon the expansion of profitable business relationships.

Intense competition is a feature of the current phase of the market cycle. This was reflected in the overall decline of our premium income from property and casualty reinsurance. The decrease in premiums, most notably in property insurance, was attributable to our strictly profit-oriented underwriting policy. The premium volume in the liability classes was static in the original currency, with our growth deriving from the rise of the US dollar against the balance sheet currency.

Nevertheless, the technical result for 1997 was again good. We achieved this by means of considerable restructuring within our overall portfolio. Participations in areas with low earnings potential were replaced by greater involvement in segments which continued to offer adequate profit margins.

This was particularly true of the expansion of non-proportional treaties and the cultivation of niche transactions, which are highly specialized both as regards the insureds and in regional terms. As in the previous year, we greatly benefited from the expertise of direct insurance specialists at our representative office in Schaumburg, Illinois. They constantly control the quality of our business by means of on-the-spot checks.

In North America, too, the process of concentration in the insurance industry continued. Inevitably, this reduced the need for reinsurance and hence affected our business. However, since the bulk of our clients are specialist insurers who still operate independently of major groups, the implications of this trend for our portfolio were less marked. We achieved profitable growth under the so-called mega-catastrophe programs; this segment involves the formation of large reinsurance consortia in order to cover extremely large risks (e.g. earthquakes in California), which in some cases have previously been uninsurable due to the high capital requirements. Owing to the capacity levels and financial strength which players in this segment are called upon to provide, the price level for this business was still attractive.

Despite this, the growth shown for North America as a whole derived mainly from life and health reinsurance; in property and casualty reinsurance, on the other hand, we posted a slight decline. Due to the low loss expenditure, especially in the natural catastrophe segment, our technical results were again highly satisfactory.

Largest reinsurer operating though brokers in the USA

Now accredited in 41 states

Slight decline in premiums offset by exchange rate trend

Adequate profit margins

Concentration on specialist insurers

Substantial involvement in the reinsurance of very large risks

Latin America

Latin America		
	1997	*1996*
Premiums (gross) in DM million	200.6	186.3
Share of total business as %	2.6	2.9

Generally favourable macroeconomic development in South America

Little reinsurance for the damage caused by "El Niño"

The macroeconomic development in Latin America was generally favourable in the year under review. **Mexico** posted record growth and was therefore an attractive prospect for foreign investments. This trend also made itself felt in the insurance industry. The total reinsurance premium in Mexico declined owing to the fact that the market share of foreign insurers increased. Against this backdrop, we expanded our market share only marginally in order to avoid accepting unjustified compromises over conditions. Thanks to the purchase of the Skandia portfolio, we acquired a new base in Mexico City; this enhanced our proximity to the markets of Central America and enabled us to provide a selected group of clients with even better service.

Developments in the insurance and reinsurance markets of Latin America were largely determined by the economic conditions in the various countries: the economy picked up considerably in **Colombia** in 1997, a trend which we expect to continue in 1998. With growth of 7.5 %, the economy in **Argentina** also developed favourably. On the other hand, the economic upswing weakened in **Brazil**, where uncertainty could be felt as a result of the Asian crisis.

The "El Niño" weather phenomenon caused numerous losses in South America. Since they were largely uninsured their effects on reinsurers were not dramatic, but they did lead to a cut in margins - which in some cases have now become very "slim". Only in **Peru** did the losses reach an unexpected scale and burden reinsurers to an extent which it will take several years of profits to offset.

With a slight increase in premium income, we generated a satisfactory result in Latin America. This was primarily attributable to two factors: first, we were scarcely affected by major losses; second, we were highly selective in our choice of treaties and business partners. This systematic, profit-oriented underwriting policy is particularly important in enabling us to protect the interests of existing client relationships.

Asia

Asia		
	1997	*1996*
Premiums (gross) in DM million	274.3	313.6
Share of total business as %	3.6	4.9

Our most significant Asian market is **Japan**. In accordance with this country's overall economic lead over neighbouring regions, the insurance industry here is the most highly developed in Asia. The Japanese recession of course affected the insurance market: competition became more intense and the pressure on costs increased. Our strategic objectives afford Japan the status of a priority market. Thanks to the investments and marketing efforts which this entails, we were again able to expand our business in the year under review. Despite an overall decline in reinsurance cessions, we increased our premium income and thus substantially expanded our share of the market.

Although rates for natural catastrophe perils have been falling steadily for a number of years, the 1997 technical result was again exceptionally pleasing. The decrease in very large catastrophe losses throughout the world and the overcapacity in the reinsurance markets mean that our premium income in this segment will contract in the future.

China also enjoys the status of a priority market for our company. Although the number of insurance companies has levelled off due to the current restrictive licensing policy, and despite the increasingly vigorous competition in the reinsurance sector, we succeeded in expanding our position and boosting our premium income. We can count all the insurers licensed in China as our clients, and we use our presence in the market to provide them with close counselling. Our representative office in Shanghai, which commenced its activities in October 1997, also plays a role in this regard.

Results in **Taiwan** have so far been dominated by motor business. Following a very pleasing improvement we were again able to post technical profits in this segment, which had given grounds for concern in the mid-1990s. As in the previous year, the overall picture was unfortunately clouded by one very large loss, a major fire at a manufacturing plant for electronic products. For this reason, the year under review again closed with a slight deficit. However, the increased incidence of fires in the semiconductor industry - a sector which is extremely important to the country's economy as a whole - has caused considerable concern in the market, and we therefore expect to see efforts to improve risk management in the future.

The **ASEAN countries** were affected by the region's economic and financial crisis. Whilst the implications for us were not alarming, the development of premium income and profits failed to live up to our expectations because of the currency devaluations. In addition, the engineering classes of insurance have been particularly hard hit by the suspension of numerous construction projects. The drop in real estate prices influenced the sums insured on many buildings, thereby directly impacting upon premium income in fire business.

The trend towards higher retentions has continued in virtually all the ASEAN countries, since financially stronger insurers are able to carry a greater risk themselves. This has particularly cut the level of proportional premiums relative to the total premium volume.

Nevertheless, the crisis also confronted us with some interesting challenges. We were increasingly able to conclude financially oriented coverage arrangements with our clients in this region. Indeed, we played a decisive role in shaping this development, and we anticipate that in the future it will enable us to tap into new business fields.

Appreciable increase in Japanese market share

Representative office in Shanghai

Major fire in Taiwan causes slight overall deficit

Planning targets not reached due to currency collapses in the ASEAN countries

Asian crisis throws up new challenges

Australia and New Zealand

The **Australian** economy was again in a healthy condition in the year under review. The only negative factor was the low level of interest rates, which caused many companies' investment income to decline and affected their return on equity.

It was an unremarkable year for the insurance industry, as a consequence of which almost all insurers were able to achieve good technical results despite the continued strong competition.

Our branch office recorded a slight increase in premium income. Due to the very good results of the previous year, the erosion of prices for non-proportional covers continued; on the other hand, we were highly successful in acquiring business in the so-called "non-traditional" market. These financial reinsurance treaties, which are frequently on a multi-year basis, are individually tailored to clients' requirements. We are regarded as a valued partner for innovative and customized concepts in this specialist segment. Particularly with regard to our target clients, we succeeded in reinforcing our good market position.

Australia and New Zealand	*1997*	*1996*
Premiums (gross) in DM million	420.2	402.8
Share of total business as %	5.4	6.3

Trend towards increased retentions causes traditional business in Australia to decline

Successes in financial reinsurance

In traditional reinsurance business, too, we further consolidated our client relationships - in many cases again by means of multi-year treaties. In overall terms, however, the importance of this segment declined, a trend which was fostered by the move towards higher retentions.

The bulk of our **New Zealand** acceptances were again in the area of fire insurance, including windstorm and earthquake perils. As in previous years, the claims experience with this business was unremarkable, and our account therefore closed with a satisfactory result.

Africa

Africa	1997	1996
Premiums (gross) in DM million	323.5	273.3
Share of total business as %	4.2	4.3

Pleasing growth

Favourable results through selective underwriting

Individually tailored reinsurance solutions a recipe for success

We continued to systematically expand our position on the African continent in profitable segments such as personal lines business. Premium growth was in double figures, primarily due to the 11 % upward revaluation of the South African rand against the German mark. Terms and conditions in the insurance and reinsurance markets deteriorated further under the competitive pressure. A selective, profit-oriented underwriting policy proved more important than ever following extraordinary major fire losses and more hail damage in South Africa. Thanks to our profit-oriented approach, we again achieved a positive result in the year under review.

We are continuing to operate on the basis of a dual concept in the English-speaking markets of **southern Africa**, with a representative office in Randburg and a majority holding in Hollandia Reinsurance Group in Johannesburg. To date, one of the reasons for this approach has been that local reinsurers enjoy advantages under insurance supervisory law. However, even after the harmonization of licensing conditions by the South African authorities - a development which is now possible in the short term - we shall maintain our dual concept. In view of the fact that both companies have concentrated on largely independent specialist segments, we will thus be able to better satisfy the widely differing service and capacity requirements of our various clients.

In Africa, too, the business environment in the entire financial services sector has been significantly influenced by mergers and cooperations between companies. We have positioned ourselves in the African markets as an alternative provider, which offers its clients individually tailored solutions in addition to more traditionally structured reinsurance products.

International life and health reinsurance

The international life and health reinsurance segment comprises our German and foreign life and health business. In accordance with the business practice in numerous countries, it also includes the personal accident risks written by foreign life insurers.

The following companies within our Group function as operational risk-carriers for life and health reinsurance business:

- E+S Rück, Hannover, for the German market
- Reassurance Company of Hannover (RCH), Orlando, for the USA
- Hannover Life Re of Australasia Ltd (HLRA), Sydney, for Australia and New Zealand
- Hollandia Life Re (HLR), Johannesburg, for southern Africa
- Hannover Re, Hannover, for all other regions and markets

In addition, a network of representative offices, service offices and branches in Hong Kong, Cape Town, Kuala Lumpur, London, Milan, Melbourne and Wellington supports the acquisition and service activities of our Group companies. As in the past, the European insurance markets of Germany, the United Kingdom and Italy as well as the USA, South Africa, South-East Asia and Australia remain the focus of our marketing and acquisition activities..

In accordance with our long-term strategic objectives, in the year under review we were again very successful in positioning ourselves as the international financing reinsurer which offers its clients holistic solutions. The traditional risk transfer of mortality and disability risks plays a limited role under these reinsurance concepts; instead, our approach takes account of the overall financial situation of our clients.

A key event in the 1997 financial year was the acquisition of the life reinsurance portfolio of Skandia International Insurance Company (SIIC), Stockholm, with effect from 1 January 1997. As part of this transaction, we were also

able to take over the UK life reinsurance company Skandia Reassurance UK (SRUK) in Virginia Water near London; this company is now operating as Hannover Life Re (UK).

This acquisition means that we are now represented in five additional locations (Stockholm, Paris, Le Mans, Madrid and Mexico City), thereby enabling us to step up our services to clients considerably. Viewed from the strategic perspective, the Hannover Re Group has now also attained a leading position in the life markets of the United Kingdom, France and Scandinavia, together with significant market shares in Spain and Mexico. The Skandia transaction has thus brought us a major step closer to realizing our ambitious strategic objectives in the life and health reinsurance segment.

Gross premiums on a Group basis increased to DM 1,941.4 million, following DM 1,107.7 million in the previous year; this constitutes growth of 75.3 % compared to 1996. The acquired treaty portfolio of Skandia International (excluding Hannover Life Re (UK)) generated gross premium income of DM 340.1 million, thereby accounting for roughly 17 % of our total portfolio. It is gratifying to note that this increase was supported across the board by all major national markets - especially the United Kingdom, France and the USA (in the latter case via our subsidiary RCH).

Growth through holistic solutions and allowance for clients' overall financial situation

Premium income boosted by more than 75 %

New locations following Skandia acquisition

Net premiums earned also showed marked growth, increasing by 85.9 % compared to 1996 to reach DM 1,809.6 million; the retention rate was thus 93.2 %.

The following table shows - on a non-consolidated basis - the development of premiums and results recorded by the various operational companies in comparison with the previous year:

Life and health reinsurance	*Gross premiums written*			*Net premiums earned*			*Technical result*	
Fiigures in DM million	*1997*	*1996*	*± PY*	*1997*	*1996*	*± PY*	*1997*	*1996*
Hannover Re	1 518	620	144.9 %	1 237	560	120.8 %	-182	-132
E+S Rück	407	163	149.5 %	305	146	109.0 %	-46	-33
RCH	583	300	94.3 %	241	116	107.8 %	-5	-11
HLRA	224	194	15.5 %	110	123	-10.6 %	-7	-1
HLR	77	45	71.1 %	54	29	86.2 %	-7	-4
Total	2 809	1 322	112.5 %	1 947	974	99.9 %	-247	-179

Innovative product concepts were a major factor in this success. Particularly in the United Kingdom, for example, the reinsurance of immediate life annuities, unit-linked life insurance and mortgage redemption insurance developed extremely favourably. As in the previous year, large-volume quota share reinsurance treaties covering entire life insurance portfolios - so-called block assumption transactions - contributed to our successful business development in several foreign markets.

New life reinsurance subsidiary in the UK

Further "losses" through high investment expenditure

In keeping with our strategy, we also serve as the obligatory life reinsurer for our clients' individual business; facultative risks and group life policies account for altogether less than 3 % of our total business volume. Measured in terms of the gross premium, our portfolio consists of roughly 75 % life reinsurance and 25 % health and personal accident reinsurance.

It should be noted that the above figures do not include the business activities of Skandia Reassurance UK, which is now operating as Hannover Life Re (UK). Active in the UK market, this company generated gross premium income of DM 59.0 million.

According to a recently published survey by Manulife, Cologne, measured in terms of business in force in 1996 - i.e. the assumed sum insured - we are the fourth-largest life reinsurer in Europe.

An analysis compiled by Standard & Poor's, New York, included Hannover Re in the list of the top ten life reinsurers worldwide for the first time in 1996 - placing us at number 8. The marked growth achieved in 1997 will most likely enhance the market importance of the Hannover Re Group.

Performance of our subsidiaries

Our subsidiaries were once again highly successful in the year under review. The following table summarizes the key figures on the basis of the annual accounts drawn up in compliance with the respective local accounting principles:

Company Currency units in million	E+S Rück DM	ESI DM	HLRA AUD	HRG ZAR	HRI DM	ICH USD	Inter Hannover GBP	RCH USD
Gross premiums written	2 282.9	253.9	189.8	753.5	321.8	155.4	92.1	325.1
Net technical result	(160.1)	7.8	(10.5)	11.3	23.9	(1.1)	(2.1)	(9.9)
Non-technical result	184.9	16.4	14.8	5.9	24.6	13.4	4.3	12.6
Result of ordinary business activities	24.8	24.2	4.3	17.2	48.5	12.3	2.2	2.7
Profit or loss for the financial year	16.5	21.9	4.3	16.5	44.2	8.9	1.5	1.9

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

The 1997 results of by far our largest subsidiary were marked by two notable events compared to the previous year. First, with effect from 1.1.1997 the company was repositioned within the Hannover Re Group; second, together with ourselves as its parent company, E+S Rück also acquired major parts of the portfolio of Skandia International Insurance Company, Stockholm, during the year. This acquisition was backdated to 1.1.1997. In addition to the general market circumstances, these two factors had a major impact on the present results.

Since 1.1.1997 E+S Rück has borne exclusive responsibility for the Hannover Re Group's German business, and it no longer operates in foreign markets. It is the only specialist reinsurer of this type in the German market. The regional split of the portfolio across the international markets, which to date has proven highly advantageous from the point of view of optimal risk spreading, is preserved by means of internal retrocessions within the Group. In "net" terms, in other words after deducting all retrocessions, the distribution of the reinsurance portfolio has remained virtually unchanged.

Gross premiums showed year-on-year growth of 45.3 %, principally due to the new market profile. The acquisition of the Skandia portfolio also contributed to the expansion of the business volume. Apart from the facultative portfolio, which spans all classes of insurance, only life and aviation business were taken over, thereby accounting for the disproportionately large growth of these classes. Approximately 5 % of the premium growth was due to movements in the key foreign currencies for our portfolio.

E+S Rück posts strong growth with new market profile

Increase in profit for the year just short of double figures

Although the technical account was influenced by the transfer of the Skandia portfolio, and despite the continued investment in the expansion of life reinsurance business through the conclusion of prefinancing transactions, the technical deficit recorded a gratifying decrease to DM 87.7 million (previous year: DM 107.1 million).

This improvement was largely attributable to two reasons: the absence of a special factor which affected the previous year's result and a further reduction in the burden of major losses.

The satisfactory loss experience also constituted the basis for a record allocation to the fluctuation reserve of DM 72.4 million, as consequence of which the net technical result deteriorated by DM 36.1 million to DM -160.1 million.

The exceptionally favourable state of the capital markets led to an appreciable rise in the investment result. Although we realized price gains on shares in the year under review, this did not take place at the expense of the hidden reserves, which also showed an increase (DM 482.5 million).

Following another increased allocation to the IBNR reserve from the non-technical account, we posted a lower profit on ordinary business activities; however, since the tax expenditure was less than in the previous year, the profit for the financial year climbed by 9.3 %.

The company's capital and reserves increased to DM 251.7 million (DM 250.3 million).

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

Concentration of financial reinsurance activities under the label "Hannover Re Advanced Solutions"

Sharp rise in annual profits

Our two operational Irish subsidiaries at the International Financial Services Centre (IFSC), Dublin, constitute the core of a financial reinsurance consortium. Controlled by a joint management company, this consortium also includes HDI Re (Ireland) Ltd. (HDIRI), which is not part of the Hannover Re Group. In the preceding years, we had begun to concentrate all activities in our strategic segment of financial reinsurance in Ireland, and we continued with this process in the year under review. The advantageous Irish accounting regulations are one of the reasons for this move. As a further step, five years after establishing the companies, we seized the first opportunity to obtain an assessment by the US rating agency A.M. Best. We were very pleased to note that at the beginning of this year both Irish subsidiaries received the second-highest rating of A+.

We substantially expanded the business volume of our subsidiaries in accordance with the strategic objectives. HRI's gross premium income climbed by 18.8 % to DM 321.8 million, while ESI's gross premiums rose by 11.7 % to DM 253.9 million. The two companies achieved parallel gains in their profit for the financial year, which increased to DM 44.2 million (DM 37.6 million) at HRI and DM 21.9 million (DM 20.2 million) at ESI.

In June 1998 we publicly announced that the Irish financial reinsurance consortium would henceforth be operating under the label "Hannover Re Advanced Solutions". At the same time, we considerably increased the companies' capital and reserves - by DM 100 million to DM 361.0 million in the case of HRI, and by DM 80 million to DM 294.5 million in the case of ESI.

Hannover Life Re of Australasia Ltd (HLRA), Sydney

HLRA, in which Hannover Re and E+S Rück each hold 50 % of the capital, is primarily active in Australia and New Zealand. It again held its ground well in a fiercely competitive market. Life and disability reinsurance as well as group life insurance continue to be its core business segments.

HLRA's gross premium income showed sustained dynamic growth, climbing by 21.3 % to AUD 189.8 million (AUD 156.5 million). However, due to the additional reserves established for disability business, the net technical result deteriorated to AUD -10.5 million (AUD 5.7 million).

With investment income amounting to AUD 14.8 million (AUD 15.8 million), the profit for the financial year totalled AUD 4.3 million (AUD 21.5 million).

The company's capital and reserves amounted to AUD 117.5 million (AUD 113.4 million).

Hollandia Reinsurance Group (Pty) Ltd. (HRG), Johannesburg

We hold a 52 % interest in the parent company of the Hollandia Group, which primarily operates in South Africa through its non-life subsidiary Hollandia Reinsurance Company Ltd. and its life subsidiary Hollandia Life Reassurance Company Ltd.

Hollandia Re has established itself as the leading reinsurer for health business and financial reinsurance in the South African market. On the basis of systematic risk selection and a re-orientation towards personal lines business, it achieved profitable growth. This was notable in the light of the fact that the overall market development was unfavourable, particularly due to an increase in fire losses. The Hollandia Group's premium income increased by 37 % to ZAR 753.5 million (ZAR 547.3 million). The net technical result improved considerably to ZAR 11.3 million (ZAR 2.9 million).

Allowing for investment income of ZAR 5.9 million (ZAR 11.7 million), the profit on ordinary activities totalled ZAR 17.2 million (ZAR 23.2 million). The Hollandia Group thus achieved an after-tax profit for the year of ZAR 16.5 million (ZAR 22.6 million).

The company's capital and reserves rose by 9.9 % to ZAR 169.9 million (ZAR 154.6 million).

Hollandia achieves impressive growth through financial reinsurance and health business

ICH focuses on exclusive business segments within the Group

Third record result in succession

Insurance Corporation of Hannover (ICH), Los Angeles

ICH operates within the Hannover Re Group in our target market USA, where it concentrates exclusively on agricultural risks, non-standard motor business and workmen's compensation insurance. It generated a record profit in the 1997 financial year for the third time in succession.

Gross premiums increased by 17.9 % to USD 155.4 million (USD 131.8 million). The largest premium gains were in agricultural risks (+ 43 %) and non-standard motor business (+ 19.2 %).

ICH's combined loss and expense ratio - a key figure which is primarily of interest in the USA -, decreased to 100.4 % (102.0 %).

Current income from investments totalled USD 13.4 million, a figure roughly on a par with the previous year's level (USD 13.6 million). The profit for the financial year after tax amounted to USD 8.3 million (USD 7.3 million).

The company's capital and reserves increased to USD 124.0 million (USD 114.4 million).

International Insurance Company of Hannover Ltd. (Inter Hannover), London

Business volume almost doubled by Skandia acquisition

Improved A.M. Best rating

Inter Hannover operates as an insurer and reinsurer in the United Kingdom. Its business activities in the year under review were chiefly influenced by the acquisition of the aviation and aerospace insurance portfolio of Skandia International Insurance Company (SIIC). Against the backdrop of this portfolio transfer, the company's gross premium income increased to GBP 92.1 million (GBP 44.5 million).

A slight deterioration in the technical result (GBP -2.1 million as against GBP -0.2 million in the previous year) contrasted with satisfactory investment income of GBP 4.3 million (GBP 4.5 million). Overall, therefore, the company generated a pre-tax operating profit of GBP 2.2 million (GBP 4.2 million). The profit for the year after tax totalled GBP 1.5 million (GBP 2.8 million).

The company's capital and reserves amounted to GBP 54.5 million (GBP 27.1 million); this figure includes a capital increase of GBP 25 million implemented in December 1997.

IICH improved its A.M. Best rating from "A"-'stable outlook' to "A"-'favourable outlook'. This positive reappraisal was based upon the company's close ties with the parent company and its growing strategic importance within the Group. The revised rating facilitates IICH's market profile as a particularly reliable business partner.

Concentration on specialist segments fosters exceptionally good premium growth

Sharp rise in the profit after tax

Reassurance Company of Hannover (RCH), Orlando

Our US life reinsurance subsidiary continued to focus on profitable niche segments. These include, for example, the Latin American business of US clients, strategic major client relationships, block assumption transactions and the expansion of health reinsurance business. This strategy enabled RCH to generate pleasing business results in 1997: RCH's gross premium income increased by 68 % to USD 325.1 million (USD 193.0 million).

At the same time, the technical result improved by USD 5.0 million to reach USD -9.9 million (USD -14.9 million). Investment income totalled USD 12.6 million (USD 11.5 million).

The operating result thus amounted to USD 2.7 million (USD -4.5 million) before tax, while the profit after tax stood at USD 1.9 million (USD -3.9 million).

The company's capital and reserves increased to USD 48.1 million (USD 46.3 million).

Investments

The stock market in Germany comfortably surpassed the price levels of the previous year. The Dax opened 1997 at 2,848.77 points, a level which was also to be its lowest all year. After initially peaking at 4,459 points in July, the market remained sluggish until the 4th quarter, when it resumed its upward trend. Electricals, consumer shares and banks were among the favoured stocks. American stock markets also posted sharp price gains, especially in the first half of the year. The worsening of the economic and currency crises in South-East Asia led to considerable price fluctuations in the autumn, although the situation stabilized quickly as prospects for the US economy remained bright. By December, therefore, most market indices had reverted to the peak levels of the summer. Since stock markets are expected to continue to perform well, we further increased the proportion of shares in our investment portfolio during the first half of 1997.

The German bond market started the year under review on a vigorous note. The downward trend in 10-year bond yields, which had set in towards the end of 1994, continued and reached a low of 5.45 % in February 1997. Yields began to pick up in the USA in March, and this was also reflected in Germany. Owing to the close interdependency between the two markets, yields on 10-year German government bonds reached their high for the year of 6 % in early April.

Towards the end of 1997, movements in yields were influenced by the worsening Asian crisis. This triggered a flight to quality, thereby pushing interest rates down again. The German bond market was affected by this development, albeit to a lesser degree.

Bond market yields declined progressively, despite a number of fluctuations in the third and fourth quarters. The annual low of 5.23 % was reached shortly before the turn of the year. Yields on 10-year German government bonds ended the year at 5.35 %.

The money market remained stable in the first half of the year. Money market rates only began to rally once an increase was already under discussion. The German Bundesbank then raised the securities repurchase rate from 3.0 % to 3.3 % in October 1997. The Bundesbank's adherence to its money supply targets helped stabilize market expectations, and the "steady hand" policy on interest rates was aided by the favourable monetary climate.

Exchange rates	*1997*	*± PY*	*1996*
AUD	1.174	-5.3 %	1.240
CAD	1.245	9.6 %	1.136
GBP	2.982	13.5 %	2.627
JPY	0.014	7.69 %	0.013
USD	1.792	15.2 %	1.555
ZAR	0.369	11.1 %	0.332

Since mid-1997 the German bond market has been one investment segment richer. From the beginning of July onwards, it has been possible to strip 10- and 30-year government bonds in Germany. Stripping refers to the separation of capital and interest claims. In other countries, such as France and the USA, stripping is already a staple part of the bond market. The discussion surrounding the structure of European economic and monetary union set in motion a harmonization of interest rate levels in the participating countries. This resulted in a sharp decrease in the differences between yields on German government bonds and their counterparts in Italy, Spain and Portugal.

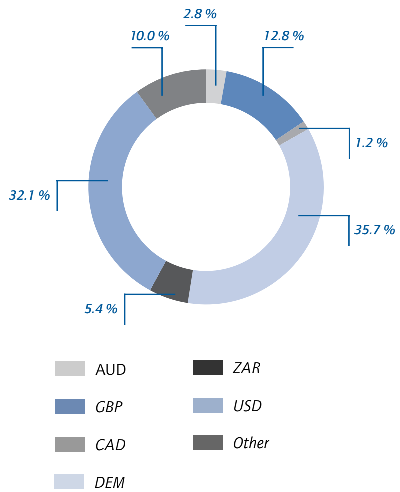
Substantial price gains on stock markets

Asian crisis prompts flight to quality in the bond market

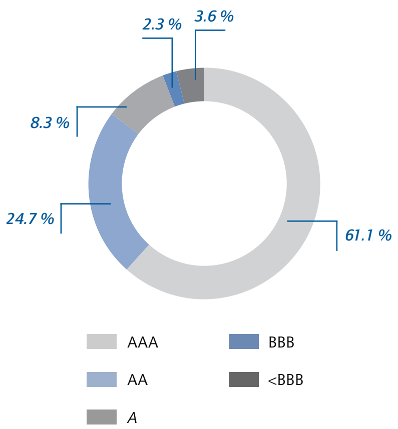
Foreign exchanges highly volatile

The international currency markets were again highly volatile, and the German mark lost further ground. The above table shows the exchange rates of greatest relevance to the Hannover Re Group as well as the changes compared to the previous year. Owing to the weakness of the German mark, the translation of foreign-currency transactions using the year-end exchange rates had a positive effect on premium income and investment earnings.

Breakdown of investments by currency



Rating of fixed-income securities



Investment result exceeds DM 1 billion for the first time

Proportion of share holdings increased

High extraordinary income and sharp rise in unrealized gains

Thanks to the gratifying performance of the capital markets, we generated an excellent investment result which broke through the magical DM 1 billion barrier for the first time. Standing at DM 1,085.7 million, the result constituted an improvement of 23.9 % compared to the previous year. The total investment portfolio increased by 20.4 % to DM 18.7 billion.

We hold 64.2 % of our investments in foreign currencies in order to adhere to the principle of congruent currency coverage. By far the most important foreign currency is the US dollar, which accounts for a share of 32.1 %.

The structure of our investment portfolio changed in the year under review due to the increase in the proportion of equities. New investments were concentrated on US, German and other European Blue Chips. The total proportion of shares, including participations in venture capital companies, amounted to 11.0 % of the investments which we managed ourselves as at the end of the year under review.

We again set great store by the quality of our investments in 1997. More than 80 % of our directly held fixed-income bearer and registered debt securities have a rating of AA or better.

As in the previous year, the extraordinary result - i.e. the balance from profits and losses on disposals of investments and depreciation - was very satisfactory, showing a profit of DM 140.8 million.

This profit was not, however, to the detriment of the hidden reserves in our securities portfolio, which rose from DM 715 million to DM 1,281 million. The market value of the total investments which we manage ourselves within the Group amounted to DM 1,489 million, a figure which was thus 10.2 % in excess of the book values. In the annual accounts of the parent company Hannover Rückversicherungs-AG, this figure also includes the goodwill shares in our participations. In this case, the market values exceeded the book values by 16.6 %.

Human Resources

Human resources management assumes increasingly international dimension

Constant growth in the workforce

Great significance attached to human resources development

Managerial positions filled from our own ranks

The increasingly international dimension of our human resources management was one of the most important issues in the year under review, with added impetus provided by the transfer of the portfolios of Skandia International Insurance Company (SIIC). The integration of the staff at the new branch offices and subsidiaries was one of the key challenges facing us. We succeeded in adapting our human resources management at short notice to meet the new requirements, both as regards organizational aspects and matters of content. We are now able to serve our offices abroad better than ever.

The primary objective in this regard was to support our managerial staff. It was essential for us to provide them with the necessary expertise and tools in order to enable them to fulfil their tasks in the international environment. As part of our personnel development policy, we have prepared and in part already implemented the planned transnational exchange of staff as well as the corresponding international managerial appointments. Nevertheless, with regard to all these measures it was important to weigh up the desire for uniformity within the Group, on the one hand, and respect for local cultures, on the other.

We modified our in-house career path system in such a way as to ensure even greater delegation of management responsibility. Our philosophy is to delegate responsibility to individual members of staff as quickly as possibly, rather than concentrating it in the hands of senior management. Needless to say, we support the newly promoted managerial staff with a broad range of training and coaching measures.

As in the previous years, our company's workforce grew steadily in the year under review. The number of staff increased by 100; in total, therefore, an average of 982 staff were employed at our company. The consistent growth in our workforce reflects our commercial success and our unceasing efforts to enhance our service to clients. The fact that we could fill these positions so quickly illustrates that both fresh recruits and "old hands" regard our company as an attractive employer.

Nevertheless, as a professional reinsurer, we operate in a relatively small and exclusive labour market. This is a further reason why the development of our own employees' potential takes priority. On average, every member of staff participates in one of our in-house seminars at least once a year. In addition, we offer periods of internal on-the-job training and the opportunity to attend outside events and seminars. In other words, investment in training and skills is a major concern for our company. We are in no way dissatisfied with this situation - quite the contrary, we are highly pleased with the results: last year we were again able to fill most managerial positions at all levels from within our own ranks.

Outlook and strategy

The 1997 Asian crisis once again demonstrated that reliable forecasts of global economic developments are all but impossible to make. Despite the continuing uncertainty about the future course of events, it should be noted that - with the aid of international mechanisms - an at least temporary state of consolidation was attained relatively quickly. Nevertheless, the fact remains that an entire region, which previously appeared to be flourishing, was plunged into severe economic difficulties in a very short space of time without any adequate prior warning. Particularly with regard to the "pacemaker" of the region, Japan, we shall have to monitor the extent to which the structural reforms necessary to facilitate renewed significant economic growth are implemented.

Asia apart, we do not expect any dramatic change in the basic economic data. Given the efforts to hold down inflation rates and maintain a favourable investment climate, substantial interest rate rises are not in the cards. As for Germany, we can only hope that by improving the country's attractiveness as an industrial location - for example through implementation of the long overdue tax reform - the basic conditions can be created for higher growth, not least with a view to stimulating domestic demand and reducing unemployment.

The premium volume in the property and casualty insurance markets, especially in the highly developed markets of North America and Western Europe, is scarcely expanding - indeed, in some cases it is contracting. Furthermore, the increasing trend towards concentration among companies is resulting in higher retentions and hence lower reinsurance cessions. Overall, price levels have fallen and reinsurance terms and conditions have eased.

Repercussions of Asian crisis - especially in Japan - remain to be seen

Highly developed markets show only slight growth in property and casualty insurance

Detailed profit targets for individual business segments

Special emphasis on profitable niche segments

Low burden of major losses so far in the current year

Significant profit-oriented growth planned in financial reinsurance

With the exception of the winter storm in Canada, the first half-year again remained virtually free of natural catastrophes, and the unexpectedly favourable run of the past two years thus appears to be continuing. The tragic ICE train accident in Eschede has since inflicted one major loss event on Germany, which will also impose a considerable burden on the insurance industry. Overall, though, the frequency of such general major losses has been lower than statistics would lead us to expect. So far, then, the property and casualty reinsurance segment can anticipate another set of satisfactory results.

Since the favourable trend of the capital markets continued almost across the board in the first half of the year, we again expect to achieve our ambitious objectives in the current year. This confidence is, however, based on the assumption that neither the claims situation nor the capital markets are hit by an accumulation of extraordinary events in the remaining months of the year.

Within the framework of our **strategic objectives**, we have defined three business segments for the Group: property and casualty reinsurance, life and health reinsurance and financial reinsurance. Looking forward to the current year and beyond, these business fields should be considered on a differentiated basis.

We transact property and casualty reinsurance on a purely profit-oriented basis with no growth objectives. A scientific risk-based capital model is used as a control instrument, on the basis of which we calculate the individual capital requirements of our specific business segments. These calculations produce transparent and very detailed capital charges, which underwriters must generate as a minimum return. Adherence to these minimum returns ensures that we attain our company's profit targets. Thus, although the progressive deterioration in terms and conditions in property and casualty insurance is leading to a decline in premium volume, our profit targets are not in jeopardy.

Particularly in obligatory proportional property business, this type of portfolio management is reflected in a premium decline. Since we are more able to uncouple ourselves from insurance market trends in facultative and non-proportional reinsurance, we are increasing the overall share of this business. In terms of insurance classes, this is especially true of liability business, which continues to offer fresh potential and sufficiently profitable niche segments.

Our activities in financial reinsurance have been concentrated on our Irish subsidiaries at the International Financial Services Centre (IFSC), Dublin, and they bear worldwide market responsibility for this segment. Our goal is to maintain our edge in expertise and achieve profit-oriented growth in this relatively new business field, in which we can already draw upon many years of experience. Financial reinsurance is also marked by vigorous competition, although this has not yet given rise to the sometimes ill-judged developments witnessed in property and casualty reinsurance.

Financial reinsurance transactions comprise a financing component in addition to the transfer of insurance risks. This may serve to cushion or spread over a number of years a direct insurer's balance sheet or liquidity strains on a highly systematic basis. In view of the fact that financial reinsurance business typically consists of a relatively small number of very large-volume treaties,

the premium income can fluctuate sharply from year to year. Following successful expansion in the year under review, we anticipate continued double-digit growth rates in the future. Our products are marketed under the label "Hannover Re Advanced Solutions". Our objective is to diversify the geographical spread of this business and to achieve particularly strong growth in the non-American markets (most notably Asia, Australia and South Africa).

Life and health insurance (which includes not only the life and health classes but also personal accident business in those countries where this is transacted by life insurers) shows the highest growth rates worldwide and offers promising scope for further development. In view of the highly favourable and sustained profit potential, we have set ourselves ambitious goals for the expansion of our life and health reinsurance portfolio. More traditional risk-oriented life reinsurance is another heavily competitive segment, and we have therefore built up specialist expertise in the area of reinsurance transactions which comprise a prefinancing component.

In this connection, we not only assume the insurance risks but also finance the high initial acquisition costs incurred by life insurers while they build up their portfolios. In the USA in particular, we also assume entire portfolios by way of block transactions, usually in respect of new business. The prefinancing provided in this way accrues to us as earnings in subsequent years.

In the past three years we have almost tripled our business volume, and we anticipate further appreciable growth in the current year. We are thus already very close to achieving our long-term objective of generating at least one-third of our premium income from life and health reinsurance.

Hannover Re has made a name for itself as a pioneer in the area of alternative risk financing (ARF) with large-volume transactions throughout the world. This type of business involves the transfer of (re-)insurance risks to the capital markets. These new mechanisms serve as a substitute for capital and reserves, on the one hand, and retrocessions, on the other, while also providing us with the capacity to record disproportionately large growth in strategic segments. In April 1998, for example, we were the first company in the world to transfer the financing of acquisition costs in connection with life reinsurance risks to the capital market.

Further bright prospects in life and health reinsurance

Prefinancing of acquisition costs under life reinsurance transferred to the capital market for the first time

Development of capital markets so far remains favourable

Capital, reserves and technical provisions

in DM million	*1997*	*1996*
Capital and reserves	773.0	662.6
Surplus debenture (Genußrechtskapital)	230.0	230.0
Fluctuation reserve and similar provisions	1 579.7	1 348.0
Technical provisions	15 129.3	12 680.7
Total capital, reserves and technical provisions	17 712.0	14 921.3

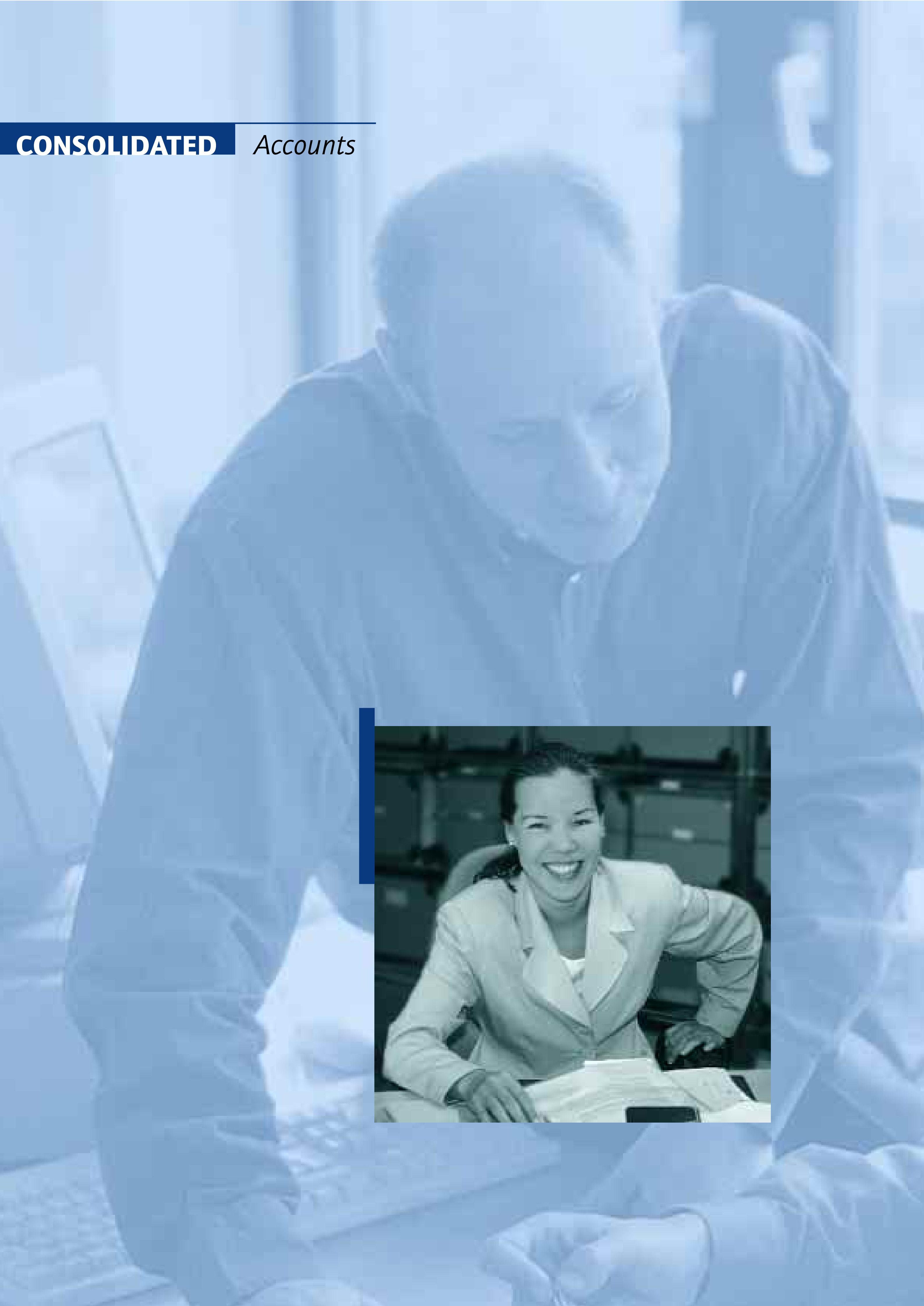
The capital, reserves and technical provisions constitute the total funds theoretically available to our Group to cover actual and possible obligations. These funds showed another substantial increase of 18.7 %. The growth in the capital and reserves was partly due to the capital increase implemented by Hannover Re in September 1997. 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 decreased from 295.3 % to 272.8 %. This was attributable to the disproportionately large growth in premium income.

Proposal for the distribution of profits

We intend to propose to the Annual General Meeting that the disposable profit of Hannover Rückversicherungs-AG should be distributed as follows:

	DM
Payment of a dividend of DM 3.40 on each participating bearer share with a nominal value of DM 5.-	56 882 731.-
Payment of a dividend of DM 680.- on each registered share with a nominal value of DM 1,600.- which has been partially paid up in the amount of DM 1,000.-, and of DM 634.67 on each registered share which has partially paid up in the amount of DM 933.33	26 520 000.-
Profit carried forward	97 269.-
	83 500 000.-

CONSOLIDATED *Accounts*



BALANCE SHEET *as at 31 December 1997*

Assets *Figures in DM thousand*	1997				1996
A. Subscribed capital unpaid - called-up capital - (1996: -)				33 773	33 723
B. Intangible assets					
I. Goodwill			236 175		255 856
II. Other intangible assets			100 457		14 158
				336 632	270 014
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			300 006		302 096
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies not included in the consolidated accounts		550			1 498
2. Loans to affiliated companies not included in the consolidated accounts		70			56
3. Participating interests		152 725			138 480
4. Participating interests in associated companies		26 491			26 069
			179 836		166 103
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		3 287 302			2 341 960
2. Bearer debt securities and other fixed-income securities		8 180 632			7 568 021
3. Mortgages and loans secured on land and buildings		15 995			17 214
4. Other loans					
a) Registered debt securities	959 708				
b) Debentures and loans	568 161				
c) Loans and advance payments on insurance policies	5 177				
d) Sundry loans	100 000				
		1 633 046			1 473 289
5. Deposits with banks		1 012 781			874 684
6. Other investments		20			20
			14 129 776		12 275 188
IV. Deposits with ceding companies			4 114 165		2 803 311
				18 723 783	15 546 698

Liabilities
Figures in DM thousand

	1997				1996
A. Capital and reserves					
I. Subscribed capital			147 651		145 380
II. Capital reserve					
as at 1.1.1997		346 064			
Allocation		48 611	394 675		346 064
III. Retained earnings					
1. Statutory reserve		1 858			
2. Other retained earnings					
as at 1.1.1997	50 756				
Allocation	62 548	113 304	115 162		52 529
IV. Consolidation adjustments			9 520		9 520
V. Group profit or loss					
for the financial year			95 744		84 435
VI. Profit or loss brought forward			-132 344		-108 811
VII. Minority interests			142 636		133 480
				773 044	662 597
B. Surplus debenture (Genußrechtskapital)				230 000	230 000
C. Technical provisions					
I. Provision for unearned premiums					
1.Gross		981 126			
2. Less:					
reinsurance ceded		126 655	854 471		805 934
II. Life assurance provision					
1. Gross		2 744 732			
2. Less:					
reinsurance ceded		501 560	2 243 172		1 592 960
III. Provision for outstanding claims					
1. Gross		12 826 446			
2. Less:					
reinsurance ceded		1 398 316	11 428 130		9 743 303
IV. Provision for bonuses and rebates					
1. Gross		8 959			
2. Less:					
reinsurance ceded		3 843	5 116		4 479
V. Fluctuation reserve and					
similar provisions			1 579 679		1 348 024
VI. Other technical provisions					
1. Gross		628 708			
2. Less:					
reinsurance ceded		30 334	598 374		534 032
				16 708 942	14 028 732

Assets
Figures in DM thousand

	1997				1996
D. Receivables					
I. Receivables in respect of direct insurance from insurance intermediaries			16 574		11 480
II. Accounts receivable arising out of reinsurance operations			973 004		797 672
- from affiliated companies not included in the consolidated accounts: 16 347 (1996: 3 656)					
III. Other receivables			25 610	1 015 188	51 223
- from affiliated companies not included in the consolidated accounts: 1 702 (1996: 17 185)					860 375
E. Other assets					
I. Tangible assets and stocks			20 132		20 077
II. Cash at banks and in hand			158 288		136 511
III. Other assets			38		33
				178 458	156 621
F. Prepayments and accrued income					
I. Accrued interest and rent			215 122		181 031
II. Other accrued income			19 215		10 660
				234 337	191 691
G. Deferred taxes				903	–
				20 523 074	17 059 122

Liabilities

Figures in DM thousand

	1997				1996
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			46 752		41 145
II. Provisions for taxation			115 781		85 014
III. Other provisions			122 148		100 567
				284 681	226 726
E. Deposits received from retrocessionaires				897 989	832 161
F. Other liabilities					
I. Liabilities in respect of direct insurance business to insurance intermediaries			474		1 628
II. Accounts payable arising out of reinsurance operations			1 400 092		993 049
- to affiliated companies not included in the consolidated accounts: 194 299 (1996: 127 656)					
III. Loans			7 370		6 645
IV. Miscellaneous liabilities			197 345		51 712
- from taxes: 1 051 (1996: 14 787)				1 605 281	1 053 034
- for social security: 1 283 (1996: 1 340)					
- to affiliated companies not included in the consolidated accounts: 1 044 (1996: 4 948)					
G. Accruals and deferred income				23 137	25 872
				20 523 074	17 059 122

PROFIT AND LOSS ACCOUNT *for the 1997 financial year*

Figures in DM thousand	*1997*			*1996*
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	7 745 093			6 400 736
b) Retrocession premiums	1 251 511			1 347 409
		6 493 582		5 053 327
c) Change in the gross provision for unearned premiums (+/-)	29 507			-116 910
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	4 666			88 990
		34 173		-27 920
			6 527 755	5 025 407
2. Allocated investment return transferred from the non-technical account, net of retrocession			66 613	49 277
3. Other technical income, net of retrocession			86	34
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	4 347 209			3 612 280
bb) Retrocessionaires' share	710 437			469 260
		3 636 772		3 143 020
b) Change in provisions for outstanding claims				
aa) Gross	-807 285			-698 962
bb) Retrocessionaires' share	51 920			307 087
		-755 365		-391 875
			4 392 137	3 534 895
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provisions		-344 937		-218 742
b) Other net technical provisions		-47 492		-92 739
			-392 429	-311 481
6. Bonuses and rebates, net of retrocession			3 489	2 359
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		2 195 014		1 669 964
b) Less: commissions and profit commissions received on retrocession		191 231		311 153
			2 003 783	1 358 811
8. Other technical charges, net of retrocession			7 550	8 859
9. Subtotal			-204 934	-141 687
10. Change in the fluctuation reserve and similar provisions			-231 654	-191 441
11. Net technical result			-436 588	-333 128

Figures in DM thousand	1997				1996
Balance brought forward:				-436 588	-333 128
II. Non-technical account					
1. Investment income					
a) Income from participating interest		5 783			11 150
- affiliated companies not included in the consolidated accounts: 1 034 (1996: 578)					
b) Income from associated companies		1 188			861
c) Income from other investments					
- affiliated companies not included in the consolidated accounts: 3 438 (1996: 3 201)					
aa) Income from land and buildings, rights to land and buildings, leasehold	21 834				
bb) Income from other investments	936 934	958 768			791 078
d) Appreciation on investments		2 766			1 414
e) Gains from the realization of investments		224 640			191 698
			1 193 145		996 201
2. Investment charges					
a) Investment management charges, including interest		23 639			21 770
b) Depreciation		62 426			87 037
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB): 2 548 (1996: 17 301)					
c) Losses of the realization of investments		21 378			11 153
			107 443		119 960
			1 085 702		876 241
3. Allocated investment return transferred to the technical account			-87 326		-55 056
				998 376	821 185
4. Other income			59 132		63 718
5. Other charges					
a) Special allocation to provisions for outstanding claims		292 298			171 388
b) Miscellaneous charges		150 945			154 208
			443 243		325 596
				-384 111	-261 878
6. Profit or loss on ordinary activities before tax				177 677	226 179

Figures in DM thousand	1997				1996
Balance brought forward:				177 677	226 179
7. Tax on profit and income			59 208		114 224
8. Other taxes			4 594	63 802	3 797 118 021
9. Profit or loss for the financial year				113 875	108 158
10. Profit accruing to outside shareholders				19 401	24 261
11. Loss accruing to outside shareholders				1 270	538
12. Group profit or loss for the financial year				95 744	84 435

General accounting principles

The parent company of Hannover Re is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i ff. of the Commercial Code (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 structure of the consolidated annual accounts corresponds to the sample balance sheet of individual accounts (forms 1 and 4) 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 Commercial Code (HGB).

Details of the share ownership are set out on pages 50 and 51.

Consolidation principles

Consolidation of capital and reserves

The book value method was used for the consolidation of capital and reserves. In this regard, the acquisition costs of subsidiary companies were offset against the subsidiaries' capital and reserves, insofar as they were apportionable to the Group. If shares in subsidiary companies are 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 book value method 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.

Probable tax relief in subsequent financial years

Tax deferrals within the Group have been revised in the light of the necessary consolidating and adjustment entries under German accounting rules. Allowance was made in this regard for deferred amounts shown as assets or liabilities in the individual accounts.

Accounting and valuation

General principles

All the annual accounts included in the consolidated annual accounts were drawn us as 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 Commercial Code (HGB) and are the only exception to the principle of uniform valuation in accordance with § 308 (1) clause 1 of the Commercial Code (HGB).

Intangible assets

The goodwill and enterprise value refers to the companies acquired in the previous years. Scheduled depreciation is over 15 years.

Other intangible assets are valued at the acquisition cost less permitted depreciation. The accruals in the financial year refer mainly to the amounts carried in connection with the acquisition of the Skandia portfolio. The period of depreciation corresponds to the average period of the underlying treaties.

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 shortfall 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 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.

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.

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 marks 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 1997 financial year:

Figures in DM thousand	*Book values 31.12.1996*	*Accruals*	*Deductions*	*Depreciation*	*Book values 31.12.1997*
B. Intangible assets					
I. Goodwill	255 856	–	–	19 681	236 175
II. Other intangible assets	14 158	119 267	19	32 949	100 457
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold	302 096	18 599	–	20 689	300 006
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies not included in the consolidated account	1 498	50	336	662	550
2. Loans to affiliated companies not included in the consolidated account	56	14	–	–	70
3. Participating interests	138 480	15 207	880	82	152 725
4. Participating interests in associated companies	26 069	422	–	–	26 491
Total	738 213	153 559	1 235	74 063	816 474

Property with a book value of DM 69.4 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 *Figures in DM thousand*	*Participation* *in %*	*Capital and reserves*	*Result from the last financial year*
Companies included in the consolidated accounts:			
E+S Rückversicherungs-AG, Hannover	53.9	251 749	16 500
GbR Hannover Rückversicherungs-AG/E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover	69.3	69 055	-1 508
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich	99.8	-3 169	-2 468
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover	100.0	-14 039	-986
Insurance Corporation of Hannover, Chicago	100.0	222 142	14 792
Reassurance Company of Hannover, Orlando	100.0	86 207	-3 470
International Insurance Company of Hannover Ltd., London	100.0	162 450	4 610
Hannover Reinsurance (Ireland) Ltd., Dublin	100.0	308 956	44 173
E+S Reinsurance (Ireland) Ltd., Dublin	53.9	231 001	21 907
Hannover Services (Ireland) Ltd., Dublin (renamed Hannover Re Advanced Solutions Ltd. in 1998)	51.3	131	-49
Hannover Life Re of Australasia Ltd, Sydney	77.0	137 979	5 058
Hollandia Reinsurance Group Ltd., Johannesburg	52.0	53 797	928
The Hollandia Reinsurance Group compiles its own consolidated accounts, including the following major companies in which it holds the following shares:			
Hollandia Reinsurance Company Ltd., Johannesburg	100.0	58 412	5 246
Hollandia Life Reassurance Company Ltd., Johannesburg	100.0	4 791	737
Hillside House (Proprietary) Ltd., Johannesburg	100.0	3	1
Indoc Holdings S.A., Luxembourg	100.0	6 259	26
Coral Reinsurance Ltd., Port Louis	100.0	5 579	949
Lireas Holdings (Proprietary) Ltd., Johannesburg	100.0	1 407	124

Investments in affiliated companies and participating interests *Figures in DM thousand*	*Participation in %*	*Capital and reserves*	*Result from the last financial year*
Associated companies:			
WeHaCo Unternehmensbeteiligungs-AG, Hannover	25.7	79 488	3 565

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

Current values pursuant to § 54 RechVersV of asset items C.I to C.III for the 1997 financial year *Figures in DM thousand*	*Book values 31.12.1997*	*Current values 31.12.1997*	*Difference 31.12.1997*
C.I. Land and buildings, rights to land and buildings, leasehold	300 006	436 424	136 418
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies not included in the consolidated accounts	550	550	–
2. Loans to affiliated companies not included in the consolidated accounts	70	70	–
3. Participating interests	152 725	218 170	65 445
4. Participating interests in associated companies	26 491	32 105	5 614
5. Total C.II.	179 836	250 895	71 059
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	3 287 302	4 087 571	800 269
2. Bearer debt securities and other fixed-income securities	8 180 632	8 567 826	387 194
3. Mortgages and loans secured on land and buildings	15 995	15 995	–
4. Other loans			
a) Registered debt securities	959 708	1 015 943	56 235
b) Debentures and loans	568 161	594 490	26 329
c) Loans and advance payments on insurance policies	5 177	5 177	–
d) Sundry loans	100 000	111 230	11 230
5. Deposits with banks	1 012 781	1 012 781	–
6. Other investments	20	20	–
7. Total C.III.	14 129 776	15 411 033	1 281 257
Sum total	14 609 618	16 098 352	1 488 734

Capital and reserves

The differences on the liabilities side from the consolidation of capital and reserves totalled DM 9,520 thousand.

Technical provisions

The main technical provisions are as follows:

Figures in DM thousand	*Unearned premiums* 1997 gross	1997 net	1996 gross	1996 net
Directly concluded insurance business				
Property and Casualty insurance	15 038	6 942	16 857	7 332
Life insurance	–	–	–	–
Subtotal	15 038	6 942	16 857	7 332
Business reinsured				
Property and Casualty insurance	778 177	678 201	746 116	623 067
Life insurance	187 911	169 328	225 130	175 535
Subtotal	966 088	847 529	971 246	798 602
Total	981 126	854 471	988 103	805 934

Provisions for pensions

Provisions for pensions were established in accordance with actuarial principles.

Life insurance provision				Provisions for outstanding claims			
1997 gross	1997 net	1996 gross	1996 net	1997 gross	1997 net	1996 gross	1996 net
–	–	–	–	257 551	55 597	184 042	41 677
–	–	–	–	–	–	–	–
–	–	–	–	257 551	55 597	184 042	41 677
–	–	–	–	12 189 875	11 076 764	10 457 455	9 449 112
2 744 732	2 243 172	1 986 803	1 592 960	379 020	295 769	348 427	252 514
2 744 732	2 243 172	1 986 803	1 592 960	12 568 895	11 372 533	10 805 882	9 701 626
2 744 732	2 243 172	1 986 803	1 592 960	12 826 446	11 428 130	10 989 924	9 743 303

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 primarily refers to loan discounts pursuant to § 250 (3) of the Commercial Code (HGB).

Figures in DM thousand	Gross premiums written 1997	Gross premiums written 1996	Net premiums written 1997	Net premiums written 1996	Net claims incurred 1997	Net claims incurred 1996	Net operating expenses 1997	Net operating expenses 1996
Directly insurance business								
Property and Casualty insurance	113 448	101 719	40 197	36 452	28 996	10 815	14 278	13 927
Life insurance	–	–	–	–	–	–	–	–
Subtotal	113 448	101 719	40 197	36 452	28 996	10 815	14 278	13 927
Business reinsured								
Property and Casualty insurance	6 142 875	5 437 428	5 492 737	4 245 592	3 585 488	3 129 104	1 397 173	1 045 722
Life insurance	1 488 770	861 589	960 648	771 283	777 653	394 976	592 332	299 162
Subtotal	7 631 645	6 299 017	6 453 385	5 016 875	4 363 141	3 524 080	1 989 505	1 344 884
Total	7 745 093	6 400 736	6 493 582	5 053 327	4 392 137	3 534 895	2 003 783	1 358 811

Other income

Figures in DM thousand	1997	1996
Exchange rate gains	23 261	27 796
Other interest earned	6 901	12 514
Income from the cancellation of value adjustments	1 849	3 109
Income from the release of reserves	5 267	347
Income from services	17 721	12 154
Other income	4 133	7 798
Total	59 132	63 718

Other charges

Figures in DM thousand	*1997*	*1996*
Special allocation	292 298	171 388
Exchange rate losses	26 952	23 331
Interest charges on surplus debenture (Genußrechtskapital)	17 525	17 525
Other interest charges	63 445	62 856
Depreciation and value adjustments	21 846	17 597
Expenses for the company as a whole	16 265	21 134
Expenses for services	4 625	3 633
Other charges	287	8 132
Total	443 243	325 596

Staff

The average number of staff at the companies included in the consolidated accounts was 982. Of this number 386 were employed abroad.

Expenditure on personnel

Expenditure on personnel amounted to DM 98,469 thousand.

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

Salaries of DM 419 thousand were received by the Supervisory Board and DM 5,466 thousand by the Executive Board in the year under review. The salaries of former board members and their surviving dependants amount to DM 1,048 thousand, and a liability of DM 13,920 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 1.1.1997*	*Amortisation*	*Addition*	*Deduction Transfer*	*Position at 31.12.1997*	*Interest rate %*
Supervisory Board	108	5	–	–	103	5.5
Executive Board	704	34	–	186	484	5.5

The loans end between the years 2012 and 2018.

Contingent liability

There were no contingent liabilities not shown in the balance sheet.

Certification by the Independent Auditors

The original German consolidated financial statements for the Hannover Re Group which we have audited in accordance with professional standards comlpy with the legal regulations. The consolidated financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the group. The group management report is in agreement with the consolidated financial statements.

Hannover, 17th July 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Reinke	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

HANNOVER RE

Figures in DM million	1997	± previous year	1996	1995
Gross premiums written	5 102.6	+ 33.6 %	3 819.1	3 566.9
Net premiums earned	3 705.6	+ 29.1 %	2 871.3	2 702.4
Technical result	- 113.4	+ 239.5 %	- 33.4	39.1
Allocation to the fluctuation reserve and similar provisions	159.3	- 8.7 %	174.5	203.0
Investment result	649.9	+ 19.0 %	546.3	410.1
Profit or loss on ordinary activities before tax	134.8	- 2.7 %	138.5	81.3
Profit or loss for the financial year	83.4	+ 10.2 %	75.7	69.2
Investments	11 581.6	+ 20.5 %	9 608.8	8 197.5
Capital and reserves incl. surplus debenture (Genußrechtskapital)	704.8	+ 7.8 %	653.9	608.8
Fluctuation reserve and similar provisions	1 161.4	+ 15.9 %	1 002.1	827.6
Net technical provisions	8 493.3	+ 18.7 %	7 153.8	6 442.1
Total capital, reserves and technical provisions	10 359.5	+ 17.6 %	8 809.8	7 878.5
Number of employees	428	+ 39	389	364
Retention	72.1 %		73.9 %	77.6 %
Loss ratio*	68.4 %		70.9 %	69.6 %
Expense ratio*	29.7 %		27.2 %	26.3 %
Combined loss/expense ratio*	98.1 %		98.1 %	95.9 %

* excluding life and health reinsurance

In order to avoid unnecessary repetitions in our reporting, we have combined the status reports of Hannover Re Group and the parent company, Hannover Rückversicherungs-AG, within the Group report.

However, German accounting regulations for insurance companies require status reports for each class of insurance. Since this breakdown does not correspond to the definition of our business segments for the Group as a whole, we have compiled the following class-of-business reviews on the basis of the portfolio of the parent company, Hannover Rückversicherungs-AG.

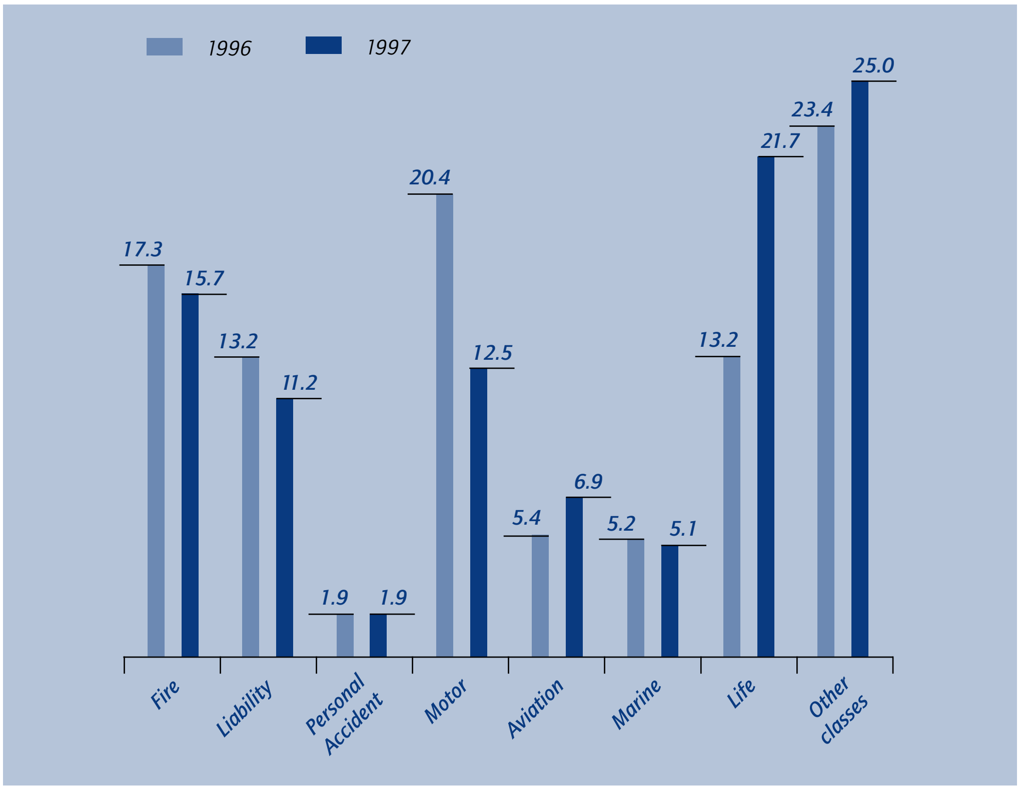
Premium growth

Our gross premium income in the year under review was influenced by restructuring within the Hannover Re Group. With effect from 1.1.1997, the parent company has only been serving foreign markets, while our subsidiary E+S Rück has assumed responsibility for German business. The geographical balance of the portfolio, which to date has proven highly advantageous for both companies from the point of view of optimal risk spreading, has been preserved by means of mutual retrocessions.

This factor boosted the growth in gross premiums, which increased by 33.6 % to DM 5,103 million. Net premium income rose to DM 3,677 million (+ 30.3 %); the retention rate thus amounted to 72.1 %.

Due to the retrocessions from E+S Rück, German business accounted for a substantial share of our portfolio (23.2 %), and developments in the German market thus continued to impact upon our technical result.

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



Fire

Fire		
in DM million	*1997*	*1996*
Gross premiums written	798.6	660.5
Loss ratio (%)	57.5	54.4
Technical result (net)	29.1	48.4

The growth of 20.9 % in fire business was attributable above all to the Asian countries and exchange rate movements in America. Nevertheless, we also stepped up our involvement in other markets substantially, such as the United Kingdom.

German business was partially responsible for the deterioration of the result. Fierce competition in this market, most notably for industrial fire business, led to a worsening in conditions for insurers and reinsurers alike (insurance premiums declined by a further 14 % following a 12 % drop in the previous year). The fire at a manufacturing plant for electronic components in Taiwan constituted a major international event and generated total insured losses in excess of USD 300 million.

However, the generally favourable loss experience allowed us to post a sizeable technical profit in the year under review. The amount of DM 24.3 million was allocated to the fluctuation reserve.

Liability

Liability		
in DM million	*1997*	*1996*
Gross premiums written	573.2	505.7
Loss ratio (%)	84.3	86.4
Technical result (net)	-58.1	-58.4

Liability premiums increased by 13.3 % in the year under review. We achieved notable growth in the United Kingdom and Australia, whereas the proportion of German business levelled off.

After allowing for currency factors, there was little change in our total premium income in the USA, which is our most important foreign market. Nevertheless, substantial shifts in emphasis were seen within the various liability classes. Due to the market situation, for example, we expanded the medical malpractice segment but considerably reduced our acceptances in D&O (Directors' and Officers') insurance.

Personal lines business remained unproblematic in Germany, but in the area of major commercial and industrial risks - as in the case of industrial fire business - trends towards lower premium rates and more generous terms and conditions could be discerned.

The fluctuation reserve was increased by the amount of DM 18.4 million. In addition, we allocated the amount of DM 94.6 million from the non-technical result to the IBNR reserve for liability business.

Personal Accident

We were able to build upon the highly successful expansion of our personal accident business in the previous year, posting a gain of 31.9 % in the year under review. In addition to the growth attributable to exchange rate movements, we recorded increased premium income in the USA, Italy and South Africa. In Australia, we continued and indeed stepped up our substantial activities of the previous year.

The results in the Personal Accident class are affected by claims developments from the previous years. On the other hand, we did not incur the expenditure associated with the financially oriented transactions of the previous year, and the overall result therefore improved. As in the liability class of insurance, run-off periods for Personal Accident claims can sometimes be very protracted. For this reason, from the operational standpoint, these classes account for disproportionately large investment income. Since this fact is reflected in the pricing, premium increases are necessary in times of very low interest rates. However, such increases could not be implemented due to the intensity of competition.

An allocation of DM 3.5 million was made to the fluctuation reserve.

Personal Accident		
in DM million	*1997*	*1996*
Gross premiums written	95.0	72.0
Loss ratio (%)	65.9	85.6
Technical result (net)	-5.7	-14.8

Motor

As part of its new market profile, our subsidiary E+S Rück took over the bulk of our motor business, most of which has derived to date from the German market. However, we still received a substantial share of this segment by way of risk equalization through internal retrocessions.

In Germany, the price competition already witnessed in previous years continued in the year under review. The German insurance market therefore posted a decline of 4.7 % in premium income compared to 1996. While the own damage classes performed well, motor third party liability insurance recorded losses, which were also responsible for the negative results overall. From the international perspective, it was notable that Taiwanese motor business - which had been extremely difficult at times in the past - repeated the favourable experience of the previous year.

Due to the improved technical result, an amount of DM 34.4 million was allocated to the fluctuation reserve. We boosted the IBNR reserve for motor third party liability business with a contribution of DM 36.0 million from the non-technical result.

Motor		
in DM million	*1997*	*1996*
Gross premiums written	639.9	780.2
Loss ratio (%)	74.4	85.6
Technical result (net)	25.0	-7.5

Aviation

Our strategy attaches special importance to the expansion of aviation and aerospace business. The growth of 69.9 % in this segment, the bulk of which derives from the London market, lived up to our ambitious goals. This increase was primarily attributable to our acquisition of the aviation portfolio of Skandia International.

Although the aviation and aerospace sector recorded a number of major losses, the claims burden was below average and further exacerbated the already fiercely competitive state of the market, thereby giving rise to a decline in the overall price level. Our technical result was impacted by the acquisition of the Skandia portfolio.

Despite this, we allocated an amount of DM 21.0 million to the fluctuation reserve

Aviation		
in DM million	*1997*	*1996*
Gross premiums written	350.8	206.5
Loss ratio (%)	65.8	68.9
Technical result (net)	-4.3	20.3

Marine

Marine in DM million	1997	1996
Gross premiums written	259.2	197.5
Loss ratio (%)	62.8	60.8
Technical result (net)	22.0	22.1

Marine business posted premium growth of 31.2 %. This increase was primarily attributable to the United Kingdom and the USA, while the relative share of German business declined slightly.

In both the insurance and reinsurance sectors, the marine market was characterized by a sustained stiffening of competition in the year under review, leading to substantial premium erosion. Although the market was again largely spared any spectacular major losses in 1997, profits were down slightly due to the reduced premium income.

The premium growth in our portfolio was largely connected with the expansion of our excess of loss and facultative portfolios - areas where we succeeded in substantially enhancing our market penetration.

In the light of the favourable result, the fluctuation reserve was strengthened by an allocation of DM 19.5 million.

Life

Life in DM million	1997	1996
Gross premiums written	1 107.0	503.9
Technical result (net)	-182.3	-82.9

Life reinsurance is the target class to which we attach paramount strategic priority. We succeeded in increasing our premium income by a further 119.7 %. In this class of business also, the acquisition of key segments of the portfolio of Skandia International played a vital role in the accomplishment of our strategic objectives. In addition, we again achieved impressive growth in our specialist area - treaties with a prefinancing element.

The technical result was heavily burdened by the transfer of the Skandia portfolio and by prefinancing expenditure. Although at first glance it would appear to give grounds for concern, this deterioration constitutes a profitable investment in the future of our company. The expenditure incurred in the year under review will be offset by corresponding returns in subsequent years, which will accrue to our account and boost profits.

The portfolio of reinsured life insurance developed as follows in the year under review (foreign currency amounts have been converted using the exchange rates as at 31 December 1997):

Life reinsurance portfolio in DM million	1997	1996
Total business reinsured		
sum insured	191 905.4	65 610.0
of which retroceded	40 546.6	3 591.7
Endowment insurance		
sum insured	186 435.5	64 973.2
of which retroceded	39 402.0	3 490.1
Annuity and pension insurance		
12 times annual annuity	5 469.9	636.8
of which retroceded	1 144.6	101.6

Other classes

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

Our aim is to continue to expand our credit/surety business in the light of strategic considerations. This class is marked by fierce competition worldwide, as a consequence of which profitable growth could only be attained to a modest extent. Nevertheless, the result of international business was again highly satisfactory. Now that the steps taken to restore this business to profitability in Germany have begun to bear fruit, the loss ratio here dropped sharply - despite a new record number of insolvencies. For this reason, the international profits were no longer overshadowed by losses on German business, and we were able to post a technical profit for the year under review.

Windstorm business was affected by a number of loss events in 1997; frost damage at the beginning of the year combined with several minor windstorm and hailstorm events caused results in the property classes to decline. The most notable event to hit natural hazards insurance was the Oder river flooding. For Germany alone the economic losses are estimated to be in the order of DM 600 million, although considerably less than DM 100 million of these losses were insured. In view of the fact that natural catastrophes are largely reinsured at the very high end of the risk scale - and on a non-proportional basis -, reinsurance covers remained for the most part free of losses.

Other classes		
in DM million	*1997*	*1996*
Gross premiums written	1 278.9	892.8
Loss ratio (%)	65.1	62.2
Technical result (net)	60.9	39.4

On an overall basis, we again showed a very good profit in the other classes and allocated the amount of DM 38.2 million to the fluctuation reserve.

Affiliated companies

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

INDIVIDUAL *Accounts*

BALANCE SHEET *as at 31 December 1997*

Assets *Figures in DM thousand*	*1997*				*1996*
A. Subscribed capital unpaid - called-up capital - (1996: -)				25 000	25 000
B. Intangible assets: Other intangible assets				82 570	13 669
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			105 487		111 053
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		1 069 965			999 300
2. Loans to affiliated companies		125 047			116 985
3. Participating interests		159 339			148 573
			1 354 351		1 264 858
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		2 037 766			1 472 408
2. Bearer debt securities and other fixed-income securities		4 137 687			3 957 163
3. Mortgages and loans secured on land and buildings		9 633			11 095
4. Other loans					
a) Registered debt securities	439 417				
b) Debentures and loans	210 940				
c) Sundry loans	55 000	705 357			688 039
5. Deposits with banks		429 654			344 877
6. Other investments		10			10
			7 320 107		6 473 592
IV. Deposits with ceding companies			2 801 651		1 759 247
				11 581 596	9 608 750
D. Receivables					
I. Accounts receivable arising out of reinsurance operations - from affiliated companies: 53 988 (1996: 6 123)			587 919		428 134
II. Other receivables - from affiliated companies: 63 812 (1996: 46 277)			72 096		58 441
				660 015	486 575

Liabilities
Figures in DM thousand

	1997			1996
A. Capital and reserves				
I. Subscribed capital		147 651		145 379
II. Capital reserve				
as at 1.1.1997	346 064			
Addition	48 611	394 675		346 064
III. Retained earnings				
1. Statutory reserve	1 000			
2. Other retained earnings	11 400	12 400		12 400
IV. Disposable profit		83 500		75 900
			638 226	579 743
B. Surplus debenture (Genußrechtskapital)			150 000	150 000
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	647 958			
2. Less: reinsurance ceded	129 502	518 456		513 841
II. Life assurance provision				
1. Gross	2 375 886			
2. Less: reinsurance ceded	725 129	1 650 757		1 217 934
III. Provisions for outstanding claims				
1. Gross	7 082 303			
2. Less: reinsurance ceded	884 514	6 197 789		5 290 440
IV. Provision for bonuses and rebates				
1. Gross	6 673			
2. Less: reinsurance ceded	3 198	3 475		2 913
V. Fluctuation reserve and similar provisions		1 161 406		1 002 143
VI. Other technical provisions				
1. Gross	138 569			
2. Less: reinsurance ceded	15 754	122 815		128 574
			9 654 698	8 155 845
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		30 090		26 089
II. Provisions for taxation		93 410		57 785
III. Other provisions		84 370		64 902
			207 870	148 776

Assets *Figures in DM thousand*		*1997*			*1996*
E. Other assets					
I. Tangible assets and stocks			12 433		13 036
II. Current accounts with banks, cheques and cash in hand			74 111		59 730
				86 544	72 766
F. Prepayments and accrued income					
I. Accrued interest and rent			103 233		91 967
II. Other accrued income			1 726		1 899
				104 959	93 866
				12 540 684	10 300 626

Liabilities *Figures in DM thousand*	1997			1996
E. Deposits received from retrocessionaires			992 473	568 040
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations		739 221		644 671
- to affiliated companies: 165 172 (1996: 145 778)				
II. Miscellaneous liabilities		145 485		39 165
- from taxes: 525 (1996: 508)			884 706	683 836
- for social security: 891 (1996: 783)				
- to affiliated companies: 573 (1996: 22 407)				
G. Accruals and deferred income			12 711	14 386
			12 540 684	10 300 626

PROFIT AND LOSS ACCOUNT *for the 1997 financial year*

Figures in DM thousand	*1997*			*1996*
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	5 102 564			3 819 090
b) Retrocession premiums	1 426 050			997 314
		3 676 514		2 821 776
c) Change in the gross provision for unearned premiums (+/-)	-20 085			17 920
d) Change in the provision for unearned premiums, retrocessionaires´ share (+/-)	49 218			31 592
		29 133		49 512
			3 705 647	2 871 288
2. Allocated investment return transferred from the non-technical account, net of retrocession			53 140	37 928
3. Other technical income, net of retrocession			–	33
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	2 847 862			2 415 953
bb) Retrocessionaires´ share	842 559			475 488
		2 005 303		1 940 465
b) Change in provisions for outstanding claims				
aa) Gross	-317 729			-165 283
bb) Retrocessionaires´ share	-31 678			147 572
		-349 407		-17 711
			2 354 710	1 958 176
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-288 831		-162 397
b) Other net technical provisions		49		-133
			-288 782	-162 530
6. Bonuses and rebates, net of retrocession			2 252	1 751
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 544 545		1 052 775
b) Less: commissions and profit commissions received on retrocession		321 607		237 094
			1 222 938	815 681
8. Other technical charges, net of retrocession			3 483	4 508
9. Subtotal			-113 378	-33 397
10. Change in the fluctuation reserve and similar provisions			-159 263	-174 509
11. Net technical result			-272 641	-207 906

Figures in DM thousand	1997				1996
Balance brought forward:				-272 641	-207 906
II. Non-technical account					
1. Investment income					
a) Income from participating interests		71 912			69 278
- affiliated companies: 67 094 (1996: 58 200)					
b) Income from other investments					
- affiliated companies: 24 079 (1996: 19 428)					
aa) Income from land and buildings, rights to land and buildings, leasehold	9 870				
bb) Income from other investments	492 468	502 338			444 302
c) Appreciation on investments		2 088			1 204
d) Gains on the realization of investments		131 187			101 794
			707 525		616 578
2. Investment charges					
a) Investment management charges, including interest		14 862			12 685
b) Depreciation		34 049			43 709
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB) 1 548 (1996: 16 050)					
c) Losses on the realization of investments		8 754			13 852
			57 665		70 246
			649 860		546 332
3. Allocated investment return transferred to the technical account			-66 036		-42 242
				583 824	504 090
4. Other income			34 147		29 096
5. Other charges					
a) Special allocation to provisions for outstanding claims		130 583			110 007
b) Miscellaneous charges		79 973			76 818
			210 556		186 825
				-176 409	-157 729
6. Profit or loss on ordinary activities before tax				134 774	138 455

Figures in DM thousand	1997				1996
Balance brought forward:				134 774	138 455
7. Taxes on profit and income		24 678			26 469
plus allocation for group assessment		26 181			35 912
			50 859		62 381
8. Other taxes		682			435
plus allocation for group assessment		-206			-66
			476		369
				51 335	62 750
9. Profit or loss for the financial year				83 439	75 705
10. Profit brought forward from previous year				61	195
11. Disposable profit				83 500	75 900

Valuation of assets

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

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

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

Shares in affiliated companies and participations were valued on a purchase cost basis. Special write-offs were included.

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 § 341 b (2) in conjunction with § 253 (3) of the Commercial Code (HGB). Lower valuations were retained in accordance with § 280 (2) of the Commercial Code (HGB). Securities or options which are held to cover specific technical provisions (life insurance provision) were combined with these in valuation units.

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 and depreciation. Non-interest-bearing securities were discounted with an interest rate of 5.5 %.

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

Fixed assets and stock are valued at the purchase cost less straight-line 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 insurance provision, provisions for outstanding claims, provisions for bonuses and rebates and other technical provisions as liabilities according to the information provided by the ceding companies.

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5 % of the reinsurance commission in accordance with the NRW order dated 29.5.1974. 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 additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralized. 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 2 % of gross premiums.

In the Liability and Motor Third Party Liability classes we set up IBNR claims reserves. The calculation was largely carried out in accordance with statistical mathematical methods.

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

The fluctuation reserve 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 Commercial Code (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 carried in foreign currencies, into German marks at the average exchange rates for the respective balance sheet date.

Balance sheet items taken over from the previous year were also converted into German marks at the average exchange rates as at the end of the year. In order to reduce currency risks as far as possible, we have endeavoured to ensure that there is congruent cover for liability elements by setting up corresponding asset elements in the different currencies. Where losses have however arisen, these have been shown as such under other expenses. Where profit occurred, we allocated this to the reserve for currency risks as non-realized profit. This reserve is released on an annual basis to be added to the profit. In this respect, profits from carry-forwards may be neutralized, although currency transactions within the year produced losses.

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.

The change in asset items B., C.I. to C. III. was as follows during the 1997 financial year:

Figures in DM thousand	Book values 31.12.1996	Additions	Transfers	Disposals	Depreciation	Book values 31.12.1997
B. Intangible assets: Other intangible assets	13 669	96 026	–	49	27 076	82 570
C. I. Land and buildings, rights to land and buildings, leasehold	111 053	22	–	–	5 588	105 487
C. II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies	999 300	73 992	–	2 665	662	1 069 965
2. Loans to affiliated companies	116 985	9 148	–	1 086	–	125 047
3. Participating interests	148 573	11 646	–	880	–	159 339
4. Total C.II.	1 264 858	94 786	–	4 631	662	1 354 351
C. III. Other financial investments						
1. Shares, units in unit trusts and other variable-yield securities	1 472 408	799 782	–	217 681	16 743	2 037 766
2. Bearer debt securities and other fixed-income securities	3 957 163	4 473 490	5 003	4 287 413	10 556	4 137 687
3. Mortgages and loans secured on land and buildings	11 095	475	–	1 937	–	9 633
4. Other loans						
a) Registered debt securities	406 923	63 655	-5 003	26 158	–	439 417
b) Debentures and loans	226 116	30 195	–	44 871	500	210 940
c) Sundry loans	55 000	–	–	–	–	55 000
5. Deposits with banks	344 877	84 777	–	–	–	429 654
6. Other	10	–	–	–	–	10
7. Total C.III.	6 473 592	5 452 374	–	4 578 060	27 799	7 320 107
Sum total	7 863 172	5 643 208	–	4 582 740	61 125	8 862 515

Land and buildings and rights to land and buildings

On 31.12.1997 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 40,207 thousand in two developed properties.

Shares in affiliated companies and participations

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

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
E+S Rückversicherungs-AG, Hannover, Germany	53.89	DM	251 749	DM	16 481
holds 45.00 % of the shares in: GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany		DM	69 055	DM	-1 508
holds 100.00 % of the shares in: E+S Reinsurance (Ireland) Ltd., Dublin, Ireland		DM	231 001	DM	21 907
holds 33.33 % of the shares in: Hannover Services (Ireland) Ltd., Dublin, Ireland (renamed Hannover Re Advanced Solutions Ltd. in 1998)		DM	131	DM	-49
holds 50.00 % of the shares in: Hannover Life Re of Australasia Ltd, Sydney, Australia		AUD	117 529	AUD	4 309
holds 16.67 % of the shares in: WeHaCo Unternehmensbeteiligungs-AG, Hannover, Germany		DM	79 488	DM	3 565
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany	45.00	DM	69 055	DM	-1 508
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover, Germany	100.00	DM	-14 039	DM	- 986
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich, Germany	99.77	DM	-3 169	DM	- 2 468

Name and registered office of the company *Figures in currency units of 1 000*	*Participation* *(in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Companies resident abroad					
Hollandia Reinsurance Group (Pty) Ltd., Johannesburg, South Africa	52.00	ZAR	145 988	ZAR	2 518
holds 100.00 % of the shares in: Hollandia Reinsurance Company Ltd., Johannesburg, South Africa		ZAR	158 513	ZAR	14 237
holds 80.00 % of the shares in: Hillside House (Pty) Ltd., Johannesburg, South Africa		ZAR	7 788	ZAR	2
holds 100.00 % of the shares in: Hollandia Life Reassurance Company Ltd., Johannesburg, South Africa		ZAR	13 000	ZAR	2 000
holds 20.00 % of the shares in: Hillside House (Pty) Ltd., Johannesburg, South Africa		ZAR	7 788	ZAR	2
holds 100.00 % of the shares in: Indoc Holdings S.A., Luxembourg, Luxembourg		ZAR	16 985	ZAR	70
holds 100.00 % of the shares in: Coral Reinsurance Ltd., Port Louis, Mauritius		ZAR	15 140	ZAR	2 576
holds 100.00 % of the shares in: Lireas Holdings (Pty) Ltd., Johannesburg, South Africa		ZAR	3 818	ZAR	337
Hannover Life Re of Australasia Ltd., Sydney, Australia	50.00	AUD	117 529	AUD	4 309
Insurance Corporation of Hannover, Chicago, USA	100.00	USD	123 956	USD	8 254
Reassurance Company of Hannover, Orlando, USA	100.00	USD	48 104	USD	1 936
International Insurance Company of Hannover Ltd., London, Great Britain	100.00	GBP	54 477	GBP	1 546
Hannover Reinsurance (Ireland) Ltd., Dublin, Ireland	100.00	DM	308 956	DM	44 173
holds 33.33 % of the shares in: Hannover Services (Ireland) Ltd., Dublin, Ireland (renamed Hannover Re Advanced Solutions Ltd. in 1998)		DM	131	DM	- 49

Name and registered office of the company Figures in currency units of 1 000	*Participation (in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Participations					
Hannover Finanz Vermögens-Verwaltungs GmbH, Hannover, Germany	32.91	DM	103 888	DM	20 471
holds 100.00 % of the shares in: Hannover Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover, Germany		DM	102 965	DM	–
WeHaCo Unternehmensbeteiligungs-AG, Hannover, Germany	16.67	DM	79 488	DM	3 565
Heizkraftwerk Römerbrücke ZWO GmbH & Co., Betriebs OHG, Saarbrücken, Germany	26.32	DM	-19 487	DM	3 773
ITAS Vita S.p.A., Trient, Italy	30.00	ITL	56 076 279	ITL	1 871 481
ITAS Assicurazioni S.p.A., Trient, Italy	40.00	ITL	55 414 870	ITL	1 273 658

Other investments

In accordance with § 280 (2) of the Commercial Code (HGB), increased valuations of DM 67,933 thousand (1996: DM 44,983 thousand) were omitted.

Current values pursuant to § 54 RechVersV

The current values of land and buildings were largely determined using a combined asset value and gross rental method. Unfinished buildings were valued at cost of acquisition.

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

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

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

Other investments were valued at nominal values.

Current values pursuant to § 54 RechVersV of asset items C.I to C.III. for the 1997 financial year figures in DM thousand	*Book values 31.12.1997*	*Current values 31.12.1997*	*Difference 31.12.1997*
C.I. Land and buildings, rights to land and buildings, leasehold	105 487	176 273	70 786
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	1 069 965	1 638 266	568 301
2. Loans to affiliated companies	125 047	125 047	–
3. Participating interests	159 339	227 003	67 664
4. Total C.II.	1 354 351	1 990 316	635 965
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	2 037 766	2 562 615	524 849
2. Bearer debt securities and other fixed-income securities	4 137 687	4 320 865	183 178
3. Mortgages and loans secured on land and buildings	9 633	9 633	–
4. Other loans			
a) Registered debt securities	439 417	465 118	25 701
b) Debentures and loans	210 940	219 070	8 130
c) Sundry loans	55 000	60 863	5 863
5. Deposits with banks	429 654	429 654	–
6. Other investments	10	10	–
7. Total C.III.	7 320 107	8 067 828	747 721
Sum total	8 779 945	10 234 417	1 454 472

Assets with a balance sheet value of DM 1,172,556 thousand (DM 1,116,387 thousand) were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Other receivables

Figures in DM thousand	*1997*	*1996*
Receivables from affiliated companies	63 812	46 277
Receivables from the revenue authorities	3 307	4 250
Interest and rent due	1 952	4 395
Reveiveables from the sale of options	1 206	1 375
Receivables from representative offices	834	484
Receivables from the sale of securities	–	1 423
Other receivables	985	237
Total	72 096	58 441

Accruals and deferred income

Figures in DM thousand	*1997*	*1996*
Accrued interest and rent	103 233	91 967
Deferred premium on bonds	1 639	1 845
Other accrued income	87	54
Total	104 959	93 866

Subscribed capital

The subscribed capital consists of 16,730,215 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 83.1 % on the total subscribed capital.

There is further authorized capital of DM 16,827 thousand with a time limit of 1.7.1999. Authorized capital of DM 1,500 thousand with a time limit of 31.08.2002 is available for the issue of employee shares.

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	1997 gross	 net	1996 gross	 net
Fire	149 124	115 134	134 737	115 491
Liability	104 592	88 283	93 294	85 727
Personal accident	11 360	8 839	8 898	7 438
Motor	38 853	30 659	31 988	23 360
Aviation	29 492	21 998	26 353	21 750
Life	134 878	109 500	117 466	104 125
Other classes	179 659	144 043	179 891	155 950
Total	647 958	518 456	592 627	513 841

Life insurance provisions

Insurance class Figures in DM thousand	1997 gross	 net	1996 gross	 net
Life	2 375 848	1 650 726	1 553 032	1 206 819
Other classes	38	31	11 115	11 115
Total	2 375 886	1 650 757	1 564 147	1 217 934

Provisions for outstanding claims

Insurance class Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Outstanding loss reserve				
Fire	540 846	377 385	480 602	340 365
Liability	3 432 930	3 161 793	2 734 998	2 535 280
Personal accident	99 566	88 265	80 537	75 034
Motor	1 085 817	1 044 450	1 297 209	1 055 239
Aviation	315 441	242 088	239 366	202 996
Marine	343 817	295 891	290 980	261 355
Life	164 293	128 694	104 859	100 686
Other classes	1 090 170	849 835	914 184	711 121
	7 072 880	6 188 401	6 142 735	5 282 076
Provision for annuities				
Liability	600	567	859	823
Personal accident	1 560	1 559	1 099	1 099
Motor	7 263	7 262	6 538	6 442
	9 423	9 388	8 496	8 364
Total	7 082 303	6 197 789	6 151 231	5 290 440

Fluctuation reserve and similar provisions

Insurance class Figures in DM thousand	Position at 1.1.1997	Addition	Withdrawal and release	Position at 31.12.1997
Fluctuation reserve				
Fire	216 803	27 026	2 699	241 130
Liability	132 351	17 760	–	150 111
Personal accident	–	3 503	–	3 503
Motor	33 163	34 424	–	67 587
Aviation	57 173	21 008	–	78 181
Marine	110 460	19 471	–	129 931
Other classes	410 965	49 715	12 102	448 578
	960 915	172 907	14 801	1 119 021
Provisions which are similar to the fluctuation reserve – major risks –				
Liability	11 377	608	–	11 985
Other classes	29 851	549	–	30 400
Total	1 002 143	174 064	14 801	1 161 406

Other technical provisions

Type of provision Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Profit commission	124 068	109 507	106 298	106 100
Commissions	8 815	8 132	17 327	17 327
Premium cancellation	5 621	5 111	6 141	5 005
Lay-up reserve	65	65	142	142
Total	138 569	122 815	129 908	128 574

Technical provisions – total

Insurance class Figures in DM thousand	1997 gross	1997 net	1996 gross	1996 net
Fire	938 290	736 217	838 449	678 964
Liability	3 784 376	3 491 600	3 052 414	2 842 254
Personal accident	117 376	103 107	91 689	84 333
Motor	1 202 255	1 152 936	1 374 445	1 123 117
Aviation	428 463	347 015	328 378	287 263
Marine	475 285	427 228	403 290	373 531
Life	2 681 086	1 893 826	1 776 863	1 413 109
Other classes	1 785 664	1 502 769	1 580 279	1 353 274
Total	11 412 795	9 654 698	9 445 807	8 155 845

Provisions for other risks and charges

Figures in DM thousand	1997	1996
Provisions for pensions and similar liabilities	30 090	26 089
Provisions for taxation	93 410	57 785
Sundry provisions		
Provisions for currency risks	40 175	34 085
Provisions for interest	23 100	12 400
Provisions for outstanding payments	7 501	7 161
Provisions for securities and forward exchange business	8 345	4 950
Provisions for annual accounts costs	2 029	1 951
Provisions for litigation risks	1 050	1 031
Other provisions	2 170	3 324
	84 370	64 902
Total	207 870	148 776

Other liabilities

Figures in DM thousand	*1997*	*1996*
Liabilities from portfolio acquisitions	125 373	–
Liabilities from interest on surplus debenture	11 325	11 325
Liabilities from deliveries and services	3 356	2 736
Liabilities from outstanding social security contributions	891	783
Liabilities in respect of affiliated companies	573	22 407
Liabilities in respect of the revenue authorities	525	508
Liabilities from land and buildings	208	165
Other liabilities	3 234	1 241
Total	145 485	39 165

Deferred items

Figures in DM thousand	*1997*	*1996*
Disagio	9 389	10 797
Long-term tenancy rights	3 002	3 241
Other accruals and deferred income	320	348
Total	12 711	14 386

Contingent liabilities

There are no contingent liabilities 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 1997	Gross premiums written 1996	Gross premiums earned 1997	Gross premiums earned 1996	Net premiums earned 1997	Net premiums earned 1996	Technical result for own account 1997	Technical result for own account 1996
Fire	798 630	660 475	789 308	672 580	464 731	434 233	4 751	47 015
Liability	573 160	505 659	570 703	524 934	454 840	479 129	-76 524	-79 695
Personal accident	95 040	72 024	92 872	72 003	76 656	62 192	-9 183	-14 785
Motor	639 893	780 227	633 526	778 921	490 547	461 934	-9 415	7 968
Aviation	350 812	206 472	350 989	199 807	211 842	165 046	-25 271	13 747
Marine	259 209	197 521	259 209	197 521	195 659	163 572	2 536	-1 796
Other insurance classes	1 278 863	892 818	1 286 281	919 974	936 909	681 956	22 722	-97 456
Total property and casualty insurance	3 995 607	3 315 196	3 982 888	3 365 740	2 831 184	2 448 062	-90 384	-125 002
Life	1 106 957	503 894	1 099 591	471 270	874 463	423 226	-182 257	-82 904
Total insurance business	5 102 564	3 819 090	5 082 479	3 837 010	3 705 647	2 871 288	-272 641	-207 906

Total insurance business

Figures in DM thousand	1997	1996
Gross claims incurred	3 165 591	2 581 236
Gross operating expenses	1 544 545	1 052 775
Reinsurance balance	244 344	105 567

Expenses for personnel

Figures in DM thousand	1997	1996
1. Wages and salaries	40 000	35 765
2. Social security payments and expenses for welfare	7 090	6 972
3. Expenses for old-age pension scheme	4 504	1 651
4. Total expenses	51 594	44 388

Expenses for investments

Figures in DM thousand	*1997*	*1996*
Shares, units in unit trusts	19 133	13 858
Fixed-income securities	13 317	9 890
Administrative expenses	10 035	8 744
Land and buildings	7 595	8 389
Derivative financial instruments	3 668	2 689
Deposit and bank fees	2 620	1 763
Shares in affiliated companies and participations	797	10 183
Registered debt securities, debentures and loans	500	8 210
Deposits	–	6 520
Total	57 665	70 246

Other income

Figures in DM thousand	*1997*	*1996*
Exchange rate gains	16 975	17 116
Profit from services	6 337	5 291
Allocated investment return	4 466	1 982
Release of non-technical provisions	3 592	96
Cancellation of value adjustments	904	2 264
Profit from clearing transactions	2	609
Other income	1 871	1 738
Total	34 147	29 096

Other expenses

Figures in DM thousand	*1997*	*1996*
Allocations to the provisions for outstanding claims	130 583	110 007
Deposit interest	21 641	10 833
Exchange rate losses	17 800	17 302
Interest charges on surplus debenture (Genußrechtskapital)	11 325	11 325
Allocation to interest provisions	10 700	12 400
Expenses for the whole company	8 640	7 088
Interest charges on portfolio acquisitions	7 430	–
Expenses for letters of credit	5 139	3 319
Expenses from services	3 714	3 171
Interest charges from clearing transactions	2 420	2 465
Interest charges on old-age pension scheme	1 584	1 475
Separate value adjustment on accounting debts	979	9 967
Depreciation on other assets	661	150
Financing interest	426	423
Other interest and expenses	410	1 214
	223 452	191 139
Less: Technical interest	12 896	4 314
Total	210 556	186 825

Other information

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

Salaries of DM 309 thousand were received by the Supervisory Board and DM 3,826 thousand by the Executive Board in the year under review. The salaries of former directors and their surviving dependants amounted to DM 458 thousand, and a liability of DM 7,357 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 1.1.1997*	*Addition*	*Amortisation*	*Deduction transfer*	*Position at 31.12.1997*	*Interest rate %*
Supervisory Board	108	–	5	–	103	5.5
Executive Board	456	–	28	186	242	5.5

The loans end between the years 2012 and 2018.

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

The average number of employees was 411 in the financial year.

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

Hannover, 16th July 1998

Executive Board

Zeller	Dr. Hecker	Dr. Becke
Gräber	Haas	Schubach

Certification by the Independent Auditors

The original German financial statements for Hannover Re which we have audited in accordance with professional standards comply with the legal regulations. The financial statements present, in compliance with generally accepted accounting principles, a true and fair view of the net worth, financial position and results of the company. The management report is in agreement with the financial statements.

Hannover, 17th July 1998

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

(Certified Public Accountants)

We supervised the management of the company regularly during 1997 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 five meetings and several times by written resolutions. The Supervisory Board's Personnel Committee met on four occasions. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries was also included in our consultations.

As part of the implementation of important individual projects, we were involved in various ways – *inter alia* in the form of a special meeting – with the acquisition of the active portfolio of Skandia International Insurance Company, Stockholm, and the acquisition of all shares of Skandia Reassurance (UK) Ltd., London. This purchase enabled the company to achieve sustained growth in business segments of major strategic significance - such as life reinsurance, facultative reinsurance and aviation/aerospace insurance - and to acquire attractive new business relationships. The acquisition was effected jointly with our subsidiary E+S Rück, which is to assume a 20 % share. We received regular reports on progress with the integration of the acquired business and on the activities of the various project groups which were formed for this purpose.

As in the previous year, we also devoted close attention to the company's capital and reserves in the year under review. In the light of the continued increase in premium income and bearing in mind the growing demands placed by our clients on capital resources, the share capital was increased from approved capital by the nominal amount of approximately DM 2.3 million to roughly DM 147.7 million by way of a capital increase though contributions in kind using the pay-out-take-back method.

Furthermore, particular importance was attached to the establishment of approved capital for the issue of employee shares to the members of staff of Hannover Re and its affiliated companies. This made it possible for the Executive Board to offer employees an opportunity to participate in the company under advantageous conditions, thereby enabling them to share in the company's success and enhancing their commitment to the Group.

The accounting, the annual accounts and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. We have no comment to make on the auditor's report, and the Supervisory Board agrees with its findings.

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

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

1. its factual details are correct,

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

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

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

Nor have we any objection to the Executive Board's overall report; we agree to the 1997 annual accounts, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 1997.

Following the completion of its five-year term of office, new elections to the Supervisory Board were due to be held on 19 September 1997, the date of the Annual General Meeting. Mr. R. Claus Bingemer and Dr. Wolfgang Bühler, who had served on the Supervisory Board as shareholders' representatives for terms of five and nine years respectively, did not stand for re-election; similarly, Mr. Horst Brode, following a ten-year term as an employees' representative, did not seek re-election. As their successors, the Annual General Meeting appointed Mr. Rudolf Schwan and Dr. Paul Wieandt to the Supervisory Board; the employees chose Ms. Karola Böhme as their new representative.

Immediately following its election by the Annual General Meeting, the Supervisory Board assembled for its constitutive meeting on 19 September 1997. Mr. Wolf-Dieter Baumgartl was reelected as Chairman of the Supervisory Board, and Dr. Paul Wieandt was chosen to be Deputy Chairman. The Supervisory Board formed a Personnel Committee.

Mr. Dirk Lohmann's membership of the Executive Board ended on 31 August 1997. Mr. Lohmann had belonged to the Executive Board since 1 January 1994. The Supervisory Board expressed its appreciation of Mr. Lohmann's service, and thanked him for his contribution to the development of the company. With effect from 1 September 1997, Mr. Jürgen Gräber was appointed as a deputy member of the company's Executive Board. Mr. Gräber bears regional responsibility for English-speaking Africa, Asia, Australia and New Zealand, and he is also responsible for the aviation and marine sectors as well as financial reinsurance.

Hannover, 4 August 1998

For the Supervisory Board

Baumgartl
Chairman

Australia

Hannover Life Re of Australasia Ltd
Level 7
70 Phillip Street
Sydney, NSW 2000
Telephone (2) 92 51 69 11
Fax (2) 92 51 68 62

Hannover Rückversicherungs-AG
Australian Branch
G. P. O. Box 3973
Sydney, NSW 2001
Telephone (2) 92 74 30 00
Fax (2) 92 74 30 33

Canada

Hannover Rückversicherungs-AG
Canadian Branch - Chief Agency
3650 Victoria Park Avenue, Suite 201
Toronto, Ontario M2H 3P7
Telephone (4 16) 4 96 11 48
Fax (4 16) 4 96 10 89

Hannover Rückversicherungs-AG
Canadian Branch - Facultative Office
150 York Street, Suite 1008
Toronto, Ontario M5H 3S5
Telephone (4 16) 8 67 97 12
Fax (4 16) 8 67 97 28

China

Hannover Rückversicherungs-AG
Shanghai Representative Office
Suite 1107B, 11/F., Shui On Plaza
333 Huai Hai Zhong Road
200021 Shanghai
Telephone (21) 53 06 56 67
Fax (21) 53 06 56 68

France

Hannover Re Gestion de Réassurance
France S.A.
8 Rue Auvray
72000 Le Mans
Telephone (2) 43 24 84 93
Fax (2) 43 28 12 36

Great Britain

Hannover Life Reassurance
(UK) Limited
Hannover House
Virginia Water
Surrey GU25 4AA
Telephone (13 44) 84 52 82
Fax (13 44) 84 53 83

Hannover Life Services (UK) Limited
Hannover House
Virginia Water
Surrey GU25 4AA
Telephone (13 44) 84 52 82
Fax (13 44) 84 53 83

Hannover Services Ltd.
3rd Floor, Fountain House
130 Fenchurch Street
London EC3M 5DJ
Telephone (1 71) 6 26 02 11
Fax (1 71) 6 23 37 53

International Insurance Company
of Hannover Ltd.
3rd Floor, Fountain House
130 Fenchurch Street
London EC3M 5DJ
Telephone (1 71) 6 26 02 11
Fax (1 71) 6 23 37 53
Administration:
Bishopsgate House
Tollgate
Eastleigh
Hants SO53 3YA
Telephone (17 03) 64 44 55
Fax (17 03) 64 46 68

Greece

Mediterranean Reinsurance
Services Ltd.
P. O. Box 51177
14510 Kifissia, Athen
Telephone (1) 6 20 55 65/6 20 50 34
Fax (1) 6 20 55 61
Telex 223 561 med gr

Ireland

Hannover Re Advanced Solutions Ltd.
No. 2 Custom House Plaza, IFSC
Dublin 1
Telephone (1) 6 12 57 00
Fax (1) 8 29 14 00

Hannover Reinsurance (Ireland) Ltd.
No. 2 Custom House Plaza, IFSC
Dublin 1
Telephone (1) 6 12 57 15
Fax (1) 8 29 14 00

Italy

Hannover Re Services Italy Srl
Via Mazzini, 12
20123 Mailand
Telephone (2) 80 68 13 - 11
Fax (2) 80 68 13 - 49

Japan

Hannover Rückversicherungs-AG
Representative Office Tokyo
4th Floor, Surugadai-Sky Building
2-3-16, Kanda Surugadai
Chiyoda-ku, Tokyo
Telephone (3) 32 92 85 31
Telefax (3) 32 92 91 35

Malaysia

Hannover Rückversicherungs-AG
Malaysian Branch
Business Suite 19A-9-1, Level 9
UOA Centre, No. 19 Jalan Pinang
50450 Kuala Lumpur
Telephone (3) 2 64 51 22/2 64 61 22
Fax (3) 2 64 51 29/2 64 61 29

Mexico

Hannover Services (Mexico) S.A. de C.V.
Bosque de Ciruelos 162
Bosque de las Lomas, 3rd Floor
Apartado Postal 10-950
CP 11700 Mexico, D.F.
Telephone (5) 2 51 50 22
Fax (5) 5 96 41 73

South Africa

Hannover Services RSA (Pty) Ltd.
P. O. Box 62210
Marshalltown 2107 2000
Telephone (11) 7 89 26 66/7 89 26 67
Fax (11) 7 89 53 60

Hollandia Life Reassurance
Company Ltd.
P. O. Box 10842
Johannesburg 2000
Telephone (11) 4 81 65 00
Fax (11) 4 84 33 30/4 84 33 32

Hollandia Reinsurance Company Ltd.
P. O. Box 10842
Johannesburg 2000
Telephone (11) 4 81 65 00
Fax (11) 4 84 33 30/4 84 33 32

Spain

Hannover Re Correduría de
Reaseguros S.A.
Paseo del General Martinez
Campos 46
280 10 Madrid
Telephone (91) 3 19 00 49
Fax (91) 3 19 93 78

Sweden

Hannover Re Sweden
Insurance Company Ltd.
Barks väg 15, Solna
103 50 Stockholm
Telephone (8) 7 88 45 00
Fax (8) 85 77 48

Hannover Rückversicherungs-AG,
Tyskland filial
Barks väg 15, Solna
103 50 Stockholm
Telephone (8) 7 88 45 00
Fax (8) 85 77 48

Taiwan

Hannover Rückversicherungs-AG
Representative Office Taipei
Room A 2, 12th Floor
296 Jen Ai Road, Section 4
Taipei, Taiwan R.O.C.
Telephone (2) 27 01 10 96
Fax (2) 27 04 81 17

USA

Hannover Rückversicherungs-AG
Representative Office USA
1901 North Roselle Road, Suite 1040
Schaumburg, Illinois 60195
Telephone (8 47) 3 10 38 54
Fax (8 47) 3 10 38 56

Insurance Corporation of Hannover
Equitable Plaza
3435 Wilshire Blvd., Suite 700
Los Angeles, California 90010
Telephone (2 13) 3 80 88 22
Fax (2 13) 3 86 20 62
Telex 673 621

Reassurance Company of Hannover
800 N. Magnolia Avenue
Suite 1000
Orlando, Florida 32803-3251
Telephone (4 07) 6 49 84 11
Fax (4 07) 6 49 83 22

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 financing: 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 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 fluctuation reserve. 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.

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross / Retro / Net

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

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

The photos in our annual report show members
of staff of our company

Photography: Michael Korte, Hamburg

Hannover
Rückversicherungs-
Aktiengesellschaft

Karl-Wiechert-Allee 50
30625 Hannover

Telephone (05 11) 56 04-0
Fax (05 11) 56 04-188
E-Mail info@hannover-re.com

www.hannover-re.com

Investor Relations/
Public Relations

Roland Vogel

Telephone (05 11) 56 04-5 01/7 43
Fax (05 11) 56 04-6 48
E-Mail roland.vogel@hannover-re.com

Investor Relations

Iris Garbers

Telephone (05 11) 56 04-7 29
Fax (05 11) 56 04-6 48
E-Mail iris.garbers@hannover-re.com

Public Relations

Gabriele Handrick

Telephone (05 11) 56 04-5 02
Fax (05 11) 56 04-6 48
E-Mail gabriele.handrick@hannover-re.com

This annual report was printed on chlorine-free bleached paper