Supplementary information on equity and liabilities

Shareholders' equity

Treasury shares held for account of Group companies are treated like unissued shares and are deducted from shareholders' equity at average cost. Gains and losses arising from trading in treasury shares held by the company are added to revenue reserves after income tax has been deducted.

Insurance reserves

These include unearned premiums, the aggregate policy reserves, reserves for loss and loss adjustment expenses, and other insurance reserves. Premiums written attributable to income of future years are accrued in **unearned premiums**. These premiums are distributed to the current fiscal year and subsequent years in relation to the exact risk coverage period. However, if there is no temporal proportionality between risk and premium, account must be taken of the varying development of risk over time.

Unearned premiums for reinsurance business assumed are generally based on the calculations of the cedant.

Aggregate policy reserves, including the reserve for advancing age in health insurance, is calculated on actuarial principles using the present value of future benefits less the present value of premiums still to be received.

The calculation of aggregate policy reserves is in accordance with various U.S. GAAP Statements of Financial Accounting Standards (SFAS), including SFAS 60, SFAS 97, and SFAS 120. The calculation of aggregate policy reserves depends on the extent to which policyholders benefit from any surpluses earned on insurance policies. The assumptions on which the calculation is based vary as a function of the year in which the contract was signed. This applies in particular with regard to mortality, morbidity, interest rates and the treatment of deferred policy acquisition costs. A distinction is drawn between the following situations:

- Policyholders participate in surpluses in the same proportion as their policies have contributed to these surpluses. Policyholders do not participate in losses. This is referred to as the contribution principle. In this case, assumptions for mortality, interest and costs are conservative and contractually agreed, so there is a strong probability that surpluses will arise, most of which have to be distributed to policyholders. Policy acquisition costs are deferred over the terms of the policies in the same proportion as the surpluses in individual years contribute to the surplus on the portfolio concerned (SFAS 120).
- Policyholders participate in a surplus on the basis of a mechanical non-contributory system, and policyholders are guaranteed fixed benefits and do not participate in any profits. All other benefits and risks are carried by the insurer. In these cases, assumptions based on experience are used, including provisions for adverse deviations, which are based on values at the time when the policy is taken out. In health insurance, the insurer has the option of adjusting premiums when the assumptions change. Policy acquisition costs are also recognized over the terms of these policies, but in the same proportion as premiums written for the year concerned compared to the total premium income (SFAS 60).
- Policyholders carry not only the investment risk and corresponding opportunities for benefit, but also losses (e. g. unit-linked insurance policies). The aggregate reserve for these policies is shown under insurance reserves for life insurance where the investment risk is carried by policyholders. In this case, the aggregate reserve is not calculated actuarially, but rather it moves in line with the value of the related investments (SFAS 97).
- Policyholders are entitled, within certain limits, to vary the level of premium payments, and the life insurance enterprise does not generally give any contractual guarantees about minimum rate of return or the level of management fees (e. g. universal life policies). In this case, the aggregate reserve is not calculated actuarially, but rather it moves in line with the policyholders' account balances (SFAS 97).

The interest rate assumptions were as follows:

	Policies using the contribution principle	Other policies (FAS 60)
Aggregate policy reserves	3 – 4 %	2.5 – 7 %
Deferred acquisition costs	5 – 6 %	5 – 7 %

The Group's life insurance subsidiaries offer a wide range of traditional life insurance, financial and investment products. Traditional life insurance products consist of both short and long-duration policies with participating and non-participating features. Short-duration traditional life insurance products include term, accident and health contracts. Long-duration traditional life insurance products include individual and group whole-life, endowment, guaranteed renewable term and accident and health, and annuity contracts. Financial and investment products consist, among others, of universal life, unit-linked products (variable annuities), single premium annuities, and guaranteed investment contracts.