ERGO ANNUAL REPORT AND ACCOUNTS 1997

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1997

ERGO

ERGO Insurance Group in summary

		1997	1996*	*More information on Page:*
Premium income				24
Gross premiums written	DM million	**21,287**	21,118	
Change on previous year	%	**+ 0.8**		
Amounts released from the provision for bonuses and rebates	DM million	**1,635**	1,742	
Total	DM million	**22,922**	22,860	
Payments to customers				25
Claims incurred (gross)	DM million	**14,597**	13,579	
Change on previous year	%	**+ 7.5**		
Group results				25
Balance on technical account, net of reinsurance ceded and before changes to equalization provision	DM million	**559**	519	
Net withdrawal from/(addition to) equalization provision	DM million	**(135)**	(119)	
Balance on non-technical account before taxation	DM million	**440**	372	
Group net profit for the year	DM million	**535**	339	
Investments				32
Book value of consolidated investments	DM million	**113,715**	104,278	
Investment income	DM million	**7,937**	7,471	
Capital and reserves				26
Shareholders' funds	DM million	**4,216**	3,749	
Equity ratio (as % of earned premiums, net of reinsurance ceded)	%	**22.6**	20.2	
Technical provisions				
Actuarial provision (for life and health business)	DM million	**87,023**	80,310	
Total technical provisions	DM million	**108,876**	100,546	
Employees				34
Full-time representatives		**16,860**	16,717	
Salaried employees		**22,925**	23,247	
Group earnings per share, as defined by DVFA/GDV**	DM	**7.61**	5.22	41
Dividend proposed to the Annual General Meeting				39
Dividend distribution	DM million	**113**		
Dividend rate	%	**30**		

* See page 23 for details on how the 1996 results are stated.

** DVFA is the German Society of Investment Analysts and Asset Managers, GDV is the German Insurance Association.

ERGO Insurance Group

The chart shows the main companies that make up the ERGO Insurance Group.

ERGO

VICTORIA	Hamburg-Mannheimer	DKV	D.A.S.
VICTORIA Leben (life)	**HM Leben** (life)	**DKV Kranken** (health)	**D.A.S. Rechtsschutz** (legal expenses)
VICTORIA Kranken (health)	**HM Sach** (property/casualty)	**DKV foreign subsidiaries**	**D.A.S. Versicherung** (property/casualty)
VICTORIA Versicherung (property/casualty)	**HM Rechtsschutz** (legal expenses)		**D.A.S. foreign subsidiaries**
VICTORIA Rück (reinsurance)	**HM foreign subsidiaries**		
VICTORIA foreign subsidiaries			

The ERGO Insurance Group was formed through a merger which placed the German insurance companies VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. under the common roof of the ERGO Versicherungsgruppe AG holding company. Its operating companies complement each other in terms of products, distribution channels and customer base. ERGO has moved into second place in the German primary insurance market, with more than 15 million customers and premium income of over DM 21 billion. Its investment portfolio worth more than DM 100 billion also makes the Group one of Germany's largest institutional investors.

ERGO's main business focus is on private individuals, and its second core customer group consists of small-to-medium-sized firms. The Group also writes corporate and industrial business on a selective basis. It intends to further build upon its position as a major provider of company pension plans.

ERGO leads the European market in private health insurance via DKV, and in legal expenses insurance via D.A.S. The Group's market share in Germany is 17 % in both of these fields. It holds second place in the German life assurance and accident insurance markets, with 9 % and 11 % shares respectively. The property and casualty insurance market share is 4 % overall, but substantially higher in policies for private individuals.

The merger places the ERGO companies in a stronger position in Germany and gives them a broader base for expansion on the European insurance market. Integration synergies will be reaped by developing shared activities. The common goal is a lasting increase in the Group's intrinsic value.

ERGO shares

ERGO bearer shares replace registered shares in VICTORIA Holding

ERGO shares were first listed on the Frankfurt and Düsseldorf stock exchanges and in the XETRA electronic trading system on 2 February 1998, when they took the place of VICTORIA Holding shares in the MDAX index. The market capitalization of ERGO Versicherungsgruppe AG now exceeds DM 27 billion, and it will be accorded its full weighting on the next index realignment by Deutsche Börse AG in September 1998. This is set to make ERGO shares the foremost MDAX security, accounting for more than 8% of the index.

ERGO Versicherungsgruppe AG has a share capital of DM 377.5 million, divided into 75.5 million bearer shares with a nominal value of DM 5 each. Their lower par value compared with shares in VICTORIA Holding AG renders them more attractive to private investors. The changeover from restricted, registered shares to freely transferable bearer shares has further enhanced their appeal by enabling them to be held in nominee accounts, which makes for easier and cheaper portfolio management.

Shares in VICTORIA Holding had performed well in 1997, outpacing the MDAX with 36% growth to close the year at DM 1,801. Between 2 February 1998 when ERGO shares first started trading and the eve of the annual accounts' presentation on 25 March 1998, the shares appreciated by 57% – well above the DAX and comparable indices.

Continued earnings growth

ERGO Insurance Group companies continued their earnings growth of previous years in 1997. Substantial increases in the net profits earned both by property-related and by personal insurance products boosted Group net profit for the year by over 50% to DM 535 million.

Earnings per share have also improved strongly. The independently audited figure calculated as recommended by the DVFA (German Society of Investment Analysts and Asset Managers) and GDV (German Insurance Association) went up by more than 45%, from DM 5.22 to DM 7.61. We aim to continue increasing this ratio, which is a key indicator of a company's profitability.

Higher dividends

ERGO shareholders will benefit from these performance gains not only in terms of rising share prices, but also via attractive dividends. Accordingly, the Managing Board and the Supervisory Board are proposing a dividend of DM 1.50 per share for 1997. This corresponds to a dividend rate of 30% and hence an increase of more than 7% over the previous year's dividend for VICTORIA Holding AG. The effective dividend is even higher for shareholders resident in Germany by virtue of a tax credit that raises it to DM 2.14 or 43%.

The appeal of ERGO shares was evident on the stock exchange from Day 1.

Further information on shares in ERGO Versicherungsgruppe AG is provided on pages 40–43 of this report.

ERGO Insurance Group

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The Company's governing bodies

Supervisory Board

Dr. Hans-Jürgen Schinzler
Chairman of the Managing Board of Münchener Rückversicherungs-Gesellschaft AG (Munich Re), Chairman

Holger Stubbe
Insurance staff member, Deputy Chairman

Herbert Hansmeyer
Member of the Managing Board of Allianz AG, Deputy Chairman

Waltraud Baier
Insurance staff member

Silvia Bohse
Insurance staff member

Meinhard Carstensen
Member of the Managing Board of Dresdner Bank AG, up to 21 May 1997

Dr. Ralf Corsten
Chairman of the Managing Board of Touristik Union International (TUI)

Dr. Klaus Esser
Member of the Managing Board of Mannesmann AG

Thomas Fehlau
Deputy executive manager

Dr. Hans Krämer
Former member of the Managing Board of Treuhandanstalt Berlin

Günter Lotz (deceased)
Insurance staff member, up to 17 May 1997

Heinz-Jörg Platzek
Member of the Managing Board of Dresdner Bank, from 21 May 1997

Dr. Detlef Schneidawind
Member of the Managing Board of Münchener Rückversicherungs-Gesellschaft AG

Richard Sommer
Trades union representative (DAG)

Wilfried Spreckels
Trades union representative (DAG)

Willibald Strauß
Insurance staff member, from 17 May 1997

Marianne Wloch
Trade employee

Bernd Wrede
Chairman of the Managing Board of Hapag-Lloyd AG

Managing Board

Dr. Edgar Jannott
Chairman

Dr. Jan Boetius

Rudolf de Coster

Dr. Franz Wilhelm Hopp

Dieter Nonhoff

Michael Rosenberg

Hans Ufer

Dr. Götz Wricke

The merger of VICTORIA Holding AG with ERGO Versicherungsgruppe AG, formerly Hamburg-Mannheimer AG, was entered in the Commercial Register on 27 January 1998. The Managing Board of the new company has been composed as shown above since that date.

Hamburg-Mannheimer AG is the successor to Hamburg-Mannheimer Versicherungs-AG, the former life assurance arm of the Hamburg-Mannheimer Group. On restructuring, the latter transferred all life business and operations on 31 July 1997 to another company, which now carries the name of Hamburg-Mannheimer Versicherungs-AG once again. Hamburg-Mannheimer AG became the holding company of the Hamburg-Mannheimer Group on 1 August 1997, and was renamed ERGO Versicherungsgruppe AG in October 1997 in preparation for the merger with VICTORIA Holding AG.

Until 31 July 1997, the Managing Board comprised Dieter Nonhoff (Chairman), Fritz Horst Melsheimer, Dietmar Helmut Schott, Klaus-Joachim Walter, Prof. Dr. Kurt Wolfsdorf and Dr. Götz Wricke. From 1 August 1997 to 26 January 1998, it comprised Dieter Nonhoff (Chairman) and Dr. Götz Wricke.

Report of the Supervisory Board

We have performed our duties under the law and the Articles of Association and continually monitored the Company's management throughout the reporting year. The Managing Board provided us with regular verbal and written reports on the Company's progress and all important developments. Accordingly, the Managing Board kept us updated on the transfer of insurance business and operations that took effect on 31 July 1997 and the conversion into a holding company. In the same way, we were fully informed regarding our Company's merger with VICTORIA Holding AG effective 27 January 1998. We discussed the Company's situation and progress and fundamental issues of management in depth at two ordinary plenary meetings which include the Managing Board.

The three committees constituted under the Procedural Rules of the Supervisory Board – the Standing Committee, Managing Board Committee and Finance Committee – duly performed their allotted tasks. The Finance Committee gave the necessary consent for numerous investments undertaken by the Company. The three committees each met once.

The 1997 annual accounts of the holding company prepared by the Managing Board were examined and given a clean audit report by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Munich. The 1997 consolidated accounts and the joint Management Report for the Company and the Group were likewise examined and given a clean audit report jointly by BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Munich and Wollert–Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft of Düsseldorf.

We too have examined these documents, and we subjected both them and the auditors' reports to a final review at our meeting on the annual accounts, which the auditors attended. We have no objections to raise. In particular, we know of no risks for which provision is lacking in the annual accounts. We hereby approve the 1997 annual accounts, which are thus deemed final. We concur with the Managing Board's proposal for the appropriation of balance-sheet profit.

We have examined the Managing Board's report on relationships with affiliated companies and have no objections to it. The auditors issued the following opinion on the report on relationships with affiliated companies:

"Having duly examined and assessed the report, we hereby certify:

1. That the facts stated in it are accurate;

2. That the Company did not render unduly high payment under any transaction recorded in the report."

We endorse this opinion. Having examined the report on relationships with affiliated companies, we have no reservations as to the Managing Board's declaration at the end of the report.

Mr. Meinhard Carstensen, who had been a member of the Supervisory Board since 1991, resigned from the Board with effect from 21 May 1997. The Annual General Meeting elected Heinz-Jörg Platzek, Member of the Managing Board of Dresdner Bank AG, to take his place for his remaining period of office. Mr. Günter Lotz, an employee representative on the Supervisory Board since 1983, died suddenly and unexpectedly on 17 May 1997. We shall honour his memory. His place has been taken by his elected deputy, Mr. Willibald Strauss. In the current year, the size of the Supervisory Board has been increased from 16 to 20 members: Mr. Frank Fassin, Dr. Heiner Hasford, Dr. Gerhard Jooss and Mr. Horst Poganaz were appointed as the new members by the Düsseldorf local administrative court *(Amtsgericht)* on 8 May 1998.

Messrs. Fritz Horst Melsheimer, Dietmar Helmut Schott, Klaus-Joachim Walter and Professor Kurt Wolfsdorf left the Managing Board as of 31 July 1997 and were appointed to the Managing Board of what is now Hamburg-Mannheimer Versicherungs-AG. We conveyed our thanks to them for their long-standing and valuable work for the good of the Company. Mr. Dieter Nonhoff stood down as Chairman with effect from the merger's registration on 27 January 1998, but remains on the Managing Board of our Company and is now Chairman of the Managing Board of Hamburg-Mannheimer Versicherungs-AG. His successor as Chairman of the Managing Board is Dr. Edgar Jannott, who was appointed simultaneously to the registration of the merger. Dr. Jan Boetius, Mr. Rudolf de Coster, Dr. Franz Wilhelm Hopp, and Messrs. Michael Rosenberg and Hans Ufer were also appointed ordinary members of the Managing Board at that time.

The Supervisory Board thanks the Managing Board, the employees of our company and those of our Group companies for all the work done, their commitment and the successes achieved in the year under review.

On behalf of the Supervisory Board:

Dr. Hans Jürgen Schinzler,
Chairman

Signed in Düsseldorf, 12 May 1998

Dear shareholders,

Dr. Edgar Jannott,
Chairman of the
Managing Board,
ERGO Versicherungs-
gruppe AG

Your company, the newly established ERGO Versicherungsgruppe AG, returned good profits in 1997. This mirrors the strong performance of all ERGO companies: VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. The pleasing profit growth achieved by the separate ERGO companies as recent years has thus continued unbroken since the launch of the new Group.

Be assured that we will not rest on our laurels. Building on this highly promising start, we aim to achieve sustained growth in the ERGO Insurance Group's profitability. Earnings-based growth is our strategic focus. And we want you, our shareholders, to benefit from the company's good performance by way of attractive dividends. We have set ourselves ambitious goals:

In Germany, we aim to strengthen our position as the second-largest primary insurance group. We will continue to focus on the high-earnings business with private individuals in all insurance sectors. Through DKV and D.A.S., the ERGO Insurance Group is Europe's market leader in private health insurance and legal expenses insurance. Hamburg-Mannheimer is Germany's second-biggest life and accident insurer, and the VICTORIA companies are well positioned in the various classes of both life and non-life business. We are also making use of the VICTORIA companies' expertise in commercial and industrial insurance to generate added earnings on a selective basis in this sector.

We plan to expand personal insurance in all major sectors of life and health cover. As the pensions debate and cuts in state health care continue, people increasingly regard private provision for illness and old age as indispensable. We will grasp this business opportunity with our strong and diverse product range, and with our high standards of advice and service.

The distribution channels of the ERGO Group companies do not compete: they complement each other. Top-class exclusive agencies, high-productivity marketing networks, good connections with brokers and successful cooperation with banks allow us to span the full breadth of the insurance market. ERGO has some 15 million customers. Statistically speaking, this means almost one in five German citizens has an insurance policy with an ERGO company. As many of our customers so far only have one policy with us, our existing customer base alone holds great potential for growth.

All ERGO companies are and will remain full-service insurers. To us, service means optimum customer care round the clock. Service is cost-intensive. While the ERGO companies are mutually independent out in the market, we plan to exploit synergies in back-office services, administration and central management functions. For example, we are currently working on joint service networks, joint policyholder assistance services, common computer platforms and administrative systems, joint investment strategies and joint product development.

In Europe, too, we plan to systematically expand on our current activities in 14 countries. We will invest in promising high-growth markets, exploiting the competitive advantage of our existing expertise. We are currently analysing key markets with a view to investment and future planning, and we take good opportunities as they arise, such as the recent acquisition of the Previasa health insurance company by DKV in Spain or the joint venture between DKV and Storebrand in Norway.

You, our shareholders, together with industry analysts, the media, our customers and the general public, followed our plans to create the ERGO Insurance Group and our first few months of trading not just attentively, but with good will. The capital market, too, has rewarded the ERGO concept. ERGO shares' opening price of DM 220 on the Frankfurt stock exchange on 2 February 1998 was very pleasing. The share price rose to well above DM 300 over the weeks that followed, reflecting the high expectations you hold for us as our shareholders. These high expectations spur us on.

We will let ourselves be measured by our ambitious goals. Healthy growth is what secures our future. This benefits not only our customers, but our employees too by protecting their jobs. I wish to thank both our customers for their confidence and our employees for all of the work they have put in during this special founding year. The lasting increase in the value of our company will benefit you, our shareholders, most of all.

"Earnings-based growth is our strategic focus."

Yours sincerely,

Dr. Edgar Jannott

Unity born out of diversity.

e pluribus

1. ERGO: The Group

The ERGO Insurance Group was formed through a merger which placed the German insurance companies VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. under the common roof of the ERGO Versicherungsgruppe AG holding company. Its operating companies complement each other in terms of products, distribution channels and customer base. ERGO has moved into second place in the German primary insurance market, with more than 15 million customers and premium income of over DM 21 billion.

2. Operations of the four ERGO Group companies

The VICTORIA/D.A.S., Hamburg-Mannheimer and DKV insurance groups work together as equal partners under the strategic direction of ERGO Versicherungsgruppe AG:

VICTORIA

The VICTORIA companies are well positioned as full-service insurance companies offering all main classes of life and property/casualty business. While their core business is with private individuals and smaller firms, they also serve selected clients in the corporate and industrial sector. 8.6% of premium income is generated abroad. In property, casualty and accident insurance, VICTORIA aims to expand into high-revenue market segments by offering its customers made-to-measure cover

with a three-layer product range, together with deductibles and packaged assistance. VICTORIA has an innovative and customer-oriented range of life assurance products in its ProVI product system. The 'insurance factory' subsidiary Vorsorge Lebensversicherung AG supplements this range with new developments such as share-index-linked and fund-based life assurance. The Group also plans to expand its life, health and international business. Large amounts have been invested in recent years, notably in modern information technology and an up-to-date communications infrastructure, with the aim of reducing costs and improving competitiveness. VICTORIA will continue to pursue these goals.

Hamburg-Mannheimer

Hamburg-Mannheimer, due to celebrate its 100th anniversary in 1999, occupies second place in the German life and accident market. Growth in its property and its legal expenses business is above average. This is conducted mostly with private individuals, self-employed professionals and smaller firms. Hamburg-Mannheimer's customer focus is reflected in flexible products, cross-sector customer service and seven sectoral sales organizations, all of which offer products to suit their specific markets.

The companies have improved their market position with a number of growth-promoting measures in recent years. Substantial sums have been invested in IT applications. In the property and casualty sector, Hamburg-Mannheimer aims to leverage the strength of its life and accident business. Agency sales and customer service are being further developed. More expansion is planned both at home and abroad.

DKV

DKV is Europe's leading private health insurer. Its success is based on sound actuarial judgement, innovative products, customer-oriented benefit management and professional investment of capital. DKV anticipates growth at home from cuts in statutory health provision and current demographic trends. This demonstrates the superiority of the fully-funded approach used by private health insurers over the pay-as-you-go method applied by statutory health schemes. Approximately 8 % of premiums come from abroad. Entry into additional foreign markets is in preparation or about to be implemented.

unum.

D.A.S.

D.A.S. consolidated its European market leadership in the legal expenses insurance sector in 1997. It operates as a specialist for legal expenses insurance in Germany and twelve other countries, and is market leader in six. 34% of premium income from legal expenses insurance is generated abroad. In Germany, it is also the largest provider of breakdown assistance and recovery insurance among the members of the German Insurance Association. Some ten years ago, D.A.S. began supplementing its specialist business with other property and casualty insurance in order to make better use of its customer potential. Its subsidiary InterAssistance provides assistance services on behalf of the VICTORIA and D.A.S. companies.

ERGO Group insurance companies: 1997 key data (DM million)	Gross premiums written	Claims incurred (gross)	Book value of investments	Net investment income	Net profit for the year	Dividend rate (%)
VICTORIA Lebensversicherung AG	3,425	2,771*)	33,413	2,347	35	28
VICTORIA Krankenversicherung AG	669	417	1,697	114	8	25
VICTORIA Versicherung AG	2,449	1,569	3,642	208	120	30
VICTORIA Rückversicherung AG	542	377	1,548	91	6	14
Hamburg-Mannheimer Versicherungs-AG	5,116	4,252*)	48,475	3,595	119	22
Hamburg-Mannheimer Sachversicherungs-AG	1,384	819	1,750	116	103	24
Hamburg-Mannheimer Rechtsschutzversicherungs-AG	75	47	85	6	2	15
DKV Deutsche Krankenversicherung AG	5,210	3,449	17,441	1,484	102	20
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG	780	570	1,666	132	34	26
D.A.S. Deutscher Automobil Schutz Versicherungs-AG	404	279	480	38	17	–

*) Benefits to policyholders

3. Reasons for ERGO

Market environment

Competition and industry concentration has increased in the insurance sector over recent years for several reasons: the Single Market for insurance came into force in the EU on 1 July 1994, the insurance industry is also fully involved in the globalization process, policy terms and premiums are no longer subject to regulatory approval, consumers are more value-for-money conscious, and the single currency will promote economic integration in Europe.

Under the new Single Market, the European and especially the German insurance industry have restructured faster than expected and with great dynamism. This is witnessed by the many take-overs, mergers and alliances of recent years. Accordingly, the four companies now comprising ERGO made a timely resolution to embark on a common course. The merger forming the ERGO Insurance Group was the right decision for their future.

Ideal partners for a common future

In view of the market changes in Germany and Europe, the ERGO Insurance Group is an ideal partnership whose constituent companies differ and yet perfectly complement each other in terms of products, customer base and distribution channels. Because of this, many of the 'frictional losses' that arise in other mergers have been avoided.

ERGO: Going our own ways

The ERGO merger breaks the mould, in that it brings together only the holding companies of two insurance groups. The operating companies have not been merged.

In this way, we have ensured that four established brand firms can set their own course in the competitive market. At the same time, synergies can be reaped from shared activities.

4. ERGO goals and strategies

Focus on private individuals

ERGO's main business focus, with some 15 million customers, is on private individuals, and its second core customer group consists of small-to-medium-sized firms. The Group also writes corporate and industrial business on a selective basis. It intends to further build upon its position as a major provider of company pension plans.

European market leader in health and legal expenses insurance

ERGO leads the European market in private health insurance via the DKV companies, and in legal expenses insurance via D.A.S. The Group's market share in Germany is 17% in both these fields. It holds second place in the German life assurance and accident insurance markets, with 9% and 11% shares respectively. The property and casualty insurance market share is 4% overall, but substantially higher in policies for private individuals.

Efficient and cost-effective structure

The Group derives great innovative strength from its combined expertise. It has boosted efficiency by centralizing core functions, and establishing uniform technical infrastructures and leaner management particularly in central management services. As a major investor with assets exceeding DM 100 billion, the ERGO Insurance Group is also a growing force on European financial markets.

All Group companies have invested heavily in technology in recent years. The introduction of the euro, the year-2000 changes needed in computer systems and the challenges of fiercer competition all demand further investment. By integrating activities and developing common strategies we shall be able to avoid some costs and share others among a number of partners.

After a two-year transitional phase, we expect to save more than DM 150 million a year in administration alone.

Long-term job security

Providing job security for our employees is important to the Managing Boards of all our companies. However, all companies are under competitive pressure to combine forces. In the long run, the merger forming the ERGO Insurance Group is the best strategy in terms of securing jobs and offering staff attractive development opportunities.

ERGO Versicherungsgruppe AG is a strategic management holding company with full responsibility for the long-term development and direction of the new group. Central management tasks are being combined to this end. The objectives are a short decision tree, flat hierarchies and optimum local deployment of skills and responsibilities.

Opportunities for cross-selling

The shared customer base presents growth opportunities through cross-selling. We exploit these opportunities by offering complementary products via all sales channels.

Expansion of international business

ERGO Insurance Group is undertaking coordinated expansion of its international business by entering into alliances and, where appropriate, by acquiring companies that meet our stringent quality and profitability requirements. The ERGO companies plan to increase their joint activities abroad. In the long run, the international share of premiums will increase markedly from the current figure of 8%.

ERGO is an ideal partnership whose constituent companies differ and yet perfectly complement each other in terms of products, customer base and distribution channels.

When the index is next recalculated, ERGO is set to become the largest stock incorporated into the MDAX.

Additional business in asset management

With investments exceeding DM 100 billion, the ERGO companies combine to form one of Germany's largest institutional investors. Our own investment companies manage securities worth approximately DM 26 billion. We also manage several billion deutschmarks in property and securities for external clients, partly in cooperation with other business associates.

We are judiciously combining resources to further boost efficiency in investment management and achieve even higher returns. This will once again enhance the appeal and competitiveness of ERGO companies' insurance products and strengthen the performance of assets under management for external clients.

Increase in intrinsic value

The merger places the ERGO companies in a stronger position in Germany and gives them a broader base for expansion in the European insurance market. The common goal is a lasting increase in the Group's intrinsic value. Return on equity after tax would have been approximately 10% in 1996, and came to 13.5% in 1997. We wish to increase this to at least 15% after tax by the year 2000 with a further expansion of the equity base, and to allow our shareholders to participate in the rewards by paying out attractive dividends.

ERGO's newly appointed Managing Board outside the Frankfurt stock exchange.

5. Conduct of the merger and value ratio

The ERGO Insurance Group was formed through the merger of VICTORIA Holding AG with Hamburg-Mannheimer AG, which had been renamed ERGO Versicherungsgruppe AG in October 1997. The basis of the merger was an acceptable share conversion ratio agreed between the two holding companies. A joint valuation report was commissioned for this purpose from two independent auditing firms, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and Wollert–Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft. These valued both groups by the same method, which is considered reliable in both theory and practice.

The Managing Boards examined the valuation report and adopted its findings. The court-appointed merger auditors, C & L Deutsche Revision AG Wirtschaftsprüfungsgesellschaft, confirmed the appropriateness of the conversion ratio.

After the valuation process and a number of equity-restructuring measures undertaken by Hamburg-Mannheimer AG to arrive at a 1:1 share conversion ratio, the value ratio between VICTORIA Holding AG and Hamburg-Mannheimer AG stood at 44.1% to 55.9%. However, as Munich Re had carried a 2.4788% stake in VICTORIA Versicherung AG over to the former Hamburg-Mannheimer AG, this relationship changed slightly to become 43.7% to 56.3%. On that basis, Munich Re became the largest shareholder, with a 54.1% stake.

Dr. Edgar Jannott being interviewed by n-tv's Friedhelm Busch, a doyen of stock exchange commentators.

6. Registration and first stock exchange listing

The shareholders of VICTORIA Holding AG and the former Hamburg-Mannheimer AG, renamed ERGO Versicherungsgruppe AG in October 1997, approved the merger with overwhelming majorities at their respective Extraordinary General Meetings held in early December 1997.

The resolutions were entered in the Commercial Register on 27 January 1998. ERGO shares were first listed on 2 February 1998.

Being freely transferable, made out to the bearer and with a low face value of DM 5, the ERGO shares better serve the needs of today's market than those of the former VICTORIA Holding AG. They take the place of VICTORIA's shares in the MDAX index. Now that the value of Hamburg-Mannheimer and DKV is added in, neither of which were traded before, the market capitalization at current share prices is over DM 20 billion. This is set to make ERGO shares the foremost MDAX security following the next recalculation of the index by Deutsche Börse AG in September 1998.

The capital market has acknowledged and rewarded the convincing logic of the four brand insurers' decision to form the ERGO Insurance Group. After opening at DM 220, the price rose to DM 238 on the first day of trading. Only three weeks later, ERGO shares were being traded at DM 300.

ERGO operates around Europe, in:

Austria
Belgium
Czech Republic
Denmark
Germany
Greece
Ireland
Italy
Luxembourg
Netherlands
Portugal
Slovakia
Spain
Switzerland
United Kingdom

ERGO – The new force in Europe too

Europe is growing together. The insurance industry is now taking large strides towards realizing the Single Market in its field. The process will be further accelerated once the single currency is introduced. So the national markets of today will become just regions within the European market of tomorrow. The trend towards global or, at least, pan-European markets has caught hold in the insurance business as it has elsewhere. This is evidenced by an unprecedented process of concentration accompanied by ever fiercer competition.

By combining forces in the ERGO Insurance Group, VICTORIA, Hamburg-Mannheimer, DKV and D.A.S. have paved the way to step up their challenge. By bundling the strengths of all the ERGO companies, the Group has the resources it needs to position ERGO as a European force in the insurance market.

Europe is the name of our market

With gross premiums written exceeding DM 21 billion, ERGO Insurance Group is seventh-largest among Europe's primary insurance companies. The Group companies operating abroad attained 6.6 % business growth, to earn premium income equivalent to DM 1.6 billion. That amounted to approx. 8 % of total Group premium income. So the ERGO Group is already well represented elsewhere in Europe. DKV and D.A.S. are European market leaders in their respective fields of private health insurance and legal expenses cover. Similarly, the ERGO companies specializing in life business and in property and casualty insurance have been developing relatively faster in their European operations.

In terms of premium income, the ERGO companies' most important foreign markets are the Netherlands, Austria, Belgium, Portugal and the United Kingdom.

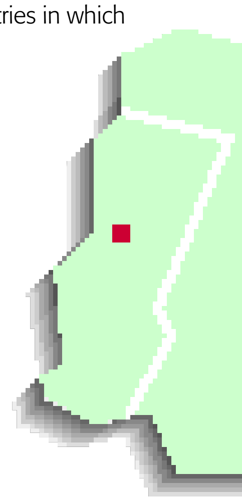
Building on our market position

As in the German insurance market, ERGO Insurance Group intends to coordinate its operations in other markets, to make the best of cross-selling potential and realize synergies in administrative operations. We intend to build on our position as Europe's market leader in private health and in legal expenses insurance.

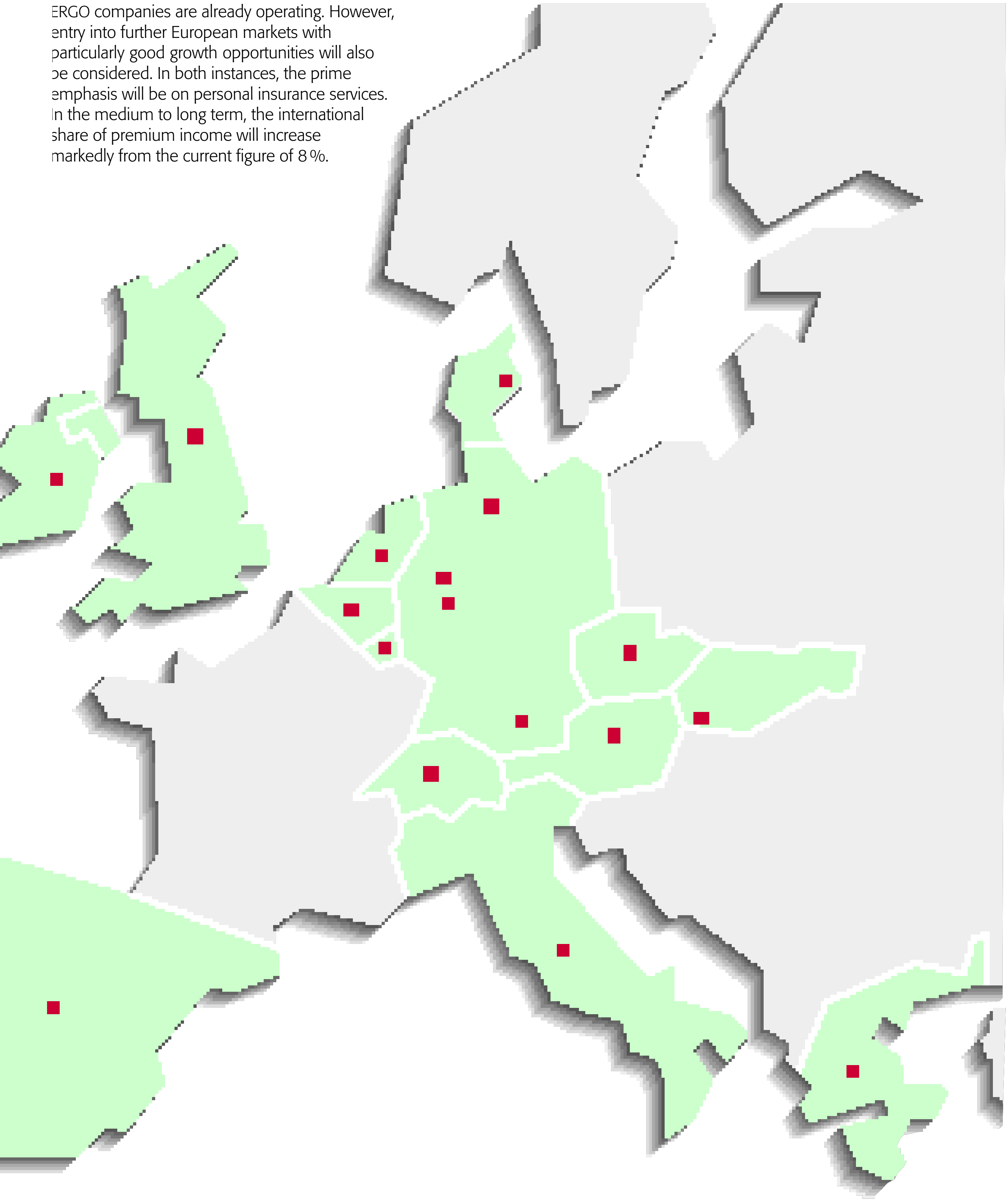
The Group will make further acquisitions where appropriate, though it will apply stringent quality and profitability criteria. In the first instance, we shall focus on countries in which

Development of ERGO's operations abroad, by business area	Premium income in 1997 (DM million)	Premium income in 1996 (DM million)	Change
Life assurance	481	465	3.4 %
Health insurance	493	453	8.8 %
Property/casualty and accident insurance (excl. legal expenses)	264	261	1.1 %
Legal expenses insurance	377	335	12.4 %
Total	**1,615**	**1,514**	**6.6 %**

ERGO's main foreign operations are in:	Premium income (DM million)	Share of ERGO's total foreign business
Netherlands	589	36.5 %
Austria	319	19.7 %
Belgium	294	18.2 %
Portugal	138	8.6 %
United Kingdom	111	6.9 %
Other countries	164	10.1 %
Total	**1,615**	**100.0 %**



ERGO companies are already operating. However, entry into further European markets with particularly good growth opportunities will also be considered. In both instances, the prime emphasis will be on personal insurance services. In the medium to long term, the international share of premium income will increase markedly from the current figure of 8 %.



Increased competitive pressure and a difficult economic environment resulted in the German insurance industry's lowest growth in premium income for over 50 years.

Increasing competitive pressure

The European Single Market, in place in this field since mid-1994, has brought many changes to the insurance industry. Yet the liberation of cross-border trade in services is not yet acting as a significant factor. It has had some impact on large commercial and industrial risks, but not so much on business with private individuals. Instead, radical change in the German insurance market has mostly come with the deregulation of insurance supervision in Germany itself, and in particular the abolition of licensing requirements for policy terms and product groups.

More and more insurance companies are exploiting the greater scope for product design and pricing. Product diversity has vastly increased. Many insurers are now supplementing their standard products with options for supplementary cover of specific risks and assistance or other services. In some sectors, notably property/casualty and accident insurance, fierce price competition has broken out.

Market transparency has suffered as a result. The diversity of insurance products and rebate systems makes prices harder to compare. Advice provided by well-trained representatives is thus a key success factor in the competitive market.

Increasing industry concentration

The intense competition is forcing insurers to focus more closely on costs and revenue. One visible consequence is industry concentration, as manifested in events that kept the industry in suspense during 1997. Most such mergers aim to boost competitiveness by realizing potential synergies in business operations. All involve healthy firms wishing to better their market position by combining forces. Concentration in the German insurance industry nevertheless remains relatively low in international terms. More mergers are likely.

Economic environment remains difficult

The state of the national economy is fundamental to growth in the insurance industry. At 2.2% (1.4%), real GNP growth was higher in 1997 than the year before, but it was largely driven by export rather than domestic demand. The labour market situation continued to worsen despite the export-led growth. Unemployment had risen to 4.5 million by the year end, some 370,000 above the already very high figure of the previous year.

German insurers earn approximately 75% of premium income with private individuals. The stagnation of real incomes thus acts as a sharp brake on insurance industry development. Yet there has been little additional insurance demand from the business sector either: it has been slow to invest despite low interest rates. Moreover, German corporate insolvencies reached a new peak in 1997.

In this difficult environment, the insurance industry once again proved a growth sector. Yet growth in premium income was at its lowest since World War II, rising only 2.4% to DM 238 billion.

State provision on the retreat

The state pension scheme is funded on a 'pay-as-you-go' basis, under which the contributions paid in by the current workforce provide the pensions for those already retired. For this to work, it requires a pyramid-shaped age structure. However, low birth rates and longer life expectancy have skewed the population pyramid so that it is now top-heavy, and more reminiscent of a large tree. High jobless figures also mean fewer people in active employment. In short, a shrinking employed population is set against growing numbers of pensioners.

Problems of funding the state pension scheme have thus been a subject of much political debate in the past year. To secure adequate funding, either benefits must be cut or contributions raised. In view of already high contribution and tax burdens, Germany's Pension Reform Act 1999 provides for rising life expectancy by applying a demographic factor when calculating pensions at retirement. As a result, pensions will fall from the current 70% to 64% of net final earnings in the long term. The reform is at least an attempt to stabilize contributions. But it does not go far enough: the demographic factor merely eases the financial burden of longer life expectancy, but not that of over-ageing due to the drop in birth rates since the late Sixties.

Life assurance: the ideal way to top up pensions

In the long term, the state pension scheme will only supply basic provision. People are increasingly aware that unless they make additional, private provision of their own, they will be unable to maintain their accustomed standard of living.

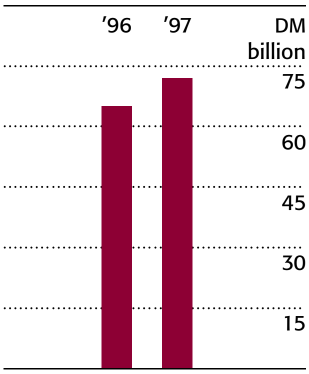
The private-sector insurance industry offers plans that can provide a guaranteed level of benefits on a fully funded basis with risk-equivalent premiums. Fully funded plans are insensitive to population ageing through falling birth rates. In a private pension plan, longer life expectancy is also built into the premium. Life assurance is thus the ideal way to top up a state pension. Already, some 80% of working households have life assurance – proof of its significance as a vehicle of private provision for old age.

Life assurance premium income reaches DM 97 billion

About seven million new life assurance policies were signed in 1997. While this figure is down 2.4% on the year before, the actual sum insured rose by 2.8% to DM 368 billion. There was a shift away from endowment products and towards private pension plans. Premium income from all policies increased by 4.8% to DM 97 billion. Paid-out benefits rose over 10% to DM 72 billion, equalling 22.7% of payments distributed by the statutory pension system.

Because statutory pension schemes only supply a basic income, it is essential to make additional private provision for old age.

Life assurance benefits paid



Private health insurance offers a permanent guarantee of the agreed standard of cover.

Inconsistent policy-making

Repeated attempts to burden life assurance with special taxes run counter to policies supposedly seeking to encourage private provision for old age. People are torn between observing the need to make private provision and not doing so because of uncertainty about the future tax situation. Consequently, more decided to wait and see before signing a new policy in 1997 than in earlier years. Growth would certainly have been better had it not been for the debate about taxing life assurance.

Private health insurance keeps its promise

Private health insurers primarily offer comprehensive health cover as an alternative to that available from statutory health funds. This generates approximately two thirds of the sector's premium income. They also provide flexible supplementary and top-up cover over and beyond state health insurance. These products continue to gain in importance as more and more people take out private cover to compensate for cuts in state health provision.

Unlike state health insurance providers, private health insurers permanently guarantee an agreed level of cover from the outset. Policies are generally made for life. Insurers cannot terminate them, or unilaterally cut benefits as state health providers can. While they must still raise premiums in response to increasing life expectancy and costs of health care, private health insurers can often use surpluses to cushion the rise. State health insurance contributions go up automatically with each pay increase and each increase in the contribution ceiling.

Strong premium growth in health insurance

Premium income earned by German private health insurers rose in 1997 by 5.5% to DM 36.2 billion. This includes DM 4.1 billion in premiums for long-term care insurance, now compulsory in Germany, without which premium growth would have been 3.6%.

The number of policyholders with comprehensive health insurance products increased slightly to 7.1 million. A further 6.0 million held supplementary health insurance products to complement their statutory cover.

Against a background of dynamic growth in costs of health care, insurance benefit payments increased 7.4% to DM 23.6 billion. DM 0.9 billion of this represented benefits under long-term care insurance. Including allocated provisions for bonuses and rebates, private health insurers credited a total of DM 39 billion to their customers.

Lower premiums in property/casualty and accident insurance

Property, casualty and accident insurers assume risks to protect their customers from financial loss. Without such cover, much investment by trade and industry would not take place.

Premiums for property/casualty and accident insurance were down by 1.5 %, the first perceptible decrease since World War II. This is where the effects of market deregulation are at their most pronounced. Fierce price competition particularly in motor insurance once again caused a decline in sales, this time of 4.5 %. Particularly severe price pressure reduced industrial fire insurance premiums by 14 %. On the other hand, sectors like legal expenses, liability and buildings insurance achieved good growth in premium income.

The cost of claims in property/casualty and accident insurance rose by approximately 2 % to DM 74.6 billion, about half of which was incurred in motor insurance. The total cost of motor claims was slightly down, with a reduction in claim frequency being offset as in previous years by an increase in the average size of claims. Because premiums fell faster than the cost of claims, motor insurance earnings declined: after a positive figure the year before, the industry's net underwriting result reversed into the negative: the overall loss was approx. DM 400 million. There was also increased pressure from the claims side in liability and legal expenses insurance.

Fierce price competition in the motor and industrial fire sectors led to reduced premiums in property/casualty and accident insurance.

Consolidated companies

ERGO Insurance Group is Germany's second-largest group operating in the primary insurance market. A total of 57 companies are included in the consolidated accounts. This Management Report deals jointly with the business performance of the Group as a whole and that of the holding company, ERGO Versicherungsgruppe AG.

Formation of ERGO Versicherungsgruppe AG

ERGO Versicherungsgruppe AG was formed by the merger of VICTORIA Holding AG with Hamburg-Mannheimer AG.

Prior to the merger, the old Hamburg-Mannheimer Versicherungs-AG – the former life assurance arm of the Hamburg-Mannheimer Group – transferred its life portfolio and operations to another company within that group, and itself became the Group's holding company. Now renamed Hamburg-Mannheimer AG, this company directly held the entire equity of the new Hamburg-Mannheimer Versicherungs-AG (responsible for life business) and Hamburg-Mannheimer Sachversicherungs-AG (the property and casualty wing).

In a share-capital increase by way of equity contributions, Münchener Rückversicherungs-Gesellschaft AG (Munich Re) transferred almost all of its majority stake, and Allianz AG all of its 2.5 % stake in DKV Deutsche Krankenversicherung AG to the holding company Hamburg-Mannheimer AG. That gave the latter, which was renamed ERGO Versicherungsgruppe AG in October 1997, a direct 99.9 % stake in DKV. Munich Re and Allianz AG additionally contributed almost their entire stakes in Hamburg-Mannheimer Sachversicherungs-AG to raise the share capital of the new holding company, and Munich Re also brought in a 2.4788 % stake it had held in VICTORIA Versicherung AG.

The transactions involved in the capital increase by way of equity contributions are set out in full in the Notes to the Annual Accounts on page 88.

These measures prepared the ground for the merger between VICTORIA Holding AG and Hamburg-Mannheimer AG which took effect on 1 August 1997. The merger received near-unanimous approval from shareholders at extraordinary general meetings of VICTORIA Holding AG on 1 December and ERGO Versicherungsgruppe AG on 2 December 1997, enabling the creation of the ERGO Insurance Group under the umbrella of ERGO Versicherungsgruppe AG as a newly structured, strategic management holding company. The merger was entered in the Commercial Register on 27 January 1998, with retrospective legal effect from 1 August 1997. VICTORIA Holding AG was formally dissolved at that point, and official stock exchange trading in that company's shares ceased. In their place, ERGO Versicherungsgruppe AG shares have been publicly quoted and listed in the MDAX index since 2 February 1998.

ERGO Versicherungsgruppe AG brings together the insurance companies of VICTORIA; Hamburg-Mannheimer, DKV and D.A.S. under a common roof. This constitutes the second-largest primary insurance group in Germany, also conducting a large amount of business abroad. ERGO's largest shareholder is Münchener Rückversicherungs-Gesellschaft AG (Munich Re), which holds a 54.1 % stake.

ERGO Insurance Group companies

The main ERGO Insurance Group companies in Germany are VICTORIA Versicherung (property and casualty), VICTORIA Leben (life), VICTORIA Kranken (health), VICTORIA Rück (reinsurance), Hamburg-Mannheimer Leben (life), Hamburg-Mannheimer Sach (property and casualty), Hamburg-Mannheimer Rechtsschutz (legal expenses), DKV Deutsche Krankenversicherung (health), D.A.S. Rechtsschutz (legal expenses) and D.A.S. Versicherung (property and casualty).

The ERGO Insurance Group also has an insurance presence in 14 other European countries, where it has 31 subsidiary companies or participating interests, and 5 branch operations.

Companies included in the consolidated accounts

The ERGO Insurance Group consolidated accounts include 25 domestic and 32 foreign subsidiaries, plus one domestic and three foreign associated companies valued by the equity method. 58 subsidiaries and nine associated companies that do not operate in the insurance industry, or that are negligible in terms of their influence on the Group's asset, financial or earnings positions have not been consolidated, as provided by Secs. 295 (1), 296 (2) and/or 311 (2) of the German Commercial Code.

Further information on the Group's consolidated and associated companies is tabulated on pages 78–80. The accounting and valuation methods used are detailed in the Notes to the Consolidated Accounts.

Method of presentation

The consolidated accounts of ERGO Versicherungsgruppe AG are submitted voluntarily, it and its subsidiaries being exempt from the need to disclose separate accounts by virtue of their inclusion in the consolidated accounts of Münchener Rückversicherungs-Gesellschaft AG. For ease of understanding and interpretation, the consolidated accounts for the 1997 financial year cover the period from 1 January to 31 December 1997, even though the merger did not take effect until 1 August 1997. For comparative purposes, notional figures have also been provided for the 1996 financial year, as if the ERGO Insurance Group had already existed at that time. The 1997 Consolidated Annual Accounts have been examined and given a clean audit report by the jointly appointed auditors, BDO Deutsche Warentreuhand Aktiengesellschaft Wirtschaftsprüfungsgesellschaft of Munich and Wollert – Elmendorff Deutsche Industrie-Treuhand GmbH Wirtschaftsprüfungsgesellschaft of Düsseldorf. The comparative figures for the 1996 financial year were included in the auditors' examination of the Consolidated Annual Accounts.

Declaration concluding the report on relationships with affiliated companies

As an affiliated company within the meaning of Sec. 15 of the German Public Companies Act *(Aktiengesetz),* ERGO Versicherungsgruppe AG has prepared a report on relations with affiliated companies for the 1997 financial year, and made the following declaration under Sec. 312 (3) of the Act:

"Taking into account the circumstances known to us at the time the transactions were conducted, we received equitable payment in each case. There were no reportable actions or omissions during the 1997 financial year."

Principal activity

ERGO Insurance Group acts as a primary insurance underwriter providing all classes of life, annuity and health insurance and virtually all types of property, casualty and accident insurance, and as a provider of reinsurance in all classes of business. Group companies also offer insurance brokerage, asset management, and financial and other services.

Performance of the ERGO Insurance Group

The premium income of the ERGO companies in 1997 was DM 21.3 billion – DM 170 million more than the previous year. Thanks to a good surplus on the technical account and increased net investment income, the net profit for the year increased by more than 50% to DM 535 million. Earnings per share grew by more than 45% to DM 7.61.

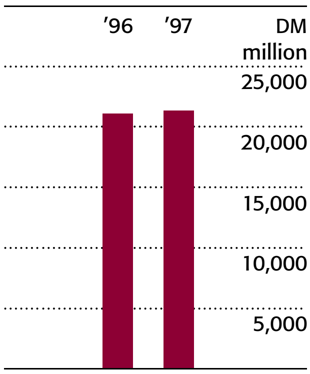
Premium income of DM 21.3 billion

The ERGO Insurance Group's premium income reached DM 21.3 billion. Premiums written by foreign subsidiary companies increased by 6.6% to DM 1.6 (1.5) billion, making up approx. 8% of ERGO's total business volume.

DM 20.9 (20.7) billion was earned in premiums from the Group's direct (i.e., self-acquired) insurance business. Of that overall amount, DM 8.9 billion was for life assurance, an increase of approx. DM 25 million on the previous year. This is the largest volume for any one class of business within the Group, accounting for 42% of 1997 turnover.

Premiums earned from health insurance – the second-largest class of business making up 30% of the total – were slightly more than 3% higher at DM 6.3 (6.1) billion.

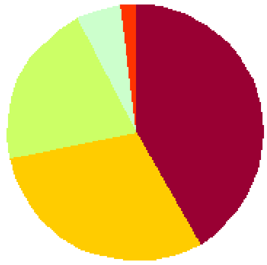
Premium income (excl. contributions from the provision for bonuses and rebates)



In property, casualty and accident insurance (also including legal expenses), which together account for about one quarter of Group premiums, the DM 5.7 billion premium income was just slightly below the 1996 figure, even though premium rates charged for motor and for industrial fire insurance were substantially lower due to increased competitive pressure. Income from legal expenses insurance was up more than 5% at DM 1.2 billion.

Premium income from reinsurance business accepted from outside the Group fell back slightly to DM 401 (412) million. The figure includes DM 344 million of property, casualty and accident business, DM 39 million in life assurance and DM 18 million in health insurance.

Premium income by classes of business

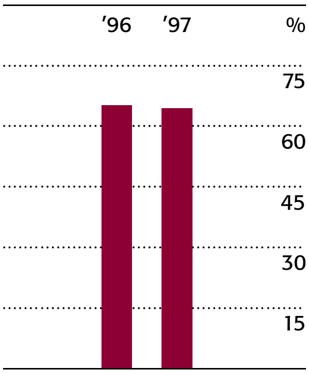


Life	41.8%
Health	29.8%
Property/casualty/accident (excl. legal expenses)	20.8%
Legal expenses	5.7%
Reinsurance	1.9%

Claims experience improved

There was a further easing in the claims situation for direct property, casualty and accident insurance, with a fall in the number of claims reported. The value of claims incurred fell by rather more than DM 50 million to DM 3.6 billion, and the gross loss ratio came down to 64.5% (65.0%). An increase in the number of claims arising from storm or frost damage to property was offset by pronounced decreases in claims frequency in the motor and legal expenses sectors.

Gross loss ratio for direct property/casualty and accident business



In the Group’s direct (i.e., self-acquired) life business, higher maturity benefits and policy surrenders pushed up the benefits credited to customers, to DM 6.4 (5.7) billion. Benefits to health insurance customers also increased, to DM 4.2 (3.9) billion. In the two insurance classes combined, we allocated DM 6.4 (6.8) billion to the actuarial provisions. DM 3.9 (3.8) billion was made available for policyholders’ bonuses. Life assurance policyholders also had advance bonuses of DM 269 (241) credited to them. Total payments made to customers or provisions set aside on their behalf in the two personal insurance fields came to DM 21.1 (20.5) billion.

Claims incurred in our reinsurance business accepted increased to DM 270 (245) million.

Lower administrative cost ratio

The companies in the ERGO Insurance Group continued to manage their costs successfully. Despite further major investment in improving administrative processes, total operating expenses were only DM 30 million higher than in 1996. Acquisition costs were slightly higher, at DM 3.0 (2.9) billion, while administrative expenses were cut back by DM 14 million to DM 1.6 billion. Almost all of the domestically-based ERGO companies either maintained or further reduced their administrative cost ratios. The ratio for the Group as a whole fell to 7.7% (7.8%).

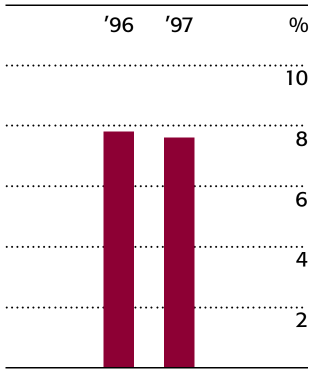
Surplus on the technical account up by DM 39 million

The positive balance on the technical account, net of reinsurance ceded, rose to DM 558 (519) million before allocations to the equalization provision – an increase of 7.6%. DM 357 (355) million was contributed by life assurance business, and DM 134 (163) million by health insurance – net investment income is included in both cases.

Before allocations to the equalization provision, property, casualty and accident business earned a much improved positive balance of DM 67 (1) million on the technical account. Favourable claims experience led to an increased allocation of DM 135 (119) million to the equalization provision, DM 36 (42) million of which related to direct insurance business and DM 99 (77) million to reinsurance accepted.

The large new allocation to the equalization provision has further strengthened our reserve position. The provision totalled DM 950 (815) million at the year end. The final surplus on the technical account for ERGO Insurance Group, net of reinsurance ceded, then came to DM 423 (400) million.

Gross administrative cost ratio



Performance of the ERGO Insurance Group

Group results		1997 DM million	1996 DM million
Balance on the technical account, net of reinsurance ceded, before allocation to the equalization provision	Total*	**558**	519
Attributable to:* Life business		**357**	355
Health insurance		**134**	163
Property/casualty/accident insurance		**67**	1
Allocation to the equalization provision		**135**	119
Balance on the technical account, net of reinsurance ceded, after allocation to the equalization provision		**423**	400

* These items include reinsurance accepted in each case.

Increased net investment income

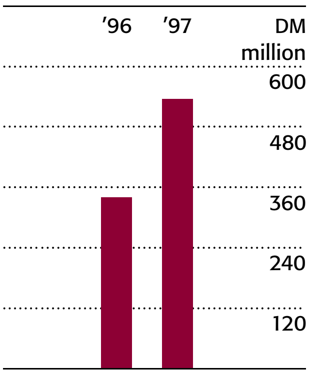
Net investment income increased by 9.1% to DM 8.4 (7.7) billion. Out of this total, DM 7.7 (7.1) billion was credited to the technical account, particularly in life and health insurance. The residual net investment income increased by 14.5% to DM 635 (555) million.

Net profit for the year more than 50% higher

The high surplus on the technical account coupled with a good net investment income after transfers to the technical account produced a pre-tax profit on ordinary activities of DM 864 (772) million. Despite these increased earnings, the taxation charge fell back to DM 329 (433) million. The main reasons for this were the fact that it was now possible to treat the newly-formed Group as a single entity for taxation purposes, the application of uniform assessment methods throughout the Group, and entitlements to rebates on corporate income tax. These rebate claims were asserted by distributing reserves that are normally subject to a high tax rate in the form of extraordinary dividends, in a 'pay-out/take-back' procedure.

ERGO Insurance Group's net profit for the year of DM 535 million was more than half as much again as the prior-year figure of DM 339 million.

Net profit for the year



Shareholders' funds exceed DM 4.2 billion

Shareholders' funds in the ERGO Insurance Group had reached DM 4.2 billion by the end of 1997. The equity ratio increased to 22.6% (20.2%) of earned premiums net of reinsurance ceded. The Group's guarantee capital including the equalization provision and the special untaxed reserve came to more than DM 5.4 billion. These funds ensure our ability to meet our financial obligations to policyholders, claimants and shareholders.

Good profit earned by ERGO Versicherungsgruppe AG

The holding company ERGO Versicherungsgruppe AG also had very good results in its own annual accounts. The income received from participating interests was DM 629 million, of which DM 444 million came in the form of extraordinary dividends (including tax credits) from DKV and from Hamburg-Mannheimer's property and casualty subsidiary, HM Sach. A further DM 56 million was earned in 'other income', mainly from securities and lending. The profit on ordinary activities was DM 640 million. After a taxation charge of DM 266 million, the net profit for the year was DM 373 million. DM 180 million was transferred to 'other reserves', leaving a balance-sheet profit of DM 193 million. The proposed appropriation of profit is detailed on page 39.

The ERGO Insurance Group's areas of business

The ERGO companies' performance in the various insurance classes offered by the Group is detailed on the following pages.

Premium income slightly higher

Contributing premium income of DM 8.9 billion, slightly above the previous year's figure, direct (i.e., self-acquired) life assurance was the Group's largest single business area, taking up 42% of total turnover. DM 8.4 billion of the premiums earned came from domestic Group companies. Once the contributions released from the provision for bonuses and rebates are added in, the ERGO life assurance companies posted premium income of DM 10.1 (10.2) billion.

New business written in Germany did not quite match the high level attained in the previous year, the sum insured totalling DM 24.1 (24.5) billion. Premiums earned on new business came to DM 1.5 (1.6) billion. Within this figure, the share contributed by annual premiums fell back only slightly to DM 947 (975) million, whereas there was a marked drop in single-premium business to DM 533 (657) million.

As in the past, the bulk of domestic new business – 73% of the total, measured by sum insured – was in endowment and term life policies. Annuity policies accounted for the remaining 27%.

DM 250 billion of business in force

The domestic life-assurance portfolio included 10.3 (10.6) million policies at the year-end, for a total sum insured of DM 236 (230) billion. When foreign affiliates are included, the Group increased the value of its business in force by DM 6.7 billion during the year to reach DM 250 billion.

DM 13.9 billion for customers

The life assurance companies in the ERGO Insurance Group paid out or set aside DM 13.9 (13.5) billion for their policyholders in 1997. Benefits paid out, with both maturities and policy surrenders higher than the previous year, increased to DM 6.4 (5.7) billion. The actuarial provision was topped up by DM 4.4 (5.1) billion, and a further DM 2.7 (2.4) billion was credited to policyholders' bonuses. DM 269 (241) million was also credited in the form of advance bonuses.

Administrative cost ratio reduced

Operating expenses fell by more than DM 18 million to DM 1.6 billion. Given the modest level of new business, acquisition costs were slightly down on the previous year's figure at DM 1.3 billion. Administrative expenses were also cut back by DM 13 million, to DM 367 million, and the administrative cost ratio improved to 4.1% (4.3%).

Life business		1997	1996
Premium income	DM million	**8,888**	8,863
Benefits to policyholders	DM million	**6,428**	5,724
Acquisition costs	DM million	**1,268**	1,274
Administrative cost ratio	%	**4.1**	4.3
Divisible surplus (before advance bonuses)	DM million	**4,066**	3,656

Increased divisible surplus

The life assurance companies' divisible surplus before advance bonuses was DM 410 million higher at DM 4.1 (3.7) billion. Of the surplus generated, 95.5% was credited to the policyholders.

Life assurance is the largest class of business for the ERGO Insurance Group. Premium income increased slightly in 1997, while the divisible surplus rose strongly to DM 4.1 (3.7) billion.

Health insurance

The ERGO Insurance Group is the European market leader in private health insurance. Health insurance was the Group's most dynamic growth area in 1997.

Encouraging growth in premiums earned

Accounting for 30 % of premium income, private health insurance is the ERGO Insurance Group's second-largest business area. Premiums from direct business rose by 3.2 % to DM 6.3 (6.1) billion. DM 491 (452) million of that figure was contributed by foreign subsidiaries. In Germany and Europe alike, the ERGO Insurance Group is the market leader in private health insurance. After including the contribution of DM 467 (434) million from the provision for bonuses and rebates, the year's business volume reached DM 6.8 (6.6) billion. The main contributory factor towards the increased premium income was the buoyancy of new business.

Particularly good growth impetus occurred in comprehensive health insurance plans in the domestic market, which took on board 90,000 new policyholders. Our supplementary cover and other enhancements for members of the statutory health insurance system won just over 225,000 new customers.

Higher benefit payments

Claims incurred increased by 8.7 % to DM 4.2 (3.9) billion. The main cause of the increase was continuing inflation in health care costs. In addition, the enhanced benefits provided by compulsory long-term care insurance in Germany were provided over a full financial year for the first time. DM 1.9 (1.7) billion was allocated to the actuarial provision, and DM 1.1 (1.3) billion to the provision for bonuses and rebates.

Administrative cost ratio at 4.0 %

Despite a high level of investment in administrative processes and modern technical systems, we managed to improve our domestic administrative cost ratio to 4.0 % (4.2 %). As a consequence of the good new business volume, the acquisition cost ratio increased to 11.4 % (10.5 %).

Another large surplus

The initial divisible surplus of ERGO's health insurance companies was again well over the billion-deutschmark level at DM 1.3 (1.4) billion.

Health business		1997	1996
Premium income	DM million	**6,342**	6,143
Claims incurred	DM million	**4,240**	3,902
Acquisition cost ratio	%	**11.4**	10.5
Administrative cost ratio	%	**4.0**	4.2
Divisible surplus (before advance bonuses)	DM million	**1,334**	1,447

The bulk of these funds are being deployed to the benefit of policyholders as they have either been allocated to the actuarial provision or transferred as an advance bonus to the provision for ageing.

The substantial amounts allocated to these provisions will enable the suppliers of health cover within the ERGO Insurance Group to continue in future to keep an effective brake on premium increases, thus raising customer loyalty.

Premium income almost matches previous year

The Group's direct underwriting in the fields of property, casualty and accident insurance (also including legal expenses cover) brought in premium income of DM 5.7 billion, or 0.8% less than the previous year. Downward pressure on rates was especially severe in the motor and the industrial fire insurance businesses where competition is keen. This was counteracted by pleasing growth in income from legal expenses cover and comprehensive buildings insurance. DM 641 (596) million of the total premiums were earned abroad.

Favourable claims experience

The number of claims reported was slightly lower than in 1996. The value of claims incurred was just over DM 50 million lower, at DM 3.6 billion. Consequently, the gross loss ratio for our direct business was 64.5% (65.0%).

Stable costs

Operating expenses remained unchanged at DM 1.9 billion. While acquisition costs were a little lower at DM 985 (990) million, administrative expenses increased very slightly, to DM 904 (901) million. The administrative cost ratio was 16.0% (15.8%).

Strong rise in the technical account surplus

The balance on the technical account, before alterations to the equalization provision and net of all reinsurance (ceded or accepted), was a surplus which was DM 57 million higher than in 1996, at DM 78 million. Because claims experience was favourable in the reporting year, a transfer to the equalization provision of DM 36 (42) million was required. That left a technical account surplus of DM 42 million, as against a DM 21-million deficit in 1996.

The ERGO Insurance Group's performance in its most important classes of property, casualty and accident business was as follows:

German and European market leader for legal expenses cover

Premium income from direct business in legal expenses insurance increased by 5.2% to DM 1,221 million. The increase in the domestic market was by 1.9% to DM 855 million, while in foreign markets it was 13.7% to DM 366 million. Thus 30% of premium income is now generated abroad. The ERGO Insurance Group is the market leader in legal expenses cover both in Germany and in Europe.

Although their number actually decreased, the value of claims incurred increased as a result of rises in lawyers' fees and court costs. After allocations to the equalization provision, the Group's legal expenses operations closed the year with an increased deficit on the technical account relative to 1996.

Favourable claims experience in motor sector

Premium income from direct (self-acquired) motor insurance business fell back by 6.5% to

Tough price competition pushed premium income slightly below the previous year's level. Thanks to favourable claims experience, a pleasing surplus was earned on the technical account.

Property/casualty and accident business		1997	1996
Premium income	DM million	**5,656**	5,699
Gross loss ratio	%	**64.5**	65.0
Gross cost ratio	%	**33.5**	33.3
Balance on tech. account, net of reinsurance ceded, before allocation to equalization provision	DM million	**78**	21
Allocation to the equalization provision	DM million	**36**	42
Balance on tech. account, net of reinsurance ceded, after allocation to equalization provision	DM million	**42**	(21)

DM 1,484 million, due both to price erosion and to changes in vehicle groupings. Measures to improve the quality of business in force yielded success during the year, so while this too lowered the level of premium income the claims experience was more favourable despite a rise in the average claim value. Net of reinsurance ceded, the deficit on the technical account was lower than in the previous year. Owing to the more favourable claims situation, a large sum had to be allocated to the equalization provision, yet the final deficit was still below the prior-year level.

Pleasing profits from accident insurance

Premiums totalling DM 1,186 million in its direct (self-acquired) business make the ERGO Insurance Group Germany's second-largest provider of accident insurance. Benefits paid out increased slightly in 1997, whereas costs declined. That left a pleasing surplus on the technical account, also boosted further by a contribution from the equalization provision.

Lower liability claim costs

Premium income from direct liability insurance showed a slight downturn to DM 625 (631) million. The profit-oriented new-business policy now in place was one factor putting a damper on premium volume. On the other hand, this policy coupled with the improvements in portfolio quality undertaken in previous years kept the level of claim costs down. There was a marked improvement in the technical account net of reinsurance ceded, with a reduced deficit. Even though the need to allocate funds to the equalization provision increased that deficit, the final result was still better than the previous year's.

Mixed picture for other business classes

Developments in the Group's other main classes of property, casualty and accident business were as follows:

Fire insurance business was adversely affected by the fierce price competition currently prevailing in the industrial field in particular. The DM 132 million premium income earned was down by more than DM 20 million relative to the previous year. After an allocation to the equalization provision, there was a slight positive balance on the technical account net of reinsurance ceded.

Premiums earned on comprehensive household and contents insurance remained unchanged at DM 245 million. Net of all reinsurance, a surplus was earned on the technical account before claims equalization, and this was increased slightly following a small withdrawal from the equalization provision.

Comprehensive buildings insurance yielded a 7.3 % increase in premium income from direct business, to DM 227 million. Frost and storm damage in the early part of the year both generated heavy claims, and consequently a deficit was returned on the technical account both before and after an allocation to the equalization provision.

Reinsurance business accepted

Premium income of over DM 400 million

Premium income from reinsurance business accepted from outside the Group was slightly down on the previous year, at DM 401 (412) million. The bulk of this business, worth DM 344 million, came from property, casualty and accident insurance. The main dampers on business volume were the erosion of premium levels in the motor insurance sector and the deliberate reduction of exposure to credit insurance from the German market, where claims experience has been unfavourable in recent years. DM 39 million of the business accepted covered life assurance, and DM 18 million covered health insurance.

Improved technical account balance

Although claims incurred increased to DM 270 (245) million, operating expenses were cut markedly to DM 107 (128) million.

Net of ceded business, the technical account deficit was lower in 1997 before the allocation to the equalization provision. This was higher than the allocation needed in the previous year, at DM 99 (77) million, because of relatively favourable claims experience. However, even after the allocation had been made the deficit was still lower than in 1996.

The technical account deficit on reinsurance business accepted decreased both before and after allocations to the equalization provision.

Investments

The investment portfolio grew by more than DM 9 billion to DM 113 billion. The main focus of new investments was on equity stocks and registered bonds. The Group revaluation reserves total DM 22.5 billion. Net investment income climbed by more than 9% to DM 8.4 billion.

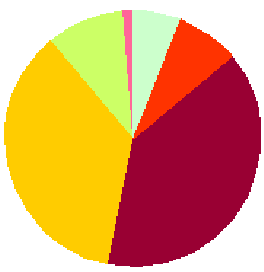
Investments worth DM 113 billion

ERGO Insurance Group's consolidated investments (excluding portfolio receivables) grew by 9% in 1997 to DM 113 (104) billion, of which assets to the value of DM 3.7 (3.5) billion were held by our foreign affiliates.

The largest class of investments in our portfolio, making up 48.5% of the total, were registered bonds and promissory notes receivable. Our holdings in this category increased by DM 1.8 billion to DM 55 billion, chiefly due to new investment in registered securities.

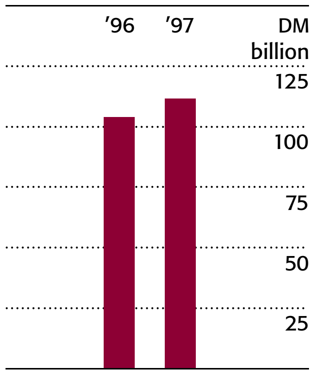
The book value of our participating interests (also including shares in non-consolidated, affiliated companies) increased to DM 3.0 (2.6) billion, mainly because additional capital contributions were made to a number of the companies concerned, particularly to real estate companies at home and abroad. The proportion of total investments accounted for by participating interests rose to 2.6%.

Composition of the consolidated investment portfolio (excl. portfolio receivables)



Real estate	6.2%
Loans secured by mortgages, land charges and annuity charges	7.8%
Registered bonds	38.9%
Securities and participating interests	36.1%
Promissory notes and loans	9.5%
Other investments	1.5%

Level of consolidated investments (excl. portfolio receivables)



New investment activity concentrated primarily on equity stocks, fund units and other variable-yield securities, which accounted for DM 7.2 billion of expenditure. That raised our holdings in this category by more than one third to DM 28 billion, amounting to almost 25% of the total portfolio. This is considerably higher than the German insurance industry's average figure of 18%.

The value of the Group's real estate holdings, including property management companies, increased slightly to DM 7.0 (6.9) billion. However, the share of real estate in the overall portfolio fell to 6.2% (6.7%).

To the extent that we made use of derivative financial instruments, we complied strictly with the operating rules issued by the Federal Supervisory Office for the Insurance Industry and the German Insurance Association. Derivatives were used largely to hedge existing risks and also, to a limited extent, as an additional source of income.

Market value of investments

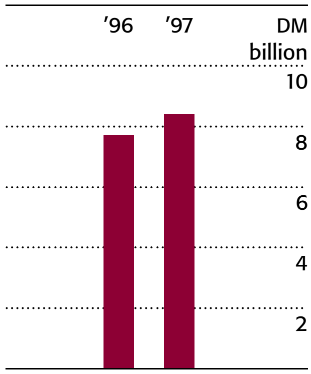
The ERGO companies have reported the market value of certain investments for the first time as at the 1997 year end. The consolidated market values ascertained for the ERGO Insurance Group are shown on page 75. These disclosures apply to investments that are capitalized in the accounts at acquisition cost, namely to real estate and to both variable-yield and fixed-interest securities. The valuation reserve constituting the difference between fair market and book values totalled DM 22.5 billion at the year end, DM 14.6 billion of which was attributable to life assurance, and DM 6.2 billion to health insurance.

Inevitably, fair market values are just a snapshot of a single point in time. As such, they are subject to pronounced fluctuations. Valuation reserves are essential in all sectors of the insurance industry, and are a vital prerequisite for the security and continuity with which benefits are credited to policyholders. These reserves make insurers less susceptible to interest rate movements, and ensure a certain amount of constancy in their revenue streams. Particularly at present, with interest rates at or near historic lows, valuation reserves are a safeguard for long-term stability in benefit levels. In years when claims incurred are too high to be met out of premium income alone, an appropriate level of investment income allows insurance companies to get by with acceptable results.

Net investment income

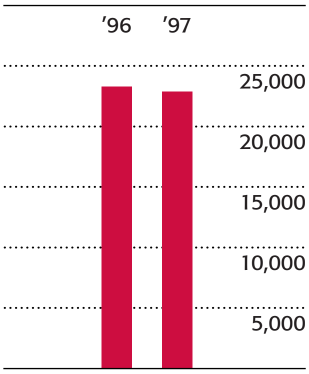
Net investment income increased by 9.1% to DM 8.4 billion. Current income from investments held increased by 6.2% to DM 7.9 billion. Proceeds of DM 1.1 (0.7) billion were also realized on the disposal of investments, the greater part of which – DM 0.9 (0.3) billion – were attributable to sales of equities and equity fund units. We made use of the favourable situation on the stock markets to cash in capital gains. Similar gains of DM 78 (121) million were made on the sale of real properties, from which DM 37 million was transferred to the special untaxed reserve. Write-downs totalling DM 136 million were made to the capitalized value of securities held.

Net investment income



Personnel report

Number of salaried employees



Slight fall in the overall workforce

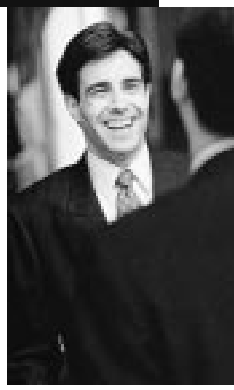
The total number of salaried employees and full-time self-employed representatives working for the Group fell slightly in 1997 relative to 1996. Two countervailing trends lay behind this overall figure: The number of self-employed agents working for the ERGO Insurance Group increased by 0.9% to 16,860 (16,717), whereas there was a 1.4% fall in the number of salaried employees to 22,925 (23,247) owing to increasing use of technical aids and the reorganization of work processes to enhance efficiency.

The proportion of female staff working in-house remained unchanged at 57%. The average age of in-house staff also remained unchanged, at 39 years in Germany and 36 years in the Group's foreign operations.

High qualification levels ensured

Once again in 1997, our personnel policy focused on comprehensive training, both initially and as further training for more experienced staff. Well qualified and motivated employees with a receptive approach to changes are crucial to the success of our Group.

At the 1997 year end, ERGO Insurance Group had 1,294 young trainees placed in its domestic companies, or 9% of the in-house staff. Most of these were training for insurance qualifications. On completion of their traineeships, we offered most freshly qualified young people permanent jobs, chiefly in the sales force.



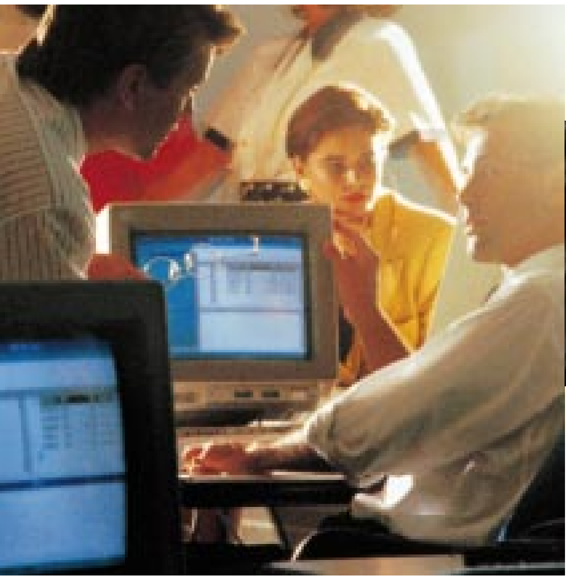
All of the Group companies recognize the great need for high-quality, experienced staff, and have appropriate advanced training systems in place. Thorough, intensive training within specialist departments is backed up by external training courses, in which numerous employees participated in 1997.

Increased personnel and welfare expenses

Total personnel and welfare expenses at home and abroad came to DM 2,212 (2,172) million. Expenditure on retirement pensions for in-house and field staff and on early retirement arrangements totalled DM 146 (133) million. This figure also includes voluntary expenditure to assist early retirement.

Employee share ownership programme

A renewed programme allowing employees of the VICTORIA Group to obtain a share in the equity of VICTORIA Holding AG was established in 1996 and continued in 1997. The participating employees are now shareholders in ERGO Versicherungsgruppe AG.



Well-designed training concepts and workplaces equipped to modern standards ensure that our up-and-coming young employees are well qualified, and they promote enthusiasm and commitment throughout our workforce.

Approximately 4,500 employees of VICTORIA and D.A.S. were shareholders at the year end, when their equity holdings had a market value of almost DM 80 million.

Our objective is to develop a share ownership programme available to all of ERGO's employees before the end of 1998, making use of the possibilities provided by the new pattern of shareholdings.

A thankyou to our employees

The high level of commitment shown both by our in-house staff and by our field representatives played a substantial part in the Group's good performance. We wish to thank them for their alacrity and their receptiveness to necessary changes, both of which are essential components in our success.

We also express our gratitude to the elected employee representatives for their trusting cooperation, which once again proved its worth as the merger process to form the ERGO Insurance Group progressed, and various personnel, welfare and organizational tasks had to be dealt with.

1998 Outlook

The German insurance industry does not foresee significant growth in premiums in light of the current economic situation.

Difficult operating environment

Activity in the insurance business is always related to conditions in the overall economy. As a result, economic forecasts for 1998 augur poorly for any dramatic increases in premium income for the industry in Germany. While gross domestic product is expected to increase at a rate of 2.5%–3%, this will remain export-driven. Nor are significant improvements in the employment situation expected in 1998, only a slight recovery. Household disposable incomes will experience sluggish growth; despite the fact that more and more private individuals are demonstrating a willingness to take their financial provision into their own hands, there are few opportunities for growth in private insurance. Looking at other European countries in which the ERGO Insurance Group is active, we would make a similarly modest assessment.

Urgently needed political reforms

Vitally important political reform legislation, which failed in 1997 due to a lack of consensus, must finally be passed in 1998. After the federal parliamentary elections in Germany, another attempt must be made to reform the income and corporate tax system. This will benefit the entire business climate in the country and thus the insurance business along with it.

Ideas on what form the next structural reform of the statutory pension ought to take are now being discussed. There are also plans for introducing a fully funded component into state unemployment provision. This would mean that, for the first time, private insurance and statutory systems would be based on the same economic principles. Germany's insurance industry is watching these developments with interest.

Among private health insurers, there has again been a lively discussion about raising the contribution assessment ceiling to the same level as for the statutory retirement pension scheme. Such a move, compelling still more people to use the public health insurance funds, would have a detrimental effect not only on private insurance companies but on the entire German health care system. These considerations can be countered by the fact that the annuity-based system used by private insurance companies offers a secure base for the future and is clearly superior to pay-as-you-go schemes. Whether or not there is a change of government in Bonn, one hopes for a sensible opproach, that will more likely help and not weaken the private insurance industry.

In the area of property, casualty and accident insurance, the fight for 'good risks' has only just begun. Prices have been slipping in the areas of motor and industrial fire insurance. There is a danger of this trend afflicting other classes of business as well.

Restrained growth in the industry

In light of all these factors, the insurance industry in Germany is expecting 2%–3% growth in premiums at best. The trend towards lower growth rates is continuing.

Industry growth will again be led mainly by personal insurance. Life assurance companies expect a premium increase of 6%, while private health insurers expect growth of 4%.

Premium income is expected to continue its downward trend among German property, casualty and accident insurers, mainly due to price competition and alterations to vehicle groups for motor insurance. A wave of discounts and price cutting last autumn has dampened not only premium growth but also profitability.

ERGO in the first part of 1998

Companies within the ERGO Insurance Group are seeking to expand their business activities. To achieve this, new products are being introduced. The latest developments in information technology are also opening up new opportunities for the field sales force.

Over the first few months, life assurance achieved pleasing growth both in new business and in premium income. Above all, new annuity products have made a strong initial showing. The trend in policyholders' benefits has been satisfactory both at home and in other countries.

New business in health insurance has maintained its buoyant trend in the early part of the current year. Premium income has again been above levels of the previous year. Claims incurred have now returned to a normal level. We are optimistic about business opportunities in other countries. Due to similar problems around the world with pay-as-you-go social welfare systems, private insurance will continue to grow as an alternative. DKV, the only German health insurer with years of international experience, seized the opportunity at the beginning of 1998 to take over Previasa S.A., Spain's fifth-largest private health insurer. In Norway, in a joint venture with Storebrand – the country's largest insurance company – DKV intends to form a private health insurance company in the second half of 1998 that will expand its activities throughout Scandinavia in the medium-term.

Premiums have fallen slightly for property, casualty, and accident, including legal expenses insurance. As before, market performance in the area of motor insurance has been the main reason for this. Industrial fire premiums have also continued to slip. By contrast, accident and comprehensive buildings insurance noted a welcome increase. Claims experience continued to improve. Once again, there have been fewer claims reported relative to the previous year, particularly in weather-related sectors.

Premium growth in other countries has been good thus far. Claims experience has been satisfactory overall.

Higher premium income for the ERGO Insurance Group in 1998

For the entire ERGO Insurance Group we expect a 3% premium income increase in the full 1998 financial year. Our goal is to exceed the industry average in growth. In light of the discussion surrounding service cutbacks in statutory health and retirement programmes, we expect our growth to be driven by personal insurance products.

Our goal is to exceed the industry average in growth, via well-placed cross-fertilization of expertise in product and sales areas.

Despite fierce price competition, we are optimistic about expanding property, casualty, and accident insurance in the ERGO companies, particularly in the areas we have specially targeted for sales promotion activities over the course of the year.

We aim to consolidate our position as European market leader in private health and legal expenses insurance. Our goals are to increase both new business and our business in force, and to further expand managed care services. Cross-fertilization of expertise within the Group in the areas of products and sales should already begin to bear fruit in 1998.

Assuming that the level of claims does not worsen dramatically, we again expect to achieve an improved balance on the technical account.

1998 Outlook

Our goal in 1998 is to repeat our improvement on the previous year's results.

Investment policy in 1998

Tougher competition requires a relatively larger profit contribution from investments. The Group companies' investment managers are constantly seeking new ways of enhancing returns whilst minimizing investment risk. The future will require greater investments in expertise, administration and controlling. So we are thoroughly examining all possible means of consolidating and further improving upon the investment successes of each member of the Group.

The introduction of the euro will further benefit our investment strategy, because it will facilitate a broader diversification of the investment portfolio. The euro will change the face of the equity and bond markets. We expect there soon to be a European stock exchange. The elimination of exchange-rate risk in the euro-denominated bond market will lead to greater breadth and depth in the market. It will become more and more important to know the credit rating of each new issue. Greater opportunities will also open up in real estate markets.

The euro zone currently offers very low yields, and the record levels on the stock exchange suggest that more attention should be paid to risks of share prices falling back. In general we would like to increase our holdings of European securities and sort our portfolio more effectively in terms of particular industries. On the bond market we intend to spread our portfolio holdings throughout Europe. We will also increase co-operation and the pooling of Group resources as a hedge against investment risks. In an active programme of purchasing new business interests, we shall be looking to take opportunities at home and internationally.

Favourable year-end result expected

ERGO Insurance Group wants to be a profitable, major player in all classes of insurance marketed to private individuals. Barring any unforeseen circumstances, the current year can be expected to yield a good balance on the technical account. Net investment income – assuming the environment in capital markets remains stable – should continue to increase. All in all, we expect to achieve a good year-end result for 1998.

The Managing Board

Signed in Düsseldorf, 21 April 1998

Proposed appropriation of profit

Use of 1997 profits

Following the successes achieved in the 1997 financial year, a dividend rate of 30% will be proposed to the Annual General Meeting. Thus the balance-sheet profit of DM 193,479,568 will be appropriated as follows:

Proposed appropriation of profit	
	DM
Payment of a 30% dividend to shareholders	113,238,176
Transfer to other revenue reserves	80,000,000
Carried forward to the new financial year	241,392

If the Annual General Meeting approves this proposal, the cash dividend will be DM 1.50 per DM 5 nominal share. Shareholders entitled to tax allowances will also receive a tax credit of DM 0.64 per share, making a total pay-out of DM 2.14. The tax credit can either be obtained as an offset against domestic income or corporation tax, or can be reimbursed by the revenue authorities on application.

The Managing Board

Signed in Düsseldorf, 26 March 1998

ERGO shares

Our shares’ performance

ERGO bearer shares replace registered shares in VICTORIA Holding

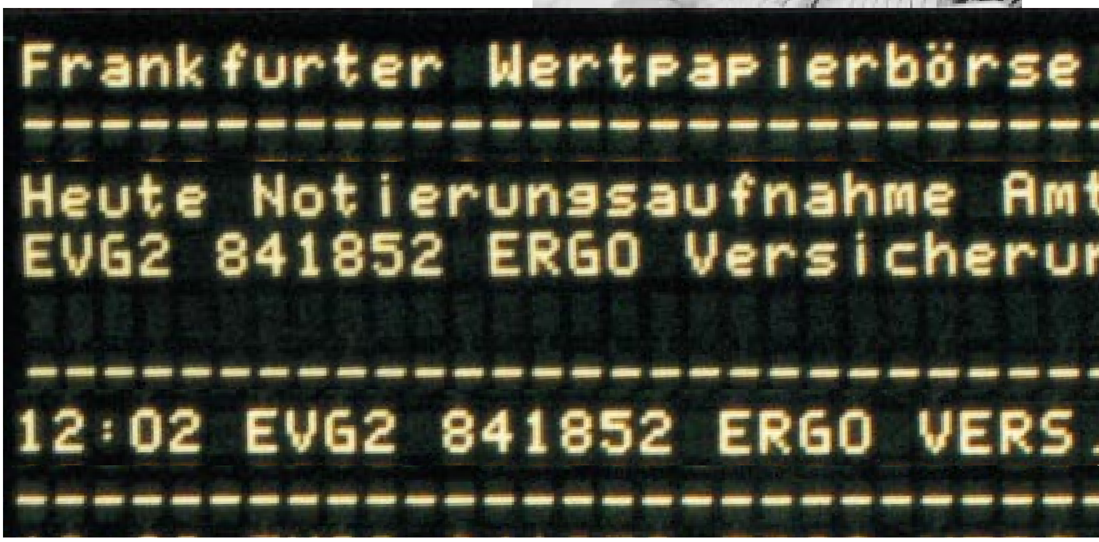
The shareholders of VICTORIA Holding AG and the former Hamburg-Mannheimer AG, which had already been renamed ERGO Versicherungsgruppe AG in October 1997, almost unanimously approved the merger forming the ERGO Insurance Group at their Extraordinary General Meetings held in early December 1997. The resolutions were entered in the Commercial Register sooner than anticipated on 27 January 1998. VICTORIA Holding AG ceased to exist as of this date. In the ensuing three months, all shares were converted, free of commission and charges, into ERGO shares on a one-for-one basis relative to their nominal value.

ERGO Versicherungsgruppe AG has a share capital of DM 377.5 million, divided into 75.5 million bearer shares with a nominal value of DM 5 each. Their lower par value compared with shares in VICTORIA Holding renders them more attractive to private investors. The changeover from restricted, registered shares to freely transferable bearer shares has further enhanced their appeal by enabling them to be held in nominee accounts, which makes for easier and cheaper portfolio management.

First day’s trading on 2 February 1998

ERGO shares were first listed on the Frankfurt and Düsseldorf stock exchanges and in the XETRA electronic trading system on 2 February 1998, when they took the place of the VICTORIA Holding shares in the MDAX index. The market capitalization of ERGO Versicherungsgruppe AG now exceeds DM 27 billion, and will be accorded its full weighting on the next index realignment by Deutsche Börse AG in September 1998. This is set to make ERGO shares the foremost MDAX security, accounting for more than 8% of the index.

ERGO shares were first listed on the Frankfurt and Düsseldorf stock exchanges on 2 February 1998.



The strong appeal of ERGO shares was already apparent on the first day of trading. After opening at DM 220, the price rose by 8% to DM 238 in just a few hours. Only three weeks later, ERGO shares were being traded at well over DM 300. In this way, investors rewarded the merger strategy and the market position held by ERGO as Germany's second-largest primary insurance group.

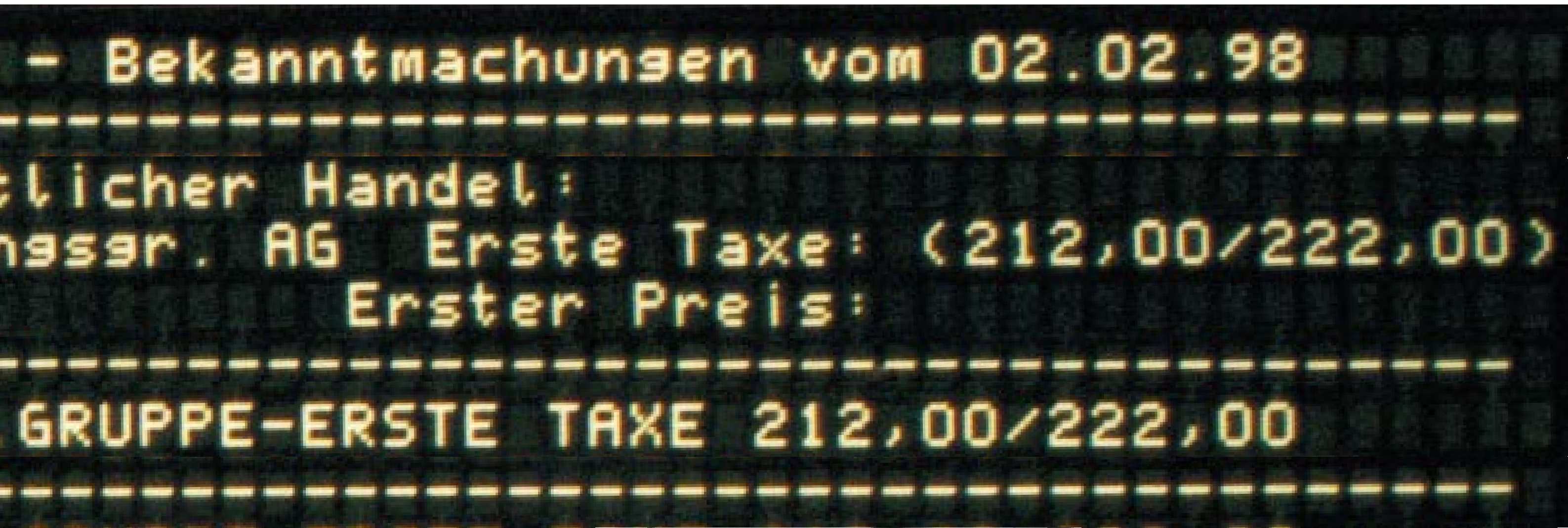
Shares in VICTORIA Holding had performed similarly well in 1997, outpacing the MDAX with 36% growth to close the year at DM 1,801. From their first day of trading on 2 February 1998 to the eve of the annual accounts' presentation on 25 March 1998, ERGO shares appreciated by 57% – well above the DAX and comparable indices.

Continued earnings growth

ERGO Insurance Group companies continued their earnings growth of previous years in 1997. Substantial increases in the net profits earned by property and personal insurance operations boosted Group net profit for the year by DM 196 million or 58% to DM 535 million, representing a 13.5% post-tax return on equity. This is the ratio we use as the chief performance criterion for our specific business units. We hope to expand on this success and achieve further growth in return on equity in the years ahead.

Earnings per share		**1997**
Net profit for the year	DM million	535.2
Special untaxed reserve	DM million	6.1
Transfers to equalization provision	DM million	58.2
Other items	DM million	(11.8)
Minority interests	DM million	(13.0)
DVFA/GDV-defined earnings (total)	DM million	574.7
Number of shares	Million	75.5
DVFA/GDV-defined earnings per share	DM	7.61

We have also achieved strong growth in earnings per share. On independently audited figures calculated as recommended by the DVFA (German Society of Investment Analysts and Asset Managers) and GDV (German Insurance Association), earnings per share improved by more than 45%, from DM 5.22 to DM 7.61. We aim to continue increasing this ratio, which is a key indicator of a company's profitability.



The Managing Board of ERGO providing analysts with full details.

ERGO shareholders will benefit from the year's good results via a high dividend.

Higher dividends

ERGO shareholders will benefit from these performance gains not only in terms of rising share prices, but also via attractive dividends. Accordingly, the Managing Board and the Supervisory Board are proposing a dividend of DM 1.50 per share for 1997. This corresponds to a dividend rate of 30% and hence an increase of more than 7% over the previous year's dividend for VICTORIA Holding AG. The effective dividend is even higher for shareholders resident in Germany by virtue of a tax credit that raises it to DM 2.14 or 43%.

NPV shares help prepare for the euro

Like most other major European countries, Germany will meet the main participation criteria for European monetary union (EMU). The European Union heads of state and government agreed which countries will take part on 2 May 1998. As of 1 January 1999, the euro will come into use as a unit of account alongside national currencies.

From 1 January 1999, the financial markets in EMU member states will conduct their business in euros. On German stock markets, shares and other securities will be quoted exclusively in euros, regardless of their formal denomination (DM or euro), from 4 January 1999.

Germany's federal parliament has voted to allow companies to issue no-par-value (NPV) shares alongside traditional shares with nominal values. An NPV share represents a specific fraction of a company's nominal share capital. Instead of stating a fraction or percentage on share certificates, however, a company need only specify in its articles the total number it has issued. NPV shares each represent an equal portion of share capital, though companies may issue certificates covering multiple shares. We shall be asking our shareholders to approve conversion of the share capital to NPV shares at the next Annual General Meeting.

Increased importance of investor relations

We attach great value to maintaining regular contact with our shareholders, potential investors and financial analysts. Throughout the merger process, we held numerous individual meetings with analysts and investors, plus a number of conferences to keep analysts fully informed. We have continued to operate this open, intensive information policy since the stock exchange launch, and will expand it to serve the growing needs of the international capital market. With our policy of supplying open and comprehensive information at all times, we aim to strengthen shareholder confidence in ERGO Versicherungsgruppe AG and attract new investors at home and abroad.

Employee shares

VICTORIA and D.A.S. started a programme for employees to obtain shares in VICTORIA Holding AG in 1996. Managers could choose to receive part of their performance-linked pay in shares, and all VICTORIA and D.A.S. employees had the opportunity to buy shares at a discount price. This offer was well received, with more than half of those entitled taking the share option. Hamburg-Mannheimer and DKV were prevented by their ownership structure from implementing a comparable employee share scheme, and the new ERGO shares provide an opportunity to fill this gap. Accordingly, we are now preparing a profit-sharing scheme for employees of all ERGO companies. At the same time, we plan to give managers a direct share of growth in their companies' intrinsic value. Our intention is to link together management pay, enterprise value growth and the fundamental interests of our shareholders.

ERGO share performance*		Quarter 1 1998	1997**
Dividend	DM		1.50
Tax credit	DM		0.64
Dividend rate with tax credit	%		42.86
DVFA-defined earnings per share	DM		7.61
Highest share price	DM	364.00	185.00
Lowest share price	DM	184.50	121.00
Year-end share price	DM	–	180.00
Price on 25 March 1998	DM	346.00	–
Par value of shares	DM	5.00	50.00
Number of shares	Million	75.49	3.30
Market capitalization	DM million	27,479	5,943

* ERGO shares were first quoted in place of shares in VICTORIA Holding AG on 2 February 1998.
** For comparative purposes, all figures relate to a DM 5 par value per share, except those referring to the nominal value and number of shares.

Stock markets	Frankfurt and Düsseldorf
Securities identification number	841852
Reuters code	#ERGG

Annual Accounts – Consolidated

Consolidated balance sheet as at 31 December 1997

Assets

				1997	19
	DM 000	DM 000	DM 000	DM 000	DM 0
A. Subscribed capital unpaid				–	15,0
B. Intangible assets					
Other intangible assets				80,097	76,1
C. Investments					
I. Real estate			6,971,329		6,922,3
II. Investments in affiliated companies and participating interests					
1. Shares in non-consolidated, affiliated companies		255,152			112,6
2. Loans to non-consolidated, affiliated companies		32,497			32,6
3. Participating interests in associated companies		34,529			32,5
4. Other participating interests		2,616,098			2,350,7
5. Loans to companies related to the Group via participating interests		56,060			56,5
			2,994,336		2,585,0
III. Other financial investments					
1. Shares, investment fund certificates and other variable-yield securities		27,903,621			20,807,0
2. Bearer bonds and other fixed-interest securities		9,892,888			10,432,5
3. Loans guaranteed by mortgages, land charges or annuity charges		8,824,028			8,734,2
4. Other loans					
a) Registered bonds	44,052,080				41,665,3
b) Loans and promissory notes receivable	10,756,681				11,339,9
c) Loans and advance payments on insurance policies	958,733				963,1
d) Miscellaneous investments	26,303				23,1
		55,793,797			53,991,6
Amounts carried forward:		102,414,334			93,965,4
			9,965,665		9,507,4
				80,097	91,1

Liabilities

			1997	1996
	DM 000	DM 000	DM 000	DM 000
A. Shareholders' funds				
I. Subscribed capital		**377,461**		243,000
II. Capital reserve		**1,261,723**		775,386
III. Revenue reserves				
1. Reserves required by law	**960**			5,075
2. Reserve for own shares	**10,192**			5,736
3. Other revenue reserves	**1,953,423**			627,792
		1,964,575		638,603
IV. Consolidated net profit for the year		**522,163**		251,106
V. Minority interests		**89,861**		Ð
including: DM 14,121,000 in apportionable profit for the year				
and DM 1,102,000 in apportionable loss for the year				
VI. Special consolidation balance		**–**		1,840,463
			4,215,783	3,748,558
B. Special untaxed reserve			**250,954**	224,629
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross amount	**1,915,838**			1,895,689
2. Less: ceded business	**182,772**			177,831
		1,733,066		1,717,858
II. Actuarial provision				
1. Gross amount	**86,834,421**			80,156,740
2. Less: ceded business	**7,168,509**			6,596,963
		79,665,912		73,559,777
Amounts carried forward:		**81,398,978**		75,277,635
			4,466,737	3,973,187

Annual Accounts – Consolidated

Consolidated balance sheet as at 31 December 1997

Assets

				1997	19
	DM 000	DM 000	DM 000	DM 000	DM 0
Amounts brought forward:				80,097	91,1
			9,965,665		9,507,4
		102,414,334			93,965,4
5. Deposits with banks		529,615			218,1
6. Other		197,622			57,5
			103,141,571		94,241,1
IV. Deposits with ceding companies			420,342		376,8
				113,527,578	104,125,4
D. Investments for the benefit of life assurance policyholders who bear the investment risk				187,248	151,2
E. Accounts receivable					
I. Accounts receivable on direct insurance operations, from:					
1. Policyholders					
a) due	455,237				588,0
b) not yet due	513,643				602,8
		968,880			1,190,8
2. Intermediaries		332,060			285,0
including: DM 225,000 (prior year: DM 729,000) owed by non-consolidated, affiliated companies DM 6,426,000 (pr. yr.: DM 4,527,000) owed by companies related via participating interests					
			1,300,940		1,475,9
II. Accounts receivable on reinsurance operations			73,366		119,9
including: DM 40,545,000 (prior year: DM 74,019,000) owed by non-consolidated, affiliated companies DM 2,666,000 (pr. yr.: DM 2,837,000) owed by companies related via participating interests					
III. Other receivables			642,838		736,5
including: DM 27,759,000 (prior year: DM 14,052,000) owed by non-consolidated, affiliated companies DM 25,057,000 (pr. yr.: DM 22,572,000) owed by companies related via participating interests					
				2,017,144	2,332,3
Amount carried forward:				115,812,067	106,700,2

Liabilities

				1997	1996
	DM 000	DM 000	DM 000	DM 000	DM 000
Amounts brought forward:				4,466,737	3,973,187
			81,398,978		75,277,635
III. Provision for claims outstanding					
1. Gross amount		8,398,841			8,006,255
2. Less: ceded business		1,870,403			1,763,357
			6,528,438		6,242,898
IV. Provision for bonuses and rebates					
1. Premium refunds					
a) gross amount	9,973,197				9,094,308
b) less: ceded business	13,232				12,391
		9,959,965			9,081,917
2. PolicyholdersÕ dividends					
a) gross amount	445,098				236,061
b) less: ceded business	19,185				15,194
		425,913			220,867
			10,385,878		9,302,784
V. Equalization provision and similar provisions			949,909		814,664
VI. Other technical provisions					
1. Gross amount		169,336			189,870
2. Less: ceded business		14,385			16,724
			154,951		173,146
				99,418,154	91,811,127
D. Technical provisions for life assurance policies where the investment risk is borne by the policyholders					
Actuarial provision					
1. Gross amount			188,921		152,734
2. Less: ceded business			8,365		6,118
				180,556	146,616
Amount carried forward:				104,065,447	95,930,930

Annual Accounts – Consolidated

Consolidated balance sheet as at 31 December 1997

Assets

		1997	**19**
	DM 000	**DM 000**	**DM 0**
Amount brought forward:		**115,812,067**	106,700,2
F. Other assets			
I. Tangible assets and stocks (inventories)	**319,590**		330,1
II. Liquid funds	**1,098,646**		1,075,1
III. Own shares	**10,192**		5,7
IV. Miscellaneous assets	**403,798**		391,6
		1,832,226	1,802,6
G. Prepayments and accrued income			
I. Accrued interest and rent	**2,501,790**		2,429,6
II. Other prepayments and accrued income	**106,436**		96,6
		2,608,226	2,526,3
Total assets		**120,252,519**	**111,029,2**

Liabilities

			1997	1996
	DM 000	DM 000	DM 000	DM 000
Amount brought forward:			104,065,447	95,930,930
E. Provisions for other risks and charges				
I. Provision for employeesÕ pensions and similar commitments		660,015		623,835
II. Provisions for taxation		335,827		272,164
III. Provision for prospective tax charges in future financial years, as per Secs. 274 & 306 of the Commercial Code		234,969		266,091
IV. Miscellaneous provisions		676,675		719,571
			1,907,486	1,881,661
F. Deposits received from reinsurers			7,357,437	6,807,242
G. Current liabilities				
I. Accounts payable arising from direct insurance operations, to:				
1. Policyholders	5,719,055			5,252,592
2. Intermediaries	189,245			176,125
		5,908,300		5,428,717
II. Accounts payable arising from reinsurance operations		69,600		82,492
including: DM 25,374,000 (prior year: DM 27,648,000) owed to non-consolidated, affiliated companies				
DM 625,000 (pr. yr.: DM 2,495,000) owed to companies related via participating interests				
III. Amounts owed to banks		227,770		176,796
IV. Miscellaneous liabilities		582,284		584,914
including: DM 116,727,000 (prior year: DM 167,199,000) arising from taxation				
DM 48,932,000 (pr. yr.: DM 49,492,000) arising from social security				
DM 1,440,000 (pr. yr.: DM 7,666,000) owed to non-consolidated, affiliated companies				
DM 14,381,000 (pr. yr.: DM 9,028,000) owed to companies related via participating interests				
			6,787,954	6,272,919
H. Accruals and deferred income			134,195	136,464
Total liabilities			120,252,519	111,029,216

Annual Accounts – Consolidated

Consolidated profit and loss account
for the year ending 31 December 1997

Items

			1997	19
	DM 000	DM 000	DM 000	DM 0
I. Technical account for general insurance				
1. Earned premiums, net of reinsurance ceded				
a) Gross premiums written	**6,000,219**			5,993,8
b) Ceded premiums	**1,244,319**			1,268,6
		4,755,900		4,725,1
c) Change in the gross provision for unearned premiums	**7,752**			(23,28
d) Change in the ceded share of unearned premiums	**(444)**			(4,29
		7,308		(27,58
			4,763,208	4,697,5
2. Technical interest income, net of reinsurance ceded			**6,818**	4,4
3. Other technical income, net of reinsurance ceded			**9,788**	8,2
4. Claims incurred, net of reinsurance ceded				
a) Claims paid:				
aa) gross amount	**3,430,443**			3,289,5
bb) reinsurers' share	**774,877**			774,4
		2,655,566		2,515,1
b) Change in the provision for claims outstanding:				
aa) gross amount	**443,187**			606,5
bb) reinsurers' share	**90,736**			112,8
		352,451		493,7
			3,008,017	3,008,8
5. Change in other technical provisions – (increase)/decrease – net of reinsurance ceded				
a) Net actuarial provision		**(39,340)**		2
b) Other net technical provisions		**10,999**		(6,58
			(28,341)	(6,37
6. Bonuses and rebates, net of reinsurance ceded			**25,136**	30,5

Items

			1997	1996
	DM 000	DM 000	DM 000	DM 000
7. Operating expenses, net of reinsurance ceded				
a) Gross amount		**1,984,358**		1,987,876
b) Less: reinsurance commissions and profit participation received		**346,413**		338,355
			1,637,945	1,649,521
8. Other technical charges, net of reinsurance ceded			**12,997**	13,685
9. Balance before changes in the equalization and similar provisions			**67,378**	1,279
10. Change in the equalization and similar provisions – (increase)/decrease			**(135,245)**	(119,460)
11. Balance on the general business technical account			**(67,867)**	(118,181)
II. Technical account for life and health business				
1. Earned premiums, net of reinsurance ceded				
a) Gross premiums written	**15,286,946**			15,123,676
b) Ceded premiums	**1,399,800**			1,251,549
		13,887,146		13,872,127
c) Change in the provision for unearned premiums (net)		**(23,816)**		(57,809)
			13,863,330	13,814,318
2. Premiums contributed from the gross provision for bonuses and rebates			**1,634,884**	1,741,791
3. Allocated investment return transferred from the non-technical account			**7,714,748**	7,104,249
4. Unrealized gains on investments			**25,076**	12,965
5. Other technical income, net of reinsurance ceded			**22,098**	15,022
Amount carried forward:			**23,260,136**	22,688,345

Annual Accounts – Consolidated

Consolidated profit and loss account
for the year ending 31 December 1997

Items

			1997	19
	DM 000	DM 000	DM 000	DM 0
Amount brought forward:			**23,260,136**	22,688,3
6. Claims incurred, net of reinsurance ceded				
a) Claims paid:				
aa) gross amount	**10,606,662**			9,638,7
bb) reinsurers' share	**888,225**			847,7
		9,718,437		8,790,9
b) Change in the provision for claims outstanding:				
aa) gross amount	**116,906**			44,0
bb) reinsurers' share	**13,430**			(1,84
		103,476		45,8
			9,821,913	8,836,8
7. Change in other technical provisions – (increase)/decrease – net of reinsurance ceded				
a) Actuarial provision				
aa) gross amount	**(6,361,234)**			(6,871,7
bb) reinsurers' share	**398,834**			289,6
		(5,962,400)		(6,582,0
b) Other net technical provisions		**(7,269)**		(2,3
			(5,969,669)	(6,584,4
8. Bonuses and rebates, net of reinsurance ceded			**3,875,875**	3,729,9
9. Operating expenses, net of reinsurance ceded				
a) Acquisition costs	**1,995,395**			1,945,7
b) Administrative expenses	**630,031**			645,9
		2,625,426		2,591,7
c) Less: reinsurance commissions and profit participation received		**497,276**		463,2
			2,128,150	2,128,4

Items

				1997	1996
	DM 000	DM 000	DM 000	DM 000	DM 000
10. Unrealized losses on investments				**3,803**	–
11. Other technical charges, net of reinsurance ceded				**969,372**	890,490
12. Balance on the technical account, net of reinsurance ceded, for life and health business				**491,354**	518,169
III. Non-technical account					
1. Balance on the technical account, net of reinsurance ceded:					
a) General insurance			**(67,867)**		(118,181)
b) Life and health business			**491,354**		518,169
				423,487	399,988
2. Investment income					
a) Income from participating interests					
aa) in affiliated companies	**3,398**				1,807
bb) other participating interests	**187,427**				169,159
		190,825			170,966
b) Income from other investments					
aa) income from real estate	**611,903**				625,432
bb) other	**7,133,046**				6,672,746
		7,744,949			7,298,178
c) Income from write-ups on investments		**41**			–
d) Realized gains on the disposal of investments		**1,123,574**			714,076
e) Income from profit-pooling arrangements or profit-transfer agreements		**1,464**			1,658
f) Funds released from the special untaxed reserve		**9,955**			22,843
			9,070,808		8,207,721
Amounts carried forward:			**9,070,808**		8,207,721
				423,487	399,988

Annual Accounts – Consolidated

Consolidated profit and loss account for the year ending 31 December 1997

Items

			1997	19
	DM 000	DM 000	DM 000	DM 0
Amounts brought forward::			423,487	399,9
		9,070,808		8,207,7
3. Investment expenses				
a) Investment management charges, including interest paid and other expenses	268,744			239,7
b) Write-downs on investments	363,735			242,3
c) Realized losses on the disposal of investments	39,756			11,8
d) Adopted losses incurred by associated companies	–			
e) Funds allocated to the special untaxed reserve	36,908			49,3
		709,143		543,3
		8,361,665		7,664,3
4. Allocated investment return transferred to the technical account				
a) for general insurance	11,418			5,0
b) for life and health business	7,714,748			7,104,2
		7,726,166		7,109,3
			635,499	555,0
5. Other income		201,073		185,7
6. Other expenditure		396,229		368,7
			(195,156)	(182,9
7. Profit on ordinary activities			863,830	772,0
8. Taxation on income		268,279		387,1
9. Other taxation		60,369		46,1
			328,648	433,2
10. Net profit for the year			535,182	338,8
11. Profit apportionable to minority interests			14,121	91,5
12. Loss apportionable to minority interests			1,102	3,8
13. Consolidated net profit for the year			522,163	251,1

Method of presentation

The consolidated annual accounts of ERGO Versicherungsgruppe AG are submitted voluntarily, it and its subsidiaries being exempt from the need to disclose separate accounts by virtue of their inclusion in the consolidated accounts of Münchener Rückversicherungs-Gesellschaft AG (Munich Re).

For ease of understanding and interpretation, the consolidated annual accounts for the 1997 financial year cover the period from 1 January to 31 December 1997, even though the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG did not take effect until 1 August 1997.

Figures for the 1997 financial year have been contrasted with statistically computed equivalents for 1996. These are notional figures calculated as if the 'ERGO Insurance Group' had already existed at that time. The notional figures take account of the actual shares of the equity of consolidated subsidiaries held by minority interests in 1996.

Statutory provisions applied

The 1997 Consolidated Annual Accounts and joint Management Report for ERGO Versicherungsgruppe AG and the Group have been prepared as stipulated in Secs. 290 *et seq.* of the German Commercial Code (HGB) in conjunction with Secs. 341 *et seq.* of the Code, and having due regard to the Ordinance on Accounting by Insurance Companies (RechVersV).

In accordance with Secs. 268 (1) & 298 (1) of the Commercial Code, details of the appropriation of profits have not been set out in the consolidated annual accounts, since the Group results are not the determining factor for the size of the dividend distributed.

Consolidated companies

With certain exceptions detailed below, the consolidated annual accounts of ERGO Versicherungsgruppe AG include all direct and indirect subsidiary companies; there are 25 consolidated companies registered in Germany, and another 32 based abroad.

In addition, one domestic and three foreign companies in which interests are held have been valued at equity as associated companies.

The composition of the consolidated group in the previous year has been presented as if the ERGO Insurance Group had existed at that time.

The results of 58 affiliated companies have not been included in the consolidated annual accounts because, even in total, these would not significantly influence the assets and liabilities, financial situation and results of the ERGO Insurance Group. There are also nine associated companies which have not been valued at equity for the same reason.

Notes to the Consolidated Annual Accounts
Principles of disclosure and consolidation

A list of the Group's main affiliated and associated companies is provided in the 'additional information' section on pages 78–80.

All annual accounts of both domestic and foreign Group companies share the same financial year end as the holding company, ERGO Versicherungsgruppe AG (i.e., 31 December).

Consolidation principles

The Group's capital has been consolidated using the book-value method, offsetting the acquisition costs of subsidiary companies against the shareholders' funds apportionable to the Group on 1 January 1997.

Group companies valued at equity have been consolidated according to the same principles.

The 'other revenue reserves' balance sheet item has been reduced to match the amount of capitalized goodwill, as required by Sec. 301 (3) of the Commercial Code.

The initial consolidation procedure for all consolidated subsidiaries was carried out in 1997. Figures reported for the previous year were obtained by offsetting the book values of participating interests against total shareholders' funds. The residual amounts arising are reported in the special consolidation balance which occurs only in the notional 1996 accounts. This balance sheet item contains the residual amounts just referred to, and also minority interests in the book values of subsidiaries, in shareholders' funds, and in their results for the year. The amounts apportionable to minority interests have been calculated on the basis of relative shareholdings for the 1996 financial year.

The debt consolidation procedure is as follows. All accounts receivable and current liabilities arising between and among the newly consolidated Group companies have been mutually offset. 'Intermediate results' and any income or expenses arising from intra-Group transactions have also been mutually offset, unless the need to account for transactions was obviated, either in line with Sec. 341j (2) of the Commercial Code or because the transactions were of negligible importance.

The mutual offsetting procedure, stipulated in Sec. 304 (1) of the Commercial Code, has not been applied to associated companies, as provided by Sec. 312 (5) of the Code, because the transactions concerned cannot be satisfactorily identified.

Accounting and valuation principles

General accounting principles

The annual accounts of all domestic and foreign subsidiary companies that are included in the consolidated annual accounts of ERGO Versicherungsgruppe AG are all either prepared using accounting and valuation principles identical to the holding company's, or else appropriate adjustments have been made for consolidation purposes to compensate for any differences in method. If such differences result from specific statutory requirements applying to insurance companies, they have been retained.

Uniform principles have not necessarily been applied in the case of the equity valuation of associated companies.

Intangible assets

Intangible assets acquired for money have been capitalized at their acquisition cost less scheduled depreciation charges corresponding to their normal useful lives.

Investments

Real estate (i.e. land, leasehold rights and buildings) is reported at cost of acquisition or construction, less permissible depreciation charges.

Shares in non-consolidated, affiliated companies and other participating interests are reported at their acquisition cost or their current market value, whichever is the lower. Shares in associated companies valued at equity are reported as the proportion of shareholders' funds attributable to the Group. The capitalized value of limited partnerships and other non-incorporated undertakings is computed from the capital contribution made to the enterprise and the Group's *pro rata* participation in its gross profit or loss, less capital repayments and tax-allowable depreciation charges.

Shares, investment fund certificates and other variable-yield securities, bearer bonds and other fixed-interest securities, and miscellaneous investments are valued at the lower of their acquisition cost or their current market price on the balance-sheet date, as quoted on the stock exchange or computed from the security's yield.

Loans guaranteed by mortgages, land charges or annuity charges and other loans are reported at their nominal value less principal so far repaid, except where write-downs have been made on the value of specific loans.

If non-scheduled depreciation or write-downs have been charged to the value of any of the above investments and the reasons for making such adjustments have since lapsed, the option not to restore them to higher book values has been taken as per Sec. 280 (2) of the Commercial Code.

Deposits with banks and, in reinsurance operations, with ceding companies are capitalized at their nominal value.

Investments for the benefit of life assurance policyholders who bear the investment risk are reported at their fair market value.

Assessment of fair market values

To establish the fair market values of investments capitalized at acquisition cost, the approach that has been taken for real estate is to assess its net income value as specified in the Ordinance on Valuation *(Wertermittlungsverordnung),* except for construction projects not yet completed, which are valued at acquisition cost. Each item of real estate is individually assessed for its value at the year end. A net-income-value approach has also been taken when valuing participating interests. Shares, investment fund certificates, and fixed-interest securities have all been valued with the aid of the share prices quoted at the 1997 year end.

Accounts receivable and other assets

Accounts receivable on both direct insurance and reinsurance operations, other receivables and liquid funds are all reported at their nominal value less any necessary write-downs.

Tangible assets and stocks (inventories) are valued at acquisition cost less depreciation as permitted by tax law or by normal procedures in the country concerned. Low-value assets acquired during the financial year have been depreciated in full.

Prepayments and accrued income/ Accruals and deferred income

Premiums (on loan instruments) reported as accrued income on the assets side have been distributed over the lifetime of the loans they apply to. Discounts retained have also been distributed over the lifetime of their loans on the liabilities side, using the day-to-day interest computation method.

Technical provisions

For all domestic Group subsidiaries, the technical provisions are established as required by German commercial law. The technical provisions set aside by foreign subsidiaries are formed as required by the law of the country concerned, and are then included in the consolidated annual accounts without any further adjustments.

Provisions for unearned premiums consist of the premium income already obtained for future risk periods, which is allocated to those periods either *pro rata temporis* or on the basis of predetermined generally applicable rates.

The actuarial provision (often referred to elsewhere as a ‘life assurance’ or ‘long-term business’ provision) consists of the capital sums required, on actuarial calculations, to cover future benefits and claims in the fields of life assurance, health and accident insurance.

Insurance claims not yet paid by the balance-sheet date are reported in the provision for claims outstanding. As a fundamental rule, the amounts set aside are computed on a policy-by-policy basis. Additional provision is made for ‘belated claims’ that have not yet been notified by the balance-sheet date although the insured event has already occurred.

The provision for bonuses and rebates includes the premium payments due to be returned to policyholders or primary insurers in accordance with statutory requirements or contractual arrangements, but which were not yet due at the balance-sheet date. In particular, this item includes policyholders’ dividends in life assurance (endowments, annuities) and health insurance policies.

The ‘equalization provision and similar provisions’ include the legally required provision for fluctuations in claims experience in future years (sometimes known as a ‘claims equalization provision’), plus special provisions for nuclear-plant and pharmaceutical risks.

‘Other technical provisions’ essentially consist of amounts set aside for impending losses which are assessed by applying many years’ experience coupled with the latest information.

Provisions for other risks and charges

The provision for pensions is calculated on a going-concern basis, applying the guidance tables published by Prof. Dr. Klaus Heubeck and an imputed interest rate of 6% as permitted by tax regulations. Pension provisions set aside by foreign Group companies in accordance with the actuarial regulations in their particular countries have been included in the consolidated annual accounts without adjustment, since they are appropriate to the obligations actually faced.

In calculating deferred taxation effects resulting from the application of uniform valuation methods within the Group and from consolidation measures affecting Group results, domestic and foreign events or transactions each have their own uniform taxation rates applied to them.

All other provisions made under this heading have been accounted for and valued on a uniform basis, and they are properly geared to prospective needs.

Other liabilities items

Deposits received from reinsurers and miscellaneous liabilities are reported as the amount due.

Foreign currency translation

As a general rule, transactions made in foreign currencies by domestic Group companies have been accounted for at the exchange rate on the day each transaction was booked, unless the exchange rate was lower on the balance-sheet date, in which case the latter has been used. All foreign-currency amounts reported in the annual accounts of foreign Group companies have been translated into deutschmarks on a uniform basis for inclusion in the consolidated annual accounts, taking the mean exchange rate on the balance-sheet date.

Assets side

Summary of fixed asset movements

The schedule below provides details of changes in intangible assets and investments during the financial year.

B. Intangible assets

This item consists almost entirely of purchased IT software. Additions of DM 45 million include the *post hoc* capitalization of mainframe and PC software systems already in use.

C.I. Real estate (= land, leasehold rights and buildings, including buildings on land held by third parties)

The capitalized value of land and buildings used by Group companies for their business operations, allocated by proportional use, was DM 1,639 (1,684) million. Please refer to the section on investment expenditure (on page 72) for an explanation of the depreciation figure.

Movements in asset items B. and C.I–III., 1997 financial year		**Book value at 1996 year end**	**Exchange-ra adjustme**
		DM 000	**DM 0**
B.	**Intangible assets**		
	Other intangible assets	76,117	(4
C.I.	**Real estate**	6,922,363	(96
C.II.	**Investments in affiliated companies and participating interests**		
	1. Shares in non-consolidated, affiliated companies	112,625	
	2. Loans to non-consolidated, affiliated companies	32,697	
	3. Participating interests in associated companies	32,543	
	4. Other participating interests	2,350,717	(3
	5. Loans to companies related to the Group via participating interests	56,515	
	6. Sub-total for C.II.	2,585,097	(2
C.III.	**Other financial investments**		
	1. Shares, investment fund certificates and other variable-yield securities*)	20,807,005	5,5
	2. Bearer bonds and other fixed-interest securities	10,432,599	10,7
	3. Loans guaranteed by mortgages, land charges or annuity charges	8,734,223	(24
	4. Other loans		
	a) Registered bonds	41,665,333	(47
	b) Loans and promissory notes receivable	11,339,963	(4
	c) Loans and advance payments on insurance policies	963,154	(2
	d) Miscellaneous investments	23,189	
	5. Deposits with banks	218,106	(2,37
	6. Other	57,552	
	7. Sub-total for C.III.	94,241,124	13,0
Total		**103,824,701**	**12,0**

*) The capitalized value for the financial year includes securities lent out, the book value of which is DM 448,541,000.

C.II.1. Shares in non-consolidated, affiliated companies

During the financial year VICTORIA Versicherung increased its limited partnership holdings in VICTORIA Verwaltungs-GmbH & Co. Property KG.

Due to the new Group structure, two participating interests are also disclosed under this item.

C.II.4. Other participating interests

During the financial year, ERGO Insurance Group purchased new stakes in several real estate and investment companies. The portfolio of participating interests also expanded due to top-up purchases, increases in capital, and the injection of internal funds.

Consolidation changes	Additions	Reclassifications	Disposals	Write-ups	Depreciation and write-downs	Book value at 1997 year end
DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
4	44,770		295		40,458	**80,097**
	417,014		139,803		227,279	**6,971,329**
	172,090		29,422		142	**255,152**
			200			**32,497**
	1,986					**34,529**
	266,764	(368)	983			**2,616,098**
	11,894		12,344		13	**56,060**
	452,734	(368)	42,949		155	**2,994,336**
	11,880,475	344	4,660,535		129,212	**27,903,621**
	3,593,719	2,807	4,140,239		6,713	**9,892,888**
	663,312		573,100	41	202	**8,824,028**
	5,888,574	20,285	3,521,640			**44,052,080**
	1,045,138	(22,783)	1,605,589			**10,756,681**
	276,222		280,615			**958,733**
	9,351		6,076		161	**26,303**
	314,164	(285)				**529,615**
	150,083		10,000		13	**197,622**
	23,821,038	368	14,797,794	41	136,301	**103,141,571**
4	**24,735,556**	**–**	**14,980,841**	**41**	**404,193**	**113,187,333**

Assets side

E.1. Accounts receivable from direct insurance operations

The accounts receivable from policyholders mainly comprise unredeemed insurance policies and outstanding renewal premiums.

Receivables from intermediaries mainly stem from regular invoicing procedures for insurance agents and field representatives.

Both items have been adjusted using not only general bad debt provisions to cater for overall credit risk but also, where necessary, using specific value adjustments. Cancellation provisions have been allocated to cater for the eventuality of policyholder default.

Receivables arising from contracts contested due to fraudulent statements came to DM 31,052,000. These amounts are fully covered on the liabilities side (see notes on liabilities, G.IV.).

E.III. Miscellaneous receivables

	1997 DM 000	1996 DM 000
Tax rebate entitlements	**184,370**	192,793
Receivables arising from securities holdings	**124,172**	4,813
Receivables arising from real estate holdings	**68,607**	227,680
Amounts owed by affiliated companies and participating interests	**52,816**	36,624
Interest and rent receivable	**48,276**	51,032
Receivables from the WTZ pooling arrangement for health insurance in the Netherlands	**24,137**	19,332
Amounts owed by intermediaries	**22,829**	24,489
Loans and salary advances to employees	**21,328**	24,538
Receivables from the I.N.I. pooling arrangement	**15,537**	10,723
Miscellaneous receivables	**80,766**	144,506
Total	**642,838**	**736,530**

Among receivables arising from securities, DM 105 million came from an outstanding redemption payment on a bearer bond, which was eventually received in January 1998.

Receivables from real estate included DM 30 (180) million in sale proceeds.

The receivables from the WTZ pooling arrangement are amounts owed by the government of the Netherlands, which reimburses health insurers operating in the country for obligatory services provided at standard legally determined rates to certain classes of persons insured.

The miscellaneous receivables comprise a variety of smaller items, the largest single one being receivables associated with the management of co-insurance consortia.

F.III. Own shares

This involves shares in ERGO Versicherungs-gruppe AG acquired by two subsidiaries for the purpose of issuing shares to employees.

F.IV. Miscellaneous assets

This item mainly involves insured events that have been prepaid while claims are not yet finally settled, for a total of DM 341,451,000 (DM 309,557,000).

G.II. Other prepayments and accrued income

	1997 DM 000	1996 DM 000
Premiums on registered bonds and promissory notes receivable	**83,962**	69,809
Prepaid administrative and other expenses	**22,474**	26,833
Total	**106,436**	**96,642**

Liabilities side

A.I. Subscribed capital

This item discloses the subscribed capital of the holding company, ERGO Versicherungsgruppe AG. Details on the changes within the financial year can be found in the notes to the Company balance sheet on page 88.

A.II. Capital reserve

This is the capital reserve of ERGO Versicherungsgruppe AG. Details on the changes within the financial year can be found in the notes to the Company balance sheet on page 89.

A.III.1. Reserve required by law

This balance sheet item consists entirely of the legal reserve of ERGO Versicherungsgruppe AG. The number from the previous year was obtained by combining the reserves of ERGO Versicherungsgruppe AG and VICTORIA Holding AG. The legal reserve of VICTORIA Holding AG was in fact credited to the capital reserve of ERGO Versicherungsgruppe AG when the merger took effect.

A.III.2. Reserve for own shares

A reserve of DM 10 (6) million for own shares, made up of ERGO Insurance Group AG shares owned by two subsidiaries, was established for the purpose of issuing them to employees.

A.III.3. Other revenue reserves

	DM 000
Amount brought forward to 1 January 1997	627,792
ERGO Versicherungsgruppe AG:	
Transfers to other revenue reserves	103,000
Capital increase out of internal funds	(16,819)
Transfer to the capital reserve	(85,356)
Subsidiary companies:	
Residual amounts from capital consolidation (as per Sec. 301 [3] of the Commercial Code)	1,328,453
Other sums offset	(2,323)
Associated companies:	
Residual amounts as per Sec. 312 (1) of the Commercial Code	(1,324)
Amount as at 31 December 1997	**1,953,423**

A.IV. Consolidated net profit

The consolidated net profit for the year of DM 522 (251) million constitutes the sum of all net profits of all consolidated companies, adjusted for the application of uniform accounting principles and for consolidation effects bearing on results. The minority interests – in both profits and losses – detailed in the balancing item below (Liabilities: A.V.) give rise to a net deduction from the Group net profit.

A.V. Minority interests

This balancing item covers the book value of participating interests, subscribed capital, capital and revenue reserves, profits or losses brought forward, and net profit and loss apportionable to consolidated companies' other shareholders outside the Group.

Liabilities side

B. Special untaxed reserve

	1997 DM 000	1996 DM 000
As per Sec. 6b, German Income Taxation Act	**244,954**	219,306
As per foreign tax legislation	**6,000**	5,323
Total	**250,954**	**224,629**

C. Technical provisions

	Direct insurance operations Life DM 000	Health DM 000	P/C and accident DM 000	Reinsurance accepted DM 000	1997 total DM 000	1996 total DM 000
Provision for unearned premiums						
Gross amount	877,314	59,406	897,503	81,615	**1,915,838**	1,895,689
Reinsurers' share	50,421	3,803	114,199	14,349	**182,772**	177,831
	826,893	**55,603**	**783,304**	**67,266**	**1,733,066**	**1,717,858**
Actuarial provision						
Gross amount	71,123,206	15,186,931	228,297	295,987	**86,834,421**	80,156,740
Reinsurers' share	6,002,682	1,047,043	–	118,784	**7,168,509**	6,596,963
	65,120,524	**14,139,888**	**228,297**	**177,203**	**79,665,912**	**73,559,777**
Provision for claims outstanding						
Gross amount	290,655	1,146,494	6,339,972	621,720	**8,398,841**	8,006,255
Reinsurers' share	22,958	66,704	1,665,917	114,824	**1,870,403**	1,763,357
	267,697	**1,079,790**	**4,674,055**	**506,896**	**6,528,438**	**6,242,898**
Provision for bonuses and rebates: Policyholders' dividends						
Gross amount	7,788,216	2,104,381	80,600	–	**9,973,197**	9,094,308
Reinsurers' share	–	155	13,077	–	**13,232**	12,391
	7,788,216	**2,104,226**	**67,523**	**–**	**9,959,965**	**9,081,917**
Provision for bonuses and rebates: Premium refunds						
Gross amount	–	433,761	8,391	2,946	**445,098**	236,061
Reinsurers' share	–	15,841	3,344	–	**19,185**	15,194
	–	**417,920**	**5,047**	**2,946**	**425,913**	**220,867**
Equalization provision	**–**	**–**	**590,313**	**359,596**	**949,909**	**814,664**
Other technical provisions						
Gross amount	15,721	5,418	128,955	19,242	**169,336**	189,870
Reinsurers' share	–	2	14,326	57	**14,385**	16,724
	15,721	**5,416**	**114,629**	**19,185**	**154,951**	**173,146**

C.VI. Other technical provisions

	1997 DM 000	1996 DM 000
net of reinsurance ceded		
Provision for impending losses	**65,343**	77,199
Provision for increased benefits	**21,044**	29,484
Provision for reinsurance profit participation	**18,315**	12,483
Cancellation provision	**14,509**	14,688
Miscellaneous technical provisions	**35,740**	39,292
Total	**154,951**	**173,146**

E.IV. Other provisions

	1997 DM 000	1996 DM 000
Provision for unearned commission	**228,867**	274,542
Provision for early retirement payments	**90,375**	113,622
Provision for other workforce remuneration items	**69,871**	65,366
Provision for invoices outstanding	**67,457**	49,440
Provision for holiday and free-time entitlements	**34,746**	31,247
Provision for employees' service anniversaries	**29,262**	25,417
Provision for representatives' compensation rights as per Sec. 89 of the Commercial Code	**27,977**	27,619
Provision for deferred repairs and maintenance	**14,181**	41,139
Provision for contributions to occupational-accident mutual indemnity associations	**13,972**	14,248
Provision for redundancy or similar settlements reached with employees	**12,534**	12,495
Miscellaneous non-technical provisions	**87,433**	64,436
Total	**676,675**	**719,571**

The largest single items in the miscellaneous non-technical provisions listed above are provisions for performance-related management bonuses and costs associated with the annual accounts.

Liabilities side

G.I. Liabilities arising from direct insurance operations

Accounts payable to policyholders are first and foremost dividends on policies that accumulate compound interest, premium custody deposits and other advance premium payments. These items are mainly connected with life assurance.

Accounts payable to intermediaries primarily involve commission and other cash in hand of field representatives and brokers, as well as liabilities related to participating interests.

G.III. Amounts owed to banks

These liabilities include a DM 200 million promissory note owed to a bank.

G.IV. Other liabilities

	1997 DM 000	1996 DM 000
Liabilities arising:		
from taxation	**116,727**	167,199
from securities transactions	**82,429**	10,290
from trade accounts payable	**50,733**	53,195
from social security	**48,932**	62,072
from mortgages and land charges	**48,932**	49,492
from collateral provided	**44,999**	37,500
from payment transactions	**38,053**	38,044
from the I.N.I. pooling arrangement	**34,122**	24,748
Accounts payable to insurance intermediaries	**20,506**	15,115
Amounts owed to non-consolidated, affiliated companies	**17,352**	20,776
Amounts owed to companies related via participating interests	**15,821**	16,694
Miscellaneous liabilities	**63,678**	89,789
Total	**582,284**	**584,914**

Liabilities arising from collateral provided are to cover claims against intermediaries in cases where contracts are being contested due to fraudulent statements (see Assets E.I.2.).

The miscellaneous liabilities consist of many small items; the largest one involves liabilities associated with the management of co-insurance consortia.

H. Accruals and deferred income

	1997 DM 000	1996 DM 000
Discounts on mortgage receivables, registered bonds and promissory notes	**102,592**	105,762
Miscellaneous liabilities	**31,603**	30,702
Total	**134,195**	**136,464**

I. and II. Technical accounts

Technical income and expenses	Direct insurance operations			Reinsurance	1997	1996
	Life	Health	P/C and accident	accepted	total	total
	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
I.1. and II.1. Earned premiums, net of reinsurance ceded						
Gross premiums written	8,888,022	6,341,959	5,655,946	401,238	**21,287,165**	21,117,538
Ceded premiums	860,290	522,636	1,159,205	101,988	**2,644,119**	2,520,247
Change in the net provision for unearned premiums	(25,818)	2,067	(8,908)	16,151	**(16,508)**	(85,390)
Total	**8,001,914**	**5,821,390**	**4,487,833**	**315,401**	**18,626,538**	**18,511,901**
I.4. and II.6. Claims incurred, net of reinsurance ceded						
Gross claims paid	6,427,868	4,142,237	3,210,045	256,955	**14,037,105**	12,928,279
Reinsurers' share	606,590	277,219	710,752	68,541	**1,663,102**	1,622,205
Change in the provision for claims outstanding	16,746	85,571	336,684	16,926	**455,927**	539,632
Total	**5,838,024**	**3,950,589**	**2,835,977**	**205,340**	**12,829,930**	**11,845,706**
I.6. and II.8. Expenditure on bonuses and rebates, net of reinsurance ceded						
Policyholders' dividends	2,737,531	877,654	20,947	–	**3,636,132**	3,625,018
Premium refunds	–	260,690	3,060	1,129	**264,879**	135,483
Total	**2,737,531**	**1,138,344**	**24,007**	**1,129**	**3,901,011**	**3,760,501**
I.7. and II.9. Operating expenses, net of reinsurance ceded						
Gross acquisition costs	1,267,976	722,342	985,310	6,961	**2,982,589**	2,938,339
Gross administrative expenses	366,854	256,395	903,786	100,160	**1,627,195**	1,641,258
Reinsurers' share	359,826	132,725	316,940	34,198	**843,689**	801,642
Total	**1,275,004**	**846,012**	**1,572,156**	**72,923**	**3,766,095**	**3,777,955**

Notes to the Consolidated Annual Accounts
Notes on the consolidated profit and loss account

I.1.a) and II.1.a) Gross premiums written

	1997 DM 000	1996 DM 000
Premiums from direct insurance operations, by country of origin of the underlying business		
Germany	**19,271,321**	19,204,420
Other EU member states, and countries belonging to the European Economic Area	**1,585,440**	1,475,745
Other countries	**29,166**	25,378
Total	**20,885,927**	**20,705,543**
Including:		
Property/casualty and accident:	**5,655,946**	5,698,950
Fire and property	**835,733**	837,469
Transport and aviation	**165,281**	167,130
Accident	**1,185,886**	1,169,859
Liability	**625,053**	630,860
Motor	**1,484,388**	1,587,371
Legal expenses	**1,221,224**	1,161,001
Other	**138,381**	145,260

I.3. and II.5. Other technical income, net of reinsurance ceded

	1997 DM 000	1996 DM 000
Delinquency charges, and interest on late payments and payment holidays	**12,961**	8,275
Released general bad-debt provision against accounts receivable from policyholders	**6,242**	5,590
Income from the release of other technical provisions	**4,363**	4,959
Other income	**8,320**	4,445
Total	**31,886**	**23,269**

I.4. and II.6. Claims incurred, net of reinsurance ceded

Claims incurred, net of reinsurance ceded, have been reduced by income from the release of the provision brought forward from the previous year; this income was at an appropriate level.

I.8. and II.11. Other technical charges, net of reinsurance ceded

	1997 DM 000	1996 DM 000
Interest charges on ceded business	**457,190**	408,050
Interest credits to policyholders	**405,349**	365,356
Reductions in future amounts due from policyholders	**109,569**	117,543
Other technical expenses	**10,261**	13,226
Total	**982,369**	**904,175**

II.4. Unrealized gains on investments

This item consists of as yet unrealized profits on investments for the benefit of life assurance policyholders who bear the investment risk (via fund-linked and share-index-linked life policies). The amount reported here is balanced out by a corresponding disclosure under the 'change in … other net technical provisions'.

III. Non-technical account

III.2. and 3. Investment income and expenses

	Life assurance		Health insurance	
	1997	1996	1997	1996
	DM 000	DM 000	DM 000	DM 000
Investment return and expenses allocated to life and health business				
Income from participating interests	**129,183**	116,637	**54,454**	47,991
Income from real estate	**417,086**	427,611	**144,393**	148,965
Income from other investments	**5,383,479**	5,068,473	**1,200,984**	1,080,006
Realized gains on the disposal of investments	**629,153**	376,762	**353,982**	272,195
Funds released from the special untaxed reserve	**9,440**	22,516	**–**	–
Income from write-ups on investments	**41**	–	**–**	–
Total	**6,568,382**	**6,011,999**	**1,753,813**	**1,549,157**
Investment management charges	**127,449**	169,302	**34,160**	47,935
Interest paid and other expenses	**69,791**	–	**17,061**	–
Depreciation and write-downs on investments	**248,046**	147,470	**73,386**	58,282
Realized losses on the disposal of investments	**15,288**	8,777	**20**	11
Funds allocated to the special untaxed reserve	**10,946**	98	**11,300**	25,000
Adopted losses incurred by associated companies	**–**	32	**–**	–
Total	**471,520**	**325,679**	**135,927**	**131,228**

DM 32 (17) million of the depreciation item above consisted of non-scheduled depreciation and write-downs on investments, as per Sec. 277 (3), clause 1 of the German Commercial Code.

Details of depreciation charges are provided in the movement schedule for asset items on pages 60 and 61.

The total amount allocated to the special untaxed reserve (in accordance with Sec. 6b of the German Income Tax Act) was DM 35 (49) million; the amount released was DM 9 (22) million.

III.5. Other income

	1997 DM 000	1996 DM 000
Payment received for services rendered	**100,857**	102,858
Income from letting or hiring out business facilities	**13,345**	11,735
Interest earned on assets other than investments	**13,357**	10,403
Foreign-exchange gains	**10,594**	5,913
Miscellaneous income	**62,920**	54,841
Total	**201,073**	**185,750**

In addition to numerous smaller sums, the miscellaneous income also includes the income from a refund of input VAT following the change of use of a business property site.

III.6. Other expenditure

	1997 DM 000	1996 DM 000
Expenses arising from services rendered	**150,848**	146,630
Interest paid and similar expenses	**55,486**	49,745
Miscellaneous depreciation charges	**25,766**	26,184
Expenditure relating to employee pensions	**15,762**	12,170
Subscriptions and contributions to insurance industry associations, chambers of industry and commerce, and insurance supervisory authorities	**15,751**	19,566
Allocation of interest to provisions for pensions and early retirement	**15,193**	23,492
Merger costs, and expenses associated with the new stock market listing	**13,922**	–
Special allocation to the provision for claims outstanding	**10,000**	1,000
Miscellaneous other expenses	**93,501**	89,943
Total	**396,229**	**368,730**

The expenditure relating to employee pensions and the miscellaneous depreciation charges only include the sums not apportioned to the technical account or to investment results.

The largest single item alongside numerous smaller ones in the miscellaneous other expenses consists of foreign-exchange losses.

Contingent liabilities and other financial obligations

As at 31 December 1997, VICTORIA Lebensversicherung AG carried a contingent liability of DM 1 (1) million having provided collateral for the liabilities of another party.

ERGO Versicherungsgruppe AG has agreed to assume joint liability for the pension commitments entered into by VICTORIA Versicherung AG, VICTORIA Lebensversicherung AG, VICTORIA Krankenversicherung AG, VICTORIA Rückversicherung AG, VICTORIA International AG für Beteiligungen, and Hamburg-Mannheimer Versicherungs-AG. In return, the companies listed have placed the funds allocated to their pension provisions at the holding company's disposal. ERGO Versicherungsgruppe AG has undertaken to fulfil all pension commitments *vis-à-vis* third parties, indemnifying its subsidiary companies from any and all claims. The joint and several liability resulting from pension obligations as at 31 December 1997 came to DM 358 (337) million. Provisions not disclosed as liabilities in accordance with Article 28 (1) of the Introductory Act to the Commercial Code total DM 11.6 (13.8) million.

ERGO Versicherungsgruppe AG has also provided a letter of comfort for an affiliated company, in connection with borrowings of US$10 million to finance investment.

The holding company has put up guarantee bonds worth DM 8.6 million and US$19.5 million for affiliated companies, plus similar guarantee letters totalling $ 32.2 million and an equity placement guarantee valued at DM 153.4 million.

D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG has guaranteed the primary insurance obligations of DAS Legal Expenses Insurance Company Limited, of Bristol, *vis-à-vis* three business associates, and also its reinsurance obligations *vis-à-vis* two other third parties. The parent company has further pledged to back up the obligations of its subsidiary companies and the DAS branch operation in Bristol.

Obligations of Group companies under tenancy agreements, leases (including equipment leases) and service contracts totalled DM 769 (612) million as at the year end, of which DM 59 (56) related to an affiliated company. Capital spending commitments totalled DM 714 (494) million, obligations associated with borrowers' options to increase the principal on promissory notes payable came to DM 60 (–) million, obligations arising from company law were DM 25.9 (–) million, and contractual obligations still outstanding came to DM 4.1 (–) million.

VICTORIA Versicherung AG, Hamburg-Mannheimer Sachversicherungs-AG and D.A.S. Deutscher Automobil Schutz Versicherungs-AG have all pledged contributions to an organization set up to assist traffic accident victims (Verkehrsopferhilfe e.V.): each member company's contribution is calculated on the basis of its share of the total membership's premium income from direct (i.e. self-acquired) motor third-party liability insurance in the calendar year before last.

VICTORIA Versicherung AG, VICTORIA Rückversicherung AG and Hamburg-Mannheimer Sachversicherungs-AG are members of an insurance pool which means that, if any other pool member became insolvent, they would be called upon to meet the policy claims against that member on a *pro rata* basis in accordance with their stake in the pool.

Fair market value of investments

	Market value DM million	Capitalized value DM million
Real estate	**10,268**	6,971
Variable-yield securities	**49,048**	30,809
Fixed-interest securities	**10,867**	9,893

Of the total market value of investments, DM 47,237 million is apportionable to life assurance and DM 15,517 million to health insurance. The corresponding capitalized book values are DM 32,589 million and DM 9,322 million respectively.

Current liabilities secured by liens

Group real estate holdings are encumbered by mortgages, land charges and annuity charges to a total value of DM 55 (56) million.

Due dates of current liabilities

Current liabilities not falling due for more than five years total DM 257 (47) million. That figure breaks down into DM 218 (18) million owed to banks, and DM 39 (29) million of other liabilities.

Average number of employees

Employees (annual average) in:	**1997**	**1996**
In-house employees:		
Management staff	**425**	437
Other salaried staff	**16,807**	16,655
Waged employees	**239**	246
Total	**17,471**	**17,338**
Employed sales force:		
Management staff	**415**	420
Other salaried staff	**5,575**	6,100
Total	**5,990**	**6,520**
Caretakers	**304**	349
Combined totals:		
Management staff	**840**	857
Other salaried staff	**22,382**	22,755
Waged employees	**239**	246
Caretakers	**304**	349
Total	**23,765**	**24,207**

Personnel expenses

	1997 DM 000	1996 DM 000
Wages and salaries	**1,855,886**	1,830,433
Statutory social insurance levies and other employee support	**356,202**	341,560
Expenditure for employee pension funds	**145,569**	132,860
Total	**2,357,657**	**2,304,853**

Total remuneration of the Supervisory Board and Managing Board

Expenditure for the Supervisory Board (including profit-related remuneration) totalled DM 1.0 million. Superannuation payments to former Supervisory Board members totalled DM 0.5 million in the financial year.

Total remuneration paid to the Managing Board's members for their activities on behalf of both the holding company and Group companies came to DM 3.9 million.

Former members of the Managing Board and their surviving dependants received DM 2.2 million in total. A provision of DM 26.7 million has been set aside for current and future pensions payable to this group of people.

Signed in Düsseldorf on 21 April 1998,
on behalf of

ERGO Versicherungsgruppe Aktiengesellschaft

Dr. Jannott | Dr. Boetius | Mr. de Coster | Dr. Hopp

Mr. Nonhoff | Mr. Rosenberg | Mr. Ufer | Dr. Wricke

Audit report

Having examined the voluntarily prepared consolidated annual accounts in accordance with our professional and legal duties, we find that they comply with the statutory requirements. Conforming to the German Principles of Orderly Accounting, the consolidated Annual Accounts convey a true and fair view of the Group's assets and liabilities, financial position and results. The Management Report summarizing the affairs of the holding company and Group is consistent with the consolidated Annual Accounts.

The Company chose the start of its own financial year as the economic point of reference for the inclusion of all Group subsidiaries concerned into the consolidated Annual Accounts.

Having due regard to Sec. 294 (2) of the German Commercial Code, comparative figures in the consolidated Annual Accounts have been stated as if the ERGO Insurance Group had already existed as an economic entity with its present structure as from 1 January 1996. We have audited these comparative figures as part of our overall examination of the consolidated Annual Accounts.

Signed and sealed in Munich, 6 May 1998

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mr. Goppelt
Wirtschaftsprüfer

Mr. Graßl
Wirtschaftsprüfer

Signed and sealed in Düsseldorf, 6 May 1998

Wollert – Elmendorff
Deutsche Industrie-Treuhand GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Ziehm
Wirtschaftsprüfer

Mr. Kutscheit
Wirtschaftsprüfer

Selected participating interests

	Shareholders' funds DM 000	Proportionate stake held %	Profit/(loss) DM 000
1. Consolidated, affiliated companies			
Domestic companies			
VICTORIA Versicherung Aktiengesellschaft, Berlin	807,023	98.05	55,330
VICTORIA Lebensversicherung Aktiengesellschaft, Berlin	308,400	99.5	21,600
Vorsorge Lebensversicherung Aktiengesellschaft, Berlin	22,249	100	(985)
VICTORIA Krankenversicherung Aktiengesellschaft, Düsseldorf	66,870	100	3,120
VICTORIA Rückversicherung Aktiengesellschaft, Berlin	117,615	100	3,493
VICTORIA International Aktiengesellschaft für Beteiligungen, Düsseldorf[1])	233,456	100	–
VICTORIA Grundstücksverwaltungs-Gesellschaft GbR, Düsseldorf	535,606	100[2])	6,924
Hamburg-Mannheimer Versicherungs-Aktiengesellschaft, Hamburg	520,001	100	114,188
Hamburg-Mannheimer Sachversicherungs-Aktiengesellschaft, Hamburg	554,618	100	46,903
Hamburg-Mannheimer Rechtsschutzversicherungs-Aktiengesellschaft, Hamburg	13,259	100	1,681
Bürohaus Dresden am Landtag Grundstücksverwaltung GmbH & Co. KG, Hamburg	58,480	100	(958)
»Elbpanorama« Grundstücksverwaltung GmbH & Co. KG, Hamburg	25,011	100	(338)
Grundstücksgesellschaft HV2 GbR, Hamburg	59,532	100[2])	1,926
HMM Hamburg-Mannheimer Erste Wohngebäude-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	594,709	100	42,955
HMM Hamburg-Mannheimer Erste Bürogebäude-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	688,617	100	39,109
HMM Hamburg-Mannheimer Erste Immobilien-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	517,080	100	11,415
HMM Hamburg-Mannheimer Zweite Wohngebäude-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	79,262	100	7,647
HMM Hamburg-Mannheimer Zweite Bürogebäude-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	159,623	100	4,245
HMM Hamburg-Mannheimer Zweite Immobilien-Verwaltungsgesellschaft mbH & Co. KG, Hamburg	271,674	100	7,778
SeeHotel Potsdam-Pirschheide Grundstücksverwaltung GmbH & Co. KG, Hamburg	44,493	100	(1,655)
DKV Deutsche Krankenversicherung Aktiengesellschaft, Cologne	764,965	99.9	80,500
D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-Aktiengesellschaft, Munich	359,059	88	30,053
D.A.S. Deutscher Automobil Schutz Versicherungs-Aktiengesellschaft, Munich[3])	72,080	100	–
D.A.S. International Rückversicherungs- und Beteiligungs-Aktiengesellschaft, Munich[3])	102,051	100	–
D.A.S. Grundstücksverwaltungs-Gesellschaft GbR, Munich	127,489	100[2])	4,251

[1]) This company has a profit-transfer agreement to the benefit of VICTORIA Versicherung AG, Berlin.
[2]) The "stake" refers to the owner's share in the company's assets.
[3]) This company has a profit-transfer agreement to the benefit of D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG, Munich.

	Shareholders' funds DM 000	Proportionate stake held %	Profit/(loss) DM 000
1. Consolidated, affiliated companies			
Foreign companies[1])			
VICTORIA-VOLKSBANKEN Versicherungsaktiengesellschaft, Vienna	39,738	74.63	5,573
VICTORIA MERIDIONAL Compañía Anónima de Seguros y Reaseguros, S.A., Madrid	20,187	97.39	(7,076)
VICTORIA-Seguros, S.A., Lisbon	44,002	100	(3,550)
VICTORIA-Seguros de Vida, S.A., Lisbon	35,131	100	4,331
Nieuwe Hollandse Lloyd Levensverzekeringmaatschappij N.V., Woerden	23,388	100	1,161
Nieuwe Hollandse Lloyd Schadeverzekeringmaatschappij N.V., Woerden	34,434	100	3,139
VICTORIA pojišťovna, a.s., Prague	7,800	100	(2,423)
OLYMPIC-VICTORIA Life Insurance Company S.A., Thessaloniki	13,231	100	2,189
OLYMPIC-VICTORIA General Insurance Company S.A., Thessaloniki	5,741	100	(2,388)
Vorsorge Luxemburg Lebensversicherung S.A., Luxembourg	4,785	100	(62)
Hamburg-Mannheimer N.V., Brussels	14,322	99.99	2,084
dkv International S.A., Brussels	22,447	99.99	2,377
DKV Luxembourg S.A., Luxembourg	13,144	99.99	1,092
NVS Verzekeringen N.V., Amsterdam	92,547	100	6,608
N.V. Verzekeringsmaatschappij, Rijnmond, Rotterdam	16,356	100	1,501
D.A.S. Österreichische Allgemeine Rechtsschutz-Versicherungs-AG, Vienna	17,619	100	5,202
DAS Legal Expenses Insurance Company Limited, Bristol	43,380	99.99	11,653
D.A.S. Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V., Amsterdam	24,965	65.32	4,674
D.A.S. S.a. belge d'assurances de Protection Juridique, Brussels	6,074	99.98	882
D.A.S. Defensa del Automovilista y de Siniestros Internacional S.A. de Seguros, Barcelona	3,963	100	276
D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A., Strassen	1,059	100	27
D.A.S. HELLAS Allgemeine Rechtsschutz-Versicherungs-AG, Athens	2,616	99.99	88
DAS Rechtsschutz-Versicherungs-AG, Lucerne	2,313	99.72	(374)
D.A.S. pojišťovna právní ochrany, a.s., Prague	1,177	100	(314)
D.A.S. poisťovňa právnej ochrany, a.s., Bratislava[2])	1,982	100	–

[1]) All amounts denominated in foreign currencies have been translated into deutschmarks using the mean exchange rate on 31 December 1997.

[2]) Since this company only commenced trading in 1997, the figure shown is the start-up capital.

Selected participating interests

	Shareholders' funds DM 000	Proportionate stake held %	Profit/(loss) DM 000
2. Associated companies			
Domestic companies			
VEREINSBANK VICTORIA Bauspar Aktiengesellschaft, Munich	30,778	30	3,557
Foreign companies[1])			
VICTORIA-VOLKSBANKEN Pensionskassen Aktiengesellschaft, Vienna	14,385	48.75	65
Union Versicherungs-Aktiengesellschaft, Vienna	44,218	33.33	6,324
D.A.S. Difesa Automobilistica Sinistri, S.p.A. di Assicurazione, Verona	6,064	49.99	405

[1]) All amounts denominated in foreign currencies have been translated into deutschmarks using the mean exchange rate on 31 December 1997.

The information on the above affiliated and associated companies is as provided in their last adopted annual accounts.

A complete list of the subsidiary companies and other holdings of ERGO Versicherungsgruppe AG, as required by Sec. 313 (2) of the Commercial Code, has been deposited with the Commercial Register at the Hamburg Local Administrative Court *(Amtsgericht),* where the company details are registered as number HRB 1956. The change of registered location to Düsseldorf has been applied for.

Annual Accounts – ERGO Versicherungsgruppe AG (the holding company)

Company balance sheet as at 31 December 1997

Assets

		1997	19
	DM	DM	[
A. Subscribed capital unpaid		–	15,054,0
B. Fixed assets:			
I. Intangible assets:			
Franchises, registered trademarks and similar rights, plus licences thereto		565,417	
II. Financial assets:			
1. Shares in affiliated companies	1,863,640,008		625,146,8
2. Participating interests	28,069,789		14,825,5
3. Long-term securities	183,903,980		
4. Miscellaneous loans	753,464,790		241,000,0
		2,829,078,567	880,972,4
C. Current assets:			
I. Accounts receivable and other assets:			
1. Amounts owed by affiliated companies	426,448,917		127,513,9
2. Other assets	62,624,402		
		489,073,319	127,513,9
II. Liquid funds		190,877,933	
D. Prepayments and accrued income		1,822,363	
		3,511,417,599	1,023,540,4

Liabilities

			1997	1996
	DM	DM	DM	DM
A. Shareholders' funds:				
I. Subscribed capital		**377,460,585**		78,000,000
II. Capital reserve		**1,261,722,899**		98,739,750
III. Revenue reserves:				
1. Reserves required by law	**960,250**			960,250
2. Other revenue reserves	**835,420,963**			631,240,000
		836,381,213		632,200,250
IV. Balance-sheet profit		**193,479,568**		57,188,120
			2,669,044,265	866,128,120
B. Provisions for risks and charges:				
1. Provision for employees' pensions and similar commitments		**358,778,330**		157,165,702
2. Provisions for taxation		**111,358,957**		–
3. Miscellaneous provisions		**13,261,660**		–
			483,398,947	157,165,702
C. Current liabilities:				
1. Amounts owed to banks		**205,003,056**		–
2. Trade accounts payable		**3,118,835**		–
3. Amounts owed to affiliated companies		**137,660,799**		–
4. Miscellaneous liabilities including: DM 1,300,026 arising from taxation		**2,093,883**		–
			347,876,573	–
D. Accruals and deferred income			**11,097,814**	246,625
			3,511,417,599	1,023,540,447

Annual Accounts – ERGO Versicherungsgruppe AG

Profit and loss account
for the year ending 31 December 1997

Items

			19
	DM	DM	D
1. Income from participating interests			**628,562,1**
including DM 627,143,360 from affiliated companies			
2. Income from marketable securities, and from loans carried as fixed assets			**40,702,4**
3. Other interest receipts and similar income			**6,458,8**
including DM 3,615,415 from affiliated companies			
4. Other operating income			**9,374,1**
5. Personnel expenses:			
a) Wages and salaries		**306,536**	
b) Statutory social insurance levies and provident expenditure for employees	**24,338,093**		
including DM 24,333,448 in expenditure towards pensions			
less: costs passed on to other Group companies	**10,189,419**	**14,148,674**	
			14,455,2
6. Depreciation charge on intangible and tangible fixed assets			**9,5**
7. Depreciation and write-downs on financial assets and marketable securities			**386,5**
8. Interest paid and similar expenditure			**9,880,3**
including DM 4,869,697 to affiliated companies			
9. Other operating expenses			**20,542,7**
10. Profit on ordinary activities			**639,823,1**
11. Taxation on income		**285,139,822**	
less: tax pool charges passed on to other Group companies		**20,781,523**	**264,358,2**
12. Other taxation		**10,758,799**	
less: tax pool charges passed on to other Group companies		**8,773,566**	**1,985,2**
13. Net profit for the year			**373,479,5**
14. Transfer to revenue reserves:			
to other revenue reserves			**180,000,0**
15. Balance-sheet profit			**193,479,5**

General remarks

With effect from midnight on 31 December 1996/1 January 1997, Hamburg-Mannheimer Versicherungs-AG transferred its entire insurance portfolio and operations to a newly acquired company. At the same time, the company took the new name of Hamburg-Mannheimer AG. That name in turn was changed to ERGO Versicherungsgruppe AG by resolution of the Extraordinary General Meeting on 6 October 1997.

The prior-year figures are not comparable with those of the 1997 financial year due both to the change in principal activity and to the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG. Consequently, the figures shown in the balance sheet are those of the opening accounts of the former Hamburg-Mannheimer Versicherungs-AG adjusted for the divestment of insurance operations. For the same reasons, no attempt has been made to provide comparative figures from the previous year in the profit and loss account.

Layout of the accounts

The layout of the profit and loss account differs from the general presentation guidelines set out in Sec. 275 of the Commercial Code, to take due account of the peculiarities in the earnings profile of a holding company.

The balance sheet takes account of a partial appropriation of the net profit for the year (as per Sec. 268 [1] of the Commercial Code).

Intangible assets

Intangible assets have been capitalized at their acquisition cost less scheduled depreciation charges corresponding to their normal useful lives.

Financial assets

Shares in affiliated companies, other participating interests and long-term securities are reported at their acquisition cost or their current stock-exchange or fair market value, whichever is the lower. Loans are capitalized at their nominal value. Premiums or discounts applying to loans have been distributed over the period of the loan by posting accordingly to the accrued or deferred items.

Accounts receivable and other assets

Accounts receivable and other assets have been capitalized at their nominal values.

Provisions for risks and charges

The provision for pensions is calculated on a going-concern basis, applying the guidance tables published by Prof. Dr. Klaus Heubeck and an imputed interest rate of 6% as permitted by tax regulations.

Other provisions have been set aside in accordance with prospective future needs.

Current liabilities

Current liabilities are reported as the amount due.

Foreign currency translation

As a general rule, transactions made in foreign currencies have been accounted for at the exchange rate on the day each transaction was booked, unless the exchange rate was less favourable on the balance-sheet date, in which case the latter has been used.

Notes to the annual accounts
Notes on the balance sheet

Assets side

A. Subscribed capital unpaid

A sum of DM 2,340,000 was contributed towards the as yet unpaid subscribed capital out of the 1996 balance-sheet profit. In accordance with statutory regulations on capital write-downs, the Extraordinary General Meeting on 6 October 1997 resolved to reduce the Company's share capital by DM 12,714,000 to release existing shareholders from their obligations to make further contributions.

Fixed assets movement schedule

Changes in intangible and financial assets are detailed in the schedule below.

The column headed 'additions due to the merger' only shows the financial assets newly capitalized at book value as a direct result of the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG. The equity contributions made to increase the Company's post-merger capital are shown in the 'additions' column.

Selected participating interests are listed on pages 78–80. A complete list of the subsidiary companies and other holdings of ERGO Versicherungsgruppe AG, as required by Sec. 285 (11) of the Commercial Code, has been deposited with the Commercial Register at the Hamburg Local Administrative Court *(Amtsgericht)* (the company details are currently registered there as number HRB 1956; the change of registered location to Düsseldorf has been applied for).

B.I. Intangible assets

This item is a usufructuary right acquired for a financial consideration.

B.II.1. Shares in affiliated undertakings

The capitalized value of holdings in Hamburg-Mannheimer Sachversicherungs-AG, DKV Deutsche Krankenversicherung AG and VICTORIA Versicherung AG were increased by equity contributions made to increase the capital of ERGO Versicherungsgruppe AG. The Company also increased its shareholding in Hamburg-Mannheimer Sachversicherungs-AG. Its holdings in Hamburg-Mannheimer Investment Trust GmbH have been disposed of to a Group company.

Movements in fixed assets, 1997 financial year	**Acquisition cost**	**Additions due to merger**	**Additions**
	DM 000	**DM 000**	**DM 000**
B.I. Intangible assets:			
Franchises, registered trademarks and similar rights, plus licences thereto			575
B.II. Financial assets			
1. Shares in affiliated companies	632,150	755,850	484,862
2. Participating interests	14,826	13,244	
3. Long-term securities holdings		203,642	40,639
4. Other loans	241,000	520,927	24,000
Sub-total for B.II.	887,976	1,493,663	549,501
Total	**887,976**	**1,493,663**	**550,076**

C. Current assets

None of the receivables items reported involves a time lapse of any more than one year before payment falls due.

C.I.1. Amounts owed by affiliated companies

The amounts owed stem chiefly from the concurrent collection of dividends from affiliated companies, which totalled DM 317,210,000, and claims resulting from additional charges on top of those passed on via the tax pool (for trade tax purposes) totalling DM 74,167,000; these are the net amounts remaining after offsetting receivables and payables between Group companies.

C.I.2. Other assets

These include a corporate tax rebate claim of DM 38,000,000, and accrued interest entitlements on fixed-interest securities, registered bonds and promissory notes receivable, payment of which did not fall due until after the financial year end; the latter interest items total DM 21,881,000.

D. Prepayments and accrued income

This item consists of premiums applied to loan instruments and prepayments associated with pension commitments.

Write-ups	Reclassifications	Disposals	Cumulative depreciation and write-downs	Book value at 1997 year end	Book value at 1996 year end	Depreciation/ write-downs in 1997
DM 000	DM 000	DM 000	DM 000	DM 000	DM 000	DM 000
			10	**565**	–	10
		2,219	7,003	**1,863,640**	625,147	
				28,070	14,826	
		59,990	387	**183,904**		387
		32,462		**753,465**	241,000	
		94,671	7,390	**2,829,079**	880,973	387
–	**–**	**94,671**	**7,400**	**2,829,644**	**880,973**	**397**

Liabilities side

A.I. Subscribed capital

Developments during the financial year

At the start of the financial year, the Company's subscribed capital consisted of 78,000 restricted, registered shares with a face value of DM 1,000 each; the paid-up capital contributed totalled DM 62,946,000.

A resolution on the Company's authorized capital passed by the Annual General Meeting on 27 June 1994 had empowered the Managing Board to raise the share capital, provided that the Supervisory Board granted its approval, by a total of up to DM 39,000,000 in one or a number of tranches in the period to 27 June 1999, by issuing new registered shares in return for cash contributions.

During the reporting year, a sum of DM 2,340,000 from the 1996 balance-sheet profit was used to reduce the amount of subscribed capital still unpaid. That brought the total paid-up capital contribution to DM 65,286,000, or DM 837 per share.

The Extraordinary General Meeting on 6 October 1997 resolved that the share capital be reduced to DM 65,286,000, in accordance with the statutory regulations on capital reductions (Secs. 222 *et seq.* of the German Public Companies Act – AktG), to release shareholders from their obligation to contribute the DM 12,714,000 still unpaid at the time.

At the same Extraordinary General Meeting, a capital increase in return for equity contributions was resolved. These contributions were subsequently made by Münchener Rückversicherungs-Gesellschaft AG (Munich Re) and Allianz AG. The equity contributions consisted of shareholdings in DKV Deutsche Krankenversicherung AG, Hamburg-Mannheimer Sachversicherungs-AG and VICTORIA Versicherung AG.

Thus the nominal share capital of ERGO Versicherungsgruppe AG, having first been reduced, was initially increased by DM 41,315,720 to a total of DM 106,601,720. A further DM 441,963,419 was credited to the capital reserve. The next step was to implement a further capital increase from the Company's internal funds. The total increase in subscribed capital in this stage of the operation was DM 105,858,865, consisting of DM 89,039,828 converted into equity out of the capital reserve, plus a further DM 16,819,037 out of 'other revenue reserves'.

In a simultaneous change, a share split was undertaken, converting the old DM 1,000 shares into bearer shares with a nominal value of DM 5. Once all capital measures had been concluded, the Company's subscribed capital was made up of 42,492,117 fully paid-up bearer shares having a total nominal value of DM 212,460,585.

A new resolution on authorized share capital was also passed at the Extraordinary General Meeting on 6 October 1997. This empowers the Managing Board, provided that it has the Supervisory Board's approval, to raise the share capital by a total of up to DM 100,000,000 in one or a number of tranches in the period to 6 October 2002, by issuing new shares in return for cash or equity contributions. The Meeting also authorized conditional capital up to a limit of DM 60,000,000, again up to a final cut-off date of 6 October 2002.

For the purposes of the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG, the Extraordinary General Meeting held on 2 December 1997 resolved to raise the nominal share capital from DM 212,460,585 to DM 377,460,585 by issuing 33,000,000 new DM 5 bearer shares.

Following all capital measures taken in 1997, the Company's total subscribed capital is DM 377,460,585, consisting of 75,492,117 bearer shares with a nominal value of DM 5 each.

Employee share ownership programme

In the 1997 financial year, the two majority-owned subsidiaries VICTORIA Lebensversicherung AG and D.A.S. Deutscher Automobil Schutz Allgemeine Rechtsschutz-Versicherungs-AG purchased 8,047 further shares in VICTORIA Holding AG, with a nominal value of DM 402,350, at an average price of DM 1,615 so as to continue the employee share ownership programmes they had established in the previous year.

Once 6,326 shares had been issued to employees of the VICTORIA and D.A.S. companies at a price of DM 1,300 each, that left 6,332 still in the companies' hands. These restricted, registered DM 50 (nominal) shares were exchanged when the merger took effect, for DM 5 bearer shares in

ERGO Versicherungsgruppe AG on an equal-nominal-value (i.e., 10-for-1) basis. Hence the two companies named now hold 63,320 shares in ERGO Versicherungsgruppe AG, or approx. 0.1% of the total share capital. Each of the two companies has set up a reserve for own shares matching the size of its holdings.

A.II Capital reserve

DM 89,039,828 was withdrawn from the capital reserve to convert into equity at the time of the capital increase from internal funds, while DM 441,963,419 was added to the reserve at the time of the further capital increase via equity contributions.

Another DM 810,059,558 was credited to the capital reserve as a result of the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG. This was due to the differential between the book value of the net assets of VICTORIA Holding AG, which came to DM 975,059,558, and the total price of DM 165,000,000 at which the new shares in ERGO Versicherungsgruppe AG were issued to the former shareholders in VICTORIA Holding AG. Once these transactions were completed, the capital reserve stood at DM 1,261,722,899.

A.III. Revenue reserves

At the time of the capital increase from the Company's internal funds, the sum of DM 16,819,037 was withdrawn from other revenue reserves. The transfers into the reserves during the financial year consisted of DM 41,000,000 from the 1996 balance-sheet profit and DM 180,000,000 from the 1997 net profit for the year. Following these changes, other revenue reserves stood at DM 835,420,963 at the 1997 year end.

B.1. Provision for employees' pensions and similar commitments

ERGO Versicherungsgruppe AG has declared that it will assume joint liability for the pension commitments of Hamburg-Mannheimer Versicherungs-AG, and those commitments have been assigned to it for the purposes of internal relations between the companies.

As a result of the merger between VICTORIA Holding AG and ERGO Versicherungsgruppe AG, the former's pension provisions together with those of VICTORIA Versicherung AG, VICTORIA Lebensversicherung AG, Vorsorge Lebensversicherung AG, VICTORIA Krankenversicherung AG, VICTORIA Rückversicherung AG and VICTORIA International Aktiengesellschaft für Beteiligungen were all assigned to ERGO Versicherungsgruppe AG in the 1997 financial year. VICTORIA Holding AG had previously declared that it would assume joint liability for those companies' pension commitments, and that the commitments would be assigned to it for the purposes of internal relations between the companies.

C. Current liabilities

These include two items which will not fall due for more than five years. One is a sum of DM 137,500,000 borrowed from an affiliated company, and the other is a promissory note payable to a bank valued at DM 200,000,000. All other current liabilities will fall due in less than one year.

C.1. Amounts owed to banks

This item includes a promissory note payable, valued at DM 200,000,000.

C.3. Amounts owed to affiliated companies

This item includes the borrowing mentioned under "C." Above. The borrowing is matched by a promissory note of the same value, receivable from a borrower outside the Group.

C.4 Other liabilities

These chiefly consist of VAT (turnover tax) charges payable by companies belonging to the tax pool, totalling DM 876,000.

D. Accruals and deferred income

This item is entirely made up of discounts applying to loan instruments.

Notes to the annual accounts
Notes on the profit and loss account

1. Income from participating interests

Taking the associated corporation tax credit into account, the total amount received in extraordinary dividends (designed to optimize the Group's tax position) from Hamburg-Mannheimer Sachversicherungs-AG and DKV Deutsche Krankenversicherung AG was DM 444,010,000.

Regular dividend receipts, including corporation tax credits, came to DM 184,552,000.

3. Other interest receipts and similar income

The main components in this item are intra-Group interest receipts of DM 3,615,000 and interest received on fixed-term deposits amounting to DM 2,818,000.

4. Other operating income

The most prominent contribution to other operating income came from capital gains realized on the disposal of long-term securities (carried as financial assets), totalling DM 8,846,000.

5. Personnel expenses

The expenditure for pension funds also includes the cost of the interest element in pension provisions.

8. Interest paid and similar expenditure

This includes the interest charges, amounting to DM 5,003,000, on the promissory note payable disclosed in the liabilities item C.1., and also those on the borrowing disclosed under item C.3., which amounted to DM 4,778,000.

9. Other operating expenses

The main components here are merger costs of DM 7,912,000, expenses of DM 6,010,000 associated with the new stock market listing, and expenditure of DM 1,255,000 on services rendered by affiliated companies.

Contingent liabilities and other financial obligations

ERGO Versicherungsgruppe AG owes DM 30.0 million to VICTORIA Lebensversicherung AG for contributions to that company's subscribed capital as yet unpaid.

ERGO Versicherungsgruppe AG has provided a letter of comfort for an affiliated company, in connection with borrowings of US$10 million to finance investment.

The Company has also put up guarantee bonds worth $19.5 million and DM 8.6 million for affiliated companies; similar guarantee letters linked with ERGO's holdings in other companies come to $32.2 million in total.

ERGO Versicherungsgruppe AG also put up an equity placement guarantee for an affiliated company, as is normal practice in such cases, when that company floated a real estate fund. The amount covered by the guarantee is DM 153.4 million. DM 38.1 million of the fund had already been placed by 31 March 1998.

Provisions not disclosed as liabilities in accordance with Article 28 (1) of the Introductory Act to the Commercial Code total DM 11.6 million.

Average number of employees

The average number of employees working for ERGO Versicherungsgruppe AG during the reporting year was eight, who simultaneously performed tasks for other Group companies. All of the people involved were management staff.

Remuneration of the Supervisory Board and Managing Board

Expenditure for the Supervisory Board, including profit-related remuneration, totalled DM 992,000. Superannuation payments to former Supervisory Board members totalled DM 475,000 in the financial year.

The Company's expenditure for members of the Managing Board came to DM 177,000.

Former members of the Managing Board and their surviving dependants received DM 176,000 from the Company; the provision charged to the balance sheet for current and future pensions payable to this group of people is DM 1,720,000.

The members of the Supervisory Board and Managing Board are listed on pages 4–5 of this edition of the Annual Report and Accounts. The information forms part of the notes to the annual accounts.

Notes to the annual accounts
Group affiliation

Münchener Rückversicherungs-Gesellschaft AG, of Munich, has informed us that it holds a majority stake in the Company.

ERGO Versicherungsgruppe AG, of Hamburg (registered-office relocation to Düsseldorf applied for) has presented consolidated annual accounts in accordance with the German Commercial Code for the first time as at 31 December 1997, and these accounts in turn are included in the consolidated annual accounts of Münchener Rückversicherungs-Gesellschaft AG (Munich Re), of Munich, as at 30 June 1998.

The consolidated annual accounts are being deposited at the Commercial Registers of the local administrative courts *(Amtsgerichte)* in Hamburg (ERGO Versicherungsgruppe AG, registered as no. HRB 1956; relocation to Düsseldorf applied for) and Munich (Münchener Rückversicherungs-Gesellschaft AG, registered as no. HRB 42039). The accounts can be obtained directly from either company on request.

Signed in Düsseldorf on 26 March 1998,
on behalf of

ERGO Versicherungsgruppe AG

Dr. Jannott	Dr. Boetius	Mr. de Coster	Dr. Hopp
Mr. Nonhoff	Mr. Rosenberg	Mr. Ufer	Dr. Wricke

Audit report

Having examined the book-keeping and the finished Annual Accounts in accordance with our professional and legal duties, we find that they comply with the statutory requirements. Conforming to the German Principles of Orderly Accounting, the Annual Accounts convey a true and fair view of the Company's assets and liabilities, financial position and results. The Management Report summarizing the affairs of the Company is consistent with the Annual Accounts.

Signed and sealed in Düsseldorf on 6 May 1998

BDO Deutsche Warentreuhand
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Mr. Goppelt	Mr. Graßl
Wirtschaftsprüfer	*Wirtschaftsprüfer*

Glossary of terms

Accounting ratios

Arithmetical measures of business performance in specific areas. Many ratios have been developed in recent years, primarily to help judge financial performance, provide greater transparency and permit comparison with other firms in the insurance or other industries. For example, insurance industry associations have developed sets of accounting ratios for life and health business. They present a basis for long-term comparison that is recognized by all insurers.

Acquisition costs

Expenses arising when customers take out new insurance policies (e.g. commission, preparing individualized offers, health check-ups, processing applications, and maintaining a field sales force).

Actuarial provision

Liability item, sometimes known elsewhere as the 'life assurance' or 'long-term business' provision, calculated by actuarial means to cover legal entitlements to future insurance benefit payments. In life and health business written on an actuarial basis and in accident insurance with premium refunds, the actuarial provision is the difference between the net present value of future insurance benefits and the net present value of future premiums for each individual policy; the net present values are calculated on the basis of statutory maximum discount factors and prudential assumptions about the statistical probability of claims.

Actuary in charge

Under German insurance law, life assurers, health insurers, and accident insurers who write business with refundable premiums or have current accident or liability-related annuities, must appoint an 'actuary in charge'. The tasks and criteria as to the professional suitability of actuaries in charge are laid down in Germany's Insurance Supervision Act. In particular, they are responsible for verifying and ensuring the capability of fulfilling insurance policy commitments in the long term.

Administrative cost ratio

Percentage ratio of administrative costs to R *earned premiums.*

Advance bonus

The portion of policyholders' dividends that is credited directly as a deduction from the operating result, leaving a reduced divisible surplus to 'feed' the R *provision for bonuses and rebates.* In life assurance, advance bonuses are added on top of the declared dividend entitlements. The rate of return plus direct, advance bonuses together give a 'guaranteed' policy yield of 5%. On policies with a 3.5% rate of return, the advance bonus is thus 1.5% of the actuarial provision and whatever dividends accumulated at interest are already available. In health insurance underwritten according to the technical principles of life assurance, half the 'excess yield' – that is, investment income attributable to the ageing provision and exceeding the 3.5% rate of return – is paid out as direct, advance bonuses (under Sec. 12 a of the German Insurance Supervision Act). This serves to limit or prevent increased premiums as policyholders grow older.

Annual premium

An insurance policy requiring payment of multiple premiums is said to have an annual premium – regardless of whether the premiums are paid yearly or at another interval (opposite: single premium).

Annuity policy

Life assurance policy under which regular payments in the form of an annuity become payable – usually for life – on the insured event (e.g. when the policyholder reaches a certain age or, for a dependants annuity, dies). In the case of annuity policies with an endowment option, the beneficiary can elect to receive a lump sum of equivalent value at the time annuity payments are due to begin. See R *endowment policy.*

Associated company

Company whose business and financial policies are materially influenced by another by virtue of the other's shareholding.

Automatic adjustment

Agreement under which the premium and face value of a life assurance policy are both increased at regular intervals. The amount of each increase usually parallels changes in the contribution ceiling for statutory pensions, but in some cases is a fixed percentage (adjustable or index-linked policy).

Average cost of claims

Average cost per claim of all those paid or provided for but still outstanding.

Average current investment yield

The average current investment yield in life assurance includes all ongoing income from investments less investment management costs and ordinary depreciation on land. The inclusion of ordinary depreciation on land means that life assurers with a relatively high proportion of real property investments generally have a relatively low average current investment yield.

Balance on the technical account

The profit or loss from insurance business of an insurance company.

Book value

Value at which assets and liabilities are stated in the accounts in accordance with the law. This is usually historical cost less any depreciation. An asset's book value is usually less than its current (market) value. The difference between book values and market values makes up the R *valuation reserves* (or hidden reserves).

Business accepted

Business taken on from other insurance companies to provide them with reinsurance. Contrast R *ceded business.*

Business in force

Business in force is the sum of all insurance policies in force at the end of the financial year, stated as a number of policies, a total sum insured, or the sum of premiums.

Ceded business

Insurance risks transferred to a reinsurance company. Contrast R *business accepted.*

Collision damage insurance

Insurance against damage to vehicles and other means of transportation (such as cars, motorcycles, aircraft and ships) and construction plant.

Consolidated accounts

The annual accounts of companies that form a group must be consolidated into group accounts (consolidated accounts). Instead of merely listing the parent company's shares in each subsidiary, the items from each subsidiary's profit and loss account and balance sheet are incorporated into corresponding items in the consolidated accounts. The result is an overall picture of the assets and liabilities, financial situation and profitability of the group as an economic unit. Consolidated accounts are supplemented by a group R *management report.*

Consolidation

During preparation of the R *consolidated accounts* by the parent company, the intra-group income, expenses, receivables and current liabilities, shareholdings and equity of all relevant subsidiaries are set off against each other. This procedure is known as consolidation.

Cost of claims

Benefit payments and changes in provisions to meet incurred claims, including claim settlement costs and the result of releasing claim provisions made in previous years.

Cost ratio

Cost ratios state some or all operating expenses as a proportion of an appropriate accounting reference value, for example earned premiums or total premiums receivable on new life business.

Direct business

Business entered into directly between an insurer and its customers.

Divisible surplus

In life assurance and health insurance, the surplus before deduction of bonuses and rebates to policyholders. See also R *initial divisible surplus;* R *advanced bonus.*

DVFA formula

A mathematical formula developed by the DVFA (the German Society of Investment Analysts and Asset Managers) to correct for extraordinary factors in the net profit figure published in the annual accounts and to compute earnings per share.

Endowment policy

A life assurance policy in which an agreed capital sum is paid on the insured event – either the policyholder's death or the maturity of the policy after an agreed number of years (see also R *annuity policy*).

Equalization provision

Also known as the 'claims equalization provision', this serves to even out annual variations in the cost of claims. It is only used in property/casualty and accident insurance and in reinsurance, and is estimated in each of these sectors by a different statistical procedure laid down in Sec. 341(h) of the German Commercial Code. It offsets profit and loss peaks across multiple periods resulting from large fluctuations in loss experience. In effect, premiums are transferred to it in years of low claims for withdrawal in years when claims are higher.

Group insurance

Whereas an individual insurance policy relates to a single risk (person, item or legal claim), group or collective insurance covers a number of identical or similar risks under a master policy. This results in savings that can be passed on to policyholders. In life and health business, most group policies are entered into by employers wishing to lay on provident arrangements for their workforce.

Initial divisible surplus

The initial (or 'crude') divisible surplus in life and health business is the total surplus before payment of the R *advance bonus* which, after that bonus has been deducted, is available for allocation to the R *provision for bonuses and rebates.*

Loading

Increased premium to compensate for enhanced risk, for example in accident insurance covering high-risk sports or occupations, or in life assurance and private health insurance where the insured's health is already impaired.

Loss ratio

Ratio of *cost of claims* to earned premiums.

Management Report

Summary of a company or group's business and financial performance, current situation and immediate outlook, which the Managing Board is required by German company law to provide as part of the company's (or, in the case of a group, parent company's) annual report and accounts.

Net investment income

The balance of income and expenses from investments as such, from the management and disposal of investments, and other investment-related activities.

Net investment yield

Unlike the average current investment yield, the net investment yield includes all income and expenses from investments. It thus accounts for capital gains and losses on the sale of investments, and value adjustments on securities and investment fund units. As the net investment yield can fluctuate considerably from year to year, analysts often take a three-year arithmetical average.

Net premium

The part of the premium that remains for a primary insurance company after buying reinsurance.

Net profit/loss for the year

Key item on the profit and loss account. The difference between income and expenses, net of any profit or loss brought forward from the previous year and net of changes in provisions.

New business

The new business written in a given financial year includes all newly taken-out insurance policies and, in life assurance, existing policy top-ups for which premium payments begin in the year under consideration.

Non-technical account

The part of the profit and loss account containing non-technical revenue and expenses such as services provided to other firms, certain depreciation and interest items, taxes, etc. In life and health business, investment income and expenses are part of the technical account; elsewhere – with the exception of technical interest earnings – they are part of non-technical business.

Operating expenses

Commission, salaries, cost of materials and other expenses incurred in the sale and management of insurance policies.

Personal insurance

Insurance in which the insurance policy covers risks relating to personal injury, illness or death. Personal insurance includes:
- Life assurance
- Health insurance
- Accident insurance

Policyholders' dividends

Sum returned to policyholders out of the surplus earned by an insurer. At least 90% of all surpluses must be distributed to policyholders in life assurance, and at least 80% in health insurance. In practice, the figure is well over 90%.

Premium

Insurance premium, i.e. the price paid for insurance cover. Whereas *gross premiums* are the sum of all premiums payable over a given financial year, R *earned premiums* are the proportion of premiums actually applicable to that year; this item on the profit and loss account is therefore made up of premium income net of changes in the technical R *provision for unearned premiums. Earned net premiums* are earned premiums net of reinsurance ceded.

Glossary of terms

Profit/loss on ordinary activities

Balance of profit and loss items before extraordinary income and expenses and before tax.

Property insurance

Insurance to compensate losses due to the destruction, loss or damage of items of property. Property insurance evolved from fire insurance, and now includes household and contents, building, burglary, storm, glass and mains water damage insurance, industrial insurance sectors, etc.

Provision for ageing

In health insurance underwritten according to the technical principles of life assurance, a provision set aside as part of the R *actuarial provision* to accumulate funds in years when policyholders are younger and their claims risk is relatively lower, in readiness for years of higher age-related risk when benefit payments to policyholders exceed the premiums they are paying.

Provision for bonuses and rebates

Provision for future distribution to policyholders of surpluses not already paid out as R *advance bonuses.* The provision comprises the portion of surpluses set aside each year for R *policyholders' dividends* and premium refunds. It is used each year to meet the final allocation of surpluses to policyholders (which may take the form of cash dividends, reduced premiums, funds accumulated at interest, or bonuses increasing the sum insured of an endowment policy or the value of an annuity).

Provision for claims outstanding

Liability item covering the estimated cost of wholly or partially unsettled claims arising or caused before the balance-sheet date.

Provision for unearned premiums

The provision for unearned premiums contains the portion of premiums that are payable in the financial year but apply to an insured risk period after the balance-sheet date.

Rate of return

The rate of return is the minimum interest rate that must be earned over the entire term of a policy in order to meet the agreed cash value, given constant premiums. The rate of return has been set by the insurance supervision authorities at 3.5% for all policies written since 1987. A higher rate of return – generally 4% – has been permitted under the European Single Market for insurance since 1 July 1994. Almost all of the differential between the rate of return and the actual yield earned is paid to policyholders in the form of R *policyholders' dividends.*

Reinsurance

Reinsurance is insurance cover for insurers (whether primary insurers or themselves reinsurers). Insurance companies lay off part of their risks to reinsurers. This permits insurers to underwrite risks that exceed the amount they could meet out of the financial means otherwise available to them. See R *business accepted;* R *ceded business.*

Retention ratio

The ratio of R *net premiums* (i.e. premiums net of reinsurance ceded) to gross premium income.

Shareholders' funds

The main components of shareholders' funds in an *Aktiengesellschaft* (public limited company in German law) are the subscribed capital, the capital reserve, revenue reserves, and the balance-sheet profit plus the profit or minus any loss brought forward from the previous financial year.

Technical account

The part of the profit and loss account containing income and expenditure that is directly related to insurance business.

Technical provisions

Generic term for provisions that an insurer must make in order to meet its obligations towards policyholders and entitled third parties. These include the *actuarial provision,* the *provision for claims outstanding,* provisions for as yet unascertained claims and claims incurred but not reported by the balance-sheet date, the *provision for bonuses and rebates,* the *equalization provision,* and accounting accruals and deferrals (such as the *provision for unearned premiums*).

Term policy

Life assurance policy under which an agreed lump sum is payable on death of the insured. If the insured survives the term of the policy, no lump sum is payable, though any accumulated dividends are paid out.

Valuation reserves

Valuation reserves represent the difference between book values set according to the 'lesser of cost or market value' principle and the fair market value of the assets involved. Valuation reserves are only realized when the relevant balance sheet items are drawn upon. In life assurance and in health insurance underwritten on similar technical principles, they are added to the R *divisible surplus* when such assets are sold, and hence are mostly credited to R *policyholders' dividends.*

Wirtschaftsprüfer

≈ Chartered Accountant

Zillmerization

Procedure used in life assurance and health insurance to account for the unrecouped portion of acquisition costs when allocating the R *actuarial provision.* In effect, zillmerization reduces the net actuarial provision by the net present value of outstanding acquisition costs (giving rise to a zillmerized actuarial provision). Zillmerization is named after the mathematician August Zillmer, who suggested the procedure in the last century.

The VICTORIA companies

Domestic companies

VICTORIA Versicherung AG

Kurfürstendamm 24,
D-10719 Berlin,
Germany
Telephone +49 (0)30 887801
Telefax +49 (0)30 8878-1909

Victoriaplatz 1 and
Hans-Böckler-Strasse 38,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4770
Telefax +49 (0)211 477-2222

VICTORIA Lebensversicherung AG

Kurfürstendamm 24,
D-10719 Berlin,
Germany
Telephone +49 (0)30 887801
Telefax +49 (0)30 8878-1909

Victoriaplatz 1 and 2,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4770
Telefax +49 (0)211 477-2222

Vorsorge Lebensversicherung AG

Kurfürstendamm 24,
D-10719 Berlin,
Germany
Telephone +49 (0)30 887801
Telefax +49 (0)30 8878-1909

Nove-Mesto-Platz 3c,
D-40721 Hilden,
Germany
Telephone +49 (0)2103 587956
Telefax +49 (0)2103 587966

VICTORIA Rückversicherung AG

Kurfürstendamm 24,
D-10719 Berlin,
Germany
Telephone +49 (0)30 887801
Telefax +49 (0)30 8878-1909

Victoriaplatz 1 and 2,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4770
Telefax +49 (0)211 477-2222

VICTORIA Krankenversicherung AG

Hans-Böckler-Strasse 36,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4770
Telefax +49 (0)211 477-4299

VICTORIA International AG für Beteiligungen

Victoriaplatz 1,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4770
Telefax +49 (0)211 477-2222

Foreign companies

VICTORIA-VOLKSBANKEN
Versicherungsaktiengesellschaft

VICTORIA-VOLKSBANKEN
Pensionskassen
Aktiengesellschaft

Schottengasse 10,
A-1013 Wien (Vienna),
Austria
Telephone +43 (0)1 31341-0
Telefax +43 (0)1 31341-216

VICTORIA MERIDIONAL
Compañía Anónima de
Seguros y Reaseguros, S.A.

Avenida Concha Espina, 63,
E-28016 Madrid,
Spain
Telephone +34 (0)1 456-5600
Telefax +34 (0)1 456-5601

VICTORIA-Seguros, S.A.

VICTORIA-Seguros de Vida, S.A.

Apartado 2154,
P-1104 Lisboa (Lisbon) Codex,
Portugal

Avenida Liberdade, 200,
P-1250 Lisboa (Lisbon),
Portugal
Telephone +351 (0)1 313-4100
Telefax +351 (0)1 313-4700

Vorsorge Luxemburg
Lebensversicherung S.A.

99, Grand-Rue,
L-1661 Luxembourg,
Telephone +352 461-2011
Telefax +352 461-20130

Nieuwe Hollandse Lloyd
Levensverzekering-
maatschappij N.V.

Nieuwe Hollandse Lloyd
Schadeverzekering-
maatschappij N.V.

Polanerbaan 11,
NL-3447 GN Woerden,
The Netherlands

Postbus 415,
NL-3440 AK Woerden,
The Netherlands
Telephone +31 (0)348 571911
Telefax +31 (0)348 571413

OLYMPIC-VICTORIA
Life Insurance Company S.A.

OLYMPIC-VICTORIA
General Insurance Company S.A.

21, Tsimiski Street,
GR-54624 Thessaloniki,
Greece
Telephone +30 (0)31 239-3318
Telefax +30 (0)31 239264

VICTORIA pojišťovna, a.s.

Americká 23,
CZ-12000 Praha (Prague) 2,
Czech Republic
Telephone +420 (0)2 2423-2368
Telefax +420 (0)2 2423-8064

The Hamburg-Mannheimer companies

Domestic companies

Hamburg-Mannheimer Versicherungs-AG

Überseering 45,
D-22297 Hamburg,
Germany
Telephone +49 (0)40 63760
Telefax +49 (0)40 6376-3302

Hamburg-Mannheimer Sachversicherungs-AG

Überseering 45,
D-22297 Hamburg,
Germany
Telephone +49 (0)40 63760
Telefax +49 (0)40 6376-3302

Hamburg-Mannheimer Rechtsschutzversicherungs-AG

Überseering 45,
D-22297 Hamburg,
Germany
Telephone +49 (0)40 63760
Telefax +49 (0)40 6376-4442

Foreign companies

Hamburg-Mannheimer N.V.

Brugmannlaan 24,
B-1060 Brussels,
Belgium
Telephone +32 (0)2 535-5711
Telefax +32 (0)2 535-5700

Hamburg-Mannheimer Skade
Filial af Hamburg-Mannheimer
Versicherungs-AG
tysk forsikringsselskab

Parken, Øster Allé 48–50,
DK-2100 Copenhagen,
Denmark
Telephone +45 3525-3575
Telefax +45 3525-3580

Hamburg-Mannheimer
Sachversicherungs-AG
Branch office

Munthofstraat 66,
B-1060 Brussels,
Belgium
Telephone +32 (0)2 537-6014
Telefax +32 (0)2 537-0110

Hamburg-Mannheimer Skade
Filial af Hamburg-Mannheimer
Sachversicherungs-AG
tysk forsikringsselskab

Parken, Øster Allé 48–50,
DK-2100 Copenhagen,
Denmark
Telephone +45 3525-3575
Telefax +45 3525-3580

Hamburg-Mannheimer
Sachversicherungs-AG
Verzekeraars met zetel in Nederland

Strawinskylaan 6,
NL-1000 Amsterdam,
The Netherlands
Telephone +31 (0)20 541-7600
Telefax +31 (0)20 661-3746

UNION
Versicherungs-Aktiengesellschaft

Schottenring 27–29,
A-1013 Wien (Vienna),
Austria
Telephone +43 (0)1 313830
Telefax +43 (0)1 31383-7490

The DKV companies

Domestic companies

DKV
Deutsche Krankenversicherung AG

Aachener Strasse 300,
D-50933 Köln (Cologne),
Germany
Telephone +49 (0)221 5780
Telefax +49 (0)221 578-3694

Innsbrucker Strasse 26/27,
D-10825 Berlin,
Germany
Telephone +49 (0)30 85020
Telefax +49 (0)30 8502-300

Foreign companies

dkv International S.A.

rue Belliard 35,
B-1040 Brussels,
Belgium
Telephone +32 (0)2 287-6411
Telefax +32 (0)2 287-6412

DKV Luxembourg S.A.

43, avenue J.-F. Kennedy,
L-1855 Luxembourg
Telephone +352 426-4641
Telefax +352 426464-250

NVS Verzekeringen N.V.

NVS Zorgverzekeringen N.V.

NVS Schadeverzekeringen N.V.

NVS Levensverzekeringen N.V.

Rokin 75,
NL-1012 KL Amsterdam,
The Netherlands
Telephone +31 (0)20 555-2555
Telefax +31 (0)20 625-0680

N.V. Verzekeringsmaatschappij Rijnmond

Westblaak 67,
NL-3012 KE Rotterdam,
The Netherlands
Telephone +31 (0)10 280-66666
Telefax +31 (0)10 280-6609

PREVIASA
Sociedad Anónima de Seguros y Reaseguros

PREVIASA Vída
Sociedad Anónima de Seguros y Reaseguros

Unión Médica la Fuencisla, S.A.
Compania de Seguros

Avenida César Augosto, 33,
E-50004 Saragossa,
Spain
Telephone +34 (0)976 289105
Telefax +34 (0)976 289135

The D.A.S. companies

Domestic companies

D.A.S.
Deutscher Automobil Schutz
Allgemeine Rechtsschutz-
Versicherungs-AG

D.A.S.
Deutscher Automobil Schutz
Versicherungs-AG

D.A.S. International
Rückversicherungs- und
Beteiligungs-AG

Thomas-Dehler-Strasse 2,
D-81737 München (Munich),
Germany
Telephone +49 (0)89 627501
Telefax +49 (0)89 6275-1650

Foreign companies

D.A.S. S.A. belge d'assurances
de Protection Juridique

7, Ave Lloyd George,
B-1000 Brussels,
Belgium
Telephone +32 (0)2 645-5111
Telefax +32 (0)2 640-7733

D.A.S. HELLAS Allgemeine
Rechtsschutz-Versicherungs-AG

Leoforos Wouliagmenis 49,
GR-11636 Athens,
Greece
Telephone +30 (0)1 923-7271
Telefax +30 (0)1 921-5134

DAS Legal Expenses Insurance
Company Limited

DAS House,
Quay Side,
Temple Back,
Bristol BS1 6NH,
United Kingdom
Telephone +44 (0)117 934-2000
Telefax +44 (0)117 934-2109

D.A.S. Difesa Automobilistica
Sinistri, S.p.A. di Assicurazione

Via IV. Novembre, 24,
I-37126 Verona,
Italy
Telephone +39 (0)45 912841/2
Telefax +39 (0)45 830-0010

DAS Legal Expenses Insurance
Company Limited

12 Duke Lane,
Dublin 2,
Ireland
Telephone +353 (0)1 670-7470
Telefax +353 (0)1 670-7473

D.A.S. Luxemburg Allgemeine Rechtsschutz-Versicherung S.A.

3, rue Thomas Edison,
L-1445 Strassen,
Luxembourg
Telephone +352 455758
Telefax +352 455763

D.A.S. Nederlandse Rechtsbijstand Verzekeringmaatschappij N.V.

Karspeldreef 15,
NL-1102 BB Amsterdam,
Netherlands
Telephone +31 (0)20 651-7517
Telefax +31 (0)20 691-4737

D.A.S. Der Automobil Schutz Österreichische Allgemeine Rechtsschutz-Versicherungs-AG

Hernalser Gürtel 17,
A-1171 Wien (Vienna),
Austria
Telephone +43 (0)1 40464
Telefax +43 (0)1 403-4065

DAS Rechtsschutz-Versicherungs-AG

Rte des Acacias 48,
Postfach 224,
CH-1211 Genève (Geneva) 24,
Switzerland
Telephone +41 (0)22 827-4427
Telefax +41 (0)22 827-4437

D.A.S. Defensa del Automovilista y de Siniestros Internacional S.A. de Seguros

Plaza Dr. Letamendi, 1y2,
E-08007 Barcelona,
Spain
Telephone +34 (0)3 454-9904
Telefax +34 (0)3 453-6527

D.A.S. pojišťovna právní ochrany, a.s.

Rostovská 25,
CZ-10100 Praha (Prague) 10,
Czech Republic
Telephone +420 (0)2 7174-0087
Telefax +420 (0)2 7174-0085

D.A.S. poisťovňa právnej ochrany, a.s.

Kutuzovova 3,
SK-83103 Bratislava,
Slovakia
Telephone +421 (0)7 525-7736
Telefax +421 (0)7 525-7730

ERGO financial diary

Dates to note in 1998 and 1999

Press conference on the 1997 financial year	**13 May 1998**
Analysts' conference	**13 May 1998**
Annual General Meeting in Düsseldorf	**3 July 1998**
Dividend date	**6 July 1998**
Letter to shareholders on the first half of 1998	**12 August 1998**
Letter to shareholders on the 1998 financial year	**11 February 1999**
Press conference on the 1998 financial year	**31 March 1999**
Analysts' conference	**31 March 1999**
Annual General Meeting in Düsseldorf	**27 May 1999**

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ERGO
Versicherungsgruppe AG,
Victoriaplatz 2,
D-40198 Düsseldorf,
Germany
Telephone +49 (0)211 4937-0
Telefax +49 (0)211 4937-15 11
http://www.ergo-versicherungsgruppe.de

Your contact for
shareholder information is:

Dr. Michael Thiemermann,
Investor Relations,
Victoriaplatz 2,
40198 Düsseldorf,
Germany
Telephone +49 (0)211 4937-1510
Telefax +49 (0)211 4937-1511

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