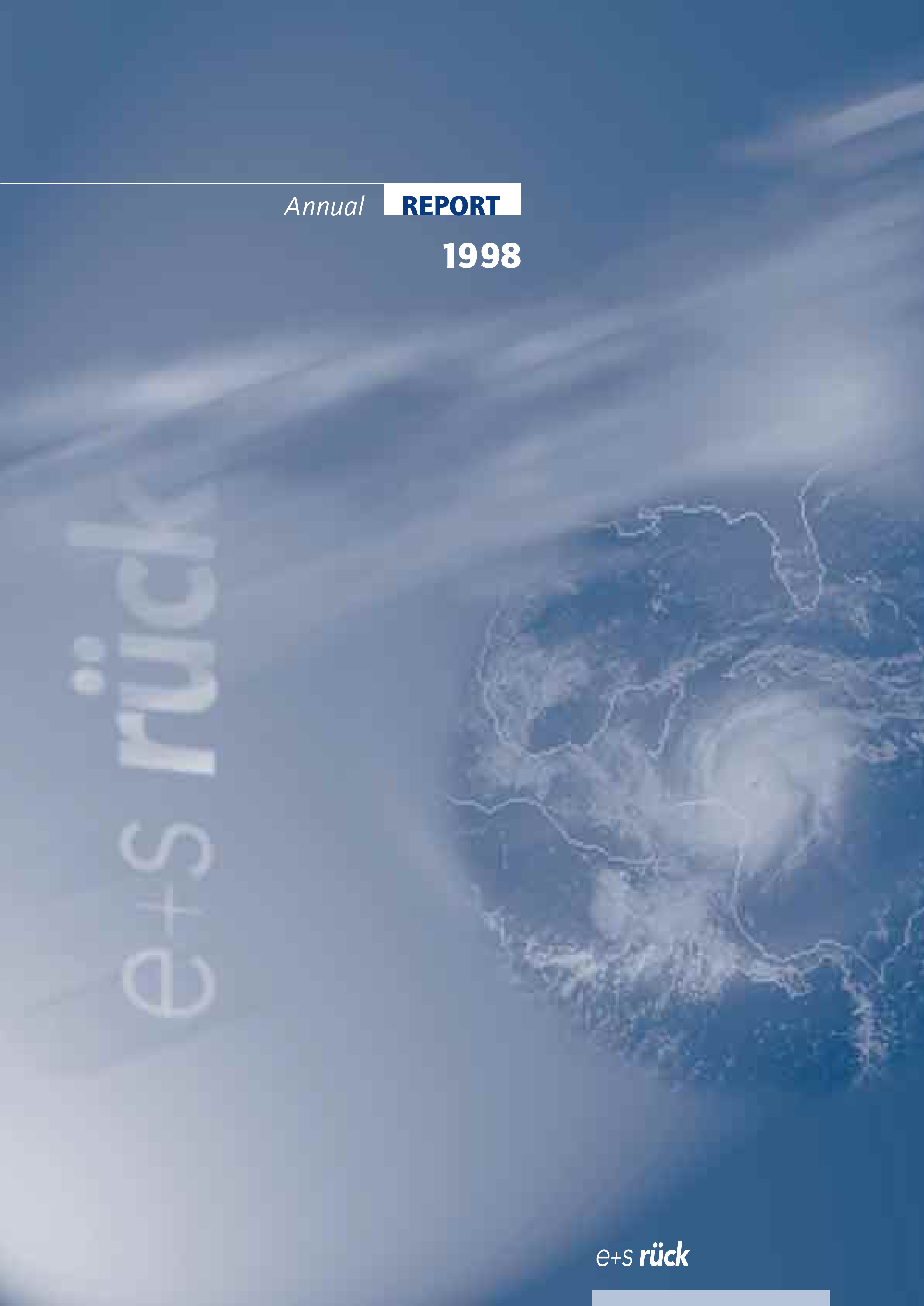
Annual **REPORT**

1998



e+s **rück**

CONTENTS

KEY FIGURES *of E+S Rück*

Figures in DM million	*1998*	*+/- previous year*	*1997*	*1996*
Gross premiums written	2 270.0	-0.6 %	2 282.9	1571.4
Net premiums earned	1 446.1	-2.4 %	1 481.5	1243.3
Technical result	-92.1	-5.0 %	-87.7	107.1
Allocation to the fluctuation reserve and similar provisions	82.9	+14.5 %	72.4	16.9
Investment result	312.2	+3.7 %	301.0	259.5
Profit or loss on ordinary activities befor tax	21.8	-12.1 %	24.8	36.0
Profit or loss for the financial year	–	-100.0 %	16.5	15.1
Investments	5 446.5	-0.1 %	5 454.4	4 517.9
Capital and reserves incl. surplus debenture (Genußrechtskapital)	315.3	–	315.3	315.3
Fluctuation reserve and similar provisions	501.2	+19.8 %	418.3	345.9
Net technical provisions	4 279.2	+9.5 %	3 909.1	3 619.1
Total capital, reserves and technical provisions	5 095.7	+9.8 %	4 642.7	4 280.3
Number of employees	201	+11	190	180
Retention	64.2 %		64.8 %	78.2 %
Loss ratio*	77.2 %		76.0 %	84.3 %
Expense ratio*	29.1 %		27.2 %	23.3 %
Combined loss/expense ratio*	106.3 %		103.2 %	107.6 %

*excluding life and health reinsurance

BOARDS AND OFFICERS *of E+S Rück*

Supervisory Board (Aufsichtsrat)

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

Gerd Kettler, Münster, Deputy Chairman,
Chairman of the Executive Board of
LVM Landwirtschaftlicher Versicherungsverein
Münster a.G.

Manfred Bieber, Hannover*,
Retrocession treaty technican

R. Claus Bingemer, Hannover,
former Chairman of the Executive Boards of
Hannover Rückversicherungs-AG,
E+S Rückversicherungs-AG

Dr. Heinrich Dickmann, Burgwedel,
Chairman of the Executive Board of
Vereinigte Haftpflichtversicherung V.a.G.

Tilman Hess, Hannover*,
Claims specialist

Rolf-Peter Hoenen, Coburg,
Chairman of the Executive Boards of
HUK-Coburg Versicherungsgruppe

Dr. Manfred Mücke, Hamburg,
Chairman of the Executive Boards of
KRAVAG-SACH, KRAVAG-LEBEN,
KRAVAG-HOLDING

Anita Suing-Hoping, Godshorn*,
Aviation market specialist

**Staff representative*

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President of the
ITAS Istituto Trentino Alto Adige per
Assicurazioni

Wolfgang Bitter, Itzehoe,
Chairman of the Executive Board of
Itzehoer Versicherungsverein –
Brandgilde von 1691 VvaG

Dieter Holl, Stuttgart (from 3.8.1998),
Chairman of the Executive Board of
Württembergische Gemeinde-Versicherung a.G.

Ernst Köller, Hannover,
Chairman of the Executive Board of
CONCORDIA Versicherungs-Gesellschaft a.G.

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

Adolf Morsbach, Wedemark,
former Chairman of the Executive Board of
HDI Haftpflichtverband der Deutschen
Industrie V.a.G.

Executive Board (Vorstand)

Wilhelm Zeller, Burgwedel, Chairman

Udo Schubach, Hannover, Deputy Chairman

Dr. Wolf Becke, Hannover

Herbert K. Haas, Burgwedel

Dr. Andreas-Peter Hecker, Hannover

Dr. Detlef Steiner, Hannover (from 1.10.1998)

Jürgen Gräber, Ronnenberg, deputy member

Economic climate

Despite the crises in Asia, Russia and Latin America, the development of the German economy was generally favourable. Overcapacity and sustained pressure on prices in property and casualty insurance were the hallmarks of the insurance market in Germany. Our strategic priority segment of life and health reinsurance, on the other hand, posted gratifying gains.

The economic performance of the industrial nations was marked by an appreciable upward trend in 1998. In western Europe the economy underwent a highly dynamic development in the early part of 1998, but it started to flag towards the middle of the year, initially in the United Kingdom and Scandinavia. The weakened growth trend was then primarily supported by domestic demand, which benefited from – amongst other things – low interest rates. The USA continued to achieve unbridled growth until the fourth quarter, but towards year-end here too the collapse in export demand – especially from Asia and Latin America – considerably dampened further development.

In Germany, the crises in Asia, Latin America and Russia led to a marked drop in exports. However, these negative foreign trade factors were counterbalanced and indeed outweighed by greater domestic demand. Overall, Germany's gross national product increased substantially by 3.5 %.

The international financial markets were also affected by the negative repercussions in the economic crisis areas. Although the overall trend was positive, the international stock markets in particular experienced turbulent price movements at times. These conditions, coupled with the desire to safeguard a positive business trend, resulted in an easing of monetary policy in the industrial nations. This gave rise to a decrease in the average interest rates in the Euro countries.

As was also the case in the previous years, the process of concentration in the insurance and reinsurance industries continued in the year under review with a view to securing greater market shares and cost reductions through acquisitions.

The premium decline in the German insurance market continued unabated in almost all classes of business. In the area of industrial risks, a trend could also be observed towards a greater demand for multiline/multiyear coverage concepts. Policyholders are very clearly striving to exploit the current buyer's market and prolong it in the longer term.

The most prominent loss event in Germany was the Eschede train accident on 3 June 1998, in which 101 lives were lost and 88 people were injured. Apart from this tragic occurrence, no other significant major losses were recorded in the year under review. However, an increased number of medium-sized losses, especially in fire business, were recorded.

The development of property and casualty (re-) insurance was influenced by overcapacities, increased retentions on the part of clients and sustained pressure on prices as a consequence of the good results in previous years. Life and health reinsurance performed more favourably, however. In this segment, it was again possible to generate considerable growth and good results.

Alternative coverage concepts, which protect clients' overall financial situation, grew further in importance. The demand for flexible solutions tailored to meet specific requirements increased. Further expansion was also seen in the area of alternative risk financing – the transfer of insurance and reinsurance risks to the capital markets. Through the implementation of new product ideas, the significance of this type of risk financing has grown steadily, although it has not as yet had an appreciable impact on the traditional insurance and reinsurance markets.

The Year 2000 (Y2K) problem was increasingly a topic of discussion. The assessments of the potential impact of the change of millennium ranged from "a trigger for the most severe recession of all time" to "utterly exaggerated". Although it is all but impossible to arrive at a reliable appraisal of the situation, it must be anticipated that this problem really will result in genuine disruptions with not inconsiderable repercussions.

The international (re-)insurance industry was primarily affected by a marked burden of major losses which sharply impaired the technical results of insurers and reinsurers alike. The most notable major losses to hit the insurance industry were the hurricanes Georges and Mitch, the ice-storm in eastern Canada, the loss of altogether 15 satellites in space insurance and the crash of the Swiss Air passenger jet off Newfoundland.

Business development

The gross premium income of DM 2.3 billion was virtually on a par with the previous year. The development of business was marked by the generally poor rates and conditions in property and casualty business, a scenario which was particularly true of industrial fire and motor insurance. However, growth in life and health reinsurance was almost sufficient to offset these negative trends. Due to tax provisions constituted on a precautionary basis, the after-tax result of -DM 14 thousand is virtually balanced.

Since 1.1.1997 E+S Rück has borne exclusive responsibility for the Hannover Re Group's German business. We are thus the only specialist reinsurer of this type in the German market. For its part, Hannover Re – together with its subsidiaries – writes the Group's international business. In order to safeguard continued advantageous international risk spreading, the two companies participate in each other's respective business segments. Our technical account thus continues to be influenced by developments in the international reinsurance markets via these retrocessions from Hannover Re. This is particularly true of the aviation, marine and life classes of business.

Showing a fractional decline of 0.6 % to DM 2.3 billion, the gross written premium in the year under review was almost exactly on a par with the previous year. Net premiums decreased by 2.4 % to DM 1.5 billion owing to an increase in own retrocessions. This reduction was almost entirely attributable to the extremely tense state of rates and conditions in the German property and casualty segment, most notably in industrial fire and motor insurance. Strict adherence to our profit requirements therefore prevented any expansion in the volume of this business. The satisfactory trends in life and health reinsurance were, however, sufficient to virtually offset the deterioration in property and casualty business. Our life business grew by more than 20 % and our health business increased by over 9 %. The two classes now account for more than 20 % of our total business portfolio.

The desired steady expansion of our life reinsurance portfolio compelled us to boost our allocations to the life assurance provisions in the year under review by DM 27.8 million (making allowance for exchange rate factors as well as entries to and withdrawals from the provisions) to DM 99.6 million, resulting in a corresponding strain on our technical account.

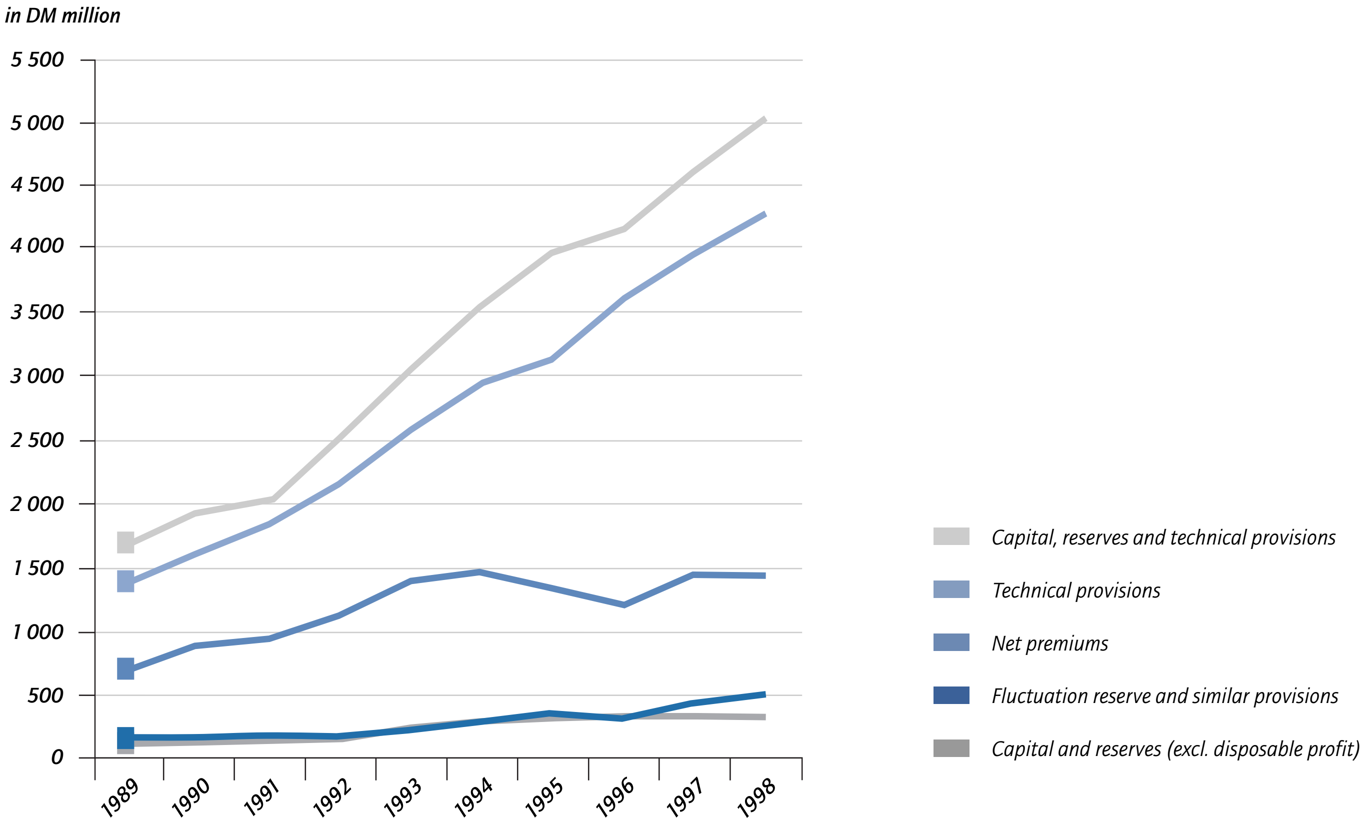
The loss expenditure decreased by DM 43.5 million to DM 1.0 billion, as a consequence of which the net technical result before changes in the fluctuation reserve amounted to -DM 92.1 million (-DM 87.8 million).

A total of DM 82.9 million (DM 72.4 million) was allocated to the fluctuation reserve in the year under review. This produced a net technical result of -DM 175.1 million (-DM 160.1 million).

The generally favourable performance of the capital markets led to a further rise in the investment result, which climbed by 3.7 % to DM 312.2 million. We again boosted the hidden reserves in our securities portfolio, which increased by 30.2 % to DM 628.4 million in the year under review.

Due to precautionary provisions constituted for additional disputed tax demands in connection with the company audit for the years 1988 - 1992, the tax burden increased by DM 13.6 million compared to the previous year. The after-tax result of -DM 14 thousand for the financial year was virtually balanced.

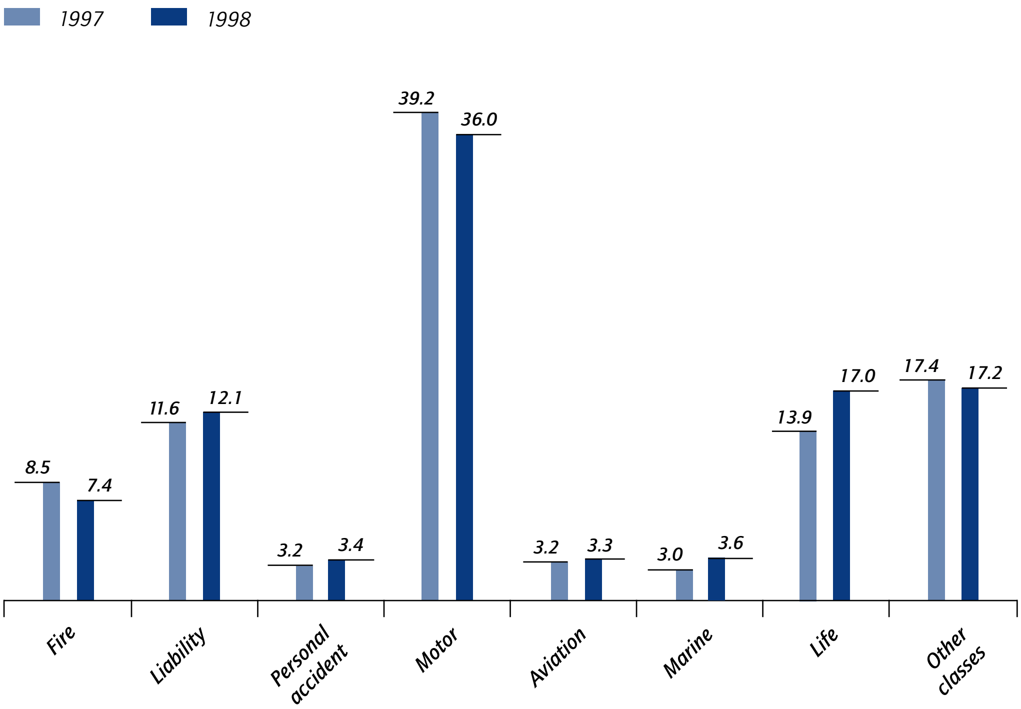
Growth in capital, reserves, technical provisions and in net premiums



Premium growth

In the light of the factors described above, gross premium income decreased marginally by 0.6 % to DM 2.3 billion, thus remaining almost exactly on a par with the previous year's level. Owing to an increase in own retrocessions, net premiums contracted by 2.4 % to DM 1.5 billion.

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



Fire

German industrial fire business continues to be marked by a massive decline in premiums, which has caused the total market volume to contract by around 20 %. This unfavourable scenario was further exacerbated by an increased burden of losses. Despite this, 1998 cannot be regarded as a year with an extraordinarily high loss incidence; rather, it witnessed a return to a "normal level" following several favourable years. Owing to the substantial premium erosion, even this average loss burden was enough to push the loss ratio for industrial fire business up to almost 100 % in the primary insurance sector.

These developments were also reflected in our business performance. The decline in original premiums similarly reduced our premium income. What is more, the increased burden of losses caused our loss ratio to deteriorate markedly, thereby pushing the technical result into negative territory.

The amount of DM 6.9 million was withdrawn from the fluctuation reserve.

Fire

in DM million	*1998*	*1997*
Gross premiums written	168.1	194.9
Loss ratio (%)	69.0	55.6
Technical result (net)	-6.6	10.9

Liability

Liability

in DM million	*1998*	*1997*
Gross premiums written	273.6	264.6
Loss ratio (%)	59.9	81.5
Technical result (net)	12.6	-13.8

The general market conditions in liability business scarcely changed when compared to the previous year. This was reflected in both the minimal premium growth and the virtually unchanged loss expenditure. Industrial business in particular continued to suffer under fierce competitive pressure. Personal lines, on the other hand, remained stable and thus posted a positive overall performance.

Against this backdrop we succeeded in slightly increasing our premium income from the liability classes compared to the previous year. A favourable overall loss experience combined with profits from the run-off of loss reserves generated an exceptionally favourable technical result. Bearing in mind that run-off periods for liability claims tend to be more protracted, and taking into account the disproportionately large shares of the investment income attributable to this business, the liability class produced a very satisfactory profit.

The amount of DM 29.9 million was allocated to the fluctuation reserve. The IBNR reserve was boosted by a contribution of DM 30.9 million from the non-technical result.

Personal accident

Personal accident

in DM million	*1998*	*1997*
Gross premiums written	77.1	73.4
Loss ratio (%)	44.6	62.9
Technical result (net)	6.2	-2.4

The German market witnessed slight premium growth and virtually unchanged loss expenditure in the personal accident class of insurance. Amongst insurers, a trend towards portfolio expansion through the provision of extended coverage concepts could be observed. These covers are intended to combine several risks – including those which have not to date been insurable – in a single policy. We supported these efforts by offering special services. A particularly significant area in this regard during the year under review was the conceptual design of special insurance products for senior citizens.

Not least by providing these services above and beyond the bounds of pure reinsurance products, we succeeded in increasing our premium income. At the same time, we also substantially improved the technical result.

The amount of DM 8.8 million was allocated to the fluctuation reserve.

Motor

In the property/casualty segment, motor business constitutes the most important class of insurance both for the German market as a whole and for our portfolio. As in the previous years, extremely intense competition was again the hallmark of the insurance market in the year under review, and the already unfavourable terms and conditions deteriorated further. Only the own damage classes closed with positive results, although these were insufficient to offset the negative developments in motor third party liability insurance. Overall, premium income in the primary insurance sector fell by a further 5 % compared to the previous year, while the technical deficit climbed to DM 2.9 billion.

Our company was unable to separate itself from the effects of this trend. Our portfolio showed a decline in premium income and a marked deterioration in the technical result. Nevertheless, we generated substantial investment income – most notably in German motor business –, although in the year under review this was insufficient to offset the technical losses.

Despite posting a poorer result, we allocated an amount of DM 20.8 million to the fluctuation reserve. The IBNR reserve for motor third party liability insurance was strengthened by an allocation of DM 32.9 million from the non-technical account.

Motor

in DM million	1998	1997
Gross premiums written	817.9	893.6
Loss ratio (%)	97.3	91.5
Technical result (net)	-92.0	-54.5

Aviation

The year under review witnessed further softening throughout the market in general. Overall, insurance premiums fell to a level which could not be considered adequate even for years with an average loss burden. However, in view of the fact that losses in the year under review were in excess of the long-term average, 1998 can be regarded as one of the most difficult years in the history of aviation insurance.

Owing to the erosion of original premiums and our own selective underwriting policy, we only expanded our premium income in this class of business to an insignificant extent. However, the improved technical result bears witness to our striving to concentrate on subsegments which still offer adequate profit potential.

The amount of DM 6.4 million was withdrawn from the fluctuation reserve.

Aviation

in DM million	1998	1997
Gross premiums written	75.1	73.0
Loss ratio (%)	66.3	66.4
Technical result (net)	5.8	1.0

Marine

Marine business, too, was marked by sustained competition in both the insurance and reinsurance markets, and premium levels continued to decline. On the claims front, the year under review closed with a considerably higher frequency of medium-sized losses compared to the previous year. The combination of low premium rates and an increased level of claims led to poorer results in the market.

We expanded our portfolio, placing special emphasis on excess of loss business. Although this type of business produced more satisfactory results than the proportional sector, it was still not sufficient to offset the losses incurred under proportional acceptances. Our marine portfolio therefore closed with a technical deficit in the year under review.

An allocation of DM 0.9 million was made to the fluctuation reserve.

Marine

in DM million	1998	1997
Gross premiums written	82.0	68.2
Loss ratio (%)	84.6	66.9
Technical result (net)	-4.7	3.7

Life

Expansion of the life reinsurance segment remains a strategic priority for our company. Posting growth of more than 20 %, we again succeeded in accomplishing this aim in the year under review. Within the framework of our expansionary policy, we strive to circumvent the highly competitive area of traditional standard business. Instead, we concentrate on special market segments in which our particular expertise gives us a leading market position.

Life

in DM million	*1998*	*1997*
Gross premiums written	385.2	317.6
Technical result (net)	-13.1	-46.6

We have geared our activities to positioning our company as a financing reinsurer. In this function, we provide our clients with special support for the prefinancing of new business – a segment where we have specialized in developing customized reinsurance solutions for the optimization of our clients' earnings position.

Following the deficits of the previous years which resulted from this investment-related expenditure, the technical result improved appreciably in the year under review. This development was primarily attributable to the returns which began to flow in from prefinancing transactions effected in previous years. Whilst such expenditure initially places a burden on the result, the returns in subsequent years accrue to our account and boost profits. In the year under review, the returns reached a level which to a large extent offset the new investments.

The portfolio of life insurance reinsured developed as follows (foreign currency amounts have been converted at the exchange rates applicable as at 31 December 1998):

Life reinsurance portfolio (in DM million)	*1998*	*1997*
Total business reinsured		
sum insured	45 700.7	40 348.2
of which retroceded	8 913.4	6 100.1
Endowment insurance		
sum insured	43 384.1	38 151.2
of which retroceded	8 092.5	5 321.7
Annuity and pension insurance		
12 times annual annuity	2 316.6	2 197.0
of which retroceded	820.9	778.4

Other classes

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

The strongest segment within the other classes was credit and surety business, which generated gross premiums of DM 101.6 million. We are striving to further expand this class in the light of strategic considerations. Credit and surety business is marked by fierce competition worldwide, as a consequence of which we were only able to write a limited amount of profitable new business; nevertheless, no significant major losses were incurred. Similarly, we were scarcely affected by the financial crises in Asia, Russia and Latin America. Now that the portfolio rehabilitation measures implemented in Germany have led to a sharp reduction in the deficit posted by this market segment – despite the continued high level of insolvencies –, the international profits remained largely intact. In the year under review, therefore, we were able to show a satisfactory technical profit of DM 4.3 million.

In terms of premium income, our health portfolio constitutes another important class of business. Premium income grew in 1998 by 9.3 % to DM 89.6 million. Windstorm business posted a favourable loss experience with no expensive major claims, as a result of which we again generated a pleasing technical result in this class.

On an overall basis, the amount of DM 35.9 million was allocated to the fluctuation reserve for the other classes.

Other classes

in DM million	*1998*	*1997*
Gross premiums written	391.0	397.6
Loss ratio (%)	65.4	63.5
Technical result (net)	-0.3	14.0

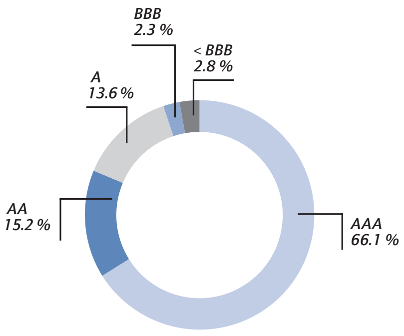
Investments

We profited from the generally favourable performance of the capital markets, and our investment result increased by a further 3.7 % to DM 312.2 million. The total investment portfolio amounted to DM 5.5 billion, including additional unrealized gains in the investments totalling DM 628 million.

For the first half of 1998 the stock market maintained the optimistic mood of the previous year. The German stock index (Dax) reached an all-time record high of 6,171 points in the summer. Yet the worsening crises in Asia, the partial default on payments in Russia and growing difficulties in South America put an abrupt end to this upward movement. The Dax lost more than one-third of its value in the second half of the year, and as the year progressed it proved unable to fully recover the lost ground. It closed the year at slightly more than 5,000 points – a level which corresponds to a year-on-year increase of almost 18 %.

Telecommunications, technology and consumer goods were the sectors which provided the year's stock market winners. Financials, on the other hand, suffered under the unresolved problems connected with the major debtor nations. The impending launch of the single European currency and the establishment of numerous European stock indexes fostered a greater orientation towards a Europe-wide investment policy. Major national stocks which were included in the European indexes particularly benefited from this trend, with such "blue chips" posting above-average price gains. By contrast, second-tier stocks were neglected, especially in the second half of the year.

Rating of fixed-income securities



On the German bond market the downward trend in yields which had commenced in previous years continued. At the beginning of October, the yields on German government bonds also fell to a record low of 3.78 % – a development triggered by the turmoil on the international financial markets and the resulting "flight to quality". All eyes in the money market were on the impending implementation of the third stage of economic and monetary union on 1.1.1999 together with the associated launch of the single currency. As the introduction of the currency drew closer, the average interest rate level throughout Euroland decreased owing to the fact that rates in the countries with low interest levels were not lifted.

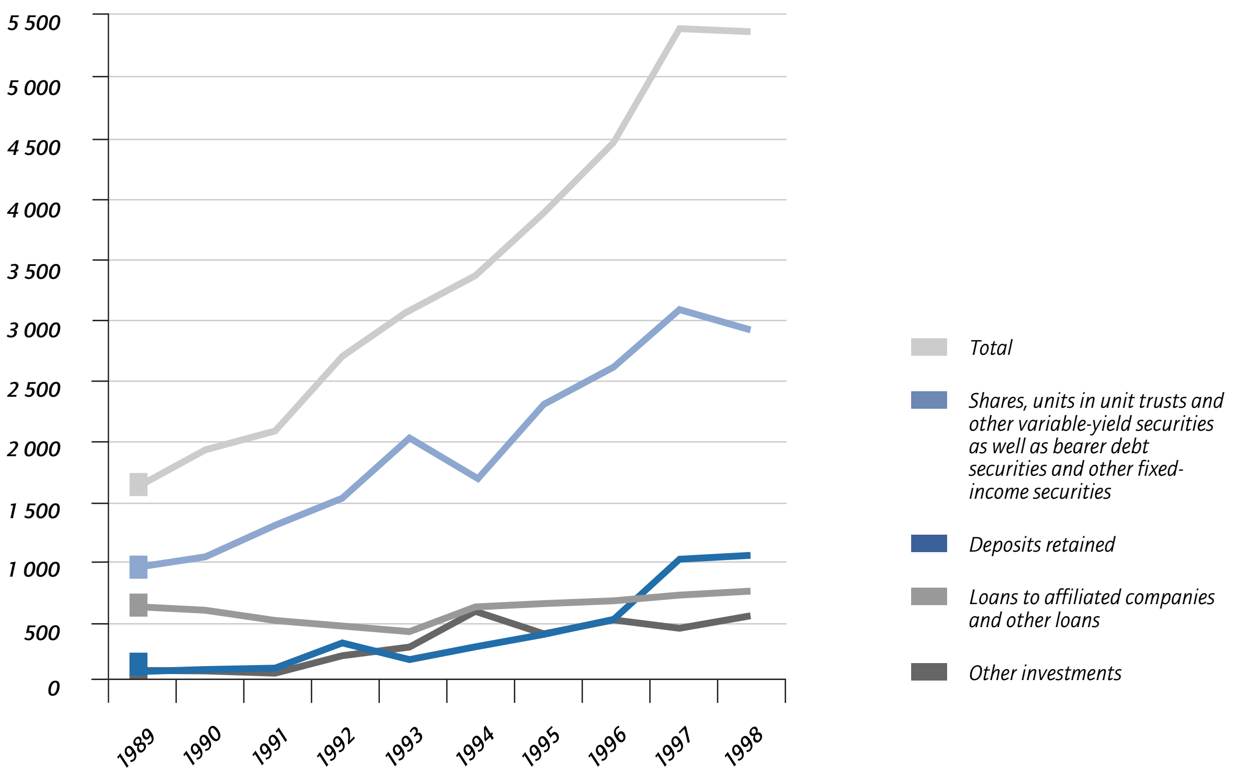
Against the backdrop of this overall favourable climate, we can report that our investments again posted a satisfactory performance in the year under review; the investment result increased by a further 3.7 % to DM 312.2 million. The extraordinary investment result – in other words, the balance from realized gains and losses on the disposal of investments and on depreciation – totalled DM 40,1 million. This is all the more impressive in the light of the fact that in the same period we also boosted unrealized gains in the investments by 30.2 % to DM 628.4 million.

The total investment portfolio amounted to DM 5.5 billion as at 31.12.1998. At more than 54 %, the largest proportion of the investment portfolio which we manage ourselves continued to be in the area of fixed-income securities (including bond funds); stocks accounted for 12.5 %. Due to the further expansion of life reinsurance business, deposits retained increased to a total of DM 1.1 billion.

We continued to attach great importance to the quality of our investments in the year under review. More than 80 % of the fixed-income bearer and registered bonds, notes and loans in our direct portfolio still have a security rating of AA or better.

Investments

in DM million



Human Resources

Contrary to the trend in the labour market, we created eleven new jobs. Our training programme was systematically extended to include new elements. We also support efforts to enhance flexibility in the organization of working time.

Promoting the skills of our staff continued to constitute one of the central tasks to which we dedicated ourselves in the year under review. In addition to the traditional strong emphasis on specialist training, a second, equally important focus was created within our human resources development in the area of communication and personal skills. Thus, new behavioural seminars were particularly significant additions to our training programme. In order to avoid overlaps and organize training courses on a more selective basis, we structured our range of training opportunities using a modular system. This enables employees and managerial staff to select activities which are tailored to their needs and to work on their skills enhancement with the optimal time expenditure.

Knowledge of foreign languages is also of increasing importance to our workforce. We support the acquisition of such language skills both by arranging targeted training periods abroad and through considerable investment in our inhouse language teaching. We now have at our disposal an extensive course system which is complemented by computer-based self-learning programs.

In the year under review we also turned greater attention to the subject of telecommuting. As part of our activities aimed at promoting flexible job structuring, we are currently conducting a pilot project in this field. We expect this model to facilitate the more effective utilization of resources, while enabling our staff to better harmonize their private and professional lives.

As an additional step, in 1998 we began to install comprehensive new software which is to be used for the purposes of human resources support. Our aim here is to optimize both personnel controlling – the database for systematic personnel development – and, in the long term, the Group-wide transfer of data.

Eleven new jobs were created in the year under review, thereby increasing our total workforce to 201. This expansion of almost six percent is all the more remarkable in view of the fact that we thereby succeeded in creating additional skilled jobs contrary to the general trend in the labour market. As has been the case to date, the majority of our employees – almost 58 % – are women. Altogether 28 members of staff took up the possibility of parttime working arrangements. The average age of our employees was 37.

We would like to take this opportunity to express our most sincere appreciation to all our members of staff, the employee council and the senior management committee for their dedication and their contribution to the success of our company in the 1998 financial year.

Outlook

The current financial year has witnessed a further deterioration in market conditions in property and casualty reinsurance. We are therefore maintaining our selective and strictly profit-oriented underwriting policy in this segment. Life and health reinsurance, on the other hand, continues to show sizeable growth rates, and we shall therefore further expand this segment in accordance with our business strategy.

A slowdown in world economic growth is forecast for the current year. The primary restrictive factors are considered to be the reduced growth rates in the OECD countries and the global economic crises affecting the developing and threshold countries, which have yet to be fully overcome. In Germany, too, economic growth has flattened out; domestic demand continues to provide the greatest stimulus. Still, there are indications that the situation will pick up in the second half of the year, triggered by a recovery in export demand. This development is being supported by an invigorating economic and, most notably, monetary policy. Furthermore, the low level of interest rates is likely to foster a favourable investment climate.

For the German insurance industry, the focus of interest will be on the further handling of tax reform. Fiscal interference in the loss reserves, in particular, is seen as a major competitive disadvantage in comparison to international competitors. It may thus be anticipated that this issue will remain at the heart of heated debate in the current year.

Although it was only possible to push through improvements in terms and conditions in a few instances, the more favourable loss experience compared to the previous year offers the promise of an improved technical result in 1999. This is, however, dependent on the absence of significant losses from natural catastrophes and other major loss events.

Life and health (re-)insurance continue to post disproportionately large growth, both nationally and internationally. In Germany, the number and total volume of new life insurance policies increased. A decisive factor in this satisfying trend is the growing demand for private retirement annuities. Our company is specially benefiting from growth opportunities generated by the cooperation between HDI Haftpflichtverband der Deutschen Industrie V.a.G. and the German Postbank, whose activities we shall support in the role of exclusive reinsurer. We shall also continue to step up our existing core activities in life and health reinsurance. This is particularly true of prefinancing arrangements, an area in which we enjoy a leading market position thanks to our expertise. It is important to note that in the current year life and health reinsurance – after several years of investment – related expenditure connected with the expansion of business – is for the first time expected to generate an appreciable profit in the current financial year.

We also anticipate sustained growth in financial reinsurance. Although the basic framework for this type of business tend to be unfavourable in soft reinsurance markets – because traditional coverage concepts are available at very reasonable prices and conditions – we expect the growth rate to be well into double figures again in the current year.

A further activity in 1999 will be the integration of the Clarendon Insurance Group, New York. As part of the acquisition of this company, E+S Rück will hold a 20 % interest in the Clarendon Group. The acquisition is to be implemented jointly with Hannover Re, which will take an 80 % stake. The primary objective underlying this move is to acquire an additional segment in the form of Clarendon's highly successful program business, thereby enabling us to even further diversify our sources of earnings.

Due to its considerable dependence on general capital market conditions, it is extremely difficult to forecast developments in the investment sector. Nevertheless, given stability on the financial markets, it may be assumed that we shall again be able to generate a gratifying increase in the investment result.

Overall, we expect 1999 to produce another positive balance sheet result and a dividend distribution for our shareholders.

Affiliated companies

We received an appropriate consideration in respect of all legal transactions with affiliated companies according to the circumstances known to us at the time when the transactions were effected. We did not incur any losses which required offsetting within the meaning of § 311 (1) of the German Stock Corporation Act [AktG]. These measures did not adversely affect our company.

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total funds theoretically available to our company to cover actual and possible obligations. The composition of these funds was as follows:

Figures in DM million	*1998*	*1997*
Subscribed capital and reserves	235.2	235.3
Surplus debenture (Genußrechtskapital)	80.0	80.0
Fluctuation reserve and similar provisions	501.2	418.3
Technical provisions	4 279.3	3 909.1
Total capital, reserves and technical provisions	5 095.7	4 642.7

The capital, reserves and technical provisions amounted to 349.9 % (313.9 %) of net premiums; this includes the capital and reserves (including surplus debenture) at 21.6 % (21.3 %) of net premiums.

ACCOUNTS

BALANCE SHEET *as at 31. December 1998*

Assets Figures in DM thousand	1998				1997
A. Subscribed capital unpaid				18 900	18 900
- called up capital					
- (1997: -)					
B. Intangible assets:					
Other intangible assets				12 091	17 508
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			108 071		90 706
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		360 764			283 143
2. Participating interests		12 538			12 538
			373 302		295 681
III. Other financal investments					
1. Shares, units in unit trusts and other variable-yield securities		1 172 621			978 059
2. Bearer debt securities and other fixed-income securities		1 783 147			2 144 231
3. Mortgages and loans secured on land and buildings		4 666			5 536
4. Other loans					
a) Registered debt securities	472 974				
b) Debentures and loans	285 549				
c) Sundry loans	45 000	803 523			802 665
5. Deposits with banks		127 350			93 065
6. Other investments		10			10
			3 891 317		4 023 566
IV. Deposits with ceding companies			1 073 806		1 044 494
				5 446 496	5 454 447

Liabilities

Figures in DM thousand

	1998			1997
A. Capital and reserves				
I. Subscribed capital		48 470		48 470
II. Capital reserve		114 036		114 036
III. Retained earnings				
1. Statutory reserve	500			
2. Other retained earnings	72 243	72 743		72 743
IV. Disposable profit		–		16 500
			235 249	251 749
B. Surplus debenture (Genußrechtskapital)			80 000	80 000
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	209 730			
2. Less: reinsurance ceded	46 241	163 489		159 822
II. Life assurance provision				
1. Gross	898 210			
2. Less: reinsurance ceded	398 471	499 739		422 044
III. Provisions for outstanding claims				
1. Gross	4 742 024			
2. Less: reinsurance ceded	1 198 362	3 543 662		3 255 596
IV. Provision for bonuses and rebates				
1. Gross	1 527			
2. Less: reinsurance ceded	36	1 491		1 642
V. Fluctuation reserve and similar provisions		501 212		418 273
VI. Other technical provisions				
1. Gross	81 333			
2. Less: reinsurance ceded	10 447	70 886		70 052
			4 780 479	4 327 429

Assets

Figures in DM thousand

		1998			1997
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			687 695		268 020
- from affiliated companies:					
459 046 (1997: 68 878)					
II. Other receivables			26 064		23 277
- from affiliated companies:				713 759	291 297
21 063 (1997: 16 500)					
E. Other assets					
I. Tangible assets and stocks			36		28
II. Current accounts with banks, cheques and cash in hand			13 504		16 169
				13 540	16 197
F. Prepayments and accrued income					
I. Accrued interest and rent			68 877		72 541
II. Other accrued income			1 388		1 825
				70 265	74 366
				6 275 051	5 872 715

Liabilities

Figures in DM thousand

	1998			1997
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		17 634		15 789
II. Provisions for taxation		45 128		30 283
III. Other provisions		32 612		33 968
			95 374	80 040
E. Deposits received from retrocessionaires			602 834	597 556
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations		439 477		513 935
- to affiliated companies:				
38 016 (1997: 103 707)				
II. Miscellaneous liabilities		32 560		11 678
- from taxes:			472 037	525 613
248 (1997: 526)				
- for social security:				
416 (1997: 391)				
- to affiliated companies:				
25 268 (1997: 3 526)				
G. Accruals and deferred income			9 078	10 328
			6 275 051	5 872 715

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in DM thousand	1998			1997
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	2 270 002			2 282 908
b) Retrocession premiums	813 795			803 715
		1 456 207		1 479 193
c) Change in the gross provision for unearned premiums (+/-)	-13 816			-26 405
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	3 734			28 702
		-10 082		2 297
			1 446 125	1 481 490
2. Allocated investment return transferred from the non-technical account, net of retrocession			23 029	13 473
3. Other technical income, net of retrocession			108	1
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 016 040			1 246 039
bb) Retrocessionaires' share	290 351			184 069
		725 689		1 061 970
b) Change in provisions for outstanding claims				
aa) Gross	-686 928			-411 065
bb) Retrocessionaires' share	390 186			407 109
		-296 742		-3 956
			1 022 431	1 065 926
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-99 626		-71 850
b) Other net technical provisions		1 417		-803
			-98 209	-72 653
6. Bonuses and rebates, net of retrocession			442	1 237
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		631 551		584 288
b) Less: commissions and profit commissions received on retrocession		194 756		145 450
			436 795	438 838
8. Other technical charges, net of retrocession			3 525	4 067
9. Subtotal			-92 140	-87 757
10. Change in the fluctuation reserve and similar provisions			-82 939	-72 392
11. Net technical result			-175 079	-160 149

Figures in DM thousand	1998				1997
Balance brought forward:				-175 079	-160 149
II. Non-technical account					
1. Investment income					
a) Income from participating interests		20 743			17 048
- affiliated companies:					
20 000 (1997: 16 500)					
b) Income from other investments					
- affiliated companies:					
20 739 (1997: 14 629)					
aa) Income from land and buildings, rights to land and buildings, leasehold	6 497				
bb) Income from other investments	252 589	259 086			250 101
c) Appreciation on investments		234			678
d) Gains on the realization of investments		73 204			63 319
			353 267		331 146
2. Investment charges					
a) Investment management charges, including interest		7 698			6 851
b) Depreciation		22 106			14 891
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
2 600 (1997: 1 000)					
c) Losses on the realization of investments		11 263			8 419
			41 067		30 161
			312 200		300 985
3. Allocated investment return transferred to the technical account			-30 827		-21 290
				281 373	279 695
4. Other income			10 320		7 958
5. Other charges					
a) Special allocation to provisions for outstanding claims		63 861			73 230
b) Miscellaneous charges		30 927			29 512
			94 788		102 742
				-84 468	-94 784
6. Profit or loss on ordinary activities before tax				21 826	24 762
7. Taxes on profit and income		21 793			76
plus allocation for group assessment		188			5 506
			21 981		5 582
8. Other taxes		395			206
plus allocation for group assessment		-536			2 493
			-141		2 699
				21 840	8 281
9. Profit or loss for the financial year				-14	16 481
10. Profit brought forward from previous year				14	19
11. Disposable profit				–	16 500

BALANCE SHEET *as at 31. December 1998*

Assets

Figures in EUR thousand

	1998				1997
A. Subscribed capital unpaid				9 663	9 663
- called up capital					
- (1997: -)					
B. Intangible assets:					
Other intangible assets				6 182	8 952
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			55 256		46 377
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		184 455			144 769
2. Participating interests		6 411			6 411
			190 866		151 180
III. Other financal investments					
1. Shares, units in unit trusts and other variable-yield securities		599 551			500 074
2. Bearer debt securities and other fixed-income securities		911 709			1 096 328
3. Mortgages and loans secured on land and buildings		2 386			2 830
4. Other loans					
a) Registered debt securities	241 828				
b) Debentures and loans	145 999				
c) Sundry loans	23 008	410 835			410 396
5. Deposits with banks		65 113			47 583
6. Other investments		5			5
			1 989 599		2 057 216
IV. Deposits with ceding companies			549 028		534 041
				2 784 749	2 788 814

Conversion to Euro: 1 EUR = 1.95583 DM

Liabilities

Figures in EUR thousand

	1998			1997
A. Capital and reserves				
I. Subscribed capital		24 783		24 783
II. Capital reserve		58 305		58 305
III. Retained earnings				
1. Statutory reserve	256			
2. Other retained earnings	36 937	37 193		37 193
IV. Disposable profit		–		8 436
			120 281	128 717
B. Surplus debenture (Genußrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	107 233			
2. Less: reinsurance ceded	23 643	83 590		81 716
II. Life assurance provision				
1. Gross	459 248			
2. Less: reinsurance ceded	203 736	255 512		215 788
III. Provisions for outstanding claims				
1. Gross	2 424 558			
2. Less: reinsurance ceded	612 712	1 811 846		1 664 560
IV. Provision for bonuses and rebates				
1. Gross	781			
2. Less: reinsurance ceded	18	763		838
V. Fluctuation reserve and similar provisions		256 266		213 860
VI. Other technical provisions				
1. Gross	41 585			
2. Less: reinsurance ceded	5 342	36 243		35 817
			2 444 220	2 212 579

Assets

Figures in EUR thousand

	1998				1997
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			351 613		137 036
- from affiliated companies:					
253 113 (1997: 35 217)					
II. Other receivables			13 327		11 902
- from affiliated companies:				364 940	148 938
10 769 (1997: 8 436)					
E. Other assets					
I. Tangible assets and stocks			19		14
II. Current accounts with banks, cheques and cash in hand			6 904		8 267
				6 923	8 281
F. Prepayments and accrued income					
I. Accrued interest and rent			35 216		37 090
II. Other accrued income			710		933
				35 926	38 023
				3 208 383	3 002 671

Liabilities *Figures in EUR thousand*	*1998*			*1997*
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		9 016		8 073
II. Provisions for taxation		23 074		15 483
III. Other provisions		16 674		17 368
			48 764	40 924
E. Deposits received from retrocessionaires			308 224	305 526
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations		224 701		262 770
- to affiliated companies:				
19 437 (1997: 53 025)				
II. Miscellaneous liabilities		16 648		5 971
- from taxes:			241 349	268 741
127 (1997: 269)				
- for social security:				
213 (1997: 200)				
- to affiliated companies:				
12 919 (1997: 1 803)				
G. Accruals and deferred income			4 642	5 281
			3 208 383	3 002 671

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in EUR thousand	1998			1997
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	1 160 634			1 167 232
b) Retrocession premiums	416 087			410 932
		744 547		756 300
c) Change in the gross provision for unearned premiums (+/-)	-7 064			-13 501
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	1 909			14 675
		-5 155		1 174
			739 392	757 474
2. Allocated investment return transferred from the non-technical account, net of retrocession			11 775	6 889
3. Other technical income, net of retrocession			55	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	519 493			637 089
bb) Retrocessionaires' share	148 455			94 113
		371 038		542 976
b) Change in provisions for outstanding claims				
aa) Gross	-351 221			-210 174
bb) Retrocessionaires' share	199 499			208 151
		-151 722		-2 023
			522 760	544 999
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-50 938		-36 736
b) Other net technical provisions		725		-411
			-50 213	-37 147
6. Bonuses and rebates, net of retrocession			226	633
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		322 907		298 742
b) Less: commissions and profit commissions received on retrocession		99 577		74 368
			223 330	224 374
8. Other technical charges, net of retrocession			1 803	2 080
9. Subtotal			-47 110	-44 870
10. Change in the fluctuation reserve and similar provisions			-42 406	-37 013
11. Net technical result			-89 516	-81 883

Figures in EUR thousand	1998				1997
Balance brought forward:				-89 516	-81 883
II. Non-technical account					
1. Investment income					
a) Income from participating interests		10 606			8 716
- affiliated companies:					
10 226 (1997: 8 436)					
b) Income from other investments					
- affiliated companies:					
10 604 (1997: 7 480)					
aa) Income from land and buildings, rights to land and buildings, leasehold	3 322				
bb) Income from other investments	129 146	132 468			127 874
c) Appreciation on investments		120			347
d) Gains on the realization of investments		37 429			32 375
			180 623		169 312
2. Investment charges					
a) Investment management charges, including interest		3 936			3 503
b) Depreciation		11 303			7 614
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
1 329 (1997: 511)					
c) Losses on the realization of investments		5 758			4 304
			20 997		15 421
			159 626		153 891
3. Allocated investment return transferred to the technical account			-15 762		-10 886
				143 864	143 005
4. Other income			5 276		4 069
5. Other charges					
a) Special allocation to provisions for outstanding claims		32 651			37 442
b) Miscellaneous charges		15 813			15 089
			48 464		52 531
				-43 188	-48 462
6. Profit or loss on ordinary activities before tax				11 160	12 660
7. Taxes on profit and income		11 142			39
plus allocation for group assessment		97			2 815
			11 239		2 854
8. Other taxes		202			105
plus allocation for group assessment		-274			1 275
		-72		1 380	
			11 167	4 234	
9. Profit or loss for the financial year				-7	8 426
10. Profit brought forward from previous year				7	10
11. Disposable profit				–	8 436

Valuation of assets

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

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

Property has been valued at the purchase or construction cost less scheduled depreciation, where permitted allowing for special depreciation in accordance with § 4 of the Federal Assisted Areas Act (FördG).

Shares in affiliated companies and participations were valued on a purchase cost basis. Write-offs were not necessary.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict principle of cost or market value – whichever is lower – in accordance with § 341b (2) in conjunction with § 253 (3) of the Commercial Code (HGB). Lower valuations were retained in accordance with § 280 (2) of the Commercial Code (HGB).

The valuation of derivative instruments was carried out on a Mark-to-Market basis.

We valued mortgages and loans secured on land and buildings, registered debt securities, debentures and loans at nominal value taking into account amortisation and depreciation.

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

Fixed assets and stock are valued at the purchase cost less straight-line depreciation.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5 % of the reinsurance commission in accordance with the NRW order dated 29.5.1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years following the year in which the business was written.

Where the provisions indicated by the ceding companies are not expected to be adequate, we have increased them by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralized. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were outstanding. Outstanding ceding company accounts involving a low premium income are included in the following year; these transactions probably amount to less than 7 % of gross premiums.

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

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

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

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

We calculated the major risk provision for pharmaceutical product liability in accordance with § 30 (1) of the regulation on the presentation of insurance company accounts (RechVersV).

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

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and unknown liabilities. A provision (DM 1,475 thousand) was set up in accordance with § 249 (1) of the Commercial Code (HGB) in conjunction with § 274 (1) of the Commercial Code (HGB) for the taxation expenses imputable to the financial year under commercial law which affect subsequent years under tax law. This provision covers corporation tax – based on a tax rate of 45 % – and trade tax.

Other liabilities are valued at nominal amounts.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

The change in asset items B., C.I. to C.III. was as follows during the 1998 financial year.

Figures in DM thousand	Book values 31.12.1997	Additions	Disposals	Depre-ciation	Book values 31.12.1998
B. Intangible assets:					
Other intangible assets	17 508	2 118	2 052	5 483	12 091
C. I. Land and buildings, rights to land and buildings, leasehold	90 706	22 422	–	5 057	108 071
C. II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies	283 143	80 000	2 379	–	360 764
2. Participating interests	12 538	–	–	–	12 538
3. Total C.II.	295 681	80 000	2 379	–	373 302
C. III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities	978 059	299 065	95 266	9 237	1 172 621
2. Bearer debt securities and other fixed-income securities	2 144 231	446 259	802 665	4 678	1 783 147
3. Mortgages and loans secured on land and buildings	5 536	114	984	–	4 666
4. Other loans					
a) Registered debt securities	413 116	66 093	6 235	–	472 974
b) Debentures and loans	344 549	20 000	76 400	2 600	285 549
c) Sundry loans	45 000	5 000	5 000	–	45 000
5. Deposits with banks	93 065	34 285	–	–	127 350
6. Other	10	–	–	–	10
7. Total C.III.	4 023 566	870 816	986 550	16 515	3 891 317
Sum total	4 427 461	975 356	990 981	27 055	4 384 781

Land and buildings and rights to land and buildings

As at 31.12.1998 the company owned two developed sites in Bad Cannstatt and Bielefeld as well as one developed site in Leipzig, in respect of which there was special depreciation in accordance with § 4 of the Federal Assisted Areas Act (FördG) amounting to DM 13 thousand. The company also owned shares worth DM 44,325 thousand in developed sites in Düsseldorf, Frankfurt and Stuttgart.

Shares in affiliated companies

Name and registered office of the company *Figures in currency units of 1 000*	*Participation (in %)*	*Capital and reserves (§266 (3) of the Commercial Code)*	*Result for the last financial year*
Companies resident in Germany			
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG Grundstücksgesellschaft, Hannover, Germany	45.00	DM 62 799	DM -968
Companies resident abroad			
E+S Reinsurance (Ireland) Ltd., Dublin, Ireland	100.00	DM 322 111	DM 27 610
holds 33.33 % of shares in:			
Hannover Re Advanced Solutions Ltd., Dublin, Ireland		DM 1 075	DM 943
Hannover Life Re of Australasia Ltd, Sydney, Australia	50.00	AUD 128 961	AUD 11 881
Hannover Re Services Italy Srl, Milan, Italy	1.00	ITL 21 888	ITL –

Other notes on investments

In accordance with § 280 (2) of the Commercial Code (HGB), increased valuations of DM 26,584 thousand were omitted in the 1998 financial year.

Assets with a balance sheet value of DM 207,828 thousand (DM 246,395 thousand) have been blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Current values pursuant to § 54 RechVersV

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

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

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

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

Other investments were valued at nominal values.

Current values pursuant to § 54 RechVersV of asset items C.I to C.III. for the 1998 financial year Figures in DM thousand	*Book values 31.12.1997*	*Current values 31.12.1998*	*Difference 31.12.1998*
C.I. Land and buildings, rights to land and buildings, leasehold	108 071	157 170	49 099
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	360 764	392 508	31 744
2. Participating interests	12 538	29 893	17 355
3. Total C.II.	373 302	422 401	49 099
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	1 172 621	1 470 336	297 715
2. Bearer debt securities and other fixed-income securities	1 783 147	1 934 892	151 745
3. Mortgages and loans secured on land and buildings	4 666	4 666	–
4. Other loans			
a) Registered debt securities	472 974	521 413	48 439
b) Debentures and loans	285 549	312 208	26 659
c) Sundry loans	45 000	50 617	5 617
5. Deposits with banks	127 350	127 350	–
6. Other investments	10	10	–
7. Total C.III.	3 891 317	4 421 492	530 175
Sum total	4 372 690	5 001 063	628 373

Other receivables

Figures in DM thousand	*1998*	*1997*
Receivables from affiliated companies	21 063	16 500
Receivables from the revenue authorities	2 862	3 094
Interest and rent due	1 352	2 121
Receivables from investment deposits	742	214
Receivables from outgoing invoices	35	–
Receivables from derivative financial instruments	–	1 307
Other receivables	10	41
Total	26 064	23 277

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to DM 1,388 thousand.

Notes on liabilities

Subscribed capital

The subscribed capital consists of 44,064 registered shares in nominal value of DM 1,100.–. A total of 61.01 % = DM 29,570 thousand is paid up at differing percentages for each individual group of shares.

Surplus debenture (Genußrechtskapital)

The surplus debenture issued in 1993 amounting to DM 80,000 thousand has a term of 10 years. The interest is 7.75 %.

Provision for unearned premiums

Insurance class	*1998*		*1997*	
Figures in DM thousand	*gross*	*net*	*gross*	*net*
Fire	29 321	25 390	35 886	31 354
Liability	40 409	35 392	35 017	30 135
Personal accident	9 754	9 202	9 987	9 538
Motor	20 235	15 068	19 833	11 581
Aviation	13 359	12 715	6 006	5 580
Life	42 628	25 825	38 200	27 423
Other classes	54 024	39 897	57 492	44 211
Total	209 730	163 489	202 421	159 822

Life insurance provisions

Insurance class	*1998*		*1997*	
Figures in DM thousand	*gross*	*net*	*gross*	*net*
Life	898 210	499 739	825 722	422 036
Other classes	–	–	8	8
Total	898 210	499 739	825 730	422 044

Provisions for outstanding claims

Insurance class *Figures in DM thousand*	*1998* *gross*	*net*	*1997* *gross*	*net*
Provision for reimbursements and surrenders (except annuities)				
Fire	155 388	118 163	126 754	109 283
Liability	1 515 565	1 171 090	1 398 496	1 167 897
Personal accident	90 262	81 109	82 522	76 538
Motor	2 262 979	1 623 558	1 928 225	1 467 397
Aviation	100 822	81 483	73 492	62 030
Marine	115 612	95 200	94 575	87 258
Life	105 094	94 938	34 507	32 588
Other classes	341 057	231 047	273 385	208 259
	4 686 779	3 496 588	4 011 956	3 211 250
Provision for annuities				
Liabilitiy	2 636	2 595	2 199	2 157
Personal accident	3 157	2 513	2 135	2 056
Motor	49 452	41 966	46 302	40 133
	55 245	47 074	50 636	44 346
Total	4 742 024	3 543 662	4 062 592	3 255 596

Fluctuation reserve and similar provision

Insurance class *Figures in DM thousand*	*Position at 1.1.1998*	*Addition*	*Withdrawal and release*	*Position at 31.12.1998*
Fluctuation reserve				
Fire	109 709	426	7 304	102 831
Liability	–	29 553	–	29 553
Personal accident	5 169	8 830	–	13 999
Motor	37 034	20 771	–	57 805
Aviation	60 338	9 246	15 673	53 911
Marine	38 380	6 387	5 497	39 270
Other classes	149 519	39 416	3 533	185 402
	400 149	114 629	32 007	482 771
Provisions which are similar to the fluctuation reserve – major risks –				
Liability	6 124	317	–	6 441
Other classes	12 000	–	–	12 000
Total	418 273	114 946	32 007	501 212

Other technical provisions

Type of provision Figures in DM thousand	1998 gross	1998 net	1997 gross	1997 net
Profit commission	63 832	53 919	57 497	51 549
Commissions	14 187	14 181	14 672	14 181
Premium cancellation	3 210	2 689	5 313	4 075
Lay-up provision	92	92	200	134
Road traffic accident victim assistance	12	5	113	113
Total	81 333	70 886	77 795	70 052

Technical provisions – total

Insurance class Figures in DM thousand	1998 gross	1998 net	1997 gross	1997 net
Fire	290 754	248 591	275 111	251 580
Liability	1 611 891	1 262 222	1 462 950	1 228 073
Personal accident	117 428	106 997	100 283	93 898
Motor	2 424 976	1 771 864	2 061 957	1 584 834
Aviation	169 809	147 844	141 426	128 144
Marine	155 223	134 801	133 464	126 704
Life	1 047 306	621 560	899 656	483 274
Other classes	616 649	486 600	514 250	430 922
Total	6 434 036	4 780 479	5 589 097	4 327 429

Provisions for other risks and charges

Figures in DM thousand	*1998*	*1997*
Provisions for pensions and similar liabilities	17 634	15 789
Provisions for taxation	45 128	30 283
Sundry provisions		
Provisions for currency risks	13 630	11 055
Provisions for interest	13 200	13 200
Provisions for outstanding payments	3 572	3 573
Provisions for annual accounts costs	922	756
Provisions for litigation risks	750	750
Provisions for option business	–	2 742
Provisions for forward exchange business	–	1 531
Other provisions	538	361
	32 612	33 968
Total	95 374	80 040

Miscellaneous liabilities

Figures in DM thousand	*1998*	*1997*
Liabilities in respect of affiliated companies	25 268	3 526
Liabilities from interest on surplus debenture	6 200	6 200
Liabilities from outstanding social security contributions	416	391
Liabilities from land and buildings	287	71
Liabilities in respect of the revenue authorities	248	526
Liabilities from deliveries and services	97	125
Liabilities from leases	35	102
Liabilities from overpayments	–	682
Other liabilities	9	55
Total	32 560	11 678

Deferred items

Figures in DM thousand	*1998*	*1997*
Disagio	8 480	9 734
Other accruals and deferred income	598	594
Total	9 078	10 328

Contingent liabilities

There are no contingent liabilities which are not shown in the annual balance sheet or liabilities arising from the issue of bills or cheques.

Notes on the profit and loss account

	Gross premiums written		*Gross premiums earned*		*Net premiums earned*		*Technical result for own account*	
Figures in DM thousand	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*
Fire	168 124	194 942	173 508	191 971	133 123	150 329	218	-585
Liability	273 613	264 645	266 861	265 735	153 253	164 413	-17 227	-13 606
Personal accident	77 121	73 400	77 213	72 434	61 402	63 563	-2 661	-1 478
Motor	817 915	893 614	817 048	886 574	459 309	492 720	-112 765	-77 832
Aviation	75 072	72 954	67 335	74 059	51 797	54 613	12 215	-6 923
Marine	82 032	68 204	82 032	68 204	52 496	55 885	-5 612	-9 404
Other insurance classes	390 972	397 602	393 256	390 287	276 981	285 621	-36 143	-3 740
Total property and casualty insurance	1 884 849	1 965 361	1 877 253	1 949 264	1 188 361	1 267 144	-161 975	-113 568
Life	385 153	317 547	378 933	307 239	257 764	214 346	-13 104	-46 581
Total insurance business	2 270 002	2 282 908	2 256 186	2 256 503	1 446 125	1 481 490	-175 079	-160 149

Total insurance business

Figures in DM thousand	*1998*	*1997*
Gross claims incurred	1 702 968	1 657 104
Gross operating expenses	631 551	584 288
Reinsurance balance	-65 232	38 385

Expenses for personnel

Figures in DM thousand	*1998*	*1997*
1. Wages and salaries	18 549	17 164
2. Social security payments and expenses for welfare	3 441	3 005
3. Expenses for old-age pension scheme	1 935	1 750
4. Total expenses	23 925	21 919

Expenses for investments

Figures in DM thousand	*1998*	*1997*
Shares, units in unit trusts	12 235	6 069
Derivative financial instruments	7 693	5 919
Land and buildings	6 205	6 212
Administrative expenses	5 928	5 354
Fixed-income securities	5 249	4 876
Debentures and loans	2 600	1 000
Deposit and bank fees	623	731
Deposits	534	–
Total	41 067	30 161

Other income

Figures in DM thousand	*1998*	*1997*
Exchange rate gains	6 273	3 331
Amounts realized	1 579	–
Cancellation of value adjustments	796	–
Allocated investment return	371	1 710
Profit from services	352	877
Release of non-technical provisions	299	1 269
Other income	650	771
Total	10 320	7 958

Other expenses

Figures in DM thousand	1998	1997
Special allocations to the provisions for outstanding claims	63 861	73 230
Deposit interest	11 840	12 604
Exchange rate losses	6 416	4 820
Interest charges on surplus debenture (Genußrechtskapital)	6 200	6 200
Expenses for the whole company	6 049	4 557
Separate value adjustment on accounting debts	2 296	485
Financing interest	1 313	314
Interest charges on portfolio acquisitions	1 257	1 857
Interest charges on reinsurance operations	1 111	624
Interest charges on old-age pension scheme	933	848
Expenses for letters of credit	773	1 543
Expenses from services	320	911
Allocation to interest provisions	–	2 400
Other interest and expenses	216	166
	102 585	110 559
Less: Technical interest	7 797	7 817
Total	94 788	102 742

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on page 1.

The total emoluments paid to the Supervisory Board in the year under review totalled DM 289 thousand, those to the Advisory Board DM 131 thousand, those to the Executive Board DM 1,399 thousand and those to former members of the Executive Board DM 615 thousand. The amount of DM 6,929 thousand was shown on the liabilities side for current pensions of former members of the Executive Board.

The following mortgage loans have been granted to board members:

Figures in DM thousand	Position at 1.1.1998	Amortisation	Position at 31.12.1998	Interest rate %
Executive Board	242	106	136	5.5

The loans end in 2016.

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

The average number of employees was 193 in the financial year.

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

Hannover, 20th May 1999

Executive Board

Zeller Schubach Dr. Becke

Gräber Haas Dr. Hecker Dr. Steiner

Certification by the Independent Auditors

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

Hannover, 21st May 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

We supervised the management of the company regularly during 1998 on the basis of written and verbal reports from the Executive Board, and we made the decisions necessary at two meetings. Insofar as they did not apply solely to companies listed on the stock exchange, the provisions which came into force on 1 May 1998 as part of the Law on Control and Transparency in Business (KonTraG) were taken into account. The audit mandate for the 1998 annual accounts was awarded by the Supervisory Board. As in the previous years, the audit report was distributed to all members of the Supervisory Board, and the auditor participated in the meeting the Supervisory Board held to discuss the annual accounts. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries and participating interests was also included in our consultations.

As part of the implementation of important individual projects, we considered the acquisition of a 20 % share in the Lion/Clarendon Insurance Group, New York. This acquisition was effected jointly with the company's major shareholder, Hannover Re, which is to assume a share of 80 %. The primary objective of this acquisition is to acquire a fourth strategic segment in the form of Clarendon's highly successful program business, thereby enabling us to become more independent of market cycles, to further diversify our risk potential and thus to enhance the stability of our results.

The Supervisory Board gave its consent to the transfer of a 3.8 % holding in the company's share capital from Hannover Re to Württembergische Gemeinde-Versicherung a.G., Stuttgart. Mr. Dieter Holl was appointed to the company's Advisory Board as a representative of the new shareholder.

As a consequence of the strong growth recorded by our Irish subsidiary, we consented to the implementation of a capital increase at this company in order to enhance its competitiveness and solvency.

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

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

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

1. its factual details are correct,

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

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

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

Nor have we any objection to the Executive Board's overall report; we agree to the 1998 annual accounts, which are hereby duly confirmed.

With effect from 1 October 1998, Dr. Detlef Steiner was appointed as a member of the company's Executive Board. Dr. Steiner bears regional responsibility for North America and is also responsible for Facultative Reinsurance and the Claims Service.

Hannover, 14 June 1999

For the Supervisory Board

Baumgartl
Chairman

Glossary

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

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

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

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

Block Assumption Transactions (BAT): quota share reinsurance treaties on our clients' life or health insurance business, by means of which it is possible, inter alia, for our clients to realize in advance the future profits inherent in the portfolio so as to be able to efficiently ensure the attainment of corporate objectives, e.g. in the areas of financial or solvency policy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

Program business: A speciality of the US insurance market written by insurers working in very close cooperation with reinsurers and highly specialized managing general agents. The segment is typically focused on niche and non-standard coverages and hard-to-place risks.

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

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

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

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

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

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

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

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

Retro: cf. → Gross / Retro / Net

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

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

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