Annual REPORT 1999

e+s rück

CONTENTS

KEY FIGURES *of E+S Rück*

Figures in EUR million	1999	+/- previous year	1998	1997
Gross written premiums	1 272.3	+9.6%	1 160.6	1 167.2
Net premiums earned	727.0	-1.7%	739.4	757.5
Technical result	-57.5	-22.1%	-47.1	-44.9
Allocation to the equalisation reserve and similar provisions	19.5	-54.0%	42.4	37.0
Investment result	160.1	+0.3%	159.6	153.9
Profit or loss on ordinary activities before tax	16.5	+47.3%	11.2	12.7
Profit or loss for the financial year	9.8	–	–	8.4
Investments	3 074.2	+10.4%	2 784.7	2 788.8
Capital and reserves incl. surplus debenture (Genussrechtskapital)	161.2	–	161.2	161.2
Equalisation reserve and similar provisions	275.8	+7.6%	256.3	213.9
Net technical provisions	2 372.1	+8.4%	2 187.9	1 998.7
Total capital, reserves and technical provisions	2 809.1	+7.8%	2 605.4	2 373.8
Number of employees	207	+6	201	190
Retention	56.9%		64.2%	64.8%
Loss ratio*	83.1%		77.2%	76.0%
Expense ratio*	25.1%		29.1%	27.2%
Combined loss/expense ratio*	108.2%		106.3%	103.2%

*excluding life reinsurance

Dear clients and shareholders of E+S Rück,

For the German insurance market, 1999 was a year characterised by difficult market conditions and a clear trend towards client-specific reinsurance solutions. For our company, in its role of "reinsurer for Germany", this meant that we were compelled more than ever before to prove our expertise and power of innovation. Our success in achieving this goal is reflected not least in the pleasing business result. This year we shall be able to distribute a record dividend to our shareholders.

Overall, we increased our gross premium income by approximately 10% to EUR 1.3 billion in the year under review. This growth derived largely from the consistent, strategically planned expansion of our life and health reinsurance portfolio. The proportion of cyclical, volatile property and casualty reinsurance in our total portfolio consequently decreased. We continued to adhere to our strictly profit-oriented underwriting policy in this market segment and we declined to be tempted by considerations of premium volume. The selective underwriting approach necessary in this regard again protected us in the year under review against avoidable losses and safeguarded our favourable result. Despite this, our technical result – in common with all professional reinsurers – was heavily affected by the windstorm events "Anatol" and "Lothar". The positioning of our company within the Hannover Re Group exerted a stabilising effect on profits. As part of the fifth-largest professional reinsurer in the world, we bear exclusive responsibility within the Group for the German market. In order to ensure the most comprehensive possible risk spreading within our portfolio, however, E+S Rück and Hannover Re participate in each other's business segments by way of reciprocal retrocessions.

In addition to the challenges described above, the year under review confronted us with numerous other tasks, the successful accomplishment of which imposed financial strains and necessitated considerable effort on the part of all our employees. At this juncture it may suffice to mention just two significant events: the changeover to the euro as our new reporting currency and the arrival of the new millennium. Our task was to ensure a smooth transition to the year 2000 – both as regards the risks which we reinsured and our own internal data processing. Last but not least, we concentrated on enhancing the quality management process which we had initiated two years earlier.

We have always set great store by continuity and reliability in our business relationships. This will continue to be one of the overriding maxims on which our business policy is founded. With a view to preserving continuity at the management level too, Dr. Michael Pickel was appointed as a deputy member of the Executive Board in good time prior to the departure of Udo Schubach at the end of 2000; Dr. Pickel will bear responsibility for the German market. Mr. Schubach has made an impressive contribution to the company's expansion over a period of 40 years. By way of this smooth transition our aim is to ensure that our clients in Germany continue to enjoy the quality of service to which they are accustomed.

We wish to reflect our orientation as a reinsurer geared exclusively to the German market in this year's annual report. With our first report of the new millennium we would like to highlight some fresh perspectives and provide you – our clients and shareholders – not only with remarks on our business figures but also with information on issues which dominate the German insurance market; after all, speaking from the perspective of a reinsurer, we would like to bring out the added value that our company can offer you.

Just one final point: as you are doubtless aware, Hannover is host this year to the EXPO 2000 world exposition. We would of course be delighted to welcome you to our offices during a visit to the exposition.

Yours sincerely,

Wilhelm Zeller

Udo Schubach

Dr. Wolf Becke

Dr. Michael Pickel

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*

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.

Ass. jur. Tilman Hess, Hannover*

Rolf-Peter Hoenen, Coburg,
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HUK-Coburg Versicherungsgruppe

Dr. Ing. Manfred Mücke, Hamburg,
Chairman of the Executive Boards of
KRAVAG-SACH Versicherung des Deutschen Kraftverkehrs VaG,
KRAVAG-LEBEN Versicherungs-Aktiengesellschaft,
KRAVAG-HOLDING Aktiengesellschaft

Anita Suing-Hoping, Godshorn*

**Staff representative*

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President of the
ITAS Istituto Trentino-Alto Adige per Assicurazioni

Wolfgang Bitter, Itzehoe,
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Itzehoer Versicherungsverein –
Brandgilde von 1691 VvaG

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General Director and Chairman of the
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Dr. Erwin Möller, Hannover,
Member of the Executive Board of HDI Haftpflicht-verband 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

Jürgen Gräber, Ronnenberg

Herbert K. Haas, Burgwedel

Dr. Andreas-Peter Hecker, Hannover

Dr. Detlef Steiner, Hannover

Dr. Michael Pickel, Cologne, Deputy Member (from 1.1.2000)

E+S RÜCK: *The reinsurer for Germany*

Who are we?

E+S Rück can look back on a history spanning more than 75 years. Constant features of our tradition are change and our focus on the German insurance industry.

Capital, reserves and technical provisions Figures in EUR million	*1999*
Subscribed capital and reserves	120.3
Surplus debenture (Genussrechtskapital)	40.9
Equalisation reserve and similar provisions	275.8
Technical provisions	2 372.1
Total capital, reserves and technical provisions	2 809.1

Since 1966 our shareholders have included not only Hannover Re, our majority shareholder, but also several renowned German insurance companies.

Within the Hannover Re Group, we assumed the role of exclusive reinsurer for the German market with effect from 1 January 1997.

Our total capital, reserves and technical provisions amounted to EUR 2.8 billion as at 31 December 1999.

The US rating agencies Standard & Poor's and A.M. Best awarded our company their second-highest ratings of AA+ ("Very Strong") and A+ ("Superior") respectively.

E+S Rück: The reinsurer for Germany

The German insurance market has always been an entirely independent market, whose regulatory framework and standard business practices differ significantly from the insurance industries of other countries – both within and outside Europe.

Motor business is especially influential on the German property and casualty segment. Following its deregulation in Germany, this line of insurance quickly evolved from a stabilising factor to a problematic class of business. Particularly intimate familiarity with the local market circumstances is absolutely essential in order to cope with the issues associated with restoring the market to a sound footing.

Experts assume that the German insurance market, which has long been sealed off and heavily regulated, is now facing a series of consolidation activities. Further mergers and acquisitions can be envisaged, and in this regard reinsurers – who are familiar with the market-specific features – can frequently be of assistance.

Against this general backdrop, E+S Rück has positioned itself as a specialist reinsurer focusing on Germany. Not least due to the relationships with our shareholders, we are closely familiar with the needs of German insurers. We have developed special expertise on the basis of this long-standing cooperation. Through our integration into the Hannover Re Group, we are also equipped with the necessary know-how from the international markets.

What can you expect from us?

Our strength lies in our ability to develop reinsurance concepts individually and undogmatically on a partnership basis with our clients in all classes of property/casualty and life/health insurance.

In the area of our core expertise we provide our clients with optimal assistance. We offer them bespoke products tailored according to their requirements, and we support them in handling (major) claims – especially with regard to more complex scenarios, such as the settlement of bodily injury claims.

Working together with our clients, we examine the possibilities for risk management with the aid of our tried and tested simulation models. Where necessary, we can supplement the concepts of traditional reinsurance business with expedient non-traditional solutions.

The events which we organise for clients constitute a firmly established component of our range of services. By means of the Hannover Forum and through the setting up of "round tables" focusing on special problems of the day, we have created a platform for the exchange of ideas between experts and practitioners. In this context, we also secure the participation of university departments so as to give equal consideration to theory and practice.

Dietrich Gersky, Karsten Faber

We have set ourselves ambitious goals to serve you

By aligning E+S Rück as a specialist reinsurer for the German market we sent out a clear signal in 1997: the German market is our sole sphere of operations. It is here that we intend to develop individual solutions with our clients, proceeding undogmatically and guided purely by sound commercial sense.

Not only do we offer reinsurance protection, we can also – if requested – stand by our clients' side as a consultant. In this role, we strive to bring to bear our expertise and detailed knowledge of the German market even more effectively as an added value and competitive advantage.

A vital component of this strategy is our goal of becoming the quality leader in German reinsurance business. In order to consistently implement this strategy, we are working to systematically improve our quality and enhance our internal quality management system. What this means is that we have made our clients the focal point of our activities – not only through words but also by way of our strategic orientation. We are confident that in this way we shall be able to identify our clients' needs and problems and contribute to their solution on a more sustained basis.

Answers to current questions in the insurance industry

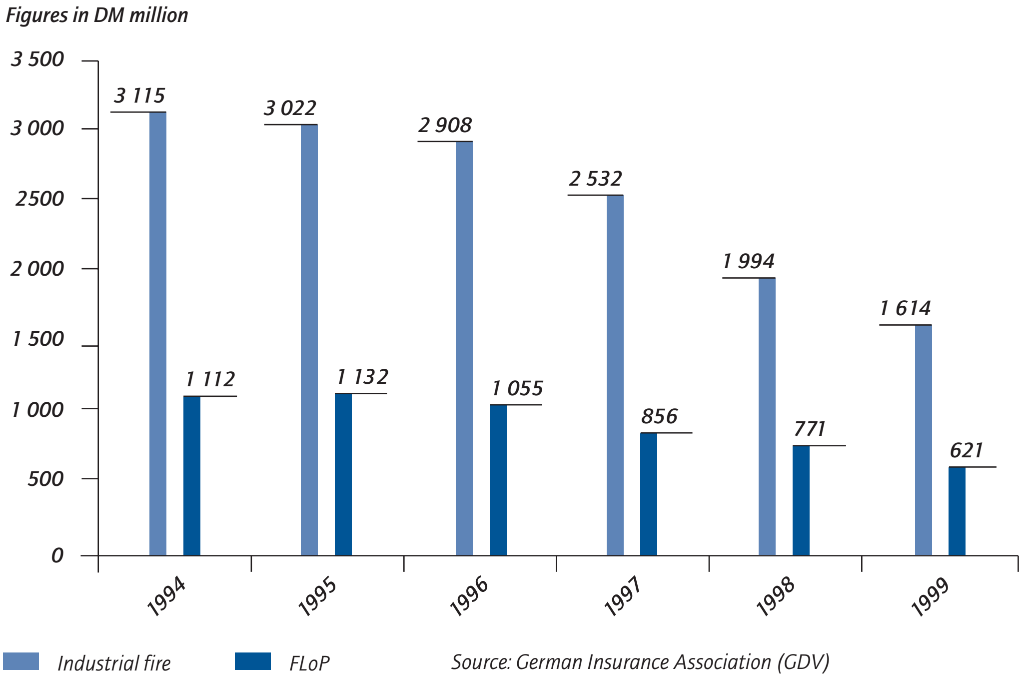
We offer our clients reinsurance in all classes of business as well as individually structured financial reinsurance and the securitisation of insurance risks. In the following sections we would like to discuss some of the problematic issues facing the German insurance industry which we consider to be particularly important at the present time.

Industrial fire insurance – a market segment under pressure

Industrial fire and fire loss of profits (FLoP) insurance rank among the most highly (re-)insured classes in the German (re-)insurance market. They are therefore of particular significance to our company. E+S Rück has always felt a special affinity with industrial fire business. We are currently observing in German fire business the interaction of all the negative forces which together constitute a so-called disadvantageous "soft" market: a reduction in premium income combined with an erosion of terms and conditions, which in turn goes hand-in-hand with a deterioration in the claims situation. Given this very difficult state of the market, we therefore wish to play our part in maintaining the reinsurability of this insurance class. Nevertheless, the urgently needed rehabilitation of industrial fire business can only succeed if all market players recognise that the current prices and conditions can no longer be tolerated and that at the very latest in the medium term an appreciable upward trend must be initiated.

Let us first consider briefly the premium situation: in this respect, both industrial fire and fire loss of profits have been in a constant decline since 1995. In 1999 the level of price competition – which can only be described as ruinous – caused premium income to fall to DM 2.2 billion; this figure is a little more than 50% of the premium volume in 1995. Some of this premium decline can doubtless be explained on technical grounds due to the growing introduction of agreements on deductibles and the rebooking of certain subclasses to other areas of property insurance. Yet a not insignificant amount derived from the general erosion of premiums. We have thus reached a market situation in which only small-to-medium-sized fire claims can be financed; it is, however, no longer possible to offset major losses, even over a longer period of time. This state of affairs cannot be in our clients' interests, since it will inevitably lead to a higher cost burden on the reinsurance side than can be collected through original premiums.

Premium development in industrial fire and fire loss of profits insurance 1994 – 1999



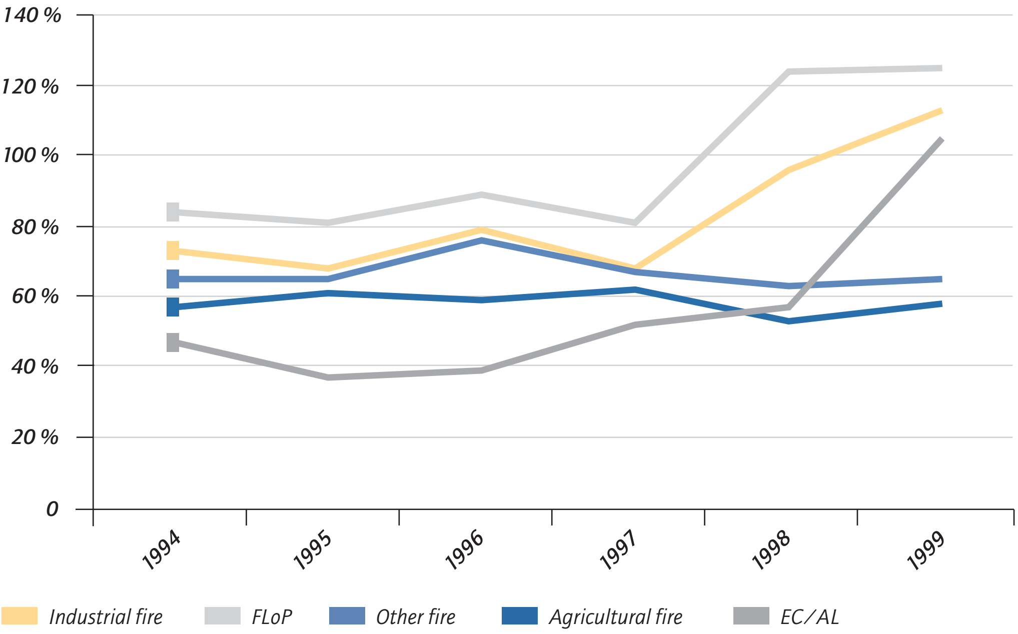
Source: German Insurance Association (GDV)
(1999 figures based on own estimate)

As far as terms and conditions are concerned, here too a negative development is apparent. A trend towards coverage extensions can be very clearly discerned, with the result that traditional covers based on the General Terms and Conditions of Fire Insurance (AFB) are becoming increasingly rare. In addition to the protection granted for property risks under extended coverage, there is a growing trend to include elements of engineering insurance and electronic equipment insurance without any additional premium.

Furthermore, recent years have witnessed a steadily rising demand for so-called multiline/multiyear products – especially from major corporations but also to some extent among small-to-medium-sized enterprises. In this context, the desire for greater flexibility, on the one hand, and the attempt to cover "non-traditional" risks, on the other, are playing a crucial role. While fully recognising the desire among industrial and commercial policyholders for comprehensive balance sheet protection, we view this development with a concerned and sceptical eye. The primary reason for this is that the trend towards blanket insurance protection is frequently accompanied by inadequate underwriting. At the latest in the event of a claim occurring, a lack of transparency not only for the insurer but also for the policyholder often gives rise to contradictory opinions on the scope of covers. The combination of so-called long-tail and short-tail classes constitutes a special problem in this connection. As we see it, acceptable insurance protection is only possible if adequate allowance is made for the IBNR component of the liability sectors when determining deductible and liability limits.

Loss experience in the fire classes in the period 1994 – 1999

As % of written gross premium



Source: German Insurance Association (GDV)
(1999 figures based on own estimate)

This tense situation as regards both premiums and conditions is further exacerbated by constantly rising claims payments. In recent years the loss burden from the so-called "million-mark losses" has stabilised at a very high level. An analysis of the losses points particularly to operations in the wood, synthetics and paper industries – types of business which for decades have been regarded as extremely problematic. The volume of major claims from these areas was especially striking in 1998. With a total loss burden in excess of half a billion euros, these types of operations played a decisive role in the unfavourable business development.

Christian Lefebvre, Dr. Matthias Hirschfeld, Ulrich Wallin

In such an environment, it goes without saying that – in our function as a reinsurer – we do not make capacity available for concepts which are imbalanced and which do not, at least in the medium term, hold the promise of a profit. Nevertheless, our goal with E+S Rück as a specialist reinsurer for the German market must be to search for solutions with and for our clients, by means of which we can continue to support them in treaty reinsurance. One example which may be mentioned here is our surplus treaty with a deductible. In addition, we offer our clients a broad range of services, including a portfolio analysis for the optimal structuring of their reinsurance protection which takes into account their individual balance sheet possibilities.

In facultative reinsurance business we have been building up our expertise in the coverage of individual risks for a number of years. We also support international policies for major risks held by members of the German business community. We make this conceptual expertise available to our cedants, coupled with individual service and extensive capacity based on our integration into the fifth-largest professional reinsurance group in the world.

We are closely monitoring the development of new coverage concepts in primary insurance and we see opportunities to support our clients, especially in the field of claims prevention. Our affiliate, HST HANNOVER Sicherheitstechnik GmbH (HST), is a cornerstone of this strategy. This cooperation enables us to offer the industrial and commercial clients among our cedants comprehensive service in the area of safety management.

We believe that this assistance will be of considerable importance in the future. As the potential sources of risk increase, so does a company's safety requirement. There is a growing awareness that the equalisation of financial losses by insurers is not in itself sufficient to safeguard a company's existence. Rather, it is in a company's own interest to reduce its risk exposure and restrict the possible consequences of damage to a tolerable level by implementing targeted safety measures. In addition to these monetary aspects, the possible harm to a company's reputation which catastrophic losses often entail is a factor which cannot be underestimated and which also highlights the urgent need for active risk management.

Thanks to our cooperation with HST, we can call upon more than 70 engineers from various specialist backgrounds who help our clients to assess the risks and initiate the necessary measures relating to risk minimisation, early fire detection, fire-fighting and fire protection.

By means of the aforementioned activities and services, we hope that we can offer our clients effective support in the currently unfavourable environment of industrial fire business and at least play our part in ensuring the continued (re-)insurability of this segment.

The weather – a threat to a company's very survival

In 1999 the storm "Anatol" swept across Germany on 4 and 5 December. Scarcely three weeks later this was followed by the more serious hurricane "Lothar". The Federal State of Baden-Württemberg was most heavily hit – especially the Rhine Valley. In Germany alone the insured property damage was well in excess of EUR 0.5 billion. Very severe damage was inflicted on infrastructure and forests.

The last decade thus culminated in just as stormy a fashion as it had begun. In 1990, Northwest Europe suffered eight hurricanes just in the period between the end of January and early March. In 1999 "Lothar" surpassed this series of storms to set new record figures: weather stations recorded wind speeds in our latitudes at times in excess of 180 km/h. Experts believe that an even more unfavourable weather scenario could produce wind speeds of more than 300 km/h.

In the light of these insights, risk management at insurance companies – particularly against the backdrop of the Law on Control and Transparency in Business (KonTraG) – will be even more complex in the new millennium. For the first time, the KonTraG imposes a legal obligation on companies to accurately analyse all risks which threaten a company's existence and to take appropriate precautions. The weather is of central importance here, since its repercussions can decisively impact a company's success.

Eberhard Müller

Are natural events such as "Lothar" and their resulting loss amounts foreseeable?

A retrospective review of these windstorm events has caused a number of insurance companies to realise that their reinsurance covers were inadequate. The reasons for this were manifold: on the one hand, the fact that some market players basically last examined the windstorm exposure of their portfolio in 1990 was undoubtedly a factor. In addition, the increase in population and insurance densities as well as the rise in the concentration of values, deregulation and the accompanying intensification in competition over prices and products have all brought about significant changes in insurers' natural catastrophe exposure since 1990.

For this reason, the retrospective assessment of exposure by inflating historical losses and extrapolating the loss expectancy on the basis of a portfolio's premium growth has increasingly tended to be an inappropriate means for determining reinsurance requirements and arriving at an objective premium calculation. The monitoring of geographical shifts within a portfolio, which is indispensable in natural hazards business, coupled with the effects of possible, but not yet occurred extreme events can scarcely be adequately approximated using "traditional" methods.

Meteorology and geophysics are already providing the scientific insights needed for the prospective calculation of the annual loss ex-

Volker Döring, Wolfgang Mergard

pectancy and possible maximum losses which a portfolio may incur from natural hazards such as storms and earthquakes.

In recent years E+S Rück has consistently expanded its expertise in estimating the maximum loss amount deriving from windstorm risks. Through our cost-efficient use of scientifically grounded natural catastrophe simulation models, we are able to estimate the exposure of our clients' portfolios, calculate the annual loss expectancies and simulate the effects of worst-case scenarios. This enables us to develop and offer specially tailored reinsurance solutions to fit the individual requirements of each insurer.

We shall make this service more widely available to our clients during the impending restructuring of their windstorm covers as part of the forthcoming treaty renewals. Our goal is to ensure that our clients purchase their reinsurance protection first and foremost in those areas where a significant potential hazard exists for their portfolio. It goes without saying that our analysis also includes an estimation of the maximum possible retention that our clients can carry without jeopardising their survival of their company.

The weather can be crucial to a company's success

In addition to the aforementioned protection of insurance portfolios against windstorm risks, various different types of weather risks affect numerous other business sectors. To give just two examples, a milder-than-expected winter can reduce utility companies' earnings, while a rainy summer can have a devastating impact on the sales of drinks manufacturers.

In 1999 E+S Rück expanded its expertise in the field of natural hazards and developed a special model for pricing weather derivatives. Such weather derivatives hedge against the risk of unfavourable weather conditions for all types of commercial enterprise. Initially designed for the US market, this model is currently being extended to European countries due to the anticipated potential of the "weather market". It is based upon the databases of relevant weather stations and combines statistical methods with the latest meteorological insights and weather trends.

With the development of this model, we are preparing for the anticipated growth in this segment and we are enhancing our expertise as the basis for a high-quality consulting service to be offered to our insurance clients.

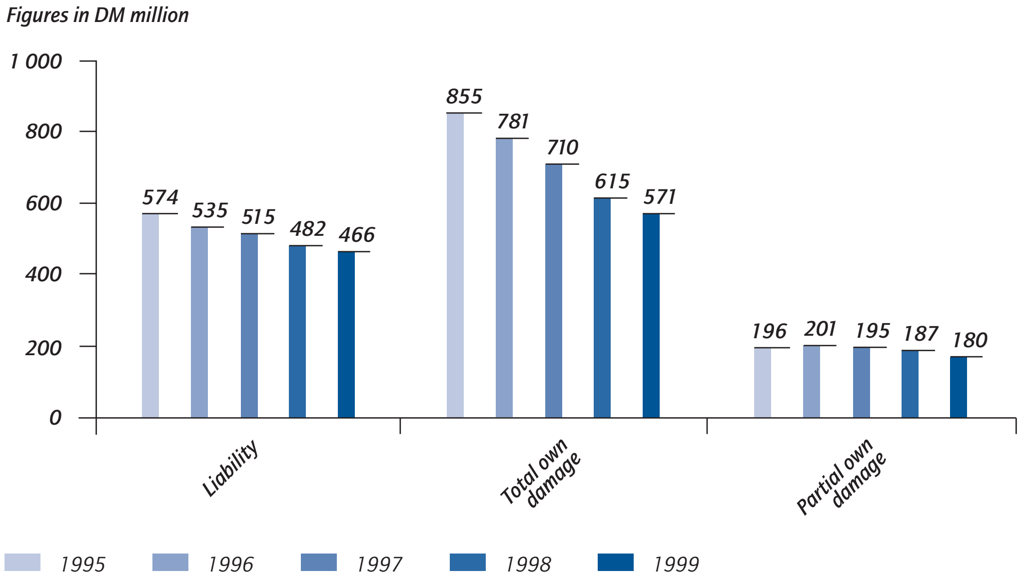
Motor insurance in Germany – a difficult field for reinsurers too

Measured in terms of premium volume, motor business is still of considerable significance in the German market: with premium income of approximately EUR 20 billion in 1999, the motor class of insurance generated around 42% of total property and casualty business. Whereas in former years motor business used to be praised for its earnings power, it has since been transformed into a problem class within just a few years. In this section we would like first to explain the explosive nature of the current situation before subsequently looking to the future. Our goal is to pinpoint the possibilities and opportunities which exist in this class of insurance and the ways in which we can support our clients.

Martin Wethkamp, Willi Braun, Andreas Kelb

Let us begin with a backward glance. For a long time German motor business was fully regulated by the Federal Supervisory Office for the Insurance Industry. This meant that tariffs had to be designed in accordance with predefined structures and that premium increases could be relatively easily pushed through in step with the market as a whole. This state of affairs changed dramatically following the complete deregulation of the German market in 1994. The liberalisation of the motor insurance market led to an unforeseeable competition, principally in the form of discounts – and often combined with inadequate basic calculations. This development particularly left its mark on the subclasses of motor third party liability and motor total own damage, as is very clearly reflected in the reduction in the average premium.

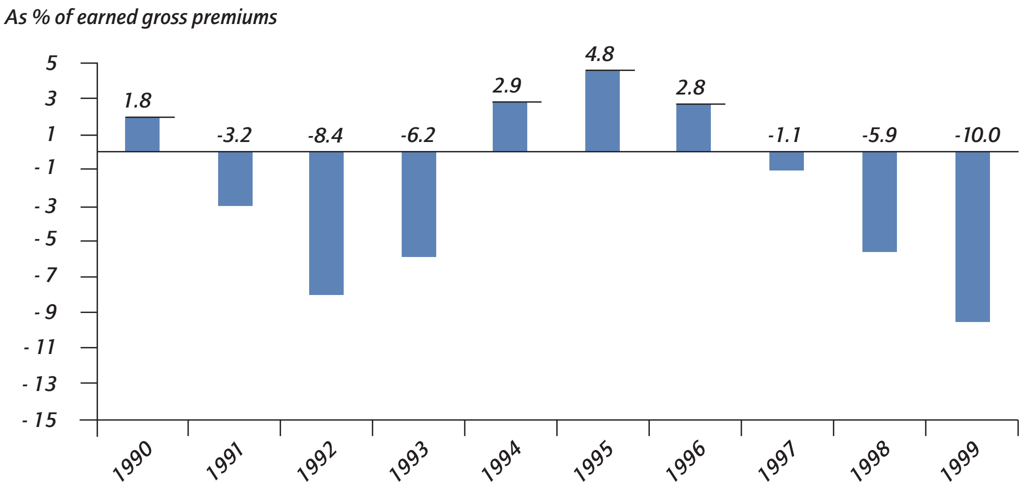
Downward slide in average premiums in motor third party liability, total own damage and partial own damage in the period 1995 – 1999



Source: German Insurance Association (GDV)
(1999 figures based on own estimate)

Against this backdrop a deterioration in technical results was inevitable. The calendar-year results for the last ten years offer an initial insight into the decline in the earnings situation. It is apparent that the results from 1995 onwards – the year in which the effects of market deregulation first began to be felt – showed a marked progressive deterioration. Only the reduction in claims frequency which could be observed until 1998 served to alleviate somewhat the negative trend.

Technical results of total motor business in the 1990 – 1999 calendar years

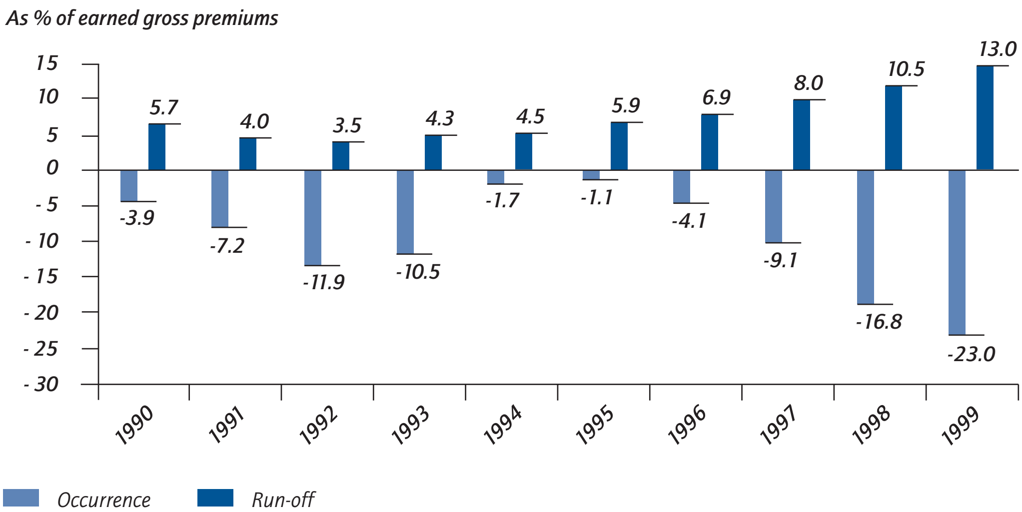


Source: German Insurance Association (GDV)
(1999 figures based on own estimate)

If we solely considered the calendar-year results, however, we could be misled into thinking that there has been no fundamental deterioration in recent years: according to the pure calendar-year analyses, the 1992 calendar year (i.e. still during the regulated market) – at minus 8.4% – produced heavier losses than 1998, which closed with a mere 5.9% deficit.

More crucial to the analysis of the quality of the results is the breakdown of the calendar-year result: one component is the result of the occurrence year (i.e. the balance of the premium income of a financial year minus the marketing and administrative expenses as well as the total expenditure on claims occurring in the said financial year, irrespective of the number of years over which these claims are to be finally settled in the future). The second component is the run-off of the reserves for claims from older occurrence years. Only this approach – which is always adopted from the reinsurance perspective – reveals the true "results quality" of the business written.

Technical results of total motor business in the 1990 – 1999 calendar years
Occurrence-year result vs. run-off result



Source: German Insurance Association (GDV)
(1999 figures based on own estimate)

It thus becomes clear that the years 1998 and 1999 produced considerably heavier losses than the years 1992 and 1993, which in the pure calendar-year analysis (see above) appeared comparable. Furthermore, it is also discernible that the two most recent occurrence years, in particular, have generated truly dramatic losses for German motor insurers as a whole. These deficits are not offset even after allowance has been made for the anticipated run-off profits and non-technical income.

It is also important to make a differentiated analysis according to subclasses: in this case, it is evident that in the wake of deregulation motor third party liability business slipped most sharply into the red. Total own damage business, on the other hand, generated a technical profit as recently as 1998 despite the appreciable reduction in average premiums. Only in the 1999 calendar year did total own damage also move into negative territory, closing with a deficit of EUR 250 million. More gratifying, however, was partial own damage insurance; although it too shows a negative results trend, this business still generated a positive profit contribution in 1999.

E+S Rück drew numerous consequences from these market developments. Our pure reinsurance business is guided by the following principles:

- In proportional treaties, which are largely governed by the principle of following the fortunes of our ceding companies, we have pursed a selective underwriting policy since tariffs were deregulated in 1994. We only accept proportional business if it promises a satisfactory profit for our company, in the role of reinsurer, at least in the medium term. This underwriting policy had protected us against avoidable losses.

Silke Sehm, Henning Ludolphs

- Non-proportional business, under which the reinsurer only assumes the major losses and where the reinsurance premium is basically determined independently of the original premiums, presents fewer problems in the current market situation due to this decoupling of rates. Nevertheless, here too we only participate if the conditions are commensurate with the risk.

In view of the currently difficult market environment, E+S Rück considers its primary task lies in providing its clients with consulting support in the problematic classes of motor business. Let us now review just how and where we can be of assistance to our clients.

In the primary insurance sector the ever-growing use of the Internet will particularly impact the future of marketing channels. This applies primarily to standard products, such as motor business. In the first place we are therefore offering our clients an opportunity to exchange ideas with a view to discussing the implications of this changing situation for their companies. More precisely, what we have in mind here are how an Internet concept can be designed and which measures may help to exploit the opportunities offered by this new medium. This type of counselling can be an especially valuable source of assistance for smaller and medium-sized insurers, some of whom have still to establish an Internet presence.

Yet an effective market presence is merely the basic prerequisite for future competitiveness. Ever-greater importance will be attached to goal-oriented portfolio segmentation. In other words, an insurer must know his customer spread, identify target groups and gear his product range to them in the light of profitability criteria. Of central importance here is the correct structuring of tariffs.

Working in cooperation with our clients, we therefore forecast the repercussions of tariff changes on their portfolio and results situation; where required, we also provide assistance with the development of new products. Nor do we abandon our clients after the consulting phase – if they so wish, we support them during subsequent implementation.

We have set up a high-power team for consulting and implementation tasks relating to product developments and tariffs. It is comprised of staff who not only possess sound training in mathematical and statistical methods but have also acquired the necessary hands-on experience at insurance companies. Where appropriate, we also cooperate systematically with consulting firms which – especially in the motor insurance class – have proven to be reliable experts.

Claims handling constitutes another area covered by our range of services. Not only for our clients but also for our own company, as a reinsurer, bodily injury claims are taking on ever-increasing significance. In this connection we offer our clients comprehensive claims management services in conjunction with the most prompt and realistic assessment possible of individual claims. To this end, we have established a team of specialist physicians within our company who work together with numerous emergency and rehabilitation clinics.

Insurance medicine – turning medical insights to practical use supports claims processing and product development

Constant progress is a hallmark of the world in which we live today. More complex issues necessitate increasingly sophisticated concepts. Whereas specific technical know-how used to be enough in the past, nowadays solutions are needed which bring together expertise from various specialist fields to create an overall concept. This is equally true – perhaps even more so – of the insurance industry. One form of holistic approach is the combination of underwriting know-how with medical expertise. With this goal in mind, some years ago E+S Rück put together a team of highly qualified physicians and liability experts whose task is to take up the issues located at the interfaces of these two fields.

In addition to providing support in the traditional areas of overlap between underwriting and medicine, our primary focus in this regard is on the computer-aided handling of bodily injury claims.

Medical liability insurance

Medical liability insurance is one area of activity in the symbiosis between underwriting and medicine. Claims expenditure in this type of insurance has risen steadily in recent years and indeed decades. This stems, on the one hand, from an increased number of liability claims and, on the other hand, from a rise in the corresponding amounts of compensation.

In order to counter this development, E+S Rück offers its support – especially for the high-risk hospital sector, which generates a large portion of the loss burden – in the form of risk management. By identifying potential hazards and subsequently taking countermeasures, the goal is to reduce the sources of losses. This would not only bring about a decrease in the number of claims at hospitals, but would also decisively ease the strain on our clients, the hospitals' insurers.

During a risk analysis, what normally happens is that our medical experts pay on-the-spot visits to the hospitals or nursing homes and as a first step analyse past claims. Subsequently, as a key focus of the analysis, the current range of services is examined for potential risks. Our experience shows that areas which give rise to risks include the organisation of patient care, e.g. inadequate availability of specialist physicians, as well as the poor documentation of treatment results and case histories. Another area which constitutes a substantial risk potential is insufficient explanation given to patients, which can lead to claims for compensation if, for example, inadequate information is provided about the risks of an operation.

Once the potential sources of risks have been identified, we advise our clients on the elimination or delimitation of the ascertained weak points. Major components of our range of services are, in the first place, the so-called "expert discussions". In this connection, our medical experts again visit the hospitals and discuss concrete measures with the responsible staff for ensuring that medical treatment is governed by guidelines. We also make available our support for the establishment of an event reporting system. The aim here is to log all non-routine events at a hospital and thus to provide both the hospital and insurers at an early stage with information which can facilitate a prompt loss assessment and response. Such a system also constitutes the basis for the solidly grounded analysis of occurred claims.

In addition to the aforementioned measures for improving the claims situation at hospitals, E+S Rück supports its clients with services geared directly to their needs. In this context we offer a new quotation method developed in-house, which no longer places the emphasis on the usual structurally-oriented, bed-based premium. Instead, a process- and results-oriented assessment system is used which incorporates into the pricing the services rendered by the hospital and their proneness to risk. The basis of our offer is an up-to-date insurance policy, which provides for a limitation on the extended reporting period for claims which have occurred but not yet been reported. For this reason, we suggest a limited period of time for notifying claims following expiry of the insurance period.

We also assist our clients with effective claims management. Backed by our medical expertise, we first help clarify the facts of the matter in order to precisely determine the contents of a claim. In addition, we compile a forecast of the effects of the injury, which covers the degree of disability, the remaining life expectancy or even the estimation of entitlements to compensation for pain and suffering. These factors constitute crucial basic requirements which enable our clients to establish appropriate reserves. On the basis of the insights which we have gained, we also draw up recommendations for intervention relating to measures which may be taken in order to minimise the claim. As an example, early neurological stimulation in the case of birth injuries may be mentioned here. Last but not least, we also support our clients at arbitration or court proceedings.

Information technology and claims management

In the foreseeable future the handling of bodily injury claims will undergo a fundamental transformation through the use of information technology. The time-consuming expertise needed to clarify medical circumstances and points of liability law will become things of the past. The factor which previously used to push up costs – namely the period between the occurrence of an injury and settlement – will be eliminated by means of information networks and expert systems. Information networks, in particular, offer immediate access to all claims-related data. This includes both appraisal systems and detailed information on the circumstances surrounding the individual claim.

On the basis of its medical know-how, E+S Rück is building expert systems for claims processing. These systems provide support for determining the degree of severity as well as the level of the workflow and cost quantification.

As far as the workflow is concerned, using a computer module we can automatically assess the degree of disability from accident injuries. The system automatically adjusts to the quality of the available information. Thus, for example, broader ranges are indicated for the degree of disability in the case of an imprecisely specified fracture of the upper thigh than with a precise specification, such as a "pertrochanteric fracture of the femoral neck".

Occupational rehabilitation after a severe accident injury is a cost-intensive measure which should produce successful results wherever possible. In this context, success means the permanent resumption of occupational activity. Despite the broad range of services offered by occupational support organisations and rehabilitation facilities, there are still too many failures. We have therefore devised a system which, by linking underwriting and medical data, assists in assessing the prospects for success in the area of occupational rehabilitation. By incorporating factors such as the period of disability, the victim's age and any accompanying disorders, this self-learning computer system is able to calculate in percentage terms the probability of successful rehabilitation. As an additional benefit, even during the early phase of a claim's development this system can provide a forecast of its long-term progress.

Product partnerships

To an increasing extent the product landscape in personal accident insurance is characterised by innovations which would have been inconceivable just a few years ago. The limits of the traditional accident definition have long been surpassed and the scope of cover provided by such policies has been significantly expanded. In order to keep pace with these changes market players must be provided with secure bases of calculation, risk protection and processing support.

Major product innovations entail new medical risks. This includes, for example, children's disability riders. We have developed not only medically grounded calculation bases but also an expert system for underwriting this type of insurance product. In the past medical underwriting was scarcely necessary in personal accident insurance. This is not the case with children's disability covers. As part of a product partnership we offer our "MERICA" underwriting system to our clients in order to save them having to develop their own expensive underwriting systems.

Credit and surety – we speak our clients' language

Our reinsurance clients in "credit" business consist of specialist companies – few in number but of major significance. In the "surety" class we additionally insure multiple line insurance companies which transact this type of business. We strive to be a solid, reliable yet flexible reinsurer for our partners in this sector, which is particularly dependent on economic cycles. It is to our advantage that most of our staff have practical experience in primary insurance and thus know their business from a first-hand perspective.

We transact the "credit and surety" and "political risks" classes of business in cooperation with Hannover Re from a specialist department which bears worldwide responsibility. This enables us to support our German clients in their moves towards internationalisation. To this extent, underwriting decisions also take into consideration the worldwide group interests of our German clients so as to make allowance for global concentration. At the same time, our international experience makes it considerably easier for us to support our clients with the introduction of international coverage components into the more traditional product range found on the German market.

The inclusion of coverage for political risks into export credit insurance may be mentioned by way of illustration. Whereas previously the policyholder was only protected against the so-called "commercial risk", i.e. bad debt losses for economic reasons, he is now also compensated as an exporter if his foreign customer wishes to pay – but is prevented from so doing by political reasons (e.g. conversion or transfer risk). Thanks to our 20 years of experience in this field, we are one of the few reinsurers able to offer clients extensive support thanks to the fact that, amongst other things, we have defined the elements of coverage, drawn up policy wordings and, most notably, sorted countries into categories based on credit ratings.

As a result of the integration of German credit and surety insurers into global groups, and also due to the growing presence of foreign providers, the German market is assuming increasingly international dimensions. For reasons of harmonisation and competition, this has led to the increasing inclusion in the German product range of coverage extensions which are already considerably more widespread in foreign markets. These include, for example, so-called "protracted default" and the "stop loss policy".

Jan Müller, Pia Lehto, Dr. Werner Jäger

The entry into force of the reformed law on insolvency was a particularly noteworthy event for credit and surety insurers in the year under review. Insolvency is now preceded by a rehabilitation procedure. The aim here is to reduce the number of company liquidations, which may also bring about a decrease in the scale of insolvency-related credit losses. What is more, creditors and suppliers are to contribute to the rehabilitation process; their rights are to be restricted, while those of the receiver have been strengthened. However, insufficient experience is available as yet to make a reliable assessment of the impact on credit and surety insurance.

We assess with considerable optimism the future outlook for the traditional product range of German credit and surety insurers. Nevertheless, given the globalisation and harmonisation of markets, providers and products, it will become increasingly inappropriate to speak of a "German" market – more to the point is a European, indeed a world market.

This in no way precludes the possibility that specific national circumstances will give rise to new coverage requirements. For example, the industry is currently seeking possible solutions for protecting employee entitlements based on early retirement or working time arrangements against the insolvency of the debtor company; however, no major breakthroughs have been achieved to date.

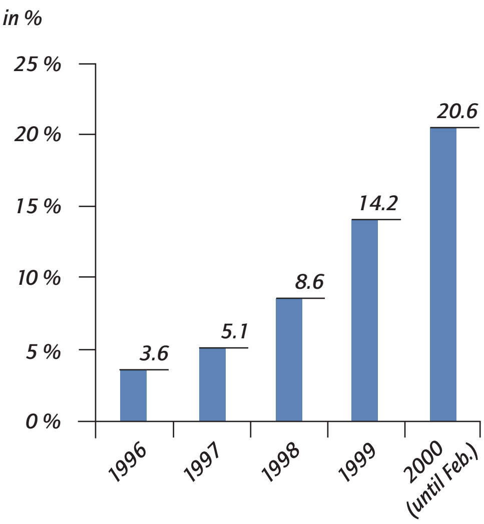
Furthermore, developments on the electronic front (business-to-business sales over the Internet and possibly also sales to end customers) are giving rise to future business approaches, the influence of which we are closely monitoring.

Alongside its traditional product spectrum, E+S Rück supports its clients with the development and coverage of new products and special solutions. We have aligned our position to reflect the fact that, as insurance markets and capital markets grow closer together, increasing significance will be attached to the demand for reinsurance solutions in the area of capital-market-oriented products such as securitisations and credit derivatives. We have already participated in initial pilot transactions.

Life reinsurance – new challenges call for innovative solutions

Our life reinsurance clients primarily consist of our shareholders and affiliates as well as a number of other particularly innovative companies. Our tried and trusted philosophy is, first and foremost, to be a reliable and yet innovative partner for our existing clients. We are also striving to establish new client relationships using a controlled approach.

The German life insurance market: Market share of unit-linked life insurance in new business during the period 1996 – 2000



Source: German Insurance Association (GDV)

In the life reinsurance segment E+S Rück traditionally positions itself in the area of the prefinancing of new business commissions paid by our clients to their agents. Although corresponding surcharges are included in the insurance premiums to cover these acquisition costs, they only accrue to the insurer very slowly because they are generally distributed across the entire policy period. Vigorously expanding insurers, and especially newly established companies, can quickly come up against their financial limits in the face of the necessary prefinancing. In order to make available the required funds, we have developed reinsurance solutions which are specially tailored to our clients' needs and the most striking hallmark of which is their high level of transparency.

Thanks to its strong market growth, unit-linked life insurance has also become one of the major sources of new business for E+S Rück. Compared to traditional policies, this segment generates an increased liquidity requirement since reserves have to be fully backed by capital; hence there is also a greater need for reinsurance, which we satisfy with appropriate solutions.

Alongside our positioning as a reinsurer of financing arrangements, the development of primary insurance products is increasingly becoming the focus of our activities, which we conduct in cooperation with our clients as part of product partnerships. In this connection, we bring to bear not only our international experience and the know-how of the Hannover Life Re division, but also apply our specialized knowledge in the field of medical statistics and epidemiology. This expertise facilitates not only the design of innovative insurance covers, but also the enhancement of existing products.

Dr. Rüdiger Mehl, Dr. Nicola-Alexander Sittaro, Mathias Schröder, Jens Blohm

In 1999, for example, a children's disability rider was launched. This policy, which can be taken out supplementary to life or personal accident insurance, also pays benefits in the event of severe disorders, such as poliomyelitis or meningitis. It is thus possible to insure against diseases typical of this age group which can lead to permanent health impairments.

As a further example from this area, mention may be made of annuity products for special target groups, such as smokers. Under these annuity insurances, insureds – whose mortality experience shows is higher than average – pay correspondingly lower premiums. It is our belief that innovative products of this nature can be successfully marketed in Germany, as is already the case in other markets. Backed by our store of international experience, we are superbly equipped to support such market launches.

E+S Rück – events organised with and for our clients

E+S Rück sees itself not only as a risk-carrier, but also as a company which passes on its knowledge to clients and hence plays an active role in shaping the future.

Nina Janßen, Christian Simonis, Sana Villerusha, Nils Mortensen
Soloists and conductor before the examination concert on 4 June 1999

One element of this orientation is the Hannover Forum; we have been inviting business partners, clients and specialists to this event in Hannover since 1990 in order to facilitate an exchange of ideas on major topics in the insurance business. The motto for the year under review was "Motor insurance – a class in chaos". Renowned external scientists and experts from both outside and within our company reported on various aspects of bodily injury claims settlement and outlined the prospects for future developments in the motor class of insurance. At this year's Hannover Forum we shall take our cue from the "EXPO 2000" world exposition currently being held in Hannover and spotlight the theme of Humankind/Nature/Technology. We shall organise a two-day seminar on each of the exposition's key themes – again in cooperation with noted experts.

In addition to the Hannover Forum, E+S Rück has devised a series of seminars for smaller groups of participants which generally take the form of a "round table". At these events for clients, practitioners describe selected problem fields and work out solutions jointly with the seminar participants. Scientists and universities are frequently incorporated into the discussions. In 1999 we held two one-day seminars specially devoted to the topics of "Personal accident insurance" and "Liability claims at hospitals". In cooperation with Lüneburg Polytechnic we also discussed issues relating to employers' liability insurance within the framework of an international comparative study.

In addition, we arranged advanced seminars to assist our clients with the enhancement of their reinsurance expertise.

Since it was first established E+S Rück has been able to popularise innovative ideas, not only in the field of risk-carrying. As a reinsurer, we appreciate art as the opposite pole to the rationality of our business. This is reflected, for example, in our company's art collection, which we are constantly expanding. We have also resolved to provide a stage for young musicians: each year we support masterclass students who are completing their course of study at Hannover School of Music and Theatre Arts by giving them an opportunity to perform as soloists with the Göttingen Symphony Orchestra and thereby complete their concert examination. This occasion represents the formal culmination of their studies and at the same time marks the moment when they embark on a promising future career. Our business partners are very welcome guests at this event.

Economic climate

Cyclical recovery was the hallmark of the German economy's development in the year under review. Despite a rather weak first half of the year due to the after-effects of the global economic crises, the summer witnessed the onset of an appreciable upswing. This was primarily attributable to a sharp increase in foreign demand. Exports particularly profited from the sustained economic revival in Europe and the threshold countries as well as the highly dynamic growth in the USA. The low valuation of the euro also fostered demand for exports. In addition to these external influences, domestic demand also showed a clearly positive trend; this was primarily triggered by higher disposable incomes and hence an increase in private consumption.

As a consequence of the more vigorous demand for exports, the mood in German industry also improved. New orders picked up appreciably, leading to a considerably more favourable assessment of the business situation than was the case at the beginning of the year. Positive business expectations bear witness to the fact that this trend is not regarded merely as a short-lived upswing. Monetary policy further fostered the overall favourable economic development. Although the European Central Bank raised base rates, the general monetary conditions stimulated the economy.

Movements on the capital markets were dominated by the stock markets. Towards year-end share prices in the USA and Europe rose to new record levels. The German stock index, the DAX, which for a long time posted weaker gains than other European markets, climbed late in the year and closed 1999 at a new all-time high. Gains on the "New Market" were even more dramatic. Primarily triggered by an almost euphoric attitude towards technology stocks, a wave of new issues swept through the market and opened up opportunities for new business entrepreneurs and investors to achieve sometimes breathtaking profits. For the bond markets, on the other hand, 1999 was a difficult year. Government bonds started off in January at an all-time yield low, and interest rates rose steadily throughout the year. 10-year German federal government bonds were priced at 5.33% in December, corresponding to a rise in interest rates of 170 basis points in the space of just eleven months.

In the year under review overcapacities and hence fierce competition were again a hallmark of the German insurance market. The resulting competitive pressure, which had already brought about a dramatic worsening in premium rates and policy terms and conditions in some areas of property and casualty insurance during the preceding years, intensified markedly in the year under review. However, it was gratifying to note that signs of a recovery could be discerned in some classes of business, and it can therefore be assumed that at least to some extent the downward slide in premiums has been stopped. Overall, though, these positive tendencies are not yet sufficient to offset the unfavourable developments of the previous years.

Life insurance posted an extraordinarily favourable performance. In 1999 this class enjoyed its most successful year ever in the industry's history. Crucial factors here were, above all, the uncertainty surrounding the future of old-age provision and the debate concerning the taxation of life insurance policies.

The reinsurance sector experienced a number of opposing developments. Property and casualty reinsurance continued to suffer under overcapacity and the consequent pressure on conditions and prices. The large number of natural catastrophe losses were an added burden. Particularly significant in Europe were the winter storms "Anatol" and "Lothar", which also placed a major strain on the technical account in Germany. The previous year had already recorded major losses on an above-average scale, and the year under review very clearly showed the urgent need for more realistic risk assessments and corresponding premium adjustments.

The performance of life and health reinsurance, on the other hand, was exceptionally favourable. The vigorous demand for life insurance products similarly opened up considerable potential for reinsurance. The greatest benefit from this situation was derived by those reinsurers who were able to set themselves apart with their experience and individually tailored reinsurance solutions.

The eagerly anticipated turn of the millennium fortunately failed to bring the crashes in computer systems which had been feared in some quarters. It is quite apparent that the intense public debate surrounding this issue had prompted companies to take adequate precautionary measures. In part owing to the fact that the insurance industry might have been obliged to compensate possible losses under certain circumstances, it had contributed actively to the information campaign – especially with regard to commercial policyholders who were at risk. This provides clear evidence of just how effective preventive measures can be.

Business development

Since 1 January 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.

Our gross premium income posted a satisfactory increase of 9.6% compared to the previous year to reach a total of EUR 1.3 billion. Growth derived primarily from the expansion of life and health reinsurance, which increased both in absolute figures and in terms of its share of our overall portfolio. Key impulses behind this growth in life and health reinsurance were, on the one hand, the rise in the demand for private old-age provision and, on the other hand, the debate over the taxation of life insurance policies in Germany.

The situation remained strained as regards premium rates and policy terms and conditions in German property and casualty insurance. In the 1999 financial year we continued to insist that appropriate allowance be made for our profit requirements. Whilst our internal target of writing business solely on a profit-oriented basis did not prevent us increasing the premium volume in absolute terms, the proportion of property and casualty reinsurance in our total portfolio decreased.

The development of net premiums reflected the change in our own reinsurance cessions. Owing to increased retrocessions, our net premiums contracted in the year under review by 1.7% to EUR 727 million.

The loss expenditure climbed sharply. Major factors here were the higher claims frequency and the burden of major losses. In addition to our shares in major international loss events – through our reciprocal risk spreading with Hannover Re – the winter storms "Anatol" and "Lothar" made the most significant impact on our technical account. The net technical result before changes in the equalisation reserve consequently deteriorated from -EUR 47.1 million to -EUR 57.5 million.

Due to the increases in loss expenditure and loss ratios in some classes of business, the total allocation to the equalisation reserve decreased to EUR 19.5 million (EUR 42.4 million). This produced a net technical result of -EUR 77.0 million (-EUR 89.5 million).

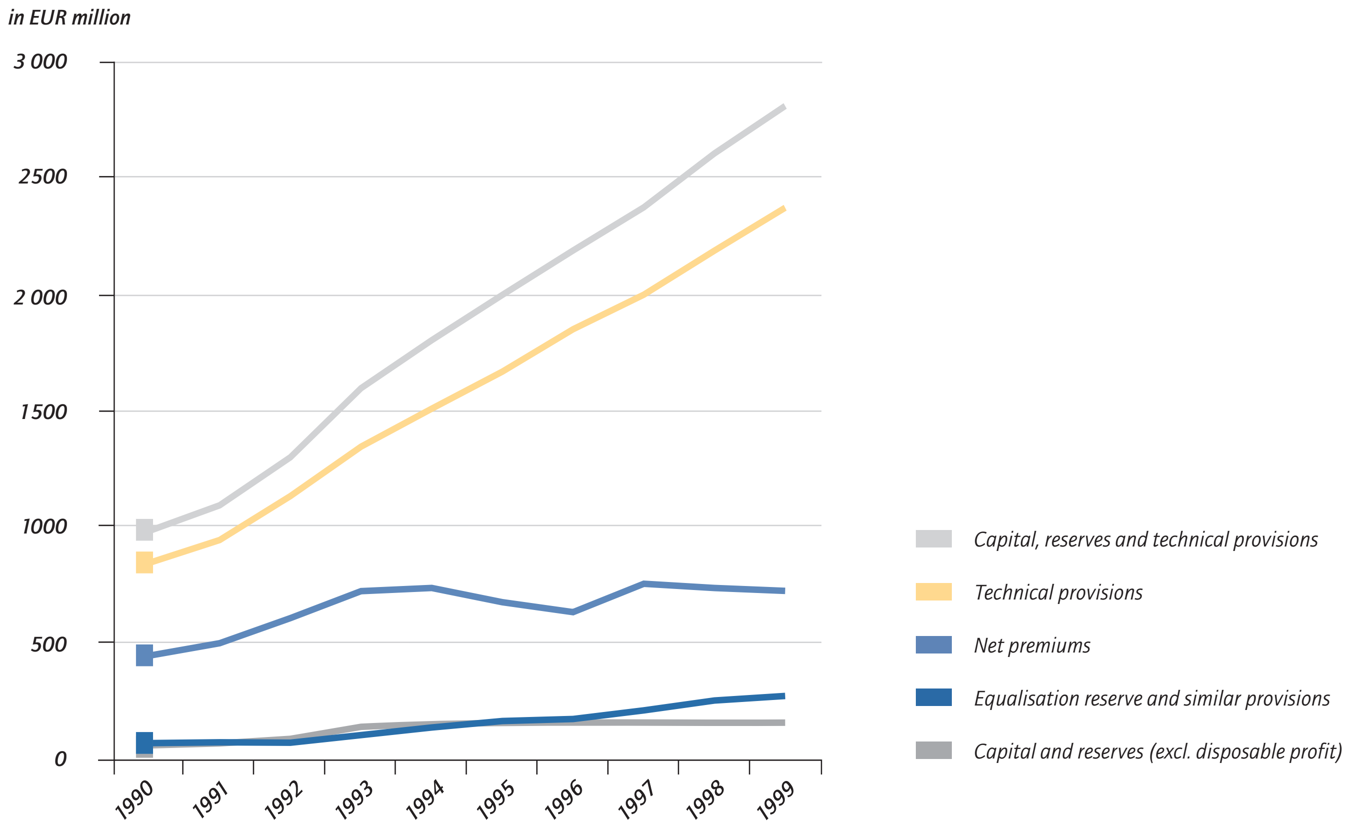
We also strengthened the IBNR reserve in the year under review with a further allocation of EUR 36.4 million from the non-technical account.

By exploiting the predominantly favourable situation on the capital markets, we succeeded in generating an investment result of EUR 160.1 million in the 1999 financial year – a figure on a par with the previous year's level. Additionally, we again boosted the hidden reserves in our securities portfolio, which increased by 5.8% to a total of EUR 339.8 million.

Our tax burden decreased from EUR 11.2 million in the previous year to EUR 9.2 million in the year under review. This reflects the impact of various, sometimes contradictory factors. In the previous year we had made provision for further tax demands from the revenue authorities following a company audit and had constituted additional tax reserves. The elimination of this one-off expenditure appreciably eased the strain on the 1999 financial year compared to the previous year. The so-called "Tax Relief Act" introduced by the Federal Government brought into effect a number of new provisions, which were first applicable to the 1999 financial year and which placed a significant load on the insurance industry. Major repercussions of these regulations were the more realistic valuation and the discounting of the loss reserves as well as the upward revaluation of investments. These provisions lead to the earlier recognition of expected run-off profits and more realistic capital yields, hence bringing forward the taxation of future earnings. In our profit and loss account for the purposes of commercial law this additional tax expenditure is opposed by corresponding deferred taxes on the assets side. This item represents, as it were, a "tax prepayment" on future earnings and it is written back in our commercial-law income statement in line with the realisation of these earnings.

Overall, therefore, we posted an after-tax profit for the financial year of EUR 9.8 million. We shall propose to the Annual General Meeting that this amount be distributed in full to shareholders.

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



Risk Management

With effect from 1 May 1998 the German Federal Parliament adopted the Law on Control and Transparency in Business (KonTraG). Amongst other things, this law puts into hard-and-fast terms the obligation of the executive board of a joint-stock corporation to report on the risks inherent in a company's future development. In addition, appropriate measures must be taken, and in particular a monitoring system is to be established, in order to ensure that developments which may jeopardise the company's continued existence are identified at an early stage.

As an internationally operating reinsurer, we are confronted with a large number of risks which are directly associated with our entrepreneurial activities. Risk management has thus long been an integral component of all our decisions and business processes. The guiding principle underlying our risk management is to optimally exploit opportunities while at the same time appropriately controlling and managing the risks associated with our business operations.

We have at our disposal a broad range of efficient risk management and control systems. The structure of these systems and the depth of detail in the reporting depend upon the nature of the risk. The effectiveness of the systems is subject to constant monitoring and adjustments are made according to changes in the business environment. The fundamental elements of risk management are set out in guidelines.

Furthermore, on the basis of the provisions of the KonTraG, we conducted a project to systematically identify the risks which could pose a potential danger to our company's existence. This "risk inventory" produced 62 individual risks which have the capability to influence our company's risk situation. After analysing each of these individual risks in terms of possible loss amount, probability of occurrence and time horizon, nine risks remained which we consider to be particularly significant. As a next step, we identified and evaluated all already existing and planned monitoring and control measures in order to ensure that no gaps existed in our risk management system. We set up a central control centre to coordinate all risk management activities and we documented our findings in a risk management manual. In all areas which the project revealed as offering scope or need for improvement, we specified concrete measures and responsibilities, with implementation subject to central monitoring.

The major risks faced by our company can be divided into the following five areas:

Global risks

This refers in particular to the significant risks arising for a reinsurer out of a change in the demand for reinsurance protection. We counteract these risks with material and geographical diversification of the reinsurance portfolio, regular adjustment of our underwriting policy and innovative product development. In addition, corporate strategy is regularly scrutinised by an interdisciplinary team in order to check whether modifications or realignments are necessary. These activities are supported by optimisation and quality controlling of the core processes.

Strategic risks

Our infrastructure also comprises international subsidiaries and affiliates. We set great store by the efficient steering of these companies. Mandatory, defined underwriting guidelines, a controlling system for our participations and fixed reporting structures ensure that potentially conflicting goals can be promptly recognised and resolved. Processes are subject to continuous optimisation. In the year under review we initiated a project, one of the aims of which is to enhance the system of management ratios through greater standardisation of controlling and reporting processes and a common technology base. Here, too, a combination of standard indicators and individual aspects ensures that, on the one hand, comprehensive comparisons are possible while, on the other hand, allowance is made for the specific features of the various strategic segments.

Operating risks

The exchange of information and data both with our clients and within the company is increasingly taking place via electronic media, including the Internet. The importance attached to the availability of the systems used and to data security considerations is therefore constantly growing. Effective virus protection and secure network interfaces are a basic precondition for the efficient utilisation of these media. Our company has traditionally been able to rely upon appropriate contingency plans and security guidelines. In view of the rapid pace with which IT requirements are constantly changing, we subjected our systems and IT processes to a security analysis in the year under review; on the basis of our findings we drew up various recommendations for action, some of which have already been implemented.

Underwriting risks

In order to enforce maximum loss limits for natural catastrophes, we drew upon scientific data to define maximum exposures per risk zone; these limits are subject to constant monitoring. In addition, underwriting guidelines set out in detail which risks may be accepted, to which extent and within which area of responsibility. Statistically recognised models ensure that the pricing process also takes into consideration our specifically defined profit requirements. Retrocession constitutes an important tool for risk limitation and results stabilisation. In this regard, we set great store by the credit rating and solvency of our retrocessionaires and we diversify our risk by specifying maximum shares according to the type of business involved. We use both internal and external sources of information to rate and classify retrocessionaires.

Investment risks

In the light of the high latent degree of risk inherent in our core business (reinsurance), risk limitation takes precedence over yield maximisation in our investment policy. Our goal is to generate an optimal profit contribution while adhering to specific maximum risk limits. The reinsurance and investment segments will in future be linked by a scientifically grounded system of Asset Liability Management. Compliance with the investment guidelines adopted by the Executive Board is ensured, inter alia, by the separation of trading and settlement functions and by an efficient investment controlling process with defined reporting and sensitivity analyses. Another of the risks facing an internationally operating reinsurer is the exchange rate risk. We limit this risk by matching liabilities in foreign currencies as closely as possible with assets in the corresponding currencies, thereby to a very large extent equalising exchange gains and losses.

Functioning independently of the instruments described above, our Internal Auditing Department conducts routine checks as well as special audits in all corporate areas. As a general principle, the purview of these audits encompasses the efficiency of structures and workflows, the correct functioning of individual systems, compliance with internal guidelines and legal provisions as well as proper accounting procedures, hence covering all the essential elements of the risk management system.

On the basis of these insights, we do not currently perceive any risks which could jeopardise the continued existence of our company in the short or medium term or which could impair the assets, financial position or net income in a significant or sustained manner.

Premium growth

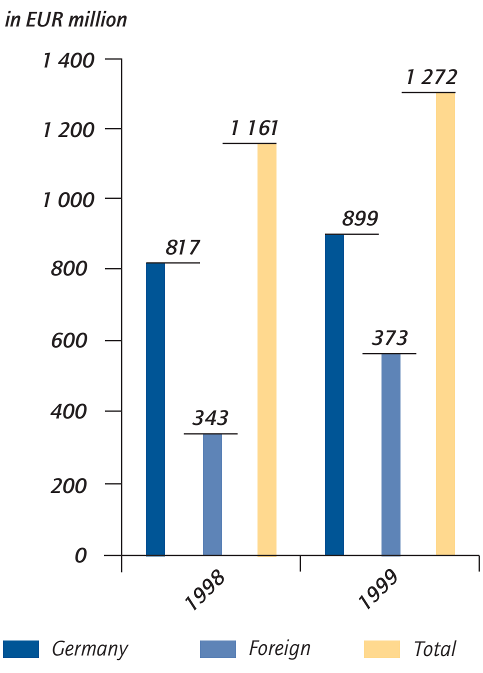
Gross premium income increased by 9.6% to EUR 1.3 billion in the year under review. This growth derived from the expansion of German business and an increase in the foreign business accepted from Hannover Re, both of which rose by around 10%. The technical result* was determined principally by German business. This posted a deterioration to -EUR 156 million (-EUR 54 million). The performance of foreign business, by contrast, was more pleasing, closing with a decreased technical deficit of -EUR 50 million (-EUR 67 million).

Development of the individual classes of business in Germany

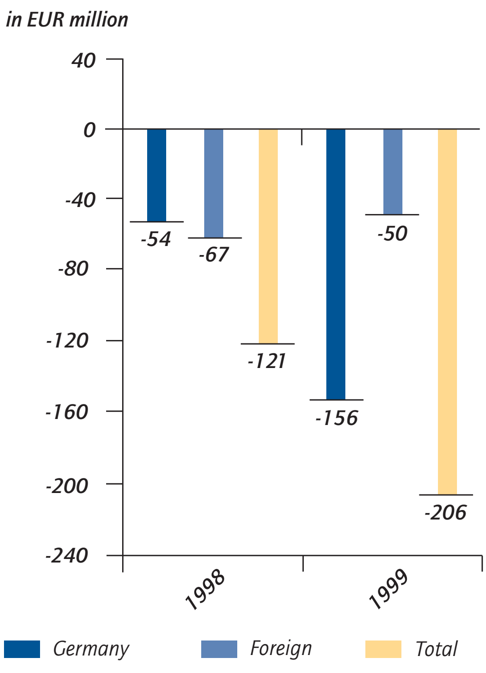
The following sections explain the development of each class of business. Due to our orientation as a reinsurer for the German market, we have subdivided our management report on technical business. The following commentaries on the various classes of business refer solely to our German portfolio; we then provide a summary of our international acceptances from Hannover Re. The indicated gross technical result is defined as the figure prior to internal administrative expenses, the allocated investment return and the change in the equalisation reserve.

The breakdown of the gross premium income reveals gratifying growth in both the German and foreign components of our portfolio.

Development of gross premium income – breakdown into German and foreign business



Development of gross technical results – breakdown into German and foreign business*



** Technical result before internal administrative expenses, allocated investment return and the change in the equalisation reserve*

In gross terms, the technical result has apparently deteriorated overall. However, it must be borne in mind that due to the strong growth of our life and health reinsurance portfolio considerable importance attaches to our retrocessions in order to be able to carry the assumed prefinancing obligations. Working in conjunction with Hannover Re, we have increasingly transferred such investment-oriented burdens – the full amount of which has to be reported as expenditure in the first year under German accounting requirements – to the capital markets by way of securitisations. Particularly thanks to this relief, the net result improved overall to -EUR 84 million.

Fire

As in previous years, the entire fire class – in both the insurance and reinsurance sectors – suffered heavily under the poor state of industrial fire business. Sustained competition in this subclass caused further premium erosion to a level which in some cases can now be described as ruinous. Premium income in the primary insurance sector fell to EUR 1.1 billion in the year under review, following just EUR 1.4 billion in 1998 and EUR 1.7 billion in 1997. The burden of losses also declined, albeit by a modest 3.8%; overall, therefore, loss ratios increased. It was, however, striking that this claims expenditure was dominated by an increased number of small-to-medium-sized losses and not, for example, by a random surge in major losses. All in all, the primary insurance sector closed with a technical deficit in the order of EUR 0.5 billion.

Fire

in EUR million	*1999*	*1998*
Gross premiums	46.6	43.2
Loss ratio (%)	71.4	79.4
Technical result (gross)	-1.9	-4.0

These developments decisively impacted the reinsurance sector too. With proportional business constituting the most prevalent type of reinsurance, this was equally true of the inadequate level of premium income and the increase in the loss frequency. Not only large but also small-to-medium-sized losses affect the reinsurers, since in industrial business insurers generally tend to run relatively low retentions. There was also a conspicuous trend towards new, extended types of coverage (such as Extended Coverage and All Risk policies), under which risks which were previously not included in the industrial fire class e.g. machinery insurance – are included in the coverage of a single policy. Although premium adjustments were sometimes obtained for these coverage extensions, they were for the most part insufficient to generate satisfactory results.

In the year under review initial counter-movements could already be discerned as a response to these developments. Thus, for example, we observed a reduction in the facultative reinsurance capacity offered on a proportional basis. What is more, the tendency not to accept extended conditions without adequate premium compensation became more marked in the reinsurance sector.

The state of the market in the other fire subclasses – agricultural fire and other fire business – was, however, more satisfactory. Premiums and results remained stable here.

Our business results were similarly influenced by the market conditions described above. Although premium income in the 1999 financial year surpassed that of the previous year by 7.9%, this growth was attributable largely to agricultural fire and other fire classes due to a reorganisation of the accounting system. In addition, a reduction in the loss expenditure brought about an improved technical result compared to the previous year.

Liability

In the year under review German liability business again ranked as one of the few classes of property and casualty insurance which posted market-wide premium growth, although the increase of 1.7% to around EUR 5.9 billion was relatively slight. The situation on both the insurance and the reinsurance markets was, however, characterised by sustained competitive pressure. This was particularly true of commercial and industrial business, in which the premium level declined further. The trend towards extensions in terms and conditions, which could already be observed in previous years, also continued unabated. Particularly critical in this regard is the tendency towards so-called multiline covers, under which liability covers are frequently combined with property insurances – more likely than not leading to premium reductions.

With loss expenditure in the year under review remaining at the high level of the previous year, especially in the commercial and industrial segment, a market loss ratio clearly in excess of 80% must again be assumed. This was attributable both to the unfavourable major loss experience and an increase in the claims frequency. The most conspicuous subclasses in this context were liability insurance for pure financial losses, recall insurance and product liability insurance. It is nevertheless gratifying to note that the losses feared at the turn of the new millennium failed to materialise.

Liability

in EUR million	*1999*	*1998*
Gross premiums	110.7	106.5
Loss ratio (%)	63.8	75.4
Technical result (gross)	16.9	-4.0

Our restrained participation in the critical areas of liability insurance enabled us to record a very satisfactory result in the year under review. Contrary to the market trend in the reinsurance sector, our gross premium income increased by four percent. The favourable development of the technical result was attributable to an improvement in the loss ratio, which was partly influenced by run-off profits on treaties which we had already cancelled several years ago.

Personal accident

With premium income increasing by 3% to EUR 5.2 million, personal accident insurance still remains a growth factor in a generally sluggish market. Nevertheless, the risk-related premium components rose by a mere 1.7% to EUR 4.3 billion, which means that the bulk of the growth derived from the savings elements of personal accident insurance with a premium refund. Whilst the number of reported claims decreased slightly in the year under review, higher losses per claim caused expenditure on claims (excluding annuity benefits) to rise by 2.2% overall compared to the previous year to reach EUR 1.4 billion.

Competition in personal accident is channelled through product policy. Individual companies strive to set themselves apart from their rivals by granting special benefits, sometimes at no additional premium. The generally favourable prospects in personal accident insurance have prompted us in recent years to develop – in cooperation with our clients – concepts for special target groups such as children, adults and seniors as instruments for promoting sales and injecting further impetus into the market. In addition, we pressed ahead energetically with the systematic expansion of our medical consulting services for the individual assessment of substandard risks.

Personal accident

in EUR million	*1999*	*1998*
Gross premiums	32.9	33.8
Loss ratio (%)	61.8	54.9
Technical result (gross)	0.5	-2.5

Following premium growth in the previous years, however, our business volume in the year under review declined slightly by 2.4% due to increased retentions on the part of our clients.

Despite a higher loss ratio in the year under review, the result improved on the previous year due to the elimination of profit commissions and the effect of sliding-scale commission agreements in a number of large-volume treaties.

Motor

Motor

in EUR million	1999	1998
Gross premiums	406.3	392.9
Loss ratio (%)	89.1	90.2
Technical result (gross)	-11.5	-19.5

Following previous unsatisfactory years, 1999 was another poor year for the motor class of insurance. This was due to an extremely unsatisfactory premium situation, attributable first and foremost to often haphazardly granted discounts. The latest tariff increases, for example in the subclasses of motor third party liability and motor own damage, indicate that the urgently needed market correction is slowly taking effect; nevertheless, these improvements could in no way be considered sufficient to offset the premium erosion of recent years.

The claims frequency was markedly higher than in previous years and led to a rise in loss expenditure. This situation, coupled with the continued rise in the average cost of a motor third party liability claim, brought about a significant increase in the burden of losses. The unfavourable loss experience combined with the inadequate premium level placed a further strain on the result. In response to these market conditions there is now a growing trend towards far-reaching rehabilitation measures, which are geared first and foremost towards achieving an appreciable rise in insurance premiums; this sends out a signal which also has a major bearing on improving the state of the reinsurance market. However, despite the already discernible tendencies towards rehabilitation, a selective underwriting policy guided by profitability considerations remained the only means during the year under review to protect against avoidable losses in the unfavourable market environment.

Compliance with profit requirements enjoys the highest priority for E+S Rück. For this reason, our premium income in the 1999 financial year showed only very moderate growth of 3.4%. Nevertheless, we were pleased to note that the loss ratio remained below the level of the previous year, thus giving rise to a reduced technical deficit in comparison with 1998.

Marine

Marine

in EUR million	1999	1998
Gross premiums	20.2	21.3
Loss ratio (%)	106.4	100.1
Technical result (gross)	-6.3	-5.5

The German marine market continued to suffer under a difficult business climate in both the insurance and reinsurance sectors. The key factor here was the sustained fierce competition and the resulting unsatisfactory situation as regards premiums and conditions. As in the previous year a large number of medium-sized claims were recorded, causing a further deterioration in results.

These developments had a detrimental effect on our results too. We continued to pursue a selective underwriting policy and therefore reduced the share of our total premium income in this class deriving from proportional business. This served to alleviate, but not entirely suppress, the negative repercussions of the general market conditions. By contrast, the situation in excess of loss business, in which we generated positive results, was more satisfactory. We prefer this type of business and it now accounts for a larger premium volume than our proportional portfolio.

Nevertheless, the beneficial effects of this portfolio reorganisation have not as yet sufficed to offset the repercussions of the strained market situation. Overall, our business volume contracted by 5.3%. Loss expenditure remained virtually unchanged, however, giving rise to an increased loss ratio and hence a poorer technical result.

Life

The 1999 financial year was the most successful to date in post-war history for the German life insurance industry. The vigorous increase in new business was attributable to the growing general uncertainty surrounding the future of old-age provision. Not only the statutory retirement pension but also government benefits in the event of disability or strict "any occupation" disability are presently facing an unclear future. As a consequence, awareness among the population of the need for private old-age and risk provision has risen markedly.

Most significantly of all, however, the accelerated discussion in the second half of 1999 concerning the taxation of life insurance policies generated a massive increase in new business, which had already developed well during the first half of the year. Following 7.4 million policies in the previous year, considerably more than 10 million new contracts were taken out in the year under review, a plus of 39%. The total sum insured increased by roughly 46% to approximately EUR 300 billion. Annual premiums from new policies with regular premium contributions increased by as much as 69% to almost EUR 10 billion. By a wide margin the clear growth leader in new business with regular premium payments was unit-linked life insurance, which grew by 180% compared to the previous year and has now attained a good 14% market share. Annuity and disability insurance also recorded disproportionately strong growth rates.

Not least due to the remarkable marketing successes of our clients, which comfortably outstripped the market average, our new business performed extremely favourably. This was assisted by our concentration on bespoke reinsurance solutions tailored to the financing of new business – partly and most notably in the especially high-growth segment of unit-linked policies. Our gross premium income thus climbed by a pleasing 41.5%.

Life

in EUR million	*1999*	*1998*
Gross premiums	160.6	113.5
Technical result (gross)	-137.3	-19.8

The increased demand from our clients for the prefinancing of their new business is of course directly reflected in the apparent deterioration of our results; this is because under German accounting requirements the full amount of the reinsurance financing provided must be written off in the first year. This circumstance, combined with the high growth in new business, caused us to show a sharply higher technical deficit in 1999. In fact, however, these negative results must be regarded as investment-oriented expenditure which will be amortised by corresponding, earnings-enhancing returns in the coming years. As has already been explained, considerable portions of the investment-related prefinancing expenditure, in particular, have been retroceded, and we therefore posted a reduced net technical deficit of EUR 10 million overall. The allocated investment return is also of great significance in life business. Of the total amount of EUR 11.5 million shown in the profit and loss account, a substantial portion is attributable to our German life business.

The portfolio of life insurance reinsured (total portfolio, including foreign business) developed as follows (foreign currency amounts have been converted at the exchange rates applicable as at 31 December 1999):

Life reinsurance portfolio (in EUR million)	1999	1998
Total business reinsured		
sum insured	30 594.1	25 569.4
of which retroceded	8 441.7	4 558.4
Endowment insurance		
sum insured	29 672.2	24 294.3
of which retroceded	7 752.9	4 138.7
Annuity and pension insurance		
12 times annual annuity	921.9	1 275.1
of which retroceded	688.8	419.7

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.

Generating EUR 28 million in premiums, our strategic priority segment of credit and surety business was the strongest source of premium income from German business among the other classes. With competition in credit and surety business growing ever more intense, this class of insurance is marked by a very high degree of concentration on global insurance groups as well as increasing globalisation of national markets. This worldwide interlinking of reinsurance relationships has also led to shifts in premium distribution between the various national markets. Despite continued high insolvency figures, loss ratios in Germany improved following portfolio rehabilitation measures and we were therefore able to achieve a markedly increased result in this class for the year under review.

Other classes

in EUR million	1999	1998
Gross premiums	108.3	100.8
Loss ratio (%)	75.4	69.8
Technical result (gross)	-10.1	0.8

Windstorm business was overshadowed by the winter storms "Anatol" and "Lothar" in the 1999 financial year. With premium income standing at EUR 8.9 million, these major loss events produced a substantial technical deficit. Yet they also highlighted once again the considerable importance attached to realistic risk assessments. The high loss ratios of the year under review will, however, make it easier now to implement the urgently needed premium adjustments in this class of business, and indeed conditions have already improved during the current year.

In overall terms, we recorded an increase of 7.5% in gross premium income for the other classes in the year under review. Owing to the increased loss expenditure, however, we closed with a technical deficit.

Results of our foreign business

As a member of the Hannover Re Group, we are affected by developments on the international (re-)insurance markets via internal retrocessions as part of risk-spreading within the Group. For the reason, the development of our foreign business is also summarised below.

In the reinsurance markets of the United Kingdom and Ireland, the premium level began to improve in the fourth quarter of 1999 and initial capacity shortages could be observed. There was also an increasing "flight to quality", i.e. the growing demand for solvent reinsurance partners oriented towards long-term cooperation. Taken together, these developments brought about a slight recovery in the unsatisfactory reinsurance terms and conditions of the previous years and improved insurance conditions were pushed through with markedly greater frequency. In aviation business, the bulk of which is written through the London Market, rates were inadequate due to the sustained fierce competition – an unfavourable situation exacerbated by the poor loss experience. The performance of satellite business, on the other hand, gave more grounds for satisfaction than in the previous year. Overall, we slightly increased our premium income from both sectors and generated a technical profit.

In France, the insurance markets were devastated during the final week of 1999 by the winter storms "Lothar" and "Martin". These had a substantial adverse effect on technical results, and our French business thus closed with an overall deficit. Nevertheless, credit should be given to two positive repercussions which these major loss events will have in subsequent years: on the one hand, an increasing demand for reinsurance protection can be anticipated, and, on the other hand, the implementation of long-overdue rate increases will be accelerated.

Steady economic growth is the hallmark of the countries of central and eastern Europe, and this has also had a beneficial impact on the insurance industry. International reinsurers are pleased to respond to and satisfy the increased demand for capacity and know-how in the local insurance markets. Although the pressure of competition is already considerable, our overall premium volume grew in step with the expansion of the markets and we generated a satisfactory result.

Key features of the insurance industry in the USA were again overcapacities and merger activities in the year under review. This was especially true of property insurance and liability business. Reinsurance also suffered under these unfavourable circumstances, as a consequence of which 1999 will probably go down in the statistics as one of the two poorest years of the decade. Although a shortage of capacity began to make itself felt in the year under review, this has as yet failed to bring about appreciable improvements in terms and conditions.

The performance of insurance and reinsurance markets in Latin America in the 1999 financial year was again greatly dependent on economic and political developments as well as the occurrence of major losses. We expanded our portfolio very modestly across all the countries concerned and posted good technical results. In Asia the general situation was characterised by increasing competition and the strain which major losses placed on profits. Our results were nevertheless for the most part balanced.

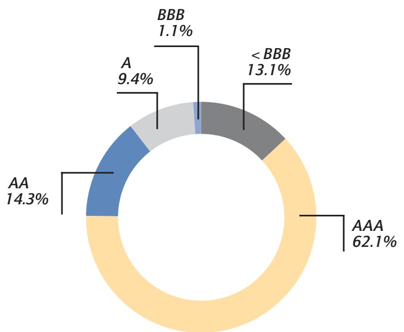
Australia's insurance market was decisively affected by hailstorms at the beginning of the year. While various market players were compelled to withdraw due to their losses, we succeeded in posting an improved – albeit still negative – technical result. In Africa, by contrast, we substantially boosted the volume of our business and generated gratifying profits.

Investments

For the stock markets 1999 was another year of above-average advances in equity prices. Share prices climbed to new record levels across Europe towards year-end. The rally, which only began in October in Europe, rewarded investors with double-digit price gains. The Euroland index, the Euro Stoxx 50, closed the year up 47% at 4,904 points. The Dax, which for a long time lagged behind developments on the other European markets, also closed at a new record high of 6,958 points. This corresponded to a price gain of 39% in a year-on-year comparison. Our company also profited from these stock market movements. Following the launch of the euro in January 1999 some of our investments in equities were switched to foreign European markets. Due to new investments in the technology sector we continued to benefit from the above-average performance of these stocks.

1999 was a difficult year for investments in the bond markets. It began in January with an all-time yield low of 3.63% for 10-year European government bonds and ended with steadily rising interest rates. In December 1999 10-year German federal government bonds were priced at 5.33% – a plus of 170 basis points in the space of just eleven months. However, thanks to the fact that we are principally positioned in the short to intermediate maturity range, we succeeded in cushioning the price losses caused on the bond market by the yield increase.

Rating of fixed-income securities



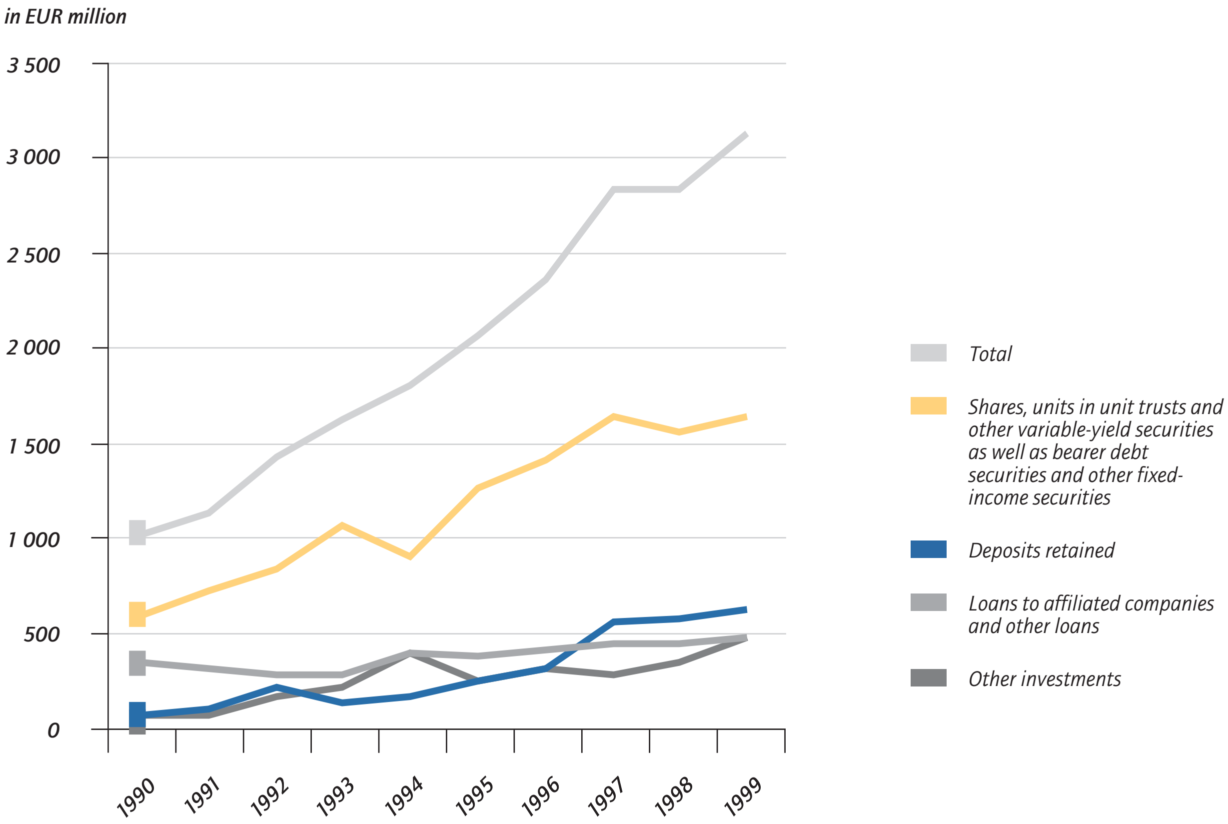
The situation on the foreign exchange markets last year was heavily influenced by the launch of the euro on 1 January 1999. In the first year of its existence the euro experienced at times sharp falls against its most significant partner currencies, shedding 14% of its value against the US dollar alone.

By making the most of the favourable state of the capital markets, we generated another gratifying investment result of EUR 160.1 million (EUR 159.6 million) in the 1999 financial year. The extraordinary investment result – in other words, the balance from realised gains and losses on the disposal of investments as well as write-ups and depreciation – increased by 49.6% and totalled EUR 30.7 million. This is all the more impressive in the light of the fact that in the same period we also boosted unrealised gains in the investments by 5.8% to EUR 339.8 million.

The total investment portfolio amounted to EUR 3.1 billion as at 31 December 1999, a figure which corresponds to growth of 10.4% compared to the previous year. At 52%, the largest proportion of the investment portfolio which we manage ourselves continued to be in the area of fixed-income securities (including bond funds); shares accounted for 10%. Due to the further expansion of life reinsurance business, deposits retained increased to a total of EUR 591.4 million (EUR 549.0 million).

We continue to attach great importance to the quality of our investments. More than 75% of the investments held in our direct portfolio have a security rating of AA or better.

Investments



Human Resources

The labour market in Germany has undergone a major transformation since our report on the previous financial year. Not least due to the extremely heavy demand in the field of information technology, the need for analytically minded, well-educated employees has risen sharply.

By stepping up our presence at career events organised for universities and by intensifying contacts with the individual department chairs, we are nevertheless able to recruit highly motivated graduates to our company. In accordance with our goal of providing the best possible service for clients, we offer our employees a broad range of training opportunities. With the aid of our personnel development programmes, we make certain that our staff are optimally equipped to handle their complex tasks.

Our company's total workforce numbered 207 in the year under review, with 14% of these employees engaged on the basis of part-time working arrangements. We recruited six new members of staff in the past year, and they are receiving the expertise needed to perform their tasks from experienced colleagues within the framework of our systematic training program.

In the year under review we commenced implementation of the human resources management software SAP R3/HR, and in July 1999 our salary accounting was migrated to the new system. With the aid of this tool, we can quickly and systematically provide both staff and management with the highest possible level of information.

We would like to take this opportunity to thank our members of staff for their commitment and personal dedication. Once again, they have contributed through their efforts to the success of our company. We would also like to express our appreciation to the employee council and the senior management committee for their constructive and trusting cooperation.

Outlook

Both for the global economy and the German market, current indications point to a sustained positive economic trend for the current year. The driving force behind business activity in Germany will continue to be exports, heavily favoured by the weak euro. Further positive influences are anticipated from a predicted growth in disposable incomes and the continuing strong eagerness among companies to invest. Monetary policy is also expected to remain expansionary on the basis of low inflation figures and despite a slight rise in interest rates.

Based on the insights which we gained from treaty negotiations with our clients – most renewals being concluded as at 1 January of each year –, the expectations for our various business segments in the current year again differ very widely. In property and casualty reinsurance we expect the situation to remain tense. Premiums and conditions will remain under pressure, a situation exacerbated by the overcapacities which still prevail and the associated intense competition. The most critical areas here are industrial fire, motor and liability insurance. Terms and conditions continue to be extended in these classes, i.e. there is an increasing trend to include several risks under a single policy. It is frequently impossible to implement the necessary premium adjustments in this regard, which should go beyond the aforementioned growth in premium income observed in certain areas. On the other hand, our expectations in personal lines – most notably motor business – are more favourable. Significant premium adjustments are underway here, although it still remains to be seen whether this tendency will bring about appreciable improvements in results as early as the year 2000.

On the basis of these market assessments, we assume that it will continue to be imperative during the current financial year to strictly apply a selective underwriting policy guided by profitability considerations – even if this should mean accepting a decline in our premium income in absolute terms.

In contrast, our assessment of the foreign business which E+S Rück receives through Hannover Re in the form of risk-spreading internal retrocessions is more favourable. Encouraging trends could be observed, especially in the USA, Latin America and to some extent the London Market. We are therefore optimistic that we can generate positive profit contributions from these areas.

Following two consecutive years with unusually high loss expenditure, a reduction in the scale of major losses to a "normal" level would greatly help put satisfactory results back within reach. This area, by its very nature, defies forecasting. As at the time when this report was prepared, however, the current year had hitherto fortunately been spared any major catastrophe losses.

We believe that the signs continue to augur very favourably for life and health reinsurance. Given the special factors in the year under review – the uncertainty surrounding the future of old-age provision and the hotly debated issue of the taxation of life insurance policies –, it is difficult to make an exact forecast for the current financial year; however, it appears unlikely that the high growth rates recorded by our portfolio in the previous year will show any drastic decline. One reason for this assertion is the growth potential of our clients – which exceeds the market average – and their product positioning in the still strongly growing area of unit-linked life insurance. Overall, therefore, we expect new business to stabilise just above the level of previous years. We shall also continue to maintain close contacts with our clients in the year 2000 and support them in product developments with our expertise. In the current financial year, for example, conceptual designs for products in the area of immediate long-term care insurance are planned. All in all, we expect to achieve further profitable business growth in the life and health reinsurance segment due to the favourable prospects for the development of new business.

Forecasts regarding investment income are by their very nature difficult to make. Assuming that the overall development of the global economy remains positive, dramatic interest rate rises and sharp plunges on the stock markets are unlikely. Under such a "normal" scenario, we expect to further boost our investment income on the basis of an increased investment portfolio. On balance, we anticipate that we shall again achieve our profit targets in the current year.

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]. The measures taken 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. If the Annual General Meeting approves our proposals for the distribution of the disposable profit, the composition of these funds will be as follows.

Figures in EUR million	*1999*	*1998*
Subscribed capital and reserves	120.3	120.3
Surplus debenture (Genussrechtskapital)	40.9	40.9
Equalisation reserve and similar provisions	275.8	256.3
Technical provisions	2 372.1	2 187.9
Total capital, reserves and technical provisions	2 809.1	2 605.4

The capital, reserves and technical provisions amounted to 388.2% (349.9%) of net premiums; this includes the capital and reserves (including surplus debenture) at 22.3% (21.6%) of net premiums.

Proposal for the distribution of profits

We intend to propose to the Annual General Meeting that the disposable profit be distributed as follows:

	DM
Dividend on the participating subscribed capital of DM 29 570 400,-	19 167 134,–

BALANCE SHEET *as at 31 December 1999*

Assets *Figures in EUR thousand*	*1999*				*1998*
A. Subscribed capital unpaid				9 663	9 663
- called up capital					
- (1998: -)					
B. Intangible assets					
Other intangible assets				3 379	6 182
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			52 159		55 256
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		284 564			184 455
2. Participating interests		17 755			6 411
			302 319		190 866
III. Other financal investments					
1. Shares, units in unit trusts and other variable-yield securities		604 507			599 551
2. Bearer debt securities and other fixed-income securities		986 690			911 709
3. Mortgages and loans secured on land and buildings		1 285			2 386
4. Other loans					
a) Registered debt securities	264 662				241 828
b) Debentures and loans	158 777				145 999
c) Sundry loans	23 008				23 008
		446 447			410 835
5. Deposits with banks		89 346			65 113
6. Other investments		5			5
			2 128 280		1 989 599
IV. Deposits with ceding companies			591 430		549 028
				3 074 188	2 784 749

Liabilities

Figures in EUR thousand

	1999			1998
A. Capital and reserves				
I. Subscribed capital (DM 48 470 thousand)		24 783		24 783
II. Capital reserve		58 305		58 305
III. Retained earnings				
1. Statutory reserve	256			256
2. Other retained earnings	36 937			36 937
		37 193		37 193
IV. Disposable profit		9 800		–
			130 081	120 281
B. Surplus debenture (Genussrechtskapital)			40 903	40 903
C. Technical provisions				
I. Provision for unearned premiums				
1. Gross	116 627			107 233
2. Less: reinsurance ceded	27 387			23 643
		89 240		83 590
II. Life assurance provision				
1. Gross	473 722			459 248
2. Less: reinsurance ceded	195 723			203 736
		277 999		255 512
III. Provisions for outstanding claims				
1. Gross	2 625 818			2 424 558
2. Less: reinsurance ceded	653 026			612 712
		1 972 792		1 811 846
IV. Provision for bonuses and rebates				
1. Gross	986			781
2. Less: reinsurance ceded	161			18
		825		763
V. Equalisation reserve and similar provisions		275 765		256 266
VI. Other technical provisions				
1. Gross	40 349			41 585
2. Less: reinsurance ceded	9 096			5 342
		31 253		36 243
			2 647 874	2 444 220

Assets

Figures in EUR thousand

	1999				1998
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			224 279		351 613
- from affiliated companies:					
131 651 (1998: 253 113)					
II. Other receivables			5 293		13 327
- from affiliated companies:				229 572	364 940
3 698 (1998: 10 769)					
E. Other assets					
I. Tangible assets and stocks			16		19
II. Current accounts with banks, cheques and cash in hand			12 277		6 904
				12 293	6 923
F. Prepayments and accrued income					
I. Accrued interest and rent			37 227		35 216
II. Other accrued income			2 185		710
				39 412	35 926
G. Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB)				25 019	–
				3 393 526	3 208 383

Liabilities

Figures in EUR thousand

	1999			1998
D. Provisions for other risks and charges				
I. Provisions for pensions and similar obligations		9 837		9 016
II. Provisions for taxation		55 302		23 074
III. Other provisions		15 141		16 674
			80 280	48 764
E. Deposits received from retrocessionaires			275 252	308 224
F. Other liabilities				
I. Accounts payable arising out of reinsurance operations		198 450		224 701
- to affiliated companies:				
64 102 (1998: 19 437)				
II. Miscellaneous liabilities		16 568		16 648
- from taxes:			215 018	241 349
135 (1998: 127)				
- for social security:				
218 (1998: 213)				
- to affiliated companies:				
1 383 (1998: 12 919)				
G. Accruals and deferred income			4 118	4 642
			3 393 526	3 208 383

PROFIT AND LOSS ACCOUNT *for the 1999 financial year*

Figures in EUR thousand	1999			1998
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross written premiums	1 272 339			1 160 634
b) Retrocession premiums	548 692			416 087
		723 647		744 547
c) Change in the gross provision for unearned premiums (+/-)	-298			-7 064
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	3 681			1 909
		3 383		-5 155
			727 030	739 392
2. Allocated investment return transferred from the non-technical account, net of retrocession			11 491	11 775
3. Other technical income, net of retrocession			–	55
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	882 776			519 493
bb) Retrocessionaires' share	340 570			148 455
		542 206		371 038
b) Change in provisions for outstanding claims				
aa) Gross	-67 057			-351 221
bb) Retrocessionaires' share	36 875			199 499
		-30 182		-151 722
			572 388	522 760
5. Change in other technical provisions, net of retrocession				
a) Net life assurance provision		-22 678		-50 938
b) Other net technical provisions		58		725
			-22 620	-50 213
6. Bonuses and rebates, net of retrocession			613	226
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		461 450		322 907
b) Less: commissions and profit commissions received on retrocession		262 922		99 577
			198 528	223 330
8. Other technical charges, net of retrocession			1 906	1 803
9. Subtotal			-57 534	-47 110
10. Change in the equalisation reserve and similar provisions			-19 499	-42 406
11. Net technical result			-77 033	-89 516

Figures in EUR thousand	1999				1998
Balance brought forward:				-77 033	-89 516
II. Non-technical account					
1. Investment income					
a) Income from participating interests		4 050			10 606
- affiliated companies:					
3 439 (1998: 10 226)					
b) Income from other investments					
- affiliated companies:					
14 009 (1998: 10 604)					
aa) Income from land and buildings, rights to land and buildings, leasehold	3 636				3 322
bb) Income from other investments	127 726				129 146
		131 362			132 468
c) Appreciation on investments		9 926			120
d) Gains on the realisation of investments		47 352			37 429
			192 690		180 623
2. Investment charges					
a) Investment management charges, including interest		5 971			3 936
b) Depreciation		15 549			11 303
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
690 (1998: 1 329)					
c) Losses on the realisation of investments		11 073			5 758
			32 593		20 997
			160 097		159 626
3. Allocated investment return transferred to the technical account			-16 058		-15 762
				144 039	143 864
4. Other income			15 002		5 276
5. Other charges					
a) Special allocation to provisions for outstanding claims		36 360			32 651
b) Miscellaneous charges		26 654			15 813
			63 014		48 464
				-48 012	-43 188
6. Profit or loss on ordinary activities before tax				18 994	11 160
7. Taxes on profit and income		4 459			11 142
plus allocation for group assessment		4 679			97
			9 138		11 239
8. Other taxes		56			202
plus allocation for group assessment		–			-274
			56		-72
				9 194	11 167
9. Profit or loss for the financial year				9 800	-7
10. Profit brought forward from previous year				–	7
11. Disposable profit				9 800	–

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.

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 § 341 b (2) in conjunction with § 253 (3) 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.

Write-ups were effected in accordance with § 280 (1) of the Commercial Code (HGB).

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 May 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. The estimated gross premium income is 3.6% of the total volume.

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 equalisation reserve was set up in accordance with the annex to § 29 of the regulation on the presentation of insurance company accounts (RechVersV); the similar provisions were constituted in accordance with § 30 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).

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 1998 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 uncertain liabilities. In the case of tax expenditure which relates to the financial year under the provisions of tax law, but for which probable tax relief will arise in subsequent years, an item on the assets side was established in accordance with § 274 (2) of the Commercial Code (HBG). This relates to corporation tax based on a rate of taxation of 40%, the German reunification charge and trade earnings 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 Euros at the average exchange rates for the respective balance sheet date.

Balance sheet items taken over from the previous year were also converted into Euros 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. In the case of foreign currencies in which we hold investments, we allocated the profits arising out of revaluation – after offsetting against losses within the financial year – to the reserve for currency risks as unrealised profits. Exchange-rate losses from these investment currencies were – where possible – neutralised by releases from the reserve. In addition, this reserve is written back on a year-by-year basis.

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 1999 financial year.

Figures in EUR thousand		Book values 31.12.1998	Additions	Disposals	Write-ups	Depre-ciation	Book values 31.12.1999
B.	Intangible assets:						
	Other intangible assets	6 182	–	–	–	2 803	3 379
C. I.	Land and buildings, rights to land and buildings, leasehold	55 256	–	–	–	3 097	52 159
C. II.	Investments in affiliated companies and participating interests						
	1. Shares in affiliated companies	184 455	101 300	1 191	–	–	284 564
	2. Participating interests	6 411	11 344	38	38	–	17 755
	3. Total C. II.	190 866	112 644	1 229	38	–	302 319
C. III.	Other financial investments						
	1. Shares, units in unit trusts and other variable-yield securities	599 551	83 608	75 409	2 500	5 743	604 507
	2. Bearer debt securities and other fixed-income securities	911 709	603 590	529 904	7 315	6 020	986 690
	3. Mortgages and loans secured on land and buildings	2 386	–	1 101	–	–	1 285
	4. Other loans						
	a) Registered debt securities	241 828	33 682	10 848	–	–	264 662
	b) Debentures and loans	145 999	20 397	7 619	–	–	158 777
	c) Sundry loans	23 008	–	–	–	–	23 008
	5. Deposits with banks	65 113	24 233	–	–	–	89 346
	6. Other	5	–	–	–	–	5
	7. Total C. III.	1 989 599	765 510	624 881	9 815	11 763	2 128 280
Sum total		2 241 903	878 154	626 110	9 853	17 663	2 486 137

Land and buildings and rights to land and buildings

As at 31 December 1999 the company owned three developed sites with business and other buildings in Bad Cannstatt, Bielefeld and Leipzig. The company also owned shares worth EUR 21,672 thousand in three developed sites in Düsseldorf, Frankfurt and Stuttgart.

Shares in affiliated companies and participations

A complete list of shareholdings has been compiled separately in accordance with § 287 of the Commercial Code (HGB) and is deposited with the Hannover Commercial Register under HRB 6117.

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*	
Shares in affiliated companies					
Companies resident in Germany					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	45,00	EUR	30 245	EUR	807
Companies resident abroad					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland	100,00	EUR	170 916	EUR	15 796
holds 33.33 % of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		EUR	461	EUR	89
Hannover Life Re of Australasia Ltd, Sydney/Australia	50,00	AUD	140 268	AUD	11 307
Hannover Finance, Inc., Wilmington/USA	56,93	USD	172 314	USD	-1 038
holds 100 % of the shares in:					
Lion Holding, Inc. Wilmington/USA		USD	276 578	USD	30 852
holds 100 % of the shares in:					
C. G. America Corporation, Wilmington/USA		USD	275 470	USD	52 666
holds 100 % of the shares in:					
Clarendon Insurance Group, Inc., Wilmington/USA		USD	284 841	USD	33 839
holds 100 % of the shares in:					
Clarendon National Insurance Company, Trenton/USA		USD	235 432	USD	49 915
holds 100 % of the shares in:					
Clarendon America Insurance Company, Trenton/USA		USD	64 654	USD	-813
Clarendon Select Insurance Company, Tallahassee/USA		USD	19 093	USD	3 180
Harbor Speciality Insurance Company, Trenton/USA		USD	19 007	USD	4 860
Lion Insurance Company, Tallahassee/USA		USD	4 375	USD	-53
Participations					
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	25,00	DEM	110 125	DEM	34 688

Other notes on investments

Assets with a balance sheet value of EUR 112,790 thousand (EUR 106,261 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.

Due to the Tax Relief Act of 24 March 1999, increased valuations of special write-downs from previous financial years were effected in the amount of EUR 9,853 thousand.

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 (1998). In individual cases book values were used.

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 1999 financial year Figures in EUR thousand	*Book values 31.12.1998*	*Current values 31.12.1999*	*Difference 31.12.1999*
C.I. Land and buildings, rights to land and buildings, leasehold	52 159	80 360	28 201
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	284 564	322 581	38 017
2. Participating interests	17 755	34 014	16 259
3. Total C. II.	302 319	356 595	54 276
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	604 507	821 079	216 572
2. Bearer debt securities and other fixed-income securities	986 690	1 012 742	26 052
3. Mortgages and loans secured on land and buildings	1 285	1 285	–
4. Other loans			
a) Registered debt securities	264 662	273 000	8 338
b) Debentures and loans	158 777	163 968	5 191
c) Sundry loans	23 008	24 177	1 169
5. Deposits with banks	89 346	89 346	–
6. Other investments	5	5	–
7. Total C. III.	2 128 280	2 385 602	257 322
Sum total	2 482 758	2 822 557	339 799

Other receivables

Figures in EUR thousand	*1999*	*1998*
Receivables from affiliated companies	3 698	10 769
Receivables from the revenue authorities	857	1 464
Interest and rent due	714	691
Receivables from investment deposits	10	379
Other receivables	14	24
Total	5 293	13 327

Accruals and deferred income

This item mainly covers deferred interest and rent and also share premium reserves amounting to EUR 2,169 thousand (EUR 710 thousand).

Probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB).

A deferred item was established in the financial year for the probable tax relief in subsequent financial years in accordance with § 274 (2) of the Commercial Code (HGB) in the amount of EUR 25,019 thousand. Of this amount, EUR 15,874 thousand was attributable to corporation tax and EUR 9,145 thousand to trade tax.

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 *Figures in EUR thousand*	*1999*		*1998*	
	gross	*net*	*gross*	*net*
Fire	16 630	14 459	14 992	12 982
Liability	25 224	22 567	20 661	18 096
Personal accident	5 021	4 715	4 987	4 705
Motor	11 976	8 620	10 346	7 704
Aviation	9 050	7 508	6 830	6 501
Life	20 582	9 595	21 795	13 204
Other classes	28 144	21 776	27 622	20 398
Total	116 627	89 240	107 233	83 590

Life assurance provisions

Insurance class *Figures in EUR thousand*	*1999*		*1998*	
	gross	*net*	*gross*	*net*
Life	473 722	277 999	459 248	255 512

Provisions for outstanding claims

Insurance class *Figures in EUR thousand*	*1999* *gross*	*1999* *net*	*1998* *gross*	*1998* *net*
Provision for reimbursements and surrenders (except annuities)				
Fire	101 931	79 807	79 449	60 416
Liability	821 181	656 156	774 896	598 769
Personal accident	51 123	45 802	46 150	41 470
Motor	1 179 381	835 184	1 157 043	830 112
Aviation	58 089	42 333	51 549	41 662
Marine	72 676	57 197	59 111	48 675
Life	65 817	59 727	53 734	48 541
Other classes	244 765	169 874	174 380	118 132
	2 594 963	1 946 080	2 396 312	1 787 777
Provision for annuities				
Liabilitiy	1 436	1 409	1 348	1 327
Personal accident	1 952	1 472	1 614	1 285
Motor	27 467	23 831	25 284	21 457
	30 855	26 712	28 246	24 069
Total	2 625 818	1 972 792	2 424 558	1 811 846

Equalisation reserve and similar provisions

Insurance class *Figures in EUR thousand*	*Position at 1.1.1999*	*Addition*	*Withdrawal and release*	*Position at 31.12.1999*
Equalisation reserve				
Fire	52 577	864	8 069	45 372
Liability	17 146	26 574	–	43 720
Personal accident	7 158	–	2 959	4 199
Motor	29 555	348	514	29 389
Aviation	27 564	–	9 113	18 451
Marine	20 078	3 355	93	23 340
Other classes	94 795	16 269	7 072	103 992
	248 873	47 410	27 820	268 463
Provisions which are similar to the equalisation reserve – major risks –				
Liability	1 257	–	91	1 166
Other classes	6 136	–	–	6 136
Total	256 266	47 410	27 911	275 765

Other technical provisions

Type of provision *Figures in EUR thousand*	*1999* *gross*	*net*	*1998* *gross*	*net*
Profit commission	31 524	23 103	32 637	27 567
Commissions	6 946	6 728	7 254	7 251
Premium cancellation	1 621	1 284	1 641	1 375
Lay-up provision	172	80	47	47
Road traffic accident victim assistance	86	58	6	3
Total	40 349	31 253	41 585	36 243

Technical provisions – total

Insurance class *Figures in EUR thousand*	*1999* *gross*	*net*	*1998* *gross*	*net*
Fire	165 665	140 364	148 660	127 103
Liability	900 056	732 187	824 147	645 364
Personal accident	62 456	56 285	60 040	54 707
Motor	1 266 267	914 103	1 239 871	905 940
Aviation	86 624	66 640	86 822	75 591
Marine	96 268	80 780	79 364	68 923
Life	560 626	347 809	535 479	317 799
Other classes	395 305	309 706	315 288	248 793
Total	3 533 267	2 647 874	3 289 671	2 444 220

Provisions for other risks and charges

Figures in EUR thousand	*1999*	*1998*
Provisions for pensions and similar liabilities	9 837	9 016
Provisions for taxation	55 302	23 074
Sundry provisions		
Provisions for interest	8 644	6 749
Provisions for currency risks	2 775	6 969
Provisions for outstanding payments	1 826	1 826
Provisions for annual accounts costs	1 338	471
Provisions for litigation risks	383	383
Other provisions	175	276
	15 141	16 674
Total	80 280	48 764

Miscellaneous liabilities

Figures in EUR thousand	*1999*	*1998*
Liabilities from interest on surplus debenture	11 344	–
Liabilities in respect of affiliated companies	3 170	3 170
Liabilities from outstanding social security contributions	1 383	12 919
Liabilities from deliveries and services	218	213
Liabilities from land and buildings	140	50
Liabilities in respect of the revenue authorities	138	147
Liabilities from leases	135	127
Other liabilities	–	4
Total	16 528	16 630

Deferred items

Figures in EUR thousand	*1999*	*1998*
Disagio	3 902	4 336
Other accruals and deferred income	216	306
Total	4 118	4 642

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 written premiums		*Gross premiums earned*		*Net premiums earned*		*Technical result for own account*	
Figures in EUR thousand	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*	*1999*	*1998*
Fire	93 639	85 960	94 022	88 713	66 162	68 065	5 069	111
Liability	157 819	139 896	154 938	136 444	82 872	78 357	-816	-8 808
Personal accident	38 935	39 431	38 975	39 478	31 547	31 394	1 119	-1 360
Motor	440 955	418 193	440 116	417 750	210 718	234 841	-76 630	-57 656
Aviation	75 072	72 954	67 335	74 059	51 797	54 613	12 215	-6 923
Marine	46 639	41 942	46 639	41 942	25 771	26 841	-1 081	-2 870
Other insurance classes	241 032	199 902	242 359	201 070	173 881	141 618	-12 084	-18 479
Total property and casualty insurance	1 060 420	963 708	1 057 354	959 825	615 946	607 599	-71 437	-82 817
Life	211 919	196 926	214 687	193 745	111 084	131 793	-5 596	-6 699
Total insurance business	1 272 339	1 160 634	1 272 041	1 153 570	727 030	739 392	-77 033	-89 516

Total insurance business

Figures in EUR thousand	*1999*	*1998*
Gross claims incurred	949 833	870 714
Gross operating expenses	461 450	322 907
Reinsurance balance	-95 356	-33 353

Expenses for personnel

Figures in EUR thousand	*1999*	*1998*
1. Wages and salaries	10 490	9 484
2. Social security payments and expenses for welfare	1 777	1 760
3. Expenses for old-age pension scheme	1 036	989
4. Total expenses	13 303	12 233

Expenses for investments

Figures in EUR thousand	*1999*	*1998*
Fixed-income securities	15 468	2 684
Shares, units in unit trusts	6 940	6 256
Administrative expenses	4 419	3 031
Land and buildings	4 227	3 173
Deposits	690	272
Derivative financial instruments	427	3 933
Deposit and bank fees	422	319
Debentures and loans	–	1 329
Total	32 593	20 997

Other income

Figures in EUR thousand	*1999*	*1998*
Amounts realised	5 915	807
Exchange rate gains	4 219	3 207
Profit from services	2 351	159
Cancellation of value adjustments	1 377	407
Release of non-technical provisions	431	152
Allocated investment return	376	224
Income from repayments	99	–
Other income	234	320
Total	15 002	5 276

Other expenses

Figures in EUR thousand	1999	1998
Special allocations to the provisions for outstanding claims	36 360	32 651
Deposit interest	7 192	6 054
Exchange rate losses	5 307	3 280
Expenses for the whole company	4 559	3 093
Interest charges on surplus debenture (Genussrechtskapital)	3 170	3 170
Expenses from services	2 341	164
Separate value adjustment on accounting debts	2 131	1 174
Allocation to interest provisions	1 895	–
Expenses from administration costs	1 488	2
Interest charges on reinsurance operations	1 379	568
Financing interest	771	671
Interest charges on old-age pension scheme	308	477
Expenses for letters of credit	274	395
Depreciations on receivables	239	7
Interest charges on portfolio acquisitions	–	643
Other interests and expenses	167	102
	65 854	52 442
Less: Technical interest	4 567	3 987
Total	61 287	48 455

Other information

The names of the members of the Supervisory Board, Advisory Board and Executive Board are listed on pages 2 and 3.

The total emoluments paid to the Supervisory Board in the year under review totalled EUR 145 thousand, those to the Advisory Board EUR 92 thousand, those to the Executive Board EUR 845 thousand and those to former members of the Executive Board EUR 322 thousand. The amount of EUR 3595 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 EUR thousand	Position at 1.1.1999	Amortisation	Position at 31.12.1999	Interest rate %
Executive Board	70	70	–	5.5

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

The average number of employees was 207 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, 18 May 2000

Executive Board

Zeller	Schubach	Dr. Becke
Gräber	Haas	Dr. Hecker
Dr. Steiner	Dr. Pickel	

Certification by the Independent Auditors

We audited the annual financial statements together with the bookkeeping system and the management of the Company E+S Rückversicherungs-Aktiengesellschaft for the business year from January 1 to December 31, 1999. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German Commercial Law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual and consolidated financial statements together with the bookkeeping system, and on the management report and the group management report based on our audit.

We conducted our audit of the annual and consolidated financial statements in accordance with § 317 HGB ("Handelsgesetzbuch: German Commercial Code") and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [in Deutschland] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual and consolidated financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of internal control system and the evidence supporting the disclosures in the books and records, the annual and consolidated financial statements and the management and group report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual and consolidated financial statements and management group report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. On the whole the management and group report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hannover, 19 May 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Auditor	Auditor

We supervised the management of the company regularly during 1999 on the basis of written and verbal reports from the Executive Board and we took the decisions required of us at two meetings. The audit mandate for the 1999 annual financial statements was awarded by the Supervisory Board. The audit report was distributed to all members of the Supervisory Board, and the auditor participated in the meeting of the Supervisory Board held to discuss the annual financial statements. 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 participations was also included in our consultations. As part of the implementation of important individual projects, we considered, inter alia, the outsourcing of our investment management to HDI Asset-Management GmbH.

The accounting, the annual financial statements and the management report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. 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 relations with affiliated companies has likewise been examined by KPMG DTG and given the following unqualified audit certificate:

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

1. its factual details are correct,

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

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

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

Nor have we any objection to the Executive Board's management report; we agree to the 1999 annual financial statements, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 1999.

With effect from 1 September 1999, Jürgen Gräber was appointed a full member of the company's Executive Board for the remainder of his term of office until 31 August 2002. With effect from 1 January 2000 Dr. Michael Pickel was appointed a deputy member of the Executive Board for a period of three years. Dr. Pickel initially bears regional responsibility for the German, Austrian and Swiss markets and is also responsible for the areas of Legal Affairs and the Claims Service.

Hannover, 19 June 2000

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 securitisation 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 equalisation 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 realise 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, organisation).

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).

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

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 equalisation over time and to stabilize the → cedant's balance sheet.

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

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

Life 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 specialised 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 equalisation reserve: net technical result).

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