Annual REPORT 1998

- Fourth record year in succession
- Gross premium income + 10.6 %
- Life and health reinsurance + 39.7 %
- Financial reinsurance + 38.8 %
- Investment result + 12.7 %
- Group profit for the financial year + 7.8 %
- Record allocation to the fluctuation reserve
- Earnings per share + 12.9 %
- Return on equity 27.7 % before tax and 15.4 % after tax
- Sixth consecutive dividend increase
- Long-term dividend target reached ahead of schedule
- Successful diversification

hannover re

CONTENTS

KEY FIGURES *of the Hannover Re Group*

Figures in DM million	*1998*	*+/- previous year*	*1997*	*1996*
Gross premiums written	8 562.3	+10.6 %	7 745.1	6 400.7
Net premiums earned	6 728.7	+3.1 %	6 527.8	5 025.4
Technical result	-215.5	+5.2 %	-204.9	-141.7
Allocation to the fluctuation reserve and similar provisions	276.4	+19.3 %	231.7	191.4
Investment result	1 223.2	+12.7 %	1 085.7	876.2
Profit or loss on ordinary activities before tax	204.8	+15.3 %	177.7	226.2
Profit or loss for the financial year	103.2	+7.8 %	95.7	84.4
Investments	19 339.4	+3.3 %	18 723.8	15 546.7
Capital and reserves incl. surplus debenture (Genußrechtskapital)	933.1	-7.0 %	1 003.0	892.6
Fluctuation reserve and similar provisions	1 856.1	+17.5 %	1 579.7	1 348.0
Net technical provisions	16 620.8	+9.9 %	15 129.3	12 680.7
Total capital, reserves and technical provisions	19 410.0	+9.6 %	17 712.0	14 921.3
Earnings per share (using the revised DVFA/GDV calculation methods of December 1998) in DM	6.92	+12.9 %	6.13	5.38
Dividend (incl. corporation tax credit) in DM million	104.4	+10.0 %	94.9	84.7
Dividend (incl. corporation tax credit) per share in DM	4.26	+10.1 %	3.87	3.52
Return on equity (after tax)	15.4 %		15.9 %	18.0 %
Retention	80.5 %		83.8 %	78.9 %
Loss ratio*	77.5 %		71.6 %	73.7 %
Expense ratio*	25.2 %		27.3 %	24.2 %
Combined loss/expense ratio*	102.7 %		98.9 %	97.9 %

*excluding life and health reinsurance

KEY FACTS *at as glance*

The 1998 annual accounts represent our fourth successive record result in a row. We increased our gross premium income by 10.6 % to DM 8.6 billion and boosted the Group profit for the financial year by 7.8 % to DM 103 million. At the same time, a record amount of DM 276 million was allocated to the fluctuation reserve.

We view key management variables and operating ratios to be earnings per share and return on equity*. In this regard, we were able to increase our earnings per share (using the revised DVFA/GDV calculation methods) by 12.9 % from DM 6.13 to DM 6.92. In conjunction with a return on equity of 27.7 % before tax and 15.4 % after tax, we thus again surpassed our key strategic earnings targets. The profit for the financial year of Hannover Re, the Group's parent company, climbed by 11.9 % to DM 93 million. In accordance with our shareholder-friendly dividend policy, which we established three years ago, we shall propose to the Annual General Meeting that this amount be distributed in full to the shareholders. Taking into account the corporate tax credit, the gross dividend will therefore increase from DM 3.87 to DM 4.26. On the basis of the present share price, this produces a dividend yield of 3.0 %, a figure which can already compete with the current returns on a number of fixed-income securities.

Following its outstanding performance in the previous year, the price movements of the Hannover Re share in the year under review were overall disappointing. The share reached an all-time high of DM 255.50 in April 1998, but then fell back as part of the general price adjustments in late summer and autumn and proved unable to recover the lost ground by the end of the year. The year-end price of DM 177.50 constitutes a growth in value of 5.7 %. Since our stock exchange listing in November 1994, the Hannover Re share has generated average earnings of 28 % per year, and there is thus every reason to believe it will remain a lucrative investment in the future.

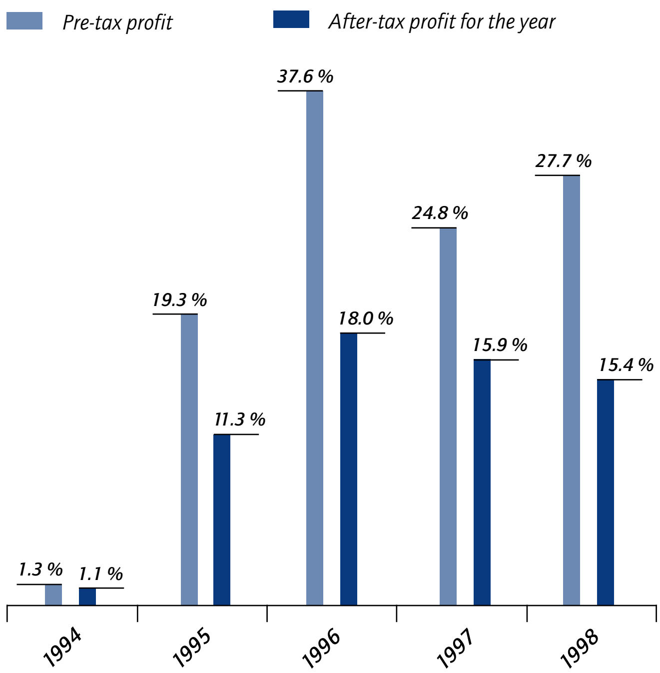
Our general business strategy in combination with our shareholder-oriented policy of value enhancement gives us grounds for optimism that the share price – sooner or later – will recover.

Specifically, our Investor Relations activities – which it may be noted are frequently praised for their above-average openness and transparency – are geared to generating renewed demand for our share; it is after all the case that only stock market turnover can boost the price. With this in mind, we are organizing roadshows and arranging meetings with investors in all the world's major financial centres.

This annual report shows how differently our various business segments – property and casualty, life and health, financial reinsurance – are developing. On this basis, we have arrived at highly differentiated strategic objectives, which also have implications for the annual results.

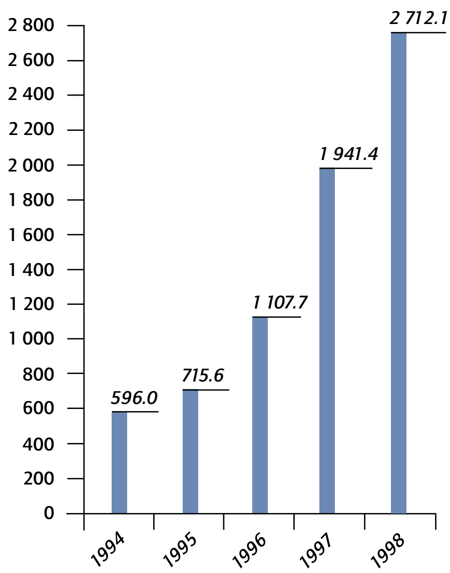
Property and casualty reinsurance continues to be marked by considerable overcapacity combined with extremely fierce competition in some areas. Negative factors in the year under review were not only the intense competitive pressure but also a rise in natural catastrophes

Above-average return on equity



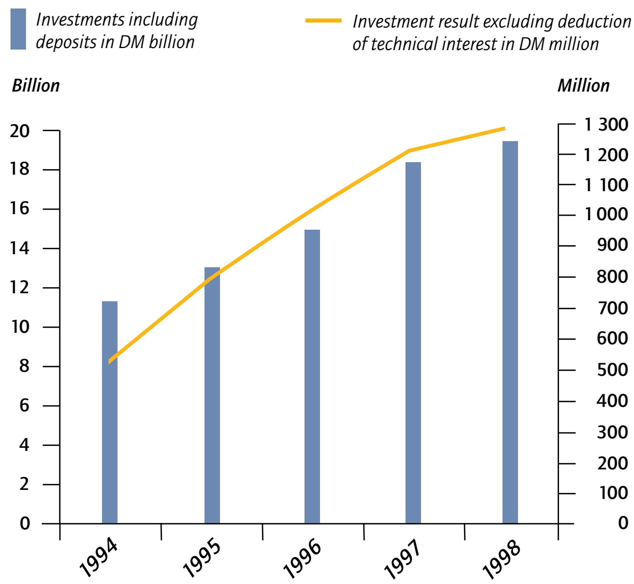
** Return on equity: result of ordinary business activities before tax or the profit for the financial year after tax relative to the average capital and reserves in the financial year* and other major losses. Consequently, our business volume in this segment scarcely increased – and indeed in some cases it even declined. Only our extremely disciplined and selective underwriting policy protected us here against significant losses.

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



The life and health insurance classes posted above-average growth rates worldwide in both the insurance and reinsurance sectors. We have already achieved massive expansion in this segment in recent years, and we have set ourselves demanding strategic objectives. In the year under review our premium income in life and health reinsurance grew by almost 40 %, and at DM 2.7 billion it now accounts for more than 30 % of our total business portfolio. In the life and health reinsurance segment we have specialized in transactions which contain a significant prefinancing component. Given the vigorous expansion of business, such arrangements initially produce losses, although they are strictly of an investment-related nature. Particularly thanks to the returns on such investments in previous years, our results in life and health reinsurance improved substantially as planned. Since growth was greater than anticipated, we shall achieve the breakeven point one year later than planned – an adjustment which we are happy to make. In April 1998 we concluded a transaction for the transfer of acquisition costs from life reinsurance business to the capital markets. The first of its kind worldwide, this transaction was awarded a prize for innovation and enabled us to create the capacity required to continue posting disproportionately large growth in this segment.

Sharp increase in investments and the investment result



Financial reinsurance, a segment in which we have concentrated our activities at the International Financial Services Centre in Dublin, also generated pleasing growth. Often of an innovative nature and tailored to meet clients' specific needs, we market these financial services highly successfully under the brand name "Hannover Re Advanced Solutions". We achieved a disproportionately large premium growth of 38.8 % and also significantly increased the annual profits.

The generally favourable developments on the financial markets benefited us in an operating sector which inevitably constitutes an integral part of a reinsurer's earnings power, namely investments. We considerably boosted both the ordinary investment income and gains on disposals, thereby generating growth of 12.7 % to DM 1.2 billion. At the same time, the unrealized reserves in our investments also increased to DM 1.9 billion in the year under review.

We have set ourselves the strategic objective of increasing the profit for the financial year and the earnings per share by a double-digit margin each year. Our stated objective of distributing a gross dividend of DM 100 million in the year 2000 has already been achieved this year, and our return on equity is also in excess of the 15 % target frequently cited in the industry. The target figure used for our internal purposes is the operating result*, which on a five-year average after tax is expected to be 750 basis points

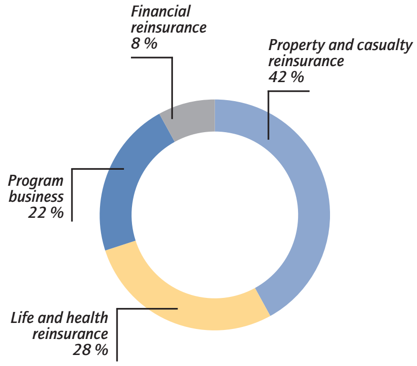
* *Operating result: pre-tax profit + allocation to the fluctuation reserve + strategic investments in the financial year - depreciation on strategic investments in the previous years relative to capital and reserves + fluctuation reserve*

higher than the corresponding yield on 10-year Federal Government bonds (for 1998: 12.02 %). With 17.1 % for 1998 and 20.3 % on a five-year average, we also surpassed these internal yardsticks by a comfortable margin.

On 25.2.1999 we completed the acquisition of all shares of Clarendon Insurance Group, New York, with retroactive effect as from 1.1.1999. Clarendon is one of the leading writers of so-called program business in the USA. A speciality of the US insurance market, this is written by insurers working in very close cooperation with reinsurers and highly specialized managing general agents. The segment is typically focused on niche and non-standard coverages and hard-to-place risks. This acquisition does not constitute our entry into the primary insurance sector; rather, it represents the cultivation of a niche segment which bears a very close affinity to reinsurance and will help us to further diversify our earnings base. With the addition of program business, which will account for a good 20 % of our gross business volume, less than half of our premium income will derive from the highly competitive, cyclical and volatile property/casualty reinsurance segment in 1999.

Life and health reinsurance is also expected to record disproportionately large growth in the current financial year and for the first time premium income should be significantly in excess of the DM 3 billion threshold. Appreciable growth is similarly anticipated in financial reinsurance, while in property and casualty reinsurance we shall continue to adhere to our highly selective and strictly profit-oriented underwriting policy and will also be willing to accept reductions in our business volume. Due to the initial inclusion of the Clarendon Insurance Group in the Group accounts, we expect to generate gross premium income in the order of DM 12 billion in 1999.

Business segments in % of gross premium (1999 planned figures)



At the time of going to press (late May 1999), the current financial year has – with the exception of a hailstorm in Australia which admittedly caused considerable damage – been largely free of natural catastrophes and other major losses. Assuming that no unforeseeable accumulation of major losses occurs, and provided the capital markets are spared any equally unpredictable turmoil, we anticipate that again in this year we shall be able to achieve our profit targets.

Supervisory Board (Aufsichtsrat)

Members	Membership of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises (without corresponding group mandates)
Wolf-Dieter Baumgartl, Hannover, Chairman, Chairman of the Executive Board of HDI Haftpflicht-verband der Deutschen Industrie V.a.G.	
Dr. Paul Wieandt, Königstein, Deputy Chairman, former Chairman of the Executive Board of BfG Bank AG	Member of the Supervisory Board of HPL Holding B.V. Trespa International B.V.
Karola Böhme, Barsinghausen*, Accounting specialist	
Dr.-Ing. Horst Dietz, Mannheim (from 25.9.1998), Chairman of the Executive Board of ABB AG	
Dr. Erwin Möller, Hannover, Member of the Executive Board of HDI Haftpflicht-verband der Deutschen Industrie V.a.G.	Deputy Chairman of the Supervisory Board of M.M. Warburg & Co. KGaA Member of the Supervisory Board of Warenterminbörse Hannover AG
Dr. Bernd H. Müller-Berghoff, Baden/Switzerland (until 25.9.1998), Chairman of the Supervisory Board of Fuchs Petrolub AG	
Ass. jur. Otto Müller, Hannover*, Section Manager	
Ass. jur. Renate Schaper-Stewart, Lehrte*, Section Manager	
Rudolf Schwan, Essen, Member of the Executive Board of RWE AG	Member of the Supervisory Board of Felten & Guilleaume AG
Eberhard Wild, Grünwald, Member of the Executive Board of Bayernwerk AG	Deputy Chairman of the Supervisory Board of Kernkraftwerke Grundremmingen Betriebsgesellschaft mbH (KGB) Member of the Supervisory Board of Donaukraftwerk Jochenstein AG (DKJ) Gesellschaft für Nuklear-Service mbH (GNS) Kraftübertragungswerke Rheinfelden AG (KWR) Kraftwerk Laufenburg, Laufenburg Österreichisch-Bayersiche Kraftwerke AG (ÖBK)

* staff representative

Executive Board (Vorstand)

Wilhelm Zeller, Burgwedel, Chairman

Dr. Andreas-Peter Hecker, Hannover, Deputy Chairman

Dr. Wolf Becke, Hannover

Herbert K. Haas, Burgwedel

Udo Schubach, Hannover

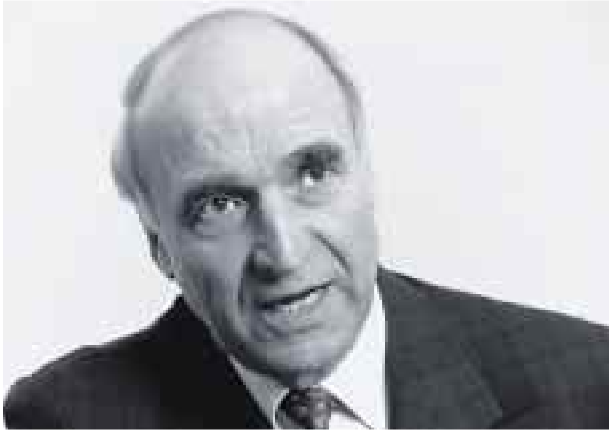
Dr. Detlef Steiner, Hannover (from 1.10.1998)

Jürgen Gräber, Ronnenberg, Deputy Member

Wilhelm Zeller

Corporate Staff Functions (Planning/Controlling, Investor Relations, Public Relations, Internal Auditing), Legal Department, Underwriting Service and Controlling

"In view of the cyclical and volatile nature of property and casualty reinsurance, the diversification of a reinsurer's portfolio assumes crucial importance. By strategically forcing the expansion of life and health reinsurance and financial reinsurance, and by entering the profitable segment of US program business, we are better equipped than most of our competitors to handle the prolonged soft market phase in property and casualty reinsurance."



Dr. Andreas-Peter Hecker

Property and Casualty Reinsurance in European Romance, Latin American and Arab countries, Non-life Reinsurance of the HDI Group, Retrocessions, Human Resources, General Administration

"The traditional reinsurance market confronts us with considerable challenges; obviously, even in a 'soft' market we do not lose sight of our profit target. The order of the day, on the one hand, is to identify business segments which have remained profitable, while at the same time developing with our clients new solutions for reinsurance requirements which are often entirely redefined. In all areas, therefore, we need staff who are well-trained, flexible, creative and highly motivated. Even though we provide employees with our own intensive training, at least some form of prior qualification is essential for new appointments. Despite the high level of unemployment, it is becoming increasingly difficult to find staff who satisfy our requirements."

Dr. Wolf Becke

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

"In international life and health reinsurance we attach particular importance to the concept of co-evolution with our clients. In this way we identify joint fields of interest, devise comprehensive solutions and generate long-term earnings potential on a partnership basis."

Herbert K. Haas

Finance and Accounting, Capital Markets, Information Technology

"The volatility of the international capital markets, safeguarding the Hannover Re Group's Y2K compliance and expanding our accounting to satisfy the requirements of US GAAP are issues which our staff see as a challenge and an opportunity to prove their expertise and motivation."

Jürgen Gräber

Property and Casualty Reinsurance in English-speaking Africa, Asia and Australasia, Aviation and Marine business worldwide, Financial Reinsurance

"Using the very latest actuarial methods we can now successfully analyse the benefits of non-traditional, innovative reinsurance concepts compared to financing with own or outside capital. Surplus and return on equity covers confront auditors and supervisory authorities with new challenges. Working in consultation with these parties, we reduce the volatility of entire balance sheets and cut our clients' capital costs."

Udo Schubach

Property and Casualty Reinsurance in Germany, Austria and Switzerland, Credit and Surety worldwide

"Worldwide deregulation in the primary insurance markets is leading to mergers, strategic alliances and acquisitions, resulting in marked changes in reinsurance requirements. For this reason, we offer our clients not only traditional reinsurance covers but also solutions which provide for holistic risk protection."

Dr. Detlef Steiner

Property and Casualty reinsurance in North America, Facultative Reinsurance worldwide, Claims Service

"Our positioning in the US market is based upon two independent business segments: traditional property and casualty reinsurance, on the one hand, and program business on the other. This enables us to tap into new market opportunities and exploit synergies."

Following its outstanding performance in the prior year, the overall development of the Hannover Re share price was disappointing in the year under review. In light of the constant upward trend in our results, we are of the opinion that this negative price movement does not reflect the company's true worth. At 15.4 % after tax, we again generated an above-average return on equity in the year under review, and based upon our successful diversification we also assess our profit expectations for the current year as favourable.

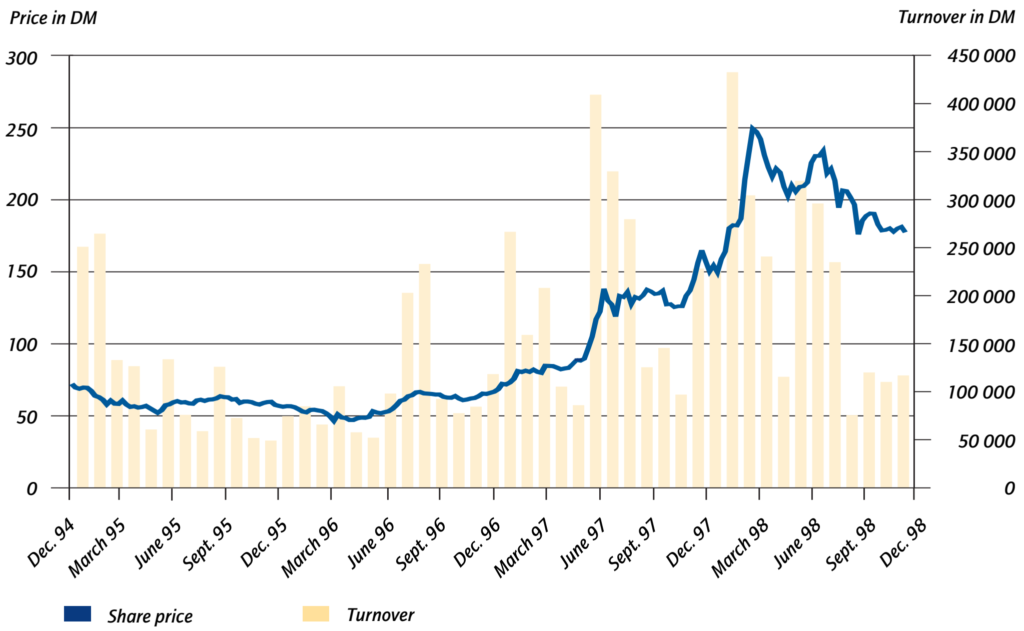
Stock market movements in 1998 were turbulent, but on the whole positive

Although 1998 began with rapid and substantial price gains on the international exchanges, in the second half of the year economic difficulties – most notably in Asia, South America and Russia – saw prices fall back sharply.

In the summer the Dax reached a new record high of 6,171 points, an increase of 45 % compared to the beginning of the year. It then went on to lose one-third of its value, finally closing the year with annual growth of 18 % at just over 5,000 points. Similar increases were recorded in the USA (+16 %) and the United Kingdom (+14 %).

Several new European stock indexes were established preparatory to the launch of the single currency, and these ensured that investors too acted on a more international scale. In addition to stocks in the telecommunications industry, companies in the new technology sectors particularly ranked among the year's winners, whereas financials were adversely affected by the problems of the major debtor nations. Second-tier stocks generally suffered as a result of investors' preference for "blue chips".

Price development of the Hannover Re share and turnover since stock exchange listing

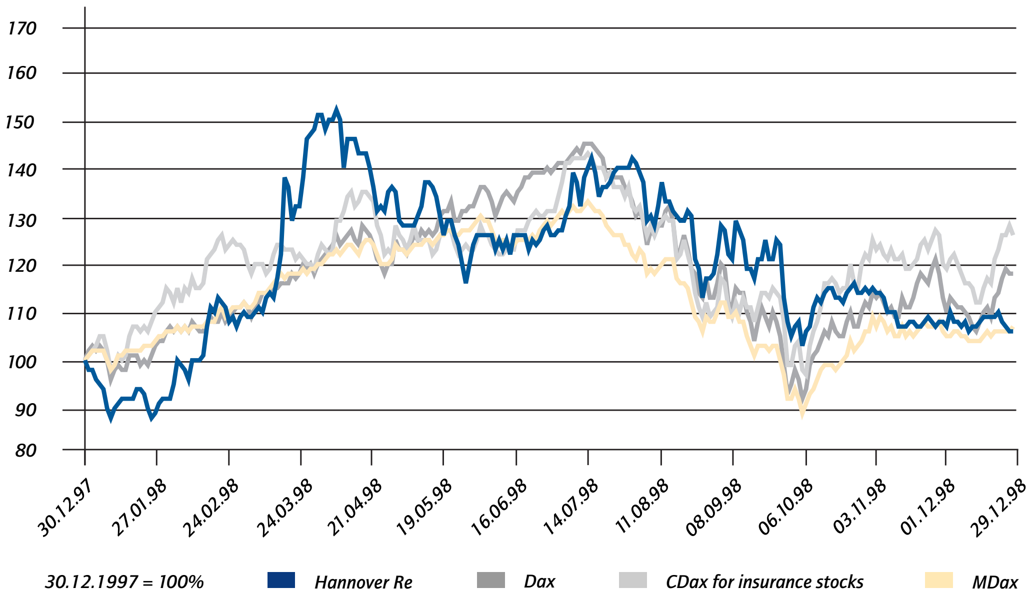


Performance of our share disappointing

Following its superb performance in the prior year, the overall development of the Hannover Re share was disappointing in the year under review. Initially, it posted above-average gains due to the rapid and at times euphoric price rises in the first half of the year, reaching a new record high of DM 255.50 (EUR 130.64) in April; after losing ground in May and June, it recovered sharply in August to a level well in excess of DM 230 (EUR 117.60). During the general price adjustments in the late summer and autumn, our share then fell back, losing at times more than 30 % of its value, and proved unable to pick up again by the close of the year. The year-end price of DM 177.50 (EUR 90.75) represents an increase in value of 5.7 %.

Nevertheless, an analysis of the performance of the Hannover Re share from its stock market listing in 1994 until year-end 1998 reveals quite a different picture. In light of our high dividend payments and our capital increases with a corresponding discount on the new shares, the average annual performance is equivalent to 28 % – in other words, a clearly favourable overall trend. Against a backdrop of friendly capital market conditions, key elements here were our corporate strategy, the sustained upward trend in our results and not least our transparent communication policy and indeed our entire Investor Relations programme. These success factors are no less valid today, and we therefore believe that the negative performance in the fourth quarter of 1998 does not reflect the company's true worth.

1998 was a difficult year for mid-caps



Good prospects for the current year

Since the beginning of the year our share has been listed in Euro; at the same time, we converted our share from a par value basis to a no-par value basis. The price trend in the current year has again failed so far to reflect the actual worth of the company. Possible reasons for this are the general weakness of German stock exchanges, a disproportionate discrimination against stocks with low liquidity and the exceptionally heavy burden imposed on the insurance industry by the new Federal Government's tax reform. By contrast, as early as our interim report published in February, we stated that for the 1998 financial year another record result – the fourth in succession – and a further increase in the dividend payment were anticipated. The 1998 annual accounts show a return on equity of 27.7 % before tax and 15.4 % after tax, figures which are again well above the industry average. We increased the DVFA earnings per share*, which constitutes one of our key target variables, by 12.9 % to DM 6.92 (EUR 3.54). On the basis of our successful strategy of diversification, our business expectations for the current financial year remain favourable.

Due to further enhancements in our internal workflows and systems, we are now able to present these annual accounts six weeks earlier than was previously the case. By the date of the Annual General Meeting in July of this year, we shall again compile a version of this German financial statement which has been converted in accordance with US GAAP regulations so as to enable international investors to more easily compare their investment alternatives. We also intend to publish semi-annual accounts for the first time this year.

We shall adhere to our shareholder-friendly policy of distributing the parent company's entire profit for the financial year to its owners. We shall therefore propose that the Annual General Meeting consent to a 10 % higher gross dividend of DM 4.26 (EUR 2.18) for each fully paid-up no-par value share. On the basis of the current share price, this produces a dividend yield of 3.0 % – a figure which can already rival current yields on some fixed-income securities.

As in the past, we shall profile our company at various national and international events, organize roadshows in the key financial centres at home and abroad and call upon investors and financial analysts – or invite them to visit us. All these activities are geared to a single objective: presenting our share to investors as an attractive investment, stimulating demand and thereby restoring the price to an appropriate level.

* All financial years which end subsequent to 31.12.1998 are subject to revised calculation rules. For our earnings per share, this means that profit-enhancing adjustments for goodwill amortization are no longer made. The new method has already been adopted for calculation purposes.

The opinions of our analysts:

"A history of innovation. Hannover Re has been at the forefront of the Alternative Risk Transfer (ART) market for some time."
Espen Nordhus; Morgan Stanley Dean Witter;
23 April 1999

"The liberal dividend policy of distributing the maximum amount should satisfy shareholder yield appetite while managing the equity capital at the same time."
Sackett Cook; Warburg Dillon Read;
9 March 1999

"Hannover Re is distinguished by a highly professional and disciplined approach to the capital management compared with all insurance companies within our European comparative group."
Bob Yates; Fox-Pitt, Kelton;
6 February 1999 Börsen-Zeitung

"Overall, we would argue that the group's commitment to shareholder issues are significantly better than the industry average."
Tim Dawson; Credit Suisse First Boston;
22 January 1999

"Even though prospects in the non-life reinsurance market are undeniably difficult, we believe that Hannover Re's strong balance sheet and interesting growth opportunities in other areas will help sustain double-digit DVFA earnings growth over at least the next three years."
Brian Shea; Salomon Smith Barney;
13 January 1999

"Hannover Re was the first German insurance company to publish the valuation reserves in its investment assets and has recently published a US GAAP reconciliation of the Group annual accounts. This and its orientation towards shareholder value have enhanced the visibility of the company in the market."
Karlos van Endert; Commerzbank;
4 December 1998

"Hannover Re is convincing through its clear strategic positioning connected with above-average profit prospects."
Simon Fößmeier; Bank Julius Bär;
28 July 1998

Share information

	1998	1997	1996	1995
DVFA earnings per share	6.92 DM (3.54 EUR)	6.13 DM (3.13 EUR)	5.38 DM (2.75 EUR)	4.76 DM (2.43 EUR)
Dividend per share at a par value of DM 5.00	3.80 DM (1.94 EUR)	3.40 DM (1.74 EUR)	3.15 DM (1.61 EUR)	3.00 DM (1.53 EUR)
Corporate tax credit	0.46 DM (0.24 EUR)	0.47 DM (0.24 EUR)	0.37 DM (0.19 EUR)	0.09 DM (0.05 EUR)
Gross dividend	4.26 DM (2.18 EUR)	3.87 DM (1.98 EUR)	3.52 DM (1.80 EUR)	3.09 DM (1.58 EUR)

Security identification number:	840 220		
Stock exchange ID:	Share:	Bloomberg: Investdata: Reuters:	HNR.GY HNR HNRG.DE
	ADR:		HVRRY
Exchange listings:	Germany on all german stock exchanges; Xetra, Frankfurt and Hannover in official trading USA American Depositary Receipts (Level 1 ADR-Program)		
First listed:	30 November 1994		
Majority shareholder:	HDI Haftpflichtverband der Deutschen Industrie V.a.G. (75 %)		
Subscribed capital as at 31.12.1998:	DM 147.6 million (EUR 75.5 million)		
Approved capital:	DM 38.5 million (EUR 19.7 million)		
Number of shares as at 31.12.1998:	29,530,215 no-par value shares, consisting of 16,730,215 bearer shares and 12,800,000 registered shares		
Market capitalization as at 31.12.1998:	DM 5.2 billion (EUR 2.7 billion)		
Highest share price in 1998:	DM 255.50 (EUR 130.64)		
Lowest share price in 1998:	DM 147.00 DM (EUR 75.15)		
Annual General Meeting:	30 July 1999 Hannover Congress Centrum Kuppelsaal Theodor-Heuss-Platz 1-3 Hannover		
Dividend payment:	2 August 1999		

THE HANNOVER RE GROUP *Our global presence*

Hannover Life Reassurance (UK) Ltd.
Virginia Water/London, United Kingdom
(100.0 %)

Hannover Life Services (UK) Ltd.
Virginia Water/London, United Kingdom
(100.0 %)

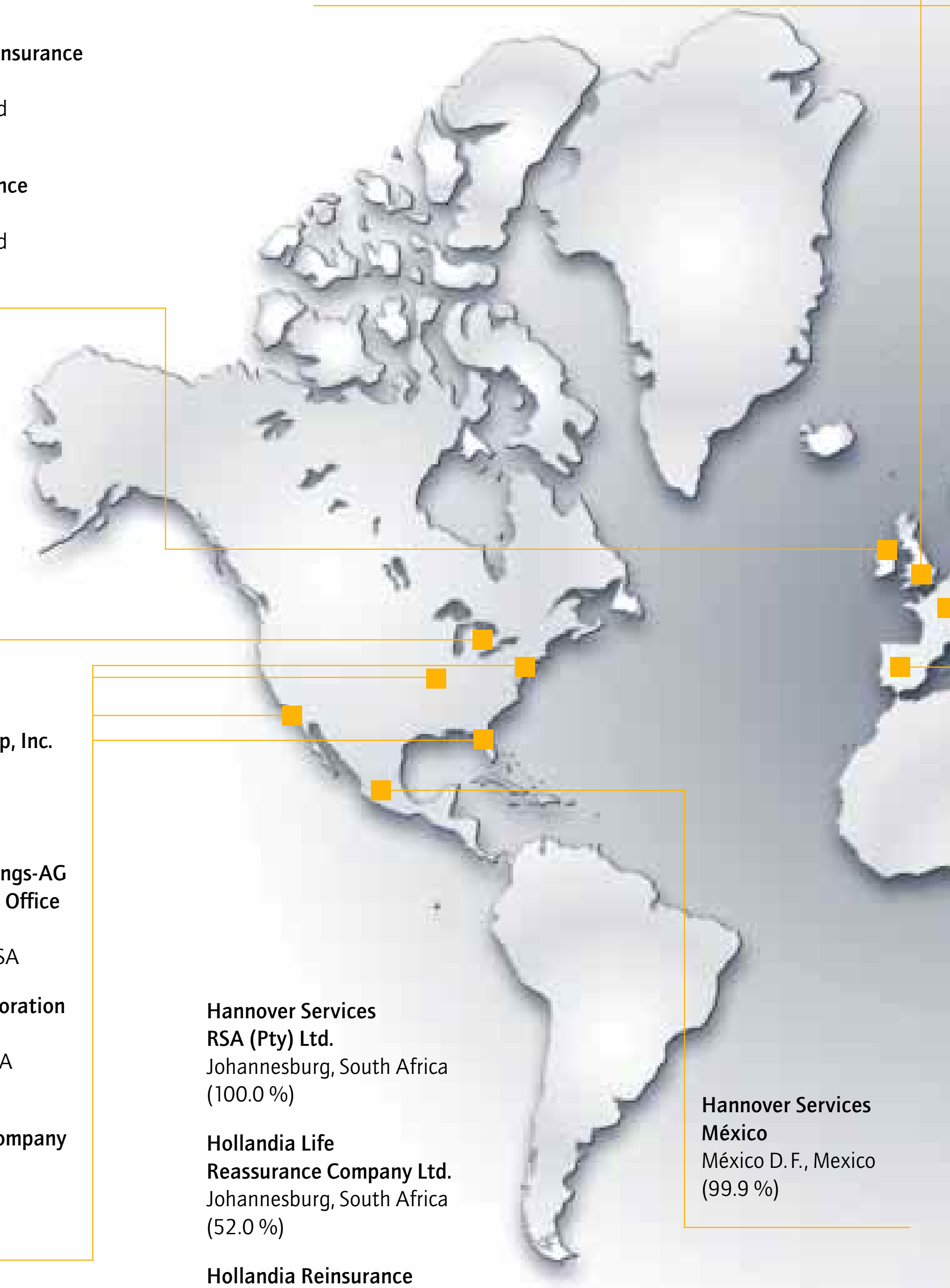
Hannover Rückversicherungs-AG
Hannover, Germany

E+S Rückversicherungs-AG
Hannover, Germany
(50.1 %)

Hannover Re Advanced Solutions Ltd.
Dublin, Ireland
(50.0 %)

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

E+S Reinsurance (Ireland) Ltd.
Dublin, Ireland
(50.1 %)



Hannover Rückversicherungs-AG Canadian Branch
Toronto, Canada

Clarendon Insurance Group, Inc.
New York, USA
(90.0 %)

Hannover Rückversicherungs-AG Representative Office USA
Schaumburg, USA

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

Reassurance Company of Hannover
Orlando, USA
(100.0 %)

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

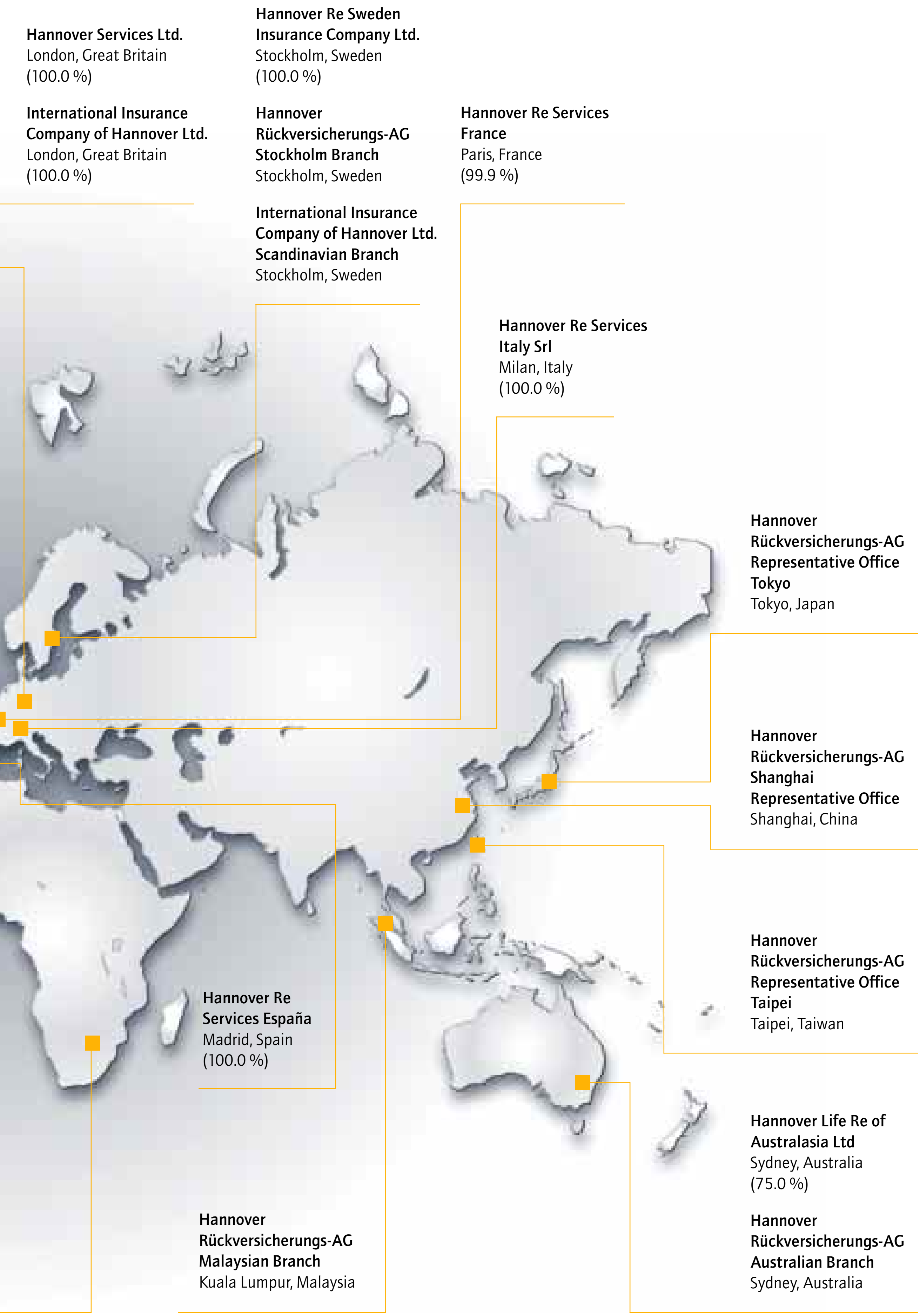
Hollandia Life Reassurance Company Ltd.
Johannesburg, South Africa
(52.0 %)

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

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

%-figures = participation

You may find the addresses for our branch offices and subsidiaries on pages 107 and 108.


Hannover Services Ltd.
London, Great Britain
(100.0 %)
Hannover Re Sweden
Insurance Company Ltd.
Stockholm, Sweden
(100.0 %)
International Insurance
Company of Hannover Ltd.
London, Great Britain
(100.0 %)
Hannover
Rückversicherungs-AG
Stockholm Branch
Stockholm, Sweden
Hannover Re Services
France
Paris, France
(99.9 %)
International Insurance
Company of Hannover Ltd.
Scandinavian Branch
Stockholm, Sweden
Hannover Re Services
Italy Srl
Milan, Italy
(100.0 %)
Hannover
Rückversicherungs-AG
Representative Office
Tokyo
Tokyo, Japan
Hannover
Rückversicherungs-AG
Shanghai
Representative Office
Shanghai, China
Hannover
Rückversicherungs-AG
Representative Office
Taipei
Taipei, Taiwan
Hannover Re
Services España
Madrid, Spain
(100.0 %)
Hannover Life Re of
Australasia Ltd
Sydney, Australia
(75.0 %)
Hannover
Rückversicherungs-AG
Malaysian Branch
Kuala Lumpur, Malaysia
Hannover
Rückversicherungs-AG
Australian Branch
Sydney, Australia

Economic climate

1998 was a year beset by major losses and natural catastrophes. The results of insurers and reinsurers alike were adversely affected by hurricanes and other major loss events. In property and casualty reinsurance the trend to higher, indeed excessive, levels of capacity exacerbated competition, and an extremely selective underwriting policy offered the only protection against losses. We countered this competition with the strategic diversification of our business segments.

Key features of the global economy in 1998 were until the fourth quarter unchecked growth in the USA, recession in Japan and the continuing crises in Asia, Russia and Latin America. In western Europe economic growth at the outset of the year was very dynamic, but it weakened markedly towards the middle of the year – initially in the United Kingdom and Scandinavia. This growth trend was then primarily sustained by domestic demand, which benefited, among other things, from low interest rate levels. Towards year-end the collapse in export demand – especially from Asia and Latin America – also appreciably dampened US growth. In the industrial nations lower commodity prices, including that of crude oil, served to restrict inflation. Following the very dynamic performance achieved in previous years, the fall in production in Asia continued, Russia experienced a dramatic currency and financial crisis and Latin America suffered through the adverse effects of the turmoil in financial markets. Although Germany's gross national product fluctuated sharply within the year, it showed substantial overall growth of 3.5 %. Here too recovery was facilitated by the increase in domestic demand, whereas foreign demand contracted. Germany continued to witness record levels of insolvencies, despite a general downward tendency throughout western Europe.

Constanze Rittendorf, Reception

"I enjoy welcoming visitors from all over the world, and it is very satisfying to be able to help with just a friendly word or even a smile in the midst of all the hectic activity."

The financial markets – most notably the stock exchanges – witnessed some turbulence, but their overall performance was favourable. The interest level in the bond market again declined. Following visible course corrections on stock exchanges towards the middle of the year, there was a noted increase in demand for high-quality securities. Interest spreads on higher-risk investments climbed sharply.

As was the case in virtually all branches of the economy, the process of concentration among companies continued in the insurance and reinsurance industries. In times where the total volume of available business shows little growth, corporate acquisitions serve as an instrument for boosting market share. Although initial indications of a slowdown in the trend for mergers can be discerned in some markets, further – possibly spectacular – business tie-ups are to be anticipated in the future.

Major losses and natural catastrophes had a sizeable impact on 1998. Following several years in which loss expenditure was fortuitously below the long-term average, the technical results of insurers and reinsurers were clearly affected by such events in the year under review. The most significant loss being Hurricane Georges, a hailstorm in the USA, the ice-storm in Canada as well as the loss of several satellites and the crash of a Swiss Air passenger jet off Newfoundland. A further catastrophe with an extraordinarily heavy human toll was Hurricane Mitch, which alone claimed more than 9,000 lives.

In property and casualty reinsurance the trend towards non-proportional reinsurance and higher retentions on the part of insurers continued. Additionally, reinsurers had more than enough capital at their disposal, which was especially due to the good results in prior years. In light of all these factors, the total reinsurance premium volume hardly grew – and in some areas it even contracted –, despite increases in both the number of risks to be (re-)insured and the sums insured. Against this backdrop, only an extremely selective underwriting policy could protect against considerable loss. Life and health business, on the other hand, recorded an above-average performance in the insurance and reinsurance sectors and posted impressive growth rates. This trend was fostered by a worldwide tendency towards the privatization and reduction of state schemes charged with providing retirement security.

Alongside traditional reinsurance protection, where the focus is on risk transfer, coverage concepts which take individual account of the client's entire financial situation – i.e. financial reinsurance – are gaining in significance. The premium income generated by such arrangements again climbed sharply in 1998. Furthermore, new variants of alternative risk financing – the transfer of insurance or reinsurance risks to the capital markets – can also be observed; however, the total volume attributable to these innovative products has not as yet had any appreciable impact on the traditional insurance and reinsurance markets.

In previous years the attention devoted to the Year 2000 (Y2K) problem varied greatly from country to country and according to the size of individual companies; in the year under review, however, it became the subject of intense debate. Appraisals range from an "unparalleled global catastrophe" to a "non-event". For the most part, it is expected that while significant problems will arise in connection with the changeover to the year "00", the total infrastructure failures predicted by some experts – especially for the industrialized nations – will not occur. In many cases, the amounts already invested by companies and public bodies in the modification of software programs and chip-controlled systems are impressive.

Christian Lefebvre, Departmental Manager: Casualty Facultative Reinsurance

Internationality is part of our everyday business, the basis of our existence as a reinsurer: using various languages on a daily basis, negotiating with foreign clients, handling transactions at different ends of the globe and understanding the world from the other's perspective."

Business development

Hannover Re achieved its fourth consecutive record result in 1998. Gross premium income increased by 10.6 % with life and health reinsurance producing 39.7 % growth. The parent company's profit for the financial year, and hence the basis for the dividend distribution, also showed a double-digit growth, increasing by 12.0 % to DM 93 million. The Group profit for the financial year totalled DM 103 million surpassing the DM 100 million threshold for the first time.

With the closure of the 1998 annual accounts we have achieved our fourth record result in succession. We increased gross premium income by 10.6 % to DM 8.6 billion. The Group profit for the financial year was boosted by 7.8 % to DM 103 million, thereby surpassing for the first time the DM 100 million threshold. We strengthened the fluctuation reserve with a record allocation of DM 276 million.

Bernd Schröter, Section Manager: Accounting
"Transforming our German annual financial statement in line with US GAAP is a special challenge for me."

This sustained double-digit premium growth is particularly remarkable in the light of the fact that it takes into account the German mark's upward revaluation against the major foreign currencies in our portfolio. In original currencies, our business volume grew by approximately 15 %. At the same time, we systematically expanded our strategic priority segments. Life and health reinsurance posted growth of 39.7 % to reach DM 2.7 billion, thereby generating more than 30 % of our total premium income. We were similarly successful in expanding the financial reinsurance segment as well as our entire US portfolio.

In April 1998 we successfully effected a transaction – the first of its type in the world – to transfer acquisition costs under life reinsurance treaties to the capital markets. This enabled us to finance these costs via the capital markets, without the usual profit-reducing principles of commercial law applying. Since this instrument entails the passing of premium to the capital markets, our retention rate decreased, with net premiums rising by just 6.1 % to DM 6.9 billion.

Our technical result was adversely affected by the increased strain imposed by natural catastrophes and other major losses. Gross losses caused by such events more than tripled in comparison with the previous year; our results were hit hardest by hurricanes Georges and Mitch, the satellite losses and the ice-storm in Canada. Although our own retrocessions substantially reduced these losses, net expenditure on major losses still more than doubled. In contrast we saw a sizeable improvement in our result from life and health reinsurance. Following several years of loss through investment-related expenditure, in the year under review – as planned – we virtually reached the break-even point. On balance, the technical result deteriorated by DM 11 million to –DM 215 million.

The fluctuation reserve, which is to be calculated separately for the individual classes of business shown in the annual accounts, was boosted by the amount of DM 276 million. This figure constitutes our highest-ever allocation to the fluctuation reserve and thus reached a level in excess of DM 1.9 billion. An amount of DM 266 million was allocated from the non-technical account to the IBNR reserve.

Our investments climbed by 3.3 % to DM 19.3 billion, enabling us to generate an investment result of more than DM 1.2 billion. A crucial factor in this growth of 12.7 % was the continued favourable development of the capital markets. In particular, share price increases on the international bourses in the first half of the year facilitated greater profits at disposal. This, however, did not take place at the expense of hidden reserves in our securities portfolio, which also climbed sharply from DM 1.5 billion to DM 1.9 billion (+25.3 %).

Overall, the pre-tax profit increased by 15.2 % to DM 205 million. This pleasing gain contrasted, however, with an extraordinary increase in the tax burden. As far as is possible, following a tax inspection, we made extra provision for disputed additional tax demands and strengthened tax provisions accordingly. Nevertheless, we are not prepared to accept the tax demands in their current form and shall, if necessary, resort to legal action. On balance, the profit for the financial year of DM 114 million was exactly on a par with the previous year. Due to a considerable reduction in minority interests in this profit, the Group profit for the financial year after adjustment to allow for this item increased by 7.8 % to DM 103 million. On the basis of the 1998 annual accounts, the return on equity amounted to 27.7 % before and 15.4 % after tax.

The parent company, Hannover Re, also achieved another double-digit increase in its profit for the financial year, which climbed by 12.0 % to DM 93 million. As in the previous years, we intend to distribute this amount in full to the shareholders.

The renowned US rating agencies once again gave us their second-highest credit ratings: AA+ ("Excellent") from Standard & Poor's and A+ ("Superior") from A.M. Best. These ratings bear witness to the solidity and financial strength of our Group. For many of our clients, this remains a powerful argument in favour of striving for long-term cooperation with us.

Risk management

Risk management is a central component of the reinsurance business. In particular, those risks that are associated with the impending entry into a new millennium, we take very seriously. The tools currently at our disposal already enable us to control key corporate risks. In the year under review we initiated a project aimed at enhancing the efficiency and effectiveness of our existing risk management system.

In May 1998 the Law on Control and Transparency in Business (KonTraG) came into force. This underscores the obligation of the Executive Board to take appropriate measures in order to ensure that developments which may jeopardize the company's continued existence are recognized at an early stage. Henceforth, the Executive Board's report must also include a section on the risks inherent for future development.

Risk management is a central component of reinsurance business. For this reason, it has always been an issue of far-reaching importance in underwriting, investments and all other areas. We manage risks both externally in the various markets and internally with regard to the company and the Group as a whole.

The primary focus here is on underwriting risks specific to individual lines of business. These arise principally due to the stochastic nature of the underlying insurance products and the associated possibility of variance between expected and actual losses. In addition to the underwriting side,

Claudia Eusterhus, Section Manager: Human Resources – Foreign

"I always find it fascinating to receive fresh stimulus for my own thoughts and actions through contacts with individuals from a broad variety of cultural backgrounds."

capital market risks (such as exchange rate, liquidity and credit risks) as well as organizational risks (e.g. processing and IT risks) are of special importance to our company. It is virtually impossible to assess precisely the risks posed by the changeover to the new millennium. We have, however, taken this situation very seriously and were quick to react. Our first step was to assemble a team of specialists, which monitors all developments and coordinates all the measures implemented. With the aid of internal checklists and in cooperation with our clients, we began to determine more precisely the risks existing under individual treaties. Depending upon our findings, exclusions were introduced and in some cases treaties were even cancelled. Last but not least, our own computer programs were checked and upgraded were necessary, a highly detailed control system was developed and a series of tests was initiated in order to ensure that all our systems will continue to function trouble-free after the turn of the millennium.

On the basis of our broad range of risk management tools, we believe that we are already in a position to appropriately control and master all key corporate risks insofar as they are in our hands. In order to further improve the systems, a working group has already spent a considerable period of time focusing on the enhancement of our risk management and on special risk-related issues affecting the Hannover Re Group. In this connection, interdependencies between individual areas of the company, most notably underwriting and investments, are also taken into account.

In the year under review we also launched a new project geared to systematic and all-encompassing risk management. The task in hand is to identify and implement at the Group level approaches to the further optimization of our organizational structure and processes in light of risk management considerations. Conducted with the support of an external consultancy company, one aspect of the project is a comprehensive analysis of all components of the existing risk management system. To this end, all key risks and activities are currently undergoing detailed scrutiny and assessment. In particular, attention is being paid to the effectiveness and efficiency of the various tools in this regard. On the basis of the analysis results, the current risk management system will then be modified wherever appropriate or necessary.

Our markets

In property and casualty reinsurance the tide has still to turn – indeed it may still not have reached its lowest ebb. Overcapacity is still abundant due to the relatively low losses in the period 1994 to 1997. In Germany the premium level in almost all insurance classes suffered a marked deterioration. In motor business, for example, the pressure on conditions was kept up by a constant stream of new discount criteria. Fire business is still marked by a massive decline in premium rates. In the United Kingdom we benefited from the withdrawal of various players from the market. The premium volume in Scandinavia and Finland decreased slightly, while the Benelux countries showed increases. Technical results in central and eastern Europe were favourable. Although the French market continued to be affected by an oversupply of reinsurance capacity, we generated profits thanks to our selective underwriting policy. In our largest single market – the USA – the negative loss experience has still to impact premium rates. Program business holds the promise of growth and profitability here: following the acquisition of Clarendon Insurance Group this segment, which used to be cultivated from Hannover, will undergo considerable expansion. The economic crises in Latin America and the ASEAN countries have also had an adverse effect on the premium volume in reinsurance. Japanese business, on the other hand, again closed with a highly satisfactory performance.

The following sections describe the developments in the year under review in our principal countries of activity on the basis of our regional portfolio structure; the emphasis is on property and casualty classes of reinsurance. The situation in life and health reinsurance is summarized in a separate section due to the special features of this segment.

Europe

Deregulation and a further lowering of interest rates were the macroeconomic factors which directly influenced the insurance and reinsurance industries in **Germany**. With capital market yields falling, it is becoming increasingly difficult to offset the deteriorating terms and conditions in underwriting through investment income. This is especially true of the liability classes of business. Owing to market deregulation, conditions – most notably for motor business – came under pressure due to a steady stream of new discount criteria.

The premium level deteriorated across the board in virtually all insurance classes. It was striking to note that the competitive pressure stemmed primarily not from foreign players who forced their way into the German market as part of liberalization but from domestic companies. A conspicuous market trend in the insurance and reinsurance of industrial and commercial risks was the demand for multiyear, multiline policies. In this regard, both policyholders and insurers are evidently determined to exploit the current terms and conditions and fix them for the future.

Wade Masinter, Departmental Manager: General Casualty USA

"Speaking as an American, I can say that Hannover Re is a truly international company. We bring together many nations and cultures and are able everywhere to speak our clients' language."

Fire business continued to be marked by a massive decline in rates, which in 1998 caused the market premium to contract by around 20 %. The situation was further exacerbated by the appreciable increase in sizeable losses compared to the previous year. With a loss ratio of approximately 100 % in industrial business, the insurance market thus posted a substantial deficit.

Motor business is of major importance not only to the German market but also to our overall portfolio. Extremely fierce competition was a hallmark of the primary sector, causing premiums to fall by around 5 % and producing a technical deficit of DM 2.9 billion (compared to a deficit of DM 0.4 billion in the previous year). We too were unable to divorce ourselves from this trend: our portfolio posted a marked decline in premiums and a deterioration in the technical results. However, we also generated considerable non-technical income, particularly in German motor business. These earnings enabled us on a selective basis to maintain such treaties in difficult market years.

Germany

	1998	1997
Premiums (gross) in DM million	2 253.7	2 411.3
Share of total business in %	26.3	31.1

As in the previous year, consolidations and mergers were a feature of the insurance markets in the **United Kingdom** and **Ireland**. Lloyd's of London thus attracted new investors – especially from the US insurance industry – who were striving to diversify their portfolios.

The insurance market saw continued intense competition, although in certain classes of business – for example motor insurance – initial indications of tariff increases could be discerned. However, this development began too late in the year to provide clear evidence of a trend reversal in this class for 1998. In property business, a higher market average claims frequency lead to a loss.

Nicola Ehrhardt, Visitors' Dining Room

"Every day we entertain visitors from different countries. Our concern is to accommodate our guests' special preferences."

Our business volume benefited from the withdrawal of various players from the market. With the elimination of some competitors, demand was concentrated on reinsurers offering optimum solvency and security. We exploited this situation to boost our market share. The loss experience posted by the London Market's international property business led to early signs of a rate rise in non-proportional fire business. We made the most of our leading role in this segment to further expand our portfolio.

Liability business, by contrast, failed to witness any let-up in the fierce level of competition. Even though rates are at an all-time low, there are still no indications of a trend reversal. Consequently, we further reduced our participation in this segment.

The processes of concentration in the insurance and reinsurance industries of **Scandinavia** and **Finland** are not yet concluded, and further significant changes affecting various market players can thus be anticipated in the foreseeable future. The synergistic effects expected from those mergers which have taken place to date – especially in the primary sector – failed to bring about improvement in the technical results in the year under review. The further decline in the rate level coupled with an extraordinarily high frequency of major claims in industrial fire business during the second half of the year were responsible for the insurers' negative technical results. However, the technical deficits were for the most part offset by substantial non-technical income, as a consequence of which the market was still prepared to engage in a price war.

In this climate we systematically pursued our policy of consolidation and concentration on special target clients, with the result that premium income fell slightly. Although we were unable to repeat the good results of the previous year, we posted a balanced technical result.

Despite the satisfactory state of the economy in general – and especially in the **Netherlands** and **Belgium** – premium growth was only moderate in property and casualty insurance. Owing to the increased retentions in recent years, the bulk of this restrained growth was carried by our clients while reinsurers scarcely benefited.

A special factor in our growth was the fact that since the beginning of 1998 we have also reinsured all the foreign business activities of our main shareholder. This has generated particularly appreciable growth in our Dutch portfolio.

September witnessed extraordinarily heavy rainfall in the areas around Antwerp, The Hague and Rotterdam, causing substantial damage to farming enterprises. The impact on reinsurers was, however, insignificant since these losses were only insured to a very limited extent.

Overall, taking into account the non-technical profits, property and casualty insurers recorded a marginally positive business result in 1998. The most notable deterioration was in the results of industrial fire business and motor insurance. The reinsurance industry was more adversely affected by a larger number of major fire losses and a hailstorm event at the beginning of June, as a result of which our technical result closed in negative territory.

We are monitoring developments in central and **eastern European countries** very closely, since we intend to expand our position in these markets. Owing to the Russian financial crisis, the Balkans currently shows no signs of economic recovery. A further strain has been imposed by the Kosovo conflict, which will remain a burden in the years to come.

In some eastern European countries the process of creating the necessary regulatory framework which could serve as a basis for a functioning banking and insurance system has still to be completed. This delay significantly hampered the development of these markets.

The rush to set up new insurance companies in central Europe has slowed. Despite this, foreign companies have stepped up investments in these markets – e.g. through participations –, thereby adversely affecting the demand for additional reinsurance capacity.

Following the large loss associated with the Oder flooding of 1997, the course of business was generally satisfactory in the year under review. Nevertheless, we observed that the expectation of favourable results led to a deterioration in the terms and conditions under reinsurance treaties for 1999.

Overall, the loss frequency – especially in fire insurance – remained favourable for reinsurers. Nevertheless, the damage to the Turow Power Plant in Poland underlined the fact that the risk potential here cannot be underestimated. This loss will probably amount to almost DM 200 million, although the net burden from this event for our account will only be minimal.

Europe (excluding Germany)

	1998	*1997*
Premiums (gross) in DM million	2 432.2	1 859.8
Share of total business in %	28.4	24.0

Against this backdrop we continued the selective expansion of our portfolio; our technical results from eastern and central Europe were positive.

In **France**, the process of concentration in the insurance industry continued with the private-sector acquisition of the last state-owned corporation. The three largest insurance groups now account for roughly 45 % of the French market volume in property and casualty insurance.

Total premium income fell slightly in the year under review, as had been the case in 1997. This development was attributable to the fact that the premium level in many segments declined – especially in industrial business – due to the growing competitive pressure, although the situation in personal lines stabilized. The loss expenditure decreased by around 2 % overall, thereby enabling insurers to achieve further good technical results.

Due to the continued oversupply of reinsurance capacity and the absence of spectacular major losses or natural catastrophes, reinsurance terms and conditions deteriorated further. Thanks to our systematic adherence to a selective underwriting policy, the reinsurance business which we wrote in the French market again generated favourable earnings in the year under review.

In **Italy**, too, pricing and conditions were under intense competition and intensified in both the insurance and reinsurance markets. Industrial business continued to be particularly hard hit by the unfavourable state of the market.

In light of this situation, we were only able to achieve our internal profit targets by relinquishing unprofitable business. We therefore accepted a sizeable reduction in our Italian portfolio and concentrated on key target clients.

The poor performance of hail business and Automobile physical damage insurance had a particularly adverse effect on the technical result.

However, these clearly negative results were counterbalanced by the other classes of business, and overall we posted a balanced result.

The process of concentration and wave of mergers continued unabated in **Spain**. Terms and conditions for insurers and reinsurers alike suffered under the fierce competition, which intensified still further. Against this backdrop, the attempt by a number of market players to raise the insufficient tariffs in motor business failed. Reinsurance rates and conditions were inadequate in many areas, and we therefore reduced our overall participation in the Spanish market.

North America

The most important reinsurance market in the world, North America has now also evolved into our largest single market.

Our defined objectives are focused on the further cultivation of profitable business only. In this regard, it has proved expedient to have a clear distribution of tasks between the various underwriting units of the Hannover Re Group. The Insurance Corporation of Hannover (ICH) was thus able to expand its property and casualty reinsurance portfolio in specific segments such as hail and crop insurance as well as non-standard motor business, even though it proved impossible to increase the other reinsurance business written from Germany as a result of our strict policy of underwriting for profit.

North America

	1998	*1997*
Premiums (gross) in DM million	2 469.6	2 255.4
Share of total business in %	28.8	29.1

With no lessening in the intensity of competition, we were unable to reverse our underwriting policy in the year under review. However, there are growing indications that numerous market players have now recognized the need for reorientation in the wake of the sharp rise in loss ratios in various business segments.

It should be noted that three major loss events had scarcely any influence on conditions in North American property insurance: the Quebec ice-storm in January 1998 – the largest natural catastrophe loss ever suffered by the Canadian insurance industry –, the series of windstorm losses – mostly tornadoes – in the American Midwest and Hurricane Georges, which had a devastating impact on Puerto Rico and southern parts of the USA.

Whilst it is true that the quarterly and year-end results of several medium-sized and large insurers were adversely affected by these events, their impact merely served to stabilize terms and conditions during the renewal phase for most reinsurance treaties at year end, at the already low levels.

During our treaty negotiations we paid particularly close attention to the Y2K problem, which owing to the prevailing aggressive legal environment is likely to have not insignificant repercussions in the USA. We discussed this issue with our clients in depth, went over the risks in detail and clarified the scope of cover provided by our treaties. One consequence of these reviews was that we parted company with a number of treaties – especially in the area of professional indemnity.

For several years we have been monitoring the significant trend in the USA towards so-called program business. This refers to the underwriting of highly specialized segments by managing general agents, who are focused less on writing standard primary insurance than on reinsurance. This trend has become more pronounced in recent years, not least due to the segment's above-average profitability. Until now, for the most part, we have handled program business from our head office in Hannover. In February of this year, after the previous announcement in the summer of 1998, we completed the acquisition of Clarendon Insurance Group, one of the leading players in this market. This move will mean substantial expansion of this segment.

Our overall premium volume in property and casualty business in the USA declined slightly. Although the technical results came under pressure due to higher loss expenditure than in the previous year, they remained at an adequate level.

Hans-Jürgen Kreutzer, Information Services

"We have to maintain a round-the-clock operation in order to make possible the integration of our offices abroad into a worldwide network."

Latin Amerika

Developments in the insurance and reinsurance industries in Latin America were again decisively influenced by key macroeconomic data. The most significant factor in this regard was the crisis in **Brazil**, the impact of which varied greatly in individual countries. In Brazil itself, sluggish growth as well as deficits in the country's budget and balance of payments led to a 30 % devaluation of the national currency against the US dollar at the beginning of the year. In the banking and insurance sector numerous take-overs and corporate mergers were again witnessed. Privatization of the state-owned reinsurance company continued to progress by fits and starts, and our premium volume from this country therefore remained low.

We have, however, made extensive preparations for the impending opening up of the market, and are well-equipped to handle the most sudden of developments.

Brazil's economic difficulties particularly left their mark on **Colombia and Argentina**. Following impressive developments in the preceding years, growth and hence the increase in (re-)insurance demand weakened.

Mexico, which sends around 85 % of its exports to the USA, remained virtually unruffled by the South American crisis. As a consequence of the acquisition of selected portfolios of Skandia International Insurance Corporation, Stockholm, we have been represented by a branch office in Mexico City since 1998. In the year under review we fully integrated this unit into our worldwide network by means of various restructuring measures. We thus have at our disposal a local

Latin America

	1998	*1997*
Premiums (gross) in DM million	286.5	200.6
Share of total business in %	3.3	2.6

base which offers a closeness to the client for the planned long-term expansion of our portfolio in this region.

Reinsurance terms and conditions deteriorated across the board in Latin America owing to competitive pressure and weakened growth. Property business still predominates in these markets. Frequently, premiums are no longer sufficient to cover the risk. The technical results in this region were heavily affected by the two hurricanes Georges and Mitch. With the exception of Peru, the often-cited weather phenomenon "El Niño" scarcely caused any reinsured losses in South American countries bordering on the Pacific.

Asia

The deregulation measures in the insurance industry in **Japan** led to far-reaching changes in the year under review. Fixed tariffs on fire business were lifted with effect from 1 July, after rates, terms and conditions in the motor class of insurance had already been deregulated. Unfamiliar with competition over prices and product differentiation, the market developed a hitherto unheard-of degree of nervousness. On the one hand, the open competition gave rise to major premium reductions, while on the other hand – by providing targeted services – opportunities arose to tap into segments where there had previously been little or no demand for reinsurance.

Asia

	1998	*1997*
Premiums (gross) in DM million	397.2	274.3
Share of total business in %	4.6	3.6

With the premium volume remaining roughly stable, profits from our Japanese business were again highly satisfactory. They were on a par with previous years and thus served to confirm that our participation in the market, especially in business with natural catastrophe exposure, is correct.

In **China**, our representative office in Shanghai enabled us to position ourselves within the leading group of international reinsurers in this market. Premium growth nevertheless remained moderate, since the Chinese government is striving to limit the number of property and casualty insurers active in the market by means of a very restrictive licensing policy – an approach which favours state-run providers.

Principally due to the orientation of its economic activities towards China, **Taiwan** has largely succeeded in resisting the recessionary developments in the east and south-east Asian markets. The insurance industry was thus also spared the losses incurred in other Asian countries. However, owing to the high level of competition, technical results in property business were not satisfactory and led to slight losses. By contrast, thanks to a lower loss expenditure, motor business posted a more pleasing performance. We have a substantial involvement in this class of business, and our Taiwanese portfolio thus closed with a positive result overall.

The full force of the economic crisis in the **ASEAN countries** made itself felt in the year under review. Exchange rates plummeted to an absolute low and stock markets collapsed. The political pressure on governments intensified, leading in some cases – such as Indonesia – to their downfall. This was preceded by violent unrest, which also caused heavy insured damage. Our branch office in Malaysia, which bears responsibility for the region, was also unable to divorce itself from these events and thus posted a poorer result than in the previous year.

Australia and New Zealand

Corporate mergers were the main hallmark of the insurance market in Australasia in the year under review. These gave rise to larger business units, which exploited the various synergistic effects – including on the reinsurance side – and optimized their protection. For us, this development meant a decline in demand in the traditional reinsurance segments. This was countered by the trend towards financially-oriented coverage concepts which we initiated in the preceding years. In this segment, we succeeded in concluding what is probably Australia's largest transaction of this type to date. These innovative covers are partially of an investment nature, and their full profitability will only manifest itself in subsequent years.

Australia and New Zealand

	1998	1997
Premiums (gross) in DM million	392.1	420.2
Share of total business in %	4.6	5.4

Africa

Insurance markets deteriorated further in the year under review on account of sustained cut-throat competition; reinsurance was no exception in this environment. We responded to the weakness of the market, and in standard business we adjusted treaties in line with the modified general conditions or in some cases relinquished insufficiently profitable business. On the other hand, we selectively expanded our position in profitable niche segments. This strategy generated results well in excess of the general market average.

Our most important single African market is **South Africa**. Following the 11 % upward revaluation of the South African rand against the German mark in the previous year, it lost 23 % of its value in 1998. This devaluation was of course also reflected in the development of our premium volume as expressed in DM.

Africa

	1998	1997
Premiums (gross) in DM million	331.0	323.5
Share of total business in %	3.9	4.2

As an additional factor, the government amended the basis for conducting insurance and reinsurance business by way of the "Insurance Act" of August 1998. The changes primarily affect our representative office in Johannesburg. We are currently in the process of examining its precise implications, although we do not believe that our market opportunities have in any way been impaired.

International life and health reinsurance

Life and health reinsurance generated dynamic growth. Gross premium income showed an impressive above-average increase of 39.7 %. Following investment-related losses in the previous years, the result improved considerably as planned. Block Assumption Transactions (BAT) – a speciality of the Hannover Re Group – have been very well received in numerous markets, as a consequence of which in 1998 we successfully concluded eleven new transactions with a premium volume of DM 428 million.

As in previous years, we attached special strategic priority to the expansion of our international portfolio of life and health reinsurance in the 1998 financial year. This segment comprises the life, health and personal accident insurance classes in those countries where this business is transacted.

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

- Reassurance Company of Hannover (RCH), Orlando, for the US market
- E+S Rück, Hannover, for the German market

- Hannover Life Re of Australasia Ltd (HLRA), Sydney, for Australia and New Zealand
- Hollandia Life Re (HLR), Johannesburg, for southern Africa
- Hannover Life Re UK (HLRUK), London, for some parts of the UK market
- Hannover Re Sweden, Stockholm, for some parts of the Scandinavian market
- Hannover Re, Hannover, for all other regions and markets

Beatrix Kuhlow, Departmental Manager: Technical Accounting – North America and Asia as well as Aviation, Marine and Credit worldwide

"For me, the international dimension of Hannover Re is simply a matter of course. Even after twenty years, worldwide contacts mean that my area of responsibility is never boring."

Hannover Life Re UK and Hannover Re Sweden were included in our consolidated Group for the first time in the year under review; they were taken over in 1998 as part of the acquisition of selected portfolios of Skandia International Insurance Company and have now been fully integrated into our infrastructure.

In addition to the subsidiaries, a network of representative offices, service companies and branches in London, Milan, Paris, Madrid, Mexico City, Cape Town, Kuala Lumpur, Melbourne, Wellington and Hong Kong supports the acquisition and service activities of our Group companies. The insurance markets of Germany, the United Kingdom, Italy and Scandinavia as well as the USA, South Africa, south-east Asia and Australia remain the focus of our marketing activities.

Dynamic growth continued at all the Group's locations and in all major life and health reinsurance markets. Particularly in the USA, Germany and Asia, our clients sometimes surpassed expectations as regards the planned premium volume by a generous margin. Consolidated gross premiums of the Hannover Re Group in the life and health reinsurance segment recorded substantially above-average growth of 39.7 % to reach DM 2.7 billion.

Due to the increased profit-oriented utilization of innovative retrocession instruments – the transfer of reinsurance risks to the capital markets – net premiums rose by just 25.3 % to DM 2.3 billion. The retention rate in life and health reinsurance thus fell to 83.6 %.

With growth again well in excess of our planned figures, we were not quite able to accomplish our stated aim on profits, of turning the corner in 1998 after deficits connected with the expansion of new business in prior years. With a reduction of the technical result to –DM 106 million (–DM 247 million), and taking into account the investment income attributable to life and health reinsurance business, we fell just short of the break-even point.

The following table shows – on a non-consolidated basis – the key figures regarding the development of business at the various operational companies:

Life and health reinsurance *Figures in DM million*	*Gross premiums written* 1998	1997	+/- previous year	*Net premiums earned* 1998	1997	+/- previous year	*Technical result* 1998	1997
Hannover Re	1 749	1 518	15.2 %	1 369	1 237	10.7 %	-29	-182
RCH	986	583	69.1 %	317	241	31.5 %	-15	-5
E+S Rück	409	407	0.5 %	356	305	16.7 %	-24	-46
HLRA	206	224	-8.0 %	114	110	3.6 %	-9	-7
HLR	77	77	–	53	54	-1.9 %	-16	-7
HLRUK	66	–	–	59	–	–	-14	–
HRS	1	–	–	–	–	–	1	–
Total	3 494	2 809	24.4 %	2 268	1 947	16.5 %	-106	-247

In life and health reinsurance we have specialized, amongst others, in two segments which comprise a financing element as a central component: the financing of acquisition costs for new business in life and annuity insurance as well as the assumption of entire existing life, health or personal accident portfolios (so-called block assumption transactions or BATs). Additionally, working in close product partnerships with selected clients, we again cultivated new segments within annuity and personal accident insurance in the year under review. One key area here is products for senior citizens. For this reason, traditional risk transfer models for the mortality and/or morbidity risk tend to be of secondary importance to our portfolio.

BATs were initially developed for the US market. These transactions involve quota share reinsurance treaties on our clients' in-force business, which enable them – inter alia – to realize in advance the future profits inherent in their portfolios so as to efficiently safeguard the attainment of objectives dictated by financial or solvency policy.

This speciality of the Hannover Re Group has found a growing echo in numerous markets: in the year under review we successfully concluded eleven new transactions with a total premium volume of DM 428 million and a financial outlay of DM 137 million in the USA, Germany, the United Kingdom, Malaysia and South Africa.

Overall, we have thus completed more than 40 of these transactions since the first BAT in 1993. For the first time, we managed the growing financial expenditure connected with the writing of new business and acceptance of BATs via two different capital market transactions in the year under review. These enabled us to transfer our own prefinancing expenditure almost without restriction to the international capital markets and thus create capacity for further disproportionately large growth. The first of these transactions was voted "Innovation of the Year" by the UK trade journal "The Review". This arrangement alone facilitates the transfer of acquisition costs from life reinsurance treaties to the capital markets in an amount up to DM 100 million. The subsequent transaction, which is now firmly in place, encompasses a total volume of DM 250 million.

Performance of our subsidiaries

Overall, our subsidiaries were once again highly successful in the year under review. E+S Rück – which bears exclusive responsibility for the Group's German business – posted a slight decrease in premiums. The pleasing developments in life and health reinsurance were almost sufficient to offset the disproportionately large decline in property and casualty reinsurance. The Irish subsidiaries Hannover Reinsurance (Ireland) and E+S Reinsurance (Ireland), which transact the Group's financial reinsurance, impressively asserted their position in the market and again closed with an improved after-tax profit for the financial year. Premium growth at Hannover Life Re of Australasia was more restrained than in previous years, although it nevertheless showed a rise of more than 6 %, while the Hollandia Reinsurance Group in South Africa once again achieved sharp growth of almost 24 %. The US-based Insurance Corporation of Hannover increased its premium income in those segments which it underwrites exclusively and further boosted its annual result. Thanks to its specialization in so-called block assumption transactions, the Reassurance Company of Hannover (RCH) achieved extraordinary growth of 81 %. Similarly, Inter Hannover in the United Kingdom, which handles the aviation portfolio acquired from Skandia International, expanded its premium volume by over 40 %. Hannover Life Reassurance (UK) and Hannover Re Sweden, which we took over as part of the acquisition of the Skandia portfolio, were, for the first time, able to contribute to the disproportionately large growth recorded by our subsidiaries.

The following table summarizes the key figures on the basis of the annual accounts drawn up in compliance with the respective local accounting principles:

Company *Currency units in million*	*E+S Rück* *DM*	*ESI* *DM*	*HLRA* *AUD*	*HLRUK* *GBP*	*HRG* *ZAR*	*HRI* *DM*	*HRS* *SEK*	*ICH* *USD*	*IH* *GBP*	*RCH* *USD*
Gross premiums written	2 270.0	303.7	201.5	23.5	933.1	415.8	5.8	179.2	130.6	589.2
Net technical result	-175.1	-30.9	-1.2	-1.8	-63.4	-37.7	2.5	-3.5	-4.8	-16.2
Non-technical result	196.9	61.6	13.1	0.9	98.7	94.4	-2.1	14.9	7.7	17.7
Result of ordinary business activities	21.8	30.8	11.9	-0.9	35.3	56.7	0.4	11.4	2.9	1.5
Profit or loss for the financial year	–	27.6	11.9	-0.4	32.8	50.7	0.4	8.6	1.9	0.2

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

E+S Rück bears exclusive responsibility for the Hannover Re Group's German business. It is thus the only specialist reinsurer of this type in the German market. For the purposes of regional risk spreading, E+S Rück and Hannover Re – which only operates in the international markets – participate in each other's acceptances in their respective business segments.

Gross premiums written were almost exactly on a par with the previous year, contracting by a mere 0.6 % to DM 2.3 billion. Owing to an increase in own reinsurance cessions, net premium income totalled DM 1.5 billion, a figure which was 2.4 % less than in the previous year. This reduction was almost exclusively attributable to the unfavourable development of property and casualty reinsurance. Further intensification of the already fierce competitive pressures in the German reinsurance market continued. For E+S Rück, this had particularly negative implications in the fire and motor classes. Despite a decrease in written premium, the technical result for these lines of business suffered a deterioration of disproportionate size.

The gratifying performance of life and health reinsurance, however, virtually offset the decline in property and casualty reinsurance. E+S Rück expanded its life business by 21.3 % in the year under review, while the health class closed with growth of 9.3 %. Life and health reinsurance now accounts for more than 20 % of the total portfolio.

Georg Wardenga, Gardener

"It is important to us that our guests and staff alike should enjoy a pleasant atmosphere – and that starts with the grounds and gardens."

Due to the expansion of life business the technical account was influenced by changes in the life assurance provisions, which rose by DM 99.6 million to a total of DM 499.7 million. As a result of the earlier compilation of the annual accounts the proportion of paid losses decreased. Overall, however, the loss expenditure compared to the previous year contracted by DM 43.5 million to DM 1.0 billion, although developments in the individual classes varied considerably. The resulting technical deficit amounted to DM 92.1 million (DM 87.8 million).

A total of DM 82.9 million (DM 72.4 million) was allocated to the fluctuation reserve in 1998, as a consequence of which the net technical result deteriorated by DM 14.9 million to –DM 175.1 million.

The generally favourable trend on the capital markets brought about another increase in the investment result, which climbed by 3.7 % to DM 312.2 million. The hidden reserves in the investments were also further reinforced in the year under review, posting growth of 30.2 % to DM 628.4 million. As at 31.12.1998 the total investment portfolio stood at DM 5.4 billion. Fixed-income securities continued to account for the largest proportion of the portfolio. The ratio of shares in the investments which we managed ourselves was approximately 13 %; deposits increased due to the further expansion of life business to altogether DM 1.1 billion.

The tax burden increased in 1998 by DM 13.6 million compared to the previous year. The reason for this increase was attributable to provisions made on a precautionary basis for currently disputed additional tax demands in connection with the company audit for the period from 1988 to 1992. Overall, E+S Rück posted an almost balanced after-tax result of –DM 14 thousand in the year under review.

The company's capital and reserves totalled DM 235.3 million.

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

Our two Irish companies form the financial reinsurance segment within the Hannover Re Group. HRI and ESI, together with the Irish subsidiary of HDI, HDI Reinsurance (Ireland) Ltd., are controlled by a joint management company – Hannover Re Advanced Solutions Ltd. – from the International Financial Services Centre (IFSC) in Dublin.

In the year under review HRI and ESI affirmed their position in a demanding market and again achieved an increased profit for the financial year of DM 50.7 million (DM 44.2 million) and DM 27.6 million (DM 21.9 million) respectively.

ESI boosted its gross premium income compared to the previous year by an above-average margin of 19.6 % to DM 303.7 million (DM 253.9 million). HRI's gross premiums climbed even more sharply by 29.2 % to DM 415.8 million (DM 321.8 million). Particularly notable factors here were large-volume transactions with Swiss and Thai clients as well as intensified business relationships in South Africa.

HRI's technical result produced a deficit of DM 37.7 million (DM 30.7 million), while non-technical business generated a profit of DM 94.4 million (DM 79.3 million). The results scenario at ESI was similarly successful: a technical deficit of DM 30.9 million (DM 26.1 million) contrasted with a non-technical profit of DM 61.6 million (DM 50.3 million).

In light of the expanded volume of business, capital increases of DM 100 million at HRI and DM 80 million at ESI were implemented in the year under review. The companies' capital and reserves also rose – to DM 368.6 million in the case of HRI and DM 302.1 million in the case of ESI.

On account of their strategic importance within the Group, the Irish companies fall under the Group rating awarded to Hannover Re by A.M. Best. With an assessment of "A+" (Superior), both received the second-highest rating.

Hannover Life Re of Australasia Ltd (HLRA), Sydney

HLRA, in which Hannover Re and E+S Rück each hold a 50 % interest, is primarily active in Australia and New Zealand; its primary focus is on life reinsurance business.

The company's gross premium income showed slower growth than in the previous years, but still climbed by 6.1 % to AUD 201.5 million (AUD 189.8 million). This growth was principally attributable to market rehabilitation measures in workers' compensation reinsurance and group life insurance.

Overall, the negative trend in the net technical result over recent years was checked, and the deficit contracted to AUD 1.2 million (AUD 10.5 million).

Investment income declined to AUD 13.1 million (AUD 16.6 million) due to the lower interest rates available on capital markets. Thanks to the improved technical result, however, the profit for the financial year almost tripled to AUD 11.9 million (AUD 4.3 million).

The amount of AUD 4.0 million was allocated from the annual result to the retained earnings shown under capital and reserves. The company's capital and reserves thus totalled AUD 129.0 million (AUD 117.5 million).

Hannover Life Reassurance (UK) Ltd. (HLRUK), Virginia Water

We took over HLRUK in the year under review as part of the acquisition of the Skandia portfolio from Skandia International Insurance Company. The company concentrates on life reinsurance business in the United Kingdom.

Gross premium income in 1998 was boosted to GBP 23.5 million (GBP 19.6 million). Net premiums earned increased to GBP 21.0 million (GBP 16.9 million), while HLRUK's retention rate climbed slightly to 89.4 % (86.4 %).

Due to an extensive number of treaties with a financing nature, the technical result closed in negative territory at –GBP 1.8 million (GBP 1.4 million).

HLRUK's investment income rose sharply to GBP 3.4 million (GBP 2.7 million). The after-tax result totalled –GBP 0.4 million (GBP 2.0 million).

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

The business territory served by HRG encompasses more than 20 African countries. The highly diversified group is dominated by the two reinsurance companies Hollandia Reinsurance Company (property and casualty reinsurance) and Hollandia Life Re (life reinsurance), which together generate more than 90 % of premium income.

HRG, in which Hannover Re holds a 52 % interest, succeeded in achieving its ambitious objectives despite the continuing difficult state of the market. Gross premiums increased by 23.8 % to ZAR 933.1 million (ZAR 753.5 million). Of this, ZAR 648.4 million (ZAR 513.7 million) was attributable to Hollandia Reinsurance Company (HRE) and ZAR 241.7 million (ZAR 209.9 million) to Hollandia Life Re (HLR).

In a market notable for high loss ratios, especially in the fire, liability and hail segments, HRE's technical deficit of ZAR 30.2 million (ZAR 20.2 million) signalled the company's ability to largely withstand the considerably sharper downturn in results in the market as a whole.

HLR's technical result deteriorated to –ZAR 19.9 million (–ZAR 17.8 million). The typical prefinancing effect associated with the expansion of life reinsurance business was the decisive factor here.

These technical deficits were, however, more than offset by the investment performance: in the case of HRE, the investment result amounted to ZAR 65.5 million (ZAR 43.3 million), while HLR posted an investment result of ZAR 22.9 million (ZAR 20.0 million).

On balance, the profit for the financial year of HRG increased by 45 % to reach ZAR 32.8 million (ZAR 22.6 million) in the year under review.

The capital and reserves of the Hollandia Reinsurance Group were strengthened by the amount of ZAR 4.4 million and now total ZAR 174.3 million.

Karin Behrendt, Departmental Manager: Participating Interests, Subsidiaries and Representative Offices

"Chinese insurance supervisory law, Spanish accounting and US taxation: it is fascinating, and sometimes really exhausting. One of the things I most enjoy about our international orientation is the personal contact with colleagues at our offices around the world."

Hannover Re Sweden Insurance Company Ltd. (HRS), Stockholm

We acquired HRS in March 1998 in order to formally transfer to this company parts of the facultative business taken over under the purchase of the Skandia portfolio. It is wholly reinsured by Hannover Re.

At the time of the acquisition by Hannover Re, HRS became licenced to transact life reinsurance. Since there are clear advantages for Swedish clients in placing their risks with a Swedish life reinsurer, promising opportunities have opened up for HRS in this segment and we have already implemented a capital increase. HRS now has a subscribed capital of SEK 130 million.

Owing to the fact that the majority of the 1998 business derived from the transfer of the facultative portfolio, which will be run off in subsequent financial years, Hannover Re Sweden posted gross premiums earned on a one-off scale of altogether SEK 93.9 million while gross premiums written amounted to SEK 5.8 million.

In the year under review HRS recorded a technical result of SEK 2.5 million and a profit for the financial year of SEK 0.4 million.

Insurance Corporation of Hannover (ICH), Chicago/Los Angeles

In accordance with the Hannover Re Group strategy, ICH is positioned within our priority market USA in the special segments of agricultural risks, non-standard motor business and workmen's compensation insurance. For the 1998 financial year it once again posted a very good result.

Gross premiums increased in total by 15.3 % to USD 179.2 million (USD 155.4 million) with retained business rising by as much as 22.4 % to USD 153.0 million (USD 125.0 million). As in the previous year, the largest growth rates were in the segments of agricultural risks (+56 %) and non-standard motor business (+17 %), which have been systematically expanded.

A number of severe windstorm events during the summer of 1998 in the Midwest of the USA caused the loss ratio to deteriorate to 79.3 % (75.1 %). In balancing this against the effects of an opposite trend in the expense ratio (23.5 % following 25.3 % in the previous year), the technical deficit increased to USD 3.5 million (USD 1.1 million).

The profit for the financial year after tax improved to USD 8.6 million (USD 8.3 million), thus achieving a new record profit for the fourth consecutive year.

The targeted allocation of equity totalling USD 75 million by way of a "surplus note" prior to year-end 1998 secured the desired upgrading of the A.M. Best rating to "A" (Excellent). A key prerequisite for further successful expansion in one of our priority markets has thus been satisfied.

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

Inter Hannover operates as an insurer and reinsurer in the United Kingdom with an emphasis on primary insurance. In the year under review, the overriding task was to integrate the portfolio acquired from Skandia International Insurance Corporation (SIIC).

The company's gross premium income increased to GBP 130.6 million (GBP 92.1 million), while net premiums climbed to GBP 35.6 million (GBP 28.5 million). These gains were largely attributable to the aviation portfolio acquired from SIIC. Inter Hannover's conventional business developed steadily; in view of the strict profit-oriented underwriting policy, organic growth was impossible in the continuing soft market.

The technical result deteriorated due to the poor loss experience to –GBP 4.8 million (–GBP 2.1 million).

With an investment result of GBP 8.4 million (GBP 4.9 million), the overall pre-tax profit totalled GBP 2.9 million (GBP 2.5 million). After tax, the profit for the financial year stood at GBP 1.9 million (GBP 1.7 million). The company's capital and reserves amounted to GBP 45 million.

In February 1998 Inter Hannover established its own branch in Stockholm (Inter Hannover Scandinavian Branch), which is operated under joint management with a similarly newly established branch office of Hannover Re. This branch writes the aviation business acquired from SIIC. In October 1998 Standard & Poor's upgraded Inter Hannover's rating from "A" (Good) to "AA+" (Excellent), an appraisal which corresponds to that of Hannover Re and underscores the company's strategic importance.

Reassurance Company of Hannover (RCH), Orlando

Our US life reinsurance subsidiary RCH recorded another highly successful financial year. With the aid of its special strategic focus on block assumption transactions, the company again boosted its gross premium income – by 81 % to USD 589.2 million (USD 325.1 million).

The enormous prefinancing expenditure associated with the block transactions caused the net technical result to decline by USD 6.3 million compared to the previous year to –USD 16.2 million (–USD 9.9 million). Nevertheless, a substantially improved investment result of USD 18.9 million (USD 13.9 million) more than offset this deficit. The profit for the financial year after tax stood at USD 0.2 million (USD 1.9 million).

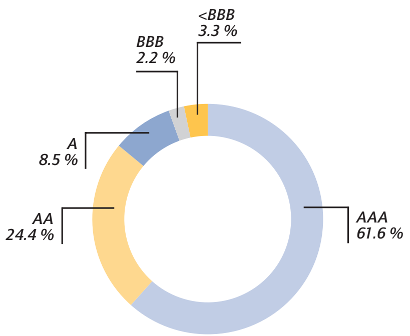
The company's capital and reserves totalled USD 46.1 million.

RHC continued to concentrate its marketing activities on niche segments, including the provision of support for small and medium-sized companies with the development of new products. This strategic orientation is prompted, on the one hand, by the low margins in traditional business, and, on the other hand, by the special competitive advantage which the company enjoys in the less competitive small company segment. We anticipate that RCH will continue to enjoy this market edge in health and personal accident reinsurance in the medium term.

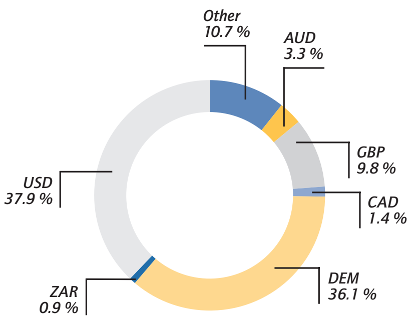
Investments

The Hannover Re Group generally profited from the favourable state of the capital markets, and the investment result thus increased again by 12.7 % to DM 1.2 billion. At the same time, the hidden reserves in the investments grew by almost one-quarter to DM 1.9 billion. The total investment portfolio increased by 3.3 % to DM 19.3 billion.

Rating of fixed-income securities



Breakdown of investments by currency



The year under review began in optimistic mood on all the major capital markets, witnessing at times very rapid and substantial price rises. In the summer of 1998, however, the crisis in Asia worsened once more, defaults on payments occurred in Russia and the difficulties in South America again loomed larger in investors' awareness. These factors led to sharp declines in prices, followed by extreme fluctuations on all the markets.

The German stock index (Dax) had gained 45 % by the summer of 1998, reaching an alltime record high of 6,171.43 points at the end of July. In the months that followed, however, the Dax lost more than one-third of its value; the primary factors here were the effects of the Asian crisis on Russia and South America, Japan's slump into its deepest recession since the Second World War and the fall in the dollar rate. Towards year-end the Dax revived again, finally closing with a plus of almost 18 % at 5,002.39 points.

The stock market in the USA put on a good 16 % during the year to close at 9,181 points. In contrast to German stocks, the US market fully made good the lost ground after the index slumped briefly to 7,500 points. The performance of the UK market, which posted a gain of 14 %, was similarly favourable.

Technology and consumer stocks were popular throughout Europe, while a particular favourite was the telecommunications industry, which benefited from the deregulation of the telephone market. Financial institutions, on the other hand, were adversely affected by the unresolved economic problems affecting the major debtor nations.

The impending launch of the Euro also increasingly brought about changes in investment strategies. The establishment of a number of new European stock indexes, including for example the Stoxx index, prompted many previously national-based investors to adopt a stronger European orientation. Consequently, the leading national stocks which participated in these new European indexes posted above-average price gains, while second-line stocks were neglected.

On the German bond market, the downward trend in yields which had set in towards the end of 1994 continued. Due to the turmoil on the international financial markets and a resulting "flight to quality", yields on German government bonds also fell to a record low of 3.78 % in early October, following the Federal Reserve Board's decision to cut US interest rates in September. Anxiety about a possible worldwide shortage of capital facilities associated with a deflationary spiral, the Russian government's postponement of the servicing of foreign debts and the near-collapse of the LTCM hedge fund ultimately led to further interest rate cuts in the USA in October and November. The yield on benchmark 30-year treasury bonds thus dropped to 4.3 %, the lowest point in 25 years.

	Year-end 1997	Year-end 1998	Change in %
Dax	4 249.69	5 002.39	17.70
Stoxx 50	3 060.54	4 128.56	34.90
Dow Jones	7 908.25	9 181.43	16.10
FTSE 100	5 135.50	5 882.60	14.55
10-year German federal government bonds	5.352	3.867	-1.485
10-year US treasury bonds	5.740	4.650	-0.109
10-year UK government bonds	6.291	4.361	-0.193
USD	1.7987	1.6767	-6.78
GBP	2.9743	2.7719	-6.80
CAD	1.2582	1.0082	-13.51
AUD	1.1698	1.0137	-13.39
ZAR	0.3685	0.2859	-22.42

Money markets were decisively influenced by the decision taken at the beginning of May by the Council of the European Union to initiate the third stage of economic and monetary union on 1 January 1999 and thus pave the way for the launch of the Euro at the turn of the year. Against the backdrop of continuing economic weakness and a favourable inflationary trend, the "high-interest countries" in Euroland then experienced further cuts in interest rates, with the result that money market rates ultimately drifted down to the low level prevailing in Germany.

Special attention was focused on the European Central Bank, which commenced its activities in the middle of the year and from 1999 onwards bears responsibility for monetary policy in the countries participating in the Eurozone. The considerable strength of some European currencies against the key US currency could partly be explained by investors' confidence in this institution.

The Hannover Re Group profited from this generally favourable climate. The investment result climbed by a further 12.7 % to DM 1.2 billion. While ordinary investment earnings increased by 8.3 %, profits on disposals grew by 50.0 % to DM 337 million, thereby also helping to boost the result. However, this was not achieved at the expense of the hidden reserves in the investments, which increased by almost one-quarter to DM 1.9 billion. This figure includes more than DM 1.5 billion in highly liquid securities. Overall, the market values exceeded the book values by 12.6 %.

The total investment portfolio grew by 3.3 % to DM 19.3 billion. We held 63.9 % of our investments in foreign currencies in order to adhere to the principle of congruent currency coverage. By far the most important foreign currency was the US dollar, which accounted for a share of 37.9 %.

The structure of the investments which we managed ourselves remained almost unchanged. The total proportion of shares, including participations in venture capital companies, amounted to 12.1 % of the self-managed portfolio.

Human Resources

Contrary to the general trend on the labour market, we created additional jobs; altogether, we employed 99 new members of staff. Our personnel development programme was selectively extended to include new components. A total of 412 employees participated in training activities.

Prompted by further sizeable growth in our core business, our human resources activities were conducted against the backdrop of the continued expansion of our workforce. Purely at our head office in Hannover, the number of staff increased in 1998 by 47 to a total of 665. This growth of 7.6 % is all the more remarkable in view of the fact that Hannover Re thus created new skilled jobs contrary to the general trend on the labour market.

Marianne Pavel, Travel Office

"I could not imagine working in a company with no international connections. Foreign languages and encounters with other cultures are vital for me."

In harmony with our global orientation, we employ staff from 23 different countries at our German headquarters. The range of countries of origin is very wide, encompassing – amongst others – Finland, Italy, Colombia, North America, China, Morocco, Russia and Ireland. We particularly set great store in the integration of these members of staff. The long-term commitments which our foreign staff make to our company bear witness to the success of our efforts to make them feel at home.

Women make up 51.5 % of our total workforce. 86 of them, together with five male colleagues, are employed on the basis of part-time working arrangements. The number of staff who have opted for part-time working thus increased by 11.4 % to altogether 13.4 %.

In the year under review we again promoted more flexible work organization. To this end, we also supported a scientific study of teleworking, which will serve as the basis for a pilot project. We expect this model to facilitate the more effective utilization of resources, while enabling our staff to even better harmonize their private and professional lives.

Altogether 412 employees participated in the in-house training activities organized as part of our personnel development programme. These were supplemented by external periods of training spent in Germany and abroad. In addition, we invested heavily in new language teaching. We now have at our disposal an extensive course system which is complemented by computer-based self-learning programs.

In the year under review an average of 1,081 members of staff were employed with our Group worldwide. We intend to support Group-wide personnel development with state-of-the-art software, the installation of which is to be preceded by an analysis of all business processes in the human resources sector in order to enable us to structure our internal workflows more efficiently.

The success of our company in the 1998 financial year was again in very large measure attributable to the commitment and personal dedication of our members of staff. We would like to take this opportunity to express our thanks to them, the employee council and the senior management committee for their energetic support.

Outlook

The current financial year has witnessed a further deterioration in market conditions for property and casualty reinsurance. We are therefore continuing to operate with a selective and strictly profit-oriented underwriting policy. Life and health reinsurance offers substantial growth opportunities worldwide, as a result of which we expect to achieve another comfortable double-digit growth rate which will push gross premium income over the DM 3 billion threshold for the first time. Clear double-figure growth rates are similarly anticipated in financial reinsurance. In our fourth strategic segment – US program business –, the Hannover Re Group's latest acquisition, Clarendon Insurance Group, will generate substantial premium growth (USD 1.5 billion).

A slight weakening in growth is forecast for the macroeconomy and global economy. This is especially true of the USA, where economic growth is expected to slip below 2 % following the very dynamic performance of recent years. While the situation in south-east Asia is now in the process of stabilizing, the crisis-like developments in South America and Russia have still to be overcome. The extent to which Japan's recovery can be sustained remains to be seen. For western Europe, 1999 commenced with the third stage of European economic and monetary union as well as the single currency, which after a solid launch has suffered a sharp depreciation against the US dollar. Despite this, the very low level of interest rates is conducive to a favourable investment climate and expectations of lasting growth. The hotly debated tax reform in Germany has failed to improve the local climate for business; indeed, the opposite appears to be the case. The new federal government seems to have earmarked the insurance industry, in particular, as one of the main sources of funding for the changes which have been decided upon, a move which will entail considerable competitive disadvantages in the international environment.

Based on the insights gained from our treaty negotiations – most renewals being concluded as at 1 January of each year –, the expectations for our various business segments in the current year vary widely. Market conditions will continue to deteriorate in property and casualty reinsurance during the 1999 financial year. It is true that in some markets it was possible to push through rate increases owing to the increased loss expenditure of the previous year. However, these will not be sufficient to offset the worsening in premium rates and terms and conditions which can be observed virtually worldwide due to the pressure of competition. We have continued to write property and casualty reinsurance on a highly selective and strictly profit-oriented basis, even to the extent of accepting reductions in premium volume. As at the time of writing this report, the current year has – with the exception of a hailstorm in Australia which caused considerable losses – been spared natural catastrophes or other major losses. The burden of losses caused by such events has thus so far remained below the statistical expectations, which means that we currently also anticipate reaching our profit targets in property and casualty reinsurance.

Life and health reinsurance is experiencing sizeable growth rates worldwide. With our unchanged market positioning and underwriting policy, we expect our portfolio to show further dynamic expansion in 1999 and we anticipate another double-digit growth rate. Assuming that the exchange rates of the relevant foreign currencies relative to the German mark remain stable, it may be expected that gross premium income in this segment for the Group will surpass the DM 3 billion threshold for the first time. At the same time, our aim is to achieve a discernible improvement in results and hence generate a significant profit contribution. From mid-1999 onwards significant stimulus is anticipated from the German market, where the joint venture between Postbank and HDI – our major shareholder – will commence its business operations; E+S Rück has been earmarked for the role of exclusive reinsurer in this connection.

During soft cycles on the reinsurance markets, financial reinsurance tends to encounter a difficult business climate owing to the fact that traditional reinsurance cover with a full risk transfer can be purchased at reasonable prices and conditions. Despite this, developments such as the Asian crisis constantly open up fresh business opportunities, and we therefore expect this segment to continue to generate double-figure growth rates in the future.

Ralf Heinig, Chef

"Good cooking lives for its international ingredients – it would lose its flair without them."

On 25.2.1999 we completed the acquisition of all shares of Clarendon Insurance Group, New York, with retroactive effect as from 1.1.1999. Clarendon is one of the leading writers of so-called program business in the USA. A speciality of the US insurance market, this is written by insurers working in very close cooperation with reinsurers and highly specialized managing general agents. The segment is typically focused on niche and non-standard coverages and hard-to-place risks.

This acquisition does not constitute our entry into the primary insurance sector; rather, it represents the cultivation of a niche segment which bears a very close affinity to reinsurance and will help us to further diversify our earnings base. With the addition of this program business, which will account for approximately 20 % of our gross business volume, less than half of our premium income will derive from the cyclical and volatile property/casualty reinsurance segment in 1999.

Due to the initial inclusion of Clarendon in the Group accounts, we expect to generate gross premium income of almost DM 12 billion in the 1999 financial year. Since Clarendon for its part reinsures large portions of its business, net premiums earned will show appreciably smaller growth – probably reaching DM 7.7 billion. The integration of Clarendon into the Group will be one of our overriding tasks in the current year.

It is of course difficult to make forecasts about developments on the capital markets; assuming the level of investment performance attainable under "normal" conditions, we anticipate further double-digit growth in the result, which should again enable us to achieve our strategic profit targets.

Capital, reserves and technical provisions

The capital, reserves and technical provisions constitute the total funds theoretically available to our Group to cover actual and possible obligations. These funds showed another substantial increase of 9.6 %. The capital and reserves decreased, partly due to the fact that our participating interest in the ITAS Group, Italy, was consolidated for the first time at equity. The increase in the technical provisions reflects the growth in our premium income and bears witness to the continuation of our uncompromising, cautious reserving policy. The ratio of capital, reserves and technical provisions in relation to the net premium increased from 272.8 % to 281.8 %.

in DM million	*1998*	*1997*
Capital and reserves	703.1	773.0
Surplus debenture (Genußrechtskapital)	230.0	230.0
Fluctuation reserve and similar provisions	1 856.1	1 579.7
Technical provisions	16 620.8	15 129.3
Total capital, reserves and technical provisions	19 410.0	17 712.0

Proposal for the distribution of profits

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

	DM
Payment of a dividend of DM 3.80 on each participating no-par value bearer share	63 574 817.–
Payment of a dividend of DM 2.37 on each no-par value registered shares which has been partially paid up to 62.5 %, and of DM 2.22 on each no-par value registered share which has partially paid up to the extent of 58.3 %	29 616 000.–
Profit carried forward	309 183.–
	93 500 000.–

CONSOLIDATED *Accounts*

BALANCE SHEET as at 31 December 1998

Assets Figures in DM thousand	1998				1997
A. Subscribed capital unpaid				33 773	33 773
- called-up capital					
- (1997: -)					
B. Intangible assets					
I. Goodwill			231 652		236 175
II. Other intangible assets			78 299		100 457
				309 951	336 632
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			307 258		300 006
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies not included in the consolidated accounts		4 390			550
2. Loans to affiliated companies not included in the consolidated accounts		61			70
3. Participating interests		36 641			152 725
4. Participating interests in associated companies		121 927			26 491
			163 019		179 836
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		3 828 155			3 287 302
2. Bearer debt securities and other fixed-income securities		7 769 808			8 180 632
3. Mortgages and loans secured on land and buildings		13 304			15 995
4. Other loans					
a) Registered debt securities	1 025 137				
b) Debentures and loans	489 734				
c) Loans and advance payments on insurance policies	4 083				
d) Sundry loans	100 000	1 618 954			1 633 046
5. Deposits with banks		1 132 990			1 012 781
6. Other investments		20			20
			14 363 231		14 129 776
IV. Deposits with ceding companies			4 505 859		4 114 165
				19 339 367	18 723 783

Liabilities

Figures in DM thousand

	1998				1997
A. Capital and reserves					
I. Subscribed capital			147 651		147 651
II. Capital reserve			394 675		394 675
III. Retained earnings					
1. Statutory reserve			1 000		
2. Reserve for own shares					
as at 1.1.1998		–			
Allocation		533	533		
3. Other retained earnings					
as at 1.1.1998		113 304			
Allocation		22 248			
Withdrawal		533			
Offsetting against goodwill		-56 587	78 432		115 162
IV. Consolidation adjustments			9 520		9 520
V. Group profit or loss for the financial year			103 199		95 744
VI. Profit or loss brought forward			-182 942		-132 344
VII. Minority interests			151 032		142 636
				703 100	773 044
B. Surplus debenture (Genußrechtskapital)				230 000	230 000
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		1 167 360			
2. Less: reinsurance ceded		206 260	961 100		854 471
II. Life assurance provision					
1. Gross		2 967 569			
2. Less: reinsurance ceded		450 550	2 517 019		2 243 172
III. Provision for outstanding claims					
1. Gross		14 876 402			
2. Less: reinsurance ceded		2 244 145	12 632 257		11 428 130
IV. Provision for bonuses and rebates					
1. Gross		7 515			
2. Less: reinsurance ceded		3 235	4 280		5 116
V. Fluctuation reserve and similar provisions			1 856 050		1 579 679
VI. Other technical provisions					
1. Gross		585 257			
2. Less: reinsurance ceded		79 098	506 159		598 374
				18 476 865	16 708 942

Assets *Figures in DM thousand*			*1998*		*1997*
D. Investments for account and risk of bearers of life insurance policies				61	–
E. Receivables					
I. Receivables in respect of direct insurance from insurance intermediaries			89 106		16 574
II. Accounts receivable arising out of reinsurance operations			1 888 036		973 004
- from affiliated companies not included in the consolidated accounts:					
17 386 (1997: 16 347)					
III. Other receivables			48 491		25 610
- from affiliated companies not included in the consolidated accounts:				2 025 633	1 015 188
7 649 (1997: 1 702)					
F. Other assets					
I. Tangible assets and stocks			23 051		20 132
II. Cash at banks and in hand			244 861		158 288
III. Own shares			533		–
Nominal or par value:					
15 (1997: -)					
IV. Other assets			137		38
				268 582	178 458
G. Prepayments and accrued income					
I. Accrued interest and rent			202 736		215 122
II. Other accrued income			28 125		19 215
				230 861	234 337
H. Deferred taxes				3 780	903
				22 212 008	20 523 074

Liabilities *Figures in DM thousand*			*1998*		*1997*
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			52 115		46 752
II. Provisions for taxation			153 947		115 781
III. Other provisions			123 093		122 148
				329 155	284 681
E. Deposits received from retrocessionaires				868 656	897 989
F. Other liabilities					
I. Liabilities in respect of direct insurance business to insurance intermediaries			73		474
II. Accounts payable arising out of reinsurance operations			1 443 386		1 400 092
- to affiliated companies not included in the consolidated accounts:					
45 523 (1997: 194 299)					
III. Loans			5 680		7 370
- of which convertible:					
5 680 (1997: 7 370)					
IV. Liabilities to banks			26 330		–
V. Miscellaneous liabilities			106 822		197 345
- from taxes:				1 582 291	1 605 281
2 759 (1997: 1 051)					
- for social security:					
1 651 (1997: 1 283)					
- to affiliated companies not included in the consolidated accounts:					
100 (1997: 1 044)					
G. Accruals and deferred income				21 941	23 137
				22 212 008	20 523 074

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in DM thousand	1998			1997
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	8 562 337			7 745 093
b) Retrocession premiums	1 673 772			1 251 511
		6 888 565		6 493 582
c) Change in the gross provision for unearned premiums (+/-)	-243 826			29 507
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	84 008			4 666
		-159 818		34 173
			6 728 747	6 527 755
2. Allocated investment return transferred from the non-technical account, net of retrocession			121 410	66 613
3. Other technical income, net of retrocession			21 606	86
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	4 117 044			4 347 209
bb) Retrocessionaires' share	947 624			710 437
		3 169 420		3 636 772
b) Change in provisions for outstanding claims				
aa) Gross	-2 317 157			-807 285
bb) Retrocessionaires' share	844 301			51 920
		-1 472 856		-755 365
			4 642 276	4 392 137
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		-586 338		-344 937
b) Other net technical provisions		50 643		-47 492
			-535 695	-392 429
6. Bonuses and rebates, net of retrocession			383	3 489
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		2 291 844		2 195 014
b) Less: commissions and profit commissions received on retrocession		411 943		191 231
			1 879 901	2 003 783
8. Other technical charges, net of retrocession			29 006	7 550
9. Subtotal			-215 498	-204 934
10. Change in the fluctuation reserve and similar provisions			-276 371	-231 654
11. Net technical result			-491 869	-436 588

Figures in DM thousand	1998				1997
Balance brought forward:				-491 869	-436 588
II. Non-technical account					
1. Investment income					
a) Income from participating interest		787			5 783
- affiliated companies not included in the consolidated accounts:					
787 (1997: 1 034)					
b) Income from associated companies		11 318			1 188
c) Income from other investments					
- affiliated companies not included in the consolidated accounts:					
6 139 (1997: 3 438)					
aa) Income from land and buildings, rights to land and buildings, leasehold	20 977				
bb) Income from other investments	1 013 063	1 034 040			958 768
d) Appreciation on investments		3 764			2 766
e) Gains from the realization of investments		337 227			224 640
			1 387 136		1 193 145
2. Investment charges					
a) Investment management charges, including interest		29 355			23 639
b) Depreciation		89 965			62 426
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
8 853 (1997: 2 548)					
c) Losses of the realization of investments		44 662			21 378
			163 982		107 443
			1 223 154		1 085 702
3. Allocated investment return transferred to the technical account			-158 751		-87 326
				1 064 403	998 376
4. Other income			112 818		59 132
5. Other charges					
a) Special allocation to provisions for outstanding claims		266 044			292 298
b) Miscellaneous charges		214 556			150 945
			480 600		443 243
				-367 782	-384 111
6. Profit or loss on ordinary activities before tax				204 752	177 677
7. Tax on profit and income			88 684		59 208
8. Other taxes			2 278		4 594
				90 962	63 802
9. Profit or loss for the financial year				113 790	113 875
10. Withdrawal from retained earnings:					
from other retained earnings				533	–
11. Allocation to retained earnings:					
to the reserve for own shares				533	–
12. Profit accruing to outside shareholders				19 234	19 401
13. Loss accruing to outside shareholders				8 643	1 270
14. Group profit or loss for the financial year				103 199	95 744

BALANCE SHEET *as at 31 December 1998*

Assets Figures in EUR thousand	1998				1997
A. Subscribed capital unpaid				17 268	17 268
- called-up capital					
- (1997: -)					
B. Intangible assets					
I. Goodwill			118 442		120 754
II. Other intangible assets			40 034		51 363
				158 476	172 117
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			157 098		153 391
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies not included in the consolidated accounts		2 245			281
2. Loans to affiliated companies not included in the consolidated accounts		31			36
3. Participating interests		18 734			78 087
4. Participating interests in associated companies		62 340			13 544
			83 350		91 948
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1 957 305			1 680 771
2. Bearer debt securities and other fixed-income securities		3 972 640			4 182 691
3. Mortgages and loans secured on land and buildings		6 802			8 178
4. Other loans					
a) Registered debt securities	524 144				
b) Debentures and loans	250 397				
c) Loans and advance payments on insurance policies	2 088				
d) Sundry loans	51 129	827 758			834 963
5. Deposits with banks		579 289			517 827
6. Other investments		10			10
			7 343 804		7 224 440
IV. Deposits with ceding companies			2 303 809		2 103 539
				9 888 061	9 573 318

Conversion to Euro: 1 EUR = 1.95583 DM

Liabilities

Figures in EUR thousand

	1998				1997
A. Capital and reserves					
I. Subscribed capital			75 493		75 493
II. Capital reserve			201 794		201 794
III. Retained earnings					
1. Statutory reserve			511		
2. Reserve for own shares					
as at 1.1.1998		–			
Allocation		272	272		
3. Other retained earnings					
as at 1.1.1998		57 913			
Allocation		11 393			
Withdrawal		272			
Offsetting against goodwill		-28 932	40 102		58 882
IV. Consolidation adjustments			4 867		4 867
V. Group profit or loss for the financial year			52 765		48 954
VI. Profit or loss brought forward			-93 537		-67 667
VII. Minority interests			77 222		72 928
				359 489	395 251
B. Surplus debenture (Genußrechtskapital)				117 597	117 597
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		596 862			
2. Less: reinsurance ceded		105 459	491 403		436 884
II. Life assurance provision					
1. Gross		1 517 294			
2. Less: reinsurance ceded		230 362	1 286 932		1 146 915
III. Provision for outstanding claims					
1. Gross		7 606 184			
2. Less: reinsurance ceded		1 147 413	6 458 771		5 843 110
IV. Provision for bonuses and rebates					
1. Gross		3 842			
2. Less: reinsurance ceded		1 654	2 188		2 616
V. Fluctuation reserve and similar provisions			948 983		807 677
VI. Other technical provisions					
1. Gross		299 237			
2. Less: reinsurance ceded		40 442	258 795		305 944
				9 447 072	8 543 146

Assets

Figures in EUR thousand

	1998				1997
D. Investments for account and risk of bearers of life insurance policies				31	–
E. Receivables					
I. Receivables in respect of direct insurance from insurance intermediaries			45 559		8 474
II. Accounts receivable arising out of reinsurance operations			965 338		497 613
- from affiliated companies not included in the consolidated accounts:					
8 889 (1997: 8 358)					
III. Other receivables			24 793		12 970
- from affiliated companies not included in the consolidated accounts:				1 035 690	519 057
3 911 (1997: 870)					
F. Other assets					
I. Tangible assets and stocks			11 785		10 293
II. Cash at banks and in hand			125 196		80 931
III. Own shares			272		–
Nominal or par value:					
8 (1997: -)					
IV. Other assets			70		20
				137 323	91 244
G. Prepayments and accrued income					
I. Accrued interest and rent			103 657		109 990
II. Other accrued income			14 380		9 825
				118 037	119 815
H. Deferred taxes				1 933	462
				11 356 819	10 493 281

Liabilities Figures in EUR thousand			1998		1997
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			26 646		23 904
II. Provisions for taxation			78 712		59 198
III. Other provisions			62 936		62 453
				168 294	145 555
E. Deposits received from retrocessionaires				444 137	459 135
F. Other liabilities					
I. Liabilities in respect of direct insurance business to insurance intermediaries			37		242
II. Accounts payable arising out of reinsurance operations			737 992		715 856
- to affiliated companies not included in the consolidated accounts:					
23 276 (1997: 99 343)					
III. Loans			2 904		3 768
- of which convertible:					
2 904 (1997: 3 768)					
IV. Liabilities to banks			13 462		–
V. Miscellaneous liabilities			54 617		100 901
- from taxes:				809 012	820 767
1 411 (1997: 538)					
- for social security:					
844 (1997: 656)					
- to affiliated companies not included in the consolidated accounts:					
51 (1997: 534)					
G. Accruals and deferred income				11 218	11 830
				11 356 819	10 493 281

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in EUR thousand	1998			1997
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	4 377 853			3 960 003
b) Retrocession premiums	855 786			639 887
		3 522 067		3 320 116
c) Change in the gross provision for unearned premiums (+/-)	-124 666			15 087
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	42 953			2 385
		-81 713		17 472
			3 440 354	3 337 588
2. Allocated investment return transferred from the non-technical account, net of retrocession			62 076	34 059
3. Other technical income, net of retrocession			11 047	44
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	2 105 011			2 222 693
bb) Retrocessionaires' share	484 512			363 241
		1 620 499		1 859 452
b) Change in provisions for outstanding claims				
aa) Gross	-1 184 743			-412 758
bb) Retrocessionaires' share	431 684			26 546
		-753 059		-386 212
			2 373 558	2 245 664
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		-299 789		-176 364
b) Other net technical provisions		25 893		-24 282
			-273 896	-200 646
6. Bonuses and rebates, net of retrocession			196	1 784
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 171 801		1 122 293
b) Less: commissions and profit commissions received on retrocession		210 623		97 775
			961 178	1 024 518
8. Other technical charges, net of retrocession			14 831	3 860
9. Subtotal			-110 182	-104 781
10. Change in the fluctuation reserve and similar provisions			-141 307	-118 443
11. Net technical result			-251 489	-223 224

Figures in EUR thousand	1998				1997
Balance brought forward:				-251 489	-223 224
II. Non-technical account					
1. Investment income					
a) Income from participating interest		402			2 957
- affiliated companies not included in the consolidated accounts:					
402 (1997: 529)					
b) Income from associated companies		5 787			608
c) Income from other investments					
- affiliated companies not included in the consolidated accounts:					
3 139 (1997: 1 758)					
aa) Income from land and buildings, rights to land and buildings, leasehold	10 725				
bb) Income from other investments	517 971	528 696			490 210
d) Appreciation on investments		1 925			1 414
e) Gains from the realization of investments		172 422			114 856
			709 232		610 045
2. Investment charges					
a) Investment management charges, including interest		15 009			12 086
b) Depreciation		45 999			31 917
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB):					
4 526 (1997: 1 303)					
c) Losses of the realization of investments		22 835			10 931
			83 843		54 934
			625 389		555 111
3. Allocated investment return transferred to the technical account			-81 168		-44 649
				544 221	510 462
4. Other income			57 683		30 233
5. Other charges					
a) Special allocation to provisions for outstanding claims		136 026			149 449
b) Miscellaneous charges		109 701			77 177
			245 727		226 626
				-188 044	-196 393
6. Profit or loss on ordinary activities before tax				104 688	90 845
7. Tax on profit and income			45 343		30 273
8. Other taxes			1 165		2 348
				46 508	32 621
9. Profit or loss for the financial year				58 180	58 224
10. Withdrawal from retained earnings:					
from other retained earnings				272	–
11. Allocation to retained earnings:					
to the reserve for own shares				272	–
12. Profit accruing to outside shareholders				9 834	9 920
13. Loss accruing to outside shareholders				4 419	650
14. Group profit or loss for the financial year				52 765	48 954

General accounting principles

The parent company of Hannover Re is HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). HDI is obliged to prepare consolidated annual accounts in accordance with §§ 341 i ff. of the Commercial Code (HGB). The annual accounts of Hannover Re and its subsidiary companies are included in these consolidated annual accounts, as a result of which Hannover Re is not obliged to prepare its own consolidated annual accounts. We have prepared our own consolidated annual accounts, although there is no legal obligation to do so, in order to show the activities of the Hannover Re Group.

The structure of the consolidated annual accounts corresponds to the sample balance sheet of individual accounts (forms 1 and 4) in accordance with § 58 (1) clause 1 of the regulation on the presentation of insurance company accounts (RechVersV).

Consolidated companies

Hannover Rückversicherungs-AG is the parent company of the Group. In addition, four German companies, ten individual foreign companies – three of which for the first time – and one foreign group were included. Three German and two foreign companies were consolidated at equity – three of these for the first time.

Companies which conduct little or no business activity or which are only of minor importance have not been included in the consolidated annual accounts in accordance with § 296 (2) of the Commercial Code (HGB).

Details of the share ownership are set out on page 58.

Consolidation principles

Consolidation of capital and reserves

The book value method was used for the consolidation of capital and reserves. In this regard, the acquisition costs of subsidiary companies were offset against the companies' capital and reserves, insofar as they were apportionable to the Group, at the time of acquisition or at the time when they were first included in the Group accounts. If shares in subsidiary companies are held by outside shareholders, these are shown as minority interests. The companies included in the Group accounts for the first time in 1998 were consolidated as at 1st January.

Where differences arose in the assets which could not be allocated to the corresponding asset elements, they were shown in the assets as goodwill under intangible assets and depreciated pro rata. Differences entered as liabilities were shown as a difference from the consolidation of funds in the capital and reserves.

Valuation of associated companies

The valuation took place according to the same principles as those applicable to the consolidation of capital and reserves at equity; in the case of companies included for the first time valuation was as at 1.1.1998.

Debt consolidation

Receivables and liabilities between the companies included in the consolidated annual accounts were offset against each other. This also applies to technical provisions in the case of intra-group business transactions.

Consolidation of expenses and profit

Intra-group expenses and profit were offset against each other and interim results were eliminated.

Probable tax relief in subsequent financial years

Tax deferrals within the Group have been revised in the light of the necessary consolidating and adjustment entries under German accounting rules. Making allowance for deferred amounts shown as assets or liabilities in the individual accounts, asset-side deferrals were shown; this is in contrast to the individual accounts of the parent company.

Accounting and valuation

General principles

All the annual accounts included in the consolidated annual accounts were drawn us as at 31st December.

The annual accounts of the foreign companies which were included were initially drawn up in accordance with the provisions of the respective national laws and transferred to uniform group accounting and valuation rules under German law. Technical provisions from foreign companies were retained in accordance with § 308 (2) clause 2 of the Commercial Code (HGB) and are the only exception to the principle of uniform valuation in accordance with § 308 (1) clause 1 of the Commercial Code (HGB).

Intangible assets

The goodwill refers to two companies acquired in previous years and three in the financial year. Scheduled depreciation is over 15 years.

Other intangible assets are valued at the acquisition cost less permitted depreciation. Where write-downs refer to the Skandia portfolio acquired in the previous year, the period of depreciation corresponds to the average period of the underlying treaties.

Investments

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

Shares in affiliated companies – provided they were not consolidated – and participations are recorded on a purchase cost basis. Any necessary depreciation is taken into account.

Loans to affiliated companies are valued at nominal value less amortisation.

Shares, investment certificates and other variable-yield securities as well as bearer bonds and other fixed-income securities are valued according to the lower value principle (acquisition cost, stock market value or previous year's value, whichever is lower); lower valuations were retained.

Mortgages and loans secured on land and buildings, registered debt securities, debentures and loans are valued at nominal value minus amortisation and depreciation. Premium and discount amounts were taken into account.

We have valued deposits with banks, other investments and deposits with ceding companies at nominal amounts. We have set up valuation adjustments for potential shortfall risks.

Other assets

Accounts receivable arising out of reinsurance operations and other receivables are recorded at nominal values. Valuation adjustments were taken into account.

Tangible assets and stocks are valued at purchase cost less straight-line or declining-balance depreciation. Low-value items were completely written off in the year of acquisition.

Own shares refer to Hannover Rückversicherungs-AG.

Capital and reserves

Exchange rate gains or losses arising from the consolidation of capital and reserves have been offset against retained earnings or the capital reserve. They arose because of variations in the average exchange rate at the time the shares were acquired in the consolidated company and the exchange rates at balance sheet date.

Differences arising out of the consolidation of capital and reserves have been shown separately in the retained earnings.

The first-time inclusion of three companies at equity led to asset-side differences of DM 56,587 thousand and liability-side differences of DM 2,560 thousand, which are included in the other retained earnings.

The share capital of Hannover Rückversicherungs-AG was converted to no-par value shares in the 1998 financial year.

Surplus debenture (Genußrechtskapital)

Surplus debenture are entered as liabilities with repayable amounts.

Technical provisions

The technical provisions of Hannover Re and E+S Rück are set up in accordance with the provisions of German commercial law (see the explanations on the individual accounts). The corresponding provisions for the foreign subsidiaries were established in accordance with the provisions of national law and have been transferred unaltered to the consolidated annual accounts. In the case of one foreign company, valuation units were formed with the corresponding investments (matching currencies and maturities).

Provisions for other risks and charges

Provisions for pensions are in principle established according to the fractional value method as per §6a of the Income Tax Act (EStG). The 1998 standard tables of Dr. Klaus Heubeck were used as a basis for this with an accounting interest rate of 6 %.

In our opinion, the provisions for taxation reserves and other provisions take into account all identifiable risks and liabilities.

Deposits and other liabilities

The valuation was made on the repayable amounts.

Currency conversion

Foreign currency entries in the balance sheets of German companies were converted into German marks at the average exchange rate for the respective balance sheet date.

Balance sheets which were prepared in the respective national currency were also converted at average exchange rates.

Other information

Integration measures rendered necessary in conjunction with the acquisition of parts of the Skandia portfolio were largely completed in the 1998 financial year. These included, on the one hand, the first-time consolidation of two foreign reinsurance companies and one service company, and, on the other hand, the integration of two branches. In this connection, sub-portfolios were transferred between the Group companies. The portfolio transfers are to be completed in 1999.

Notes on the consolidated balance sheet

The change in asset items B., C.I. sowie C.II. 1. to 4. was as follows during the 1998 financial year:

Figures in DM million	*Book values 31.12.1997*	*Accruals*	*Deductions*	*Appreciation*	*Depreciation*	*Book values 31.12.1998*
B. Intangible assets						
I. Goodwill	236 175	29 228	16 588	3 317	20 480	231 652
II. Other intangible assets	100 457	21 278	4 174	–	39 262	78 299
C. Investments						
I. Land and buildings, rights to land and buildings, leasehold	300 006	26 492	1 481	316	18 075	307 258
II. Investments in affiliated companies and participating interests						
1. Shares in affiliated companies not included in the consolidated account	550	3 840	–	–	–	4 390
2. Loans to affiliated companies not included in the consolidated account	70	173	16	–	166	61
3. Participating interests	152 725	8 951	119 694	–	5 341	36 641
4. Participating interests in associated companies	26 491	95 436	–	–	–	121 927
Total	816 474	185 398	141 953	3 633	83 324	780 228

Property with a book value of DM 62.0 million is primarily for our own use. Appreciation totalling DM 88,808 thousand was omitted (§ 280 (2) of the Commercial Code (HGB)). Special depreciation on property in the amount of DM 13 thousand was booked in accordance with § 4 of the Federal Assisted Areas Act (FördG).

Shares in affiliated companies and participations

The companies listed below are those included in the consolidated accounts as well as major participations. Companies of subordinate economic importance which are not relevant to the consolidated accounts are not listed.

Investments in affiliated companies and participating interests *Figures in DM thousand*	*Participation* *in %*	*Capital and reserves*	*Result from the last financial year*
Companies included in the consolidated accounts:			
E+S Rückversicherungs-AG, Hannover	50.1	235 249	-15
GbR Hannover Rückversicherungs-AG/E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover	67.5	62 799	-968
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich	99.8	-4 161	-992
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover	100.0	14 970	-931
Insurance Corporation of Hannover, Chicago	100.0	154 310	5 375
Reassurance Company of Hannover, Orlando	100.0	77 115	385
International Insurance Company of Hannover Ltd., London	100.0	155 972	7 037
Hannover Reinsurance (Ireland) Ltd., Dublin	100.0	411 629	50 673
E+S Reinsurance (Ireland) Ltd., Dublin	50.1	322 111	27 610
Hannover Re Advanced Solutions Ltd., Dublin	50.0	1 075	943
Hannover Life Re of Australasia Ltd, Sydney	75.0	132 056	12 166
Hannover Life Reassurance (UK) Ltd., Virginia Water	100.0	61 273	-1 203
Hannover Re Sweden Insurance Company Ltd., Stockholm	100.0	26 991	75
Hannover Life Services (UK) Ltd., Virginia Water	100.0	132	14
Hollandia Reinsurance Group Ltd., Johannesburg	52.0	50 934	1 423
The Hollandia Reinsurance Group compiles its own consolidated accounts, including the following major companies in which it holds the following shares:			
Hollandia Reinsurance Company Ltd., Johannesburg	100.0	54 573	6 108
Hollandia Life Reassurance Company Ltd., Johannesburg	100.0	4 544	852
Hillside House (Proprietary) Ltd., Johannesburg	100.0	2 217	–
Indoc Holdings S.A., Luxembourg	100.0	8 659	496
Coral Reinsurance Ltd., Port Louis	100.0	10 506	2 193
Lireas Holdings (Proprietary) Ltd., Johannesburg	100.0	1 452	368
Associated companies:			
WeHaCo Unternehmensbeteiligungs-AG, Hannover	25.0	81 137	4 769
HANNOVER Finanz Vermögens-Verwaltungs-GmbH, Hannover	32.9	119 561	22 288
ITAS Assicurazioni S.p.A., Trient	40.0	91 135	872
ITAS Vita S.p.A., Trient	40.0	60 865	5 112

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

Current values pursuant § 54 RechVersV of asset items C.I. to C.III. for the 1998 financial year *Figures in DM thousand*	*Book values 31.12.1998*	*Current values 31.12.1998*	*Difference 31.12.1998*
C. Investmens			
C.I. Land and buildings, rights to land and buildings, leasehold	307 258	431 349	124 091
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies not included in the consolidated accounts	4 390	4 390	–
2. Loans to affiliated companies not included in the consolidated accounts	61	61	–
3. Participating interests	36 641	48 901	12 260
4. Participating interests in associated companies	121 927	250 190	128 263
5. Total C.II.	163 019	303 542	140 523
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	3 828 155	4 860 324	1 032 169
2. Bearer debt securities and other fixed-income securities	7 769 808	8 245 436	475 628
3. Mortages and loans secured on land and buildings	13 304	13 304	–
4. Other loans			
a) Registered debt securities	1 025 137	1 098 407	73 270
b) Debentures and loans	489 734	534 251	44 517
c) Loans and advance payments on insurance policies	4 083	4 083	–
d) Sundry loans	100 000	112 866	12 866
5. Deposits with banks	1 132 990	1 132 990	–
6. Other investments	20	20	–
7. Total C.III.	14 363 231	16 001 681	1 638 450
Sum total	14 833 508	16 736 572	1 903 064

Capital and reserves

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

Technical provisions

The main technical provisions are as follows:

Unearned premiums *Figures in DM thousand*	*1998 gross*	*1998 net*	*1997 gross*	*1997 net*
Directly concluded insurance business				
Property and casualty insurance	97 009	66 806	15 038	6 946
Life insurance	–	–	–	–
Subtotal	97 009	66 806	15 038	6 946
Business reinsured				
Property and casualty insurance	876 369	725 603	926 525	678 197
Life insurance	193 982	168 691	187 911	169 328
Subtotal	1 070 351	894 294	1 114 436	847 525
Total	1 167 360	961 100	1 129 474	854 471

Life insurance provision *Figures in DM thousand*	*1998 gross*	*1998 net*	*1997 gross*	*1997 net*
Directly concluded insurance business				
Property and casualty insurance	–	–	–	–
Life insurance	–	–	–	–
Subtotal	–	–	–	–
Business reinsured				
Property and casualty insurance	–	–	–	–
Life insurance	2 967 569	2 517 019	2 744 732	2 243 172
Subtotal	2 967 569	2 517 019	2 744 732	2 243 172
Total	2 967 569	2 517 019	2 744 732	2 243 172

Provisions for outstanding claims *Figures in DM thousand*	*1998 gross*	*1998 net*	*1997 gross*	*1997 net*
Directly concluded insurance business				
Property and casualty insurance	534 670	258 766	257 419	55 465
Life insurance	–	–	–	–
Subtotal	534 670	258 766	257 419	55 465
Business reinsured				
Property and casualty insurance	13 086 501	11 561 479	13 066 556	11 076 896
Life insurance	1 255 231	812 012	379 020	295 769
Subtotal	14 341 732	12 373 491	13 445 576	11 372 665
Total	14 876 402	12 632 257	13 702 995	11 428 130

Provisions for pensions

Provisions for pensions were established in accordance with actuarial principles.

Taxation provisions and other provisions

The taxation provisions also make allowance for the tax deferrals made on the basis of adjustments and consolidating entries in line with German accounting regulations. The calculation was based on local rates of taxation.

Accurals and deferred income

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

Notes on the consolidated profit and loss account

	Gross premiums written		*Net premiums written*		*Net claims incurred*		*Net operating expenses*	
Figures in DM thousand	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*
Directly concluded insurance business								
Property and casualty insurance	328 866	113 448	68 076	40 197	55 553	28 996	5 754	14 278
Life insurance	–	–	–	–	–	–	–	–
Subtotal	328 866	113 448	68 076	40 197	55 553	28 996	5 754	14 278
Business reinsured								
Property and casualty insurance	6 515 692	6 142 875	5 410 467	5 492 737	3 796 241	3 585 488	1 343 204	1 397 173
Life insurence	1 717 779	1 488 770	1 410 022	960 648	790 482	777 653	530 943	592 332
Subtotal	8 233 471	7 631 645	6 820 489	6 453 385	4 586 723	4 363 141	1 874 147	1 989 505
Total	8 562 337	7 745 093	6888 565	6 493 582	4 642 276	4 392 137	1 879 901	2 003 783

Other income

Figures in DM thousand	*1998*	*1997*
Exchange rate gains	55 639	23 261
Income from services	13 208	17 721
Other interest earned	10 455	6 901
Amounts realized	3 360	–
Income from the cancellation of value adjustments	3 509	1 849
Income from the release of reserves	1 724	5 267
Other income	24 923	4 133
Total	112 818	59 132

Other charges

Figures in DM thousand	*1998*	*1997*
Special allocation to the loss reserve	266 044	292 298
Exchange rate losses	72 912	26 952
Other interest charges	48 100	63 445
Expenses for services	27 153	4 625
Depreciation and value adjustments	20 250	21 846
Expenses for the company as a whole	25 462	16 265
Interest charges on surplus debenture (Genußrechtskapital)	17 525	17 525
Other charges	3 154	287
Total	480 600	443 243

Staff

The average number of staff at the companies included in the consolidated accounts was 1,081. Of this number 444 were employed abroad.

Expenditure on personnel

Expenditure on personnel amounted to DM 109,232 thousand.

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

Emoluments of DM 420 thousand were received by the Supervisory Board and DM 4,662 thousand by the Executive Board in the year under review. The emoluments of former board members and their surviving dependants amounted to DM 1,127 thousand, and a liability of DM 14,574 thousand was entered.

The following loans which are secured on mortgages or by land charges have been granted to board members.

Figures in DM thousand	*Position at 1.1.1998*	*Amortisation*	*Addition*	*Deduction Transfer*	*Position at 31.12.1998*	*Interest rate %*
Supervisory Board	103	5	–	–	98	5.5
Executive Board	484	212	–	–	272	5.5

The loans end between the years 2012 and 2016.

Contingent liability

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

Certification by the Independent Auditors

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

Hannover, den 21st May 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

HANNOVER RE

KEY FIGURES *of Hannover Re*

Figures in DM million	*1998*	*+/- previous year*	*1997*	*1996*
Gross premiums written	5 686.0	+11.4 %	5 102.6	3 819.1
Net premiums earned	3 629.7	-2.0 %	3 705.6	2 871.3
Technical result	-102.9	-9.3 %	-113.4	-33.4
Allocation to the fluctuation reserve and similar provisions	193.4	+21.4 %	159.3	174.5
Investment result	732.0	+12.6 %	649.9	546.3
Profit or loss on ordinary activities before tax	139.8	+3.7 %	134.8	138.5
Profit or loss for the financial year	93.4	+12.0 %	83.4	75.7
Investments	11 739.5	+1.4 %	11 581.6	9 608.8
Capital and reserves incl. surplus debenture (Genußrechtskapital)	705.0	–	704.8	653.9
Fluctuation reserve and similar provisions	1 354.8	+16.7 %	1 161.4	1 002.1
Net technical provisions	8 949.3	+5.4 %	8 493.3	7 153.8
Total capital, reserves and technical provisions	11 009.1	+6.3 %	10 359.5	8 809.8
Number of employees	464	+36	428	389
Retention	65.3 %		72.1 %	73.9 %
Loss ratio*	73.8 %		68.4 %	70.9 %
Expense ratio*	29.8 %		29.7 %	27.2 %
Combined loss/expense ratio*	103.6 %		98.1 %	98.1 %

*excluding life and health reinsurance

As in the previous year, we have combined the status reports of the Hannover Re Group and the parent company within the Group report in order to avoid unnecessary repetitions in our reporting.

German accounting regulations for insurance companies, however, require mandatory status reports for each class of insurance. Since this breakdown does not correspond to the definition of our business segments for the Group as a whole, we have omitted to comment on specific classes of business in the Group report. For this reason, we have compiled the following class-of-business review of the parent company's portfolio.

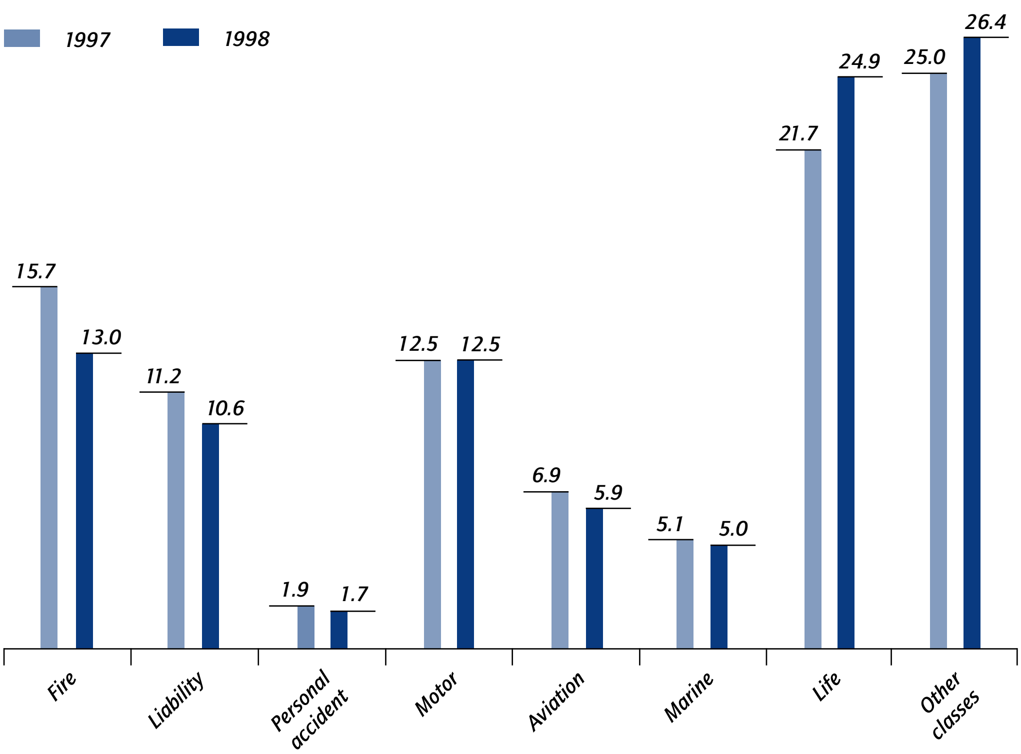
Premium growth

With effect from 1.1.1997, the parent company has been transacting active reinsurance – with the exception of parts of the business of its main shareholder – exclusively in foreign markets. All German business is handled by our subsidiary E+S Rück. The geographical balance of the portfolio, which is important for both companies from the point of view of optimal risk spreading, has been preserved by means of reciprocal retrocessions.

We increased our gross premiums in the year under review by 11.4 % to DM 5.7 billion, with net premium income being DM 3.7 billion (+ 1.0 %); the retention rate thus fell to 65.3 %.

Due to intergroup retrocessions of business from E+S Rück, German business accounted for a substantial 20.5 % (23.2 %) share of our portfolio, and developments in the German market thus continued to be of relevance.

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



Fire

Our fire portfolio contracted by 7.2 %. This decrease was principally attributable to industrial business, particularly in Germany, the USA and Italy. Elsewhere, however, we achieved growth, for example in the Benelux countries, where the volume of this segment more than doubled. The premium reduction was due, on the one hand, to our selective underwriting policy and, on the other hand, to the sometimes considerable decline in premium levels. The latter factor was heavily reflected in the poorer technical result.

Fire

in DM million	1998	1997
Gross premiums written	741.2	798.6
Loss ratio (%)	70.7	57.5
Technical result (net)	-25.5	29.1

Fire business in Germany was marked by a massive fall in primary premium rates. In addition, claims expenditure – especially as a result of the increased burden of major losses – increased, causing market-wide loss which also negatively impacted reinsurance results. In Asia insurance and reinsurance rates also sank to an all-time low. Even major losses in Malaysia and Thailand failed to bring about a reversal in this trend. Australian fire results were significantly influenced by an explosion in Melbourne, which caused insured damage costing approximately AUD 1 billion; we also participated in this loss. Additionally, the two hurricanes Mitch and Georges adversely affected results in the USA as well as Central America and the Caribbean.

The amount of DM 45.1 million was withdrawn from the fluctuation reserve.

Liability

The premium income generated by our liability business increased by 4.9 % in the year under review. While highly developed markets such as the United Kingdom and the USA showed sharp declines, we expanded our business in newer markets such as Australia, Bermuda and Spain as well as in Sweden and Germany. Our liability portfolio was largely spared any major losses. Furthermore, the result was favourably influenced by the beneficial effect of a special one-off treaty and the run-off of the IBNR reserve constituted for this class. Overall, these factors gave rise to a healthy improvement in our technical result.

Liability

in DM million	1998	1997
Gross premiums written	601.0	573.2
Loss ratio (%)	66.1	84.3
Technical result (net)	11.7	-58.1

Whereas in Germany market developments in the liability class of business were largely unremarkable, in the USA and the United Kingdom intense competitive pressure caused reinsurance rates to continue falling. The prevailing rates in professional indemnity insurance, in particular, were scarcely adequate. Bearing in mind that this class is also particularly exposed to Y2K-related risks, we considerably reduced our exposure. The volume of business from Bermuda, where we support one of the foremost liability insurers, increased considerably.

The underwriting profit produced a record allocation of DM 103.6 million to the fluctuation reserve. In the year under review we strengthened the IBNR reserve by an amount of DM 79.6 million.

Personal Accident

Following dynamic growth in the preceding years, the expansion of our personal accident business slowed to just 2.6 % in 1998. Growth stemmed from Germany, the USA and Malaysia, whereas in other major markets (e.g. the United Kingdom) premium income declined.

We generated continued growth in Australia and New Zealand, having already expanded personal accident business in this region during previous years. This market is particularly interesting because in New Zealand and in the Australian state of New South Wales preparations are underway for privatization of workers' compensation insurance. Current estimates put the premium volume in question at more than DM 2 billion. In view of the implications for insurers' solvency margins, this will also trigger a demand for reinsurance.

Technical results in personal accident business have been pleasing to date. It should further be borne in mind that run-off periods for claims are generally protracted, which means that this class accounts for a disproportionately large investment income. The result is therefore particularly gratifying. This favourable result allowed an allocation to the fluctuation reserve of DM 10.5 million.

Personal Accident

in DM million	*1998*	*1997*
Gross premiums written	97.5	95.0
Loss ratio (%)	54.8	65.9
Technical result (net)	1.5	-5.7

Motor

Our motor portfolio posted growth of 10.9 %. Although a good 50 % of our premium in this class of business still derives from Germany, the relative importance of our domestic market has clearly declined. On the other hand, we substantially boosted our premium income from the Benelux countries, Australia and South Africa.

German motor business is still suffering the effects of the outbreak of "discountitis" which started in 1997, i.e. the introduction of highly diverse rating criteria and the granting of commensurate price rebates by insurers. This resulted in a further drop in premiums of around 5 % and a technical deficit of DM 2.9 billion for the market as a whole. Both these factors had a corresponding impact on our treaty portfolio.

The growth in Belgium and the Netherlands was particularly attributable to the fact that from 1998 onwards we became the exclusive reinsurer of all foreign subsidiaries of our main shareholder, HDI, and therefore reinsured HDI activities in the Benelux countries. In Taiwan, where the insurance industry is heavily dominated by motor business, a reasonable tariff level enabled us to post good results.

Due to the massive deterioration in the technical result, a mere DM 0.5 million was allocated to the fluctuation reserve. We boosted the IBNR reserve for motor third party liability business with a sum of DM 27.6 million.

Motor

in DM million	*1998*	*1997*
Gross premiums written	709.6	639.9
Loss ratio (%)	97.4	74.4
Technical result (net)	-104.3	25.0

Aviation

Following some impressive increases in our premium income over a number of years, our aviation premium contracted by 4.6 % in the year under review. The London market and the USA generate the bulk of our aviation and space business. The decline in our premium income largely reflects a drop in our acceptances from the London market, whereas in the USA we further stepped up our commitment.

Aviation

in DM million	*1998*	*1997*
Gross premiums written	334.8	350.8
Loss ratio (%)	65.9	65.8
Technical result (net)	18.2	-4.3

The aviation and space sector recorded a sharp fall in rates in the year under review. The rate level in primary insurance no longer leaves any latitude for the necessary profit margins. There was also an above-average burden of major individual losses in the year under review – most notably in space (re-)insurance. What is more, the crash of a Swiss Air passenger jet off the coast of Canada was the largest-ever loss to hit the aviation insurance industry. Consequently, 1998 was one of the most difficult years in the history of this class of insurance.

Due to the fact that we have taken out our own reinsurance protection – especially against major losses – and have considerably reduced our participation in highly competitive segments, our technical result improved substantially. We allocated an amount of DM 18.0 million to the fluctuation reserve.

Marine

Our marine portfolio generated double-digit growth of 10.4 %, in large part because we reinsured the foreign activities of our main shareholder for the first time. Accordingly, the premium contributions deriving from the Netherlands and Belgium showed particularly notable growth. We also boosted our premium income in the United Kingdom, while acceptances from France declined sharply.

Marine

in DM million	*1998*	*1997*
Gross premiums written	286.1	259.2
Loss ratio (%)	90.9	62.8
Technical result (net)	-29.4	22.0

In both the insurance and reinsurance sectors, the marine market as a whole was characterized by sustained fierce competition in the year under review, leading to further pressure on the already low level of premiums. As an additional factor, an increased number of mid-range major losses caused a marked rise in the loss ratio. The (re-)insurance of offshore risks played a particularly significant role in pushing up the loss expenditure.

Taken together, these factors brought about a massive deterioration in the technical result, and the amount of DM 25.5 million was withdrawn from the fluctuation reserve.

Life

Following a three-figure growth rate in the previous year, we were again highly successful in expanding life business – in accordance with our strategic planning – with a rate of increase of 28.0 % in the year under review. This segment now accounts for almost 25 % of our total premium income. The major growth markets were the USA, the United Kingdom, Scandinavia and – due to the retrocessions from our own subsidiary E+S Rück – our domestic German market.

In life business we have continued to specialize in financing transactions. In addition to assuming underwriting risks, we finance the high initial acquisition costs incurred by life insurers as they build up a portfolio and – especially in the USA – we take over entire portfolios in exchange for payment of a single commission by way of so-called block assumption transactions. This prefinancing expenditure accrues to our account as earnings in subsequent years. We were also successful with product partnerships, under which we developed new life insurance products jointly with insurers.

In order to relieve our financial statement of the substantial strains caused by prefinanced commission payments, in the year under review we transferred – as the first transaction of its type in the world – acquisition costs from life reinsurance treaties to the capital markets. This "retrocession" to the capital markets combined with the returns on investments in preceding years enabled our life business to surge into the profit zone in 1998. Compared to the previous year, which was adversely affected by various special factors, our technical result improved by more than DM 200 million.

Life

in DM million	*1998*	*1997*
Gross premiums written	1 417.2	1 107.0
Technical result (net)	23.1	-182.3

The portfolio of reinsured life insurance developed as follows in the year under review (foreign currency amounts have been converted using the exchange rates as at 31.12.1998):

Life reinsurance portfolio *Figures in DM million*	*1998*	*1997*
Total business reinsured		
sum insured	210 923.4	175 120.1
of which retroceded	76 386.1	36 997.4
Endowment insurance		
sum insured	205 931.2	170 218.9
of which retroceded	75 298.5	35 973.8
Annuity and pension insurance		
12 times annual annuity	4 992.2	4 901.2
of which retroceded	1 087.6	1 023.6

Other classes

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

Health insurance, with gross premium income of DM 555 million, was the largest single class shown here and in the year under review it posted growth in excess of 44 %. Virtually all of this additional premium volume was attributable to the increase in block assumption transactions in the USA, which our subsidiary Reassurance Company of Hannover based in Orlando, Florida, has very successfully developed and partially retroceded to the parent company on capacity grounds. As in life insurance business, parts of the insurer's entire portfolio are assumed against payment of a single commission. In this way, our clients are able – amongst other things – to ease the strain of the expenditure associated with the dynamic expansion of their portfolios. For our part, we further transferred significant portions of this burden to the capital markets by way of innovative reinsurance tools. Despite this, one of the reasons for the deterioration in the technical result in the other classes was the investment-related expenditure associated with the expansion of our health insurance portfolio.

Other classes

in DM million	*1998*	*1997*
Gross premiums written	1 498.6	1 278.9
Loss ratio (%)	66.1	65.1
Technical result (net)	1.8	60.9

As a result of strategic considerations, our aim is to continue to expand our credit/surety business. This class is marked by fierce competition worldwide, as a consequence of which profitable growth could only be attained to a modest extent. In Germany, the steps taken to restore this business to profitability produced a virtually balanced result, despite a further increase in the number of insolvencies. The performance of international credit/surety business was highly gratifying due to a favourable loss experience; even the financial crises in Asia, Russia and Latin America had only a marginal impact, with the result that this class of business generated a clearly increased and favourable technical profit in the year under review.

Windstorm business declined slightly, with results adversely affected by the two hurricanes Georges and Mitch, which hit the south of the USA as well as Central America and the Caribbean. Significant losses were therefore recorded in these regions. On the other hand, Japan, another country with heavy windstorm exposure, again generated a highly favourable contribution to the result.

On an overall basis, the result in the other classes deteriorated appreciably – primarily due to the effects of health and windstorm insurance business –, although it remained in positive territory. The amount of DM 131.3 million was allocated to the fluctuation reserve.

Affiliated companies

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 (1) of the Stock Corporation Act (AktG). The measures taken did not adversely affect our company.

INDIVIDUAL *Accounts*

BALANCE SHEET *as at 31 December 1998*

Assets *Figures in DM thousand*	1998				1997
A. Subscribed capital unpaid				25 000	25 000
- called-up capital					
- (1997: -)					
B. Intangible assets:					
Other intangible assets				65 647	82 570
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			103 066		105 487
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		1 256 491			1 069 965
2. Loans to affiliated companies		246 143			125 047
3. Participating interests		186 268			159 339
			1 688 902		1 354 351
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		2 405 445			2 037 766
2. Bearer debt securities and other fixed-income securities		3 380 001			4 137 687
3. Mortgages and loans secured on land and buildings		8 091			9 633
4. Other loans					
a) Registered debt securities	524 055				
b) Debentures and loans	190 107				
c) Sundry loans	55 000	769 162			705 357
5. Deposits with banks		586 526			429 654
6. Other investments		10			10
			7 149 235		7 320 107
IV. Deposits with ceding companies			2 798 323		2 801 651
				11 739 526	11 581 596

Liabilities
Figures in DM thousand

	1998				1997
A. Capital and reserves					
I. Subscribed capital			147 651		147 651
II. Capital reserve			394 675		394 675
III. Retained earnings					
1. Statutory reserve		1 000			
2. Reserve for own shares					
as at 1.1.1998	–				
Allocation	533	533			
3. Other retained earnings					
as at 1.1.1998	11 400				
Withdrawal	533	10 867	12 400		12 400
IV. Disposable profit			93 500		83 500
				648 226	638 226
B. Surplus debenture (Genußrechtskapital)				150 000	150 000
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		756 536			
2. Less: reinsurance ceded		181 417	575 119		518 456
II. Life assurance provision					
1. Gross		2 407 702			
2. Less: reinsurance ceded		806 728	1 600 974		1 650 757
III. Provisions for outstanding claims					
1. Gross		8 290 158			
2. Less: reinsurance ceded		1 631 572	6 658 586		6 197 789
IV. Provision for bonuses and rebates					
1. Gross		5 988			
2. Less: reinsurance ceded		3 199	2 789		3 475
V. Fluctuation reserve and similar provisions			1 354 838		1 161 406
VI. Other technical provisions					
1. Gross		136 249			
2. Less: reinsurance ceded		24 417	111 832		122 815
				10 304 138	9 654 698

Assets
Figures in DM thousand

	1998				1997
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			1 369 891		587 919
- from affiliated companies:					
209 243 (1997: 53 988)					
II. Other receivables			112 571		72 096
- from affiliated companies:				1 482 462	660 015
94 974 (1997: 63 812)					
E. Other assets					
I. Tangible assets and stocks			15 245		12 433
II. Current accounts with banks, cheques and cash in hand			142 496		74 111
III. Own shares			533		–
Nominal or par value:				158 274	86 544
15 (1997: -)					
F. Prepayments and accrued income					
I. Accrued interest and rent			91 912		103 233
II. Other accrued income			1 842		1 726
				93 754	104 959
				13 564 663	12 540 684

Liabilities

Figures in DM thousand

			1998		1997
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			33 700		30 090
II. Provisions for taxation			102 148		93 410
III. Other provisions			80 937		84 370
				216 785	207 870
E. Deposits received from retrocessionaires				1 005 286	992 473
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			1 044 772		739 221
- to affiliated companies:					
403 951 (1997: 165 172)					
II. Liabilities to banks			26 321		–
III. Miscellaneous liabilities			158 103		145 485
- from taxes:				1 229 196	884 706
605 (1997: 525)					
- for social security :					
948 (1997: 891)					
- to affiliated companies :					
96 800 (1997: 573)					
G. Accruals and deferred income				11 032	12 711
				13 564 663	12 540 684

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in DM thousand	1998			1997
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	5 685 972			5 102 564
b) Retrocession premiums	1 973 056			1 426 050
		3 712 916		3 676 514
c) Change in the gross provision for unearned premiums (+/-)	-141 768			-20 085
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	58 558			49 218
		-83 210		29 133
			3 629 706	3 705 647
2. Allocated investment return transferred from the non-technical account, net of retrocession			98 406	53 140
3. Other technical income, net of retrocession			–	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	2 697 570			2 847 862
bb) Retrocessionaires' share	983 615			842 559
		1 713 955		2 005 303
b) Change in provisions for outstanding claims				
aa) Gross	-1 424 057			-317 729
bb) Retrocessionaires' share	760 898			-31 678
		-663 159		-349 407
			2 377 114	2 354 710
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		-320 343		-288 831
b) Other net technical provisions		1 169		49
			-319 174	-288 782
6. Bonuses and rebates, net of retrocession			384	2 252
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		1 706 823		1 544 545
b) Less: commissions and profit commissions received on retrocession		576 782		321 607
			1 130 041	1 222 938
8. Other technical charges, net of retrocession			4 267	3 483
9. Subtotal			-102 868	-113 378
10. Change in the fluctuation reserve and similar provisions			-193 432	-159 263
11. Net technical result			-296 300	-272 641

Figures in DM thousand	1998				1997
Balance brought forward:				-296 300	-272 641
II. Non-technical account					
1. Investment income					
a) Income from participating interest		77 154			71 912
- affiliated companies:					
69 370 (1997: 67 094)					
b) Income from other investments					
- affiliated companies:					
29 012 (1997: 24 079)					
aa) Income from land and buildings, rights to					
land and buildings, leasehold	9 301				
bb) Income from other investments	533 603	542 904			502 338
c) Appreciation on investments		2 151			2 088
d) Gains on the realization of investments		200 475			131 187
			822 684		707 525
2. Investment charges					
a) Investment management charges, including interest		17 144			14 862
b) Depreciation		43 239			34 049
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
6 240 (1997: 1 548)					
c) Losses on the realization of investments		30 262			8 754
			90 645		57 665
			732 039		649 860
3. Allocated investment return transferred to the technical account			-127 950		-66 036
				604 089	583 824
4. Other income			62 094		34 147
5. Other charges					
a) Special allocation to provisions for outstanding claims		107 198			130 583
b) Miscellaneous charges		122 902			79 973
			230 100		210 556
				-168 006	-176 409
6. Profit or loss on ordinary activities before tax				139 783	134 774
7. Taxes on profit and income		30 957			24 678
plus allocation for group assessment		14 267			26 181
			45 224		50 859
8. Other taxes		1 397			682
plus allocation for group assessment		-241			-206
			1 156		476
				46 380	51 335
9. Profit or loss for the financial year				93 403	83 439
10. Profit brought forward from previous year				97	61
11. Withdrawal from retained earnings:					
from other retained earnings				533	–
12. Allocation to retained earnings:					
to the reserve for own shares				533	–
13. Disposable profit				93 500	83 500

BALANCE SHEET *as at 31 December 1998*

Assets *Figures in EUR thousand*	1998				1997
A. Subscribed capital unpaid				12 782	12 782
- called-up capital					
- (1997: -)					
B. Intangible assets:					
Other intangible assets				33 565	42 217
C. Investments					
I. Land and buildings, rights to land and buildings, leasehold			52 697		53 934
II. Investments in affiliated companies and participating interests					
1. Shares in affiliated companies		642 434			547 064
2. Loans to affiliated companies		125 851			63 936
3. Participating interests		95 237			81 469
			863 522		692 469
III. Other financial investments					
1. Shares, units in unit trusts and other variable-yield securities		1 229 884			1 041 893
2. Bearer debt securities and other fixed-income securities		1 728 167			2 115 566
3. Mortgages and loans secured on land and buildings		4 137			4 925
4. Other loans					
a) Registered debt securities	267 945				
b) Debentures and loans	97 200				
c) Sundry loans	28 121	393 266			360 644
5. Deposits with banks		299 886			219 679
6. Other investments		5			5
			3 655 345		3 742 712
IV. Deposits with ceding companies			1 430 760		1 432 461
				6 002 324	5 921 576

Conversion to Euro: 1 EUR = 1.95583 DM

Liabilities

Figures in EUR thousand

	1998				1997
A. Capital and reserves					
I. Subscribed capital			75 493		75 493
II. Capital reserve			201 794		201 794
III. Retained earnings					
1. Statutory reserve		511			
2. Reserve for own shares					
as at 1.1.1998	–				
Allocation	272	272			
3. Other retained earnings					
as at 1.1.1998	5 829				
Withdrawal	272	5 557	6 340		6 340
IV. Disposable profit			47 806		42 693
				331 433	326 320
B. Surplus debenture (Genußrechtskapital)				76 694	76 694
C. Technical provisions					
I. Provision for unearned premiums					
1. Gross		386 811			
2. Less: reinsurance ceded		92 757	294 054		265 082
II. Life assurance provision					
1. Gross		1 231 038			
2. Less: reinsurance ceded		412 473	818 565		844 019
III. Provisions for outstanding claims					
1. Gross		4 238 691			
2. Less: reinsurance ceded		834 210	3 404 481		3 168 879
IV. Provision for bonuses and rebates					
1. Gross		3 062			
2. Less: reinsurance ceded		1 636	1 426		1 777
V. Fluctuation reserve and similar provisions			692 718		593 817
VI. Other technical provisions					
1. Gross		69 663			
2. Less: reinsurance ceded		12 485	57 178		62 794
				5 268 422	4 936 368

Assets

Figures in EUR thousand

	1998				1997
D. Receivables					
I. Accounts receivable arising out of reinsurance operations			700 414		300 598
- from affiliated companies:					
106 984 (1997: 27 604)					
II. Other receivables			57 557		36 862
- from affiliated companies:				757 971	337 460
48 560 (1997: 32 627)					
E. Other assets					
I. Tangible assets and stocks			7 795		6 357
II. Current accounts with banks, cheques and cash in hand			72 857		37 893
III. Own shares			272		–
Nominal or par value:				80 924	44 250
8 (1997: -)					
F. Prepayments and accrued income					
I. Accrued interest and rent			46 994		52 783
II. Other accrued income			942		882
				47 936	53 665
				6 935 502	6 411 950

Liabilities

Figures in EUR thousand

			1998		1997
D. Provisions for other risks and charges					
I. Provisions for pensions and similar obligations			17 231		15 385
II. Provisions for taxation			52 227		47 760
III. Other provisions			41 382		43 138
				110 840	106 283
E. Deposits received from retrocessionaires				513 995	507 443
F. Other liabilities					
I. Accounts payable arising out of reinsurance operations			534 183		377 958
- to affiliated companies:					
206 537 (1997: 84 451)					
II. Liabilities to banks			13 458		–
III. Miscellaneous liabilities			80 837		74 385
- from taxes:				628 478	452 343
309 (1997: 269)					
- for social security:					
485 (1997: 456)					
- to affiliated companies:					
49 493 (1997: 293)					
G. Accruals and deferred income				5 640	6 499
				6 935 502	6 411 950

PROFIT AND LOSS ACCOUNT *for the 1998 financial year*

Figures in EUR thousand	*1998*			*1997*
I. Technical account				
1. Earned premiums, net of retrocession				
a) Gross premiums written	2 907 192			2 608 900
b) Retrocession premiums	1 008 808			729 128
		1 898 384		1 879 772
c) Change in the gross provision for unearned premiums (+/-)	-72 485			-10 270
d) Change in the provision for unearned premiums, retrocessionaires' share (+/-)	29 940			25 165
		-42 545		14 895
			1 855 839	1 894 667
2. Allocated investment return transferred from the non-technical account, net of retrocession			50 314	27 170
3. Other technical income, net of retrocession			–	–
4. Claims incurred, net of retrocession				
a) Claims paid				
aa) Gross	1 379 245			1 456 088
bb) Retrocessionaires' share	502 914			430 793
		876 331		1 025 295
b) Change in provisions for outstanding claims				
aa) Gross	-728 109			-162 452
bb) Retrocessionaires' share	389 041			-16 197
		-339 068		-178 649
			1 215 399	1 203 944
5. Changes in other technical provisions, net of retrocession				
a) Net life assurance provision		-163 789		-147 677
b) Other net technical provisions		598		25
			-163 191	-147 652
6. Bonuses and rebates, net of retrocession			196	1 152
7. Operating expenses, net of retrocession				
a) Gross acquisition expenses		872 684		789 713
b) Less: commissions and profit commissions received on retrocession		294 904		164 435
			577 780	625 278
8. Other technical charges, net of retrocession			2 182	1 781
9. Subtotal			-52 595	-57 970
10. Change in the fluctuation reserve and similar provisions			-98 901	-81 429
11. Net technical result			-151 496	-139 399

Figures in EUR thousand	1998				1997
Balance brought forward:				-151 496	-139 399
II. Non-technical account					
1. Investment income					
a) Income from participating interest		39 448			36 768
- affiliated companies:					
35 468 (1997: 34 305)					
b) Income from other investments					
- affiliated companies:					
14 834 (1997: 12 311)					
aa) Income from land and buildings, rights to land and buildings, leasehold	4 756				
bb) Income from other investments	272 827	277 583			256 841
c) Appreciation on investments		1 100			1068
d) Gains on the realization of investments		102 501			67 075
			420 632		361752
2. Investment charges					
a) Investment management charges, including interest		8 765			7 599
b) Depreciation		22 108			17 409
- extraordinary depreciation in accordance with § 253 (2) item 3 of the Commercial Code (HGB)					
3 191 (1997: 792)					
c) Losses on the realization of investments		15 473			4 476
			46 346		29 484
			374 286		332 268
3. Allocated investment return transferred to the technical account			-65 420		-33 764
				308 866	298 504
4. Other income			31 748		17 459
5. Other charges					
a) Special allocation to provisions for outstanding claims		54 810			66 766
b) Miscellaneous charges		62 838			40 889
			117 648		107 655
				-85 900	-90196
6. Profit or loss on ordinary activities before tax				71 470	68 909
7. Taxes on profit and income		15 828			12 618
plus allocation for group assessment		7 295			13 386
			23 123		26 004
8. Other taxes		714			349
plus allocation for group assessment		-123			-106
			591		243
				23 714	26 247
9. Profit or loss for the financial year				47 756	42 662
10. Profit brought forward from previous year				50	31
11. Withdrawal from retained earnings:					
from other retained earnings				272	–
12. Allocation to retained earnings:					
to the reserve for own shares				272	–
13. Disposable profit				47 806	42 693

Valuation of assets

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

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

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

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

Loans to affiliated companies are valued at nominal value less amortisation taking into account write-downs to going-concern value.

Shares, units in unit trusts and other variable-yield securities as well as bearer debt securities and other fixed-income securities are valued according to the strict principle of cost or market value – whichever is lower – in accordance with § 341b (2) in conjunction with § 253 (3) of the Commercial Code (HGB). Lower valuations were retained in accordance with § 280 (2) of the Commercial Code (HGB). Securities or options which are held to cover specific technical provisions (life insurance provision) were combined with these in valuation units.

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

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

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

Fixed assets and stock are valued at the purchase cost less straight-line or declining-balance depreciation. Low-value items were written off in the year of purchase.

Valuation of liabilities

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

The basis for the valuation of the provision for unearned premiums is the reinsurance premium less 92.5 % of the reinsurance commission in accordance with the NRW order dated 29. 5. 1974. In marine insurance the provision for unearned premiums and the provisions for outstanding claims were regarded as one unit and shown as provisions for outstanding claims. It was determined on the basis of the so-called English system. The provision is replaced by a provision established in accordance with general principles no later than three years after the year following the year of subscription.

Where the provisions indicated by the ceding companies are not expected to be adequate, we have increased them by appropriate additional amounts. Where no information was available from cedants, the provisions were estimated in the light of the business experience to date. The results of new treaties were at least neutralized. In some cases, provisions have been determined on an actuarial basis. If necessary, additional or complete estimates of the corresponding portfolio or profit elements were carried out where ceding company accounts with substantial premium income were missing. Missing ceding company accounts with a low premium income were included in the following year; these transactions probably amount to less than 5 % of gross premiums.

In the Liability and Motor Third Party Liability classes we set up IBNR claims 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 contracts.

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

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

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

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

In our opinion, the provisions for taxation and other provisions take into account all identifiable risks and liabilities. We refrained from carrying deferred taxes as assets (accounting aid in accordance with § 274 (2) of the Commercial Code (HGB)).

Other liabilities are valued at nominal amounts.

Currency conversion

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

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

Miscellaneous

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

Notes on assets

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

Figures in DM million		*Book values 31.12.1997*	*Additions*	*Disposals*	*Depreciation*	*Book values 31.12.1998*
B.	Intangible assets:					
	Other intangible assets	82 570	18 818	8 230	27 511	65 647
C.I.	Land and buildings, rights to land and buildings, leasehold	105 487	2 724	–	5 145	103 066
C.II.	Investments in affiliated companies and participating interests					
	1. Shares in affiliated companies	1 069 965	216 563	30 037	–	1 256 491
	2. Loans to affiliated companies	125 047	128 090	6 827	167	246 143
	3. Participating interests	159 339	31 292	890	3 473	186 268
	4. Total C.II.	1 354 351	375 945	37 754	3 640	1 688 902
C.III.	Other financial investments					
	1. Shares, units in unit trusts and other variable-yield securities	2 037 766	752 169	364 974	19 516	2 405 445
	2. Bearer debt securities and other fixed-income securities	4 137 687	1 846 002	2 591 501	12 187	3 380 001
	3. Mortgages and loans secured on land and buildings	9 633	500	2 042	–	8 091
	4. Other loans					
	a) Registered debt securities	439 417	93 558	8 920	–	524 055
	b) Debentures and loans	210 940	–	18 233	2 600	190 107
	c) Sundry loans	55 000	5 000	5 000	–	55 000
	5. Deposits with banks	429 654	156 872	–	–	586 526
	6. Other	10	–	–	–	10
	7. Total C.III.	7 320 107	2 854 101	2 990 670	34 303	7 149 235
Sum total		8 862 515	3 251 588	3 036 654	70 599	9 006 850

Land and buildings and rights to land and buildings

On 31.12.1998 the company had at its disposal six developed properties with business and other buildings, one property with residential buildings, one undeveloped property, two floors of offices and shares of DM 37,509 thousand in two developed properties.

Shares in affiliated companies and participations

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

Name and registered office of the company Figures in currency units of 1 000	*Participation (in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident in Germany					
E+S Rückversicherungs-AG, Hannover/Germany	50.09	DEM	235 249	DEM	-15
holds 45.00 % of the share in:					
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany		DEM	62 799	DEM	-968
holds 100.00 % of the share in:					
E+S Reinsurance (Ireland) Ltd., Dublin/Ireland		DEM	322 111	DEM	27 610
holds 33.33 % of the share in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		DEM	1 075	DEM	943
holds 50.00 % of the share in:					
Hannover Life Re of Australasia Ltd, Sydney/Australia		AUD	128 961	AUD	11 881
holds 16.67 % of the share in:					
WeHaCo Unternehmensbeteiligungs-AG Hannover/Germany		DEM	81 137	DEM	4 769
GbR Hannover Rückversicherungs-AG/ E+S Rückversicherungs-AG-Grundstücksgesellschaft, Hannover/Germany	45.00	DEM	62 799	DEM	-968
GGA Großgemeinschafts-Antennenanlagen Lizenz- und Betriebs-GmbH, Hannover/Germany	100.00	DEM	-14 970	DEM	-931
HDI Immobilienfonds Nr. 4 Nürnberg Bucher KG, Munich/Germany	99.77	DEM	- 4 161	DEM	-992

Name and registered office of the company *Figures in currency units of 1 000*	*Participation* *(in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Shares in affiliated companies					
Companies resident abroad					
Hannover Life Services (UK) Ltd., Virginia Water/UK	100.0	GBP	47	GBP	5
Hollandia Reinsurance Group (Pty) Ltd., Johannesburg/South Africa	52.00	ZAR	179 346	ZAR	5 012
holds 100.00 % of the shares in:					
Hollandia Reinsurance Company Ltd., Johannesburg/South Africa		ZAR	192 159	ZAR	21 507
holds 80.00 % of the shares in:					
Hillside House (Pty) Ltd., Johannesburg/South Africa		ZAR	7 808	ZAR	20
holds 100.00 % of the shares in:					
Hollandia Life Reassurance Company Ltd., Johannesburg/South Africa		ZAR	16 000	ZAR	3 000
holds 20.00 % of the shares in:					
Hillside House (Pty) Ltd., Johannesburg/South Africa		ZAR	7 808	ZAR	20
holds 100.00 % of the shares in:					
Indoc Holdings S.A., Luxembourg/Luxembourg		ZAR	30 489	ZAR	1 747
holds 100.00 % of the shares in:					
Coral Reinsurance Ltd., Port Louis/Mauritius		ZAR	36 992	ZAR	7 721
holds 100.00 % of the shares in:					
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa		ZAR	5 113	ZAR	1 295
Insurance Corporation of Hannover, Chicago/USA	100.00	USD	214 602	USD	8 628
Reassurance Company of Hannover, Orlando/USA	100.00	USD	46 094	USD	203
Hannover Life Reassurance (UK) Ltd., Virginia Water/UK	100.00	GBP	21 899	GBP	-430
Hannover Life Re of Australasia Ltd, Sydney/Australia	50.00	AUD	128 961	AUD	11 881

Name and registered office of the company *Figures in currency units of 1 000*	*Participation* *(in %)*	*Capital and reserves (§266 (3) Commercial Code)*		*Result for the last financial year*	
Hannover Re Sweden Insurance Company Ltd., Stockholm/Sweden	100.00	SEK	130 361	SEK	361
International Insurance Company of Hannover Ltd., London/UK	100.00	GBP	55 150	GBP	1 921
Hannover Reinsurance (Ireland) Ltd., Dublin/Ireland	100.00	DEM	411 629	DEM	50 673
holds 33.33 % of the shares in:					
Hannover Re Advanced Solutions Ltd., Dublin/Ireland		DEM	1 075	DEM	943
Participations					
HANNOVER Finanz Vermögens-Verwaltungs GmbH, Hannover/Germany	32.91	DEM	119 561	DEM	22 288
holds 100.00 % of the shares in:					
HANNOVER Finanz GmbH, Beteiligungen und Kapitalanlagen, Hannover/Germany		DEM	103 459	DEM	–
WeHaCo Unternehmensbeteiligungs-AG, Hannover/Germany	16.67	DEM	81 137	DEM	4 769
Heizkraftwerk Römerbrücke ZWO GmbH & Co., Betriebs OHG, Saarbrücken/Germany	26.32	DEM	-19 487	DEM	3 773
ITAS Vita S.p.A., Trient/Italy	40.00	ITL	60 262 194	ITL	5 060 915
ITAS Assicurazioni S.p.A., Trient/Italy	40.00	ITL	90 232 379	ITL	863 380

Other investments

In accordance with § 280 (2) of the Commercial Code (HGB), increased valuations of DM 62,224 thousand (1997: 67,933 thousand) were omitted.

Assets with a balance sheet value of DM 1,097,340 thousand (DM 1,172,556 thousand) were blocked as security for ceding companies. Security deposits were sometimes made available to banks for security loan transactions in favour of third parties.

Current values pursuant to § 54 RechVersV

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

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

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

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

Other investments were valued at nominal values.

Current values pursuant to § 54 RechVersV of asset items C.I to C.III. for the 1998 financial year *Figures in DM thousand*	*Book values 31.12.1998*	*Current values 31.12.1998*	*Difference 31.12.1998*
C.I. Land and buildings, rights to land and buildings, leasehold	103 066	165 186	62 120
C.II. Investments in affiliated companies and participating interests			
1. Shares in affiliated companies	1 256 491	1 802 488	545 997
2. Loans to affiliated companies	246 143	246 143	–
3. Participating interests	186 268	261 376	75 108
4. Total C.II.	1 688 902	2 310 007	621 105
C.III. Other investments			
1. Shares, units in unit trusts and other variable-yield securities	2 405 445	3 070 459	665 014
2. Bearer debt securities and other fixed-income securities	3 380 001	3 587 648	207 647
3. Mortgages and loans secured on land and buildings	8 091	8 091	–
4. Other loans			
a) Registered debt securities	524 055	560 781	36 726
b) Debentures and loans	190 107	208 098	17 991
c) Sundry loans	55 000	62 249	7 249
5. Deposits with banks	586 526	586 526	–
6. Other investments	10	10	–
7. Total C.III.	7 149 235	8 083 862	934 627
Sum total	8 941 203	10 559 055	1 617 852

Other receivables

Figures in DM thousand	*1998*	*1997*
Receivables from affiliated companies	94 974	63 812
Receivables from redemption arrears	7 079	–
Receivables from advance payments	3 794	–
Receivables from the revenue authorities	3 207	3 307
Receivables from representative offices	725	834
Interest and rent due	570	1 952
Reveivables from the sale of options	–	1 206
Other receivables	2 222	985
Total	112 571	72 096

Own shares

By a resolution of the Annual General Meeting of Hannover Re on 25.9.1998, the company was authorized to acquire own shares of up to 10 % of the current share capital in the period until 1.3.2000.

As at 31.12.1998 the company was in possession of 3,000 own, fully paid-up, no-par value shares. This corresponds to a proportion of 0.0102 % of the share capital. Purchases and sales were effected in order to support the price.

The details of the portfolio development in 1998 are as follows:

	Number of purchases/sales	*Proportion in %*	*Share capital in DM thousand*	*Purchases/sales price in DM thousand*
Cumulative purchases	3 600	0.0122	18	648
Cumulative sales	600	0.0020	3	110
Portfolio as at 31.12.1998	3 000	0.0102	15	

Accruals and deferred income

Figures in DM thousand	*1998*	*1997*
Accrued interest and rent	91 912	103 233
Deferred premium on bonds	1 820	1 639
Other accrued income	22	87
Total	93 754	104 959

Notes on liabilities

Subscribed capital

At the Annual General Meeting of Hannover Re on 25.9.1998 it was decided that the subscribed capital of DM 147,651 thousand should be converted from par value shares to no-par value shares. The registered shares with a nominal value of DM 1,600.-- are each to be replaced by 320 no-par value shares. The bearer shares with a nominal value of DM 5.-- are each to be replaced by one no-par value share.

The composition of the subscribed capital as at 31.12.1998 was thus as follows:

	Number	*Proportion of share capital in DM thousand*	*Paid-up amount in DM thousand*
Registered shares	8 000 000	40 000	25 000
Registered shares	4 800 000	24 000	14 000
Bearer shares	16 730 215	83 651	83 651
		147 651	122 651

With the approval of the Supervisory Board, the Executive Board is authorized to increase the share capital until 1.7.1999 through the issue of new bearer shares on one or more occasions, but by no more than DM 16,827 thousand. In addition, authorized capital of DM 1,500 thousand with a time limit of 31.8.2002 is available for the issue of employee shares.

Surplus debenture (Genußrechtskapital)

The surplus debenture issued in 1993 amounting to DM 150,000 thousand has a term of 10 years. The interest is 7.55 %.

Provision for unearned premiums

Insurance class *Figures in DM thousand*	*1998* *gross*	 *net*	*1997* *gross*	 *net*
Fire	157 403	119 160	149 124	115 134
Liability	122 568	97 562	104 592	88 283
Personal accident	11 444	8 530	11 360	8 839
Motor	60 798	41 134	38 853	30 659
Aviation	66 958	50 560	29 492	21 998
Life	115 360	91 165	134 878	109 500
Other classes	222 005	167 008	179 659	144 043
Total	756 536	575 119	647 958	518 456

Life insurance provisions

Insurance class Figures in DM thousand	1998 gross	 net	1997 gross	 net
Life	2 407 702	1 600 974	2 375 848	1 650 726
Other classes	–	–	38	31
Total	2 407 702	1 600 974	2 375 886	1 650 757

Provisions for outstanding claims

Insurance class Figures in DM thousand	1998 gross	 net	1997 gross	 net
Outstanding loss reserve				
Fire	723 686	425 915	540 846	377 385
Liability	3 414 005	3 067 616	3 432 930	3 161 793
Personal accident	114 750	97 365	99 566	88 265
Motor	1 226 396	1 118 791	1 085 817	1 044 450
Aviation	462 702	319 648	315 441	242 088
Marine	400 905	317 275	343 817	295 891
Life	549 117	369 383	164 293	128 694
Other classes	1 387 704	931 772	1 090 170	849 835
	8 279 265	6 647 765	7 072 880	6 188 401
Provision for annuities				
Liability	752	689	600	567
Personal accident	2 135	2 134	1 560	1 559
Motor	8 006	7 998	7 263	7 262
	10 893	10 821	9 423	9 388
Total	8 290 158	6 658 586	7 082 303	6 197 789

Fluctuation reserve and similar provisions

Insurance class *Figures in DM thousand*	*Position at 1.1.1998*	*Addition*	*Withdrawal and release*	*Position at 31.12.1998*
Fluctuation reserve				
Fire	241 130	412	45 481	196 061
Liability	150 111	101 910	–	252 021
Personal accident	3 503	10 550	–	14 053
Motor	67 587	7 255	6 721	68 121
Aviation	78 181	22 627	4 618	96 190
Marine	129 931	–	25 537	104 394
Other classes	448 578	151 904	23 888	576 594
	1 119 021	294 658	106 245	1 307 434
Provisions which are similar to the fluctuation reserve – major risks –				
Liability	11 985	1 698	–	13 683
Other classes	30 400	3 321	–	33 721
Total	1 161 406	299 677	106 245	1 354 838

Other technical provisions

Type of provision *Figures in DM thousand*	*1998*		*1997*	
	gross	*net*	*gross*	*net*
Profit commission	123 255	98 639	124 068	109 507
Commissions	9 017	9 219	8 815	8 132
Premium cancellation	3 970	3 967	5 621	5 111
Road traffic accident victim assistance	7	7	–	–
Lay-up reserve	–	–	65	65
Total	136 249	111 832	138 569	122 815

Technical provisions – total

Insurance class *Figures in DM thousand*	*1998* *gross*	 *net*	*1997* *gross*	 *net*
Fire	1 092 639	752 581	938 290	736 217
Liability	3 874 092	3 494 767	3 784 376	3 491 600
Personal accident	142 853	122 285	117 376	103 107
Motor	1 367 874	1 240 507	1 202 255	1 152 936
Aviation	631 478	464 566	428 463	347 015
Marine	506 953	423 055	475 285	427 228
Life	3 077 344	2 065 530	2 681 086	1 893 826
Other classes	2 258 238	1 740 847	1 785 664	1 502 769
Total	12 951 471	10 304 138	11 412 795	9 654 698

Provisions for other risks and charges

Figures in DM thousand	*1998*	*1997*
Provisions for pensions and similar liabilities	33 700	30 090
Provisions for taxation	102 148	93 410
Sundry provisions		
Provisions for currency risks	41 349	40 175
Provisions for interest	22 500	23 100
Provisions for outstanding payments	7 712	7 501
Provisions for costs of legal action	4 394	300
Provisions for annual accounts costs	2 564	2 029
Provisions for litigation risks	750	1 050
Provisions for securities and forward exchange business	–	8 345
Other provisions	1 668	1 870
	80 937	84 370
Total	216 785	207 870

Miscellaneons liabilities

Figures in DM thousand	*1998*	*1997*
Liabilities in respect of affiliated companies	96 800	573
Liabilities from overpayments	43 292	–
Liabilities from interest on surplus debenture	11 325	11 325
Liabilities from deliveries and services	1 755	3 356
Liabilities from portfolio acquisitions	1 027	125 373
Liabilities from outstanding social security contributions	948	891
Liabilities in respect of the revenue authorities	605	525
Liabilities from land and buildings	177	208
Other liabilities	2 174	3 234
Total	158 103	145 485

Deferred items

Figures in DM thousand	*1998*	*1997*
Disagio	7 958	9 389
Long-term tenancy rights	2 763	3 002
Other accruals and deferred income	311	320
Total	11 032	12 711

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

Figures in DM thousand	*Gross premiums written* 1998	1997	*Gross premiums earned* 1998	1997	*Net premiums earned* 1998	1997	*Technical result for own account* 1998	1997
Fire	741 153	798 630	726 952	789 308	404 927	464 731	19 575	4 751
Liability	601 021	573 160	576 737	570 703	421 479	454 840	-91 891	-76 524
Personal accident	97 471	95 040	96 705	92 872	71 456	76 656	-9 093	-9 183
Motor	709 610	639 893	685 292	633 526	476 412	490 547	-104 804	-9 415
Aviation	334 820	350 812	295 446	350 989	174 906	211 842	164	-25 271
Marine	286 137	259 209	286 137	259 209	182 472	195 659	-3 867	2 536
Other insurance classes	1 498 582	1 278 863	1 449 738	1 286 281	924 416	936 909	-129 516	22 722
Total property and casualty insurance	4 268 794	3 995 607	4 117 007	3 982 888	2 656 068	2 831 184	-319 432	-90 384
Life	1 417 178	1 106 957	1 427 197	1 099 591	973 638	874 463	23 132	-182 257
Total insurance business	5 685 972	5 102 564	5 544 204	5 082 479	3 629 706	3 705 647	-296 300	-272 641

Total insurance business

Figures in DM thousand	*1998*	*1997*
Gross claims incurred	4 121 627	3 165 591
Gross operating expenses	1 706 823	1 544 545
Reinsurance balance	-406 797	244 344

Expenses for personnel

Figures in DM thousand	*1998*	*1997*
1. Wages and salaries	43 272	40 000
2. Social security payments and expenses for welfare	8 011	7 090
3. Expenses for old-age pension scheme	2 674	4 504
4. Total expenses	53 957	51 594

Expenses for investments

Figures in DM thousand	*1998*	*1997*
Shares, units in unit trusts	41 942	19 133
Fixed-income securities	20 025	13 317
Administrative expenses	12 846	10 035
Land and buildings	7 175	7 595
Shares in affiliated companies and participations	3 640	797
Registered debt securities, debentures and loans	2 600	500
Deposit and bank fees	2 266	2 620
Deposits	151	–
Derivative financial instruments	–	3 668
Total	90 645	57 665

Other income

Figures in DM thousand	*1998*	*1997*
Exchange rate gains	31 351	16 975
Allocated investment return	10 341	4 466
Profit from services	7 995	6 337
Amounts realized	6 316	–
Cancellation of value adjustments	2 714	904
Release of non-technical provisions	1 424	3 592
Profit from clearing transactions	111	2
Other income	1 842	1 871
Total	62 094	34 147

Other expenses

Figures in DM thousand	*1998*	*1997*
Allocations to the provisions for outstanding claims	107 198	130 583
Exchange rate losses	55 131	17 800
Deposit interest	30 172	21 641
Separate value adjustment on accounting debts	16 568	979
Interest charges on surplus debenture (Genußrechtskapital)	11 325	11 325
Expenses for the whole company	9 353	8 640
Expenses from services	7 878	3 714
Interest charges on the acquisition of participations	5 604	7 430
Interest charges on portfolio acquisitions	5 030	–
Financing interest	3 896	426
Expenses for letters of credit	3 085	5 139
Interest charges on old-age pension scheme	1 868	1 584
Interest charges from clearing transactions	851	2 420
Depreciation on other assets	78	661
Allocation to interest provisions	–	10 700
Other interest and expenses	1 607	410
	259 644	223 452
Less: Technical interest	29 544	12 896
Total	230 100	210 556

Other information

The names of the members of the Supervisory Board and Executive Board are listed on page 4 and 5.

Emoluments of DM 338 thousand were received by the Supervisory Board and DM 3,263 thousand by the Executive Board in the year under review. The emoluments of former directors and their surviving dependants amounted to DM 537 thousand, and a liability of DM 7,654 thousand was entered.

The following loans which are secured on mortgages or by land charges have been granted to board members:

Figures in DM thousand	*Position at 1.1.1998*	*Addition*	*Amortisation*	*Deduction transfer*	*Position at 31.12.1998*	*Interest rate %*
Supervisory Board	103	–	5	–	98	5.5
Executive Board	242	–	106	–	136	5.5

The loans end between the years 2012 and 2016.

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

The average number of employees was 444 in the financial year.

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

Hannover, the 20th May 1999

Executive Board

Zeller Dr. Hecker Dr. Becke

Gräber Haas Schubach Dr. Steiner

Certification by the Independent Auditors

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

Hannover, 21st May 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Geib	Kollenberg
Wirtschaftsprüfer	Wirtschaftsprüfer

We supervised the management of the company regularly during 1998 on the basis of written and verbal reports from the Executive Board. The provisions which came into force on 1 May 1998 as part of the Law on Control and Transparency in Business (KonTraG) were taken into account. We took the decisions required of us at four meetings – one in each calendar quarter – and several times by written resolutions. The audit mandate for the annual accounts was awarded by the Supervisory Board. As in the previous years, the audit report was distributed to all members of the Supervisory Board, and the auditor participated in the meeting of the Supervisory Board held to discuss the annual accounts. We received quarterly written reports from the Executive Board on the course of business and the position of the company. All in all, we were involved in decisions taken by the Executive Board as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. The development of our major subsidiaries was also included in our consultations. The Group accounts and the Group report were also examined.

The Committee on Board Affairs formed by the Supervisory Board met on two occasions.

As part of the implementation of important individual projects, we considered the acquisition of all shares in the Lion/Clarendon Insurance Group, New York, and the financing of this acquisition. Clarendon is one of the leading writers in the USA of program business, a speciality of the American insurance market. Through this acquisition the Hannover Re Group comes closer to accomplishing two major strategic objectives: the further expansion of business in one of its most important priority markets, the USA, and the continued diversification of its earnings base. From 1999 onwards the competitive, cyclical and volatile property and casualty reinsurance segment will probably account for less than half of the Group's premium income. The transaction is to be financed on the part of Hannover Re through the issue of a secondary loan by Hannover Finance Inc., Delaware, a wholly owned subsidiary of Hannover Re, and will be effected jointly with our subsidiary, E+S Rück, which is to assume a 20 % stake.

We also considered on several occasions the continued expansion and optimization of the Group's worldwide infrastructure. The Supervisory Board approved the establishment of a branch office for life and health reinsurance in Hong Kong in order to take account of the considerable potential inherent in the Chinese market by reinforcing our local presence. Due to the expansion of business at various subsidiaries, which sometimes reached a dramatic scale, we authorized the implementation of capital increases at these companies in order to enhance their competitiveness and solvency.

The annual results planning and the operational planning of the Executive Board for the 1999 financial year also formed part of the Supervisory Board's consultations.

The accounting, the annual accounts and the Executive Board's report were examined by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG DTG), Hannover. This audit gave no grounds for objection, and an unqualified audit certificate was therefore issued. 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 overall report; we agree to the 1998 annual accounts, which are hereby duly confirmed. We approve the Executive Board's proposal for the distribution of the disposable profit for 1998.

With effect from 25 September 1998, the date of the Annual General Meeting, Dr. Bernd H. Müller-Berghoff left the Supervisory Board after a term of office of 10 years. The Supervisory Board expressed its appreciation of Dr. Müller-Berghoff's service and thanked him for his contribution to the development of the company. As his successor, the Annual General Meeting elected Dr.-Ing. Horst Dietz to the Supervisory Board for the remaining term of office of the current Supervisory Board.

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

Hannover, 17th June 1999

For the Supervisory Board

Baumgartl
Chairman

Australia

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

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

Canada

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

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

China

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

France

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

Great Britain

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

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

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

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

Ireland

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

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

Italy

Hannover Re Services Italy Srl
Via Mazzini, 12
20123 Mailand
Telephone (02) 80 68 13 11
Fax (02) 80 68 13 49

Japan

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

Malaysia

Hannover Rückversicherungs-AG
Malaysian Branch
Suite 31-1, 31st Floor
Wisma UOA II
No. 21 Jalan Pinang
50450 Kuala Lumpur
Telephone (3) 2 64 51 22/2 64 61 22
Fax (3) 2 64 51 29/2 64 61 29

Mexico

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

South Africa

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

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

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

Spain

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

Sweden

Hannover Re Sweden
Insurance Company Ltd.
Hantverkargatan 25
P.O. Box 22085
10422 Stockholm
Telephone (8) 6 17 54 00
Fax (8) 6 17 55 99

Hannover Rückversicherungs-AG,
Tyskland filial
Hantverkargatan 25
P.O. Box 22085
10422 Stockholm
Telephone (8) 6 17 54 00
Fax (8) 6 17 55 99

Taiwan

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

USA

Clarendon Insurance Group, Inc.
1177 Avenue of the Americas
New York, New York 10036
Telephone (2 12) 8 05 97 00/7 90 97 00
Fax (2 12) 8 05 98 00/8 05 98 01

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net: cf. → Gross/Retro/Net

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Retro: cf. → Gross / Retro / Net

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

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

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Hannover
Rückversicherungs-
Aktiengesellschaft

Karl-Wiechert-Allee 50
30625 Hannover

Telephone (+49 511) 56 04-0
Fax (+49 511) 56 04-188
E-Mail info@hannover-re.com

www.hannover-re.com

Investor Relations/
Public Relations

Roland Vogel

Telephone (+49 511) 56 04-5 00
Fax (+49 511) 56 04-6 48
E-Mail roland.vogel@hannover-re.com

Investor Relations

Holger Verwold

Telephone (+49 511) 56 04-7 36
Fax (+49 511) 56 04-6 48
E-Mail holger.verwold@hannover-re.com

Public Relations

Gabriele Handrick

Telephone (+49 511) 56 04-5 02
Fax (+49 511) 56 04-6 48
E-Mail gabriele.handrick@hannover-re.com