

somewhat
different

Annual Report 2015



inter **hannover**[®]

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Management's discussion and analysis

The International Insurance Company of Hannover SE ("Inter Hannover", "the Company" or "IICH") is a wholly owned subsidiary of Hannover Rück SE, the third-largest reinsurer in the world. The Company provides insurance solutions in selected specialist and niche markets, thus supplementing the core business of reinsurance for Hannover Rück SE. We write a significant part of our business through brokers and underwriting agencies. Inter Hannover is an integral part of the Hannover Re Group and cedes considerable parts of its insurance business to the Group, in line with its strategy. The Company has been granted permission to operate by the Federal Financial Supervisory Authority ("BaFin") for all non-life lines of business, as well as reinsurance operations in Germany, and within the scope of the free movement of services within the European Union. Furthermore, Inter Hannover provides insurance through its branches in Australia, Great Britain, Italy (in run-off), Canada and Sweden. As a qualified Company with the National Association of Insurers Commissioners (NAIC), Inter Hannover acts as an Excess and Surplus Lines provider in the US market.

In 2014, we transformed the Company from a Public Limited Company (UK) (which corresponds to a so-called "Aktiengesellschaft" in Germany) into a Societas Europaea (European Company), and subsequently relocated the Company headquarters at the beginning of 2015 from London to Hannover and entered the Company into the Commercial Register of Hannover. The objective was the closer interlinking of business management units and the utilisation of synergy effects and economies of scale in managing the business. Within this context a contractual agreement was completed with Hannover Rück SE on 10 March 2015 for a control and profit and loss transfer agreement, which became effective on 1 July 2015 after entry into the Commercial Register.

For the first time in the financial year, business was written from the Company's new headquarters in Germany. The Company continues to maintain a strong presence in the London market with its branch in London. The other international branches were only marginally influenced by the relocation of the Company headquarters.

Inter Hannover transferred a portion of its portfolio – which was already in run-off – to another insurance company by contractual agreement on 25 June 2015. The portfolio transfer agreement took effect upon the issuance of an Approval by the Federal Financial Supervisory Authority on 29 December 2015.

Course of business

We are largely satisfied with the course of business in 2015 in spite of intensely competitive market conditions. Although rates in the majority of markets continued their decline in the financial year, we were able to realise profitable business opportunities. We have maintained our risk adequate and selective underwriting policy, and have consistently distanced ourselves from business operations which do not meet our margin requirements.

The foreign exchange rates most relevant for us have developed as follows:

Currency (1 EUR =)	31.12.2015	01.01.2015
Australian Dollar	1.49808	1.48794
British Pound	0.73811	0.78248
Canadian Dollar	1.51577	1.41307
Norwegian Krone	9.57930	9.03740
Swedish Krone	9.19380	9.48450
US Dollar	1.09270	1.21550

The gross written premium volume for the financial year amounted to EUR 774.0 million. The overwhelming share – at EUR 734.6 million – was attributable to the direct insurance business. Our business operations were also supplemented to a limited extent by assumed reinsurance business. The gross premiums for assumed reinsurance business amounted to EUR 39.4 million.

The branches contributed to gross premium income with a total of 85.8% or EUR 664.0 million, which underlines the international alignment of Inter Hannover.

The branch in London, which operated as the headquarters until the end of the financial year 2014, continues to be the most significant location for Inter Hannover with a gross premium volume of EUR 420.6 million. The branch in Stockholm registered gross premiums which amounted to EUR 186.0 million for the financial year 2015. Business was written at the new company headquarters in Hannover, with gross premiums reaching EUR 110.0 million. The two branches located outside of the European Union, in Sydney and Toronto, registered gross premiums amounting to EUR 24.0 million and EUR 33.4 million.

We ceded a significant share of our business to Hannover Re Group, in line with our strategy. With gross premium earnings at EUR 798.8 million, the earned premiums for our own account stand at EUR 63.1 million.

In spite of a high claims frequency in the course of the financial year, in particular within aviation, we were able to achieve a gross loss ratio of 68.4%. Gross insurance claims costs stood accordingly at EUR 546.4 million.

Gross expenses for insurance operations stood at EUR 213.1 million or 26.7%.

The combined ratio (gross) stood at 95.1%.

The equalisation provisions and similar provisions were increased in accordance with statutory regulations by EUR 1.1 million. We have filled the historical observation period – which serves as the basis for the calculation of the equalisation provision – with the loss ratios from the annual reports of the Federal Financial Supervisory Authority, insofar as was necessary and in line with statutory regulations. Taking into consideration the level as of 1 January 2015, the level of equalisation provisions and similar provisions now stands at EUR 3.7 million.

We achieved a technical result for our own account of EUR 5.9 million for the completed financial year.

The economic situation of Inter Hannover continues to remain positive at the point in time when this management's discussion and analysis report was prepared.

In the following we will explain the course of the financial year in the lines of business we are conducting. We will subsequently describe all aspects of our entire insurance business. As the assumed reinsurance business only contributes approximately 5% to our total insurance business, we have not created a separate report for reasons of clarity. Unless otherwise stated, we comment on gross business development and state the technical result for our own account.

Total insurance business

Liability

in EUR million	2015
Gross written premiums	266.7
Loss ratio (%)	54.3
Technical result (for own account)	-4.4

The premium volume for **third-party liability insurance** amounted to EUR 266.7 million, making it approximately one third of our total business. The claims expenses stood at EUR 148.2 million, which corresponds to a loss ratio of 54.3%. After a change of the equalisation provision, a technical result for our own account was generated in the amount of EUR -4.4 million.

Accident

in EUR million	2015
Gross written premiums	9.7
Loss ratio (%)	69.7
Technical result (for own account)	0.3

We achieved gross premiums of EUR 9.7 million in **accident insurance**. Claims expenses amounted to EUR 7.4 million, and the corresponding loss ratio was 69.7%. Overall, we achieved a technical result for our own account of EUR 0.3 million.

Motor

in EUR million	2015
Gross written premiums	57.0
Loss ratio (%)	51.2
Technical result (for own account)	0.0

In **motor insurance**, gross premiums amounted to EUR 57.0 million. After an injection of EUR 0.5 million to the equalisation provision and with a loss ratio of 51.2%, we achieved a near balanced technical result.

Fire and property insurance

in EUR million	2015
Gross written premiums	275.3
Loss ratio (%)	79.4
Technical result (for own account)	1.7

With a gross premium volume of EUR 275.3 million, **fire and property insurance** contributed more than a third of our total premium income. Claims expenses of EUR 219.1 million during the financial year 2015 resulted in a loss ratio of 79.4%. The technical result for our own account stood at EUR 1.7 million for the financial year.

Transport and aviation insurance

in EUR million	2015
Gross written premiums	122.5
Loss ratio (%)	78.2
Technical result (for own account)	12.3

The gross premium volume for **transport and aviation insurance** stood at EUR 122.5 million. Due to increased losses incurred within aviation, the loss ratio stood at 78.2%, with gross claims expenses of EUR 111.3 million. The technical result for our own account amounted to EUR 12.3 million.

Credit and surety insurance

in EUR million	2015
Gross written premiums	21.4
Loss ratio (%)	55.0
Technical result (for own account)	-3.1

Credit and surety insurance accounted for gross premiums in the amount of EUR 21.4 million. A loss ratio of 55.0% corresponded to expenses for insurance claims in the amount of EUR 8.7 million. In total, after the allocation of EUR 0.6 million to the equalisation provision, a technical result for our own account was achieved in the amount of EUR -3.1 million.

Other insurance

in EUR million	2015
Gross written premiums	21.4
Loss ratio (%)	94.1
Technical result (for own account)	-0.9

Gross premiums amounted to EUR 21.4 million in the other insurance classes. Due to the limited premium volume which amounted to EUR 0.6 million, we have listed legal expense insurance – which we operate exclusively through our branch in Sweden – under other insurance. We completed the financial year within other insurance with a loss ratio of 94.1%. Consequently we achieved a technical result for our own account of EUR -0.9 million.

Business ceded in reinsurance

In line with its strategic direction, the International Insurance Company of Hannover SE transferred the overwhelming share of its business ceded in reinsurance to the companies of Hannover Re Group in the course of the financial year. In the process, the Group parent company, Hannover Rück SE, assumed a significant share of business transferred to other Group companies. Non-proportional reinsurance contracts also exist with different reinsurance companies, which cover high levels of exposure and risks relating to natural hazards in selected areas.

Premiums for business ceded in reinsurance amounted to EUR 712.0 million. This generated a retention ratio for the International Insurance Company of Hannover SE of 8.0%.

For the reinsurers, the result for business ceded in reinsurance for the financial year stood at EUR 33.1 million.

Investment strategy

Inter Hannover adheres to a conservative investment strategy. The investments must demonstrate a high level of quality, in order to deliver the greatest possible security in relation to redemption and ongoing interest payments, while taking into consideration the most attractive return possible.

In addition to strategic investments in affiliates, the overwhelming share of our investments is in fixed-interest securities, in order to generate regular and predictable income. The portfolio's diversification is balanced, both in relation to the investment segments and the issuer.

A significant proportion of our investments are in international government bonds, which exhibit a high degree of security and liquidity. Furthermore, in order to generate an attractive return within the current interest rate environment, a proportion of the investment is allocated – to a limited extent – to corporate bonds which have been given a BBB rating, as part of a balanced mix and diversification. This ensures that our financial solvency is guaranteed at any time.

In order to manage and limit the investment risk, the investments are regularly adjusted in line with obligations arising from the insurance business with regard to the modified duration and the currency in which they are denominated. For this reason, the Company holds investments in the currencies in which significant parts of the insurance business are written.

Development of investments

The shares in affiliates increased during the year under review from kEUR 55 through the acquisition of shares in L&E Holdings Limited and IMIU International Mining Industry Underwriters Limited, to kEUR 1,275.

The portfolio of other investments for Inter Hannover increased in book value in the year under review by 7.4%, from kEUR 270,814 to kEUR 290,948.

The proportion of bearer bonds and other fixed-interest securities declined slightly. The proportion of other investments decreased from approximately 87% to approximately 84%. Other loans were also increased in the year under review, from approximately 4% to 12%. This

was achieved in particular through the increase in notes, which on the balance sheet date represented approximately 7% of other investments. Deposits with banks amounted to approximately 4% of other investments on the balance sheet date, after amounting to approximately 9% at the beginning of the year under review.

The proportion of investments with an AAA rating has remained largely unchanged at approximately 46% (01.01.2015 approximately 45%). On balance, the quality of investments has increased slightly during the year under review following an expansion of the proportion of investments with an AA rating from approximately 31% to approximately 38%, and a decrease in investments with an A rating from approximately 15% to approximately 7%. The proportion of investments with a BBB rating has seen a moderate increase from approximately 8% to approximately 10%.

The Company's investments are predominantly held in the currencies of the British pound (approximately 46%), the euro (approximately 32%) and the US dollar (approximately 13%), in accordance with our technical reserves.

On the balance sheet date the valuation reserves in other investments amounted to kEUR 1,772; kEUR 1,635 thereof is attributable to bearer bonds and other fixed-interest securities, and kEUR 137 to registered bonds and notes.

Net investment income

Current income from investments amounted to kEUR 5,387 in the year under review and, with a value of kEUR 4,843, is predominantly attributable to current interest received from bearer bonds and other fixed-interest securities.

The result from the disposal of investments amounted to kEUR 1,367 and comprised the profits from the disposal of investments amounting to kEUR 1,566 and losses from the disposal of investments amounting to kEUR 199. The result from disposals is exclusively attributable to disposals of bearer bonds and other fixed-interest securities.

The amortizations of investments amounted to kEUR 1,041 and are attributable to bearer bonds and other fixed-interest securities.

Investment management during the financial year generated expenses amounting to kEUR 576.

In total, the net investment income amounted to kEUR 5,137.

Other income

Other income comprised the other earnings amounting to kEUR 4,581 and other expenses amounting to kEUR 18,135, which on balance generated a loss amounting to kEUR 13,554 for other income.

Overall result

The financial year was completed with a deficit of kEUR 4,748. This loss is to be absorbed by Hannover Rück SE on the basis of the control and profit and loss transfer agreement completed in the year under review.

Capital structure

The capital structure and the composition of liabilities for Inter Hannover are defined by our operations as an insurance company. By far the greatest proportion is attributable to technical provisions and liabilities. There is also our own equity capital and our subordinated liabilities.

Equity capital, which stands at 22.1% of the balance sheet total, represents our most important source of financing. We ensure by way of continuous monitoring and appropriate control measures that our operations are supported at any given time by sufficient equity capital. The subordinated liabilities which further strengthen our capital base comprise 12.8% of the balance sheet total, while technical provisions and liabilities - namely those liabilities resulting from insurance business we have completed and the creditors arising out of reinsurance operations originating from the reinsurance business - comprise in total 62.5% of our total balance sheet.

Branches

The International Insurance Company of Hannover SE has the following branches:

- London, United Kingdom
- Stockholm, Sweden
- Milan, Italy (in run-off)
- Sydney, Australia
- Toronto, Canada

Outsourcing

Asset management was transferred to Talanx Asset Management GmbH in Cologne, Germany as part of an outsourcing agreement. The internal audit function is carried out by the Internal Audit department of Hannover Rück SE. Claims handling within the business line of legal expense at the branch in Stockholm, Sweden has been transferred to Svedea Skadeservice AB, Stockholm.

IT

Computing and IT related services are provided by Hannover Rück SE on the basis of service contracts.

Staff

As of 31 December 2015, 81 members of staff were employed at International Insurance Company of Hannover SE. We successfully initiated recruitment measures for the purpose of establishing a new headquarters at the new location in Hannover during the year under review.

One of the 10 strategic action priorities for Hannover Re Group is the long-term employment of successful members of staff. In order to be consistently seen by staff and trainees as an attractive employer, we pay particularly close attention to their qualification and professional development. The health of our staff is an essential prerequisite for sustainable business development. The focus of our efforts therefore includes the prevention of illness, e.g.

through preliminary occupational health checks, workplace inspections, medical consultation and treatment, as well as a range of fitness offers to improve health.

We also appreciate the importance of our employees being able to combine their professional and private lives in a balanced way. For this reason, we offer part-time and teleworking models which can be designed individually, as well as flexitime arrangements without core working hours. With this flexibility, we look to support our employees by helping them shape their day-to-day lives during the stages of life such as starting a family or when making preparations to retire from professional life, e.g. through semi-retirement. In addition to qualification and commitment, the cornerstones of our successful business operations include a high degree of diversity.

First international employee survey completed

We carried out an international, Group-wide employee survey for the first time in the completed financial year. The goal of this survey was, on the one hand, to continue the dialogue introduced in recent years concerning a unified understanding of values and leadership. For this reason, the questions were primarily focused on just how far our values and management principles – which are the subject of binding Group-wide definitions – are known and practised. On the other hand, we surveyed unity and commitment as well as the status of (international) collaboration.

We will evaluate the results and initiate measures in the course of the current financial year. The objectives will be to develop overarching potential for improvement, and to encourage individual Company locations to work with their results.

Learning management system successfully implemented

The introduction of a modern learning management system - the HannoverReAcademy – has been another focus of our efforts in the completed financial year. This process was started with an evaluation project in 2014, while 2015 saw the introduction of the chosen programme. Since then we have been able to present our staff with all internal seminar offers from the HR and IT departments of Hannover Rück SE in a clearly structured way in the form of a training catalogue. All booking, approval and administrative processes also run via this application.

The HannoverReAcademy also serves as a platform for operating our e-Learning programmes. These have been running successively for several years in a blended learning format - this being in combination with classroom-based events - for the international essential training of our new staff.

Recruiting activity strengthened

Our efforts to recruit new members of staff experienced a real rejuvenation. We were already successful back in 2014 in the recruiting process. Nevertheless, we revamped our Internet presence during the completed financial year – in association with other areas tasked with the public profile of our company. The careers section now appears in a contemporary and fresh design just like the whole of our website. We have also improved the information content of our site and the way in which such information can be found.

One major focus of our efforts was the expansion of the targeted approach to reach out to applicant groups of primary relevance, with the use of short clips. The centrepiece is a new HR marketing video which highlights those aspects which are of particular importance for our

target applicant groups – namely challenging work content, collegial cooperation and internationality. This image video is also accompanied by newly produced testimonial clips in which staff talk about their work tasks and the associated appeal from their perspective. The objective is to highlight the variety and attractiveness of our tasks to potential applicants in a straightforward and appealing way, and to motivate them to submit an application. This offering is then rounded off by a selection of recordings covering public appearances or interviews with our HR Supervisors, during which practical information is provided on the application process and on how to select the right employer.

A thank you to staff

The Executive Board thank all members of staff for their work during the previous year. Members of staff identified with company goals and strove to achieve these successfully at all times. We would like to thank members of staff and representatives who were active in our co-determination councils for their critical and constructive collaboration.

Risk and opportunities report

Inter Hannover opens up business opportunities for Hannover Re Group in the Delegated Authority Business area and the insurance markets for Single Risks, and is an integral part of the business model of Hannover Re Group.

Risk management is similarly embedded into the risk management system of the Hannover Re Group. Risk control and monitoring is therefore not just implemented at Company level, but also at Hannover Re Group level on the basis of a holistic observation of risks and opportunities.

At the beginning of 2015, IICH completed the relocation of the company headquarters from London to Hannover, where it has since been under the jurisdiction of the Federal Financial Supervisory Authority (“BaFin”).

Further aspects of the Solvency II Directive were defined by the Supervisory Authority during the financial year 2015. The IICH implemented the regulatory requirements on a continual basis, and in line with the standards of the Hannover Re Group. The key functions under the Solvency II Directive were established along the lines of existing processes and organisational structures.

The low interest rate level on capital markets and the continuing soft insurance markets represent the significant influencing factors for risk management. The management's discussion and analysis report describes the situation in detail.

Risk strategy

We derive our risk strategy from the Company strategy, which determines our key risks, our risk-bearing capacity and our risk tolerance. It is the key element of our approach to dealing with risk. The risk strategy, which is also specified in further detail through guidelines such as the limit and the threshold system, is examined once a year in order to ensure that the risk management system is up to date.

Risk capital

Determined by the interest of its shareholders IICH ensures an appropriate ratio of risks to own funds. Our quantitative risk management, which is based on our internal capital model, provides a consistent framework for the valuation and control of all risks affecting the Company and our capital position. IICH regularly monitors its compliance with statutory solvency regulations as part of its risk management.

The Internal capital model of IICH is a stochastic company model which covers all the business areas of IICH. A key parameter is the level of economic capital which is calculated using market-consistent valuation principles, and which is also the basis for the calculation of the own funds under Solvency II. The Internal capital model of IICH takes into account the risks which influence the development of economic capital. We have identified a number of risk factors for each of the different risk categories, for which we have determined probability distributions. Risk factors are, for example, economic indicators such as interest rates, exchange rates and inflation indices as well as insurance-specific indicators such as the frequency of natural catastrophes in a certain region and the severity of catastrophes. We utilise historical and publicly available data as well as internal data resources when determining the probability distributions for the risk factors. Internal and external expert knowledge also reinforces the process.

Risk management organisation and processes

In order to safeguard an efficient risk management system, IICH has positioned the Chief Risk Officer on the Executive Board, and has established a Risk management function and Risk committee. The organisation and the cooperation between the individual functions within risk management are decisive for our internal risk management and control system. The central functions of risk management are closely interlinked with one another in our system and the roles, tasks and reporting channels are clearly defined and documented within the meaning of the three lines of defence. The first defensive line consists of risk control and the original risk responsibility. The second line of defence consists of the key functions risk management, actuarial function and the compliance function. These units are responsible for monitoring. The third line of defence is the process-independent monitoring by Internal Audit.

Risk environment

The IICH enters into a variety of risks in the course of its business activity. These risks are entered into in a deliberate, steered and monitored fashion, in order to realise the associated opportunities. The decisions by the Executive Board concerning risk appetite are fundamental for the acceptance of risk. These are based on the calculations of the risk-bearing capacity.

Technical risks

Risk management has defined various overarching guidelines concerning efficient risk steering. It is important that, on the one hand, the absorption of risk is systematically controlled using existing underwriting guidelines and, on the other, a significant proportion is mitigated through Group-internal reinsurance in line with the business model of IICH. Our prudent level of reserves is a decisive characteristic of IICH's risk management. We differentiate in principle between risks that result from business operations in previous years (reserve risk) and those risks which result from business operations in the current year or in future respectively (premium risk).

Diversification within IICH is actively controlled through the apportionment of capital costs in relation to the contribution to diversification. A strong diversification effect is triggered by the writing of business in different business lines and different regions, and with different business partners. The diversification effect is further enhanced by the limiting of individual risks such as natural catastrophes.

The reserve risk, i.e. the danger of insufficient reserves for losses and the resulting financial burden on the technical result is a priority in our risk management. A conservative level of reserves is important to us. In order to mitigate the risk of insufficient reserves, we calculate our loss reserves on the basis of our own actuarial estimations and establish the IBNR reserve for losses which have been incurred but not yet reported. Third-party liability losses have a significant influence on the IBNR reserve. The IBNR reserve is calculated using a differentiated approach, based on risk classes and regions. A further monitoring instrument is represented by the statistical run-off triangles applied. They show how the provision has changed over the course of time with the payments made and the recalculation of the provision to be formed by the respective balance sheet date. Their appropriateness is subject to actuarial monitoring. The quality assurance of our own actuarial calculations regarding the appropriateness of the level of reserves is also conducted on an annual basis by external actuaries.

Licensed and scientific simulation models are used to estimate the significant risks of disaster stemming from natural hazards (in particular earthquakes, storms and floods). We also calculate the risk for our portfolio using various scenarios in the form of probability distributions. The monitoring of risks which result from natural hazards are completed using realistic extreme loss scenarios. We benefit from the broad range of experience enjoyed by the Hannover Re Group in this area.

Within this process, the Executive Board establishes the risk appetite for natural hazards once a year on the basis of the risk strategy. It also stipulates a proportion of the economic capital to be allocated for covering risks stemming from natural hazards. This is the essential basis for our underwriting policy in this segment. We take into account a variety of scenarios and extreme scenarios within the framework of our comprehensive risk management, calculate their effect on the business in-force and the success parameters, evaluate them in comparison to target values and generate alternative courses of action. We also stipulate maximum amounts for various extreme loss scenarios and return periods in order to limit our risk, whereby we take into account the profitability criteria. Risk management ensures that these maximum amounts are complied with.

The premium risk relates to the possibility of a coincidental loss event, which deviates from the expected loss value which served as the basis for the calculation of the premium.

Market risks

In view of the challenging capital market environment, the recoverability of investments under our own management and the stability of returns play an important role. For this reason, IICH aligns its portfolio with the principles of a balanced risk/return ratio and a broad level of diversification. The investments reflect both the currencies and the maturities of our liabilities on the basis of a minimal risk investment mix. Market risks include equity, interest, currency, real estate, spread and credit risks. We minimise interest and currency risks through the highest possible congruence between payments from fixed-interest securities with projected, future payment obligations stemming from our insurance contracts.

In order to safeguard the recoverability of the investments under our management, we continually monitor compliance with a cross-portfolio early warning system, on the basis of a clearly defined traffic light system. This system defines clear threshold values and escalation channels for market value fluctuations and net realised gains from the investments which have occurred since the beginning of the year. These are clearly defined in line with our risk appetite and lead to predetermined information and escalation channels if a corresponding market threshold value is exceeded.

In addition to diverse stress tests which estimate the loss potential under extreme market conditions, other significant risk control measures include sensitivity and duration analyses and our Asset Liability Management (ALM). Tactical duration ranges have also been installed, within which the portfolio is positioned opportunistically in line with market expectations. The portfolio of fixed-interest securities is also exposed to interest rate risk. Declining market returns lead to market value increases, respectively increasing market returns lead to declining market values for a fixed-interest security portfolio. There is also the credit spread risk. Credit spread refers to the interest difference between a risk-bearing and a riskless bond with an identical maturity. Changes to these risk premiums monitored on the market lead to market value changes for the corresponding securities, just like the changes to pure market returns.

Currency risks are particularly pronounced when there is a currency disparity between the technical liabilities and assets.

The measuring and monitoring mechanisms safeguard a cautious and broadly diversified investment strategy.

We also refer to our disclosures covering the development of investments.

Counterparty default risk

The risk of counterparty default refers to the danger of a complete or partial default by the counter-party and the associated risk of non-payment.

As the vast majority of business assumed by us is reinsured, the risk of counterparty default within reinsurance is of significance to us. In line with our role within the Group, IICH cedes its insurance risks primarily to the companies of the Hannover Re Group. In order to contain the risk of counterparty default stemming from business ceded to third parties as low as possible, our non-Group affiliated reinsurers are carefully selected and monitored according to a creditworthiness assessment. Depending on the type and expected maturity of the reinsurance business transaction, internal and external expert assessments are utilised in addition to minimum ratings set by the ratings agencies Standard & Poor's and A.M. Best when selecting reinsurers. We also closely monitor our relationships with intermediaries/brokers, underwriting agencies and loss administrators who, for example, bear a risk through the possibility of a loss of premiums paid by the insurance policyholders to the respective business partner. We reduce these risks by, for example, reviewing relationships with intermediaries/brokers/agents on the basis of criteria such as concluding a professional indemnity insurance policy, payment history or orderly contract processing.

Operational risks

Operational risks apply with regard to the danger of loss caused by inadequate or erroneous internal processes as well as staff-, system- or externally related incidences. The operational risks are – in contrast to technical risks (e.g. the reserve risk) which we deliberately and carefully enter into in the course of our business activity – inseparably linked to our business activity. The focus therefore lies on risk avoidance and reduction.

Within the scope of operational risks we pay particularly close attention to business process risks, compliance risks, distribution channel and outsourcing risks, fraud risks, staff risks, information technology risks and information security risks respectively, as well as business interruption risks.

Business process risks apply with regard to the danger of inadequate or erroneous internal processes, which can occur for example as a result of inadequate process organisation. Data quality is a very critical success factor in this regard. Moving forward, we minimise the risks in this area through the continuous optimisation of our processes.

Compliance risks apply with regard to the danger of breaches of standards and requirements which can result in legal action or official proceedings that can have a significant detrimental effect on the business activity of IICH, if they are not observed. Regulatory compliance, compliance with business principles, data protection and antitrust compliance have been identified as particularly relevant compliance topics. Compliance risk also includes fiscal and legal risks. Competencies within the compliance organisation are regulated and documented. Interfaces with risk management have been established. Regular compliance training programmes supplement the range of instruments.

Potential distribution channel risks are reduced through a careful selection of agents, loss administrators, binding underwriting and claims adjustment guidelines and regular audits.

Outsourcing risks can arise as a result of the outsourcing of services and/or organisational units to third parties which are external to IICH. In order to limit risk there are binding regulations which, for example, stipulate that a risk analysis is to be conducted before any significant outsourcing. The scope of this analysis includes which risks exist and whether outsourcing can even be achieved.

Fraud risks stem from the danger of a deliberate breach of laws or regulations by members of staff (internal fraud) and/or external parties (external fraud). The internal control system and the line-independent audits conducted by the Internal Audit department help to reduce risk.

The functional and competitive ability of IICH is predominantly attributable to the skill and commitment of our members of staff. In order to reduce human resource risks we pay particularly close attention to the qualification, experience and commitment of our staff, and look to advance these aspects through staff development and management work. Through the use of regular employee surveys and the monitoring of staff turnover rates, human resource risks are identified at an early stage and appropriate action taken.

Information technology risks and information security risks respectively result from, among other things, the danger of inadequate integrity, confidentiality or the availability of systems and information. For example, damages which are the result of the unauthorised distribution

of confidential information, the deliberate overloading of important IT systems or computer viruses are significant for IICH.

In view of the broad spectrum of these risks, there are a diverse number of control and surveillance measures as well as organisational specifications such as confidentiality agreements to be completed with service providers.

The fastest possible return to normal operations following a crisis is the predominant objective in the reduction of business interruption risks, e.g. through the implementation of existing emergency plans. The decisive regulatory frameworks were defined on the basis of internationally recognised standards and, among other things, a crisis committee was established which will serve as a temporary expert panel during any crisis.

Other risks

Within the area of other risks, emerging risks are of particular significance as well as strategic risks, reputational and liquidity risks.

Emerging risks are defined as a risk that cannot be reliably assessed, with particular reference to our technical contract portfolio. Such risks develop gradually from weak signals to clear trends. Early risk identification and a subsequent assessment are of key importance to us.

Strategic risks are the result of a potential imbalance between the company strategy of IICH and the continually changing regulatory frameworks of the operating environment. The causes of such an imbalance can be, for example, erroneous strategic decisions, the inconsistent implementation of predetermined strategies and business plans, or the incorrect allocation of resources. We therefore regularly examine our company strategy and adapt our processes and derived guidelines as needed. As part of the operational implementation of strategic principles and targets, we have established criteria for success and indices which are decisive for the fulfilment of the respective targets.

Reputational risks relate to the danger that the trust of our clients and staff or the public in our company could be damaged. This risk can significantly endanger the business fundamentals of IICH. A strong company reputation is therefore a fundamental prerequisite for our business. Reputational risks can stem from all the business activities of IICH.

The term liquidity risk refers to the danger of an inability to fulfil our financial obligations upon maturity. The liquidity risk consists of the refinancing risk (the required means of payment either cannot be procured, or can only be procured at higher costs) and the market liquidity risk (financial market transactions can only be completed at a worse than expected price due to insufficient market liquidity). The significant aspects of liquidity control for our investments are, on the one hand, the control of the maturity structure of our investments on the basis of projected payment profiles originating from the technical obligations and, on the other, the regular planning of liquidity and the investment structure of the investments. Unexpected, extraordinarily high payments could represent a danger to liquidity beyond the projected payments.

We control the complete liquidity of our portfolio consisting of appropriate government bonds and cash holdings through the monitoring of the respective liquidity of these portfolio titles every trading day. These measures effect a reduction of the liquidity risk.

Opportunities report

Inter Hannover systematically searches for new business opportunities in order to generate sustainable growth and to strengthen the profitable development of the company. Inter Hannover possesses an independent unit at its London branch, which bears responsibility for business development in our markets. This service area systematically processes ideas and business opportunities, and focuses its activities on creating additional premium volume and profit potential. Insofar as a new business opportunity is to be specifically implemented, the so-called new product process is executed under normal circumstances - insofar as the relevant criteria defined by risk management apply. This process is accompanied by Inter Hannover's risk management. This process is always carried out when a binding contractual obligation is to be entered into, which previously had not been used in this form by Inter Hannover, or when the level of liability is substantially above the previous scope of coverage. If this is the case all significant internal and external influencing factors are examined at a preliminary stage, and a quality evaluation is conducted by risk management. It is also ascertained that approval has been granted by the Executive Board before the application or purchase of the new insurance product.

In spite of the intense competitive environment, we see opportunities for growth, particularly in specialist or niche business areas in our branches in Australia and Canada.

Overall assessment of the Executive Board

In accordance with our current findings, which are the result of an overall view, the Executive Board of IICH sees no risks that could endanger the continued existence of IICH in the short or medium term, or which could sustainably inhibit the net assets, financial position and results of operations. Due to the unknown upcoming relationship of the United Kingdom and the European Union the potential effects of an exit of the United Kingdom following the referendum that took place on 23 June 2016 on the net assets, financial position and results of operations of the Company cannot currently reliably be assessed.

We are certain that:

- our established risk management system delivers a transparent overview of the current risk situation,
- our overall risk profile is appropriate.

In our view the risks described are manageable, in particular because our control and monitoring measures are effective and closely interlinked with one another. Our control and monitoring instruments as well as our structural and operational organisation ensure that we identify risks in time. Our key monitoring instrument is our established risk management system, which combines both qualitative and quantitative information for the effective monitoring of risk.

Our assessment that the existing risks are manageable is confirmed by various financial indices and external evaluations. Specific monitoring indices, corresponding notification thresholds and potential escalation steps have been clearly specified in our central limit and threshold value system for the significant risks facing IICH. The system provides us with an exact overview of potentially undesirable developments within the determined risk tolerances, and provides us with the opportunity to react in a timely fashion.

Forecast

Economic development

Economic experts predict a positive continuation of economic momentum at a slightly increased level: In its forecast at the turn of the year, the Kiel Institute for the World Economy (IfW) estimates that the global economy will grow by 3.4%, making it 0.3 percentage points stronger than in 2015.

This will mean a continuation of the upward trend for developed national economies: On balance, there will be a continuation of expansive monetary policy, steady increases in wages and salaries and a low oil price, which will support the continuation of the deleveraging process within the private sector and benefit economic activity. Expansion within emerging nations will continue to remain suppressed in the short-term by low commodity prices and structural problems, whereby it is expected that the economic prospects in this group of countries will see a gradual revival.

The economic risks of previous years still remain: political developments remain difficult to predict, above all in the development of conflict areas in the Middle and Far East. The spread of crisis-hit regions or increased terror activity could unnerve markets and weaken projected global economic development. Furthermore, turbulence within financial markets as a result of monetary policy can also not be excluded: interest rate hikes in the USA could have an increased negative effect on the global economy, insofar as numerous countries still find themselves in a restructuring process. It is also to be expected that the development of the price of oil and economic growth in China will affect the markets.

Insurance industry

The international insurance business for 2016 will remain within a comparable operating environment with that of the previous year, according to general industry forecasts. Two central topics continue to be the policy of low interest rates and the effects of Solvency II at the beginning of the year. This means that the insurance business continues to focus its attention on the areas of efficiency, safeguarding profitability and product and service innovation. The continued strong financial position of private households and the circumstances within the corporate sector should support the demand for insurance in general. The insurance industry should continue to see stable development in spite of challenging operational conditions.

Generating growth in what will continue to be a very competitive environment will also represent a real challenge in 2016. Industry experts also predict that premiums will be stable or in slight decline, meaning that a soft market phase is expected to remain.

Outlook for 2016

The quality of our portfolio should continue to improve and generate stable income through the continuation of risk selection and increased diversification. During the round of contract renewals for 1 January 2016, we were able to defend our portfolio overall with regard to our established client relationships, and reduce positions in those contracts which had come under increased pressure. We were able to achieve an expansion of our business in selected areas. We predict that premium volumes will remain stable or see slight growth in original currency for the current year. On balance, we expect a good result for the Inter Hannover – notwithstanding the challenging environment both in our markets and on capital markets. Based on the assumption that catastrophic losses remain within expected parameters and that there are no negative trends on capital markets, Inter Hannover expects a slightly im-

proved result before the transfer of losses for the financial year 2016.

Supplementary report

In a referendum held on 23 June 2016, 51.9% of Britons voted in favour of the United Kingdom leaving the EU (“Brexit”). In the event of a Brexit, an initial transitional period is to be expected in which the contracts between the UK and the EU will remain in place under the current legal conditions. For this reason, we do not expect any immediate impact on our business activity. It is currently not possible to predict the role played by the United Kingdom in the EU following a transitional period. We will monitor ongoing developments closely and evaluate any possible impact on our business.

Insurance classes and types in operation

Self-contracted insurance business

Accident insurance (*without accident insurance with return of premium*)

Liability insurance

Motor vehicle liability insurance

Other motor insurance

Fire insurance

Comprehensive householder’s content insurance

Comprehensive building insurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal expense insurance

Other insurance

Assumed reinsurance business

Accident insurance (*without accident insurance with return of premium*)

Liability insurance

Motor vehicle liability insurance

Other motor insurance

Fire insurance

Comprehensive householder’s content insurance

Comprehensive building insurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal expense insurance

Other insurance

Annual Accounts

Balance sheet as at 31 December 2015

Assets (in kEUR)	2015			01.01.2015
A. Investments				
I. Investments in affiliated undertakings				
1. Shares in affiliated undertakings	1,275			55
		1,275		55
II. Other investments				
1. Bearer bonds and other fixed-interest securities	243,118			234,566
2. Other loans				
a) Registered bonds	15,402			11,032
b) Notes	20,413			-
	35,815			11,032
3. Deposits with credit institutions	12,015			25,216
		290,948		270,814
			292,223	270,869
B. Debtors				
I. Debtors arising out of direct insurance operations from insurance intermediaries		371,600		400,268
II. Debtors arising out of reinsurance operations		10,594		8,115
thereof to affiliates: kEUR 7,341 (01.01.2015: kEUR 6,779)				
III. Other debtors		10,965		5,715
thereof to affiliates: kEUR 8,533 (01.01.2015: kEUR 5,267)			393,159	414,098
C. Other assets				
I. Tangible assets and stocks		3,715		5,174
II. Cash at bank and in hand		58,394		53,341
			62,109	58,515
D. Prepayments and accrued income				
I. Accrued interest and rents		2,265		2,000
II. Other prepayments and accrued income		367		769
			2,631	2,769
Total assets			750,122	746,251

Liabilities (in kEUR)	2015			01.01.2015
A. Capital and reserves				
I. Subscribed capital		121,600		121,600
II. Profit carried forward		44,205		44,205
			165,805	165,805
B. Subordinated liabilities			96,192	90,737
C. Technical provisions				
I. Unearned premiums				
1. Gross amount	376,764			375,153
2. of which minus: share for insurance business ceded	321,339			321,566
		55,425		53,587
II. Provisions for claims outstanding				
1. Gross amount	1,862,823			1,880,729
2. of which minus: share for insurance business ceded	1,708,003			1,745,771
		154,820		134,958
III. Equalisation provision and similar provisions		3,695		2,548
			213,940	191,093
D. Other provisions				
I. Pension provisions and similar obligations		433		-
II. Provision for taxes		690		4
III. Other provisions		9,406		15,834
			10,529	15,838
E. Other liabilities				
I. Creditors arising out of direct insurance business to insurance intermediaries		12,652		8,574
II. Creditors arising out of reinsurance operations thereof with affiliates: kEUR 229,328 (01.01.2015: kEUR 234,124)		242,324		269,645
III. Other creditors of which from taxes: kEUR 2,196 (01.01.2015: kEUR 995) with affiliates: kEUR 1,559 (01.01.2015: kEUR 1,475)		8,680		4,559
			263,656	282,778
Total liabilities			750,122	746,251

It is confirmed that the provision for annuities contained in item C II of the liabilities has been calculated considering sections 341 f and 341 h of the German Commercial Code.

Hannover, 24 June 2016

Miehe, Appointed Actuary

Statement of income for the period from 1 January to 31 December 2015

in kEUR

	01.01. - 31.12.2015	
I. Technical account		
1. Earned premiums, net of reinsurance		
a) Gross premiums written	773,971	
b) Outward reinsurance premiums	711,979	
		61,992
c) Change in gross unearned premiums	24,730	
d) Change in the reinsurers' share in gross unearned premiums	23,577	
		1,153
		63,145
2. Other technical income, net of reinsurance		1,672
3. Charges for claims incurred, net of reinsurance		
a) Payments for claims		
aa) Gross amount	690,801	
bb) Reinsurers' share	654,315	
		36,486
b) Change in provision for claims outstanding		
aa) Gross amount	-144,436	
bb) Reinsurers' share	-158,221	
		13,785
		50,271
4. Operating expenses, net of reinsurance		
a) Gross operating expenses		213,113
b) of which minus: outward reinsurance commissions and profit commissions received		206,377
		6,736
5. Other technical expenses, net of reinsurance		792
6. Sub-total		7,018
7. Change in equalisation provision and similar provisions		1,147
8. Balance on the technical account, net of reinsurance		5,871

in kEUR

Carry

I. Non-technical account

1. Investment income

a) Income from other investments

aa) Income from other investments

b) Profit from the disposal of investments

2. Investment expenses

a) Charges for the management of investments,
interest and other investment expenses

b) Write-downs on investments

c) Losses from the disposal of investments

3. Other income

4. Other expenses

5. Loss on ordinary activities

6. Taxes on income

7. Other taxes

8. Income from transfer of losses

9. Net profit

10. Profit carried forward from previous year

Profit for the financial year

01.01. - 31.12.2015			
			5,871
5,387			
	5,387		
	1,566		
		6,953	
	576		
	1,041		
	199		
		1,816	
		5,137	
			5,137
		4,581	
		18,135	
			-13,554
			-2,546
		1,374	
		828	
			2,202
			4,748
			0
			44,205
			44,205

Notes

The Company prepares its annual accounts pursuant to the provisions of the German Commercial Code (HGB) taking into account the Stock Corporation Act (AktG), the German Insurance Control Act (VAG) and the Regulation on the Accounting of Insurance Undertakings (RechVersV).

In January 2015 Inter Hannover relocated its central administration and its headquarters pursuant to Article 8 of the SE regulation (regulation [EC] No. 2157/2001 of the Council dated 8 October 2001 on the Statute for a European company [SE]) from its previous location in London, United Kingdom, to Hannover in Germany. The opening balance sheet was derived from the Company's balance sheet as of 31 December 2014, which was generated in accordance with Section 255 and Part 1 of the third Appendix of the Companies Act 2006, in addition to applicable accounting principles in the United Kingdom. For this reason, the figures of the opening balance sheet appear in the balance sheet in place of the previous year's figures pursuant to Section 265 Para 2 Sentence 1 German Commercial Code (HGB). Comparative figures are not provided in the statement of income due to a lack of figures for the previous year, pursuant to Section 265 Para 2 Sentence 1 German Commercial Code (HGB).

Insofar there are no bordereaux available at the time when the Company closes its books the corresponding balance sheet and profit and loss items are estimated.

Valuation of assets

Shares in affiliated undertakings and **participations** are either carried at cost, taking into consideration the amortized cost, or the lower net realisable value.

Bearer bonds and other **fixed-interest securities** are, pursuant to Section 341b German Commercial Code (HGB) in connection with Section 253 Para 1, 4 and 5 German Commercial Code (HGB), either carried at amortized cost, or the lower net realisable value in accordance with the lowest value principle.

Registered bonds, notes and **loans receivable** are either carried at amortized cost taking into account repayments, or the lower net realisable value.

Deposits with credit institutions are stated at nominal value.

Debtors and **other assets** are stated at nominal value less repayments. Valuation allowances have been formed for default risks. Other assets are carried at amortized cost, less linear or digressive amortization where applicable. Low-value assets are fully depreciated in the year of acquisition.

Due to the existing tax group with Hannover Rück SE and by using the option granted according to Section 274 Para 1 Sentence 2 German Commercial Code (HGB), no **deferred tax assets** have been recognized for an excess of assets over liabilities.

Valuation of liabilities

The **unearned premiums, net of reinsurance** are generally calculated according to the day-specific method of calculation. Parts of commissions and other acquisition costs are stated as non-transferable pursuant to fiscal guidelines. In exceptional circumstances unearned premiums, net of reinsurance can be calculated on a flat rate basis.

The **unearned premiums for assumed reinsurance business** are formed according to the tasks of the ceding company.

Unearned premiums for business ceded in reinsurance are deducted from the gross unearned premiums and are calculated in principle on a day-specific basis, less non-transferable fiscal parts.

The **provision for claims outstanding** consists of the following sub-provisions for the insurance business net of reinsurance:

- The provisions for known insurance claims are valued in principle using the necessary settlement amount for the individual loss, which is dictated by sound business judgement.
- The annuity provision is calculated for every individual pension according to actuarial principles and with the use of appropriate assumptions.
- IBNR provisions for claims which have been incurred but not yet reported up until the reporting date are calculated on a flat rate basis, taking into account previous experience.
- Provisions for claims adjustment expenses are formed pursuant to Section 341g Para 1 Sentence 2 German Commercial Code (HGB).

Receivables arising from recourse, claim recoveries and distribution agreements are deducted from the provision for claims outstanding pursuant to Section 26 Para RechVersV.

For assumed reinsurance business, the provision for claims outstanding is formed in principle according to the provisions relinquished by the ceding company.

The reinsurers' shares of the provisions for claims outstanding are formed for business ceded in reinsurance according to the contractual agreements.

The **equalisation provision and similar provisions** are formed pursuant to the regulations stipulated in Section 341h German Commercial Code (HGB) in connection with Sections 29, 30 RechVersV. The formation of the equalisation provision is done pursuant to the Appendix to Section 29 RechVersV. The calculation of the nuclear facility provision is done pursuant to Section 30 Para 2 RechVersV. The major risk provision for the product liability of pharma risks is calculated pursuant to Section 30 Para 1 RechVersV.

Other provisions are set in principle according to the necessary settlement value dictated by sound business judgement. Insofar as provisions have a residual maturity of more than one year, these are discounted in accordance with their residual maturity using an average market interest rate of the previous seven years set by the German Central Bank (Deutsche Bundesbank).

The obligations stemming from **pensions** are set according to the necessary settlement value dictated by sound business judgement. They are discounted at 3.89% using the average

interest rate of the previous seven years and with an assumed residual maturity of 15 years, as published by the German Central Bank (Deutsche Bundesbank) pursuant to the Regulation on the Discounting of Provisions (RückAbzinsVO). The pension provision is calculated according to the Projected Unit Credit Method. An assumed salary trend is set at 2.50 % and a pension trend at 1.86 %. Probabilities of fluctuation are calculated separately depending on age and gender. A performance adjustment due to profit participation by reinsurers is taken into account at 0.50 %. The calculations are based on Klaus Heubeck's 2005 G mortality tables. With employee-financed pension commitments, the amount of which is dictated exclusively by the fair value of a reinsurance claim, a valuation is made pursuant to Section 253 Para 1 Sentence 3 German Commercial Code (HGB). For these commitments, the settlement value corresponds to the fair value of the actuarial reserve plus profit participation.

Deferred tax liabilities were offset with deferred tax assets. The deferred taxes were calculated using a tax rate of 32.63 % for the underlying differences for corporation and trade tax in Germany; for the underlying differences for tax liabilities in other countries the local rates of tax are included in the valuation.

The **subordinated liabilities** and **other liabilities** are stated at the settlement values.

Foreign currency translation

Any business written in foreign currencies is translated into the reporting currency at the point in time of writing, with the respective valid monthly exchange rate. The assets and liabilities listed in the balance sheet are converted into euros on the balance sheet date using the mean exchange rate. In order to minimise currency risks, efforts are made wherever possible to create a congruent alignment of liability positions and corresponding asset positions in the respective currencies. Foreign currency liabilities and congruent foreign currency assets are summarised as valuation units pursuant to Section 254 German Commercial Code (HGB) due to the equalising, offsetting changes in value, and the result of the foreign currency translation of these foreign currency portfolios is accounted for – irrespective of the cost and imparity principle.

Notes on assets

Development of assets A, B. I. to B. II.

in kEUR	2015	2015					Balance sheet values 31.12.
		Balance sheet values 01.01.	Additions	Disposals	Appreciations	Depreciations	
A. I. Investments in affiliated undertakings							
1. Shares in affiliated undertakings	55	1,220	-	-	-	-	1,275
2. Sum A. I.	55	1,220	-	-	-	-	1,275
B. II. II. Other investments							
1. Bearer bonds and other fixed-interest securities	234,566	163,605	-161,318	-	-1,041	7,306	243,118
2. Other loans							
a) Registered bonds	11,032	4,840	-470	-	-	-	15,402
b) Notes and loans receivables	-	20,661	-248	-	-	-	20,413
3. Deposits with credit institutions	25,216	-	-13,412	-	-	211	12,015
4. Sum B. II.	270,814	189,106	-175,448	-	-1,041	7,517	290,948
Total	270,869	190,326	-175,448	-	-1,041	7,517	292,223

Disclosure of shareholdings

The investments in affiliated undertakings and participations are listed in the following.

Listing of shareholdings 2015

Name and registered office of the company Indication of amounts, each in 1,000 currency units	Size of shareholding in capital as %	Currency	Equity (Section 266 Para 3 German Commercial Code [HGB])	Results from previous financial year
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Investments in affiliated undertakings

Companies with registered office in Germany

International Hannover Holding AG i.L., Hannover ¹⁾	100	EUR	39	-2
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Companies with registered office abroad

Inter Hannover (No. 1) Limited, London ³⁾	100	GBP	-13	-15
International Mining Industry Underwriters Limited, London ^{2) 3)}	100	GBP	159	59
L & E Holdings, London ^{2) 3)}	100	GBP	5	0

¹⁾ Short financial year until 30 June 2015.

²⁾ Values as at 31 December 2014.

³⁾ Exchange rate GBP in EUR as at 31 December 2015: 0.73811.

Disclosure of fair values pursuant to Section 54 Regulation on the Accounting of Insurance Undertakings (RechVersV)

Discounted cash flow and net asset values respectively are calculated for investments in affiliated undertakings and participations. In individual cases, amortized costs are used as fair values.

Market values are used for the evaluation of bearer bonds and other fixed interest securities. These are calculated in principle on the basis of publicly accessible pricing and redemption prices.

The fair values of securities which are not stock market listed and which have a predetermined maturity are calculated using yield curves while taking into account the creditworthiness of the respective debtor and the currency of the security.

The deposits with credit institutions are carried at nominal value.

in kEUR		2015
		Fair values 31.12.
B. I.	Investments in affiliated undertakings	
	1. Investments in affiliated undertakings	1,275
B. II.	II. Other investments	
	1. Bearer bonds and other fixed-interest securities	244,753
	2. Other loans	
	a) Registered bonds	15,409
	b) Notes and loans receivable	20,544
	3. Deposits with credit institutions	12,015
	Total	293,996

Deferred/prepaid items

in kEUR	2015	01.01.2015
Accrued interest and rents	2,265	2,000
Other	366	769
Total	2,631	2,769

Deferred tax assets

Due to the existing tax group with Hannover Rück SE and by using the option granted according to Section 274 Para 1 Sentence 2 German Commercial Code (HGB), no **deferred tax assets** have been recognized.

The valuation of deferred taxes is done nationally with a tax rate of approximately 32.6%, and abroad using the respective local tax rate.

Notes on liabilities

Capital and reserves

Subscribed capital

The Company's share capital remained unchanged as at 31 December 2015 with kEUR 121,600. It is divided into 95,000,000 no-par value registered shares. The shares may only be transferred with the approval of the Company.

Hannover Rück SE is the sole shareholder of the International Insurance Company of Hannover SE.

Profit for the financial year

The profit for the financial year contains a profit brought forward in the amount of kEUR 44,205. The profit brought forward was converted into EUR in the opening balance sheet using the mean spot exchange rate as of 31 December 2015.

Subordinated liabilities

With a loan agreement dated 17 December 2015, Hannover Rück SE granted the Company a subordinated loan in the amount of kGBP 54,300 with an interest rate of 3.2 % and a maturity of 17 December 2045, with an initial right of termination by the recipient of the loan by 17 December 2016. Simultaneously, six existing subordinated loans with a total value of kGBP 54,300 were replaced. The objective was to simplify the existing structure of subordinated liabilities.

Furthermore, two subordinated loans exist in the amount of kGBP 6,700 and kGBP 10,000 with maturity dates in 2036 and 2043.

Technical provisions (gross)

in kEUR	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015	31.12.2015
	Total		Thereof gross provisions for claims outstanding		Thereof equalisation provi- sion and similar provisions ¹⁾	
Self-contracted insurance business						
Accident insurance	23,143	22,179	19,345	17,888	-	-
Liability insurance	1,268,408	1,284,635	1,169,857	1,178,325	1,051	-
Motor liability insurance	66,391	62,157	51,797	47,147	-	-
Other motor insurance	22,370	106,556	16,767	102,450	467	-
Fire and property insurance	426,145	361,916	301,304	244,910	-	-
Thereof:						
Fire insurance	279,621	255,384	195,172	166,671	-	-
Comprehensive householder's content insurance	22,512	20,174	13,807	11,727	-	-
Other property insurance	124,012	86,358	92,325	66,512	-	-
Transport and aviation insurance	296,914	318,152	229,409	237,539	-	-
Credit and surety insurance	37,436	24,061	19,704	12,449	650	-
Legal expense insurance	849	838	714	643	-	-
Other insurance	31,250	27,950	25,890	20,750	36	-
Total	2,172,906	2,208,444	1,834,787	1,862,101	2,204	2,548
Assumed reinsurance business	70,376	49,986	28,036	18,628	1,491	-
Total insurance business	2,243,282	2,258,430	1,862,823	1,880,729	3,695	2,548

¹⁾ The equalisation provision as at 1 January 2015 amounting to kEUR 2,548 was formed in the annual accounts as at 31 December 2014 in line with the requirements set by INSPRU 1.4 of the Prudential Source Book for Insurance Companies (UK), and was consequently stated in the opening balance sheet. As the equalisation provision formed in line with UK regulations is not broken down by insurance class, we fully dissolved the amount in the year 2015 and reformed the equalisation provision in accordance with Section 29 Regulation on the Accounting of Insurance Undertakings (RechVersV).

Other provisions

in kEUR	2015	01.01.2015
Pension provisions and similar obligations	433	-
Provisions for taxes	690	4
Other provisions		
Provisions for staff expenses	5,820	9,861
Provisions for supplier invoices	1,944	4,054
Other provisions	1,642	1,919
Total	10,529	15,838

Notes on statement of income

Gross written premiums from self-contracted insurance business by region of origin

in kEUR	2015	2015	2015
	National	EU	Non-member countries
Accident insurance	56	4,087	5,592
Liability insurance	62,393	82,025	96,525
Motor liability insurance	0	31,517	9,578
Other motor insurance	0	10,575	2,256
Fire and property insurance	9,429	125,485	132,351
Thereof:			
Fire insurance	3,328	110,314	90,225
Comprehensive householder's content insurance	0	0	11,836
Other property insurance	6,100	15,171	30,291
Transport and aviation insurance	22,672	75,840	21,693
Credit and surety insurance	0	10,681	10,580
Legal expense insurance	0	643	0
Other insurance	3,504	8,045	9,091
Total	98,054	348,898	287,666

Expenses on insurance operations for own account

in kEUR	2015
Gross expenses for insurance operations	213,113
Thereof acquisition costs	193,869
Thereof administrative costs	19,244
Thereof commissions received and profit participation from business ceded in reinsurance	206,377
Total	6,736

Disclosure of insurance class groups, insurance classes and insurance types

in kEUR / in units

	2015	2015	2015	2015	2015	2015	2015	2015
	Gross written premiums	Gross earned premiums	Net earned premiums	Gross expenses for insurance claims	Gross expenses for insurance operations	Reinsurance balance	Technical result for own account	Number of minimum one-year insurance contracts
Self-contracted insurance business								
Accident insurance	9,736	10,596	1,086	7,386	4,002	-1,050	257	3,986
Liability insurance	240,943	252,441	20,317	138,908	64,324	53,723	-2,830	246,244
Motor liability insurance	41,095	42,053	4,190	30,823	12,886	-2,152	703	104,087
Other motor insurance	12,831	12,070	1,356	-4,096	2,779	12,653	-580	23,677
Fire and property insurance	267,265	267,151	15,643	215,996	88,423	-37,455	1,556	345,908
Thereof:								
Fire insurance	203,867	214,305	12,607	154,809	71,200	-11,366	1,051	326,705
Comprehensive household er's content insurance	11,836	11,072	1,074	7,645	4,417	-887	-103	10,925
Other property insurance	51,562	41,774	1,961	53,542	12,806	-25,183	607	8,278
Transport and aviation insurance	120,205	140,449	10,490	106,433	15,047	2,901	16,028	20,820
Credit and surety insurance	21,261	15,780	3,086	8,681	9,016	375	-2,942	694
Legal expense insurance	643	707	68	791	229	-307	-6	1,800
Other insurance	20,640	23,024	2,392	21,536	5,708	-3,353	-899	420
Total	734,618	764,271	58,628	526,458	202,414	25,335	11,287	747,636
Assumed reinsurance business	39,353	34,430	4,517	19,907	10,699	7,749	-5,416	
Total insurance business	773,971	798,701	63,145	546,365	213,113	33,084	5,871	

Income from investments

in kEUR

- Income from investments
- Profits from the disposal of investments

Total

2015

5,387

1,566

6,953

Expenses for investments

in kEUR

- Charges for the management of investments, interest and other expenses for investments
- Write-down on investments
- Losses from the disposal of investments

Total

2015

576

1,041

199

1,816

Extraordinary write-down was carried out pursuant to Section 253 Para 4 German Commercial Code (HGB) amounting to kEUR 1,041 for bearer bonds and other fixed-interest securities.

Staff expenses

in kEUR	2015
1. Commissions for all types of insurance agent within the meaning of Section 92 German Commercial Code (HGB) for self-contracted insurance business ¹⁾	171,751
2. Wages and salaries	7,553
3. National insurance contributions and expenses for support	1,522
4. Expenses for pension contributions	1,359
5. Total expenses	182,185

¹⁾ The commissions presented here relate to commissions expenses for brokers and underwriting agencies.

Other disclosures

Other earnings and expenses contain currency translation gains in the amount of kEUR 643 and currency translation losses in the amount of kEUR 877.

The taxes exclusively affect the result of ordinary business activity.

With regard to other loans with a book value of kEUR 10,248, write-downs in the amount of kEUR 126 were not carried out as a nominal redemption is expected on the date of maturity.

The International Insurance Company of Hannover SE fundamentally hedges against currency risks through the alignment of currency liabilities with congruent currency assets. This ensures that exchange rate-induced value changes in currency liabilities (underlying transaction) are compensated by offsetting changes in value in currency assets (hedging instrument). Congruently covered liabilities are summarised per currency with their corresponding assets into an accounting valuation unit within the framework of a portfolio hedge. The volume amounts to kEUR 155,930. Valuation units are accounted for in accordance with the direct allocation method.

We expect annual rent payments of approximately kEUR 1,825 resulting from long-term rental agreements for our locations in London and Stockholm.

The average number of staff in the financial year is 79, of which 72 are full-time and 7 are part-time.

Hannover Rück SE and the HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, include our financial statements in their respective consolidated accounts and management reports, which are made publicly available in the electronic Federal Gazette. As these are satisfactory in effect, the International Insurance Company of Hannover SE does not generate its own consolidated financial statements.

With regard to auditor remuneration, the exemption provision of Section 285 No. 17 German Commercial Code (HGB) has been utilised; the necessary disclosures are contained in the consolidated financial statements of Hannover Rück SE.

There were no significant legal disputes in the year under review or on the date of the bal-

ance sheet – apart from proceedings within the context of normal insurance and reinsurance business.

A control and profit and loss transfer agreement was completed in the financial year between Hannover Rück SE as the controlling company and the International Insurance Company of Hannover SE as the company under control.

Administrative Bodies

Executive Board

Ralph Beutter

Chairman of the Executive Board International Insurance Company of Hannover SE, Hannover

Andreas Bierschenk

Member of the Executive Board International Insurance Company of Hannover SE, Hannover

Thomas Stöckl

Member of the Executive Board International Insurance Company of Hannover SE, Hannover

Liquidator International Hannover Holding AG, Hannover (since 1 July 2015)

Supervisory Board

Ulrich Wallin

Chairman

Chairman of the Executive Board Hannover Rück SE, Hannover

Chairman of the Executive Board E+S Rückversicherung AG, Hannover

Member of the Executive Board Talanx AG, Hannover

Chairman of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA

Chairman of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Chairman of the Board of Directors Hannover Re (Ireland) Limited, Dublin, Ireland

Member of the Board of Directors Hannover Life Re of Australasia Ltd, Sydney, Australia

Jürgen Gräber

Member of the Executive Board Hannover Rück SE, Hannover

Chairman of the Board of Directors Hannover Reinsurance Africa Limited, Johannesburg, South Africa

Chairman of the Board of Directors Hannover Reinsurance Group Africa (Pty) Limited, Johannesburg, South Africa

Chairman of the Board of Directors Hannover ReTakaful B.S.C. (c), Manama, Bahrain

Deputy Chairman of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors Hannover Re (Ireland) Limited, Dublin, Ireland

Member of the Board of Directors Hannover Re Services Japan, Tokio, Japan

Member of the Supervisory Board Talanx International AG, Hannover

Roland Vogel

Member of the Executive Board Hannover Rück SE, Hannover

Member of the Executive Board E+S Rückversicherung AG, Hannover

Chairman of the Board of Directors Hannover Finance, Inc., Wilmington, USA

Chairman of the Board of Directors Hannover Finance (Luxembourg) S.A., Luxembourg

Chairman of the Board of Directors Hannover Finance (UK) Limited, London, United Kingdom

Deputy Chairman of the Board of Directors Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda

Deputy Chairman of the Supervisory Board Hannover Life Re AG, Hannover

Deputy Chairman of the Supervisory Board of Talanx Asset Management GmbH, Cologne

Member of the Board of Directors Hannover Life Reassurance Company of America, Orlando, USA

Member of the Board of Directors Hannover Re (Bermuda) Ltd., Hamilton, Bermuda

Member of the Board of Directors Hannover Re (Ireland) Limited, Dublin, Ireland

Member of the Board of Directors Meribel Midco Limited, St. Helier, Jersey

Member of the Board of Directors Meribel Topco Limited, St. Helier, Jersey

Member of the Advisory Board Commerzbank AG, Frankfurt am Main

Member of the Advisory Board Hannover Finanz GmbH, Hannover

Member of the Advisory Board WeHaCo Unternehmensbeteiligungs-GmbH, Hannover

Hannover, 24 June 2016

The Executive Board



Ralph Beutter



Andreas Bierschenk



Thomas Stöckl

This is a translation of the original German text.
The German version shall be authoritative in case of any discrepancies in the translation.

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the International Insurance Company of Hannover SE, Hannover, for the business year from January 1 to December 31, 2015. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Hannover, June 24 2016

KPMG AG Wirtschaftsprüfungsgesellschaft

Möller

Wirtschaftsprüfer

Brüning

Wirtschaftsprüferin