

somewhat  
different

## Annual financial statements 2016



inter **hannover**<sup>®</sup>

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

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## Management's discussion and analysis

The International Insurance Company of Hannover SE (“Inter Hannover”, “the Company” or “IICH”) is a 100% 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, UK, Canada and Sweden. As a registered Company with the National Association of Insurance Commissioners (NAIC), Inter Hannover acts as an Excess and Surplus Lines provider on the US market.

Our strategy supports the overarching corporate goal of the Hannover Re Group: “Long-term success in a competitive business”. Our business activities are focused on being the best option for our business partners when choosing an insurance partner. For this reason our focus is on the customer and their needs.

As at 10 May 2016 Inter Hannover has acquired 100% of shares in Congregational & General Insurance PLC – headquartered in UK – as part of efforts to further strengthen its agency business in the UK.

### Course of business

We are satisfied with the course of business in 2016 in spite of the continuing 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. On balance, we have advanced our risk adequate and selective underwriting policy, and have consistently distanced ourselves from business operations which do not meet our demands. In doing so, we were able to maintain premium income at approximately the previous year's level.

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

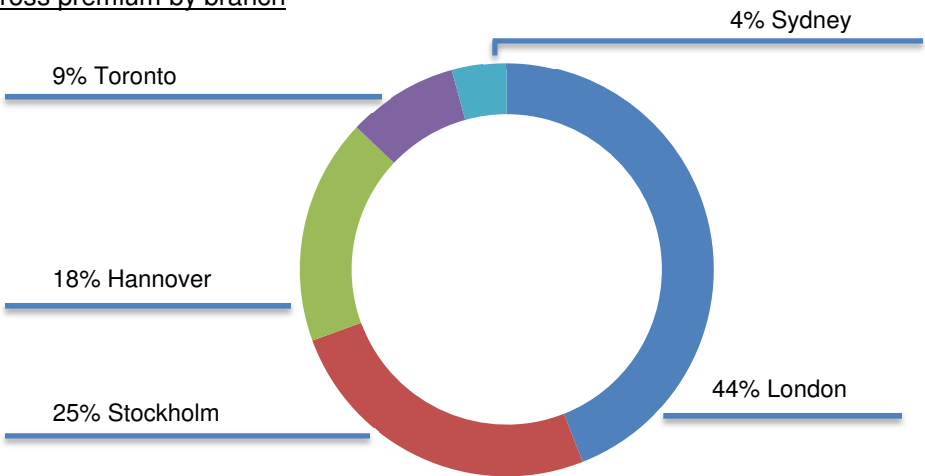
Currency (1 EUR =)	31.12.2016	31.12.2015
Australian Dollar	1.45905	1.49808
British Pound	0.85527	0.73811
Canadian Dollar	1.41905	1.51577
Norwegian Krone	9.08530	9.57930
Swedish Krone	9.55240	9.19380
US Dollar	1.05400	1.09270

The gross premium volume for the financial year amounted to EUR 759.1 million and was thus slightly lower than the previous year's level (EUR 774.0 million). The overwhelming share – at EUR 742.7 million (previous year: 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 16.4 million (previous year: EUR 39.4 million).

The branches continued to make a significant contribution to gross premium income with a total of 82.4% (previous year: 85.8%) or EUR 625.3 million (previous year: EUR 664.0 million), which underscores the international orientation of Inter Hannover.

In the year under review we registered premiums through our branch in London amounting to EUR 334.1 million (previous year: EUR 420.6 million). We anticipated the decline of approximately 20% due to the continuation of our selective underwriting policy. During the financial year 2016 the branch in Stockholm registered gross premiums amounting to EUR 192.9 million (previous year: EUR 186.0 million) and was thus able to assert its market position in spite of intense competition. We were also able to expand our business activities at our Company location in Hannover, and wrote EUR 133.8 million (previous year: EUR 110.0 million) gross premiums. Our Company location in Toronto experienced a very positive development where, among other things, we were able to significantly increase gross written premiums from EUR 33.4 million to EUR 65.8 million, thanks to new business relationships. Sydney also witnessed a dynamic development in premiums with gross written premiums of EUR 32.5 million (previous year: EUR 24.0 million).

Gross premium by branch



We ceded a significant share of our business to Hannover Re Group, in line with our strategy. We also utilised external reinsurance to a limited extent, in order to establish the optimal control of our risk. With gross premium earnings at EUR 741.0 million (previous year: EUR 798.8 million) the earned premiums for our own account stood at EUR 59.4 million (previous year: EUR 63.1 million).

In spite of the occurrence of some major losses, the claims burden for the financial year stood far below the previous year's level, so that we were able to achieve a loss ratio of 61.3% (previous year: 68.4%). Gross expenses for insurance claims stood accordingly at EUR 454.5 million (previous year: EUR 546.4 million).

Gross expenses for insurance operations stood at EUR 213.1 million (previous year: EUR 213.1 million) or 28.8% (previous year: 26.7%).

The combined ratio (gross) stood at 90.1% (previous year: 95.1%).

The equalisation provision and similar provisions were increased in accordance with statutory regulations by EUR 2.9 million (previous year: 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 tables published by the Federal Financial Supervisory Authority (BaFin) for the insurance industry, insofar as was necessary and in line with statutory regulations. Subsequently, the balance sheet value for the equalisation provision and similar provisions stood at EUR 6.6 million (previous year: EUR 3.7 million).

On balance, we achieved an underwriting result for our own account of EUR 7.9 million (previous year: 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 created.

In the following we will explain the course of the financial year in our lines of business. We will subsequently describe all aspects of the insurance business. As the assumed insurance business only contributes approximately 2% (previous year: 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 underwriting result for our own account.

## Total insurance business

### Liability

in EUR million	2016	2015
Gross written premiums	251.7	266.7
Loss ratio (%)	70.1	54.3
Underwriting result (for own account)	5.2	-4.4

The premium volume for **third-party liability insurance** amounted to EUR 251.7 million (previous year: EUR 266.7 million), making it approximately one third of our total business during the year under review. The claims expenses stood at EUR 165.3 million (previous year: EUR 148.2 million), which corresponds to a loss ratio of 70.1% (previous year: 54.3%). After the change of the equalisation provision, an underwriting result for our own account was generated in the amount of EUR 5.2 million (previous year: EUR -4.4 million).

### Accident

in EUR million	2016	2015
Gross written premiums	10.6	9.7
Loss ratio (%)	45.9	69.7
Underwriting result (for own account)	0.4	0.3

We achieved gross premiums of EUR 10.6 million (previous year: EUR 9.7 million) in **accident insurance**. Claims expenses amounted to EUR 5.0 million (previous year: EUR 7.4 million), and the corresponding loss ratio was 45.9% (previous year: 69.7%). On balance, we achieved an underwriting result for our own account of EUR 0.4 million (previous year: EUR 0.3 million).

## Motor

in EUR million	2016	2015
Gross written premiums	60.0	57.0
Loss ratio (%)	84.4	51.2
Underwriting result (for own account)	-3.7	0.0

In **motor insurance**, gross premiums amounted to EUR 60.0 million (previous year: EUR 57.0 million). With a loss ratio of 84.4% (previous year: 51.2%), we achieved a loss of EUR 3.7 million (previous year: EUR 0.0 million) subsequent to the change in the equalisation provision.

## Fire and property insurance

in EUR million	2016	2015
Gross written premiums	261.8	275.3
Loss ratio (%)	55.5	79.4
Underwriting result (for own account)	0.5	1.7

With a gross premium volume of EUR 261.8 million (previous year: EUR 275.3 million), **fire and property insurance** contributed more than a third of our total premium income. Claims expenses of EUR 144.4 million (previous year: EUR 219.1 million) during the financial year 2016 resulted in a loss ratio of 55.5% (previous year: 79.4%). The underwriting result for our own account stood at EUR 0.5 million (previous year: EUR 1.7 million) for the financial year.

## Transport and aviation insurance

in EUR million	2016	2015
Gross written premiums	136.2	122.5
Loss ratio (%)	49.0	78.2
Underwriting result (for own account)	5.3	12.3

The gross premium volume for **transport and aviation insurance** increased from EUR 122.5 million to EUR 136.2 million in the financial year. Due to decreased losses, the loss ratio stood at 49.0% (previous year: 78.2%) with gross claims expenses of EUR 68.8 million (previous year: EUR 111.3 million). The underwriting result for our own account amounted to EUR 5.3 million (previous year: EUR 12.3 million).

## Credit and surety insurance

in EUR million	2016	2015
Gross written premiums	11.3	21.4
Loss ratio (%)	15.6	55.0
Underwriting result (for own account)	1.3	-3.1

**Credit and surety insurance** accounted for gross premiums in the amount of EUR 11.3 million (previous year: EUR 21.4 million). A loss ratio of 15.6% (previous year: 55.0%) corresponded to expenses for claims in the amount of EUR 1.9 million (previous year: EUR 8.7 million). In total, after the change of the equalisation provision, an underwriting result for our own account was generated in the amount of EUR 1.3 million (previous year: EUR -3.1 million).

## Other insurance

in EUR million	2016	2015
Gross written premiums	27.5	21.4
Loss ratio (%)	85.5	94.1
Underwriting result (for own account)	-1.1	-0.9

Gross premiums amounted to EUR 27.5 million (previous year: EUR 21.4 million) in the **other insurance classes**. Due to the continuation of limited premium volume which amounted to EUR 3.7 million (previous year: EUR 0.6 million), we have listed legal expense insurance – which we operate exclusively through our branches in London and Sweden – under other insurance. We completed the financial year within other insurance with a loss ratio of 85.5% (previous year: 94.1 %). Consequently, we achieved an underwriting result for our own account of EUR -1.1 million (previous year: 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 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 691.0 million (previous year: EUR 712.0 million). This generated a slightly higher retention ratio for the International Insurance Company of Hannover SE of 9.0% (previous year: 8.0%).

For the reinsurer, the result for business ceded in reinsurance for the financial year stood at EUR 60.6 million (previous year: EUR 33.1 million).

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## 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.

The overwhelming share of our investments is in fixed-interest securities, in order to generate regular and predictable income. This means that the portfolio's diversification is balanced, both in relation to the investment segments and the issuers. In addition, strategic investments in affiliates exist to a limited extent.

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 allows us to ensure our financial solvency at all times.

In order to manage and limit the risk situation, the investments are regularly adjusted in line with obligations stipulated by the insurance business with regard to the modified duration and the currency in which they were issued. We consequently reduce the economic exposure vis-a-vis changes in interest rates and currency risk.

## Development of investments

The shares / investments in affiliates increased during the year under review from EUR 1,275 thousand to EUR 12,548 thousand, in particular due to the purchase of 100% of shares in Congregational & General Insurance Public Limited Company.

The portfolio of other investments for Inter Hannover increased in book value in the year under review and in line with our expectations by 2.8%, from EUR 290,948 thousand to EUR 298,971 thousand.

The distribution of different investment classes has remained almost constant in the year under review. The proportion of bearer bonds and other fixed-interest securities declined slightly and now amounts to approx. 82% (previous year: approx. 84%). The proportion of other loans, i.e. registered bonds and borrower's note loans has also reduced slightly to approximately 11%, following the previous year in which the proportion stood at approximately 12%. By contrast the proportion of deposits at banks has increased from approximately 4% to approximately 7%.

The proportion of investments with an AAA rating was significantly increased during the financial year. This now amounts to approximately 56% (previous year: approximately 46%). In contrast, the proportion of investments with an AA rating decreased from approximately 38% to approximately 30%. The proportion of investments with an A rating remained constant in the year under review, and continues to stand at approximately 7%. The proportion of investments with a BBB rating is slightly lower, from approximately 10% to approximately 7%, which has led to an increase in the safety level of our portfolio.

According to our underwriting obligations we predominantly hold our investments in the currencies of sterling, euros and US dollars.

On the balance sheet date the valuation reserves in other investments amounted to EUR 2,960 thousand (previous year: EUR 1,772 thousand). Thereof, EUR 2,685 thousand (previous year: EUR 1,635 thousand) is attributable to bearer bonds and other fixed-interest securities, and on balance EUR 274 thousand (previous year: EUR 137 thousand) to registered bonds and borrower's note loans.



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## Net investment income

Current income from investments amounted to EUR 10,913 thousand (previous year: EUR 5,387 thousand) in the year under review and was attributable, with a value of EUR 6,775 thousand, to income from participations and, with a value of EUR 3,566 thousand (previous year: EUR 4,843 thousand) to current interest received from bearer bonds and other fixed-interest securities.

The result from the disposal of investments amounted to EUR 580 thousand (previous year: EUR 1,367 thousand) and comprised the profits from the disposal of investments amounting to EUR 745 thousand (previous year: EUR 1,566 thousand) and losses from the disposal of investments amounting to EUR 165 thousand (previous year: EUR 199 thousand). The result from disposals is exclusively attributable to disposals of bearer bonds and other fixed-interest securities.

The amortizations of investments amounted to EUR 1,651 thousand (previous year: EUR 1,041 thousand) and are predominantly attributable to bearer bonds and other fixed-interest securities, which were recognised according to the strict lowest value principle. The write-ups on investments, for which write-downs were made in the previous year, stand at EUR 148 thousand.

Investment management during the financial year generated expenses amounting to EUR 538 thousand (previous year: EUR 576 thousand).

In total, the net investment income amounted to EUR 9,452 thousand (previous year: EUR 5,137 thousand).

## Other income

Other income comprised the other earnings amounting to EUR 2,607 thousand (previous year: EUR 4,581 thousand) and other expenses amounting to EUR 14,779 thousand (previous year: EUR 18,135), which on balance generated a loss amounting to EUR 12,172 (previous year loss: EUR 13,554 thousand) for other income.

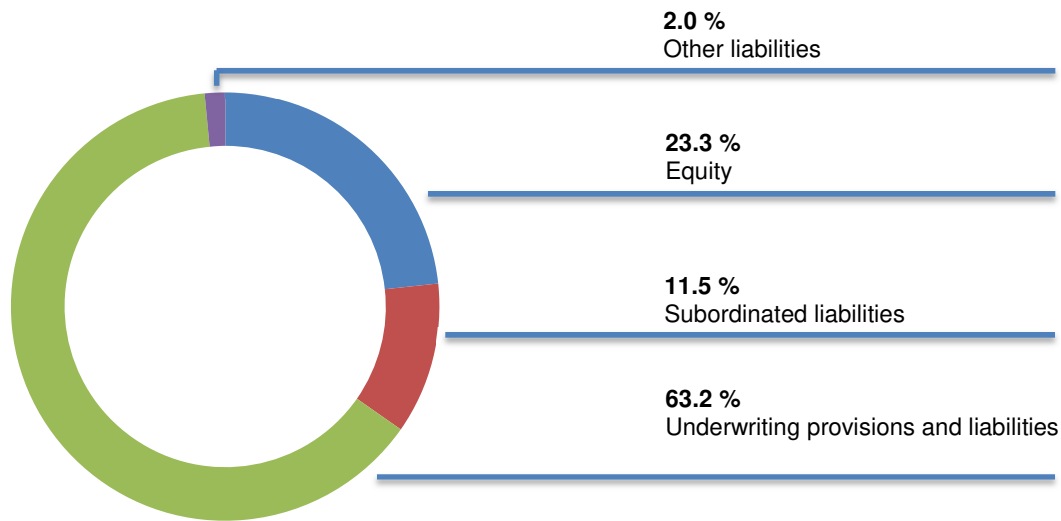
## Overall result

The financial year was completed with a net profit of EUR 3,040 thousand (previous year: net loss of EUR 4,748 thousand), before the respective transfer of profit or loss and before allocation to the statutory reserve. The excess was to be allocated in whole to the statutory reserve so that there was no profit transfer (previous year: loss transfer totalling EUR 4,748 thousand).

## 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 underwriting provisions and liabilities. Additionally there is also our own equity capital and our subordinated liabilities.

Equity capital, which stands at 23.3% (previous year: 22.1%) of the balance sheet total, continues to represent 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 11.5% (previous year: 12.8%) of the balance sheet total, while underwriting provisions and liabilities comprise 63.2% (previous year: 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 investment and 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 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 at 31 December 2016, 96 members of staff were employed at International Insurance Company of Hannover SE (previous year: 81).

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## **Health management expanded**

The expansion of our strategic health management was a focus of our activities in the financial year just ended. In so doing, we are responding to the demands of shifting demographics and helping to preserve the capacity of our managers and staff to do their job and to cope with the challenges placed upon them.

By way of introduction to this topic, we offered our managers a presentation event on working capacity, coping and health management that was geared to their concerns. The most visible measure, however, was undoubtedly the first company-wide health day, at which we communicated holistic knowledge on various issues of in-house health-management in the form of talks and activities. A range of hands-on measures made for a lively setting and provided our managers and staff alike with pointers for initiating wellness-promoting measures on a direct and individual basis.

Given that relaxation know-how was an aspect that met with a particularly positive reception, we took this as an opportunity to design a specially tailored seminar as part of our regular in-house programme of further training. This training activity enables participants to create their own personal relaxation profile and to learn how to integrate the insights gained into their everyday routine.

A further important component of our health management is the Employee Assistance Programme. This has been available to our managers, staff and their family members since August 2016. The programme offers free and anonymous immediate counselling on personal, professional and psychological / health concerns as well as a service for families. This measure, too, contributes to wellness and serves a preventive function, thereby helping to ensure that challenges do not become burdens and that working capacity is preserved for the long term – in the interests of both our employees and the company.

## **Recruitment efforts intensified**

In our recruitment efforts we find ourselves faced with a tightening applicant market and increasingly challenging demographic factors. Nevertheless, going forward it remains incumbent upon us to ensure that at the right moment we are able to attract those candidates who are the best fit both for the company in general and for the specific position. With this in mind, we have revamped our recruitment activities.

As our starting point, we evaluated a number of external studies, some of which were specially oriented towards our needs. We were able to obtain up-to-date and detailed information about the career expectations and employer preferences of our primary applicant target groups. We combined these findings with insights gained from internal surveys. This produced a clear picture of the messages that we, as an employer, should communicate externally in a genuine manner.

The Employer Value Proposition elaborated on the basis of these insights forms the basis of our personnel marketing communication. On the one hand it is integrated into our established recruiting processes and tools, while at the same time we use it as a platform for picking up on new trends so as to reach out even better to our target groups.

Among the new tools that we have drawn on in order to advance our recruiting efforts particular mention should be made of online chat sessions with HR consultants or the improved individual support offered to students, to name just two examples. Furthermore, with a view to specifically addressing (young) professionals even better as a group, the profile of the Hannover Re Group in the business network Xing was reworked with a more polished look.

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Factors such as an adequate work-life balance as well as support for diversity and equal treatment at our company – all concerns of increasing importance to our target groups – are also addressed.

### **Results of the employee survey acted on**

In the financial year just ended we also continued to engage with the findings of the first international employee survey conducted within the Hannover Re Group. Once all the units had received their results, they were tasked with developing individual measures to leverage identified potentials and safeguard existing strengths. Activities here centred around communication and information, further training and delegation as well as the fostering of (international) cooperation. All in all, our assessment of the first international employee survey is positive, both in terms of the pleasing survey findings and the quality of the measures that have been initiated.

### **Words of thanks to our staff**

The Executive Board would like to thank all employees for their dedication in the past year. At all times the workforce identified with the company's objectives and successfully pursued them. We would like to express our appreciation to the members of staff and the representatives who participated in our co-determination bodies for their critical yet always constructive cooperation.

## **Sustainability at Inter Hannover**

For Inter Hannover, sustainability means a commitment to long-term value creation combined with the forward-looking concept of good corporate governance, a voluntary undertaking to conserve the environment and social responsibility. Our day-to-day business as an insurer involves the professional handling of highly diverse risks. Our value contribution lies in our ability to bring together our extensive risk expertise with sophisticated underwriting practice. In so doing, we help to make risks in both private and business life manageable. The anticipatory approach to dealing with risks in the areas of insurance and investment management is of special importance inasmuch as we must keep our payment promises to our clients not only today, but also in future. With this in mind we drew up a sustainability strategy for Inter Hannover as part of the Hannover Re Group, that reflects in concrete terms the corporate strategy of the Group and in which we explicitly commit to our strategic objective of sustainable value creation.

The sustainability report issued by the Hannover Re Group containing extensive information on our strategy, our approach and our progress regarding the issue of sustainability can be accessed via [www.hannover-re.com/60729/sustainability](http://www.hannover-re.com/60729/sustainability).

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## Report on opportunities and risks

### Risk report

#### Our top objective

Inter Hannover develops business opportunities for Hannover Re Group in selected primary insurance markets for large-scale risks and special cover brokered by agencies, and sees itself as 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.

The Company endeavours to achieve an appropriate capital position, which is selected in order that available business opportunities can be pursued at any time.

#### Strategy implementation

Our corporate strategy stipulates the guiding principles required to realise the vision of an interdisciplinary insurance company defined by growth, profitability and diversity, and which is equipped with efficient processes and a responsible organisation.

We derive our risk strategy from the corporate strategy. The significant strategic starting points for our risk management are the following principles of the corporate strategy:

- We actively manage risks.
- We ensure an appropriate capital position.
- Our operations are defined by risk culture, governance and compliance.

The risk strategy is the key element of our approach to dealing with opportunities and risk. Therein the objectives of risk management are subject to further specification and our understanding of risk is documented. We have determined 10 overriding principles in the risk strategy:

1. We adhere to the risk appetite defined by the Executive Board.
2. We integrate risk management into the value-based management approach.
3. We promote an open risk culture and the transparency of our risk management system.
4. We support the HR group in the fulfilment of rating agency requirements.
5. We fulfil the requirements stipulated by the supervisory authorities.
6. We act while taking into account materiality and proportionality.
7. We apply appropriate quantitative methods.
8. We use suitable qualitative methods.
9. We allocate our capital according to risk-based principles.
10. Thanks to our organisational structure we ensure that the individual functions are separate from one another.

Our risk strategy establishes our core risks, the risk bearing capacity and risk tolerance. It is the key element of our approach to dealing with risk. The risk strategy, the risk register, the guidelines in place to manage operational, strategic and reputational risks as well as the limit and threshold value system and the risk and capital management guideline are assessed by us at least once a year. This allows us to ensure the topicality of our risk management system.

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## Significant external influencing factors on risk management in the previous financial year

The comprehensive requirements placed on capital, governance and reporting were implemented by the IICH. Further aspects of the Solvency II Directive, in particular through the Minimum Requirements for the Business Organisation of Insurance Companies (MaGo) were defined and specified by the Supervisory Authority during the financial year 2016.

The IICH entered into a pre-application phase for an internal capital model – subject to supervisory authority approval – for the calculation of solvency requirements. A capital model approved by the supervisory authorities covers the most important underwriting, market and counterparty default risks for steering the business. An internal capital model enables us, unlike with a standard model, to achieve the best possible representation of the risk structure of our special insurance business and our investments.

We fulfilled the supervisory reporting requirements using, among other options, a Day 1 Report as well as a report covering the Own Risk and Solvency Assessment (ORSA) for the IICH.

Significant influencing factors for risk management include the continuation of a low interest rate level on capital markets, particularly in view of the achievable return on our investments, and the ongoing weakness of the operating environment in our core markets for insurance business.

## Risk capital

The IICH ensures an appropriate ratio of risks to own funds in the interest of its policyholders and shareholders. Our quantitative risk management approach, which is based on our internal capital model, provides a uniform 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 groups 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 Company capital 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 number of natural disasters in a certain region and the insured loss amount per disaster. 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 anchored the position of Chief Risk Officer in the Executive Board, and has established a risk management function and risk committee. The organisation and the combined effect of 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 so-called three lines of defence. The first line of defense consists of risk control and the original risk responsibility. The second line of

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defence consists of the key functions of risk management, the actuarial function and the compliance function. These units are responsible for monitoring. The third line of defence consists of process-independent monitoring by Internal Audit.

## **Key elements of our risk management system**

Our risk strategy and our guideline covering risk and capital management including the limit and threshold value system for significant risks affecting the IICH describe the key elements of our risk management system. The risk management system is subject to a permanent cycle of planning, activity, control and improvement. In particular, systematic risk identification, analysis, assessment, control and monitoring as well as risk reporting play a key role in the effectiveness of the overall system.

The guideline contains, among other details, a description of the tasks, rights and responsibilities, the organisational operating conditions and the risk control process. The regulations are derived from the corporate and risk strategy and also account for supervisory requirements placed on risk management, as well as international standards and developments pertaining to appropriate business management.

## **Risk bearing capacity concept**

The calculation of risk bearing capacity includes the determination of the total amount of risk coverage available and the calculation of how much thereof should be used for the purpose of covering all significant risks. This is done in sync with the specifications of the risk strategy and the determination of risk appetite through the Executive Board. Our internal capital model enables the evaluation of quantifiable individual risks as well as the overall risk position. A limit threshold value system exists for the monitoring of significant risks. This system incorporates – in addition to risk-relevant indicators – in particular the parameters derived and calculated from the risk bearing capacity. Compliance with overall risk appetite is continuously checked.

## **Risk identification**

A significant information base for the monitoring of risks is the regular identification of risk. The documentation of all identified risks is executed in the central register, which contains all significant risks. Risk identification works, for example, in the form of structured assessments, interviews or scenario analyses. External insight and recognised industry expertise from relevant committees or working groups are integrated into the process. Risk identification is key to keeping our risk management permanently up to date.

## **Risk analysis and assessment**

In principle, every identified risk which is deemed significant is subject to quantitative and qualitative assessment. Types of risk which cannot (or only with great difficulty) be subject to quantitative risk assessment are only subject to qualitative assessments such as, for example, strategic risks, reputational risks or emerging risks. A qualitative evaluation is conducted by way of expert assessments. The quantitative evaluation of significant risks and the overall risk position is done using the internal capital model of the IICH. Risk concentration and risk diversification are taken into consideration in the model.

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## Risk control

The controlling of all significant risks is the task of the operational units. The identified and analysed risks are either consciously accepted, avoided or reduced. During the division's decision-making process the risk-to-reward ratio is taken into consideration. Risk control is supported by the underwriting guideline specifications and the defined limits and thresholds.

## Risk monitoring

The task of risk management is the monitoring of all identified significant risks. This includes, among other things, the monitoring of risk strategy implementation, compliance with the defined limit and threshold values and the upholding of risk-relevant methods and processes. An important task of risk monitoring is also to determine as to whether risk control measures were executed and whether the measures' intended effect is sufficient.

## Risk communication and risk culture

Risk management is firmly integrated into our operating procedures. This is supported by transparent risk communication and an open approach to dealing with risks within the framework of our risk culture. Risk communication is enabled, for example, through internal and external risk reports and training offers for members of staff. The regular exchange of information between risk-controlling and risk-monitoring units is elementary for the functional ability of risk management.

## Risk reporting

Our risk reporting provides systematic and timely information on all significant risks and their potential effects. The risk reporting function consists of regular risk reports regarding, for example, the comprehensive risk situation, compliance with the parameters defined in the risk strategy or the capacity utilisation of natural hazard scenarios. In addition to regular reporting, an integrated immediate reporting function regarding significant and short-term risks can be implemented as needed.

## Process-integrated, independent monitoring and quality assurance

The Executive Board is responsible for the proper organisation of the Company's business activities, irrespective of the internal allocation of responsibility. This also comprises the monitoring of the internal risk management and control system. A process-independent monitoring and quality assurance within risk management is enabled by way of the internal audit function and external bodies (supervisory authorities and auditors). In particular, the auditor examines the early identification system for risk and the internal monitoring system. The entire system is rounded off by way of process-integrated methods and regulations, such as through the internal control system.



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## Internal control system

We forge our business activity in such a way that it is always in line with statutory regulations. The internal control system (ICS) is an important subsystem, which serves to safeguard and protect existing assets, prevent and/or unearth errors and irregularities and ensure compliance with laws and regulations. The core elements of the ICS of the IICH are documented in a guideline, which establishes a common understanding of the differentiated implementation of necessary control measures. It is also ultimately tasked with ensuring the consistent control and monitoring of our corporate strategy's implementation. This guideline defines the terms, regulates responsibilities and offers a guide for the description of controls. Furthermore, it is the basis for implementing internal targets and the fulfilment of external requirements, which are placed on the IICH. The ICS consists of systematically designed organisational and technical measures and controls in the Company. This includes, for example:

- the principle of dual control,
- the segregation of duties,
- the documentation of controls within processes as well as
- technical plausibility checks and access permissions in the IT systems.

In order that the ICS can function it is important that the executive board, managers and members of staff participate at all levels.

Processes with integrated control measures within the accounting and financial reporting function ensure that the annual financial statements are both complete and correct. This ensures that we are able to identify and minimise the risk of significant error in the annual financial statements at an early stage. Due to the fact that our financial reporting is dependent to a significant extent on IT systems, the monitoring of these systems is also necessary; authorisation concepts regulate system access, and for every step there are content and system-related audits in place through which errors can be analysed and eliminated without delay.

## 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, controlled and monitored fashion, in order to realise the associated opportunities. The specifications and decisions by the Executive Board concerning risk appetite are elementary for the acceptance of risk. These are based on the calculations of the risk-bearing capacity.

## Underwriting risks

Risk management has defined various overarching guidelines concerning efficient risk control. 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 conservative level of reserves is a decisive parameter for risk management. We differentiate in principle between risks that result from business operations in previous years (reverse risk) and those risks which result from business operations in the current year or in future respectively (price/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 active constraint of individual risks such as natural disasters.

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The reserve risk, i.e. the danger of insufficient reserves for losses and the resulting financial burden on the underwriting result is a priority in our risk management. A conservative level of reserves is important to us. In order to counteract the risk of insufficient reserves, we calculate our loss reserves on the basis of our own actuarial estimations and form 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 used by us. 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 monitored by our actuarial divisions. The quality assurance of our own underwriting calculations regarding the appropriateness of the level of reserves is also conducted on an annual basis by external actuary and auditing companies.

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 inventory 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 risk, whereby we take into account the profitability criteria. Risk management ensures that these maximum amounts are complied with.

The price/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 value retention of investments under our own management and the stability of returns play an important role. For this reason, the 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 value retention 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

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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 leading 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 risk-free 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 underwriting liabilities and assets.

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

## **Counterparty default risk**

The counterparty default risk refers to the risk 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 receivables default within reinsurance is of significance to us. In line with its role within the Group, IICH cedes its primary insurance risks almost exclusively to the companies of the Hannover Re Group. In order to maintain the risk of receivables 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. The counterparty default risk vis-a-vis Hannover Re Group companies is monitored with the help of the internal capital model. 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 policyholders to the business partner. We reduce these risks by, for example, reviewing relationships with intermediaries/brokers on the basis of criteria such as the completion of a professional indemnity insurance policy, payment history or orderly contract processing.

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## 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 underwriting 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.

With the help of self-assessments for operational risks we determine the risk management system's maturity level and define areas for improvement. The assessment is made, for example, by way of estimating the degree of maturity of the respective risk management function or risk monitoring and reporting. The system enables us to, among other things, prioritise operational risks, and serves the calculation of capital commitment in our internal model.

Within the holistic framework of operational risks we pay particular attention to business process risks (including data quality), compliance risks, outsourcing risks (including our distribution channels), fraud risks, staff risks, information and IT security risks 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 highly critical success factor in this regard. 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. Supervisory compliance, compliance with business principles, data protection and antitrust compliance were defined as particularly relevant compliance topics. Compliance risk also includes fiscal and legal risks.

Using sanction assessment software, elements of the IICH portfolio are filtered according to individuals, who are the subject of sanctions due to criminal or terrorist activity. If such individuals are uncovered, corresponding measures are taken. Business partners are also subject to such an assessment.

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.

Outsourcing risks can occur 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. In particular when outsourcing underwriting-specific activities, the careful selection of agents and loss administrators leads to a reduction in underwriting and claims management guidelines as well as regular audits.

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 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 staff 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 staff surveys and the monitoring of fluctuation rates, staff risks are identified at an early stage and room for manoeuvre is created.

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.

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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 a primary 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, an action committee was established which serves as a temporary expert panel during a crisis.

## Other risks

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

Emerging risks are defined for us by a risk content that cannot be reliably assessed, with particular reference to our underwriting 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 corporate 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 corporate 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 also 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 underwriting 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.

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## Opportunities report

Speed is one of the values with which the successful transfer of knowledge is measured. It concerns finding quick solutions and staying one step ahead of the competition. IICH systematically searches for new business opportunities in order to generate sustainable growth and to strengthen the profitable development of the Company. In order that opportunities are identified and ideas can be successfully implemented in business, the IICH follows a number of closely linked paths, in order to achieve a holistic approach to opportunities and risk management. The seamless interaction of the different functions within opportunities and risk management is key here. The key elements of opportunities management at the IICH include the different market-specific innovations within the business segments for major risks and specialist coverage brokered via agencies. The networking of effective, innovative minds establishes close connections for further projects, working groups and specialist committees including the working group “Emerging Risks and Scientific Affairs” with regard to future risks and opportunities. The working group conducts a qualitative assessment of emerging risks. It is not just the potential risks which are the subject of assessment, but also business opportunities which are possibly available. During the year under review the topic areas of “political crimes” and “regulatory environment” were analysed within the working group.

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 the risk management of IICH. 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 the IICH, or the insurable risk is new, 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.

## 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. We are certain that:

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

The risks described are controllable in our view, 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, which combines both qualitative and quantitative information for the effective monitoring of risk.

Our own assessment that the existing risks are controllable is confirmed by various financial indices and external evaluations. Specific surveillance 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 grants us the opportunity to react in a timely fashion.

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## Forecast

### Economic development

Economic experts expect 2017 to bring a modest pickup in cyclical momentum: In its year-end forecast, the Kiel Institute for the World Economy (IfW) anticipates growth of 3.6 % for the global economy in 2017, which is 0.5 percentage points stronger than in 2016.

The upturn in developed economies will gain somewhat in momentum, albeit at a tempered pace. Growth will be supported by a continued accommodative monetary policy, fiscal stimuli and a slight strengthening of demand in developing and emerging nations. While China probably will not quite be able to sustain its growth rates, expansion in the other emerging economies will likely continue to accelerate. The recent rebound in commodity prices should also play a part here. In Russia output is expected to pick up again, whereas in Brazil the economic recovery will still take a while to materialise.

The risks of the economy in recent years remain in play: the US administration has announced numerous changes – giving rise to considerable uncertainties on both the economic and political fronts. Not only that, elections are upcoming in several major European nations that may give rise to fundamental shifts in economic policy. It also remains unclear to date how the United Kingdom will navigate its withdrawal from the European Union. Quite apart from that, monetary policy and low interest rates are now reaching their limits: especially in the financial sector, for example, the negative repercussions of ultra-low interest rates are making themselves felt.

### Insurance industry

In 2017 the German insurance industry is expected to continue operating within a largely unchanged environment. Developments within non-life are largely expected to continue as before.

In view of the low interest rate environment and weak returns, market participants are increasingly turning their attention to the topics of efficiency, profitability protection and innovation. The EU referendum decision in the United Kingdom and the change of government administration in the USA will also bring about additional uncertainties. A positive signal has been issued by the USA where the Federal Reserve has charted a new course away from expansive monetary policy. In Europe inflation registered a positive move away from zero, which at least in the medium term signals an improvement in operating conditions on the horizon.

Insurers have made further improvements to their capital and risk management in line with heightened solvency provisions. In connection with the increasing scope of our Enterprise Risk Management (ERM) they and large corporations are leaning towards concluding their (re-)insurance business centrally, in order that they can integrate the control of growth and risk.

The current changes in the insurance market not only involve risks but also opportunities for growth. Increasing insurance needs as a result of climate change, heightened political risks or the increasing prospect of cyber risks generate numerous opportunities for new offers within the industry. Digitalisation will probably be a significant catalyst for change in future. For example, it opens up new possibilities aimed at loss prevention and will also lead to a situation where, in future, insurance providers work more intensely with partners from the technology sector. Subsequently, cooperative measures aimed at the development of specialist underwriting tools and short-term policies through to the development of mutual new areas of business will be possible.

The excellent level of capitalisation among insurers as well as excess capacity in many (re-)insurance markets have, however, on balance led to a continuation of intense competition. Generating growth in this environment may also once again prove difficult in 2017.

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## **Outlook for 2017**

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 2017, 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 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 result in line with the previous year for the financial year 2017.



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## 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

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## Annual financial statements

## Balance sheet as at 31.12.2016

Assets (in EUR thousand)	31.12.2016			31.12.2015
<b>A. Investments</b>				
I. Investments in affiliated undertakings				
1. Shares in affiliated undertakings		12,548		1,275
			12,548	1,275
II. Other investments				
1. Bearer bonds and other fixed-interest securities		246,110		243,118
2. Other loans				
a) Registered bonds	14,881			15,402
b) Notes receivable and loans	18,023			20,413
		32,904		35,815
3. Deposits with credit institutions		19,957		12,015
			298,971	290,948
			311,519	292,223
<b>B. Receivables</b>				
I. Debtors arising out of direct insurance operations from insurance intermediaries			351,763	371,600
II. Debtors arising out of reinsurance operations			3,313	10,594
Thereof to affiliates: EUR 2,272 thousand (previous year: EUR 7,341 thousand)				
III. Other debtors			1,647	10,965
Thereof to affiliates: EUR 40 thousand (previous year: EUR 8,533 thousand)				
			356,723	393,159
<b>C. Other assets</b>				
I. Tangible assets and stocks			2,070	3,715
II. Cash at bank			52,663	58,394
			54,733	62,109
<b>D. Prepayments and accrued income</b>				
I. Accrued interest and rents			2,111	2,265
II. Other prepayments and accrued income			168	367
			2,279	2,631
<b>Total assets</b>			<b>725,254</b>	<b>750,122</b>

Liabilities (in EUR thousand)	31.12.2016			31.12.2015
<b>A. Equity</b>				
I. Subscribed capital		121,600		121,600
II. Retained earnings				
1. Statutory reserve		3,040		-
III. Profit carried forward		44,205		44,205
			168,845	165,805
<b>B. Subordinated liabilities</b>			83,015	96,192
<b>C. Technical provisions</b>				
I. Unearned premiums				
1. Gross amount	394,563			376,764
2. of which minus: share for insurance business ceded	330,287			321,339
		64,276		55,425
II. Provisions claims outstanding				
1. Gross amount	1,687,226			1,862,823
2. of which minus: share for insurance business ceded	1,535,315			1,708,003
		151,911		154,820
III. Equalisation provision and similar provisions		6,614		3,695
			222,801	213,940
<b>D. Other provisions</b>				
I. Provisions for pensions and similar obligations		548		433
II. Provision for taxes		820		690
III. Other provisions		9,354		9,406
			10,722	10,529

<b>E. Deposits received from reinsurers</b>			7,368	-
<b>F. Other liabilities</b>				
I. Creditors arising out of direct insurance business to insurance intermediaries		14,290		12,652
II. Creditors arising out of reinsurance operations		213,987		242,324
Thereof with affiliates: EUR 211,613 thousand (previous year: EUR 229,328 thousand)				
III. Other liabilities		4,226		8,680
thereof				
from taxes: EUR 1,310 thousand (previous year: EUR 2,196 thousand)				
with affiliates:			232,503	263,656
EUR 769 thousand (previous year: EUR 1,559 thousand)				
<b>Total liabilities</b>			<b>725,254</b>	<b>750,122</b>

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 g of the German Commercial Code (HGB).

Hannover, 27 April 2017

Miehe, Appointed Actuary

# Statement of income for the period from 1 January to 31 December 2016

in EUR thousand

	2016		2015
	1.1.-31.12.		1.1.-31.12.
I. Underwriting account			
<b>1. Earned premiums, net of reinsurance</b>			
a) Gross premiums written	759,110		773,971
b) Ceded reinsurance premiums	690,968		711,979
		68,142	61,992
c) Change in gross unearned premiums	-18,146		24,730
d) Change in the reinsurer's share in gross unearned premiums	-9,379		23,577
		-8,767	1,153
		59,375	63,145
<b>2. Other technical income net of reinsurance</b>		260	1,672
<b>3. Expenses for insurance claims, net of reinsurance</b>			
a) Payments for claims			
aa) Gross amount	564,620		690,801
bb) Reinsurers' share	524,050		654,315
		40,570	36,486
b) Change in provision for claims outstanding			
aa) Gross amount	-110,155		-144,436
bb) Reinsurers' share	-114,148		-158,221
		3,993	13,785
		44,563	50,271
<b>4. Operating expenses , net of reinsurance</b>			
a) Gross operating expenses		213,086	213,113
b) of which minus commissions outward reinsurance commissions and profit commissions received		211,096	206,377
		1,990	6,736
<b>5. Other technical expenses, net of reinsurance</b>		2,270	792
<b>6. Sub-total</b>		10,812	7,018
<b>7. Change in equalisation provision and similar provisions</b>		2,918	1,147
<b>8. Balance on the technical account, net of reinsurance</b>		7,894	5,871

in EUR thousand	2016 1.1.-31.12.			2015 1.1.-31.12.
Carry			7,894	5,871
II. Non-technical account				
<b>1. Investment income</b>				
a) Income from participations thereof: from affiliated undertakings EUR 6,775 thousand (previous year: -)		6,775		-
b) Income from other investments				
aa) Income from other investments	4,138			5,387
		4,138		5,387
c) Income from write-ups		148		-
d) Profits from the disposal of investments		745		1,566
			11,806	6,953
<b>2. Investment expenses</b>				
a) Charges for the management of investments, interests and other investment expenses		538		576
b) Write-downs on investements thereof unscheduled write-downs pursuant to Section 253 Para 3 Sentence 5 German Commercial Code (HGB) EUR 18 thousand (previous year: EUR 0)		1,651		1,041
c) Losses from the disposal of investments		165		199
			2,354	1,816
			9,452	
			9,452	5,137
<b>3. Other income</b>			2,607	4,581
<b>4. Other expenses</b>			14,779	18,135
			-12,172	-13,554
<b>5. Profit or loss on ordinary activities</b>			5,174	-2,546
<b>6. Taxes on income</b>			1,490	1,374
<b>7. Other taxes</b>			644	828
			2,134	2,202
<b>8. Profits transferred on the basis of the profit transfer agreement (previous year: losses)</b>			0	4,748
<b>9. Net profit</b>			3,040	0
<b>10. Profit carried forward from previous year</b>			44,205	44,205
<b>11. Additions to retained earnings</b>				
a) to statutory reserve			3,040	-
<b>Profit for the financial year</b>			<b>44,205</b>	<b>44,205</b>

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## Appendix

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

Insofar as there are no bordereaux available at the time when the Company closes its books the corresponding items in the balance sheet and statement of income are estimated.

### Valuation of assets

**Shares in affiliated undertakings** 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 receivable and loans** 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 made. 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 cedant.

**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.



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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 insurance claims not yet settled pursuant to Section 26 Para 2 RechVersV.

For assumed reinsurance business, the provision for insurance claims not yet settled is formed in principle according to the provisions relinquished by the cedant.

The reinsurers' shares of the provisions for insurance claims not yet settled 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 4.00% using the average interest rate of the previous ten 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 0.0 %. 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.

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## Foreign currency conversion

Any business written in foreign currencies is converted 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) (portfolio hedges) due to the equalising, offsetting changes in value, and the result of the foreign currency conversion of these foreign currency portfolios is accounted for – irrespective of the acquisition cost and imparity principle.

## Notes on assets

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

in EUR thousand	2015 Carrying values 31.12.	2016					Balance sheet values 31.12.
		Additions	Disposals	Apprecia- tions	Deprecia- tions	Currency effects	
<b>A. I. Investments in affiliated undertakings</b>							
1. Shares in affiliated undertakings	1,275	11,327	-36	-	-18	-	12,548
<b>2. Sum A. I.</b>	<b>1,275</b>	<b>11,327</b>	<b>-36</b>	<b>-</b>	<b>-18</b>	<b>-</b>	<b>12,548</b>
<b>B. II. Other investment</b>							
1. Bearer bonds and other fixed-interest securities	243,118	137,442	-122,863	148	-1,633	-10,102	246,110
2. Other loans							
a) Registered bonds	15,402	-	-522	-	-	-	14,880
b) Notes receivable and loans	20,413	-	-2,389	-	-	-	18,024
3. Deposits with credit institutions	12,015	8,122	-	-	-	-180	19,957
<b>4. Sum B. II.</b>	<b>290,948</b>	<b>145,564</b>	<b>-122,774</b>	<b>148</b>	<b>-1,633</b>	<b>-10,282</b>	<b>298,971</b>
<b>Total</b>	<b>292,223</b>	<b>156,891</b>	<b>-125,810</b>	<b>148</b>	<b>-1,651</b>	<b>-10,282</b>	<b>311,519</b>

## Disclosure of shareholdings

The investments in affiliated undertakings are listed in the following.

### Listing of shareholdings 2016

Name and registered office of the Company Indication of amounts, each in 1,000 currency units	Size of sharehold- ing in capital as %	Currency	Equity (Section 266 Para 3 German Com- mercial Code [HGB])	Results from previous finan- cial year
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#### Investments in affiliated undertakings

##### Companies with registered office in Germany

International Hannover Holding AG i.L., Hannover <sup>1)</sup>	100	EUR	37	0
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##### Companies with registered office abroad

Congregational & General Insurance PLC, Brad- ford <sup>2)3)</sup>	100	GBP	8,713	193
Inter Hannover (No. 1) Limited, London <sup>2)3)</sup>	100	GBP	-35	-64
International Mining Industry Underwriters Limited, London <sup>2)3)</sup>	100	GBP	208	49
L & E Holdings, London <sup>2)3)</sup>	100	GBP	5	0

<sup>1)</sup> Values as at 30 June 2016.

<sup>2)</sup> Values as at 31 December 2015.

<sup>3)</sup> Exchange rate GBP in EUR as at 31 December 2016: 0.85527.

## 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 acquisition 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 on the reporting date.

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 EUR thousand		2016
		Fair values 31.12.
<b>B. I.</b>	<b>Investments in affiliated undertakings</b>	
	1. Investments in affiliated undertakings	15,368
<b>B. II.</b>	<b>Other investments</b>	
	1. Bearer bonds and other fixed-interest securities	248,796
	2. Other loans	
	a) Registered bonds	14,939
	b) Notes receivable and loans	18,240
	3. Deposits with credit institutions	19,957
<b>Total</b>		<b>317,300</b>

## Deferred/prepaid items

in EUR thousand	2016	2015
Accrued interest and rents	2,111	2,265
Other	168	366
<b>Total</b>	<b>2,279</b>	<b>2,631</b>

## Deferred tax assets

Due to the existing tax group with Hannover Rück SE and in the exercising of a voting right pursuant to Section 274 Para 1 Sentence 2 German Commercial Code (HGB), no deferred taxes have been stated for a resulting over-funding in the trade balance.

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

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## Notes on liabilities

### Equity

#### Subscribed capital

The Company's share capital remained unchanged as at 31 December 2016 with EUR 121,600 thousand. 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.

#### Retained income

During the financial year EUR 3,040 thousand were allocated pursuant to Section 300 No. 1 German Stock Corporation Act (AktG) to the statutory reserve.

#### Net profit

Net profit continues to comprise a profit brought forward in the amount of EUR 44,205 thousand.

### Subordinated liabilities

With a loan agreement dated 17 December 2015, Hannover Rück SE granted the Company a subordinated loan in the amount of GBP 54,300 thousand 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.

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

## Technical provisions (gross)

in EUR thousand

	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Total		Thereof gross provisions for claims outstanding		Thereof equalisation provi- sion and similar provisions	
<b>Self-contracted insurance business</b>						
Accident insurance	21,246	23,143	17,976	19,345	0	-
Liability insurance	1,141,653	1,268,408	1,018,911	1,169,857	307	1,051
Motor liability insurance	75,436	66,391	52,457	51,797	0	-
Other motor insurance	15,773	22,370	14,906	16,767	608	467
Fire and property insurance	422,426	426,145	295,765	301,304	1,484	-
Thereof:						
Fire insurance	263,576	279,621	183,956	195,172	1,414	-
Comprehensive householder's content insurance	26,632	22,512	18,624	13,807	0	-
Other property insurance	132,218	124,012	93,185	92,325	70	-
Transport and aviation insurance	278,598	296,914	212,792	229,409	383	-
Credit and surety insurance	34,305	37,436	16,669	19,704	1,872	650
Legal expense insurance	3,304	849	1,223	714	0	-
Other insurance	33,107	31,250	28,244	25,890	0	36
<b>Total</b>	<b>2,025,848</b>	<b>2,172,906</b>	<b>1,658,943</b>	<b>1,834,787</b>	<b>4,654</b>	<b>2,204</b>
<b>Assumed reinsurance business</b>	<b>62,555</b>	<b>70,376</b>	<b>28,283</b>	<b>28,036</b>	<b>1,960</b>	<b>1,491</b>
<b>Total insurance business</b>	<b>2,088,403</b>	<b>2,243,282</b>	<b>1,687,226</b>	<b>1,862,823</b>	<b>6,614</b>	<b>3,695</b>

## Other provisions

in EUR thousand

	2016	2015
Provisions for pensions and similar obligations	548	433
Provisions for taxes	820	690
Other provisions		
Provisions for staff expenses	5,756	5,820
Provisions for supplier invoices	1,975	1,944
Other provisions	1,623	1,642
<b>Total</b>	<b>10,722</b>	<b>10,529</b>

## Notes on statement of income

### Gross written premiums, net of reinsurance by region of origin

in EUR thousand	2016	2016	2016	2015	2015	2015
	National	EU	Non-member countries	National	EU	Non-member countries
Accident insurance	24	5,878	4,731	56	4,087	5,592
Liability insurance	6,445	44,670	195,522	62,393	82,025	96,525
Motor liability insurance	0	41,844	12,160	0	31,517	9,578
Other motor insurance	0	1,120	2,621	0	10,575	2,256
Fire and property insurance	3,511	96,145	155,498	9,429	125,485	132,351
Thereof:						
Fire insurance	756	72,304	97,751	3,328	110,314	90,225
Comprehensive householder's content insurance	0	0	11,535	0	0	11,836
Other property insurance	2,755	23,841	46,212	6,100	15,171	30,291
Transport and aviation insurance	13,730	61,677	58,461	22,672	75,840	21,693
Credit and surety insurance	0	5,461	5,820	0	10,681	10,580
Legal expense insurance	0	3,653	0	0	643	0
Other insurance	2,685	9,721	11,365	3,504	8,045	9,091
<b>Total</b>	<b>26,395</b>	<b>270,169</b>	<b>446,178</b>	<b>98,054</b>	<b>348,898</b>	<b>287,666</b>

### Expenses on insurance operations for own account

in EUR thousand	2016	2015
Gross expenses for insurance operations	213,086	213,113
Thereof acquisition costs	196,283	193,869
Thereof administrative costs	16,803	19,244
Thereof: commissions received and profit participation from business ceded in reinsurance	211,096	206,377
<b>Total</b>	<b>1,990</b>	<b>6,736</b>

## Disclosure of insurance class groups, insurance classes and insurance types

in EUR thousand / in units

	2016	2016	2016	2016	2016	2016	2016	2016
	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
<b>Self-contracted insurance business</b>								
Accident insurance	10,633	10,946	1,702	5,023	3,813	1,660	447	5,024
Liability insurance	246,637	225,262	17,739	161,545	59,723	4,245	2,268	252,572
Motor liability insurance	54,004	45,359	470	34,465	15,820	-1,864	-3,195	142,463
Other motor insurance	3,741	7,751	869	10,752	920	-4,269	-551	8,224
Fire and property insurance	255,154	252,468	18,531	140,244	84,819	23,990	-644	403,698
Thereof:								
Fire insurance	170,811	174,797	13,108	108,756	58,802	4,196	-921	302,023
Comprehensive household er's content insurance	11,535	12,694	1,363	9,172	3,470	-115	168	48,635
Other property insurance	72,808	64,977	4,060	22,316	22,547	19,909	109	53,040
Transport and aviation insurance	133,868	137,801	8,181	67,214	31,367	32,421	6,365	28,865
Credit and surety insurance	11,281	12,115	2,473	1,867	5,216	2,360	1,183	94,775
Legal expense insurance	3,653	1,711	53	1,333	1,217	-588	-251	2,553
Other insurance	23,771	23,933	2,509	20,585	6,321	-2,165	-769	584
<b>Total</b>	<b>742,742</b>	<b>717,346</b>	<b>52,527</b>	<b>443,028</b>	<b>209,216</b>	<b>55,790</b>	<b>4,853</b>	<b>938,758</b>
<b>Assumed reinsurance business</b>	<b>16,368</b>	<b>23,618</b>	<b>6,848</b>	<b>11,437</b>	<b>3,870</b>	<b>4,801</b>	<b>3,041</b>	<b>0</b>
<b>Total insurance business</b>	<b>759,110</b>	<b>740,964</b>	<b>59,375</b>	<b>454,465</b>	<b>213,086</b>	<b>60,591</b>	<b>7,894</b>	<b>938,758</b>



in EUR thousand / 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
<b>Self-contracted insurance business</b>								
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
<b>Total</b>	<b>734,618</b>	<b>764,271</b>	<b>58,628</b>	<b>526,458</b>	<b>202,414</b>	<b>25,335</b>	<b>11,287</b>	<b>747,636</b>
<b>Assumed reinsurance business</b>	<b>39,353</b>	<b>34,430</b>	<b>4,517</b>	<b>19,907</b>	<b>10,699</b>	<b>7,749</b>	<b>-5,416</b>	
<b>Total insurance business</b>	<b>773,971</b>	<b>798,701</b>	<b>63,145</b>	<b>546,365</b>	<b>213,113</b>	<b>33,084</b>	<b>5,871</b>	

## Income from investments

in EUR thousand

	2016	2015
1. Income from investments	10,913	5,387
2. Income from write-ups	148	0
2) Profits from the disposal of investments	745	1,566
<b>Total</b>	<b>11,806</b>	<b>6,953</b>

## Expenses for investments

in EUR thousand

	2016	2015
1. Expenses for the management of investments, interests and other expenses for investments	538	576
2. Write-downs of investments	1,651	1,041
3. Losses from the disposal of investments	165	199
<b>Total</b>	<b>2,354</b>	<b>1,816</b>

Extraordinary amortization was carried out pursuant to Section 253 Para 4 German Commercial Code (HGB) amounting to EUR 1,633 thousand for bearer bonds and other fixed-interest securities.

## Commissions and other forms of remuneration for insurance agents, staff expenses

in EUR thousand	2016	2015
1. Commissions for all types of insurance agent within the meaning of Section 92 German Commercial Code (HGB) for self-contracted insurance business	179,430	171,751
2. Wages and salaries	7,948	7,553
3. National insurance contributions and expenses for support	1,724	1,522
4. Expenses for pension contributions	1,340	1,359
<b>5. Total expenses</b>	<b>190,442</b>	<b>182,185</b>

## Other information

Other earnings and expenses contain currency translation gains in the amount of EUR 948 thousand (previous year: EUR 643 thousand) and currency translation losses in the amount of EUR 1,639 thousand (previous year: EUR 877 thousand).

The taxes exclusively affect the result of ordinary business activity.

With regard to other loans with a book value of EUR 1,500 thousand (previous year: EUR 10,248 thousand), write downs in the amount of EUR 31 thousand (previous year: EUR 126 thousand) were not carried out, due to the fact that 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 amounted to EUR 168,783 thousand (previous year: EUR 155,930 thousand). Valuation units are accounted for in accordance with the direct allocation method.

We expect annual rent payments of approximately EUR 2,121 thousand (previous year: EUR 1,825 thousand) resulting from long-term rental agreements for our locations in London and Stockholm.

The average number of staff in the financial year was 93 (previous year: 79), of which 89 (previous year: 72) were full-time and 4 (previous year: 7) were part-time.

The difference stands at EUR 123 thousand pursuant to Section 253 Para 6 Sentence 1 German Commercial Code (HGB).

Hannover Rück SE and the HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover, include our financial statement 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 statement.

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

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In the financial year, a control and profit and loss transfer agreement completed between Hannover Rück SE as the controlling company and the International Insurance Company of Hannover SE as the company under control was modified in terms of interest calculation.

The International Insurance Company of Hannover SE has its headquarters in Hannover, Roderbruchstraße 26 and is filed with the Register Court of Hannover under HRB 211924.

## **Supplementary report**

In Great Britain on 27 February 2017 the so-called Ogden Tables were updated by the Lord Chancellor. The Ogden Tables are used to calculate the amount of a one-off payment for third-party liability losses with severe personal injury or accidents. The discount rate was reduced from 2.5% to -0.75% with effect from 20 March 2017. In future, we expect an increasing claims burden within the divisions of Liability and Accident, as a result of this change.

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## **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

### **Supervisory Board**

#### **Ulrich Wallin**

Chairman

**Sven Althoff (since 01 August 2016)**

**Jürgen Gräber (until 01 August 2016)**

#### **Roland Vogel**

Deputy Chairman

Hannover, 27 April 2017

The Executive Board

**Ralph Beutter**

**Andreas Bierschenk**

**Thomas Stöckl**