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Content

Financial statements 2017

inter hannover®

Management report

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 underwrite a significant part of our business through brokers and underwriting agencies. Inter Hannover is an integral part of the Hannover Re Group and cedes considerable parts of its insurance business to the Group, in line with its strategy. The Company has been granted permission to operate by the Federal Financial Supervisory Authority (“BaFin”) for all non-life lines of business, as well as reinsurance operations in Germany, and within the scope of the free movement of services within the European Union. Furthermore, Inter Hannover provides insurance through its branches in Australia, Great Britain, 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 overriding 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.

With effect from 27 December 2017, Congregational & General Insurance PLC with its headquarters in Great Britain was liquidated after its business was transferred in full to Inter Hannover as part of a portfolio transfer.

The stagnating negotiations taking place between the EU and Great Britain as a result of the EU referendum and the “Brexit” vote by the British public are creating uncertainty. The effects on our branch office in London, Great Britain, cannot yet be fully judged. We have taken precautions to ensure that our Company, which operates within the framework of the freedom of establishment, will also continue its operations without disruption following Britain's departure from the EU.

Course of business

We are satisfied in principle with the course of business in 2017 in spite of the continuing intensity of competitive market conditions, and the occurrence of an unusually high number of major losses. Although rates in many markets continued their decline during the financial year, we were able to realise profitable insurance 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. It gives us great pleasure that we were able to significantly expand our premium income vis-a-vis the previous year.

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

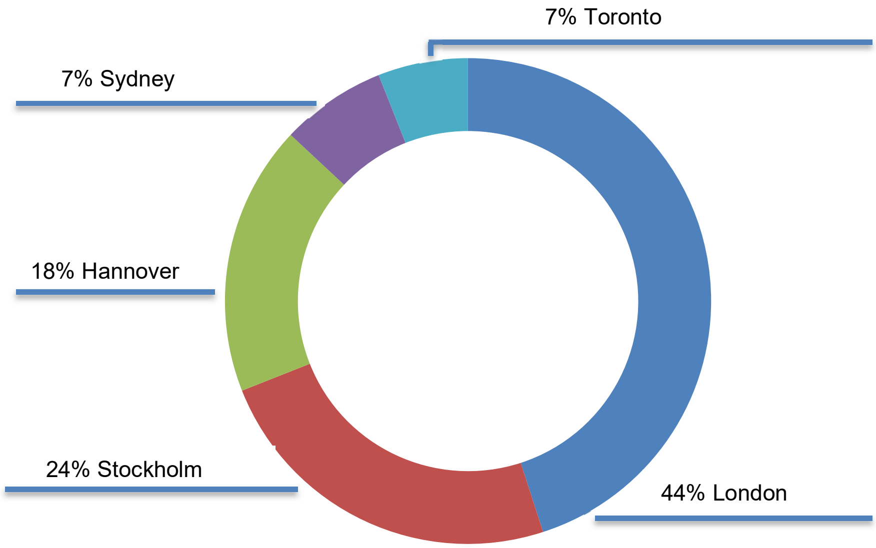
Currency (1 EUR =)	31.12.2017	31.12.2016
Australian dollar	1.53474	1.45905
British pound	0.88752	0.85527
Canadian dollar	1.50474	1.41905
Norwegian krone	9.83480	9.08530
Swedish krone	9.83870	9.55240
US dollar	1.19940	1.05400

The gross premium volume for the financial year amounted to EUR 831.3 million and was thus significantly above the previous year's level (EUR 759.1 million). The overwhelming share – at EUR 763.0 million (previous year: EUR 742.7 million) – remains attributable to the direct insurance business. Our business operations were also supplemented to a limited extent by assumed reinsurance business. Gross premiums for assumed reinsurance business amounted to EUR 68.3 million (previous year: EUR 16.4 million).

The share of international branches has remained almost constant at a total of 82.2% (previous year: 82.4%), respectively EUR 683.3 million (previous year: EUR 625.3 million). The branches subsequently made another sizeable contribution to gross premium income, which underscores the international alignment of the Company's business.

In the year under review we registered premiums through our branch in London amounting to EUR 368.1 million (previous year: EUR 334.1 million). Our efforts have been characterised both by the exploitation of new business opportunities and a continued expansion of business with existing customers. The increase of approximately 10% corresponds with our expectations. During the financial year 2017 the branch in Stockholm registered gross premiums amounting to EUR 198.5 million (previous year: EUR 192.9 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 registered EUR 148.0 million (previous year: EUR 133.8 million). Our Company location in Sydney experienced a very positive development where, among other things, we were able to significantly increase registered gross premiums from EUR 32.5 million to EUR 62.3 million, thanks to new business relationships. The decline in gross written premiums to EUR 54.4 million (previous year: EUR 65.8 million) at our branch in Toronto was anticipated following the strong rate of growth experienced in the financial year 2016.

Gross premium by branch



We also ceded a significant share of our business to the Hannover Re Group in the period under review, in line with our strategy. We also utilised external reinsurance to a limited extent for risk management purposes. With gross premium earned at EUR 798.4 million (previous year: EUR 741.0 million) the earned premiums for our own account stood at EUR 65.4 million (previous year: EUR 59.4 million).

Due to the high number of major loss events, the claims burden for the financial year stood above the previous year's level, resulting in a loss ratio (gross) of 69.6% (previous year: 61.3%). Gross expenses for insurance claims stood accordingly at EUR 555.8 million (previous year: EUR 454.5 million).

Gross expenses for insurance operations stood at EUR 233.7 million (previous year: EUR 213.1 million) or 29.3% (previous year: 28.8%).

The combined ratio (gross) stood at 98.9% (previous year: 90.1%).

The equalisation provision and similar provisions were increased in accordance with statutory regulations by EUR 3.6 million (previous year: EUR 2.9 million). We have filled the historical observation period – which serves as the basis for the calculation of the equalisation reserve – 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 reserve and similar reserves stood at EUR 10.2 million (previous year: EUR 6.6 million).

On balance, we achieved an underwriting result for our own account of EUR 6.6 million (previous year: EUR 7.9 million) for the completed financial year.

The economic situation of Inter Hannover continues to remain positive at the point in time when this management report was created.

In the following we will explain the course of the financial year in our lines of business. We will subsequently describe our insurance business in total. As the assumed insurance business only contributes approximately 8% (previous year: 2%) 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	2017	2016
Gross written premiums	257.6	251.7
Loss ratio (%)	67.3	70.1
Underwriting result (for own account)	3.7	5.2

The premium volume for **third-party liability insurance** amounted to EUR 257.6 million (previous year: EUR 251.7 million). The insurance division represents a significant area of business due to a premium volume that makes up roughly one third of our total premium income. Claims expenses stood at EUR 174.3 million (previous year: EUR 165.3 million), which – due to a disproportionate increase in earned gross premiums – corresponds to a reduction in the loss ratio to 67.3% (previous year: 70.1%). After an adjustment of the equalisation provision, an underwriting result for our own account was generated in the amount of EUR 3.7 million (previous year: EUR 5.2 million).

Accident

in EUR million	2017	2016
Gross written premiums	9.4	10.6
Loss ratio (%)	30.8	45.9
Underwriting result (for own account)	0.7	0.4

We achieved gross premiums of EUR 9.4 million (previous year: EUR 10.6 million) in **accident insurance**. We are pleased to report that the claims ratio stood at 30.8% (previous year: 45.9%) with gross claims expenses of EUR 2.5 million (previous year: EUR 5.0 million). On balance, we achieved an underwriting result for our own account of EUR 0.7 million (previous year: EUR 0.4 million).

Motor

in EUR million	2017	2016
Gross written premiums	116.6	60.0
Loss ratio (%)	73.9	84.4
Underwriting result (for own account)	-5.0	-3.7

In **motor insurance,** gross premiums amounted to EUR 116.6 million (previous year: EUR 60.0 million). With a loss ratio of 73.9% (previous year: 84.4%) and an allocation to the equalisation reserve in the amount of EUR 6.1 million, we achieved a loss of EUR 5.0 million (previous year: EUR 3.7 million).

Fire and property insurance

in EUR million	2017	2016
Gross written premiums	264.8	261.8
Loss ratio (%)	76.1	55.5
Underwriting result (for own account)	3.4	0.5

With a gross premium volume of EUR 264.8 million (previous year: EUR 261.8 million), **fire and property insurance** contributed roughly a third of our total premium income. Claims expenses of EUR 204.0 million (previous year: EUR 144.4 million) during the financial year 2017 resulted in a loss ratio of 76.1% (previous year: 55.5%). The underwriting result for our own account stood at EUR 3.4 million (previous year: EUR 0.5 million) for the financial year, subsequent to a change in the equalisation provision.

Transport and aviation insurance

in EUR million	2017	2016
Gross written premiums	114.5	136.2
Loss ratio (%)	66.1	49.0
Underwriting result (for own account)	0.5	5.3

The gross premium volume for **transport and aviation insurance** registered a decline from EUR 136.2 million to EUR 114.5 million in the financial year. The insurance division continues to be characterised by an intense competitive environment. Due to increased claims, the loss ratio stood at 66.1% (previous year: 49.0%) with gross claims expenses of EUR 74.3 million (previous year: EUR 68.8 million). The underwriting result for our own account amounted to EUR 0.5 million (previous year: EUR 5.3 million), taking into account the equalisation provision.

Credit and surety insurance

in EUR million	2017	2016
Gross written premiums	18.2	11.3
Loss ratio (%)	9.2	15.6
Underwriting result (for own account)	3.3	1.3

Credit and surety insurance accounted for gross premiums in the amount of EUR 18.2 million (previous year: EUR 11.3 million). A loss ratio of 9.2% (previous year: 15.6%) corresponded to expenses for insurance claims in the amount of EUR 1.0 million (previous year: EUR 1.9 million). On balance, after an adjustment of the equalisation provision, an underwriting result for our own account was generated in the amount of EUR 3.3 million (previous year: EUR 1.3 million).

Other insurance

in EUR million	2017	2016
Gross written premiums	50.2	27.5
Loss ratio (%)	65.8	85.5
Underwriting result (for own account)	0.0	-1.1

Gross premiums amounted to EUR 50.2 million (previous year: EUR 27.5 million) in **other insurance classes**. As the premium volume, amounting to EUR 12.1 million (previous year: EUR 3.7 million), continues to be low, 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 65.8% (previous year: 85.5%). Eventually, we achieved an underwriting result for our own account of EUR 0.0 million (previous year: EUR -1.1 million).

Business ceded in reinsurance

In line with its strategic direction, Inter Hannover 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 752.3 million (previous year: EUR 691.0 million). This generated a slightly higher retention ratio in line with our strategy of 9.5% (previous year: 9.0%).

For the reinsurer, the result for business ceded in reinsurance for the financial year stood at EUR -2.0 million (previous year: EUR 60.6 million).

Investment policy

Inter Hannover continues to adopt a cautious investment policy, and aligns its approach with the following key investment principles:

- The creation of stable and risk-adequate yields while simultaneously safeguarding the high quality standards of our portfolios.
- Safeguarding liquidity and the ability to meet all payment obligations by Inter Hannover at any time.
- High diversification of risks.
- Limitation of exchange rate and duration risks through congruent currency and duration correlation.

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 lies in international government bonds, which exhibit a high degree of stability and liquidity. Furthermore, in order to generate an attractive return within the current interest rate environment, a proportion of the investment is allocated to corporate bonds which have been given – to a limited extent – 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 decreased during the year under review from EUR 12,548 thousand to EUR 135 thousand, in particular due to the portfolio transfer of Congregational & General Insurance Public Limited Company, its subsequent liquidation and the sale of all holdings in L & E Holdings.

The portfolio of other investments for Inter Hannover decreased in book value in the year under review and in line with our expectations by 1.5%, from EUR 298,971 thousand to EUR 294,364 thousand.

The distribution of different investment classes has remained mostly constant in the year under review. The proportion of bearer bonds and other fixed-interest securities increased slightly to 84.0% (previous year: 82.3%). By contrast, the proportion of other loans decreased from 11.0% to 9.2%, a change that is predominantly attributable to the final maturity of a registered bond. The proportion of deposits held at banks remains virtually unchanged at 6.3% (previous year: 6.7%). Other investments exclusively contain shares in real estate funds, which were subscribed to in the financial year 2017, and which at 0.5% comprise only a small proportion of our other investments.

The proportion of investments with an AAA rating was slightly decreased during the financial year in order to exploit return opportunities. This now amounts to approximately 49% (previous year: approximately 56%). In contrast, the proportion of investments with an AA rating increased from approx. 30% to approx. 36%, as did the proportion of investments with an A rating, from approx. 7% to approx. 10%. Investments in instruments with a BBB rating (or no rating) have been reduced on balance. Their share now stands at approximately 5%, following approximately 7% the previous year. On balance, our portfolio is characterised by a near-unchanged confidence coefficient.

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

On the balance sheet date the valuation reserves in other investments amounted to EUR 1,910 thousand (previous year: EUR 2,960 thousand). Thereof, EUR 1,564 thousand (previous year: EUR 2,685 thousand) is attributable to bearer bonds and other fixed-interest securities, and EUR 371 thousand (previous year: on balance EUR 274 thousand) to registered bonds and borrower's note loans. Hidden losses amounting to EUR 25 thousand exist under other investments.

Net investment income

Current income from investments amounted to EUR 8,717 thousand (previous year: EUR 10,913 thousand) in the year under review and was attributable, with a value of EUR 4,001 thousand (previous year: EUR 6,775 thousand), to income from participations and, with a value of EUR 4,716 thousand (previous year: EUR 4,138 thousand) to current interest received from other investments.

The result from the disposal of investments amounted to EUR -1,388 thousand (previous year: EUR 580 thousand) and comprised the profits from the disposal of investments amounting to EUR 543 thousand (previous year: EUR 745 thousand) and losses from the disposal of investments amounting to EUR 1,931 thousand (previous year: EUR 165 thousand). The result from disposals is attributable to shares/investments in affiliates and to disposals of bearer bonds and other fixed-interest securities.

The amortizations of investments amounted to EUR 1,583 thousand (previous year: EUR 1,651 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 110 thousand (previous year: EUR 148 thousand).

Investment management during the financial year generated expenses amounting to EUR 604 thousand (previous year: EUR 538 thousand).

In total, the net investment income amounted to EUR 5,252 thousand (previous year: EUR 9,452 thousand).

Other income

Other income comprised the other earnings amounting to EUR 8,588 thousand (previous year: EUR 2,607 thousand) and other expenses amounting to EUR 28,336 thousand (previous year: EUR 14,779), which on balance generated a loss amounting to EUR 19,748 (previous year loss: EUR 12,172 thousand) for other income.

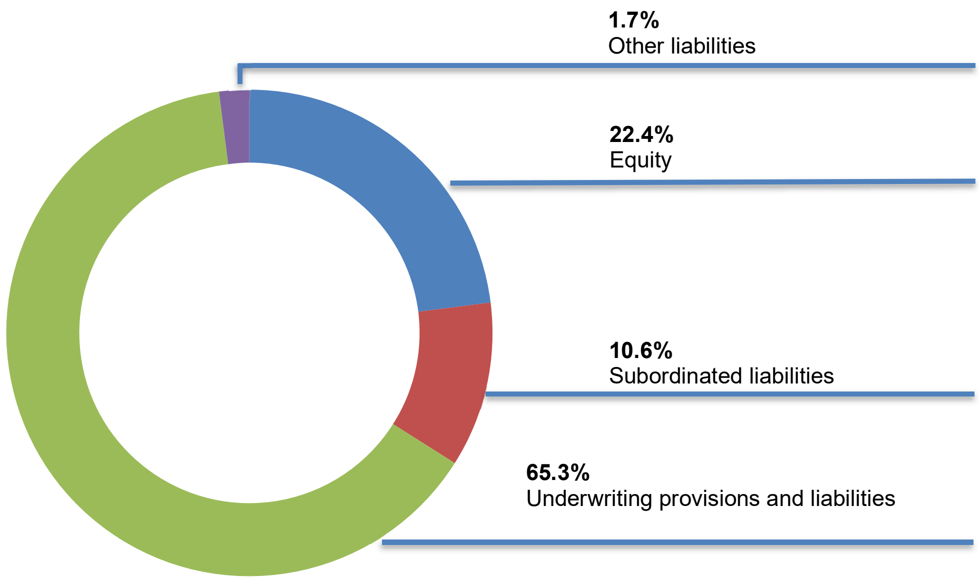
Overall result

The financial year was completed with a net loss of EUR 9,200 thousand (previous year: net loss of EUR 3,040 thousand), before the respective transfer of profit or loss (previous year: before allocation to the statutory reserve). A further allocation to the statutory reserve was consequently not required during the year under review. The deficit will be absorbed to the full amount in line with the existing profit and loss transfer agreement, meaning that net income will, as in the previous year, stand at EUR 0.

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. There is also our own equity capital and our subordinated liabilities.

On balance, our capital structure reveals a high degree of consistency when compared with the previous year. Equity capital, which stands at 22.4% (previous year: 23.3%) 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 capital. The subordinated liabilities, which further strengthen our capital base comprise 10.6% (previous year: 11.5%) of the balance sheet total. The slight decline is attributable to exchange rates in the face of unchanged nominal values. As in the previous year, underwriting provisions and liabilities made up the most significant proportion of our balance sheet total with 65.3% (previous year: 63.2%).



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

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

IT

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

Staff

As of 31 December 2017, 115 members of staff were employed at International Insurance Company of Hannover SE (previous year: 96).

Employee concerns as well as staff development, support and retention

The success of our company depends directly on the successful work undertaken by our members of staff. We therefore 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. In doing so, and based on our strategic human resource planning, we coordinate the number and qualification level of our members of staff with the current and future requirements posed by our market presence, as well as with the requirements dictated by increasing digitalisation.

Inter Hannover provides its members of staff with an attractive place of work that facilitates people's motivation, commitment and collaboration in a team, and which also offers a global remit through its shared business operations with Hannover Re. Our appeal as an employer is further solidified by scheduled career development programmes, our obligation to explicitly express our appreciation for members of staff, and a concept that allows them to participate in the Company's sustainable success. Our members of staff are proud to be part of a successful company operating in the primary insurance market. We endeavour to ensure that our members of staff consciously take part in the Company's successes.

The foundation of our company culture is the delegation of tasks, responsibility and authorisation to a high degree, respectively. This affords us the opportunity to ensure that our members of staff can act quickly and flexibly. We support this by implementing target agreements and expecting our managers to promote a sense of personal responsibility among their members of staff.

Our managers play a particularly significant role. They lead our members of staff in the spirit of our management principles. We support our management team with the development of their management qualities. So-called management feedback enables members of staff to offer their supervisors feedback regarding their experience of his or her management style every two years.

Vacant management positions are filled wherever possible from our own ranks – subject to equal qualification and training – and thus take into account management potential at the time of appointment. During a standardised process that we implement every two years at our Company location in Hannover, all positions from management level upwards (General Manager / Director) at the company headquarters as well as at selected foreign business units are subject to assessment. In order to achieve a greater gender equilibrium, we strive to increase the proportion of women in all leadership positions.

A needs-based and target group-specific offering is particularly important when expanding and establishing our human resources development measures. Our further education and training programme is available to all members of staff and comprises, in particular, offers relating to information technology, primary insurance, socio-and methodical competencies and language training. These offers are continuously reviewed and expanded.

Ongoing monitoring of demographic changes and working ability

During the previous financial year we continued our intensive study into the effects of demographic change and the associated promotion of working capacity among our managers and members of staff. The increased integration of our managers into these processes represents a key focus area.

Our managers then focus their attention on dealing with, e.g. the topic of “generation management”. The kick-off event took the form of a workshop entitled “Managing with a generational mix” (“Führen im Generationenmix”). Participating management team members were challenged to reflect on the extent to which the generation mix represents a challenge for them, and whether there was potentially a need for change within their direct scope of responsibility, or even within the Company as a whole. Participants were sensitised to the expansive knowledge base to be expected of the Company’s different generations, their experiences and values, as well as the appropriate form of conduct and communication. The objective was to achieve a deeper understanding (and thus an improved management approach) for all generations.

Demographic changes are also a reason as to why we have continued to expand our company-internal health management programme. We held the second company-internal health day, this time under the title “Health in general and individual resilience at work” (“Gesundheit im Allgemeinen und Arbeits(bewältigungs-)fähigkeit”). We also expanded our training offer for managers to include several events on the topic of “Health – a personal responsibility and management task”. Numerous members of the management team took the opportunity here to underscore the interdependency between leadership and health, and to reflect upon their own conduct in this regard. Participants had plenty of opportunity for a specific analysis of their own team or the development of guidelines for prevention appraisals with their members of staff.

Within the scope of supportive measures which serve prevention purposes, the completed financial year acts as the first complete basis for the assessment of the “Employee-Assistance-Programme”, which was introduced mid-2016. It concerns the external and anonymous immediate notification of professional, private and psychological health-related matters being experienced by managers, members of staff and their relatives, including the possibility of making use of a Family Service. Initial figures confirm that this programme has seen an excellent response and is deemed to be very prudent as a means of de-burdening people of their individual challenges in their everyday working or private lives.

Digital HR file implemented

In the course of the concluded financial year we made additional improvements to our administration and document management processes with the introduction of a digital human resource file. If files were previously available in paper form, these have now been transferred to a database-protected document management system, which enables their effective handling and secure storage. By creating a contemporary working environment, accesses and processes can be streamlined, whereby human resources is supported in its work, and our managers and members of staff are granted easier access to their human resource file.

Revision of strategic target settings started

As part of a company-wide strategic review, the Human Resources has also conducted an assessment of its future contributions to achieving the Company's superordinate targets, and has established its objectives for the coming years. A key focus area will be on how the effects of digitalisation are managed. Here, we aim to prepare our managers and members of staff for anticipated changes, and accompanying them throughout. Accordingly, we will be developing suitable support office. We will also continue to work on the consequences of demographic change within our company, as well as review and (where necessary) adjust our measures aimed at ensuring the appropriate timely and qualification-led appointment of new staff to vacant positions. Our staff-related processes and systems will also be the subject of assessment, in order to determine if they are still target-appropriate and up-to-date.

A thank you to our staff

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

Sustainability at Inter Hannover

For Inter Hannover the term sustainability means an obligation to long-term economic value creation in connection with a forward-looking concept defined by good corporate management (Corporate Governance), ecological commitment and social responsibility.

Information regarding the sustainability aspects that apply to the Hannover Re Group can be found in the non-financial section contained in the Annual Report of the Hannover Re Group, along with detailed explanations in the Sustainability Report issued by the Hannover Re Group, and online by visiting www.hannover-re.com/nachhaltigkeit.

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 the level of Inter Hannover, but also at Hannover Re Group level.

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 ensure the realisation of a vision for 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 our corporate strategy. The significant strategic starting points for our risk management comprise the following principles of our corporate strategy:

- We manage risks actively.
- We ensure an appropriate capital position.
- Our operations are defined by risk culture, corporate 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 segregation of duties.

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.

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

The extensive requirements placed on the Company's capital position, its regulatory reporting function and its corporate governance, which are the subject of further specification through the Minimum Requirements for the Business Organisation of Insurance Companies (MaGo), continued to be implemented by IICH during the period under review. The Insurance Distribution Directive (IDD) came into effect on 22 February 2016, and was implemented by Inter Hannover.

IICH entered into a pre-application phase for an internal capital model, that requires supervisory authority approval for the calculation of solvency requirements. A capital model approved by the supervisory authorities covers the most important underwriting, market, operational and receivables default risks for management control. An internal capital model enables us, unlike a standard model, to achieve the best possible representation of the risk structure of our specialist insurance business and our investments. A comparison of the losses incurred in 2017 as a result of hurricanes Harvey, Irma and Maria with the projected figures from the internal model reveals a high level of data quality.

We fulfilled supervisory reporting requirements by making use of, among other options, a quantitative reporting function, the Solvency and Financial Condition Report (SFCR), the Regular Supervisory Report (RSR) and a report covering the Own Risk and Solvency Assessment (ORSA) for IICH.

The EU General Data Protection Regulation signalled the introduction of a new law in all EU member states from 25 May 2017 onwards, that ensures an equal and high level of data protection for all natural persons. Inter Hannover has undertaken corresponding implementation measures.

The decision by Great Britain to leave the EU triggered the necessity to realign the Company's future structural organisation, in particular with regard to the UK branch, due to the fact that changes to the freedom of establishment may occur as a result of pending political decisions. The currently applicable legal framework and the associated uncertainty as to which measures should be undertaken in order to maintain uninterrupted business operations, represent a significant challenge.

Significant external 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, the catastrophe losses attributable in particular to natural disasters such as hurricanes Harvey, Irma and Maria, and the ongoing weakness of the operating environment in our core markets for insurance business.

Risk capital

IICH ensures an appropriate ratio of risks to own funds in the interest of its insurance 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 units 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 own funds under Solvency II. The internal capital model of IICH takes into account the risks which influence the development of economic capital. We have identified a number of risk factors for each of the different risk categories, for which we have determined probability distributions. Risk factors are, for example, economic indicators such as interest rates, exchange rates and inflation indices as well as insurance-specific indicators such as the 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 defense. The first line of defense consists of risk control and the original risk responsibility. The second line of defense 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 defense 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, as well as the limit and threshold system for significant risks affecting 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 and 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 monitored.

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, or as part of the new product process. 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 IICH. Risk concentration and risk diversification are taken into consideration in the model.

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 and investment 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 permanent application of risk-relevant methods and processes. An important task of risk monitoring is also to determine 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 structured 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. Process-independent monitoring and quality assurance within risk management are 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.

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 element, 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 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 creates a code of practice 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 organisational and technical measures and controls in the Company. This includes, for example:

- the 4-eye-principle,
- 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 function, 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 is 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 applications is also necessary; authorisation concepts regulate system access, and for every step there are content-related and system-related audits in place through which errors can be analysed and eliminated without delay.

Risk environment

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 (reserving 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. Measuring the degree of diversification is facilitated by our internal capital model. 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.

The reserving risk, i.e. the risk 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 insurance lines 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 division. 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 is completed using realistic extreme loss scenarios. We benefit from the broad range of experience available at 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 the 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. As part of risk monitoring operations we regularly report on the effects of different extreme loss scenarios and return periods. Risk management ensures that these maximum amounts are complied with as part of the Group risk management strategy.

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 recoverability of investments under our own management and the stability of returns play an important role. For this reason, IICH aligns its portfolio with the principles of a balanced risk/return ratio and a broad level of diversification. The investments reflect both the currencies and the durations of our liabilities on the basis of a conservative 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 securities with projected, future payment obligations stemming from our insurance contracts.

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

In addition to diverse stress tests which estimate the loss potential under extreme market conditions, other significant risk control measures include sensitivity and duration analyses and our Asset Liability Management (ALM). Tactical duration ranges have also been installed, within which the portfolio is positioned opportunistically in line with market expectations. The portfolio of fixed-interest securities is also exposed to interest rate risk. Declining market returns lead to market value increases, respectively increasing market returns 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.

Risk of receivables default

The risk of receivables default 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 Group-external reinsurers are carefully selected and monitored according to a creditworthiness assessment. Depending on the type and expected maturity of the reinsurance business transaction, in addition to minimum ratings set by the ratings agencies Standard & Poor's and A.M. Best, internal and external expert appraisals are also obtained. The risk of receivables default vis-a-vis shareholders of the Hannover Re Group 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 insurance 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.

Operational risks

Operational risks apply with regard to the risk 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 sales channels), fraud risks, staff risks, information and IT security risks as well as business interruption risks.

Business process risks apply with regard to the risk 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 risk 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 neglected. 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 this kind of 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, i.e. 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 specific risks exist and whether outsourcing can even be achieved. In particular when outsourcing underwriting-specific activities, the careful selection of agents, loss administrators, binding underwriting and claims adjustment guidelines and regular audits ensure that risks are minimised.

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

The functional and competitive ability of IICH is predominantly attributable to the skill and commitment of our members of staff. In order to reduce 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. For example, damages which are the result of the unauthorised distribution of confidential information or as a result of 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. During the year under review, a crisis committee exercise was conducted involving a cyber attack scenario.

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 risk 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 risk 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, and align these with our short and long-term payment obligations. These measures effect a reduction of the liquidity risk.

Opportunities report

A short response time 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 is constantly in search of new business opportunities in order to generate sustainable growth and to strengthen the profitable development of the Company. Digitalisation in particular has opened up a whole host of new opportunities, in view of the fact that the business model operated by Inter Hannover is an ideal fit for the needs of "Insurtechs" and start-ups. This represents an almost seamless fusion of old and new worlds. We have also expanded our product range to include cyber insurance. This allows us to offer our customers the right solutions for this evolved risk situation. In order that opportunities continue to be identified and ideas 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 "Indemnification for personal injury" and "Liability insurance for medicinal products" 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 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 undertaken 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 surveillance measures are effective and closely interlinked with one another. Our control and surveillance instruments as well as our structural and operational organisation ensure that we identify risks in time. Our key surveillance 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.

Forecast

Macroeconomic development

The short term economic prospects in all major global economies are currently positive, and are anticipated to register slight additional gains in the current year. In its forecast at the turn of the year, the Institute for the World Economy (IfW) estimates that growth in global production during 2018 will increase by 0.1%, to 3.9%. The fact that growth was not higher is primarily attributable to the existing high level of production capacity utilisation.

The upturn experienced by advanced global economies will, according to the Institute for the World Economy (IfW), lose almost no momentum: Following a 2.4% rate of growth in the previous year, this figure is projected to stand at 2.3% for the current year. Economists anticipate a slightly reduced continuation of expansive monetary policy, increased stimulus through financial policy and a repeat marked increase in demand among developing and emerging nations.

While the growth rate in China has once again registered a decline, the expansion rate in the other emerging industrial nations continues to improve. Sources of support include higher commodities prices and a robust international economy. In numerous countries including those in Latin America, a less restrictive monetary policy has become a driving force for expansion.

The global economy also harbours a number of political risks in the current year. The much discussed fear that the US government administration would jolt towards a policy of protectionism that would significantly impact global economic development, has yet to materialise to date. In spite of this, US government scepticism concerning multilateral agreements can lead to unexpected events at any time. And in Europe, current efforts to achieve independence in Catalonia highlight the fact that the lack of cohesion within the European Union remains significant. In addition, monetary policy risks once again take centre stage. It is possible that, in the course of a pending normalisation of monetary policy, a sudden wave of uncertainty could hit capital markets, triggering volatile corrections.

Insurance industry

Even though the insurance industry will continue to grapple with numerous (and in part substantial) challenges in 2018, industry sentiment is experiencing a real positive change. The relevant reasons include generally good economic prospects and the industry's willingness to tackle the tasks posed by the transformation. It must also be noted that many companies are now actively integrating “InsurTechs” that are new to the market into their business models.

A low interest rate phase and ever-increasing regulatory requirements represent two key areas of attention. The decrees by the European Central bank in the autumn of 2017 do not give reason to expect that the Eurozone will see a rapid shift away from very low interest rates. This is contrasted by the Federal Reserve's intention to continue its path towards interest rate rises in 2018. This will also promote the normalisation of interest rate levels in Europe, at least perspectively.

In terms of regulatory requirements, the industry is currently grappling with the implementation of the EU Insurance Distribution Directive (IDD) as well as the EU General Data Protection Regulation

(GDPR).

The pressure to lower costs remains significant. For this reason insurers are driving forward the digitalisation of their business processes at an accelerated pace. They are expanding the automation of their back office processes and increasing the flexibility of their IT structures. Thus increased room for manoeuvre is created for improving customer service and care.

The consolidation process within the industry – that has taken hold for several years now – will continue in 2018. This ensures that surpluses are depleted, efficiency is increased and that operational stringency remains high during the transformation process. Insurance providers continue to focus their efforts on the issue of quality in relation to their solution proposals. This also aligns with demand, given that our partners are increasingly in search of tailored solutions. Insurance products are subsequently generated which actively support the strategic and growth targets of our partners.

Increasing insurance needs as a result of climate change, heightened political risks or the greater prospect of cyber risks continue to generate numerous opportunities for new offers within the industry. The industry's digital transformation has triggered a whole new range of possibilities within loss prevention. This will lead to a situation where the industry will collaborate more intensively with partners operating in the technology industry.

For the year 2018, we expect continued growth in the non-life lines. The combined ratio is anticipated to improve slightly, insofar as claims burdens, in particular as a result of natural disasters, do not deviate significantly from projected levels.

In view of the fact that the natural disasters in 2017 did not, on balance, have a significant impact on rates, it must be assumed that an intense competitive situation will remain. Generating growth in this environment may also once again prove difficult in 2018.

Outlook for 2018

In spite of challenging operating conditions, both within capital markets and our own core business areas, we anticipate an improved overall result for Inter Hannover for the current year. For the financial year 2018 we anticipate – on the basis of stable exchange rates – a slight increase in gross premiums.

We continue to adhere to our selective underwriting policy. Due to our first class rating, our multifarious and solid customer relationships and our broad range of insurance services and products in our core operational areas, we see ourselves as well-positioned within an intense competitive environment.

In view of the anticipated positive cash flow that we generate ourselves from our core insurance business and investments, our investment portfolios should continue to grow – assuming a stable exchange rate development.

For 2018, Inter Hannover anticipates an improvement in the result from ordinary business activity. This is based on the assumption that catastrophic losses remain within expected parameters, and that there are no negative trends on capital markets.

Insurance classes and types in operation

Self-contracted insurance business

Accident insurance (without accident insurance with premium reimbursement guarantee)

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 premium reimbursement guarantee)

Liability insurance

Motor vehicle liability insurance

Other motor insurance

Fire insurance

Comprehensive householder's content insurance

Comprehensive building insurance

Other property insurance

Transport insurance

Aviation insurance

Credit insurance

Surety insurance

Legal expense insurance

Other insurance

Annual financial statements

Balance sheet as at 31.12.2017

Assets (in EUR thousand)	31.12.2017				31.12.2016
A. Investments					
I. Investments in affiliates					
1. Investments in affiliated undertakings		135			12,548
			135		12,548
II. Other investments					
1. Bearer securities and other fixed-income securities		247,174			246,110
2. Other loans					
a) Registered bonds	9,514				14,881
b) Notes and loans receivable	17,635				18,023
		27,149			32,904
3. Deposits with credit institutions 4.		18,635			19,957
5. Other investments		1,406			
			294,634		298,971
				294,499	311,519
B. Debtors					
I. Debtors arising out of direct insurance operations with insurance intermediaries			356,348		351,763
II. Debtors arising out if reinsurance operations			39,324		3,313
Thereof to affiliates: EUR 2,072 thousand (previous year: EUR 2,272 thousand)					
III. Other debtors			15,639		1,647
Thereof to affiliates: EUR 10,821 thousand (previous year: EUR 40 thousand)				411,311	356,723
C. Other assets					
I. Tangible assets and stocks			1,524		2,070
II. Cash at bank			45,473		52,663
				46,997	54,733
D. Prepayments and accrued income					
I. Accrued interest and rents			1,819		2,111
II. Other prepayments and accrued income			610		168
				2,429	2,279
Total assets				**755,236**	**725,254**

Liabilities (in EUR thousand)	31.12.2017				31.12.2016
A. Capital and reserves					
I. Subscribed capital			121,600		121,600
II. Retained earnings					
1. Statutory reserve			3,040		3,040
III. Net income			44,205		44,205
				168,845	168,845
B. Subordinated liabilities				79,998	83,015
C. Technical Provisions					
I. Unearned premiums					
1. Gross amount		394,966			394,563
2. of which minus: share of insurance business ceded		322,606			330,287
			72,360		64,276
II. Provisions claims outstanding					
1. Gross amount		1,617,500			1,687,226
2. of which minus: share of insurance business ceded		1,473,696			1,535,315
			143,804		151,911
III. Equalisation provision and similar provisions			10,185		6,614
				226,349	222,801
D. Other provisions					
I. Pension provisions and similar obligations			835		548
II. Provisions for taxes			494		820
III. Other provisions			9,407		9,354
				10,736	10,722

E. Deposits received from reinsurers				11,445	7,368
F. Other liabilities					
I. Creditors arising out of direct insurance business with insurance intermediaries			8,221		14,290
II. Creditors arising out of reinsurance operations			246,872		213,987
Thereof with affiliates: EUR 239,120 thousand (previous year: EUR 211,613 thousand)					
III. Other creditors			2,770		4,226
thereof from taxes: EUR 1,296 thousand (previous year: EUR 1,310 thousand) with affiliates: EUR 291 thousand (previous year: EUR 769 thousand)				257,863	232,503
Total liabilities				**755,236**	**725,254**

It is confirmed that the actuarial provision allocated under item C II of the balance sheet liabilities has been calculated subject to Paras 341 f and 341 g German Commercial Code (HGB).

Hannover, 27 March 2018

Rehbock, Responsible Actuary

Statement of income for the period from 1 January to 31 December 2017

in EUR thousand	2017 1.1.-31.12.			2016 1.1.-31.12.
I. Technical account				
1. Earned premiums net of reinsurance				
a) Gross premiums written	831,263			759,110
b) Outward reinsurance premiums	752,336			690,968
		78,927		68,142
c) Change in gross unearned premiums	-32,897			-18,146
d) Change in the reinsurer's share in gross unearned premiums	-19,412			-9,379
		-13,485		-8,767
			65,442	59,375
2. Other technical income net of reinsurance			315	260
3. Charges for claims incurred, net of reinsurance				
a) Payments for claims				
aa) Gross amount	488,758			564,620
bb) Reinsurers' share	441,773			524,050
		46,985		40,570
b) Change in provision for claims outstanding				
aa) Gross amount	67,088			-110,155
bb) Reinsurers' share	64,289			-114,148
		2,799		3,993
			49,784	44,563
4. Operating expenses, net of reinsurance				
a) Gross operating expenses		233,709		213,086
b) of which minus: commissions and profit commissions received		228,815		211,096
			4,894	1,990
5. Other technical expenses, net of reinsurance			934	2,270
6. Sub-total			10,145	10,812
7. Change in the equalisation provision and similar provisions			3,571	2,918
8. Balance on the technical account, net of reinsurance			6,574	7,894

in EUR thousand	2017 1.1.-31.12.				2016 1.1.-31.12.
Carry				6,574	7,894
II. Non-technical account					
1. Investment income					
a) Income from participations of which: from affiliated undertakings EUR 4,001 thousand (previous year: EUR 6,775 thousand)		4,001			6,775
b) Income from other investments					
aa) Income from other investments	4,716				4,138
		4,716			4,138
c) Income from write-ups		110			148
d) Profits from the disposal of investments		543			745
			9,370		11,806
2. Investment expenses					
a) Charges for the management of investments, interest and other investment expenses		604			538
b) Write-downs on investments of which unscheduled amortizationpursu-ant to Para 253 (Subpara 3 Sentence 5) German Commercial Code (HGB) EUR 0 thousand (previous year: EUR 18 thousand)		1,583			1,651
c) Losses from the disposal of investments		1,931			165
			4,118		2,354
			5,252		9,452
				5,252	9,452
3. Other income			8,588		2,607
4. Other expenses			28,336		14,779
				-19,748	-12,172
5. Profit or loss on ordinary activities				-7,922	5,174
6. Taxes on income			745		1,490
7. Other taxes			533		644
				1,278	2,134
8. Income from transfer of losses				9,200	0
9. Profit/loss for the financial year				0	3,040
10. Profit carried forward from previous year				44,205	44,205
11. Allocation to reserves					
a) to the statutory reserve				0	3,040
Net income				**44,205**	**44,205**

Appendix

The Company generates its annual financial statements pursuant to the provisions of the German Commercial Code (HGB) taking into account the Stock Corporation Act (AktG), the German Insurance Control Act (VAG) and the Insurance Accounting Decree (RechVersV).

Insofar as settlements are not yet available at the close of booking, an estimation is made of the corresponding items in the balance sheet and statement of income.

Valuation of assets

Investments in affiliate undertakings are either carried at cost, taking into consideration the amortized cost, or the lower net realisable value.

Bearer securities and other fixed-interest securities are, pursuant to Para 341b German Commercial Code (HGB) in connection with Para 253 (Subpara 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 and **notes and loans receivable** are either carried at amortized cost taking into account repayments, or the lower net realisable value.

Deposits with credit institutions are stated at nominal value.

Other investments are either carried at amortized cost or the lower net realisable value, taking into account temporal effects.

Debtors and **other assets** are stated at nominal value less repayments made. Valuation reserves 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 in using the option pursuant to Para 274 (Subpara 1 Sentence 2) German Commercial Code (HGB), no **deferred tax assets** have been stated for a resulting over-funding in the trade balance.

Valuation of liabilities

The **unearned premiums for direct insurance business** 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 from self-contracted insurance business 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.

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

- 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 Para 341g (Subpara 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 Para 26 (Subpara 2) Insurance Accounting Decree (RechVersV).

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

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

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

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

The obligations stemming from **pensions** are set according to the necessary settlement value dictated by sound business judgement. They are discounted at 3.68% 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 was set at 2.50 % and a pension trend at 1.74 %. Probabilities of fluctuation were calculated separately depending on age and gender. A performance adjustment due to profit participation by reinsurers was taken into account at 0.0 %. The evaluation is based on the withdrawal rates provided in the “Richttafeln 2005G” actuarial tables, which were reinforced according to the risk patterns observed in the portfolio. In comparison to the previous year, the mortality rates for current and future male pensioners and widowers decreased on average by 13%. 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 Para 253 (Subpara 1 Sentence 3) German Commercial Code (HGB). For these commitments, the settlement value corresponds to the fair value of the actuarial reserve plus profit participation.

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

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

Foreign currency 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 EUR 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 Para 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		2016	2017					
		Carrying values 31.12.	Additions	Disposals	Apprecia-tions	Deprecia-tions	Currency effects	Balance sheet val-ues 31.12.
A. I.	**Investments in affiliated undertakings**							
	1. Investments in affili-ated undertakings	12,548	-	-12,413	-	0	-	135
	2. Sum A. I.	**12,548**	**-**	**-12,413**	**-**	**0**	**-**	**135**
B. II.	**Other investments**							
	1. Bearer securities and other fixed-interest securities	246,110	138,720	-122,479	110	-1,583	-13,704	247,174
	2. Other loans							
	a) Registered bonds	14,880	-	-5,366	-	-	-	9,514
	b) Notes and loans receivable	18,024	-	-389	-	-	-	17,635
	3. Deposits with credit institutions	19,957	681	-	-	-	-2,003	18,635
	4. Other investments	-	1,753	-347	-	-	-	1,406
	5. Sum B. II.	**298,971**	**141,154**	**-128,581**	**110**	**-1,583**	**-15,707**	**294,364**
Total		**311,519**	**141,154**	**-140,994**	**110**	**-1,583**	**-15,707**	**294,499**

Disclosure of shareholdings

The investments in affiliated undertakings are listed in the following.

Listing of shareholdings 2017

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 – Para 266 (Subpara 3) German Commercial Code (HGB)	Results from previous finan-cial year
Shares/investments in affiliates				
Inter Hannover (No. 1) Limited, London	100	GBP	-66	-31
International Mining Industry Underwriters Limited, London	100	GBP	225	17

Values as at 31 December 2016.
Exchange rate GBP in EUR as at 31 December 2017: 0.88752.

Disclosure of fair values pursuant to Para 54 Insurance Accounting Decree (RechVersV)

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

Market values are used for the evaluation of bearer securities 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 fair values of other investments are recognised at their net asset values.

The deposits with credit institutions are carried at nominal value.

in EUR thousand				2017
				Fair values 31.12.
B. I.	**Investments in affiliated undertakings**			
		1.	Investments in affiliated undertakings	135
B. II.	**Other investments**			
		1.	Bearer securities and other fixed-interest securities	248,738
		2.	Other loans	
			a) Registered bonds	9,555
			b) Notes and loans receivable	17,965
		3.	Deposits with credit insitutions	18,635
		4.	Other investments	1,381
Total				**296,409**

Prepayments and accrued income

in EUR thousand	2017	2016
Accrued interest and rent	1,819	2,111
Miscellaneous deferred/prepaid items	610	168
Total	**2,429**	**2,279**

Deferred tax assets

Due to the tax group with Hannover Rück SE and in the use of an option pursuant to Para 274 (Subpara 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.

Notes on liabilities

Capital and reserves

Subscribed capital

The Company's share capital remained unchanged as of 31 December 2017 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 earnings

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

Net income

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

Subordinated liabilities

Hannover Rück SE granted Inter Hannover the following subordinated loans:

Issue date	Maturity	Interest rate	Currency	Amount
17.12.2015	17.12.2045	3.2%	GBP	54,300,000
16.10.2017	16.10.2047	3.5%	GBP	16,700,000

Technical provisions (gross)

in EUR thousand	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	Total		Of which gross provisions for claims outstanding		Thereof equalisation provision and similar provisions	
Self-contracted insurance business						
Accident insurance	18,782	21,246	15,193	17,976	-	-
Liability insurance	1,041,986	1,141,653	933,974	1,018,911	56	307
Motor liability insurance	99,348	75,436	63,278	52,457	6,721	-
Other motor insurance	32,774	15,773	18,549	14,906	-	608
Fire and property insurance	426,148	422,426	315,986	295,765	691	1,484
Thereof:						
Fire insurance	243,149	263,576	183,280	183,956	628	1,414
Comprehensive householder's content insurance	25,249	26,632	13,222	18,624	63	-
Other property insurance	157,750	132,218	119,483	93,185	-	70
Transport and aviation insurance	227,332	278,598	171,646	212,792	1,807	383
Credit and surety insurance	37,701	34,305	15,371	16,669	72	1,872
Legal expense insurance	8,315	3,304	7,517	1,223	-	-
Other insurance	36,481	33,107	28,260	28,244	-	-
Total	**1,928,867**	**2,025,848**	**1,569,773**	**1,658,943**	**9,347**	**4,654**
Assumed reinsurance business	**93,784**	**62,555**	**47,727**	**28,283**	**838**	**1,960**
Total insurance business	**2,022,651**	**2,088,403**	**1,617,500**	**1,687,226**	**10,185**	**6,614**

Other provisions

in EUR thousand	2017	2016
Pension provisions and similar obligations	835	548
Provisions for taxes	494	820
Other provisions	9,407	9,354
Provisions for staff expenses	5,472	5,756
Provisions for supplier invoices	3,033	1,975
Other provisions	902	1,623
Total	**10,736**	**10,722**

Notes on statement of income

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

in EUR thousand	2017 National	2017 EU	2017 Non-member countries	2016 National	2016 EU	2016 Non-member countries
Accident insurance	543	2,351	5,233	24	5,878	4,731
Liability insurance	4,984	50,163	178,782	6,445	44,670	195,522
Motor liability insurance	0	43,785	31,801	0	41,844	12,160
Other motor insurance	0	1,056	33,571	0	1,120	2,621
Fire and property insurance	1,683	83,017	164,338	3,511	96,145	155,498
Thereof:						
Fire insurance	1,062	52,891	101,893	756	72,304	97,751
Comprehensive householder's content insurance	0	0	17,103	0	0	11,535
Other property insurance	621	30,126	45,342	2,755	23,841	46,212
Transport and aviation insurance	7,433	48,265	37,735	13,730	61,677	58,461
Credit and surety insurance	0	4,540	13,676	0	5,461	5,820
Legal expense insurance	0	12,084	0	0	3,653	0
Other insurance	2,247	25,067	10,650	2,685	9,721	11,365
Total	**16,890**	**270,328**	**475,786**	**26,395**	**270,169**	**446,178**

Operating expenses, net of reinsurance

in EUR thousand	2017	2016
Gross expenses for insurance operations	233,709	213,086
Thereof acquisition costs	215,084	196,283
Thereof administrative costs	18,625	16,803
thereof: commissions received and profit participation from business ceded in reinsurance	228,815	211,096
Total	**4,894**	**1,990**

Disclosure of insurance class groups, insurance classes and Insurance types

in EUR thousand / in units	2017 Gross written premiums	2017 Gross earned premiums	2017 Net earned premiums	2017 Gross charges for claims incurred	2017 Gross operating expenses	2017 Reinsurance balance	2017 Underwriting result for own account	2017 Number of minimum one-year insurance contracts
Self-contracted insurance business								
Accident insurance	8,127	7,588	1,072	2,168	2,334	2,428	657	5,793
Liability insurance	233,929	238,791	16,386	160,304	61,278	14,458	2,814	284,504
Motor liability insurance	75,586	67,446	6,117	49,886	19,929	-5,137	-4,089	156,690
Other motor insurance	34,627	20,468	1,324	15,769	10,869	-4,726	-852	45,196
Fire and property insurance	249,038	255,164	21,175	197,667	81,395	-26,010	2,662	350,750
Thereof:								
Fire insurance	155,846	169,329	14,685	120,720	55,286	-6,922	839	263,473
Comprehensive householder's content insurance	17,103	12,291	785	3,571	4,673	3,816	168	56,671
Other property insurance	76,089	73,544	5,705	73,376	21,436	-22,904	1,655	30,606
Transport and aviation insurance	93,433	99,048	7,434	56,064	20,425	19,390	1,713	33,450
Credit and surety insurance	18,216	10,921	-617	1,008	4,577	3,764	3,368	110,844
Legal expense insurance	12,084	13,317	2,044	8,022	6,011	-931	215	3,413
Other insurance	37,964	34,145	3,701	23,241	10,586	572	-253	2,260
Total	763,004	746,888	58,636	514,129	217,404	3,808	6,235	992,900
Assumed reinsurance business	68,259	51,478	6,806	41,717	16,305	-5,761	339	0
Total insurance business	831,263	798,366	65,442	555,846	233,709	-1,953	6,574	992,900

in EUR thousand / in units	2016 Gross written premiums	2016 Gross earned premiums	2016 Net earned premiums	2016 Gross charges for claims incurred	2016 Gross operating expenses	2016 Reinsurance balance	2016 Underwriting result for own account	2016 Number of minimum one-year insurance contracts
Self-contracted insurance business								
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 householder'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
Total	742,742	717,346	52,527	443,028	209,216	55,790	4,853	938,758
Assumed reinsurance business	16,368	23,618	6,848	11,437	3,870	4,801	3,041	0
Total insurance business	759,110	740,964	59,375	454,465	213,086	60,591	7,894	938,758

Income from investments

in EUR thousand	2017	2016
1. Income from investments	8,717	10,913
2. Income from write-ups	110	148
2) Profits from the disposal of investments	543	745
Total	**9,370**	**11,806**

Expenses for investments

in EUR thousand	2017	2016
1. Expenses for the management of investments, interest payments and other expenses for investments	604	538
2. Amortization of investments	1,583	1,651
3. Losses from the disposal of investments	1,931	165
Total	**4,118**	**2,354**

Extraordinary amortization was carried out pursuant to Para 253 (Subpara 4) German Commercial Code (HGB) amounting to EUR 1,583 thousand (previous year: EUR 1,633 thousand) for bearer saecurities and other fixed-interest securities.

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

in EUR thousand	2017	2016
1. Commissions for all types of insurance agent within the meaning of Para 92 German Commercial Code (HGB) for self-contracted insurance business	189,436	179,430
2. Wages and salaries	9,673	7,948
3. National insurance contributions and expenses for support	1,872	1,724
4. Expenses for pension contributions	1,527	1,340
5. Total expenses	**202,508**	**190,442**

Other information

Other income and expenses contain currency translation gains in the amount of EUR 4,550 thousand (previous year: EUR 948 thousand) and currency translation losses in the amount of EUR 12,310 thousand (previous year: EUR 1,639 thousand).

The taxes exclusively affect the result of ordinary business activity.

With regard to other investments with a book value of EUR 1,406 thousand, impairments of EUR 25 thousand have not been recognized in profit and loss as such impairment in value is only temporary. There are financial obligations resulting from commitments for other investments amounting to EUR 13,887 thousand.

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 150,669 thousand (previous year: EUR 168,783 thousand). Valuation units are accounted for in accordance with the direct allocation method.

We expect annual rent payments of approximately EUR 2,302 thousand (previous year: EUR 2,121 thousand) resulting from long-term rental agreements for our locations in London and Stockholm.

The average number of staff in the financial year was 110 (previous year: 93), of which 104 (previous year: 89) were full-time and 6 (previous year: 4) were part-time.

The difference pursuant to Para 253 (Subpara 6 Sentence 1) German Commercial Code (HGB) stands at EUR 212 thousand.

Hannover Rück SE has incorporated the figures from our annual financial statement into its consolidated financial statement. Our annual financial statement will continue to be incorporated into the consolidated financial statement of Talanx AG, Hannover, and into the consolidated financial statement of HDI Haftpflichtverband der Deutschen Industrie V.a.G., Hannover. These financial statements are published in the electronic Federal Gazette.

With regard to auditor remuneration, the exemption provision of Para 285 (No. 17) German Commercial Code (HGB) has been utilised; the necessary disclosures are contained in the consolidated financial statements of Hannover Rück SE. The auditing firm KPMG (KPMG AG WPG) was responsible for auditing the annual financial statements and the reporting package. The audit was accompanied by reviews of reporting packages for the purposes of compiling interim financial statements. Agreed upon procedures for supervisory purposes were also undertaken. Furthermore, KPMG (KPMG AG WPG) rendered consultation services in connection with the introduction and application of accounting standards, and provided qualitative support for the implementation of statutory legal requirements.

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.

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.

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

Roland Vogel
Deputy Chairman

Hannover, 27 March 2018

The Executive Board

Ralph Beutter	**Andreas Bierschenk**	**Thomas Stöckl**

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