Combined management report

Foundations of the Group

Business model

- Worldwide reinsurance, transacting all lines of property & casualty and life & health reinsurance with the goal of achieving the most balanced possible regional and line-based diversification
- Competitive advantages due to our low cost of capital and administrative expense ratio
- Financial strength secured through rigorous risk management

With a gross premium volume of around EUR 17.0 billion, Hannover Re is the third-largest reinsurer in the world. We transact reinsurance in our Property & Casualty and Life & Health business groups.

The strategy pursued in both property & casualty and life & health reinsurance supports our Group's paramount mission, namely: "Long-term success in a competitive business". Our entire business operations are geared to our goal of being the best option for our business partners when they come to choose their reinsurance provider. It is for this reason that our clients and their concerns form the focus of our activities.

We generate competitive advantages to the benefit of our clients and shareholders by conducting our insurance business with lower administrative expenses than our rivals. In this way we deliver above-average profitability while at the same time being able to offer our customers reinsurance protection on competitive terms.

Through the acceptance of reinsurance risks with little or no correlation in our Property & Casualty and Life & Health business groups across all lines of business and based on our global presence, we are able to achieve efficient risk diversification. In conjunction with our capital management, this is the key to our comparatively low cost of capital.

Guided by a clearly defined risk appetite, our risk management steers the company so as to be able to act on business opportunities while securing our financial strength on a lasting basis.

We transact primary insurance in selected market niches as a complement to our core reinsurance activities. In this context, we always work together with partners from the primary insurance sector.

Our subsidiary E+S Rückversicherung AG (E+S Rück) , as the "dedicated reinsurer for the German market", offers a range of products and services tailored to the specific features of the German market. Of special importance here are the mutual insurers with whom we maintain a strategic partnership that is underscored through their participation in E+S Rück.

In the Property & Casualty reinsurance business group we consider ourselves to be a reliable, flexible and innovative market player that ranks among the best in any given market. Cost leadership, effective cycle management and superlative risk management are the key elements of our competitive position.

In the Life & Health reinsurance business group we are recognised – as customer surveys confirm – as one of the top players and the leading provider of innovative solutions. We achieve this standing by opening up new markets for our company and by identifying trends in order to anticipate the future needs of our customers.

Management system

Value-based management

Our integrated system of enterprise management constitutes the basis for accomplishment of our strategic objectives. Located at its core are, first and foremost, our profit and growth targets, which are summarised for the Group and its business groups in the so-called target matrix. In addition to traditional performance indicators geared to the IFRS balance sheet, our system of strategic targets also includes economic targets derived from our certified internal capital model. The targets are regularly analysed and adjusted in the context of the strategy review conducted at periodic intervals. Our focus is on long-term strategic target attainment.

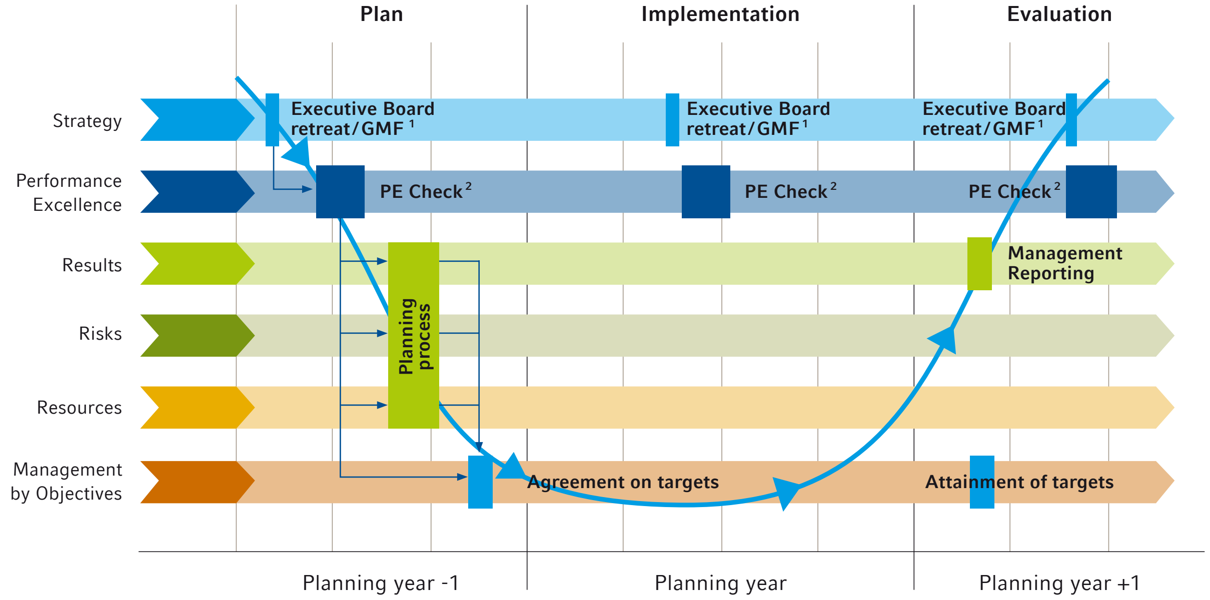
Target attainment **M 01**

Business group	Key data	Targets for 2015	Target attainment			
			2015	2014	2013	Ø 2013–2015 [1]
Group	Investment return [2]	≥ 3.0%	3.5%	3.3%	3.4%	3.4%
	Return on equity [3]	≥ 10.2%	14.7%	14.7%	15.0%	14.8%
	Growth in earnings per share (year-on-year comparison)	≥ 6.5%	16.7%	10.1%	5.4%	10.6%
	Value creation per share [4]	≥ 7.5%	13.6%	34.4%	3.6%	15.5%
Property & Casualty reinsurance	Gross premium growth	3–5% [5]	8.1%	1.2%	3.5%	4.2%
	Combined ratio	≤ 96% [6]	94.4%	94.7%	94.9%	94.7%
	EBIT margin [7]	≥ 10%	16.6%	17.0%	15.5%	16.3%
	xRoCA [8]	≥ 2%	7.4%	10.7%	4.7%	7.6%
Life & Health reinsurance	Gross premium growth	5–7% [9]	9.5%	4.9%	5.1%	6.5%
	Value of New Business (VNB) [10]	≥ EUR 180 million	EUR 543 million	EUR 448 million	EUR 309 million	EUR 433 million
	EBIT margin [7] Financial Solutions/ Longevity	≥ 2%	11.0%	5.0%	5.2%	7.2%
	EBIT margin [7] Mortality/Morbidity	≥ 6%	3.6%	4.8%	1.2%	3.3%
	xRoCA [8]	≥ 3%	8.9%	7.3%	8.4%	8.3%

1 Average annual growth, otherwise weighted averages
2 Excluding effects from ModCo derivatives and inflation swaps
3 After tax; target value: 900 basis points above the 5-year average return on 10-year German government bonds
4 Growth in book value per share including dividend paid
5 Average over the reinsurance cycle; at constant exchange rates
6 Including major loss budget of EUR 690 million
7 EBIT/net premium earned
8 Excess return on allocated economic capital
9 Organic growth only; annual average growth (5 years); at constant exchange rates
10 Based on a cost of capital of 6% (until 2014: 4.5%)

In Performance Excellence (PE) we have at our disposal a consistent method Group-wide that enables us to steer the development of the company and measure the extent to which we have achieved our strategic objectives. The decentralised approach used by PE is of special importance in this context: every single organisational unit defines and continuously examines its contributions to execution of the Hannover Re Group strategy and develops improvement initiatives.

System of value-based management:
Performance Excellence (PE) combines the strategic and operational levels **M 02**



[1] The Global Management Forum (GMF) brings together senior managers of the Hannover Re Group from around the world for the purpose of defining strategic orientations. The parameters developed here serve as the basis for the subsequent planning process.
[2] Verification and elaboration of contributions to the Group strategy

Management by Objectives

Some of the targets that emerge out of the target matrix are integrated into the individual agreements on objectives with managers. When it comes to the definition of objectives, the participants take into account not only standardised financial indicators but also non-financial variables derived from the strategic parameters.

Management Reporting

The annual Management Reporting presents in detail the respective degree of target attainment – also in comparison with our planning – for each individual treaty/regional department and service unit as well as for the two business groups of Property & Casualty and Life & Health and for the Group as a whole. On this basis appropriate performance controlling is carried out, potential scope for improvement and refinement is identified and performance-oriented remuneration components defined in the context of Management by Objectives are established.

Capital allocation

The basis of value-based management is the risk-appropriate allocation of capital to the individual business activities. This enables us to evaluate the acceptance of underwriting risks and investment risks both in light of individual risk/return aspects and against the backdrop of our overall risk appetite. Our internal capital model supplies the key parameters for this purpose. In addition, along with considerations of business policy, outside influencing factors such as the requirements of regulatory authorities and rating agencies also play a major role in the allocation of capital. Allowance is therefore made for them in the form of collateral conditions on the various allocation levels. Starting out from the Group's overall risk situation, capital is first allocated to the functional areas of underwriting and investments. We then further divide the capital within the underwriting sector, first between the business segments of property & casualty reinsurance and life & health reinsurance and then between the various reinsurance products and according to risk categories/treaty types and lines. In this way, we ensure that our profit targets including risk, cost and return considerations are consistently factored into the evaluation and pricing of our various reinsurance products.

IVC – the strategic management ratio

In order to fine-tune the portfolios and individual treaties we apply underwriting-year-oriented measurement principles based on expected cash flows that appropriately accommodate the specific characteristics of property & casualty and life & health reinsurance. The accomplishment of targets in a particular financial year is also of interest – especially from the standpoint of shareholders. Based on our internal capital model, the foundation of our enterprise management, we strive to generate a profit in excess of the cost of capital. This return – which is the decisive ratio for the management of our business activities – is referred to as Intrinsic Value Creation (IVC).

With the aid of the IVC ratio it is possible to compare the value contributions of the Group as a whole, its two business groups and the individual operational units. This enables us to reliably identify value creators and value destroyers. In this way, we can

- optimise the allocation of capital and resources,
- identify opportunities and risks and
- measure strategy contributions with an eye to our demanding profit and growth targets.

The IVC (Intrinsic Value Creation) is calculated according to the following formula:
Adjusted operating profit (EBIT) – (capital allocated × weighted cost of capital) = IVC

The adjusted operating profit (EBIT) is comprised of two factors: the IFRS Group net income recognised after tax and the change in the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet. By way of the latter we make allowance for changes in the fair values of assets not recognised in income under IFRS as well as the change in the discount effects of the reserves in property and casualty reinsurance and in the Embedded Value Not Recognised (EVNR) in life and health reinsurance. In addition, interest on hybrid capital already recognised in the IFRS Group net income and the non-controlling interest in profit and loss are included back in the calculation.

Intrinsic Value Creation and excess return on capital allocated **M 03**

	2015		2014			
in EUR million	IVC	xRoCA	Reported IVC	Adjustment[1]	Final IVC	xRoCA
Property and casualty reinsurance	454.9	7.4%	616.2	0.0	616.2	10.7%
Life and health reinsurance	251.8	8.9%	175.7	(3.8)	171.9	7.3%
Investments[2]	(16.4)	-0.6%	615.5	0.0	615.5	26.2%
Group	**688.7**	**5.4%**	**1,401.5**	**(4.0)**	**1,397.5**	**12.0%**

[1] Adjustment based on final MCEV calculation (life and health reinsurance)
[2] Income above risk-free interest after deduction of risk-appropriate cost of capital

The allocated capital consists of three components: the shareholders' equity including non-controlling interests, the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet and the hybrid capital. In this context, capital that is not at risk (excess capital) is disregarded, i. e. it is not broken down into business activities. Capital is allocated to the profit centres as described above according to the risk content of the business in question. A systematic distinction is made here between the assumption of underwriting risks, on the one hand, and investment risks, on the other. Under the IVC calculation, therefore, only risk-free interest income on the generated cash flows is allocated to the business segments of property & casualty and life & health reinsurance. The investment income above and beyond risk-free is allocated in its entirety to the functional area of investments and included in the IVC after deduction of the risk-appropriate cost of capital and the administrative expenses.

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our strategic return on equity target of 900 basis points above risk-free thus already contains a substantial target value creation. We allocate equity sparingly and use equity substitutes to optimise our average cost of capital. At 5.4%, our average cost of capital is comparatively low.

Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital.

Operational management system

A number of IFRS-based financial performance indicators are also embedded in our strategic system of targets and coordinated with our parameters for value creation derived from the internal capital model. We use these indicators for operational management within the year, in part because they are available promptly and also because they already provide initial pointers as to whether we are likely to achieve our higher-order strategic objectives. These are for both business groups the growth in gross premium, for property and casualty reinsurance the combined ratio, for life and health reinsurance the EBIT margin and for the Group as a whole the return on investment. Non-financial performance indicators, on the other hand, are not used for operational management within the year.

Research and development

Every market unit at Hannover Re is tasked with exploring market trends and developing innovative products. In addition, opportunities and innovations that cut across markets and segments are coordinated by the specially created "Business Opportunity Management" team and pursued by means of interdisciplinary projects in which various market and service units play key roles. In this way, we develop products and solutions that deliver value added both for Hannover Re and for our clients. By way of example, our move to give capital market players direct access to insurance risks as far back as the mid-1990s through our "K" transactions puts us among the industry pioneers. The intervening years have seen the evolution of a market for so-called insurance-linked securities, which is one of the fastest growing markets in the insurance sector. Another example of Hannover Re's development activities is the creation of its own internal model for risk management under Solvency II that caters to the requirements of various stakeholders (regulators, rating agencies, capital providers) and was one of the first to be approved in Europe. Not only that, through our active involvement and the provision of financial assistance we support scientific initiatives geared to developing products, solutions or markets that will be crucial success factors going forward in the viability of any reinsurance undertaking.

Reinsurance business is founded on the comprehensive understanding and active management of risks. Our specialists therefore continuously analyse known risks with an eye to changes in their structure and probability of occurrence, while at the same time focusing on the early detection of newly emerging risks and working to provide our clients with appropriate solutions tailored to their needs (cf. here also the Opportunity report on page 95 et seq.).

Above and beyond this, Hannover Re makes systematic efforts to identify new business opportunities in order to achieve sustainable growth and strengthen the profitable development of the company. At our Global Executive Forum in 2015 we expressly explored how to leverage emerging business opportunities, including those associated with innovative products and risk covers as well as new sales channels and capabilities, and we mapped out a course for future growth. The goal is to generate new business and thereby support Hannover Re's profitable growth on a lasting basis. For further details please see the Opportunity report on page 95 et seq.

Fifth Avenue,
New York City, USA

Always …

… bold

Operating against the cycle – US casualty business
We dare to write business that others find too risky – because we take a systematic approach to cycle management. US casualty business is just one example. When major events heighten the risk exposure, sharp market corrections normally ensue – prices for reinsurance protection go up. As a consequence of the financial and banking crisis that peaked in 2008 liability risks for executive officers in the financial sector rose, and we made increased capacities available for the D&O line. Our courage was rewarded with profitable growth.

Report on economic position

Macroeconomic climate and industry-specific environment

- Global economy posts slightly weaker growth
- Insurance industry still influenced by low interest rate environment
- Implementation of risk-based solvency systems in Europe, China and South Africa
- Losses from natural disasters again lower in 2015

Macroeconomic climate

The expansion of the global economy slowed somewhat in the course of 2015 and came in slightly below the level of the previous year at 3.1% (3.4%). Even though the anticipated slump in the world economy therefore failed to materialise, this is the weakest growth figure since the crisis year of 2009.

The advanced economies continued to record moderate growth on the whole, although economic activity varied widely between countries and regions. As had already been the case in the previous year, the pace of growth in the United States remained strong. In the United Kingdom, too, cyclical momentum remained intact despite a slight slowing in the expansionary trend. The economy in the Eurozone also developed favourably, although the pace of growth here remained minimal overall. While certain framework conditions such as the employment situation improved slightly, this was not sufficient to deliver a fundamentally positive upward stimulus. Business activity weakened markedly in Japan.

Economic growth in emerging markets was softer in 2015, although initial signs of stabilisation could be discerned towards year-end. The first six months, above all, were overshadowed by some particularly dark economic clouds: Russia and Brazil slipped deeper into recession. Drastic price declines on stock markets in China prompted concerns towards the middle of the year that the Chinese economy, too, might be drawn into a crisis-driven process of adjustment. Even though such a scenario did not materialise in the second half of the year, the pace of growth in the emerging economies was on the moderate side. In Russia indications have recently emerged of a stabilisation in output. In Latin America, on the other hand, the situation remained difficult.

United States

The positive momentum of the US economy continued to stabilise in the past year. Gross domestic product (GDP) added another 0.3 percentage points in 2015 (previous year: 2.2%). This was despite the fact that the economy had entered the year with softer growth. The upward revaluation of the dollar hampered US foreign trade, capital investment contracted and consumption also slowed somewhat initially. Viewed over the full year, however, the economy showed a further clear trend towards stabilisation. Private consumption continued to pick up and government spending also increased. The development of the labour market, where the unemployment rate has now fallen to 5.0%, points to a sustained cyclical upturn.

Europe

The economic climate in the Eurozone showed a modest recovery: growth increased by 0.6 percentage points to 1.5%. The improved performance of countries that had still been experiencing discernible growth problems in 2014 was a factor here. Italy, for example, put the difficult previous year behind it to deliver positive growth of 0.7%, while France boosted the pace of its expansion to more than one percent again. The Spanish economy picked up sharply with growth of 3.1%. Ireland, the peak growth performer, put on another 6.5%. After securing a hard-fought agreement with the countries giving it financial backing, Greece is struggling to implement austerity plans and will likely achieve at best zero growth in 2015.

The state of the jobs market continued to improve. Average unemployment in the Eurozone decreased to 11.0%, although the picture still varies widely from country to country. Spain, along with Greece, continues to battle particularly high jobless numbers: the unemployment rate for both countries is in excess of 20%. The rise in consumer prices, on the other hand, slowed again year-on-year to 0.1%.

Germany

The German economy experienced a modest uptick in 2015. In the first half of the year it expanded at rates that reflected the potential output. In the third quarter the pace of growth then flagged for a while. Over the year as a whole the economy grew by 1.8%. Expansion continued to be driven by private consumption. The latter benefited from an appreciable rise in employment, increasing real wages and the falling price of crude oil. Additional factors boosting consumption were the unchanged very low level of interest rates, the introduction of the minimum wage and expanded transfer payments. Investment activity was rather slow to pick up, albeit with a rising tendency towards the end of the year. Exports surged irrespective of the mediocre pace of global economic growth. The recovery in the Eurozone and depreciation of the euro were major factors here. The German labour market continued to improve: on an annual average the working population rose to a record high of 43 million (+0.8%). The number of unemployed dropped below two million in 2015, a decrease of 6.7% compared to the previous year.

Asia

Heavily influenced by economic weakness in China and declining commodity prices, Asia's emerging markets delivered a moderate pace of expansion overall in 2015. In China growth in the first quarter fell to the lowest level since 2008, triggering significant uncertainties on capital markets over the summer. Industrial output nevertheless stabilised over the year as a whole, and the Purchasing Managers' Index also signalled a stable development. China consequently registered growth of 6.8% for 2015. In recent months, however, there have been increasing indications that the economic data does not fully capture the slowing economy. The deflation in producer prices, for example, points to substantial surplus capacities in industry and in the construction sector. The high indebtedness of the private sector continues to pose a further problem. Corporate debt also rose sharply. The sudden slump in share prices at the start of the current year would appear to confirm this assessment.

India further improved its growth rate year-on-year to 7.2%. This was driven principally by the real estate, financial and insurance sectors. Nevertheless, the manufacturing sector, government spending and private consumption also played a part in this positive trend.

The Japanese economy continued to struggle under soft demand from emerging markets in 2015 and its performance was correspondingly weak. The country's economy recorded modest growth of 0.7% over the year as a whole.

Capital markets

The lingering effects of the Euro debt crisis on capital markets were merely indirect in 2015. A considerably more important influencing factor was a high degree of uncertainty surrounding a possible turnaround in US interest rates and a further expansion of monetary policy in Europe. The slowing growth of the Chinese economy led to a general sense of disquiet on equity markets. Falling commodity prices due to changing supply-side structures in an ambiguously evolving global economy were an additional factor. Uncertainty also permeated the assessment of markets for corporate bonds – especially in emerging markets – and led to increased risk premiums. The expansionary interest rate policy pursued by central banks in our main currency areas – namely the euro and US dollar – was consequently maintained. Having cut the prime rate for the Eurozone to 0.05% in the previous year, the European Central Bank (ECB) kept it at this level throughout the entire period under review. Even though the US Federal Reserve made its first move to raise interest rates, as had been anticipated by many market players, US interest rate policy can still be characterised as expansionary from a historical perspective. Nevertheless, the Fed had already ended its supportive purchases on the US bond market in the fourth quarter of 2014, whereas the ECB launched just such a programme in March 2015 for the European government bond market.

Further modest declines in yields were observed for German government bonds with shorter maturities, which therefore continued to deliver negative returns in net terms that extended into the medium-term maturity bands. The yield on three-year government bonds, for example, retreated over the course of the year from -0.1% to -0.3%. These declines were facilitated by the anticipation of further active market intervention by the ECB as well as by considerable liquidity in the markets and the search for safe investment opportunities. In the case of US Treasuries, modest yield increases were observed in the short- to medium-term maturity segments; longer maturities tended to remain stable year-on-year. The return on one-year US Treasuries, for example, rose from 0.2% to 0.6% over the course of the year. This increase can be attributed primarily to the expectation among market players that the Fed will make further moves on interest rates. UK gilts saw virtually no changes throughout the period under review. As for the European nations with higher risk premiums that have been the focus of so much attention in recent years, the picture was again largely one of recovery. Risk premiums on corporate bonds in our main currency areas increased – in some instances markedly – as the year progressed owing to developments in emerging markets combined with commodity price movements.

Stock markets, to which we devoted closer attention again due to our decision to start limited rebuilding of an equity portfolio in the third quarter of the period under review, once again soared during the year, in some cases registering new all-time highs; the German market was especially successful in booking substantial price gains throughout the year. US indices, on the other hand, were if anything left treading water year-on-year. European markets, in particular, were influenced by the ECB's continued expansionary monetary policy and by the quest among investors for high-return investments. Ultimately, though, the elevated price levels could only partially be explained by the underlying fundamentals. Overall, stock markets proved broadly robust in the face of diverse crisis warnings. It was only growing concerns about diminishing economic strength in China combined with slumping commodity prices that triggered a marked downturn on equity markets in August. We were able to turn this to our advantage since we seized the moment to start our already planned rebuilding of an equity portfolio. The development of the world's economy continues to be subject to a broad range of uncertainties and risks. Most notably, the global patchwork of differing economic developments and local flashpoints such as in the Middle East and Ukraine may be mentioned here as causal factors. These disparities are being further exacerbated by the precipitous fall in the price of oil, which has a beneficial effect on countries with a large appetite for energy but jeopardises the budgets of oil-producing nations. The elevated threat of terrorism is another factor that cannot be ignored, even though the response to it from capital markets has hitherto been rather robust.

The euro again dropped sharply against the US dollar in the course of the year, slipping from USD 1.22 to USD 1.09. Against the pound, however, the euro softened at most only slightly over the full twelve months despite marked volatility within the year. To some extent it was even able to make up ground lost against the Australian and Canadian dollar in the previous year. This performance can certainly be attributed in part to the protracted weakness in commodities and the share of exports that they account for in the balance of trade of these countries.

For more detailed remarks on the development of Hannover Re's investments please see the "Investments" section on page 51 et seq.

Industry-specific parameters

The environment facing the international insurance industry remained challenging in 2015: with the general level of interest rates still being extremely low, insurers devoted particularly close attention to preserving the value of their investments and the stability of returns.

One response to the more demanding market conditions in the insurance sector has been an appreciable increase in the number of companies joining forces – whether through mergers, acquisitions or equity investments. According to industry analysts, M&A activities among both insurers and reinsurers were more intensive last year than they had been in a long time. Within the first nine months alone 15 transactions were documented worldwide. They estimate that this trend will continue in 2016.

The insurance industry was again heavily preoccupied in 2015 with preparations for the new requirements governing financial risk protection. In Europe this takes the form of Solvency II: the reform of insurance supervision law initiated by the European Commission entered into force on 1 January 2016 and compels P&C and L&H insurers, most significantly, to maintain a higher minimum level of own funds. Regulators are allowing a transitional period for gradual adoption of the revised methodology that must be used to measure the provisions in order to enable them to progressively build up the required own funds. In this connection a number of large reinsurers have received approval from the Federal Financial Supervisory Authority (BaFin) to use their own internal capital models and are already showing comparatively high capital ratios.

Risk-based solvency systems are currently the focus of attention worldwide: in China, for example, the Risk Oriented Solvency System (C-ROSS) has been adopted and in South Africa the Solvency Assessment and Management (SAM) framework is being implemented.

In the area of property and casualty reinsurance the prevailing intense competition was sustained in 2015: in the absence of market-changing large losses insurers continued to enjoy strong capital resources, hence further supporting the trend towards increased retentions. At the same time the market for collateralised reinsurance products continued to build substantial capacities and thereby absorbed additional risks that had hitherto been covered on the reinsurance market. For the reinsurance sector this was accompanied by further pressure on prices and conditions. To some extent it was possible to offset this decline through stronger demand resulting from preparations for the requirements of Solvency II.

On the product side 2015 once again opened up some intriguing possibilities: increasing digitalisation, for example, stimulated demand for protection against cyber risks.

The life and health reinsurance market is still going through a process of adjustment: in Germany the appeal of traditional life insurance policies has continued to diminish in tandem with the protracted low interest rate environment. In the United Kingdom the reform of the Pensions Act in April led to a shake-up of the pensions market: for those (re)insurance industry players covering the longevity risk the reform means that existing insurance solutions must be modified to fit the new conditions.

Demographic changes around the world are generating increased demand for reinsurance protection in the area of longevity solutions. So-called "lifestyle products" are also enjoying a surge in demand: these primarily involve life insurance policies under which the premium is linked to the insured's healthy lifestyle (e. g. fitness, nutrition). These products are especially popular in Australia, South Africa and the United States.

The Chinese insurance market continues to grow at an above-average pace. The new solvency requirements (C-ROSS) implemented on 1 January 2016 had already been applied by insurers on a "trial basis" in 2015. This had an effect on demand patterns for reinsurance solutions.

Business development

- Highest Group net income in Hannover Re's history
- Very good result in property and casualty reinsurance
- Major loss expenditure below the expected level
- Further improvement in the profitability of life and health reinsurance delivers pleasing contribution to Group net income
- Good investment income despite challenging conditions
- Further strengthening of capital base
- Return on equity unchanged year-on-year at 14.7%

We are highly satisfied with the development of our business in the 2015 financial year. Once again, we succeeded in beating the previous year's record profit: we booked the highest-ever Group net income in company history – at EUR 1,150.7 million (previous year: EUR 985.6 million) – and surpassed the one billion euro threshold for the first time. All business groups played a part in this result, which is all the more gratifying in view of the fact that market conditions for reinsurers remain challenging and the protracted low level of interest rates is also limiting our scope to generate returns on the investment side. While Group net income was assisted by major loss expenditure below the planned budget and a positive special effect in life and health reinsurance, the strength of the result is also borne out by the sustained very good confidence level of our loss reserves.

Please find below a brief summary of the development of our two business groups – Property & Casualty and Life & Health reinsurance – and our investments. More detailed information is to be found on pages 35 to 52.

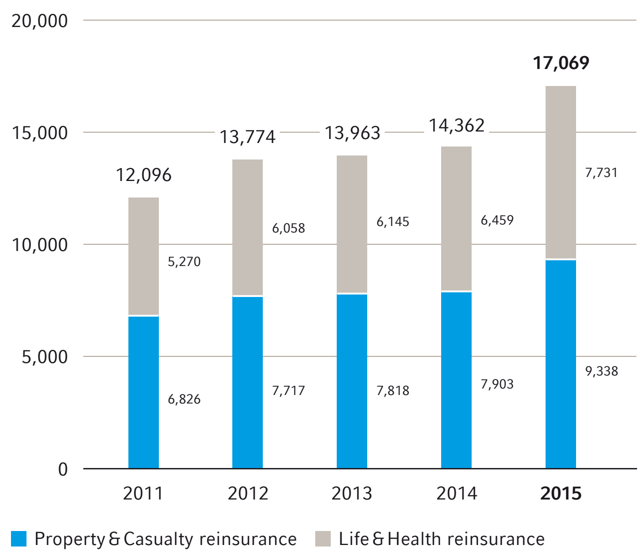
Property & Casualty reinsurance

Despite the fiercely competitive state of the market we are satisfied with the development of our business in property and casualty reinsurance. Even though rates in most markets continued to decline, our positioning as a financially robust reinsurer enabled us to act on opportunities for profitable growth, as a consequence of which premium income in the year under review grew more strongly than had been anticipated. Gross premium increased by 18.2% as at 31 December 2015 to EUR 9.3 billion (EUR 7.9 billion). At constant exchange rates the increase would still have been as much as 8.1%.

Investment income from assets under own management rose by 12.3% year-on-year to EUR 924.8 million (EUR 823.2 million). It is particularly gratifying to note that ordinary income was higher than in the previous year despite the protracted low interest rate environment. This can be attributed in part to increased income from real estate and fixed-income securities, although special effects associated with our private equity investments were also a factor here.

The underwriting result, which improved by 23.0% to EUR 432.2 million (EUR 351.5 million), was also thoroughly positive. While expenditure on large losses was higher than in the previous year, it remained within the budgeted amount of EUR 690 million at EUR 572.9 million (EUR 425.7 million). The combined ratio stood at 94.4% and was thus better than our targeted level of below 96%. The operating profit (EBIT) as at 31 December 2015 surged by 12.6% to EUR 1,341.3 million (EUR 1,190.8 million). The EBIT margin amounted to 16.6% (17.0%), thereby again comfortably beating our minimum target of at least 10%. This is a reflection of the very good performance in property and casualty reinsurance. Group net income increased by 10.3% to EUR 914.7 million (EUR 829.1 million).

Gross premium by business group **M 04**
in EUR million



Life & Health reinsurance

Life and health reinsurance business delivered another solid contribution to the successful result posted by the Group in the year just ended. The general business climate remained competitive, especially in mature life insurance markets. We were nevertheless able to identify potential new business opportunities for our long-standing clients based on our proven, partnership-based approach and we additionally acquired new customers through active marketing efforts, attractive conditions and comprehensive service support. This had favourable implications for our gross premium income: gross premium increased in the reporting period just ended to EUR 7.7 billion (EUR 6.5 billion), equivalent to growth of 19.7%. Adjusted for exchange rate effects, the growth of 9.5% exceeded our target growth range for gross premium of between 5% and 7%. Similarly, at EUR 542,6 million we also beat our planned target of more than EUR 180 million for the Value of New Business in the year under review.

Our investment income grew by 15.5% in the year under review to EUR 709.2 million (EUR 614.2 million). Of this, EUR 334.3 million (EUR 258.5 million) was attributable to assets under own management; the remaining EUR 374.9 million (EUR 355.7 million) derived from securities deposited with ceding companies.

The operating profit (EBIT) reached an extremely satisfactory level of EUR 405.1 million (EUR 263.8 million). The EBIT margins within the individual reporting categories developed as follows: for mortality and morbidity business we fell short of the 6% target with an EBIT margin of 3.6%. Longevity business reached its targeted EBIT margin of 2.0% at 4.5%. In the financial solutions reporting category we booked another exceptionally good result. The generated EBIT margin of 18.1% clearly exceeded the target margin of 2%. The life and health reinsurance segment thus posted very good Group net income of altogether EUR 289.6 million (EUR 205.0 million) in the financial year just ended. This represents an increase of 41.3%.

Investments

Bearing in mind the protracted low interest rate environment, we are highly satisfied with the development of our total investments as at 31 December 2015. The portfolio of investments under own management stood at EUR 39.3 billion and was thus higher than the comparable level at the end of the previous year (31 December 2014: EUR 36.2 billion). This increase derived in large measure from positive exchange rate effects, especially associated with the strong US dollar, but was also due to a pleasing positive operating cash flow. The decline in valuation reserves, which resulted primarily from the flattening of the US yield curve and higher credit spreads on corporate bonds, served as a restraining factor in this development.

Even though interest rates remained low, ordinary investment income excluding interest on funds withheld and contract deposits came in 17.3% higher than the level of the previous year at EUR 1,253.4 million (EUR 1,068.4 million). Interest on funds withheld and contract deposits improved from EUR 376.1 million to EUR 395.0 million.

Net realised gains on investments as at 31 December 2015 remained below the previous year's rather high figure at EUR 135.8 million (EUR 182.5 million). Write-downs were once again taken in only a minimal volume in the year under review, the vast bulk of them being due to scheduled depreciation on real estate. Income from assets under own management showed pleasing growth to reach EUR 1,270.1 million (EUR 1,095.8 million). The resulting annual return (excluding ModCo derivatives and inflation swaps) amounted to 3.5% (3.3%). It thus clearly beats our anticipated figure of 3.0%. Along with increased earnings from fixed-income securities, this was due to higher income from alternative investments such as real estate and private equity as well as a special effect in life and health reinsurance. We also benefited from movements in exchange rates. Investment income including interest on funds withheld and contract deposits consequently increased to EUR 1,665.1 million (EUR 1,471.8 million), a rise of 13.1% relative to 2014.

Total result

The gross premium in our total business increased substantially by 18.8% as at 31 December 2015 to EUR 17.1 billion (EUR 14.4 billion). At constant exchange rates the increase would have been 8.7%. This puts us at the upper end of our guidance – which we had raised after the second quarter – for currency-adjusted growth in the range of five to ten percent for 2015. The level of retained premium edged lower to 87.0% (87.6%). Net premium earned rose 17.5% to EUR 14.6 billion (EUR 12.4 billion). At unchanged exchange rates growth would have come in at 7.9%.

We are highly satisfied not only with the pleasing premium growth but also with the business results in the year under review. The operating profit (EBIT) climbed a further 19.7% compared to the already very good previous year to reach EUR 1,755.2 million (EUR 1,466.4 million). Group net income surged by 16.7% to EUR 1,150.7 million (EUR 985.6 million). We thus beat both our original guidance of EUR 875 million and the revised guidance of around EUR 950 million released mid-year. Earnings per share for the Hannover Re Group amounted to EUR 9.54 (EUR 8.17).

The development of our shareholders' equity was also once again highly satisfactory: driven by the increase in retained earnings, the equity attributable to shareholders of Hannover Re rose by 6.9% relative to the position at year-end 2014 to reach EUR 8.1 billion (EUR 7.6 billion) despite a reduction of 9.2% in other comprehensive income. This decrease was due to declines in valuation reserves owing to higher interest rates and increased risk premiums on corporate bonds, which were not entirely offset by positive exchange rate effects. The change in the average shareholders' equity – calculated on the basis of the respective average shareholders' equity for the 2014 and 2015 financial years – showed an increase of as much as 16.2%. The return on equity nevertheless remained unchanged at 14.7% (14.7%). This shows that the increase in Group net income was able to keep pace with the growth in shareholders' equity. The book value per share was also sharply higher, reaching its highest-ever level to date at EUR 66.90 (EUR 62.61). All in all, Hannover Re achieved and in some cases clearly exceeded the forecasts provided for the 2015 financial year as shown in the following table "Business development in the year under review".

The total policyholders' surplus, consisting of shareholders' equity, non-controlling interests and hybrid capital, amounted to EUR 10.3 billion (EUR 10.2 billion) as at 31 December 2015.

Business development in the year under review **M 05**

	Forecast 2015	Target attainment 2015
Gross premium growth (Group)	stable to slightly higher gross premium volume/growth of 5–10% [1, 5]	+8.7% at constant exchange rates +18.8% not adjusted for currency effects
Gross premium growth for Property & Casualty reinsurance	stable [1]	+8.1% at constant exchange rates +18.2% not adjusted for currency effects
Gross premium growth for Life & Health reinsurance	slight increase [1, 2]	+9.5% at constant exchange rates +19.7% not adjusted for currency effects
Return on investment [3]	≈ 3.0%	3.5%
Group net income	≈ EUR 875 Mio./EUR 950 million [4, 5]	EUR 1,150.7 million

1 At constant exchange rates
2 Organic growth only
3 Excluding ModCo derivatives and inflation swaps
4 Assuming stable capital markets and/or major loss expenditure in 2015 that does not exceed EUR 690 million
5 In the context of publication of the half-year results for 2015 the forecast Group net income was raised to EUR 950 million and the forecast gross premium growth (Group) was specified more closely at 5–10% at constant exchange rates

Overall assessment of the business position

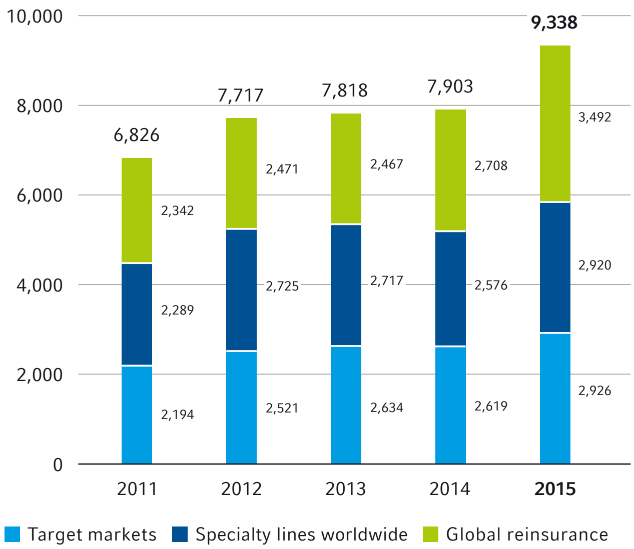
The Executive Board of the Hannover Re Group is very satisfied with the development of business in 2015. Not only did the company achieve its targets for important key indicators such as the operating profit (EBIT) and Group net income, return on equity and combined ratio, in some cases it also clearly surpassed them. This is all the more gratifying given that the business environment for reinsurers remains intensely competitive. The investment income and the generated return on investment developed successfully despite the continued low level of interest rates. Group net income rose to the highest level ever recorded in the company's history at more than EUR 1 billion. The company's shareholders' equity also showed a very pleasing increase, as a consequence of which the total policyholders' surplus surpassed the previous year's record figure to reach a new all-time high. At the time of preparing the management report, the business position of the Hannover Re Group remains highly favourable and its financial strength has been further reinforced.

Results of operations

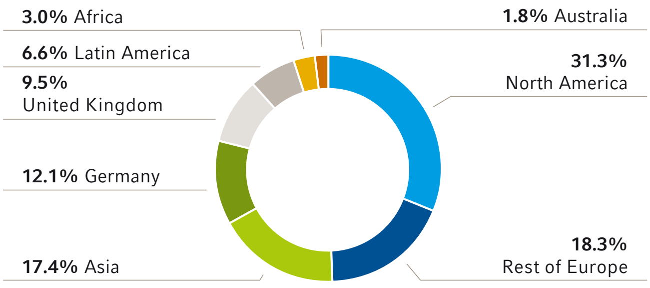
In the following sections we discuss the development of the financial year in our two strategic business groups, namely Property & Casualty reinsurance and Life & Health reinsurance, as well as the performance of our investments and the financial position and assets of our Group. Supplementary to the information provided here, the segment reporting in Section 5 of the notes to this Annual Report shows the key balance sheet items and profit components of the two business groups.

Property & Casualty reinsurance at a glance

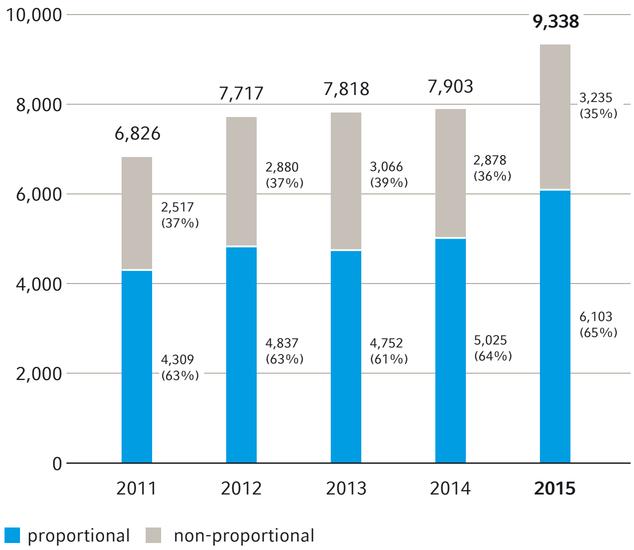
Gross written premium in P&C reinsurance M 06
in EUR million



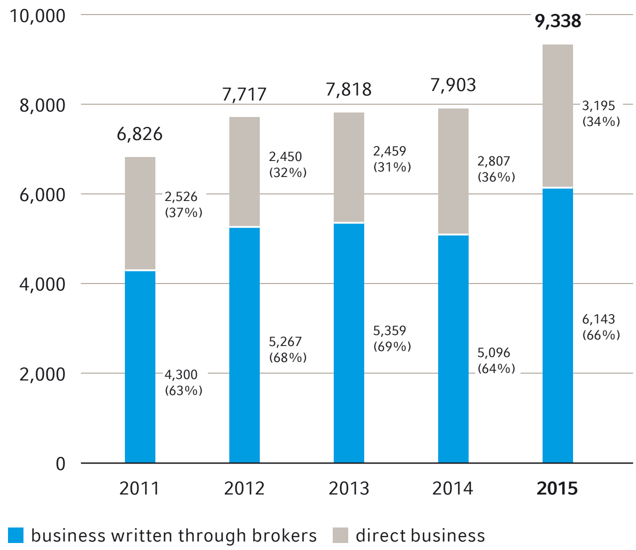
Geographical breakdown of gross written premium in 2015 M 07



Breakdown of proportional and non-proportional treaties by volume M 08
in % and in EUR million



Breakdown into business written through brokers and direct business M 09
in % and in EUR million



Property & Casualty reinsurance

- Highest-ever Group net income of EUR 914.7 million
- Major loss expenditure lower than expected at EUR 572.9 million
- Pleasing combined ratio of 94.4%
- Growth of 18.2% in gross premium; currency-adjusted premium growth of 8.1% above the medium-term target corridor of 3–5%

Accounting for 55% of our premium volume, Property & Casualty reinsurance is Hannover Re's largest business group. It is structured according to our Board areas of responsibility, namely "Target markets", "Specialty lines worldwide" and "Global reinsurance".

Property and casualty reinsurance once again proved to be intensely competitive in the 2015 financial year. In the absence of market-changing losses, ceding companies continue to enjoy strong capital resources, prompting some of our clients to pass on fewer risks to the reinsurance market. On the other hand, we noted increased demand for additional reinsurance coverage. As a further factor, the inflow of capital from the market for catastrophe bonds (ILS) – especially in US natural catastrophe business – added to the premium erosion. As the year progressed, however, a reduction in the oversupply of reinsurance capacity could be discerned relative to the previous year. Most significantly, the resurgent US economy sent out positive signals for the premium trend in mature markets.

Based on our profit-oriented underwriting policy, we are well placed to handle the challenging market conditions. It remains the case that we expand our portfolio only in areas where margins are commensurate with the risks. In regions and lines where prices fail to satisfy our profitability requirements, however, we systematically reduce our shares. This strategy of active cycle management enables us – despite soft market conditions – to largely preserve the high rate quality of our portfolio.

We are broadly satisfied with the outcome of the various rounds of treaty renewals during the year under review. The largest business volume is traditionally renewed on 1 January, the date in 2015 when almost two-thirds of our treaties were renegotiated. While rate reductions and in some instances deteriorations in conditions were observed in many markets, it was also possible to obtain rate increases under treaties that had been impacted by losses in 2014. This was especially true of our domestic German market. Rates in the aviation line developed less favourably despite significant losses. Rate movements were still limited on account of the continued abundant availability of insurance capacity, prompting us to scale back our premium volume in this line. All in all, our portfolio remained stable.

By and large, this trend was sustained in the treaty renewals during the year, although isolated indications of a stabilisation in reinsurance prices could be detected. With this in mind, we were also satisfied with the renewals as at 1 June and 1 July 2015 – the dates when, most notably, parts of our North American portfolio, agricultural risks and business from Latin America come up for renewal. Hannover Re successfully grew its business at adequate rates. This was also the main renewal season for business in Australia, which passed off highly successfully for Hannover Re thanks to the enlarged market share secured with long-standing customers.

Key figures for Property & Casualty reinsurance — **M 10**

in EUR million	2015	+/– previous year	2014	2013	2012[1]	2011
Gross written premium	9,338.0	+18.2%	7,903.4	7,817.9	7,717.5	6,825.5
Net premium earned	8,099.7	+15.5%	7,011.3	6,866.3	6,854.0	5,960.8
Underwriting result	432.2	+23.0%	351.5	335.5	272.2	(268.7)
Net investment income	945.0	+12.0%	843.6	781.2	944.5	845.4
Operating result (EBIT)	1,341.3	+12.6%	1,190.8	1,061.0	1,091.4	599.3
Group net income	914.7	+10.3%	829.1	807.7	685.6	455.6
Earnings per share in EUR	7.58	+10.3%	6.88	6.70	5.68	3.78
EBIT margin[2]	16.6%		17.0%	15.5%	15.9%	10.1%
Retention	89.3%		90.6%	89.9%	90.2%	91.3%
Combined ratio[3]	94.4%		94.7%	94.9%	95.8%	104.3%

1 Adjusted pursuant to IAS 8
2 Operating result (EBIT)/net premium earned
3 Including expenses on funds withheld and contract deposits

All in all, Hannover Re once again benefited in the year under review from its enduring customer relationships as well as its position as one of the leading and most financially robust reinsurance groups in the world.

Against this backdrop, the total gross premium in the year under review climbed by a substantial 18.2% to EUR 9.3 billion (previous year: EUR 7.9 billion); at constant exchange rates growth would have reached 8.1%. We thus beat our guidance, which had anticipated a stable currency-adjusted premium volume. The level of retained premium decreased to 89.3% (90.6%). Net premium earned increased by 15.5% to EUR 8.1 billion (EUR 7.0 billion); growth would have been 6.4% at constant exchange rates.

As in the previous years, the burden of major losses that we incurred remained moderate: the hurricane season in North America and the Caribbean once again passed off thoroughly unremarkably in 2015. However, an increased number of natural disasters was recorded, including for example flooding in the UK and the storm "Niklas" in Europe. There was also a spate of man-made losses. The largest single loss for the insurance industry and hence also for our company was the devastating series of explosions at the port of the Chinese city of Tianjin in August 2015. This gave rise to loss expenditure of EUR 111.1 million for our net account.

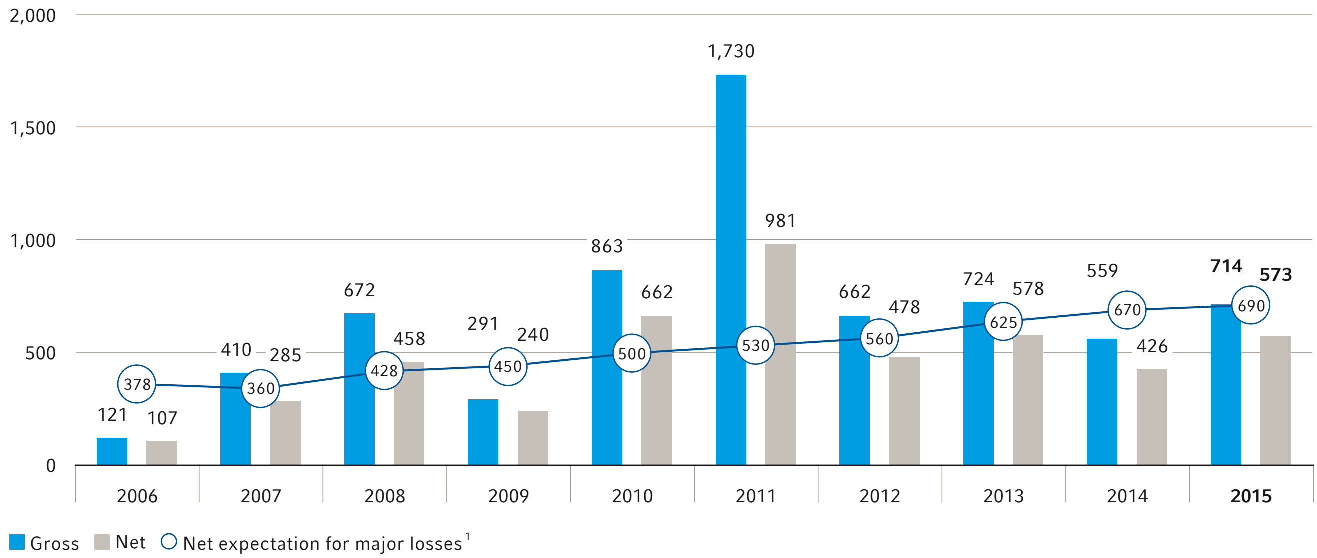
These and other large losses resulted in net major loss expenditure for our company totalling EUR 572.9 million (EUR 425.7 million). While this figure is well above that of the previous year, it still came in below our budgeted level of EUR 690 million. For a detailed list of our catastrophe and large losses please see page 85.

The combined ratio of 94.4% (94.7%) in the year under review was better than the target mark of 96%. The underwriting result (including expenses on funds withheld and contract deposits) improved again on the previous year to reach EUR 452.4 million (EUR 371.9 million).

Investment income in property and casualty reinsurance climbed by a pleasing 12.0% to EUR 945.0 million (EUR 843.6 million). The operating profit (EBIT) reached a new record level in the year under review of EUR 1,341.3 million (EUR 1,190.8 million), equivalent to growth of 12.6%. The EBIT margin stood at 16.6% (17.0%) and thus comfortably surpassed our minimum target of 10%. Group net income improved by 10.3% to EUR 914.7 million (EUR 829.1 million). Earnings per share stood at EUR 7.58 (EUR 6.88) for this business group.

On the following pages we report in detail on developments in the individual markets and lines of our Property & Casualty reinsurance group, split into the three areas of Board responsibility referred to at the beginning of this section.

Property & Casualty reinsurance: Major loss trend[1] **M 11**
in EUR million



[1] Natural catastrophes and other major losses in excess of EUR 10 million gross (until 31 December 2011: in excess of EUR 5 million gross)

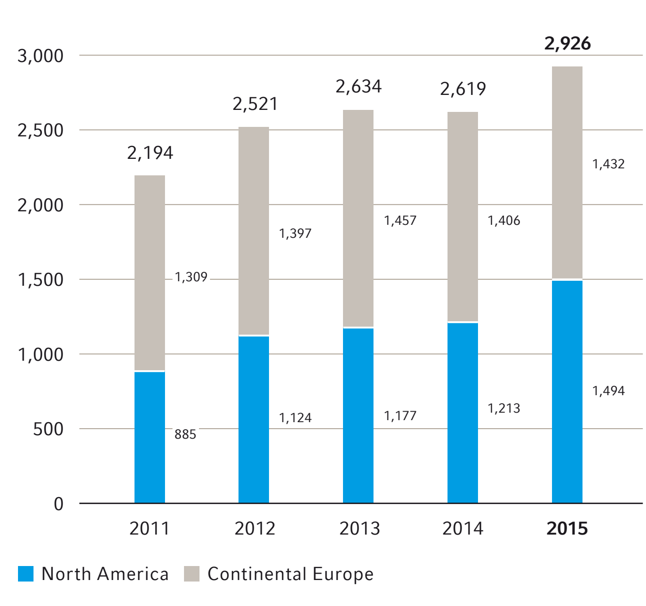
Property & Casualty reinsurance: Key figures for individual markets and lines in 2015 M 12

	Gross premium 2015 in EUR million	Change in gross premium relative to previous year	Gross premium 2014 in EUR million	EBIT in EUR million	Combined ratio	Maximum tolerable combined ratio (MtCR)
Target markets	**2,925.5**	**+11.7%**	**2,619.4**	**445.2**	**99.0%**	**96.5%**
North America	1,493.8	+23.1%	1,213.4	242.0	99.6%	99.2%
Continental Europe	1,431.7	+1.8%	1,406.1	203.2	98.4%	94.4%
Specialty lines worldwide	**2,920.4**	**+13.4%**	**2,575.6**	**518.5**	**90.9%**	**97.5%**
Marine	297.1	+5.9%	280.6	112.3	60.0%	91.3%
Aviation	377.3	+3.7%	364.0	70.5	93.6%	99.3%
Credit, surety and political risks	605.6	+14.0%	531.4	63.7	98.9%	96.9%
UK, Ireland, London market and direct business	519.7	+17.6%	442.0	153.7	86.6%	98.7%
Facultative reinsurance	1,120.7	+17.0%	957.6	118.3	94.1%	96.9%
Global reinsurance	**3,492.1**	**+28.9%**	**2,708.4**	**377.7**	**93.1%**	**94.8%**
Worldwide treaty reinsurance	1,810.4	+22.3%	1,480.7	165.7	95.7%	94.7%
Catastrophe XL (Cat XL)	374.9	+20.9%	310.0	154.6	50.2%	82.2%
Structured reinsurance and Insurance-linked securities	1,306.8	+42.4%	917.7	57.4	98.4%	98.9%

Target markets

Hannover Re classifies North America and Continental Europe as target markets. The premium volume increased by 11.7% to EUR 2,925.5 million (EUR 2,619.4 million). Growth thus came in stronger than originally forecast. The combined ratio slipped from 92.5% to 99.0%, as a consequence of which the operating profit (EBIT) retreated accordingly to EUR 445.2 million (EUR 507.6 million).

Property & Casualty reinsurance: Breakdown of gross written premium in target markets M 13
in EUR million



North America

The North American (re)insurance market is the largest single market both worldwide and for Hannover Re. Our business here is written almost exclusively through brokers.

The continued moderate growth of the US economy in 2015 served to boost the premium volume in the primary insurance market; the rate level, which had been rising since 2011, stabilised on the level of the previous year. Given the continued absence of significant natural catastrophe events in the United States and with low inflation rates offering room to write back reserves, both insurance and reinsurance companies were able to show healthy profits.

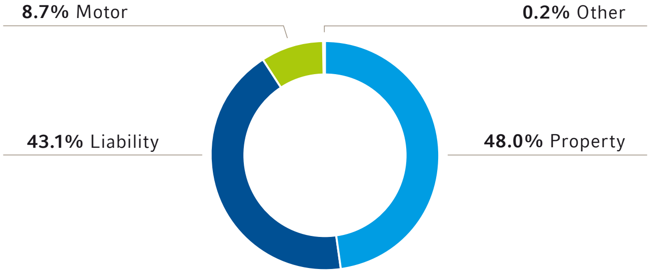
The more comfortable capital resources available to market players and the additional risk-carrying capacity offered by alternative capital led to renewed pressure on reinsurance rates, albeit to a lesser extent than had originally been anticipated. Proportional property business was broadly stable, although conditions deteriorated in some areas. Rates in non-proportional US catastrophe business fell in response to the inflow of capacity from alternative markets and on account of higher retentions carried by ceding companies, although the pace of erosion slowed.

Loss-impacted programmes saw positive price adjustments. Although general liability business came under heavier rate pressure, as reflected in coverage extensions and more generous limits of liability as well as increased cost reimbursements, rate increases were booked in some instances in the professional indemnity lines. Greater awareness of cyber risks led to stronger demand. Opportunities also opened up in the reinsurance of M & A activities. In addition, we were able to further enlarge our business relationship with a long-standing customer in the context of a large-volume treaty.

Hannover Re is very well positioned in the North American market and thanks to its excellent rating, its financial standing and its experience the company is a valued partner for its clients. Especially in long-tail liability business, this is of the utmost importance. Thanks to our access to the entire market spectrum, we were particularly successful in further diversifying our portfolio and writing additional profitable business in the financial year just ended.

On the claims side North America experienced a number of smaller natural catastrophe events, which resulted in merely moderate losses for reinsurers. This was particularly the case with the hurricane season, which again passed off thoroughly benignly in the year under review. Hannover Re incurred sizeable losses in the United States from, inter alia, the winter storm in February (EUR 12.8 million), forest fires (EUR 9.3 million) as well as a storm and flooding in May/June (EUR 7.3 million).

Property & Casualty reinsurance: Breakdown of gross written premium in North America by line of business M 14

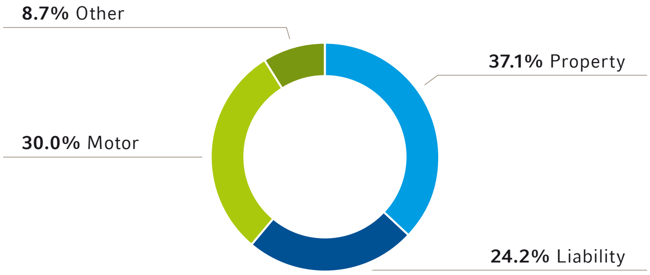


Despite the competitive climate and our margin-oriented underwriting policy, the gross premium for our business in North America rose by 23.1% to EUR 1,493.8 million (EUR 1,213.4 million). Adjusted for exchange rate effects, North American business booked growth in the mid-single-digit percentage range. The combined ratio deteriorated in the year under review to 99.6% (91.8%). The operating profit (EBIT) fell to EUR 242.0 million (EUR 258.2 million).

Continental Europe

We group together the markets of Northern, Eastern and Central Europe as Continental Europe. The largest single market here is Germany. The premium volume for our business in Continental Europe in the year under review came in at EUR 1,431.7 million (EUR 1,406.1 million). The combined ratio stood at 98.4% (93.1%). The operating profit (EBIT) amounted to EUR 203.2 million and thus fell short of the previous year's good performance (EUR 249.4 million).

Property & Casualty reinsurance: Breakdown of gross written premium in Continental Europe by line of business M 15



Germany

The German market – the second-largest in the world for property and casualty reinsurance – is served within the Hannover Re Group by our subsidiary E+S Rück. As the "dedicated reinsurer for Germany", the company is a sought-after partner thanks to its very good rating and the continuity of its business relationships. E+S Rück is superbly positioned in its domestic market and a market leader in property and casualty reinsurance.

The German market was similarly shaped by oversupply on the reinsurance market, putting pressure on conditions – especially in short-tail business. Furthermore, ceding companies are raising their retentions in order to meet internal cost pressure – especially associated with regulatory requirements such as Solvency II.

Loss expenditure caused by natural disasters was slightly higher than in the previous year, driven above all by winter storm "Niklas" in late March/early April. The German Insurance Association (GDV) estimates that losses from natural catastrophe events cost the insurance industry around EUR 2.1 billion. Roughly one third of the total loss burden can be attributed to winter storm "Niklas", which – with damage to insured buildings put at EUR 750 million – ranks among the five most severe winter storms since 1997.

The diverging developments in property and casualty insurance in Germany became even more marked in the year under review: while the premium quality in retail lines improved, especially in motor and homeowners business, industrial lines – above all fire insurance – remained fiercely competitive. A further factor is that loss ratios here have been rising steadily since the beginning of the decade and no further underwriting profits have been generated market-wide. Not only were very large individual losses (in some cases more than EUR 250 million) recorded in 2015, the number of claims also increased sharply.

Claims expenditure in motor own damage insurance was in line market-wide with the multi-year average. Despite tariff improvements in the primary market, the increased loss burden compared to the previous year caused the combined ratio to deteriorate slightly. Using highly specialised analysis tools, we assist our customers with the individual exposure mapping of their own damage portfolios and draw on these insights to develop bespoke reinsurance solutions.

Premium income from motor liability insurance rose again in 2015 – on the back of modest tariff increases in the previous years. Allowing for the run-off from previous years, the combined ratio for the year as a whole is likely to reach a level of roughly 100% market-wide. General liability business in Germany will similarly see the technical income statement close in positive territory. Growing demand could be observed here for cyber covers, although the associated premium volume is still very minimal. All in all, we are satisfied with the premium contribution from our German business.

Rest of Continental Europe

European markets are still intensely competitive; this is true not only of countries in Central and Eastern Europe but also of most mature markets such as France and Northern Europe. Along with difficult economic conditions, surplus capacities put the insurance industry under strain; rate reductions and poorer conditions were therefore once again a feature of the Northern European and French markets, especially in the industrial lines. We nevertheless succeeded in maintaining our market share, in part by increasing our shares with selected cedants and also by writing additional business in less competitive lines. In long-tail liability business, especially on the motor side, we are still seeing a challenging climate and participate only selectively.

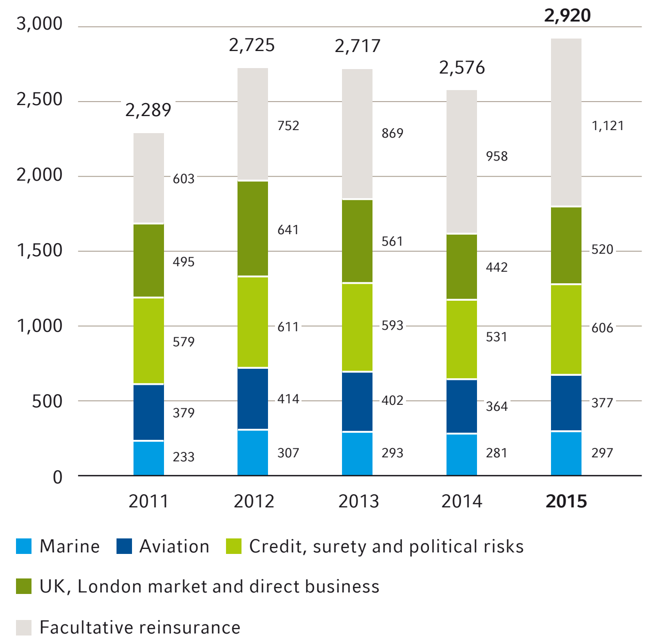
Developments in Central and Eastern Europe were overshadowed by political tensions and the associated economic impacts. The primary insurance market consequently saw a contraction in premium income, with corresponding implications – exacerbated by the competition – for the reinsurance market. In the year under review, however, it was largely possible to obtain risk-appropriate rates and conditions and hence we were able to generate satisfactory results with a somewhat smaller premium volume. On the claims side the region was impacted by numerous small and mid-sized events.

Specialty lines worldwide

Under specialty lines we include marine and aviation reinsurance, credit and surety reinsurance, business written on the London Market as well as direct business and facultative reinsurance.

The premium volume for specialty lines amounted to EUR 2,920.4 million (EUR 2,575.6 million) in the year under review. The combined ratio improved from 100.2% to 90.9%. The operating profit (EBIT) for specialty lines surged to EUR 518.5 million (EUR 169.4 million).

Property & Casualty reinsurance: Breakdown of gross written premium in worldwide specialty lines **M 16**
in EUR million



Marine

After years of satisfactory rates, the marine reinsurance market is currently experiencing a soft market phase. In the treaty renewals at the beginning of 2015 price declines running into double-digit percentages were recorded as a consequence of the relatively low expenditure on marine losses. The insurance market for offshore energy risks has been facing substantial surplus capacities for around 18 months now. The drop in oil prices has also cut into demand. Despite some strains from man-made losses, reinsurance prices for coverage of such risks therefore continued to decline.

In 2015 the series of explosions in the Chinese port city of Tianjin caused a market loss in the range of USD 2 to 3 billion, a not inconsiderable part of which impacted marine reinsurance. The net loss for our share across all lines amounted to EUR 111.1 million. Further large losses incurred in the market were attributable principally to damaged oil rigs in the Gulf of Mexico. We therefore adjusted our underwriting policy along more conservative lines and relinquished business that offered little prospect of profitability.

Driven in part by positive exchange rate effects, gross premium for our marine portfolio increased by 5.9% to EUR 297.1 million (EUR 280.6 million). Despite the aforementioned loss expenditure the combined ratio improved to 60.0% (67.2%) and the underwriting result moved correspondingly higher. The operating profit (EBIT) climbed to EUR 112.3 million (EUR 85.7 million).

Aviation

Results in international aviation (re)insurance were once again impacted in the year under review by a number of losses, including what investigations currently indicate was the deliberate crash of a German aircraft. At the same time, the space market was faced with the largest single loss in its history.

The significant major losses recorded in 2014 had only a very limited positive effect on the rate trend in 2015. This can be attributed above all to the unchanged abundant supply of insurance capacity. Rate increases in the market for war covers similarly fell short of expectations. We adhered to our disciplined underwriting strategy in this soft market phase and kept a clear focus on non-proportional business. In this segment we operate as one of the market leaders, in contrast to our selective stance on writing proportional acceptances.

The premium volume for our total aviation portfolio rose slightly from EUR 364.0 million in the previous year to EUR 377.3 million. Total expenditure on large losses was lower than in the previous year at EUR 51.3 million; the combined ratio consequently improved to 93.6% (112.1%) and came in below the target level for the maximum tolerable combined ratio (99.3%). The operating result (EBIT) improved to EUR 70.5 million (-EUR 2.4 million).

Credit, surety and political risks

Hannover Re ranks among the market leaders in worldwide credit and surety reinsurance.

While the development of the worldwide economy in 2015 can be described as robust overall, economic conditions in certain regions – including for example in Southern Europe, emerging markets and especially China – were difficult. Global growth in the primary insurance market therefore remained minimal. The increased risk-carrying capacity of ceding companies has led to a drop in reinsurance cessions in some areas. We write a large share of our business with credit, surety and political risks in the form of proportional treaties, under which cost reimbursements in the year under review increased only moderately.

Gross premium income in these lines grew by 14.0% in 2015 to EUR 605.6 million (EUR 531.4 million). The premium growth was boosted by exchange rate effects, the acquisition of new customers and the expansion of existing client relationships.

The claims frequency in credit and surety business increased considerably in the year under review, most strikingly in emerging markets. A few sizeable insolvency losses were also recorded, including for example a Spanish engineering and energy group. The loss ratio in political risk insurance also rose slightly from a low level. The combined ratio of 98.9% for the entire segment was thus significantly higher than in the previous year (92.2%) and exceeded our maximum tolerable target ratio of 96.9%. The operating profit (EBIT) contracted by 26.9% to EUR 63.7 million (EUR 87.2 million).

United Kingdom, London market and direct business

United Kingdom, Ireland and the London Market

The property and casualty business that we reinsure for companies in the United Kingdom and on the London market developed largely satisfactorily in 2015. The intense competition in the primary sector was sustained and led to rate reductions. Exceptions here were UK motor business and parts of the Irish primary insurance portfolio. On the reinsurance side a similar picture emerged. While rates in non-proportional UK business remained stable or rose slightly at the beginning of 2015 – after sometimes appreciable increases in the years from 2011 to 2014 –, they came under more pronounced pressure in the other property and casualty lines. We managed our portfolio in keeping with our cycle management and scaled back our shares in programmes under which the prices or conditions were not considered attractive. Major losses were incurred in the form of severe flooding in the United Kingdom, for which we reserved an amount of EUR 28.3 million, as well as fire losses in a number of markets including France and Northern Europe.

Direct business

We also write direct business through our subsidiary International Insurance Company of Hannover SE (Inter Hannover). This essentially involves tightly defined portfolios of niche or other non-standard business that complements our principal commercial activity as a reinsurer.

We transformed the company into a Societas Europaea (SE) in 2014 and moved its registered office to Hannover at the beginning of 2015. The purpose was to interlink more closely the business management units and to leverage potential synergies and economies of scale in the administration of the business. We write a large portion of our direct business in the London Market and through our Swedish branch. The result of our direct business was significantly improved in the financial year just ended. This is a respectable achievement, especially bearing in mind the intensive competition among the insurers and reinsurers operating in this sector.

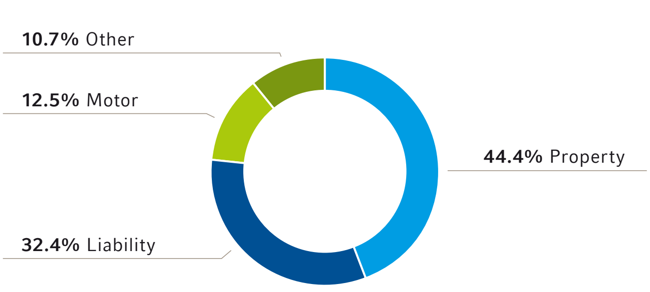
The gross premium booked from the United Kingdom, London market and direct business climbed – as indicated in the renewals as at 1 January 2015 – by 17.6% from EUR 442.0 million to EUR 519.7 million. A good portion of the growth was driven by positive exchange rate effects. The combined ratio stood at 86.6% (110.3%). The operating result (EBIT) improved accordingly to EUR 153.7 million (-EUR 12.8 million).

Facultative reinsurance

In contrast to obligatory reinsurance, a reinsurer underwrites primarily individual risks in facultative business. The general environment for both types of reinsurance in the various markets is, however, for the most part comparable.

Heavy rate erosion and diminished demand for coverage of offshore and onshore risks were all but offset by increased acceptances in the areas of renewables, cyber risks and personal accident/sports covers. Yet even in these segments the effects of the soft market could be felt. Rate movements therefore varied across regions and markets, although the overall trend was still downwards.

Property & Casualty reinsurance: Breakdown of gross written premium in facultative reinsurance **M 17**



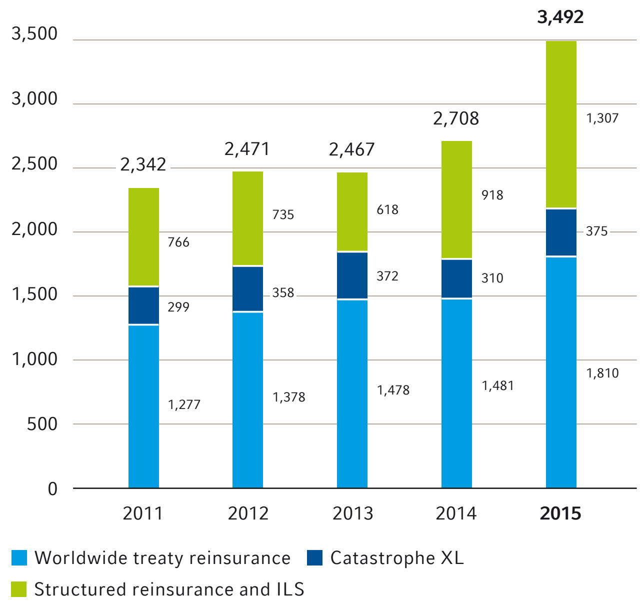
We are largely satisfied with the development of our overall facultative portfolio in the year under review, despite the protracted soft market environment: we grew our business and further diversified the portfolio. The premium volume increased to EUR 1,120.7 million (EUR 957.6 million). The organic growth was favourably influenced by a strong US dollar and a non-recurring special effect associated with a modified method for calculating and deferring premiums from reinsurance treaties that have still to be brought to account. An unusually high frequency of mid-sized losses was incurred from various regions and lines in the 2015 financial year. The combined ratio was particularly heavily impacted by damage to oil exploration equipment in the Gulf of Mexico and refineries, although fire losses at industrial facilities and some isolated liability claims were also contributory factors. Major losses nevertheless did not reach the level of the previous year. The combined ratio of 94.1% was below that of the previous year (103.9%). The operating profit (EBIT) improved accordingly to EUR 118.3 million (EUR 11.8 million).

Global reinsurance

We combine all markets worldwide under global reinsurance with the exception of our target markets and specialty lines. This segment also encompasses global catastrophe business, the reinsurance of agricultural risks, Sharia-compliant retakaful business as well as structured reinsurance and insurance-linked securities.

The premium volume increased by 28.9% in the year under review to EUR 3,492.1 million (EUR 2,708.4 million). The combined ratio deteriorated slightly from 91.6% to 93.1%. The operating profit (EBIT) declined from EUR 513.8 million to EUR 377.7 million.

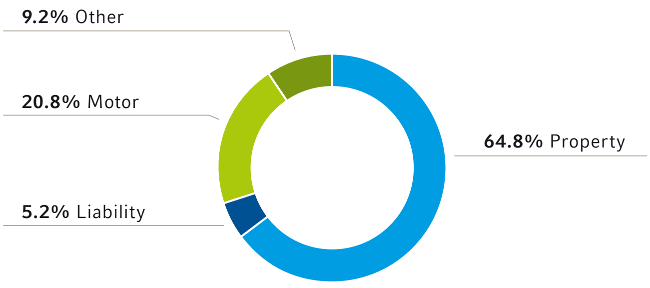
Property & Casualty reinsurance: Breakdown of gross written premium in global reinsurance **M 18**
in EUR million



Worldwide treaty reinsurance

We are satisfied with the development of our worldwide treaty reinsurance portfolio. The gross premium volume grew in line with our expectations to EUR 1,810.4 million (EUR 1,480.7 million). The combined ratio improved from 98.5% to 95.7%. The operating profit (EBIT) retreated to EUR 165.7 million (EUR 225.6 million).

Property & Casualty reinsurance: Breakdown of gross written premium in worldwide treaty reinsurance **M 19**



Asia-Pacific region

The Asia-Pacific countries continue to be a growth region for Hannover Re, and with this in mind we further expanded our position in the year under review. Developments in the individual markets varied widely; the region was the scene of increasing competition on account of the available growth opportunities. Although the loss expenditure incurred in certain markets was striking, it can still be assessed as satisfactory overall.

Japan remains one of the most important regional markets in the Asia-Pacific for the Hannover Re Group. The year under review was notable for a very active typhoon season. Storm "Etau" caused a major loss for Hannover Re that we reserved in the amount of EUR 27.3 million. The other lines written here closed the period under review with mostly positive results.

Thanks to our historically broad positioning with the major Japanese insurance groups in the Asia-Pacific region and worldwide, the Hannover Re Group was also able to hold its premium income stable despite sustained pressure on reinsurance conditions in the last April renewals.

In China Hannover Re once again booked double-digit growth in the year under review. We are present in the country with a locally licensed branch and have systematically pursued the successful strategy of the previous years – namely consolidating our business relationships with selected clients. Our business already benefited in the year under review from the upcoming implementation of the risk-based solvency system C-ROSS effective 1 January 2016, which favours local reinsurance placements. Results were, however, hard hit by the extraordinary series of explosions at the Port of Tianjin; the insured market loss from this accident is estimated to be in the range of EUR 2 to 3 billion.

Almost all primary insurance markets in South and Southeast Asia are growing disproportionately strongly compared to the more mature Asian markets. In this region Hannover Re is represented by a branch in Kuala Lumpur. We further improved our market penetration and generated strong growth in the year under review. In keeping with our strategy, the prevailing conditions – which were shaped by the intense competitive forces – prompted us to successfully expand new, less hard-fought business segments and optimise our risk balance.

After the Indian government had opened the way in 2015 for foreign reinsurers to set up branches, we embarked on intensive preparations for the licensing process. In so doing, we are aiming to strengthen our market presence and boost our growth prospects.

In Australia and New Zealand, contrary to expectations, Hannover Re achieved vigorous growth by realising sizeable transactions with a number of target customers. In the first half of 2015 the region was impacted by an unusual frequency of mid-sized and smaller natural catastrophe losses. Given that the Hannover Re Group is the third-largest provider of reinsurance protection in the Australian market, our results were initially adversely affected by these events. As the financial year drew to a close, however, the overall result posted by the Australian permanent establishment proved to be encouragingly positive. This was facilitated by the high retentions carried by local ceding companies, the selective underwriting policy practised by our underwriters and a favourable run-off result.

South Africa

Our property and casualty reinsurance business in South Africa is generated by three companies. Hannover Reinsurance Africa Limited writes reinsurance in all lines – including specialty lines, which are written in close consultation with departments in Hannover. Compass Insurance writes direct business through so-called underwriting management agencies (UMAs). The third company, Lireas Holdings, holds interests in several of these UMAs. This enables us to comprehensively steer and control the business. Agency business forms the pillar of our activities in South Africa, although reinsurance business is also written on the open market in South Africa and other African countries.

This market continues to be characterised by its relatively low insurance density; most vehicles on public roads, for example, are uninsured. Despite this, the insurance market showed only marginal growth in the year under review, although the results posted by insurers were significantly better than in the previous year. This can be attributed above all to a lower frequency of large and catastrophe losses.

Against this backdrop, both Compass Insurance and Hannover Reinsurance Africa performed appreciably better in the 2015 financial year and delivered pleasing results. The premium volume contracted owing to negative exchange rate effects and expected shifts into large-volume, structured reinsurance arrangements.

Latin America

Hannover Re is very well positioned in Latin America and a market leader in some countries. The most important markets for our company are Brazil, where we are present with a representative office, as well as Mexico, Argentina, Colombia and Ecuador.

Most Latin American markets have enjoyed very vigorous growth in recent years and are still showing solid gains. Primary insurance premiums are increasing by between 5% and 15% a year depending on the market. With natural catastrophe risks highly exposed, the strong demand for reinsurance covers remains undiminished. In Latin America, too, the reinsurance market finds itself experiencing a soft phase. Premium income on the reinsurance side contracted in 2015 owing to the devaluation of some Latin American currencies and due to the higher retentions carried by primary insurers.

A survey of cedants conducted by the trade magazine “Intelligent Insurer” confirmed our excellent position. Our clients named us as a preferred partner in all categories. In Argentina, despite the restrictions placed on foreign reinsurers, we succeeded in preserving our market leadership. We wrote our business increasingly selectively in order to generate our required margins. In Brazil we maintained our position in the face of ongoing market concentration on the primary insurance side.

Losses from natural disasters were again on the moderate side for the (re)insurance industry in the year under review. The earthquake in Chile gave rise to net loss expenditure of EUR 25.5 million for Hannover Re. Overall, we are satisfied with the development of our business in Latin America.

Agricultural risks

The insurance of agricultural risks was one of Hannover Re’s fastest growing segments in 2015. We further expanded our market position and rank among the preferred partners for agricultural covers. In addition, we have been taking an increasingly active role in product development. We entered into cooperative ventures with governments and international organisations in the year under review with a view to expanding the protection of agricultural risks.

Rates and conditions remained broadly stable on the primary insurance side. Conditions in reinsurance business came under pressure in the established markets due to new market players.

We were successful in our efforts to further diversify our portfolio mix in terms of both countries and lines of business; a contributory factor here, for example, was an enlarged share of business involving insurance products for small farmers, predominantly in emerging and developing countries. Growth was also driven by the expansion of a long-standing customer relationship in the United States.

We are satisfied with the development of our agricultural risks business. The major loss situation was comparatively moderate in 2015. Hail events, droughts and floods had little or no impact on our portfolio. To this extent, a healthy profit contribution was generated on the back of the further improvement in our diversification in this segment.

Retakaful business

We write retakaful business, i. e. reinsurance transacted in accordance with Islamic law, worldwide. Our focus is currently on the Middle East, North Africa and Southeast Asia. This business is written by our subsidiary in Bahrain. We also maintain a branch that is responsible for writing traditional reinsurance in the Middle East and North Africa. Our retakaful business has been growing very vigorously for a number of years and we are satisfied overall with its development.

Bearing in mind that takaful and retakaful markets have now become fiercely competitive – in part due to the entry of new market players –, rates remain under sustained pressure. Hannover Re has been active in retakaful business since 2006 and the company is strongly positioned. We were particularly successful in growing our motor portfolio in the year under review; the largest single line is industrial fire business.

Natural catastrophe business

We write the bulk of our catastrophe business out of Bermuda, which has established itself as a worldwide centre of competence. In the interest of diversifying the portfolio our subsidiary Hannover Re (Bermuda) Ltd. has also written some of the specialty lines since 2013.

With major losses again lower than expected and hence the associated good results posted by insurers and reinsurers, and in view of the increasing capacities made available by so-called alternative capital markets, competition was intense. Reflecting this situation, rates in US property catastrophe business fell further – albeit at a slowing pace. After the appreciable increases that we had booked in 2012 and 2013, rates in Japan softened as anticipated. Only in isolated cases, most notably under loss-impacted programmes, were improvements recorded. All in all, declining rates are the dominant feature of natural catastrophe business worldwide.

As in the previous years, losses were very much on the moderate side for both insurers and reinsurers and those losses that were incurred came in within the modelled claims expectations. The largest single losses under our natural catastrophe covers were the earthquake in Chile and the floods in the United Kingdom.

The gross premium volume for our global catastrophe business developed favourably in the year under review, assisted in part by exchange rate movements: it rose from EUR 310.0 million to EUR 374.9 million. The combined ratio deteriorated to 50.2% (39.3%). The operating profit (EBIT) came in at EUR 154.6 million (EUR 185.6 million).

Structured reinsurance and Insurance-Linked Securities

Structured reinsurance

Hannover Re is one of the largest providers in the world for advanced solutions or structured reinsurance solutions, the purpose of which – among other things – is to optimise the cost of capital for our ceding companies. In this area we offer bespoke alternative reinsurance solutions that provide solvency relief or protect our clients against basic losses in lower layers. The 2015 financial year was notable for growing demand, particularly with an eye to the implementation of Solvency II in Europe and other risk-based solvency regimes in various countries.

In keeping with our objective we continued to expand our customer base and further improved the regional diversification of our portfolio in the year under review. The premium volume in structured reinsurance increased again – in part driven by unchanged brisk demand for quota share arrangements in the motor line.

Insurance-Linked Securities (ILS)

Our activities in relation to the transfer of reinsurance risks to the capital market were highly successful in the financial year just ended. By way of example, we were able to renew the protection cover for Hannover Re known as the "K cession" – a modelled quota share cession consisting of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine (including offshore) lines that has been placed inter alia on the ILS market for more than 20 years now – at an increased level of roughly USD 400 million for 2015.

In addition, we enable investors to participate in insurance and reinsurance risks. Our role can be that of initiator, arranger, structurer and/or fronter. The principal instruments are collateralised reinsurance and catastrophe bonds. Our business partners on the investment side include specialised ILS funds, pension funds and hedge funds as well as primary insurers, captives and other portfolio managers seeking risks that promote diversification. The exposure volume that we transferred to the capital market in 2015 in the form of catastrophe bonds was in excess of USD 1.5 billion, including more than USD 700 million for the Texas Windstorm Insurance Association (TWIA), over USD 300 million for the Massachusetts Property Insurance Underwriting Association (MPIUA) and another bond for California earthquake risks with a volume of USD 300 million. We also acted as co-manager in UnipolSai's Azzurro transaction with a volume of more than EUR 200 million.

The currently available capital exceeds by far the opportunities for new investments in catastrophe bonds. This has prompted investors to look for other means of investing in the reinsurance sector. So-called collateralised reinsurance again enjoyed particularly strong growth in the year under review and exceeds market-wide the volume of funds invested in catastrophe bonds. Under collateralised reinsurance programmes the investor assumes reinsurance risks that are normally collateralised in the amount of the limit of liability. Hannover Re further stepped up its cooperation with selected fund managers in the area of collateralised reinsurance in the year under review and generated attractive margins on this business.

The gross premium volume in structured reinsurance and from ILS activities climbed from EUR 917.7 million to EUR 1,306.8 million. The combined ratio stood at 98.4% (94.1%). The operating profit (EBIT) amounted to EUR 57.4 million (EUR 102.6 million).

Life & Health reinsurance

- Gross premium growth of 19.7% – currency-adjusted 9.5% – clearly above the target corridor of 5% to 7%
- Targeted improvement in profitability achieved with higher Group net income
- Strengthening of our international network through establishment of a branch in Toronto, Canada
- Creation of a stand-alone online sales platform for direct selling of life insurance products in Malaysia

Life and health reinsurance accounted for 45% of Group gross premium in the financial year just ended. It has evolved into a core strategic business group of the Hannover Re Group and thus plays a key part in the company's success. On the basis of our long-standing, partnership-based business relationships with our customers, our expertise and our worldwide presence, we operate directly in the international arena – not only identifying but also actively helping to shape trends and new markets. In so doing, we never lose our focus on profitability.

Total business

The performance of life and health reinsurance was at times volatile in the individual quarters of the financial year just ended. This was due to, among other things, differing developments in the various markets.

Preparations for the implementation of Solvency II at the beginning of the 2016 financial year dominated the insurance industry in Europe. Insurance companies were heavily preoccupied with the future capital and reporting requirements. In this connection, working together with our primary insurance customers, we have already identified various means of bringing about an optimal capital and solvency situation. Another significant move in the reporting period just ended was the entry into the Canadian life reinsurance market with the establishment of a branch in that country. Along with opening up new business opportunities, this will help to further diversify our portfolio. Asian as well as Central and Eastern European markets are exhibiting stronger interest in automated underwriting systems and innovative life insurance concepts.

Overall, the development of the year under review was thoroughly satisfactory. We booked gross premium income for the financial year just ended of EUR 7,730.9 million (previous year: EUR 6,458.7 million). This represents an increase of 19.7%. Adjusted for exchange rate fluctuations, growth came in at 9.5%. We thus comfortably beat the comparable growth target for gross premium of 5% to 7%. The level of retained premium also developed as planned and amounted to 84.2% (83.9%). Net premium totalled EUR 6,492.4 million (EUR 5,411.4 million). Adjusted for exchange rate effects, growth would have reached 10.0%.

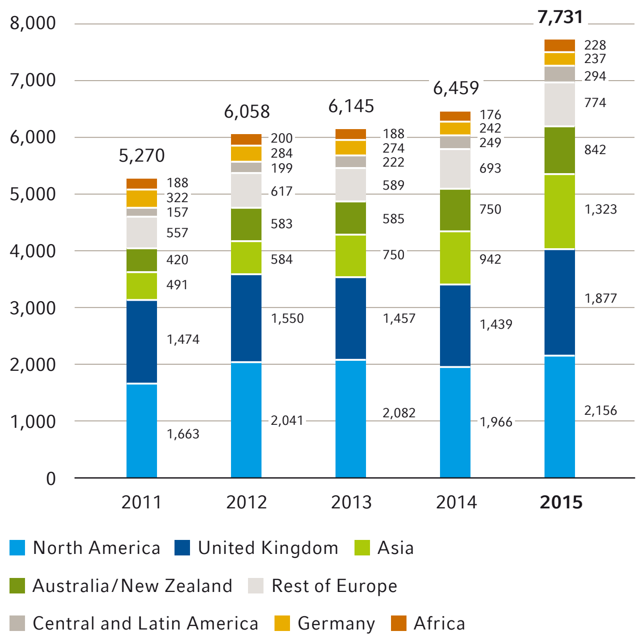
Key figures for Life & Health reinsurance M 20

in EUR million	2015	+/– previous year	2014	2013	2012[1]	2011
Gross written premium	7,730.9	+19.7%	6,458.7	6,145.4	6,057.9	5,270.1
Net premium earned	6,492.4	+20.0%	5,411.4	5,359.8	5,425.6	4,788.9
Investment income	709.2	+15.5%	614.2	611.5	685.1	512.6
Claims and claims expenses	5,459.0	+17.7%	4,636.2	4,305.7	4,023.5	3,328.6
Change in benefit reserve	101.1		28.6	146.5	529.4	619.7
Commissions	1,075.1	+13.6%	946.4	1,169.0	1,098.0	985.8
Own administrative expenses	197.3	+12.3%	175.7	156.7	144.1	130.6
Other income/expenses	35.9	+43.1%	25.1	(42.9)	(36.7)	(19.2)
Operating result (EBIT)	405.1	+53.6%	263.8	150.5	279.0	217.6
Net income after tax	289.6	+41.3%	205.0	164.2	222.5	182.3
Earnings per share in EUR	2.40	+41.3%	1.70	1.36	1.84	1.51
Retention	84.2%		83.9%	87.7%	89.3%	91.0%
EBIT margin[2]	6.2%		4.9%	2.8%	5.1%	4.5%

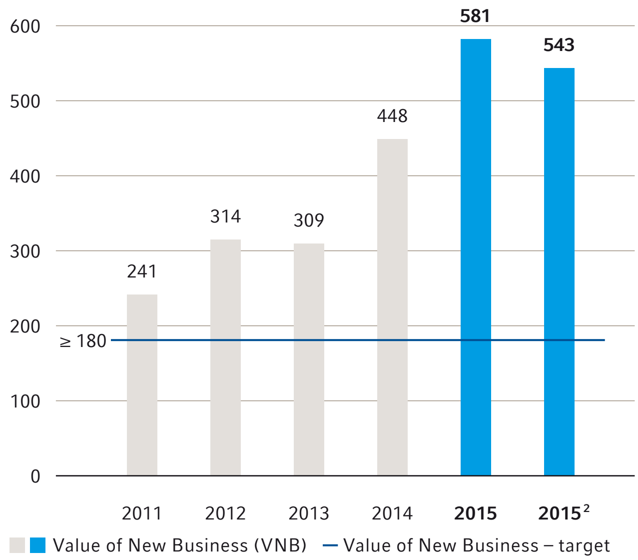
1 Adjusted pursuant to IAS 8
2 Operating result (EBIT)/net premium earned

Life & Health reinsurance at a glance

Breakdown of gross premium by markets M21
in EUR million

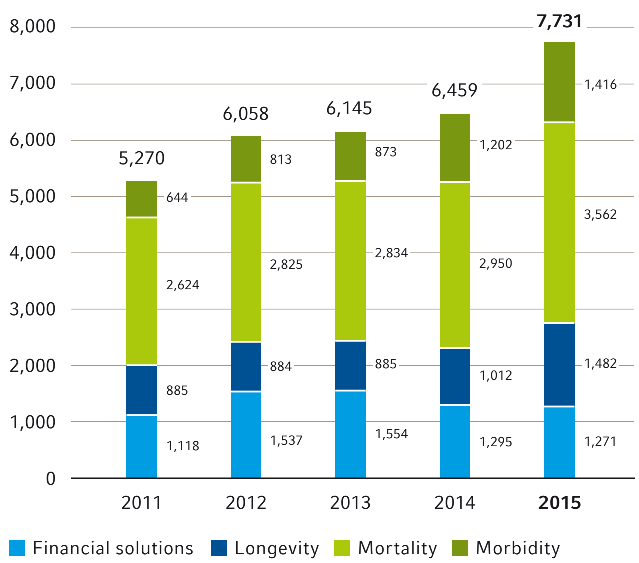


Value of New Business (VNB) growth[1] M22
in EUR million

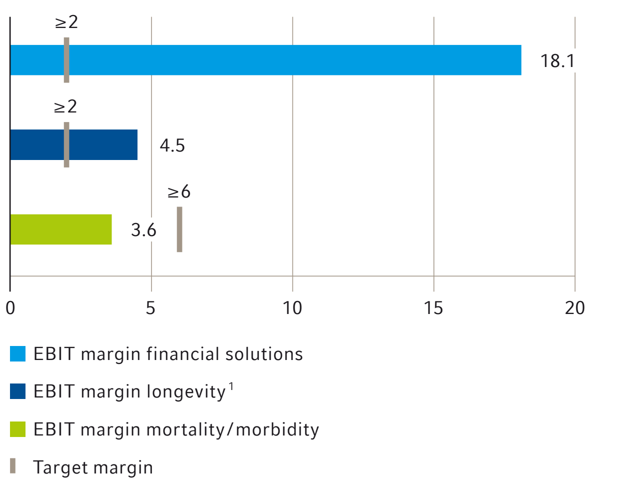


[1] Based on the MCEV Principles of the CFO Forum
[2] Increase in the cost of capital from 4.5% to 6.0% (in conformity with Solvency II)

Breakdown of gross written premium by reporting categories M23
in EUR million



EBIT-margin per reporting category vs. target margins 2015 M24
in %



[1] Including a longevity treaty that was previously classified under financial solutions

Investment income in life and health reinsurance amounted to EUR 709.2 million (EUR 614.2 million). The investment income derives, on the one hand, from our assets under own management and, secondly, from securities deposited with ceding companies. In the financial year just ended income of EUR 334.3 million (EUR 258.5 million) was generated from the assets under own management, while income from securities deposited with ceding companies came in at EUR 374.9 million (EUR 355.7 million). The modest increase in the investment income should be viewed particularly favourably in light of the unchanged low level of interest rates and is a testament to a solid investment strategy.

The operating result (EBIT) in life and health reinsurance reached a very pleasing level of EUR 405.1 million (EUR 263.8 million). The increased result was boosted by the gratifying development of financial solutions business. Overall, the very good underlying profitability was influenced on the one hand by positive special effects, including for example the early termination of a contract in the first quarter of 2015 in an amount of EUR 39.0 million. Negative one-off effects also played a part, however, as was the case at our branch in France. Against this backdrop, Group net income for life and health reinsurance increased by 41.3% to EUR 289.6 million (EUR 205.0 million).

In the following sections we discuss developments in life and health reinsurance in greater detail on the basis of our reporting categories. We split our business and the associated reporting into the categories of financial solutions and risk solutions. For the purposes of differentiation by biometric risks, the category of risk solutions is further divided into longevity, mortality and morbidity. This also corresponds to the breakdown used within our internal risk management system.

Financial solutions

Our financial solutions reporting category encompasses reinsurance solutions that focus on the management of our clients' balance sheets and thereby support them in – among other things – financing new business and optimising their capital or solvency structure. A crucial criterion for allocation to this category is that there is less emphasis on biometric risks with this form of reinsurance, even though they are always present.

Financial solutions business has been a central pillar of our activities for many years. We are equipped with long-standing expertise and current surveys rank us as the leading provider in a number of markets, including for example the United States. A special hallmark of our business philosophy is that we do not fall back on standardised reinsurance solutions. We offer our clients financing solutions and customised concepts designed to provide relief for capital and reserves that are individually tailored to their needs. This approach has stood the test of time and resulted in another exceptionally pleasing profit contribution in the year under review.

US financial solutions business, in particular, again fared thoroughly profitably in the financial year just ended and delivered a positive profit contribution. Along with solutions for capital relief and optimising the solvency situation of our customers in the life insurance market, we extended our business activities in the year under review to the emergent longevity and health reinsurance market and have already completed the first transactions. The underlying profitability of the financial solutions business generated in the United States developed superbly. As a further factor, the investment income was positively influenced on a one-off basis by the cancellation of a financial solutions contract in an amount running into the mid-double-digit millions of US dollars. Australia similarly developed well in the financial year just ended, especially in the area of new business financing, and thereby laid the foundation for the future.

In China the new supervisory regime C-ROSS (China Risk Oriented Solvency System), which was officially adopted on 1 January 2016, left its mark on the (re)insurance market in the financial year just ended. This was because companies were already applying the regulations on a test basis in 2015, hence generating stronger demand for reinsurance concepts to fit the new framework conditions.

In South Africa, too, new supervisory requirements for the (re) insurance industry are on the verge of implementation. Generally speaking, financial solutions business in South Africa and Asia developed positively overall with a pleasing share of new business.

Our activities in the area of financial solutions produced gross premium of EUR 1,271.3 million (EUR 1,295.2 million). This is equivalent to 16.4% of the total gross premium income booked in life and health reinsurance. The operating result (EBIT) amounted to EUR 203.2 million (EUR 74.6 million), a gratifying performance after the comparatively low EBIT reported in 2014. The EBIT margin stood at 18.1% (6.5%).

Longevity

The longevity reporting category encompasses our entire annuity and pension reinsurance business, insofar as the material risk here is the longevity risk. The policies in our portfolio are for the most part already in the pay-out phase.

Our portfolio consists to a large extent of enhanced annuities. These guarantee individuals with a reduced life expectancy a higher regular income for the remainder of their shorter lifespan. The United Kingdom continued to be our largest longevity market by premium volume in the year under review. Although the reform of the UK Pensions Act in April 2015 had a particularly adverse effect on enhanced annuities business, the implications for our premium volume have proven to be considerably less marked than previously anticipated.

The longevity sector throughout the rest of the European market saw unusually brisk activity prompted by the impending implementation of Solvency II. This opened up a broad array of attractive business opportunities for our company, and in volume terms the financial year just ended proved to be the most successful in Hannover Re's history. This positive development was also crucially reinforced by stronger worldwide demand for longevity solutions. The global demographic trend played a part here, generating further demand around the world for the transfer of longevity portfolios.

The gross premium for worldwide longevity business totalled EUR 1,482.1 million (EUR 1,012.0 million) in the year under review. The operating result (EBIT) amounted to EUR 54.0 million (EUR 23.7 million), while the EBIT margin stood at 4.5% (2.9%).

Mortality and morbidity

In the following section we report on our mortality and morbidity business. In the international (re)insurance markets these two risk types frequently occur together in business relationships and sometimes they are even covered under the same reinsurance treaties. It therefore makes sense to consider the results of both reporting categories on a consolidated basis and merely to give a separate account of the business development.

Mortality

Mortality-exposed business traditionally constitutes the core business of life and health reinsurance. The mortality reporting category accounts for the largest share of our total life and health reinsurance portfolio. The risk that we assume as a reinsurer is that the actually observed mortality may diverge negatively from the expected mortality.

With our subsidiary Hannover Life Reassurance Company of America we have grown into an established and sought-after business partner in our important US mortality market. Business there fell short of our expectations in the year under review. This can be attributed principally to the one-time payout of a very lucrative life insurance policy. In view of the risk experiences observed in a partial portfolio, we stepped up our portfolio maintenance activities with a view to further optimising the development of business going forward. In addition, by restructuring our collateral instruments in September of 2015 we were able to achieve a future annual saving – starting in 2016 – in the low double-digit million euros for this business. The effects of this restructuring were felt pro rata in the year under review. Moreover, working in cooperation with a primary insurance partner, we launched a holistic lifestyle concept in the US market that combines traditional life insurance policies with benefits and rewards in the area of health and wellness.

Looking at the year under review as a whole, our mortality-exposed business in Europe experienced volatility. In Continental Europe stronger demand could be discerned for unit-linked and risk-oriented products. The difficult situation on capital markets, especially when it comes to the protracted low level of interest rates, is driving this trend. In Central European markets and some parts of Northern Europe we similarly observed increased interest in risk-oriented insurance products as well as stronger demand for automated underwriting systems and alternative sales channels in general. This demand was also evident in Asia. In Russia we were able to successfully roll out our proprietary automated underwriting system for the first time on a joint basis with one of our customers. Not only that, in Malaysia we established a sales company for the exclusive online selling of insurance policies.

We were able to further increase the gross premium in the mortality reporting category to EUR 3,561.6 million (EUR 2,949.5 million) in the year under review. At 46.1%, mortality business therefore once again contributed the lion's share of our total gross premium income from life and health reinsurance (EUR 7.7 billion).

Morbidity

Morbidity business encompasses all business relating to the risk of deterioration in a person's state of health due to disease, injury or infirmity. The morbidity reporting category is notable for extensive product diversity, ranging from strict (any occupation) disability and occupational disability to numerous varieties of long-term care insurance. We are active in this area as a robust business partner, supporting our customers with our know-how and through risk transfer.

The development of group and health business in the Middle East gave grounds for satisfaction in the year under review. In the United Kingdom, too, our business fared well despite an extremely competitive environment. In Asian markets we noted stronger demand for critical illness covers.

The Australian market recovered appreciably in the financial year just ended, enabling us to slightly enlarge our portfolio in this area. The run-off of Australian disability business was in line with our expectations. Results in the US market were slightly poorer than we had anticipated owing to increased losses. The reform of the health sector there is nevertheless injecting fresh impetus into the market. We expect this to have positive implications for the development of business going forward.

From a global perspective, however, we observed lively demand in the financial year just ended – above all with respect to products for long-term care insurance. Particularly in mature insurance markets with progressively ageing demographics, demand for protection in retirement and in case of illness is growing. Consequently, we were able to boost our premium for worldwide morbidity business by 17.8% to EUR 1,415.9 million (EUR 1,202.1 million).

Taken together, we generated an operating result (EBIT) of EUR 147.8 million (EUR 165.5 million) for the reporting categories of mortality and morbidity in the financial year just ended. This is equivalent to an EBIT margin of 3.6% (4.8%).

Our goal in life and health reinsurance is to offer our customers a broad and individually tailored range of solutions and – in addition to pure risk assumption – to successfully support them in the service sector. In the field of medical underwriting, we strive to highlight – inter alia through our "ReCent" newsletter – current and relevant topics in health and medicine. When it comes to our electronic underwriting manual "Ascent" – which provides our customers with integrated support for individual risk assessment –, we similarly focus on continuous updating and enhancement of the contents in order to adequately reflect the latest market developments and trends at all times. Furthermore, thanks to our international network we are able to quickly and directly transfer novel and innovative reinsurance solutions to other markets.

Investments

- Pleasing return on investment (excluding effects from ModCo derivatives and inflation swaps) better than our forecast at 3.5%
- Ordinary income higher despite low interest rates
- High-quality investment portfolio even more diversified through equity exposure

Bearing in mind the persistently low level of interest rates, ordinary investment income excluding interest on funds withheld and contract deposits delivered a highly gratifying performance to reach EUR 1,253.4 million (previous year: EUR 1,068.4 million). This can be attributed to sharply higher income from fixed-income investments, real estate and private equity, the measurement of which was additionally supported by effects associated with the appreciation of various currencies against the euro. Our exposure to high-yield investment funds as well as special income from life reinsurance business also played a very pleasing part here. Interest on funds withheld and contract deposits improved slightly on the previous year to EUR 395.0 million (EUR 376.1 million). Net realised gains on disposals came in below the previous year's figure at EUR 135.8 million (EUR 182.5 million) despite the liquidity made available for dividend payments and preparations made for the changeover in our Irish subsidiary's functional currency to USD as well as regrouping moves to expand the asset classes of fixed income enhancements and emerging markets and the rebuilding of an equity portfolio.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the year under review gave rise to negative fair value changes recognised in income of EUR 26.1 million (loss of EUR 6.8 million). The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account no longer gave rise to any fair value changes recognised in income because these contracts matured or were terminated in the course of the second quarter. In future, we shall ensure this protection through the inflation-linked bonds already contained in our portfolio. Altogether, the positive changes in the fair values of our financial assets recognised at fair value through profit or loss amounted to EUR 0.9 million (loss of EUR 33.3 million).

Investment income **M 25**

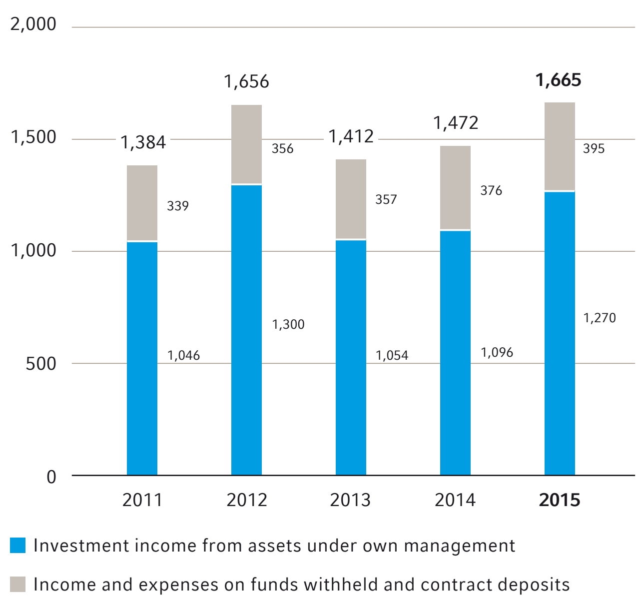
in EUR million	2015	+/− previous year	2014	2013	2012	2011
Ordinary investment income [1]	1,253.4	+17.3%	1,068.4	1,041.3	1,088.4	966.2
Result from participations in associated companies	19.2		1.0	12.5	10.4	3.1
Realised gains/losses	135.8	-25.5%	182.5	144.2	227.5	179.6
Appreciation	0.6		0.1	0.3	2.7	36.8
Depreciation, amortisation, impairments [2]	38.7	+39.8%	27.7	19.4	21.7	31.0
Change in fair value of financial instruments [3]	0.9		(33.3)	(27.1)	89.3	(38.8)
Investment expenses	101.2	+6.2%	95.3	97.3	96.4	70.3
Net investment income from assets under own management	1,270.1	+15.9%	1,095.8	1,054.5	1,300.2	1,045.5
Net investment income from funds withheld and contract deposits	395.0	+5.0%	376.1	357.3	355.5	338.5
Total investment income	**1,665.1**	**+13.1%**	**1,471.8**	**1,411.8**	**1,655.7**	**1,384.0**

1 Excluding income and expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

Impairments and depreciation totalling just EUR 38.7 million (EUR 27.7 million) were taken. Scheduled depreciation on directly held real estate amounted to EUR 23.7 million (EUR 18.5 million), a reflection of the further increase in our involvement in this sector. The vast bulk of impairments – totalling EUR 5.9 million – were attributable to alternative investments (EUR 5.8 million). In addition, impairments were recognised on real estate in an amount of EUR 4.5 million (EUR 1.4 million) as well as on fixed-income securities in an amount of EUR 2.8 million (EUR 2.0 million) and on equities in an amount of EUR 1.9 million (EUR 0.0 million). These write-downs contrasted with write-ups of altogether EUR 0.6 million (EUR 0.1 million).

Our investment income (including interest and expenses on funds withheld and contract deposits) consequently came in comfortably above the previous year's level at EUR 1,665.1 million (EUR 1,471.8 million). This can be attributed principally to the aforementioned sharp rise in ordinary income. Of this amount, income from assets under own management accounted for EUR 1,270.1 million (EUR 1,095.8 million). This produces an average return (excluding effects from ModCo derivatives and inflation swaps) of 3.5%; it is pleasing to note that this figure is higher than our forecast of 3.0%, a reflection not only of stronger income from private equity, real estate and fixed income enhancements but also of the effects associated with the appreciation of various currencies against the euro.

Investment income **M 26**
in EUR million



Financial position and net assets

- High-quality investment portfolio diversified even further through equity holding
- Asset allocation adjusted to safeguard the return
- Shareholders' equity sharply higher thanks to excellent Group net income despite lower valuation reserves

Investment policy

Hannover Re's investment policy continues to be guided by the following core principles:

- generation of stable and risk-commensurate returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the liquidity and solvency of Hannover Re at all times;
- high diversification of risks;
- limitation of currency exposures and maturity risks through matching currencies and maturities.

With these goals in mind we engage in active risk management based on balanced risk/return analyses. To this end we make allowance for insights gained from dynamic financial analysis and have implemented detailed investment guidelines on a centralised basis. We are thus able to take into account the prevailing state of the market and the basis is established for the current structuring of the liabilities side, which must be factored into operational management of the portfolio. These measures are intended to safeguard the generation of an appropriate level of return. In so doing, we pay strict attention to compliance with our clearly defined risk appetite, which is reflected in the risk capital allocated to the investments and constitutes the foundation for the asset allocation of the entire Hannover Re Group. In addition, our ability to meet our payment obligations at all times is thereby ensured. Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. With this in mind the modified duration of our bond portfolio is geared largely to the technical liabilities.

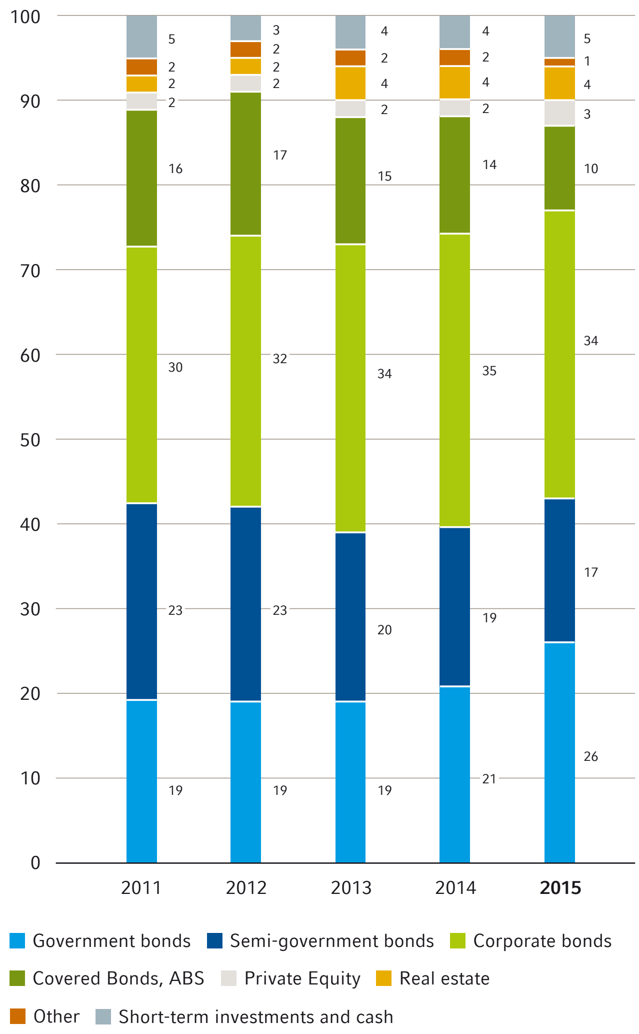
By adjusting the maturity pattern of our fixed-income securities to the expected payment patterns of our liabilities we reduce the economic exposure to the interest rate risk. In the current reporting period we kept the modified duration of our fixed-income portfolio broadly neutral, as a result of which it stood at 4.4 (previous year: 4.6) as at 31 December 2015.

Furthermore, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have only a limited effect on our result. At year-end 2015 we held 30.8% (36.9%) of our investments in euro, 46.7% (41.4%) in US dollars, 8.3% (8.5%) in pound sterling and 5.1% (5.2%) in Australian dollars.

Investment portfolio M 27

in EUR million	2015	2014	2013	2012	2011
Funds withheld	13,990	15,919	14,343	14,751	13,342
Investments under own management	39,347	36,228	31,875	31,874	28,341
Total	**53,337**	**52,147**	**46,219**	**46,625**	**41,683**

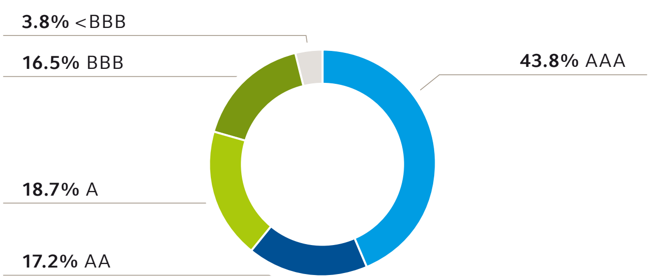
Breakdown of investments under own management **M 28**
in %



to expand the asset classes of fixed income enhancements and emerging markets while at the same time enlarging our holding of government bonds. On the other hand, the proportion of mid-rated covered bonds and corporate bonds was reduced. In this way we can achieve increased liquidity of the portfolio with stable return expectations, while extensively maintaining the overall risk level of our fixed-income portfolio unchanged. We also moved to further slightly increase the share attributable to real estate as part of the strategic expansion of this asset category. In all other asset classes we made only minimal changes in the context of regular portfolio maintenance.

The portfolio of fixed-income securities excluding short-term assets rose to EUR 33.6 billion (EUR 32.0 billion). Hidden reserves for available-for-sale fixed-income securities, which are allocable to shareholders' equity, totalled EUR 635.6 million (EUR 1,246.4 million). This reflects the yield increases observed in the course of the reporting period, especially in the area of US Treasuries, and above all higher risk premiums on corporate bonds and semi-government bonds. As to the quality of the bonds – measured in terms of rating categories –, the proportion of securities rated "A" or better remained on a virtually unchanged high level as at year-end at 79.8% (82.9%).

Rating of fixed-income securities **M 29**



Investments

Our portfolio of assets under own management grew substantially in the course of 2015 to EUR 39.3 billion (EUR 36.2 billion). This was due in large measure to exchange rate effects – primarily associated with the US dollar – and in particular to our gratifyingly positive operating cash flow. The only inhibiting factors in this growth were the decline in valuation reserves in connection with the observed yield increases on US Treasuries and higher credit spreads.

Along with the rebuilding of an equity portfolio, we adjusted the allocation of our investments to the individual classes of securities in other asset categories as well in response to the challenging interest rate environment. For example, we continued

Holdings of alternative investment funds increased appreciably. As at 31 December 2015 an amount of EUR 781.5 million (EUR 684.9 million) was invested in private equity funds; a further EUR 678.8 million (EUR 551.5 million) was attributable predominantly to investments in high-yield bonds and loans. In addition, altogether EUR 371.3 million (EUR 373.7 million) was invested in structured real estate investments. The uncalled capital with respect to these asset classes totalled EUR 837.1 million (EUR 716.3 million).

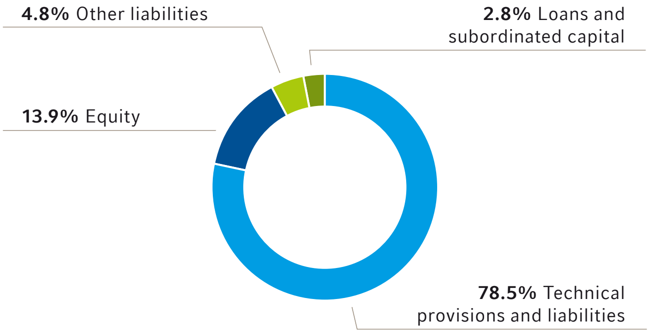
We again slightly increased our real estate allocation in the course of the year. Two properties were acquired in the United States for this purpose; further projects are under review, and the real estate allocation will therefore keep rising steadily as planned. Despite selective sales in the course of the reporting period, it rose to 4.4% (3.9%). By moving back into listed equities – accounting for 1% of the asset portfolio – we further improved the diversification of our investment portfolio.

At the end of the year under review we held a total amount of EUR 1.9 billion (EUR 1.3 billion) in short-term investments and cash. Funds withheld amounted to EUR 14.0 billion (EUR 15.9 billion).

Analysis of the capital structure

The capital structure and the composition of the liabilities of Hannover Re are shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base and optimise our cost of capital. The following chart shows our capital structure as at 31 December 2015, broken down into percentages of the balance sheet total.

Capital structure as at 31 December 2015 M 30



The technical provisions and liabilities shown above, which include funds withheld / contract deposits and reinsurance payable, make up 78.5% (77.6%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld / contract deposits, accounts receivable and reinsurance recoverables.

The equity including non-controlling interests at 13.9% (13.7%) of the balance sheet total as well as the loans and – especially – subordinated capital at altogether 2.8% (3.8%) of the balance sheet total represent our most important sources of funds.

We ensure that our business is sufficiently capitalised at all times through continuous monitoring and by taking appropriate steering actions as necessary. For further information please see the following section "Management of policyholders' surplus".

Management of policyholders' surplus

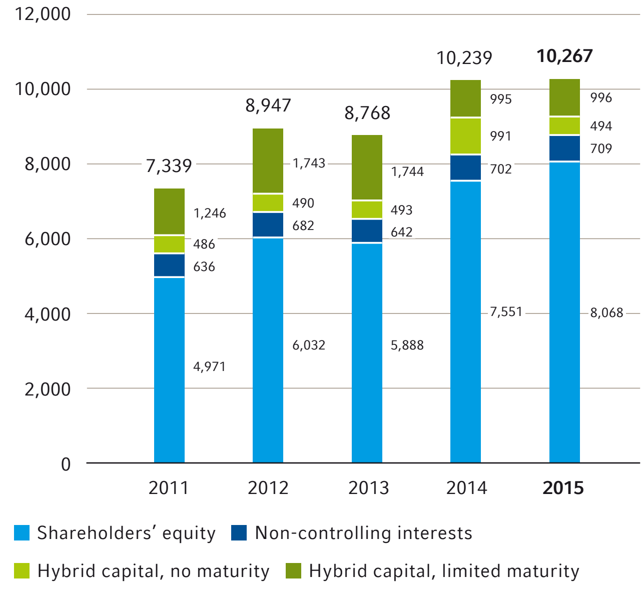
A key strategic objective of Hannover Re is long-term capital preservation. Just as in previous years, we issued hybrid capital as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is an important management ratio in the context of Hannover Re's comprehensive capital management. The total policyholders' surplus is defined as follows:

- shareholders' equity excluding non-controlling interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- non-controlling interests and
- hybrid capital used as an equity substitute, which takes the form of subordinated bonds.

The policyholders' surplus totalled EUR 10,267.3 million (EUR 10,239.5 million) as at the balance sheet date. The rise in retained earnings and in the foreign currency gains and losses recognised in equity were opposed in the year under review by the redemption of subordinated debt with a nominal volume of EUR 500 million and a decline in the unrealised gains and losses recognised in equity. Overall, therefore, the policyholders' surplus remained almost unchanged with an increase of 0.3%.

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. As part of this methodology, we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 23 et seq. of this report.

Development of policyholders' surplus M 31
in EUR million



In its capital management Hannover Re is guided by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. The Group companies are also subject to national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model (cf. "Opportunity and risk report", page 74 et seq.).

Group shareholders' equity

In view of the very positive result, the development of the shareholders' equity of the Hannover Re Group was pleasing. Compared to the position as at 31 December 2014, it surged by EUR 524.5 million – or 6.4% – in the year under review to EUR 8,777.5 million. After adjustment for non-controlling interests, it rose by EUR 517.6 million to EUR 8,068.3 million. The book value per share increased accordingly by 6.9% to EUR 66.90. The changes in shareholders' equity were shaped chiefly by the following developments:

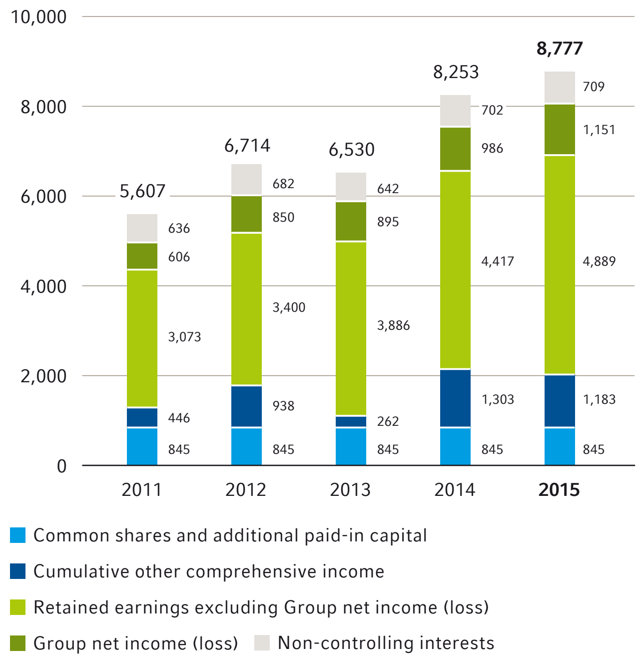
Net unrealised gains on investments stood at EUR 712.0 million, a drop of EUR 457.3 million compared to the beginning of the year under review. This decrease was mainly due to higher risk premiums for corporate bonds held in our portfolio as well as to the rise in the short- and medium-term US dollar interest rate level.

The foreign currency gains and losses climbed significantly by EUR 318.7 million from EUR 190.5 million to EUR 509.2 million as a consequence of exchange rate movements of foreign currencies against the euro in the financial year. The rise in the reserve for currency translation adjustment resulted principally from the marked depreciation of the euro against the US dollar.

Non-controlling interests in shareholders' equity increased marginally by EUR 6.9 million to EUR 709.1 million as at 31 December 2015. The bulk of this – in an amount of EUR 667.1 million – is attributable to the non-controlling interests in E+S Rückversicherung AG.

The Group net income for 2015 attributable to the shareholders of the Hannover Re Group climbed to EUR 1,150.7 million (EUR 985.6 million). The non-controlling interest in the profit generated in the year under review totalled EUR 64.0 million (EUR 79.5 million).

Development of Group shareholders' equity M 32
in EUR million



Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a significant component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base – in part also in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 1,798.3 million (EUR 2,270.3 million) as at the balance sheet date.

Our subordinated bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. In the year under review we cancelled and repaid at the first scheduled call date the subordinated debt of EUR 500.0 million issued in 2005 by Hannover Finance (Luxembourg) S.A. As at the balance sheet date altogether three subordinated bonds had been placed on the European capital market through Hannover Rück SE and Hannover Finance (Luxembourg) S.A.

The following table presents an overview of the amortised cost of the issued bonds.

Amortised cost of our subordinated bonds M 33

in EUR million	Issue date	Coupon in %	2015	2014
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	1.6.2005	5.00	–	497.7
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	14.9.2010	5.75	498.7	498.4
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2012/2043	20.11.2012	5.00	497.2	496.9
Hannover Rück SE, subordinated debt, EUR 500 million; 2014/undated	15.9.2014	3.375	494.0	493.5
Total			**1,489.9**	**1,986.5**

Several Group companies have also taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 308.5 million (EUR 283.9 million).

For further explanatory information please see our remarks in the notes to this report, Section 6.12 "Debt and subordinated capital", page 208 et seq., and Section 6.13 "Shareholders' equity and treasury shares", page 212.

Various financial institutions have provided us with letters of credit for the collateralisation of technical liabilities. Both bilateral agreements and an unsecured syndicated guarantee facility existed as at the balance sheet date with a number of financial institutions for this purpose. The guarantee facility was terminated in January 2016 and partially refinanced through bilateral credit facilities. We report in detail on existing contingent liabilities in the notes, Section 6.12 "Debt and subordinated capital" in our remarks on other financial facilities, page 211, and Section 8.7 "Contingent liabilities and commitments", page 232 et seq.

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 142 et seq.

Hannover Re does not conduct any automated internal cash pooling within the Group. Liquidity surpluses are managed and created by the Group companies. Various loan relationships exist within the Hannover Re Group for the optimal structuring and flexible management of the short- or long-term allocation of liquidity and capital.

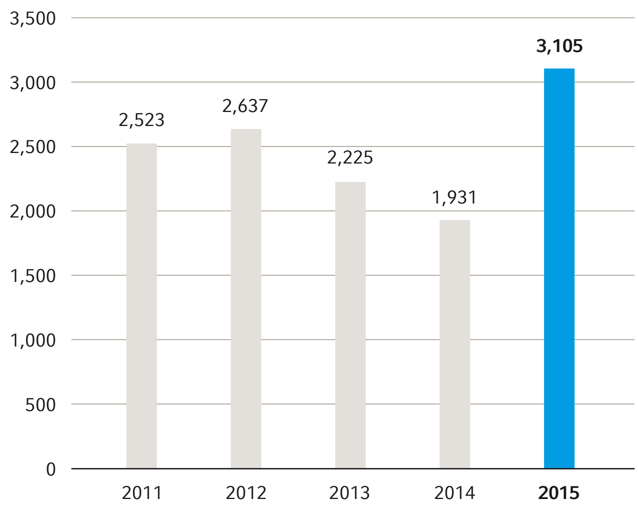
Consolidated cash flow statement M34

in EUR million	2015	2014
Cash flow from operating activities	3,104.9	1,930.9
Cash flow from investing activities	(2,048.1)	(1,195.3)
Cash flow from financing activities	(1,054.8)	(647.6)
Exchange rate differences on cash	17.7	46.0
Change in cash and cash equivalents	**19.7**	**134.0**
Cash and cash equivalents at the beginning of the period	772.9	642.9
Change in cash and cash equivalents according to cash flow statement	19.7	134.0
Changes in the consolidated group	–	(4.0)
Cash and cash equivalents at the end of the period	**792.6**	**772.9**

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 3,104.9 million in the year under review as opposed to EUR 1,930.9 million in the previous year. The sharp increase of EUR 1,174.0 million in the net inflow year-on-year was essentially attributable to the generally higher premium volumes and, in particular, to certain financial solutions contracts in the area of life and health reinsurance under which the premiums had already been received by the balance sheet date but the corresponding retrocession premiums were not scheduled to be paid until the beginning of 2016.

Cash flow from operating activities M35
in EUR million



Cash flow from investing activities

After allowance for dividend payments and financing measures, the substantially higher cash flow from operating activities was for the most part invested in an amount of EUR 2,048.1 million (EUR 1,195.3 million) while preserving the existing asset structure.

Regarding the development of the investment portfolio please see also our remarks at the beginning of this section.

Cash flow from financing activities

The cash flow from financing activities decreased from -EUR 647.6 million to -EUR 1,054.8 million in the year under review. This was mainly due to redemption of the EUR 500.0 million subordinated debt issued by Hannover Finanz (Luxemburg) S.A. at the first scheduled call date as well as the higher dividend payments of EUR 557.4 million (EUR 403.4 million).

Overall, allowing for the changes in the consolidated group, the cash and cash equivalents therefore increased year-on-year by EUR 19.7 million to EUR 792.6 million.

For further information on our liquidity management please see page 95 of the risk report.

Financial strength ratings

A.M. Best and Standard & Poor's, the rating agencies of particular relevance to the insurance industry, assess the financial strength of Hannover Re on the basis of an interactive rating process and have awarded it very good ratings. The rating agencies highlight in particular the strength of the Hannover Re Group's competitive position, its capitalisation and its risk management.

Financial strength ratings of the Hannover Re Group M36

	Standard & Poor's	A.M. Best
Rating	AA- (Very Strong)	A+ (Superior)
Outlook	stable	stable

Financial strength ratings of subsidiaries M37

	Standard & Poor's	A.M. Best
E+S Rückversicherung AG	AA-	A+
Hannover Life Reassurance Africa Ltd.	BBB+	–
Hannover Life Reassurance Bermuda Ltd.	AA-	A+
Hannover Life Reassurance Company of America	AA-	A+
Hannover Life Re of Australasia Ltd.	AA-	–
Hannover Reinsurance Africa Ltd.	BBB+	–
Hannover Re (Ireland) Ltd.	AA-	A+
Hannover Re (Bermuda) Ltd.	AA-	A+
Hannover ReTakaful B.S.C. (c)	A+	–
International Insurance Company of Hannover SE	AA-	A+

Issue ratings of issued debt

As part of the process of rating Hannover Re the rating agencies also assess the debt issued by the Hannover Re Group.

Issue ratings of issued debt M38

	Standard & Poor's	A.M. Best
Hannover Rück SE, subordinated debt, EUR 500 million; 2014/undated	A	a
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2012/2043	A	a+
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	A	a+

Information pursuant to § 315 Para. 4 German Commercial Code (HGB)

The common shares (share capital) of Hannover Rück SE amount to EUR 120,597,134.00. They are divided into 120,597,134 registered no-par shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following companies hold direct or indirect capital participations that exceed 10% of the voting rights:

Talanx AG, Hannover, directly holds 50.2% (rounded) of the company's voting rights. HDI-Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Hannover, which holds a stake of 79.0% in Talanx AG, therefore indirectly holds 39.7% (rounded) of the voting rights in the company.

There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and recall of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 18 Para. 2 of the Articles of Association of Hannover Rück SE.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in the Articles of Association of Hannover Rück SE as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 6 May 2015 pursuant to § 71 Para. 1 Number 8 Stock Corporation Act to acquire treasury shares on certain conditions for a period of five years, ending on 5 May 2020.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects. Some letter of credit lines extended to Hannover Rück SE contain standard market change-of-control clauses that entitle the banks to early termination of a credit facility if Talanx AG loses its majority interest or drops below the threshold of a 25% participation or if a third party acquires the majority interest in Hannover Rück SE. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 6.12 "Debt and subordinated capital", page 211.

In addition, retrocession covers in property & casualty and life & health business contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Information on Hannover Rück SE

(condensed version in accordance with the Commercial Code (HGB))

Since the 2013 financial year Hannover Re has availed itself of the option to present a combined Group and company management report pursuant to § 315 Para. 3 of the Commercial Code (HGB) in conjunction with § 298 Para. 3 of the Commercial Code (HGB). Supplementary to the reporting on the Hannover Re Group, we discuss below the development of Hannover Rück SE.

The annual financial statement of Hannover Rück SE is drawn up in accordance with German accounting principles (HGB). The consolidated financial statement, on the other hand, conforms to International Financial Reporting Standards (IFRS). This gives rise to various divergences in accounting policies affecting, above all, intangible assets, investments, technical assets and liabilities, financial instruments and deferred taxes.

The annual financial statement of Hannover Rück SE – from which the balance sheet and profit and loss account in particular are reproduced here in condensed form – has been submitted to the operator of the electronic Federal Gazette and can be accessed via the webpage of the Companies Register. This annual financial statement may be requested from Hannover Rück SE, Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

Hannover Rück SE transacts reinsurance business in the business groups of Property & Casualty and Life & Health reinsurance. Through its global presence and activities in all lines of reinsurance the company achieves optimal risk diversification.

Since 1 January 1997 Hannover Rück SE has written active reinsurance for the Group – with few exceptions – solely in foreign markets. Responsibility within the Hannover Re Group for German business rests with the subsidiary E+S Rückversicherung AG.

Results of operations

The 2015 financial year passed off highly satisfactorily for Hannover Rück SE. The gross premium of Hannover Rück SE in total business increased by 30.1% to EUR 14.1 billion (previous year: EUR 10.9 billion). The level of retained premium contracted from 79.3% to 73.0%. Net premium earned grew by 20.0% to EUR 10.2 billion (EUR 8.5 billion).

Condensed profit and loss account of Hannover Rück SE M 39

in EUR thousand	2015	2014
Earned premiums, net of retrocession	10,178,602	8,481,296
Allocated investment return transferred from the non-technical account, net of retrocession	328,840	442,194
Other technical income, net of retrocession	15	23
Claims incurred, net of retrocession	7,222,016	6,801,306
Changes in other technical provisions, net of retrocession	(1,020,247)	166,116
Bonuses and rebates, net of retrocession	(12)	48
Operating expenses, net of retrocession	2,105,799	2,301,759
Other technical charges, net of retrocession	1,056	1,533
Subtotal	**158,351**	**(15,017)**
Change in the equalisation reserve and similar provisions	(136,129)	(277,646)
Net technical result	**22,222**	**(292,663)**
Investment income	1,862,593	1,739,563
Investment charges	166,675	158,722
Allocated investment return transferred to the technical account	(532,949)	(567,810)
Other income	160,761	161,566
Other charges	281,979	284,151
Profit or loss on ordinary activities before tax	**1,063,973**	**597,783**
Taxes on profit and income and other taxes	158,172	176,546
Profit for the financial year	**905,801**	**421,237**
Profit brought forward from previous year	2,462	94,208
Allocations to other retained earnings	250,263	445
Disposable profit	**658,000**	**515,000**

The underwriting result for total business (before changes in the equalisation reserve) improved in the year under review from -EUR 15.0 million to EUR 158.4 million. An amount of EUR 136.1 million (EUR 277.6 million) was allocated to the equalisation reserve and similar provisions.

Major loss expenditure in the year under review was higher than in 2014. Although the hurricane season once again passed off unremarkably, a number of natural catastrophe events and other large losses were recorded. The explosion in the port of the Chinese city of Tianjin was the largest single loss for Hannover Rück SE, resulting in net loss expenditure of EUR 43.1 million. In addition, damage to an oil rig in the Gulf of Mexico and a storm in Japan led to losses of EUR 29.6 million and EUR 23.2 million respectively. The total net expenditure incurred by Hannover Rück SE from large losses was EUR 330.6 million (EUR 257.0 million).

Ordinary investment income including deposit interest clearly exceeded the previous year's level to reach EUR 1,737.8 million (EUR 1,589.6 million). This was due principally to higher distributions from our investment holding companies. Our exposure to high-yield fund investments was also a very pleasing factor here. Net gains of EUR 94.0 million (EUR 104.0 million) were realised on disposals. Write-downs of EUR 83.2 million (EUR 92.9 million) were taken on investments. They were attributable almost exclusively to bearer debt securities held as current assets. The write-downs contrasted with write-ups of EUR 5.1 million (EUR 30.5 million) that were made on assets written down in previous periods in order to reflect increased fair values.

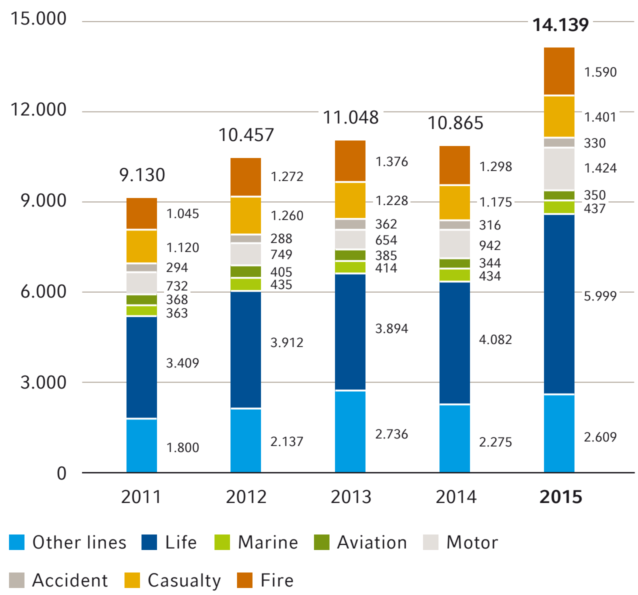
All in all, our net investment result improved to EUR 1,695.9 million (EUR 1,580.8 million).

The profit on ordinary activities increased to EUR 1,064.0 million (EUR 597.8 million). The year under review closed with a profit for the year of EUR 905.8 million (EUR 421.2 million).

Development of the individual lines of business

The following section describes the development of the various lines of business. We would like to point out that with effect from the beginning of the 2014 financial year the exchange of business under joint underwriting arrangements between Hannover Rück SE and E+S Rückversicherung AG was reorganised. In property and casualty reinsurance, however, a retrocession from Hannover Rück SE to E+S Rückversicherung AG has been maintained. The proportion of Hannover Rück SE's gross written premium attributable to business accepted from E+S Rückversicherung AG stood at 0.1% (-0.1%) in the year under review and relates to the run-off of the 2013 and prior underwriting years.

Hannover Rück SE: Breakdown of gross premium by individual lines of business **M 40**
in EUR million



Fire

Total gross premium income for the fire line climbed by 22.5% in the 2015 financial year to EUR 1,590.3 million (EUR 1,298.2 million). The net loss ratio improved in the year under review from 61.4% to 53.9%. The underwriting profit climbed to EUR 149.4 million (EUR 140.3 million). An amount of EUR 83.6 million was withdrawn from the equalisation reserve and similar provisions in the year under review, after an allocation of EUR 186.6 million in the previous year.

Casualty
Gross premium in casualty business climbed by 19.3% to EUR 1,400.9 million (EUR 1,174.7 million). The loss ratio decreased from 104.5% to 82.6%. The underwriting result consequently improved to -EUR 69.5 million (-EUR 276.0 million). An amount of EUR 139.6 million was allocated to the equalisation reserve and similar provisions in the year under review; the withdrawal in the previous year had totalled EUR 88.7 million.

Accident
Gross premium increased by 4.4% to EUR 329.8 million (EUR 316.0 million). The loss ratio rose from 57.4% to 70.3%. The underwriting result came in at EUR 9.9 million, after EUR 32.2 million in the previous year. An amount of EUR 23.7 million was withdrawn from the equalisation reserve and similar provisions, following an allocation of EUR 2.9 million in the previous year.

Motor
Gross premium income for the motor line surged by a very substantial 51.2% to EUR 1,423.6 million (EUR 941.7 million). The loss ratio deteriorated to 85.5% (39.1%). The underwriting result closed at -EUR 159.4 million (EUR 138.2 million). An amount of EUR 13.1 million was withdrawn from the equalisation reserve and similar provisions in the year under review, after an allocation of EUR 69.3 million in the previous year.

Aviation
The gross premium volume rose by a modest 1.8% from EUR 343.6 million to EUR 349.7 million. The loss ratio improved markedly from 102.1% to 77.8%. The underwriting result came in at EUR 2.5 million (-EUR 60.7 million). Following a withdrawal of EUR 34.4 million in the previous year, an amount of EUR 15.5 million was allocated to the equalisation reserve and similar provisions in the year under review.

Marine
Gross written premium nudged slightly higher by 0.7% to EUR 436.9 million (EUR 433.8 million). The net loss ratio rose from 62.2% to 74.3%. The underwriting result consequently contracted from EUR 39.4 million to EUR 8.2 million. An amount of EUR 48.2 million (EUR 91.3 million) was allocated to the equalisation reserve and similar provisions.

Life
Gross premium income in the life line grew by 47.0% in the financial year just ended to EUR 5,998.7 million (EUR 4,082.0 million). Business in the year under review was still heavily shaped by the generally very challenging market climate in Europe. Particularly in the markets of Northern and Western Europe, conditions continued to be competitive in the area of traditional life insurance covers. Asian markets as well as those of Central and Eastern Europe are exhibiting stronger interest in automated underwriting systems and innovative life insurance concepts. Generally speaking, it was noticeable that demand for long-term care and longevity insurance solutions increased in all markets. Innovative concepts such as lifestyle products also enjoyed stronger demand. Our international orientation is vital to our success in writing new business worldwide. We are thereby able to ensure sustainable earnings growth.

The underwriting result improved to EUR 163.3 million (-EUR 19.5 million) in the year under review. Our life and health reinsurance portfolio thus developed in line with our expectations. Financial solutions business comfortably outperformed its target.

Other lines
The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage.

The total premium volume in the other lines climbed by 14.7% to EUR 2,609.4 million (EUR 2,274.9 million). The loss ratio improved to 68.4% (74.1%). The underwriting result closed at EUR 54.0 million, after -EUR 8.9 million in the previous year. An amount of EUR 53.4 million (EUR 50.6 million) was allocated to the equalisation reserve and similar provisions.

Assets and financial position

Balance sheet structure of Hannover Rück SE — M 41

in EUR thousand	2015	2014
Assets		
Intangible assets	77,960	75,731
Investments	41,338,228	41,912,302
Receivables	2,959,324	2,405,397
Other assets	331,197	362,095
Prepayments and accrued income	168,241	200,717
Total assets	**44,874,950**	**44,956,242**
Liabilities		
Subscribed capital	120,597	120,597
Capital reserve	880,608	880,608
Retained earnings	630,511	380,511
Disposable profit	658,000	515,000
Capital and reserves	**2,289,716**	**1,896,716**
Subordinated liabilities	1,500,000	1,500,000
Technical provisions	30,285,024	32,524,999
Provisions for other risks and charges	408,726	452,714
Deposits received from retrocessionaires	8,795,263	7,308,422
Other liabilities	1,596,213	1,273,391
Accruals and deferred income	8	–
Total liabilities	**44,874,950**	**44,956,242**

Our portfolio of assets under own management grew in the year under review to EUR 25.7 billion (EUR 23.0 billion). This corresponds to an increase of 11.8% and can be attributed above all to the very positive operating cash flow and the appreciation of various currencies against the euro. The balance of unrealised gains on fixed-income securities and bond funds contracted to EUR 610.3 million (EUR 891.3 million). This reflected the yield increases observed in the course of the year under review – especially on US Treasuries – as well as higher risk premiums for corporate bonds.

Deposits with ceding companies, which are shown under the investments, totalled EUR 15.6 billion (EUR 18.9 billion) in the year under review.

Our capital and reserves – excluding the disposable profit – stood at EUR 1,631.7 million (EUR 1,381.7 million). The total capital, reserves and technical provisions – comprised of the capital and reserves excluding disposable profit, the subordinated liabilities, the equalisation reserve and similar provisions as well as the net technical provisions – fell during the year under review to EUR 33,416.7 million (EUR 35,406.7 million). The balance sheet total of Hannover Rück SE consequently decreased to EUR 44.9 billion (EUR 45.0 billion).

A dividend of EUR 3.00 plus a special dividend of EUR 1.25 per share, equivalent to EUR 512,5 million (EUR 361.8 million), was paid in the year under review for the 2014 financial year.

It will be proposed to the Annual General Meeting on 10 May 2016 that a dividend of EUR 3.25 plus a special dividend of EUR 1.50 per share should be paid for the 2015 financial year. This corresponds to a total distribution of EUR 572.8 million. The dividend proposal does not form part of this consolidated financial statement.

Risks and opportunities

The business development of Hannover Rück SE is essentially subject to the same risks and opportunities as that of the Hannover Re Group. As a general principle, Hannover Rück SE shares in the risks of participating interests and subsidiaries according to the amount of its respective holding. The risks are set out in the risk report. The relations with participating interests of Hannover Rück SE may also give rise to losses from legal or contractual contingent liabilities (particularly novation clauses and guarantees). Please see our explanatory remarks in the notes to this report.

Other information

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 Para. 1 Stock Corporation Act (AktG).

Hannover Rück SE maintains branches in Australia, Bahrain, Canada, China, France, Korea, Malaysia, Sweden and the United Kingdom.

Outlook

In view of the interrelations between the parent company and the Group companies and the former's large share of business within the Group, we would refer here to our remarks contained in the section entitled "Outlook for 2016" on page 132 et seq., which also reflect in particular the expectations for Hannover Rück SE. In terms of the dividend for the current financial year, we envisage a payout ratio in the range of 35% to 40% of the IFRS Group net income. This ratio may increase in light of capital management considerations if the present comfortable level of capitalisation remains unchanged.

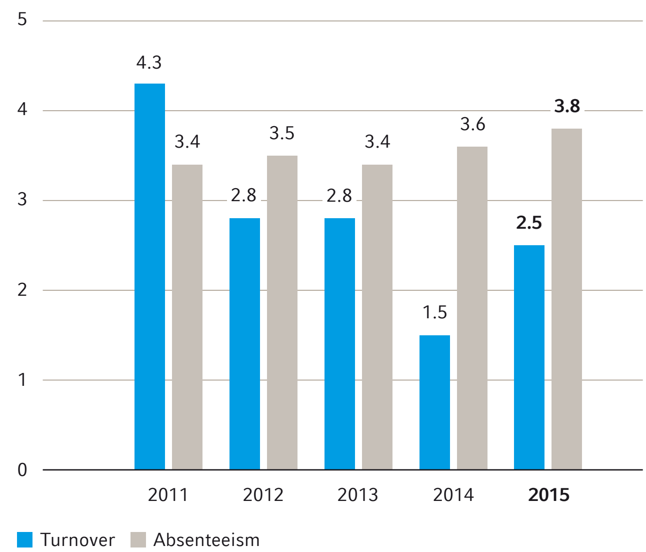
Other success factors

Our staff

Key personnel ratios

The Hannover Re Group employed 2,568 staff as at 31 December 2015 (previous year: 2,534). The turnover ratio at Home Office in Hannover of 2.5% (1.5%) was higher than the level of the previous year. The rate of absenteeism – at 3.8% – was slightly higher than in the previous year (3.6%). The turnover ratio and rate of absenteeism continue to be below the average expected across the industry as a whole.

Staff turnover/absenteeism Hannover Home Office M 42
in %



First international employee survey conducted

In the financial year just ended we carried out an international, Group-wide employee survey for the first time. The purpose of this survey was, in the first place, to continue the dialogue initiated in recent years on a consistent understanding of values and leadership. For this reason, the questions centred above all on the extent to which our Values and Management Principles – which have been defined as mandatory Group-wide – are known and embodied in practice. Secondly, we inquired into our employees' connection and dedication to the company and explored the status of (international) cooperation.

The survey was conducted in October 2015 with the support of an external opinion research and management consulting firm. Overall participation came in at a solid level of just under 70% of all surveyed staff. A very high degree of overall satisfaction among our staff can be identified as a central finding. This is true both of the average evaluation across all questions and for virtually all individual questions. The considerable motivation and dedication expressed by our staff is especially gratifying. As far as potential scope for improvement is concerned, they identified a more broad-based system of remuneration and further optimisation of the support provided for their ongoing individual training.

On the basis of these insights we shall evaluate the findings in detail in the current financial year and initiate measures. The goals will be to leverage higher-order potential scope for improvement and to support the individual units as they explore the findings of relevance to them.

Learning management system successfully implemented

Another focus of our activities in the financial year just ended was the implementation of a state-of-the-art learning management system – the HannoverReAcademy. This process was launched in 2014 by means of an evaluation project, followed in 2015 by the roll-out of the selected program. Since then, we have been able to offer our staff a clear overview of all internal seminar opportunities from the areas of HR and IT in the form of a training catalogue. Similarly, all booking, approval and administration processes are run using this application.

HannoverReAcademy additionally serves as the platform for operating our e-learning programmes. We have been successfully using these for a number of years in a blended learning format, i. e. in combination with face-to-face tutorials, as part of the international basic training provided to our new members of staff.

It is also pleasing to note that the launch of HannoverReAcademy has enabled us to streamline what used to be more of a patchwork of administrative processes. Henceforth, for example, a package of entry-level seminars is automatically booked for every new employee based on the experience that we have gained over the years. This is all done on a worldwide basis because our international units also have access to HannoverReAcademy. In this way we ensure that the standard of training given to our workforce is of a consistently high standard.

Recruiting activities stepped up

We went to special lengths to refresh our efforts to recruit new personnel. In recent years we had already enjoyed consistent success in attracting new staff in a timely manner who fulfil our quality requirements. Nevertheless, in the financial year just ended – working in conjunction with the other areas of our company that play an active part in our external profile – we revamped our online presence. Along similar lines to our entire corporate website, the careers section now features a fresh contemporary design. At the same time we improved the information provided on our webpages as well as the ability to search the content systematically.

We attached special emphasis to expanding our efforts to address the applicant groups most relevant to our company in a targeted manner through short film clips. The centrepiece in this regard is a new personnel marketing video that highlights aspects of particular importance to our target applicant groups – specifically, the challenging nature of the work, the pleasant working atmosphere and the international dimension. This image video is flanked by four newly produced testimonials, in which members of staff describe their roles and the associated appeal of their work from their own individual perspectives. The goal is to offer potential recruits a straightforward and engaging insight into the diversity and fascination of our tasks and to encourage them to apply. The range of video materials is rounded off with some recordings of public appearances or interviews featuring our personnel advisers, who offer practical tips on the application process and choosing the right employer.

Breakdown of employees by country M 43

	2015	2014
Germany	1,337	1,289
USA	283	285
South Africa	156	164
United Kingdom	156	200
Australia	103	100
Sweden	92	89
China	72	70
France	54	52
Malaysia	53	53
Ireland	51	48
Bahrain	46	45
Bermuda	45	43
Colombia	27	26
India	27	8
Canada	16	11
Italy	11	11
Korea	10	10
Mexico	7	6
Spain	7	7
Japan	7	9
Taiwan	4	4
Brazil	4	4
Total	**2,568**	**2,534**

Word of thanks to our staff

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

Sustainability at Hannover Re

The Sustainability Strategy of the Hannover Re Group

For Hannover Re, sustainability means a commitment to responsible and transparent enterprise management that is geared to lasting corporate success. With this in mind, in 2011 we drew up a Sustainability Strategy for Hannover Re that reflects in concrete terms the higher-order corporate strategy of the Group and in which we explicitly commit to our strategic objective of sustainable value creation.

In 2014 we reviewed our Group Strategy and Sustainability Strategy in keeping with our three-year strategy cycle. In conformity with the Group Strategy, the sustainability goals that had been set for the strategy cycle just ended were therefore similarly revisited and modified to reflect the changing general business conditions. Sustainability goals that had still to be achieved were carried over to the new strategy cycle. Our current Sustainability Strategy for the years 2015 to 2017 defines the following four action fields and specifies 14 concrete goals and 42 measures:

- Governance and dialogue
- Product responsibility
- Employees
- Environment and society

For details of Hannover Re's current Sustainability Strategy please see www.hannover-re.com/60729/sustainability

Governance and dialogue

As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with relevant laws and regulations, but also applies to its relationship with staff, shareholders, the public at large and the cultures within which the company operates. As a European company (Societas Europaea – SE) based in Germany, the formal framework that shapes Hannover Re's corporate governance is determined by national (German) law. The fundamental hallmarks of this corporate governance are a two-tier system with its transparent and effective split into management (Executive Board) and its oversight (Supervisory Board), the appointment of shareholder and employee representatives to the Supervisory Board and the rights of co-administration and supervision exercised by shareholders at the Annual General Meeting. The interplay between these bodies is regulated by German stock corporation law and by the company's Articles of Association. Furthermore, our Group Strategy, the Corporate Governance principles and our Code of Conduct form the basis of our enterprise management.

In addition to our continuous engagement with the changing legal framework conditions, since 2003 we have provided an annual Declaration of Conformity with the German Corporate Governance Code (DCKG); this is published on our corporate website and can also be found on page 99 et seq. of the present Annual Report. The Corporate Governance principles of Hannover Rück SE are also subject to regular review and fulfil the recommendations of the currently valid version of the German Corporate Governance Code.

Given that the trust of our stakeholder groups and an immaculate reputation are vital to the success of our company, we also make every effort to cultivate an active dialogue with representatives of the capital market and society as a whole as well as with our clients and staff. In the year just ended we again reported on our achievements as a responsible enterprise in the form of a stand-alone Sustainability Report. In this regard we follow the currently applicable and internationally recognised guidelines of the Global Reporting Initiative (GRI); we fulfil Application Level B – the intermediate level of transparency – as defined by the GRI.

In 2015 Hannover Re's sustainability performance was again evaluated by the rating agency Oekom Research; our company was awarded "Prime" status in recognition of its above-average fulfilment of industry-specific requirements. In addition, in June 2015 Hannover Re received confirmation of its inclusion in the worldwide FTSE4Good Index Series from the FTSE Environmental, Social and Governance Advisory Committee.

Product responsibility

Our range of reinsurance products and services is geared to the needs of the market and our clients. Hannover Re is active in virtually all lines of reinsurance business. Our products range from traditional reinsurance to complex individual solutions for risk transfer and the optimisation of our clients' capital requirements. As a leading player in the reinsurance industry, the commercial success of Hannover Re is crucially dependent on the correct assessment of present and emerging risks. In the process of evaluating risks we are faced today with growing complexity as a consequence of the increasing importance attached to various aspects of sustainability. These emerging risks have recently included not only the rising prevalence of geopolitical and economic uncertainties but also developments such as demographic change, shifting mobility patterns in populations, increasing digitalisation and the resulting cyber risks as well as climate changes and the associated discussions centred on food and water security. By organising topically specific conferences, visiting clients and attending trade fairs and expert gatherings we enable our customers to share our knowledge and we use the internally and externally acquired insights in order to be able to offer them better or innovative (re)insurance solutions and to strengthen our customer relationships.

When it comes to the management of our investment portfolio, we aim to generate a commensurate market return in the interests of our clients and shareholders. This is done in accordance with our Sustainability Strategy by incorporating ESG (environmental, social and governance) criteria into our investment policy. Specifically, since 2012 we have been guided by the ten principles of the United Nations Global Compact and thus also recognise the aspects of human rights, working conditions, the environment and anti-corruption. Since 2013 our investments have been reviewed half-yearly to verify compliance with these ESG standards. If a breach of the criteria is identified, we part with the instrument in question and exclude it from our investment universe. As we develop and continuously review our investment strategy, we work together with an established service provider that specialises in sustainability. In the context of our Sustainability Strategy we have set ourselves the goal of expanding our ESG guidelines for investment management. We intend to refine our ESG Investment Policy, including the development of positive screening.

Employees

Employing successful members of staff on a long-term basis is one of the ten key points of our Group Strategy. In order to ensure that we are always perceived as an attractive employer by our existing staff and potential new junior recruits, we pay special attention to their skills and further growth. The health and well-being of our staff are also vital to the sustainable development of our business. The focus of our efforts is therefore on the prevention of disease, e. g. through medical checkups by the company physician, workplace inspections, advice and treatment relating to matters of general medicine as well as a range of sporting opportunities designed to promote a healthy lifestyle.

We also stress the importance of enabling our employees to strike the right balance between their career and private life. Consequently, we offer individually customisable part-time and telecommuting models as well as flexitime working arrangements with no core hours. By offering such flexibility we want to help our employees organise their daily routine in various stages of life such as starting a family or preparing for retirement, e. g. through partial retirement opportunities for older staff. One of the cornerstones of our successful business activities, along with skills and commitment, is the high degree of diversity in our workforce – since this is vital to safeguarding our high global quality standard. The workforce at Hannover Home Office alone is comprised of 39 different nations, reflecting the international dimension of our business activities. Fostering this diversity is similarly enshrined in our Sustainability Strategy.

Environment and society

Hannover Re does its utmost to keep negative environmental impacts of its business operations as low as possible. The focus of our efforts to conserve the environment is on reducing carbon dioxide (CO_2) emissions associated with the supply of electricity and heating to our premises as well as with our business travel. Having already converted our power supply at the German location to renewables, we now want to extend this progressively to our international offices as well. With the implementation of our Environmental Management System, which was certified according to DIN EN ISO 14001 in 2012, we have put in place standard processes for dealing with environmental protection and defined concrete measures in the environmental programme. Our Environmental Management System was successfully recertified in November 2015.

Hannover Re's carbon dioxide emissions at its German location in 2015 amounted to 8,581 (previous year: 7,798) tonnes, some 10.0% more than in the previous year. This is equivalent to per capita CO_2 emissions of 6.4 tonnes (+6.7% compared to the previous year).

In 2015, as in previous years, we compensated for our unavoidable CO_2 emissions of 8,306 (7,514) tonnes caused by business travel by making voluntary offsetting payments to the international organisation "atmosfair" and thereby supported selected climate protection projects in developing and emerging countries. This is equivalent to an offset of around 97% of our total CO_2 emissions resulting from business travel and the consumption of electricity, district heating and paper.

In the financial year just ended, as in prior years, we reported on our measures to reduce carbon dioxide emissions as part of the international initiative overseen by the Carbon Disclosure Project (CDP); in this context we achieved a disclosure score of 91 out of a possible 100 points.

The table below breaks down Hannover Re's consumption and emissions over the past five years.

Resources consumed at Hannover Home Office M 44

	2015 [2]	2014 [2]	2013 [2]	2012 [2]	2011 [1]
Number of staff	1,337	1,289	1,219	1,164	1,110
Electricity (in kWh)	8,868,345	8,969,975	9,114,482	8,802,262	8,214,917
Heat (in kWh)	2,746,698	2,748,014	3,359,694	2,319,854	1,859,119
Water (in l)	17,088,000	15,176,000	15,778,000	14,961,000	14,464,500
Paper (in sheets)	6,600,810	7,551,200	8,502,060	8,766,000	9,172,180
Waste (in kg)	156,880	193,760	214,250	205,790	257,400
Business trips (in km)	20,530,043	20,447,867	18,185,062	16,654,504	17,658,598
CO_2 emissions (in kg) [3]	8,581,000	7,798,000	7,203,000	4,984,000	8,123,000

1 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Hannover
2 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Karl-Wiechert-Allee 57 (pro rata), Hannover
3 Radiative Forcing Index: 2.7

Our commitment to society has a long tradition. Hannover Re has been active as a sponsor of culture and social projects for several decades. Our activities extend beyond our location in Germany to our subsidiaries with their specific projects catering to social concerns in their own country. Content-wise, we concentrate our non-profit activities today on the areas of research, learning, art and music as well as on assisting our employees with their voluntary contributions to society. Our involvement encompasses not only projects in Germany but also activities at our international locations.

Detailed explanatory remarks on our consumption of resources as well as extensive information on our social commitment can be found at www.hannover-re.com/60729/sustainability

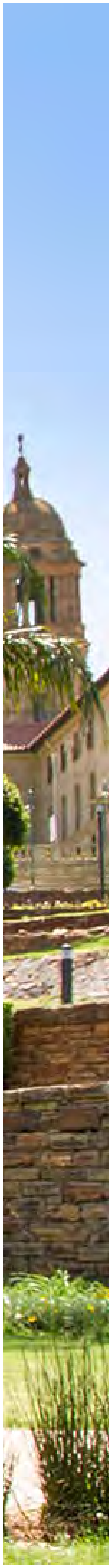
Nelson Mandela statue, Union Buildings, Pretoria, South Africa

Always …

… innovative

Innovative in lifestyle matters

People with a healthy lifestyle are – at least statistically speaking – less susceptible to disease and disability. Lifestyle programmes are designed to motivate people to live a healthy life. This means that insurers can grant premium discounts, extend the scope of coverage or offer attractive rewards – while at the same time having to make lower claims payments. Hannover Re participates in such lifestyle programmes, contributing its know-how and helping its customers to carry the risk. The concepts developed for the South African market have the potential to grow into the largest incentive-based scientific wellness programme in the world; they have already been successfully adopted in other countries.



Opportunity and risk report

Risk report

- We are well capitalised. Our available capital comfortably exceeds the required capital.
- We are convinced that our Group-wide risk management system gives us a transparent overview of the current risk situation at all times and that we fulfil the requirements placed on the risk management system by Solvency II.

Strategy implementation

Our current corporate strategy encompasses ten guiding principles that safeguard the realisation of our vision "Long-term success in a competitive business" across the various divisions. For further information on the corporate strategy and the strategic principles in detail please see the section entitled "Our strategy" on page 16 et seq. The following principles of the corporate strategy constitute the key strategic points of departure for our Group-wide risk management:

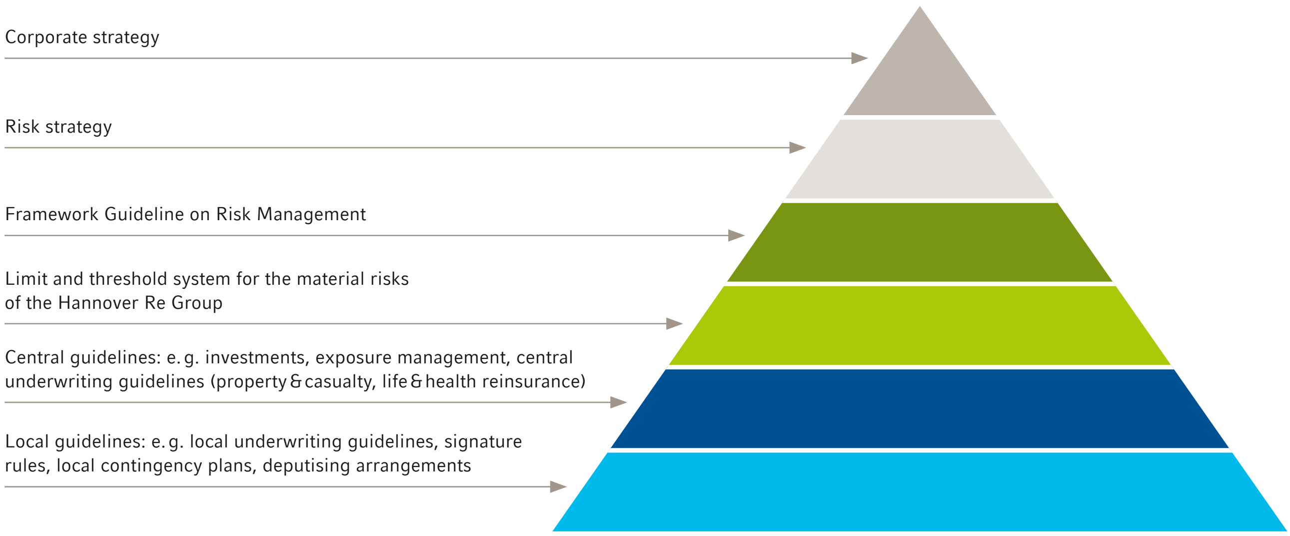
- We manage risks actively.
- We maintain an adequate level of capitalisation.
- We are committed to sustainability, integrity and compliance.

The risk strategy is derived from our corporate strategy. It forms the core element in our handling of opportunities and risks. The risk strategy specifies more closely the goals of risk management and documents our understanding of risk. We have also defined ten overriding principles within our risk strategy:

1. We adhere to the risk appetite set by the Executive Board.
2. We integrate risk management into value-based management.
3. We promote an open risk culture and the transparency of our risk management system.
4. We strive for the highest ERM rating and a comfortable level of capital adequacy under Solvency II.
5. We determine a materiality threshold for our risks.
6. We make use of appropriate quantitative methods.
7. We apply well-suited qualitative methods.
8. We allocate our capital risk-based.
9. We ensure the necessary separation of functions through our organisational structure.
10. We assess the risk contribution from new business areas and new products.

The risk strategy is similarly specified with an increasing degree of detail on the various levels of the company.

Implementation of strategy M 45



The risk strategy and the major guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are reviewed at least once a year. In this way we ensure that our risk management system is kept up-to-date.

We manage our total enterprise risk such that we can expect to generate positive Group net income with a probability of 90% p. a. and the likelihood of the complete loss of our economic capital and shareholders' equity does not exceed 0.03% p. a. These indicators are monitored using our internal capital model and the Executive Board is informed quarterly about adherence to these key parameters as part of regular reporting. The necessary equity resources are determined according to the requirements of our economic capital model, solvency regulations, the expectations of rating agencies with respect to our target rating and the expectations of our clients. Above and beyond that, we maintain a capital cushion in order to be able to act on new business opportunities at any time.

Strategic targets for risk position M 46

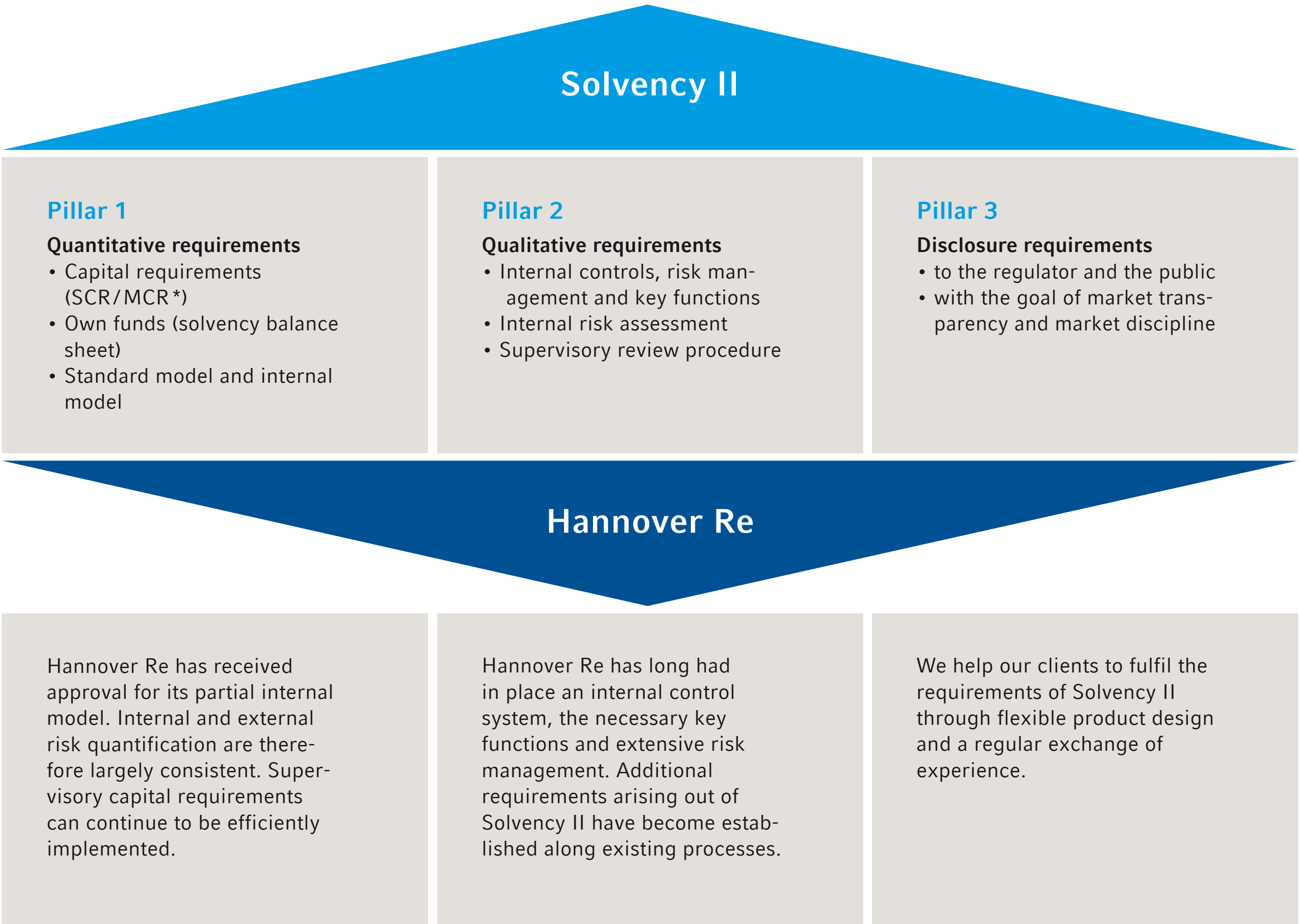
	Limit	30.9.2015
Probability of positive net income	>90%	96.9%
Probability of loss of shareholders' equity	<0.03%	0.01%
Probability of loss of economic equity	<0.03%	<0.01%

Major external factors influencing risk management in the financial year just ended

Regulatory developments: Further more concrete aspects of Solvency II were defined in the 2015 financial year, including the decision by lawmakers to adopt a revised version of the Insurance Supervision Act with effect from 1 January 2016 and thereby translate European standards into national law. The Hannover Re Group has systematically implemented all requirements to date. Following intensive preparations the Hannover Re Group received approval to calculate its solvency requirements using its internal model when Solvency II comes into effect. The approved model covers the underwriting, market and counterparty default risks that are most relevant to enterprise management. Our internal model enables us to optimally map the risk structure of our reinsurance business and our investments, which would not be possible using a standard model. Regulatory approval also means that the risks can be better reflected when determining the regulatory capital requirements. Our internal target capitalisation with a confidence level of 99.97% comfortably exceeds the target level of 99.5% under Solvency II, thereby ensuring a comfortable level of capital adequacy under Solvency II if the internal target is achieved.

The core functions of Solvency II – the risk management function, the actuarial function, the compliance function and the internal audit function – have been implemented. In fulfilling the new supervisory requirements for core functions, we were able to build on existing processes and organisational structures. In 2015 we comprehensively fulfilled the supervisory reporting requirements during the preparatory phase for Solvency II, inter alia by compiling a Regular Supervisory Report (RSR) and a report on the Own Risk and Solvency Assessment (ORSA) for Hannover Rück SE and other European insurance companies within the Group.

Parallel to the regulatory developments in Europe, we are seeing adjustments worldwide to the regulation of (re)insurance undertakings. It is often the case that various local supervisory authorities take their lead from the principles of Solvency II or the requirements set out by the International Association of Insurance Supervisors (IAIS).



* SCR = Solvency Capital Requirement; MCR = Minimum Capital Requirement

Capital market environment: Another major external influencing factor is the protracted low level of interest rates, especially with an eye to the return on our investments. For further information please see the "Investments" section of the management report on page 51 et seq.

Risk capital

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of the Hannover Re Group is a stochastic enterprise model. It covers all subsidiaries and business groups of the Hannover Re Group. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and also constitutes the basis for calculating the own funds under Solvency II. Hannover Re's internal capital model reflects all risks that influence the development of the economic capital. These are split into underwriting risks, market risks, counterparty default risks and operational risks. For each of these risk classes we have identified a number of risk factors for which we define probability distributions. These risk factors include, for example, economic indicators such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators such as the mortality of a particular age group within our portfolio of insureds in a particular country or the number of natural catastrophes in a certain region and the insured loss amount per catastrophe. The specification of the probability distributions for the risk factors draws upon historical and publicly available data as well as on the internal data resources of the Hannover Re Group. This process is further supplemented by the know-how of internal and external experts. The fit of the probability distributions is regularly checked by our specialist departments, although more importantly it is also verified in the context of the regular, company-wide use of the capital model when assessing risks and allocating the cost of capital. Hannover Re calculates the required risk capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation of the Hannover Re Group is therefore significantly higher than the minimum confidence level of 99.5% required under Solvency II.

Irrespective of regulatory reporting requirements, the Hannover Re Group regularly calculates its capitalisation in accordance with Solvency II, i.e. in accordance with the approved internal model (partial model). The capital requirements for market risks, underwriting risks and counterparty default risks are determined on this basis. The capital requirement for operational risks, on the other hand, is calculated according to the parameters of the Solvency II standard formula. The own funds are based on the economic capital, with non-controlling interests not fully recognised as required by Solvency II. The capital adequacy ratio of the Hannover Re Group calculated in accordance with the parameters of Solvency II stood at 221% as at 30 September 2015.

All figures on the risk capital provided below are based on the full internal model of the Hannover Re Group: our excess capital coverage at the target confidence level of 99.97% was very comfortable at 131.5% as at 30 September 2015. Hannover Re is well capitalised and our available capital comfortably exceeds the required capital:

Available capital and required risk capital **M 48**

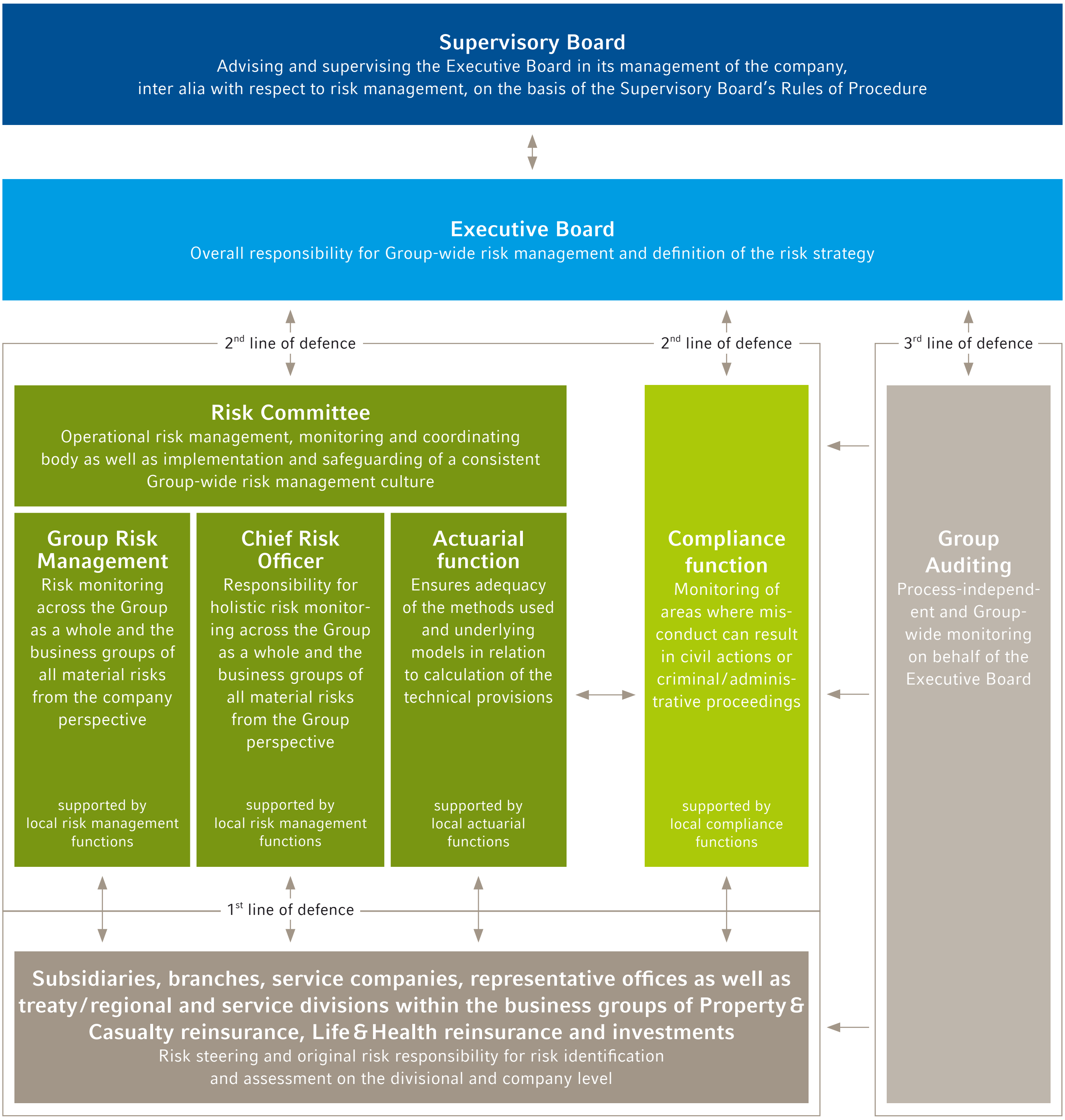
in EUR million	30.9.2015		31.12.2014	
Available economic capital	12,614.7		12,443.9	
Confidence level	**99.97%**	**99.5%**	**99.97%**	**99.5%**
Required risk capital	9,593.0	5,126.3	7,786.6	4,353.1
Excess capital	3,021.7	7,488.4	4,657.3	8,090.8
Capital adequacy ratio	131.5%	246.1%	159.8%	285.9%

We hold additional capital above all to meet the requirements of the rating agencies for our target rating and to be able to act flexibly on business opportunities. We strive for a rating from the rating agencies most relevant to our industry that facilitates and secures our access to all reinsurance business worldwide. Hannover Re is analysed by the rating agencies Standard & Poor's (S & P) and A. M. Best as part of an interactive rating process. The current financial strength ratings are assessed as "AA-" (Very Strong, stable outlook) by Standard & Poor's and "A+" (Superior, stable outlook) by A. M. Best. Standard & Poor's evaluates Hannover Re's risk management as "Very Strong", the best possible rating. In this regard particular mention was made of the company's very good risk management, the consistent and systematic implementation of corporate strategy by management and its excellent capital resources. Hannover Re's internal capital model was also subjected to expert appraisal. Based on this review, Standard & Poor's factors the results of the Hannover Re Group's internal capital model into the determination of the target capital for the rating.

Organisation and processes of risk management

Hannover Re has set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The organisation and interplay of the individual functions in risk management are crucial to our internal risk steering and control system. The central functions of risk management are closely interlinked in our system and the roles, tasks and reporting channels are clearly defined and documented in terms of the so-called "3 lines of defence". The first line of defence consists of risk steering and the original risk responsibility on the divisional or company level. Risk management ensures the second line of defence – risk monitoring. It is supported in this regard by the actuarial function and the compliance function. The third line of defence is the process-independent monitoring performed by the internal audit function. The following chart provides an overview of the central functions and bodies within the overall system as well as of their major tasks and powers.

Central functions of risk monitoring and steering M 49



Group-wide risk communication and an open risk culture are important to our risk management. Regular global meetings attended by the actuarial units and risk management functions serve as a central anchor point for strategic considerations in relation to risk communication.

Key elements of our risk management system

Our risk strategy, the Framework Guideline on Risk Management and the system of limits and thresholds for material risks of the Hannover Re Group describe the central elements of our risk management system. The risk management system is subject to a constant cycle of planning, action, control and improvement. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are especially crucial to the effectiveness of the system as a whole.

The Framework Guideline on Risk Management describes, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The rules, which are derived from the corporate strategy and the risk strategy, additionally take account of the regulatory minimum requirements for risk management as well as international standards and developments relating to appropriate enterprise management.

Risk-bearing capacity concept

The establishment of the risk-bearing capacity involves determining the total available risk coverage potential and calculating how much of this is to be used for covering all material risks. This is done in conformity with the parameters of the risk strategy and the risk appetite defined by the Executive Board. The quantitatively measurable individual risks and the risk position as a whole are evaluated using our risk model. A central system of limits and thresholds is in place to monitor material risks. This system incorporates – along with other risk-related key figures – in particular the indicators derived and calculated from the risk-bearing capacity. Adherence to the overall risk appetite is verified on an ongoing basis using the results of the risk model.

Risk identification

A key source of information for monitoring risks is the risk identification carried out on a rotating basis. All identified risks are documented in the central register containing all material risks. Risk identification takes the form of, for example, structured assessments, interviews or scenario analyses. External insights such as recognised industry know-how from relevant bodies or working groups are incorporated into the process. Risk identification is important for ensuring that our risk management consistently remains up-to-date.

Risk analysis and assessment

In principle, every risk that is identified and considered material is quantitatively assessed. Only risk types for which quantitative risk measurement is currently impossible or difficult are qualitatively assessed (e. g. strategic risks or reputational risks). Qualitative assessment takes the form of inter alia expert evaluations. Quantitative assessment of material risks and the overall risk position is performed by Group Risk Management using the Hannover Re risk model. The model makes allowance as far as possible for risk accumulations and concentrations.

Risk steering

The steering of all material risks is the task of the operational business units on the divisional and company level. In this context, the identified and analysed risks are either consciously accepted, avoided or minimised. The risk/reward ratio and the required capital are factored into the division's decision. Risk steering is assisted by, among other things, the parameters of the central and local underwriting guidelines and by defined limits and thresholds.

Risk monitoring

The monitoring of all identified material risks is a core task of Group Risk Management. This includes, inter alia, monitoring execution of the risk strategy as well as adherence to the defined limits and thresholds and to risk-related methods and processes. A further major task of risk monitoring is the ascertainment of whether risk steering measures were carried out and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

Risk management is firmly integrated into our operational processes. It is assisted by transparent risk communication and the open handling of risks as part of our risk culture. Risk communication takes the form, for example, of internal and external risk reports, information on current risk complexes in the intranet and training opportunities for staff. The regular sharing of information between risk-steering and risk-monitoring units is also fundamental to the proper functioning of risk management.

Risk reporting

Our risk reporting provides systematic and timely information about all material risks and their potential implications. The central risk reporting system consists primarily of regular risk reports, e. g. on the overall risk situation, adherence to the parameters defined in the risk strategy or on the capacity utilisation of natural catastrophe scenarios. Complementary to the regular risk reporting, immediate internal reporting on material risks that emerge at short notice takes place as necessary. The already existing range of risk reports will be supplemented in the context of Solvency II implementation by further reports, including for example the "Regular Supervisory Report" (RSR) and the "Solvency and Financial Condition Report" (SFCR).

Process-integrated/-independent monitoring and quality assurance

Irrespective of internally assigned competencies, the Executive Board is responsible for the orderly organisation of the company's business. This also encompasses monitoring of the internal risk steering and control system. Process-independent monitoring and quality assurance of risk management is carried out by the internal audit function and external instances (regulators, independent auditors and rating agencies). Most notably, the independent auditors review the trigger mechanism and the internal monitoring system. The entire system is rounded off with process-integrated procedures and rules, such as those of the internal control system.

Internal control system

We organise our business activities in such a way that they are always in conformity with all legal requirements. The internal control system (ICS) is an important subsystem that serves, among other things, to secure and protect existing assets, prevent and reveal errors and irregularities and comply with laws and regulations. The core elements of Hannover Re's ICS are documented in a Framework Guideline that establishes a common understanding of the differentiated execution of the necessary controls. In the final analysis, it is designed to systematically steer and monitor the implementation of our corporate strategy. The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. This includes, among other things:

- the principle of dual control,
- separation of functions,
- documentation of the controls within processes,
- and technical plausibility checks and access privileges in the IT systems.

The proper functioning of the ICS necessitates the involvement of management, executive staff and employees on all levels.

The financial reporting of the parent company and the Group must satisfy international and national financial reporting standards as well as regulatory requirements. This is safeguarded in the area of accounting and financial reporting by processes with integrated controls which ensure the completeness and accuracy of the annual and consolidated financial statements. A structure made up of differentiated criteria, control points and materiality thresholds assures our ability to identify and minimise the risk of material errors in the annual and consolidated financial statements at an early stage.

We use a central IT solution with standardised accounting and consolidation processes, posting rules and interfaces for data delivery in order to draw up the consolidated financial statement. Access rights for the reporting systems are assigned through an approval process. All components of the accounting-related internal control system, the processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statement as well as the accompanying controls are consistently documented. In order to safeguard and continuously improve the adequacy of the control system it is subject to regular review and evaluation. In this regard, the internal audit function ensures that the quality of the control system is constantly monitored. All relevant accounting principles are collated in a Group Accounting Manual that sets out uniform Group-wide rules for the recognition, measurement and reporting of items in the consolidated financial statement. The process for updating and, if necessary, adjusting these rules is clearly regulated with respect to information channels, responsibilities and period of validity. Not only that, we provide prompt Group-wide notification of significant developments and modified requirements in Group financial reporting.

Within the scope of our control system the Group companies are responsible for Group-wide adherence to the accounting policies and the internal control guidelines. The managing directors and chief financial officers of the Group companies defined as material in our control system affirm to the Executive Board of Hannover Rück SE at each closing date the completeness, correctness and reliability of the financial data that they pass on to Group Accounting. Data for the preparation of the consolidated financial statement is delivered using a networked IT application. The relevant data for Group financial reporting is collected in a database and processed via automatic interfaces in a consolidation system. As part of the financial reporting process we perform preventive and detective checks on the reported figures in order to minimise the probability and reduce the impacts of a potentially incorrect disclosure. Depending upon the results of our checks, these figures can be corrected if necessary. Given that our Group financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls. Authorisation concepts regulate system access and for each step content-based as well as system-side checks have been implemented, by means of which errors are analysed and promptly eliminated.

Internal risk assessment

In the following section we compare the available economic capital with the required risk capital. Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as underwriting risks. For the discounting of future cash flows we use the risk-free basic yield curves without volatility adjustment or matching adjustment calculated in accordance with Solvency II rules. Market prices for options and guarantees embedded in insurance contracts are determined or approximated using option valuation models from the field of financial mathematics. The significance of these options and guarantees in our portfolio is, however, minimal. The valuation reserves for investments shown in the following table indicate the difference between fair value and book value of those investments recognised under IFRS at book values. Other adjustments encompass above all the deferred taxes as well as the deduction of foreseeable dividends as required by Solvency II. The available economic capital, which is available as liable capital for policyholders, is composed of the economic equity and the hybrid capital. Hybrid capital is recognised at market-consistent value as required by Solvency II, with changes in own credit risk not being included in the valuation.

The available economic capital increased to EUR 12,614.7 million as at 30 September 2015 compared to EUR 12,443.9 million as at 31 December 2014. This was due principally to the good business performance in the first three quarters as well as positive effects from the weakening of the euro against our major foreign currencies and from economic adjustments for underwriting reserves. The value adjustments increased primarily as a consequence of the good development of new business in life and health reinsurance and due to a more favourable assessment of future cash flows in property and casualty reinsurance. This is opposed by a decrease in the available capital from subordinated bonds owing to redemption of a hybrid bond.

Reconciliation (economic capital/shareholders' equity) M 50

in EUR million	30.9.2015	31.12.2014
Shareholders' equity	8,428.1	8,253.0
Adjustments for assets under own management	510.6	555.5
Adjustments for technical provisions[1]	3,791.0	3,063.3
Adjustments due to tax effects and other[2]	(1,698.6)	(1,414.4)
Economic equity	**11,031.1**	**10,457.4**
Hybrid capital	1,583.6	1,986.5
Available economic capital	12,614.7	12,443.9

[1] Adjustments for technical provisions in life & health and property & casualty reinsurance incl. risk margin
[2] Includes the deduction of foreseeable dividends, which in the 2014 Annual Report was still shown as part of adjustments of the technical provisions

The required risk capital of the Hannover Re Group at the target confidence level of 99.97% rose to EUR 9,593.0 million as at 30 September 2015, compared to EUR 7,786.6 million as at 31 December 2014. The bulk of the increase was due to the weaker euro against our major foreign currencies and the associated higher foreign-currency volumes underlying the risks, such as the volume of investments or loss reserves. These increases in volume driven by exchange rate movements caused the risk capital to climb in all risk categories. A further factor was the diminished diversification effect as a consequence of dependencies between, in particular, US-dollar-dominated risks. The decline in the tax effect resulted from the fact that with the currently higher risk capital the loss-minimising effect of taxes is subject to greater limitations.

The elevated risk in relation to market risks was not only volume-driven but also reflected the building of an equity allocation in the investment portfolio.

The underwriting risks in property and casualty reinsurance increased primarily on account of the larger volume of reserves and the higher catastrophe risks, which could be attributed above all to the stronger US dollar. The increase in the underwriting risks in life and health reinsurance was driven not only by exchange rate movements but also by larger business volumes in the area of longevity risks.

Counterparty default risks increased principally as a result of a larger volume of cash and short-term deposits. Operational risks developed in step with the underlying business volumes.

The internal capital model is based on current methods from actuarial science and financial mathematics. In the case of underwriting risks, we are able to draw on a rich internal data history to estimate the probability distributions, e. g. for the reserve risk. For risks from natural perils we use external models, which are adjusted in the context of a detailed internal review process such that they reflect our risk profile as closely as possible. In the area of life and health reinsurance long-term payment flows are modelled under various scenarios. With respect to all the aforementioned risks we use internal data to define scenarios and probability distributions. The internal data is enhanced by way of parameters set by our internal experts. These parameters are especially significant in relation to extreme events that have not previously been observed.

When it comes to aggregating the individual risks, we make allowance for dependencies between risk factors. Dependencies arise, for example, as a consequence of market shocks, such as the financial crisis, which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification. Hannover Re's business model is based inter alia on building up the most balanced possible portfolio so as to achieve the greatest possible diversification effects and in order to deploy capital efficiently. Diversification exists between individual reinsurance treaties, lines, business segments and risks. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines and based on their contribution to diversification.

Required risk capital M 51

	30.9.2015		31.12.2014	
in EUR million	Confidence level 99.97%	Confidence level 99.5%	Confidence level 99.97%	Confidence level 99.5%
Underwriting risk in property and casualty reinsurance	5,377.3	3,408.9	5,023.1	3,101.1
Underwriting risk in life and health reinsurance	3,441.9	2,109.6	3,327.2	1,906.9
Market risk	5,527.9	3,903.1	5,141.9	3,521.6
Counterparty default risk	881.0	279.9	756.3	254.7
Operational risk	684.8	431.1	595.4	382.7
Diversification	(5,070.0)	(3,329.5)	(5,687.1)	(3,299.6)
Tax effects	(1,249.9)	(1,676.8)	(1,370.2)	(1,514.3)
Required risk capital of the Hannover Re Group	**9,593.0**	**5,126.3**	**7,786.6**	**4,353.1**

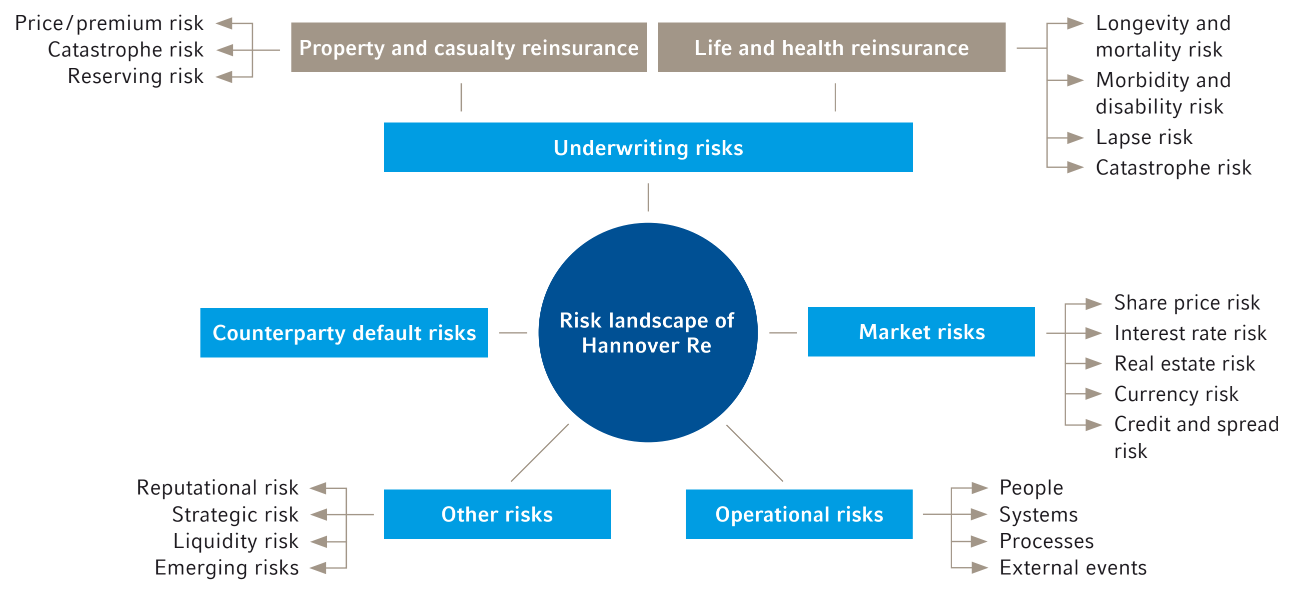
Risk landscape of Hannover Re

In the context of its business operations the Hannover Re Group enters into a broad variety of risks. These risks are deliberately accepted, steered and monitored in order to be able to act on the associated opportunities. The parameters and decisions of the Executive Board with respect to the risk appetite of the Hannover Re Group, which are based on the calculations of risk-bearing capacity, are fundamental to the acceptance of risks. Through our business operations on all continents and the diversification between our Property & Casualty and Life & Health reinsurance business groups we are able to effectively allocate our capital in light of opportunity and risk considerations and generate a higher-than-average return on equity. Along with our principal business operations as a reinsurer of property & casualty and life & health business, we also transact primary insurance in selected niche markets as a complement to our core reinsurance business. With this approach we are well positioned for further profitable growth. In this context crucial importance attaches to our risk management in order to ensure that, among other things, risks to the reinsurance portfolio remain calculable and also exceptional major losses do not have an unduly adverse impact on the result.

The risk landscape of Hannover Re encompasses:

- underwriting risks in property & casualty and life & health reinsurance which originate from our business activities and manifest themselves inter alia in fluctuations in loss estimates as well as in unexpected catastrophes and changes in biometric factors such as mortality,
- market risks which arise in connection with our investments and also as a consequence of the valuation of sometimes long-term payment obligations associated with the technical account,
- counterparty default risks resulting from our diverse business relationships and payment obligations inter alia with clients and retrocessionaires,
- operational risks which may derive, for example, from deficient processes or systems and
- other risks, such as reputational and liquidity risks.

Risk landscape of Hannover Re M52



At the present time our most significant risks are the credit and spread risks within the market risks, the reserving and catastrophe risks within the underwriting risks of property and casualty reinsurance and the risk of changes in mortality within the underwriting risks of life and health reinsurance. With regard to mortality risks, as a general principle annuity portfolios are impacted by improvements in mortality while death benefit portfolios are adversely affected by deteriorations in mortality. The specific risk characteristics and the principal monitoring and steering mechanisms are described in the following sections.

Underwriting risks in property and casualty reinsurance

Risk management in property and casualty reinsurance has defined various overall guidelines for efficient risk steering. These include, among other things, the limited use of retrocessions to reduce volatility and conserve capital. It is also crucially important to consistently maximise the available risk capacities on the basis of the risk management parameters of the Hannover Re Group and to steer the acceptance of risks systematically through the existing central and local underwriting guidelines. Our conservative reserving level is a crucial factor in our risk management. We make a fundamental distinction between risks that result from business operations of past years (reserve risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk.

Diversification within the Property & Casualty reinsurance business group is actively managed through allocation of the cost of capital according to the contribution made to diversification. A high diversification effect arises out of the underwriting of business in different lines and different regions with different business partners. In addition, the active limitation of individual risks – such as natural catastrophes – enhances the diversification effect. The risk capital with a confidence level of 99.5% for underwriting risks in property and casualty reinsurance breaks down as follows:

Required risk capital[1] for underwriting risks in property and casualty reinsurance M53

in EUR million	30.9.2015	31.12.2014
Premium risk (incl. catastrophe risk)	2,237.4	2,079.4
Reserve risk	2,292.5	1,907.0
Diversification	(1,121.0)	(885.3)
Underwriting risk in property and casualty reinsurance	**3,408.9**	**3,101.1**

[1] Required risk capital with a confidence level of 99.5%

The largest share of the required risk capital for the premium risk (incl. catastrophe risk) is attributable to risks from natural disasters. The following table shows the required risk capital for our four largest natural hazards scenarios:

Required risk capital[1] for the four largest natural hazards scenarios M54

in EUR million	2015
Hurricane US/Caribbean	1,338.0
Earthquake US West Coast	1,103.9
Winter storm Europe	828.6
Earthquake Japan	780.0

[1] Required risk capital with a confidence level of 99.5% on an aggregate annual loss basis

The reserve risk, i. e. the risk of under-reserving losses and the resulting strain on the underwriting result, is the overriding priority in our risk management. We attach the utmost importance to a conservative reserving level and therefore traditionally have a high confidence level (> 50%). In order to counter the risk of under-reserving we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on the segment reserve. The segment reserve is calculated on a differentiated basis according to risk categories and regions. The segment reserve established by the Hannover Re Group amounted to EUR 6,948.1 million in the year under review.

The statistical run-off triangles are another monitoring tool used by our company. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods.

Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of actuaries and auditors. For further remarks on the reserve risk please see our comments in the section "Technical provisions" on page 198 et seq.

In the case of asbestos- and pollution-related claims it is difficult to reliably estimate future loss payments. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue.

Survival ratio in years and reserves for asbestos-related claims and pollution damage M 55

in EUR million	2015			2014		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/ pollution damage	36.0	203.3	26.9	33.8	189.3	28.2

In order to partially hedge inflation risks Hannover Re holds inflation-linked instruments in its portfolio that protect parts of the loss reserves against inflation risks. An inflation risk exists particularly inasmuch as the liabilities (e. g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation. This inflation protection was initially ensured by way of inflation swaps, which were purchased for the first time in 2010; it was increased in 2011. Since 2012 we have also increasingly obtained parts of the inflation protection for our loss reserves by purchasing bonds with inflation-linked coupons and redemption amounts. In the course of the year under review the inflation protection was converted to the exclusive use of such bonds.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios.

Stress tests for natural catastrophes after retrocessions M 56

Maximum annual loss, in EUR million	2015	2014
	Effect on forecast net income	
Windstorm Europe		
100-year loss	(123.5)	(251.0)
250-year loss	(281.2)	(440.0)
Windstorm United States		
100-year loss	(733.7)	(541.7)
250-year loss	(1,031.7)	(778.1)
Windstorm Japan		
100-year loss	(153.6)	(172.2)
250-year loss	(199.4)	(250.1)
Earthquake Japan		
100-year loss	(200.6)	(254.3)
250-year loss	(477.8)	(520.8)
Earthquake California		
100-year loss	(349.6)	(303.5)
250-year loss	(746.1)	(503.1)
Earthquake Australia		
100-year loss	(136.8)	(172.7)
250-year loss	(378.8)	(449.7)

Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action.

For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Risk management ensures adherence to these maximum amounts. The Executive Board, Risk Committee and P&C Executive Committee are kept regularly updated on the degree of capacity utilisation. The limits and thresholds for the 200-year aggregate loss as well as the utilisation thereof are set out in the following table:

Limit and threshold for the 200-year aggregate annual loss as well as utilisation thereof M 57

in EUR million	Limit 2015	Threshold 2015	Actual utilisation (July 2015)
All natural catastrophe risks [1]			
200-year aggregate annual loss	1,778	1,600	1,481

[1] Loss relative to the underwriting result

Net expenditure on major losses in the year under review amounted to EUR 572.9 million (EUR 425.7 million). Our company incurred the following catastrophe losses and major claims in the 2015 financial year:

Catastrophe losses and major claims[1] in 2015 **M 58**

in EUR million	Date	gross	net
4 marine claims		146.7	83.8
Explosions at the Port of Tianjin, China		129.2	111.1
7 property claims		105.7	105.7
5 aviation claims		71.3	51.3
Flooding, United Kingdom	5–26 December 2015	37.9	28.3
Storm “Etau”, Japan	7–9 September 2015	27.3	27.3
Storm “Niklas”, Germany, Switzerland, Austria	31 March–1 April 2015	26.7	21.0
Storm, Australia	19–25 April 2015	26.7	17.0
Earthquake, Chile	16 September 2015	25.5	25.5
1 credit claim		20.0	20.0
Flooding, India	16 November–4 December 2015	18.8	18.8
Winter storm, United States	1–22 February 2015	18.6	12.8
Typhoon “Mujigae”, Taiwan, Korea, China	2–3 October 2015	14.1	14.1
Storm “Erika”, Caribbean	25–31 August 2015	12.7	12.7
Forest fires, United States	12 September 2015	12.4	9.3
Severe weather/flooding, United States	24 May–14 June 2015	10.8	7.3
Storm, Northern Europe	8–11 January 2015	10.0	6.9
Total		**714.4**	**572.9**

[1] Natural catastrophes and other major claims in excess of EUR 10 million gross

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. We have put in place a multi-step quotation process to ensure the quality of our portfolios:

Ensuring the quality of our portfolios **M 59**

Step 1

Calculation of the loss expectancy
- Historical loss and exposure analysis
- Future inflation
- Changes in the quality of underlying risks
- Changes in the quantity of underlying risks
- Discounting of future cash flows

Step 2

Cost estimation
- Commissions
- Broker fees
- Internal administration

Step 3

Calculation of the cost of capital
- Level of capital allocation determined by volatility of the business covered and contribution to diversification
- Expected return on equity
- Capital structure

In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The development of the combined ratio in property and casualty reinsurance in 2015 and prior years is shown in the table below:

Combined and catastrophe loss ratio **M 60**

in %	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Combined ratio (property and casualty reinsurance)	94.4	94.7	94.9	95.8	104.3	98.2	96.6	95.4	99.7	100.8
Thereof catastrophe losses [1]	7.1	6.1	8.4	7.0	16.5	12.3	4.6	10.7	6.3	2.3

[1] Net share of the Hannover Re Group for natural catastrophes and other major claims in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

For further information on the run-off of the loss reserves please see our explanatory remarks in the section "Run-off of the net loss reserve in the property and casualty reinsurance segment" on page 199 et seq.

Underwriting risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks. They include in particular the miscalculation of mortality, life expectancy, morbidity and occupational disability. Biometric risks are the material risks for our company in the area of life and health reinsurance. Our goal is to strike a balance between biometric risks. Furthermore, we are exposed to lapse risks because the cash flows resulting from our reinsurance treaties are in part dependent on lapse rates among policyholders. Counterparty default risks are also material since we additionally prefinance our cedants' new business acquisition costs. Furthermore, we are exposed to catastrophe risks, especially events involving a high number of fatalities in our insurance portfolio.

The reserves are determined on the basis of secure biometric actuarial bases in light of the information provided by our clients. The biometric actuarial bases used and the lapse assumptions are continuously reviewed with an eye to their adequacy and if necessary adjusted. This is done using the company's own empirical data as well as market-specific insights. Our current risk profile in life and health reinsurance is dominated by mortality and longevity risks. This is due to the fact that under some of our contracts we pay death benefits, while under others we pay survival benefits. The volume of our annuity portfolio has continued to grow and contributes to diversification within life and health reinsurance. We calculate the diversification effect between mortality and longevity risks prudently in view of the fact that the contracts are normally taken out for different regions, age groups and individuals. The required risk capital with a confidence level of 99.5% for underwriting risks in life and health reinsurance breaks down as follows:

Required risk capital [1] for underwriting risks in life and health reinsurance **M 61**

in EUR million	30.9.2015	31.12.2014
Mortality risk	1,617.4	1,448.0
Longevity risk	1,314.8	1,121.2
Morbidity and disability risk	371.3	351.0
Lapse risk	646.6	736.4
Diversification	(1,840.5)	(1,749.7)
Underwriting risk life and health	**2,109.6**	**1,906.9**

[1] Required risk capital with a confidence level of 99.5%

Diversification is a central management tool for our company. We seek to spread risks as far as possible across different risk classes and different regions. In our pricing of reinsurance treaties we provide incentives to further increase diversification.

Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks and how these considerations are factored into the pricing. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or of deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the design of our reinsurance treaties. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent Group-wide approach in order to obtain an overall view of the risks in life and health reinsurance. Our global underwriting guidelines provide underwriters with an appropriate framework for this purpose. The risks arising out of life and health reinsurance are reflected in the internal capital model.

Market risks

Faced with a challenging capital market climate, particularly high importance attaches to preserving the value of assets under own management and the stability of the return. Hannover Re's portfolio is therefore guided by the principles of a balanced risk/return profile and broad diversification. Based on a risk-averse asset mix, the investments reflect both the currencies and durations of our liabilities. Market price risks include equity risks, interest rate risks, currency risks, real estate risks, spread risks and credit risks. Our portfolio currently consists in large part of fixed-income securities, and hence credit and spread risks account for the bulk of the market risk. We minimise interest rate and currency risks through the greatest possible matching of payments from fixed-income securities with the projected future payment obligations from our insurance contracts. Market risks derive from the investments managed by Hannover Re itself and from investment risks of ceding companies that we assume in connection with insurance contracts. The following table shows the risk capital with a confidence level of 99.5% for the market risks from investments under own and third-party management.

Required risk capital[1] for market risks M 62

in EUR million	30.9.2015	31.12.2014
Credit and spread risk	2,777.4	2,639.0
Interest rate risk	761.9	851.9
Foreign exchange risk	874.7	930.6
Equity risk[2]	1,109.5	804.3
Real estate risk	436.9	404.4
Diversfication	(2,057.3)	(2,108.6)
Market risk	**3,903.1**	**3,521.6**

[1] Required risk capital with a confidence level of 99.5%
[2] Including private equity

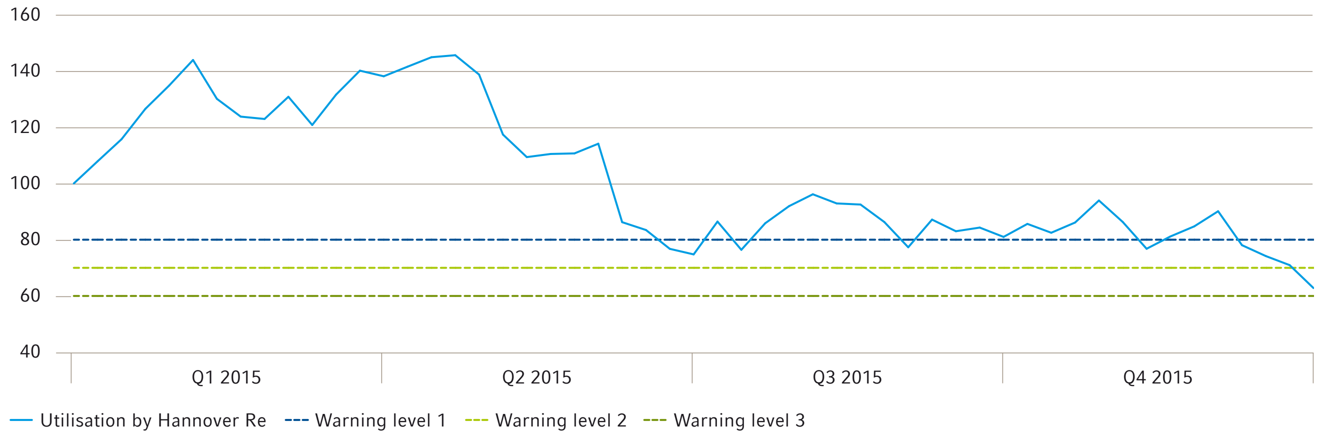
With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system defines clear thresholds and escalation channels for the cumulative fluctuations in fair value and realised gains/losses on investments since the beginning of the year. These are unambiguously defined in conformity with our risk appetite and trigger specified information and escalation channels if a corresponding fair value development is overstepped.

Interest rate and spread markets, in particular, saw very mixed movements across the most important investment currencies over the course of the period under review. In this context the escalation levels of the trigger system were reached on occasion during the year (cf. chart on page 88). Key factors in this development were increases in the general level of interest rates, especially in USD and GBP, as well as the general increase in credit spreads. Even our conservatively oriented and broadly diversified investment portfolio was unable to divorce itself from the resulting declines in fair value. Specifically, our portfolio of fixed-income bonds gave back some of the fair value gains recorded in previous years, in part owing to yield increases but also entirely normally due to the passage of time. Fair value changes from investments in equities and private equity as well as the renewed drop in interest rates in the EUR portfolio were positive factors here.

The predefined discussion and analysis mechanisms initiated on reaching the escalation levels in each case arrived at the assessment that the general market movements would not have any intolerable or strategy-changing implications for our portfolio or our capitalisation. Consequently, we did not make any changes to the investment allocation as a result of our trigger system.

Utilisation of the trigger system
in %

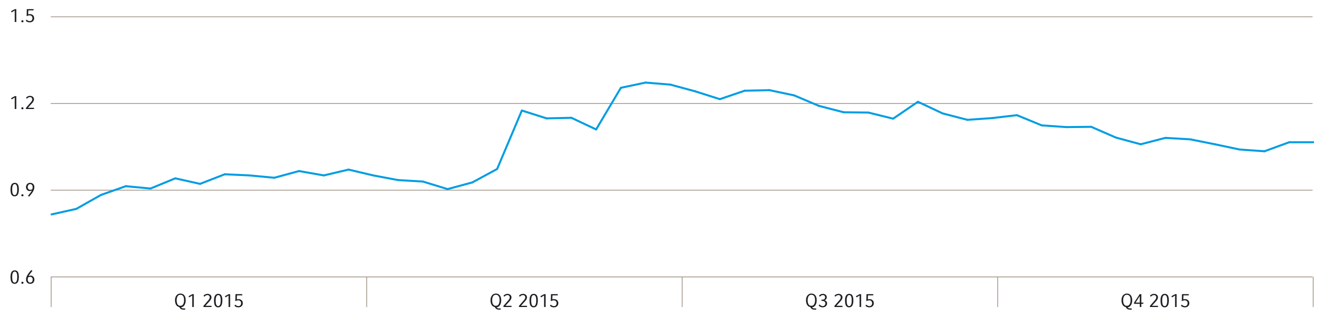
M 63



The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. The model takes into account interest rate risks, credit and spread risks, systematic and specific equity risks, commodity risks and option-specific risks. Against the backdrop of what was still a difficult capital market environment, the volatilities of fixed-income assets, in particular, and hence the market price risks increased in the year under review relative to the previous year. Based on continued broad risk diversification and the orientation of our investment portfolio, our Value at Risk was nevertheless clearly below the Value at Risk upper limit defined in our investment guidelines. It amounted to 1.0% (0.8%) as at the end of the reporting period.

Value at Risk [1] for the investment portfolio of the Hannover Re Group
in %

M 64



[1] VaR upper limit according to Hannover Re's investment guidelines: 2.5%

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

Scenarios for changes in the fair value of material asset classes **M 65**

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities and private equity	Share prices -10%	-123.4	-123.4
	Share prices -20%	-246.7	-246.7
	Share prices +10%	+123.4	+123.4
	Share prices +20%	+246.7	+246.7
Fixed-income securities	Yield increase +50 basis points	-770,1	-673,8
	Yield increase +100 basis points	-1.506,3	-1.317,9
	Yield decrease -50 basis points	+793,3	+692,4
	Yield decrease -100 basis points	+1.618,4	+1.411,9
Real estate	Real estate market values -10%	-175.8	-93.2
	Real estate market values +10%	+175.8	+38.4

Further significant risk management tools – along with the various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity. Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 6.1 of the notes entitled "Investments under own management" on page 176 et seq.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives in our portfolio. In addition to such assets held to date on only a very modest scale as part of strategic participations, we acted on market opportunities in the course of the year to rebuild a broadly diversified equity portfolio. Please see our comments in Section 6.1 of the notes entitled "Investments under own management" on page 176 et seq.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond with the same maturity. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage by regrouping assets. In so doing, we make allowance for collateral conditions such as different accounting requirements. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling. A detailed presentation of the currency spread of our investments is provided in Section 6.1 of the notes entitled "Investments under own management" on page 184 et seq.

Real estate risks result from the possibility of unfavourable changes in the value of real estate held either directly or through fund units. They may be caused by a deterioration in particular qualities of a property or by a general downslide in market values. Real estate risks continued to grow in importance for our portfolio owing to our ongoing involvement in this sector. We spread these risks through broadly diversified investments in high-quality markets of Germany, Europe as a whole and the United States; each investment is preceded by detailed analyses of the property, manager and market concerned.

We use derivative financial instruments only to the extent needed to hedge risks. The primary purpose of such financial instruments is to hedge against potentially adverse developments on capital markets. At the start of the year under review we had still held inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. Some of these inflation swaps reached their maturity date during the year and were not renewed. The remaining instruments were terminated, as a result of which our inflation protection is now ensured exclusively by means of bonds with inflation-linked coupons and redemption amounts. In addition, as in the previous year, a portion of our cash flows from the insurance business as well as currency risks was hedged using forward exchange transactions because currency matching could not be efficiently achieved. Hannover Re holds further derivative financial instruments to hedge interest rate risks from loans taken out to finance real estate. In addition, Hannover Re has taken out hedges in the form of equity swaps to hedge price risks in connection with the stock appreciation rights granted in the first quarter of 2014 under the Share Award Plan. These are intended to neutralise changes in the fair values of the awarded stock appreciation rights. Contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines. Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case.

We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level. In order to limit the risk of counterparty default we set various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Rating structure of our fixed-income securities[1] **M 66**

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/ asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	74.0	7,681.5	64.4	4,167.6	1.6	202.0	67.7	2,683.3
AA	12.9	1,335.5	30.9	2,000.5	14.9	1,910.8	13.3	525.5
A	7.7	800.0	2.8	181.2	39.1	4,997.2	7.9	314.3
BBB	4.5	467.5	1.3	84.0	36.9	4,714.6	6.7	265.6
<BBB	0.9	90.2	0.6	41.7	7.5	964.5	4.4	175.5
Total	**100.0**	**10,374.8**	**100.0**	**6,475.0**	**100.0**	**12,789.0**	**100.0**	**3,964.2**

[1] Securities held through investment funds are recognised pro rata with their corresponding individual ratings.
[2] Including government-guaranteed corporate bonds

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy.

On a fair value basis EUR 4,127.7 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 3,392.1 million was attributable to banks. The vast majority of these bank bonds (76.4%) are rated “A” or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Counterparty default risks

The counterparty default risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. The required risk capital for counterparty defaults with the confidence level of 99.5% amounted to EUR 279.9 million as at 30 September 2015.

Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, among other things, by reviewing all broker relationships once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor’s and A.M. Best but also internal and external expert assessments (e. g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e. g. following a major loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. The following table shows how the proportion of assumed risks that we do not retrocede (i. e. that we run in our retention) has changed in recent years:

Gross written premium retained M 67

in %	2015	2014	2013	2012	2011
Hannover Re Group	87.0	87.6	89.0	89.8	91.2
Property and casualty reinsurance	89.3	90.6	89.9	90.2	91.3
Life and health reinsurance	84.2	83.9	87.7	89.3	91.0

Alongside traditional retrocessions in property and casualty reinsurance we also transfer risks to the capital market.

Counterparty default risks are also relevant to our investments and in life and health reinsurance because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

The key ratios for managing the counterparty default risk are as follows:

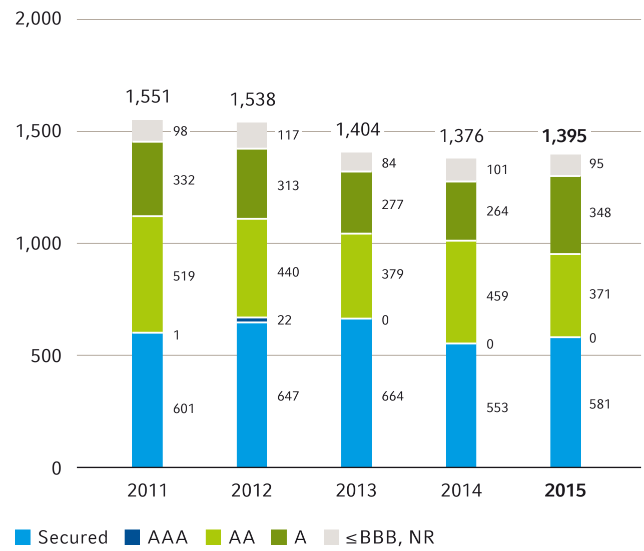
- 88.5% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").
- 88.3% are rated "A" or better.
- 41.7% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in most cases recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 236.4 million (6.4%) of our accounts receivable from reinsurance business totalling EUR 3,665.9 million were older than 90 days as at the balance sheet date.
- The average default rate over the past four years was 0.4%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,395.3 million (EUR 1,376.4 million) as at the balance sheet date.

The following chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires.

Reinsurance recoverables as at the balance sheet date M68

in EUR million



Further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review are provided in Section 6.4 "Technical assets" on page 192 et seq., Section 6.6 "Other assets" on page 195 et seq. and Section 7.2 "Investment result" on page 215 et seq.

Operational risks

Operational risks refer to the risk of losses occurring because of the inadequacy or failure of internal processes or as a result of events triggered by employee-related, system-induced or external factors. In contrast to underwriting risks (e. g. the reserve risk), which we enter into in a deliberate and controlled manner in the context of our business activities, operational risks are an indivisible part of our business activities. The focus is therefore on risk avoidance and risk minimisation. As a derivation from our strategic principle "We manage risks actively", we act according to the following principles in relation to operational risks:

1. We integrate operational risk management into the company and its culture.
2. We manage operational risks proactively and sustainably.
3. We consider events and scenarios that cover the entire spectrum of operational risks.
4. We strive for appropriate risk reduction through our measures.
5. We manage within defined limits and create transparency through measurements.

With the aid of the Self-Assessment for Operational Risks we determine the maturity level of our operational risk management system and define action fields for improvements. The assessment is carried out, for example, by assessing the maturity level of the respective risk management function or of the risk monitoring and reporting. The system enables us, among other things, to prioritise operational risks and is used (for internal purposes) to calculate the capital commitment in our internal model.

Required risk capital[1] for operational risks **M 69**

in EUR million	30.9.2015	31.12.2014
Operational risk	431.1	382.7

[1] Required risk capital at a confidence level of 99.5%

Within the overall framework of operational risks we consider, in particular, business process risks, compliance risks, risks associated with sales channels and outsourcing of functions, fraud risks, personnel risks, information technology risks/information security risks and business interruption risks.

Business process risks are associated with the risk of deficient or flawed internal processes, which can arise as a consequence of an inadequate process organisation. We have defined criteria to evaluate the maturity level of the material processes, e. g. for the reserving process. This enables us to ensure that process risks are monitored. In cooperation with the process participants, the process owner evaluates the risks of the metaprocess and develops measures for known, existing risks. Data quality is a highly critical success factor in this regard, especially in risk management, because – among other things – the validity of the results delivered by the internal model depends primarily on the data provided.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group. Regulatory compliance, compliance with the company's Code of Conduct, data privacy and compliance with anti-trust and competition laws have been defined as issues of particular relevance to compliance. The compliance risk also extends to tax and legal risks. Responsibilities within the compliance organisation are regulated and documented Group-wide and interfaces with risk management have been put in place. The set of tools is rounded off with regular compliance training programmes. For further information on compliance-related topics, including for example lawsuits, contingent liabilities and commitments, please see Section 8.6 "Lawsuits" and Section 8.7 "Contingent liabilities and commitments" on page 232 et seq.

In selected market niches we transact primary insurance business that complements our reinsurance activities. In so doing, just as on the reinsurance side, we always work together with partners from the primary sector – such as insurance brokers and underwriting agencies. This gives rise to risks associated with such sales channels, although these are minimised through the careful selection of agencies, mandatory underwriting guidelines and regular checks.

Risks associated with the outsourcing of functions can result from such outsourcing of functions, services and/or organisational units to third parties outside Hannover Re. Mandatory rules have been put in place to limit this risk; among other things, they stipulate that a risk analysis is to be performed prior to a material outsourcing. In the context of this analysis a check is carried out to determine, inter alia, what specific risks exist and whether outsourcing can even occur in the first place.

The proper functioning and competitiveness of the Hannover Re Group can be attributed in large measure to the expertise and dedication of our staff. In order to minimise personnel risks, we pay special attention to the skills, experience and motivation of our employees and foster these qualities through outstanding personnel development and leadership activities. Regular employee surveys and the monitoring of turnover rates ensure that such risks are identified at an early stage and scope to take the necessary actions is created.

Fraud risks refer to the risk of intentional violations of laws or regulations by members of staff (internal fraud) and/or by externals (external fraud). This risk is reduced by the internal control system as well as by the audits conducted by Group Auditing on a Group-wide and line-independent basis.

Information technology risks and information security risks arise, inter alia, out of the risk of the inadequate integrity, confidentiality or availability of systems and information. By way of example, losses and damage resulting from the unauthorised passing on of confidential information, the malicious overloading of important IT systems or from computer viruses are material to the Hannover Re Group. Given the broad spectrum of such risks, a diverse range of steering and monitoring measures and organisational standards, including for example the requirement to conclude confidentiality agreements with service providers, have been put in place. In addition, our employees are made more conscious of such security risks through practically oriented tools provided online in the intranet, by way of training opportunities and through a staff information campaign.

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the key framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests. A leaflet is available setting out the correct behaviour in the event of a business interruption; this condenses in compact form the key information that all employees need to know (e. g. information channels in a crisis situation). Regular risk reporting to the Risk Committee and the Executive Board has also been put in place.

Other risks

Of material importance to our company in the category of other risks are primarily emerging risks, strategic risks, reputational risks and liquidity risks.

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used Group-wide in order to pinpoint any necessary measures (e. g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, risks associated with possible climate change are analysed by this working group. Global warming would affect not only natural perils, but also human health, the world economy, the agricultural sector etc. These problematic issues may also have implications for our treaty portfolio – in the form of not just risks but also opportunities, e. g. through increased demand for reinsurance products. Further examples of emerging risks include nanotechnology, shortage of resources and supply chain risks.

Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for operational implementation of the strategic principles and objectives; these are authoritative when it comes to determining fulfilment of the various targets. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks. The process for the management of strategic risks continues to be assessed annually as part of the monitoring of business process risks. In addition, a Group-wide guideline on the management of strategic risks was drawn up in 2015. Further details on the topic of strategy are provided in the section entitled "Our strategy" on page 16 et seq.

Reputational risks refer to the risk that the trust put in our company by clients, shareholders, employees or the public at large may be damaged. This risk has the potential to jeopardise the business foundation of the Hannover Re Group. A good corporate reputation is therefore an indispensable prerequisite for our core business as a reinsurer. Reputational risks may arise out of all business activities conducted by the Hannover Re Group. Reputational damage may be caused, inter alia, by a data mishap that becomes public knowledge or financial difficulties on account of an underwriting risk. In addition to the risk identification methods already described, we use a number of different techniques for risk minimisation, such as our defined communication channels (e. g. Crisis Communication Guideline), a professional approach to corporate communications, tried and tested processes for specific crisis scenarios as well as our established Code of Conduct. A specific Group-wide guideline on the management of reputational risks was compiled in the 2015 financial year.

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk (necessary cash could not be obtained or could only be obtained at increased costs) and the market liquidity risk (financial market transactions could only be completed at a poorer price than expected due to a lack of market liquidity). Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. In reinsurance business, however, significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress such as the 2008 financial crisis. Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under review were larger than possible disbursements for assumed extreme events, which means that our liquidity is assured even in the unlikely case of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at EUR 5.4 billion as at the balance sheet date. In addition, we manage the liquidity of the portfolio by checking on each trading day the liquidity of the instruments contained therein. These measures serve to effectively reduce the liquidity risk.

Opportunity report

Speed is one of the qualities used to measure a successful knowledge transfer. Quick solutions and staying one step ahead of the competition is the name of the game. Hannover Re searches systematically for new business opportunities in order to generate sustainable growth and strengthen the company's profitable development. With a view to identifying opportunities and successfully translating ideas into business, Hannover Re adopts a number of closely related approaches in order to achieve holistic opportunity and risk management. Of significance here is the interplay without overlaps of the various functions within opportunity and risk management, which is ensured by defined interfaces.

Key elements in Hannover Re's opportunity management include its various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups (see the Forecast on page 126 et seq.). What is more, innovative and creative ideas are developed by our employees. Those that can be successfully translated into additional profitable premium volume are financially rewarded. Further elements are the working group on "Emerging Risks and Scientific Affairs" and the "Future Radar" initiative.

Not only that, Hannover Re has set up a stand-alone organisational unit for "Business Opportunity Management" within the Chief Executive Officer's scope of responsibility. This service unit deals systematically with ideas and business opportunities and it concentrates its activities on generating additional premium volume with profit potential. To this end, promising business opportunities are translated into business models with the support of project teams and tested on the market by the partner b2b Protect. New solutions that meet with a positive response are subsequently launched on the market in cooperation with primary insurance partners. The goal is to generate new business and thereby sustainably promote Hannover Re's profitable growth. Several of the more than 100 ideas contributed by the global network since the unit was set up have been realised as innovative insurance solutions and successfully handed over to line responsibility; they are now being sold on the market by primary insurers. The following solutions may be cited by way of example:

Weather insurance

The goal is to offer a heavily weather-dependent clientele industry-specific solutions to protect against fluctuations in the weather. Particularly strong interest in this product is currently being shown by companies operating in areas such as construction, energy trading, event management, amusement parks and tourism.

Energy Savings Protect (Energie Einspar Protect = EEP)

This insurance solution enables providers of energy efficiency solutions to take out protection in the event that the promised energy savings fail to materialise. In this case the company in question receives a compensatory payment from the primary insurer. For its part, Hannover Re covers the energy saving warranties of its primary insurance clients. By building trust, the greater planning reliability created by the product makes it possible for many activities needed as part of Germany's turnaround in energy policy to be undertaken in the first place. Based on its considerable success, as reflected not only in the premium generated but also in its singling out for energy efficiency awards (the enercity-Energie-Effizienzpreis and the Energieeffizienzpreis Perpetuum from the German Industry Initiative for Energy Efficiency (DENEFF)), this product is now available Europe-wide and is being modified for other fields of application.

Energy Output Performance Protect (EOPP)

Many companies would like to bring new solutions to market that generate more energy and are more efficient. Given the innovative nature of the technology, however, customers often lack confidence in such solutions. By protecting the output performance of energy-creating or energy-increasing technologies we help to boost customer confidence and enable providers to set themselves apart from other market players.

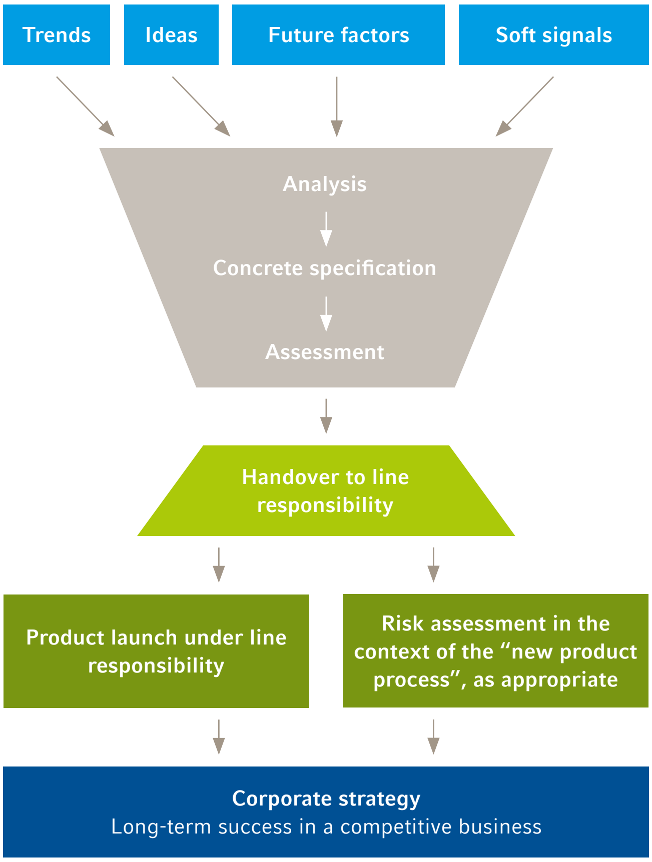
The networking of the innovative minds involved gives rise to close links with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities (see page 94 "Other risks"). This working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks analysed but also any available business opportunities. In the year under review, for example, issues such as "Global shifts in disease patterns due to climate change", "Supply chain risks", "Safe foods and their availability", "Costs of preventive medical screening in the United States", "Drones", "Claims resulting from traumatic sports injuries" and "Cyber risks" were explored by the working group.

Cyber risks

Cyber attacks on critical systems are becoming increasingly common. They can cause considerable financial losses and also damage corporate reputations. Not only that, they can severely hamper private and public life, especially if critical infrastructures are impacted – such as the health, transportation/traffic and energy sectors. In such instances supply bottlenecks with lasting effects as well as major disruptions to public safety may ensue. In a networked world the repercussions of cyber attacks are intensifying because the volume of data stored around the world is constantly growing – and in this context it is not only one's own technical infrastructure that needs to be secured. On the contrary, the trend towards cloud computing is increasingly shifting the focus to third-party infrastructures and the associated network connection. As part of our holistic risk and opportunity management activities, we are also tackling the question of what new insurance products can be developed in order to protect against the relevant threats. Our presence in this market thus goes as far back as 2007 and we have already developed corresponding products.

If a business idea is translated into reality and a new reinsurance product results, the normal procedure – provided the criteria defined for this purpose by Risk Management are applicable – is to work through the so-called new product process. This process is supported by Risk Management at Hannover Re. The process is always worked through if a contractual commitment is to be entered into in a form not previously used by Hannover Re or if the exposure substantially exceeds the existing scope of coverage. If this is the case, all material internal and external influencing factors are examined beforehand by Risk Management (e. g. implications for the overall risk profile or the risk strategy) and an assessment is made. Risk Management ensures that before it can be used or sold a new reinsurance product must be approved by the Executive Board.

Opportunity management process M 70



Overall assessment by the Executive Board

Based on our currently available insights arrived from a holistic analysis of the opportunities and risks, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of the Hannover Re Group in the short or medium term or have a material and lasting effect on its assets, financial position or net income. We are convinced that:

- our established system of risk management affords us a transparent overview of the current risk situation at all times
- our overall risk profile is appropriate, and
- our opportunity management plays an important part in Hannover Re's profitable growth.

As an internationally operating reinsurance group, we move in a highly complex environment. Nevertheless, thanks to our business activities in all lines of reinsurance we are able to achieve optimal risk spreading through geographical and risk-specific diversification while at the same time maintaining a balanced opportunity/risk profile. We consider the risks described in the above sections to be manageable, particularly because our steering and monitoring measures are effectively and closely interlinked. Despite these diverse mechanisms, individual and especially accumulation risks can decisively affect our assets, financial position and net income. In accordance with our understanding of risk, however, we consider not only risks but also at the same time opportunities. We therefore only enter into those risks that go hand-in-hand with opportunities. Our steering and monitoring tools as well as our organisational and operational structure ensure that we identify risks at an early stage and are able to act on our opportunities. Our central monitoring tool is the system of risk management that we have installed Group-wide, which efficiently brings together both qualitative and quantitative information. Most notably, the interplay between domestic and foreign risk management functions affords us a holistic and Group-wide overview.

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Specific monitoring indicators, corresponding notification thresholds and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity: the total policyholders' surplus (hybrid capital, non-controlling interests and shareholders' equity) stands at 140% of the corresponding figure from 2011. In this context, our necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital cushion to be able both to absorb risks and act on business opportunities that may arise. Similarly, our very good ratings (see page 58) also testify to our financial stability. The quality of our Enterprise Risk Management (ERM) is evaluated separately by Standard & Poor's. In the year under review Standard & Poor's gave our risk management its highest possible grade of "very strong". Most notably, our established risk management culture – one of the rating agency's benchmark criteria – promotes the development of appropriate risk monitoring systems and strategic risk management. The evaluation further encompasses the areas of risk controls, emerging risk management and risk models. This external appraisal confirms the quality of our holistic approach to risk management.

We would also refer to the explanatory remarks on the financial strength ratings of our subsidiaries in the "Financial position" section of the management report on page 59. In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor. The Group-wide risk management system is also a regular part of the audits conducted by the internal audit function. For additional information on the opportunities and risks associated with our business please see the Forecast on page 126 et seq.

Enterprise management

Declaration on Corporate Governance pursuant to § 289a Commercial Code (HGB)

The objective of Hannover Rück SE continues to be to consolidate and further expand its position as one of the leading, globally operating reinsurance groups of above-average profitability. In aspiring towards this goal, it is particularly important to observe and fulfil the principles of good and sustainable enterprise management. In so doing, we not only comply with the German Corporate Governance Code (DCGK, hereinafter also referred to as the Code), but have also developed our own model for responsible enterprise management which we consistently pursue and adjust to the latest requirements in accordance with our best practice standards.

The Executive Board and Supervisory Board of Hannover Rück SE expressly support the suggestions and recommendations of the German Corporate Governance Code that are practicable for the reinsurance industry and recognise their central importance in guiding our activities. The principles of responsible and good enterprise management therefore constitute the core of our internal Corporate Governance principles (www.hannover-re.com/50889/corporate-governance-principles.pdf). We cultivate integrity at all times in our dealings with business partners, staff, shareholders and other stakeholder groups and support the principles of value-based and transparent enterprise management and supervision defined in the German Corporate Governance Code. The Supervisory Board, Executive Board and employees of Hannover Rück SE identify with these principles, which thus form part of our corporate self-image. The Executive Board ensures that the principles are observed Group-wide.

Hannover Rück SE hereby provides insight into its enterprise management practices as part of the Declaration on Corporate Governance pursuant to § 289a Commercial Code (HGB):

Corporate Governance

As an instrument of self-regulation for the business world, the German Corporate Governance Code – the latest version of which dates from 5 May 2015 – sets out recommendations and suggestions that are intended to maintain and foster the trust of investors, customers, employees and the general public in the management and supervision of German companies. Although the Code does not have binding legal force, the enterprises addressed by the Code are nevertheless required by § 161 Stock Corporation Act (AktG) to provide an annual declaration as to whether or not the recommendations of the Code were and are complied with in the reality of the company's business activities. If recommendations were not acted upon, this is to be explained and disclosed as part of the Declaration of Conformity.

The positive attitude of Hannover Rück SE towards the Code is not contradicted by the fact that in the year under review we again did not comply with certain Code recommendations, since a well justified deviation from the recommendations of the Code may – as in the present cases – be very much in the interests of good corporate governance tailored to a particular company, i. e. by reflecting enterprise- and industry-specific features (cf. Foreword to the German Corporate Governance Code). Based on what is still a high degree of fulfilment of the recommendations and suggestions of the Code, Hannover Re continues to rank very highly among the companies listed on the DAX and MDAX.

Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of Hannover Rück SE declare pursuant to § 161 Stock Corporation Act (AktG) that – with the following divergences – the company was and continues to be in conformity with the recommendations made by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on 12 June 2015 in the official section of the Federal Gazette:

Code Item 4.2.3 Para. 2; Caps on the amount of variable compensation elements in management board contracts

Item 4.2.3 Para. 2 Sentence 6 of the Code recommends that there should be a maximum limit on the amount of variable compensation paid to members of the management board.

The variable compensation of the members of the Executive Board is granted in part in the form of Hannover Re share awards. The maximum number of share awards granted at the time of allocation depends upon the total amount of variable compensation, which is subject to an upper limit (cap), i. e. the allocation of share awards is limited by the cap. The share awards have a vesting period of four years. During this period the members of the Executive Board therefore participate in positive and negative developments at the company, as reflected in the share price. The equivalent value of the share awards is paid out to the members of the Executive Board after the end of the vesting period. The amount paid out is determined according to the share price of the Hannover Re share applicable at the payment date plus an amount equivalent to the total dividends per share distributed during the vesting period. The share awards consequently follow the economic fortunes of the Hannover Re share.

The amount of variable compensation deriving from the granting of share awards is thus capped at the time when the share awards are allocated, but it is not capped again at the time of payment. Bearing in mind the harmonisation of the interests of shareholders and of the members of the Executive Board of Hannover Rück SE that is sought through the share awards, the company does not consider further limitation of the amount of variable remuneration resulting from the granting of share awards at the time of payment to be expedient. From the company's perspective, the use of Hannover Re share awards as a method of payment constitutes – in economic terms – a compulsory investment in Hannover Re shares with a four-year holding period.

For formal purposes and as a highly precautionary measure, Hannover Rück SE is therefore declaring a divergence from Code Item 4.2.3 Para. 2.

Code Item 4.2.3 Para. 4; Caps on severance payments in management board contracts

Pursuant to Item 4.2.3 Para. 4 of the Code, when management board contracts are concluded care should be taken to ensure that payments made to a member of the management board upon premature termination of his or her contract of service do not exceed a certain amount.

Premature termination of a service contract may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing an Executive Board contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Executive Board. In addition, the scope for negotiation over a member leaving the Executive Board would be restricted if a severance cap were agreed, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Code Item 5.2 Para. 2; Chair of the Audit Committee

Pursuant to Code Item 5.2 Para. 2, the Chair of the Supervisory Board shall not chair the Audit Committee.

The current Chairman of the Supervisory Board of Hannover Rück SE served as the company's Chief Financial Officer in the period from 1994 to 2002. During this time he acquired superb knowledge of the company and he is equipped with extensive professional expertise in the topics that fall within the scope of responsibility of the Finance and Audit Committee. With this in mind, the serving Chairman of the Supervisory Board is optimally suited to chairing the Audit Committee. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Code Item 5.3.2; Independence of the Chair of the Audit Committee

Item 5.3.2 Sentence 3 of the Code recommends that the Chair of the Audit Committee should be independent.

The current Chairman of the Finance and Audit Committee is at the same time also the Chairman of the Board of Management of the controlling shareholder and hence cannot be considered independent. As already explained in advance in the justification for divergence from Code Section 5.2 Para. 2, the current Chairman of the Supervisory Board is, however, optimally suited to chairing the Finance and Audit Committee. This assessment is also not cast into question by the fact that the Committee Chairman cannot therefore be considered independent within the meaning of the German Corporate Governance Code. Furthermore, since his service as Chief Financial Officer of Hannover Rück SE dates back to a period more than ten years ago, it is also the case that the reviews and checks performed by the Finance and Audit Committee no longer relate to any timeframe within which he himself was still a member of the Executive Board or decisions initiated by him as a member of the Executive Board were still being realised. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Hannover, 3 November 2015

Executive Board, Supervisory Board

Further enterprise management principles of Hannover Re

In addition to the Corporate Governance principles, Hannover Rück SE has adopted a more extensive Code of Conduct (www.hannover-re.com/50943/code-of-conduct.pdf). Complementing our corporate strategy and the Corporate Governance principles, it establishes rules governing integrity in the behaviour of all employees of Hannover Rück SE and is intended to help members of staff cope with the ethical and legal challenges that they face as part of day-to-day work. The rules defined in the Code of Conduct reflect the high ethical and legal standards that guide our actions worldwide. It is our belief that integrity in dealings with our stakeholders constitutes the foundation of a successful enterprise. In both our strategic planning and our day-to-day business activities, we therefore aspire to consistently apply the highest ethical and legal standards; for our actions and the way in which every single one of us presents and conducts himself or herself are crucial in shaping the image of Hannover Rück SE.

Sustainability of enterprise management

The strategic orientation of Hannover Rück SE towards sustainability constitutes an increasingly important element of the enterprise strategy. The aim is to achieve commercial success on the basis of a solid business model in accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future. In 2011 we defined for the first time a concrete Sustainability Strategy setting out our primary objectives in this field. Not only that, in the year under review we again presented our Sustainability Report in the form of a so-called "GRI Report" (Global Reporting Initiative). Further information on the topic of sustainability is provided on our website (www.hannover-re.com/60729/sustainability).

Three of the members of the Supervisory Board in the year under review were women. In addition, one of the members of the Supervisory Board's Nomination Committee is a woman. The programme for the advancement of women that had been implemented within the workforce in 2012 encourages the fostering of promising young female professionals through a variety of targeted measures and supports enlargement of the proportion of women in management positions.

Targets pursuant to §§76 Para. 4, 111 Para. 5 Stock Corporation Act

In accordance with the Act for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector, the Supervisory Board of the company was required by 30 September 2015 to define a target quota for women on the Supervisory Board and Executive Board of the company in the period until 30 June 2017. After extensive deliberations the Supervisory Board decided, in due consideration of the term of office of the Supervisory Board and the current mandates and contracts of service of the members of the Executive Board, to define within the specified period – without prejudice to possible decisions to the contrary that may be taken as warranted when the time comes – a target quota for women on the Supervisory Board of 30% and an anticipated continued quota of zero for the Executive Board. Should events result in the currently unforeseeable appointment of a new member of the Executive Board, the Supervisory Board shall give preference to a potential female candidate in case of equal personal aptitude and professional qualifications. The company's Executive Board defined a target quota of 16.8% with the same deadline for the two levels of senior management below the Executive Board.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Rück SE work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. The Supervisory Board is comprised of nine members. Six members are elected by the shareholders at the Annual General Meeting, three members are appointed by the Employee Council. The Supervisory Board appoints the members of the Executive Board. Since members of the Supervisory Board cannot at the same time belong to the Executive Board, a high degree of independence in the oversight of the Executive Board is thus already ensured by structural means. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 6 et seq. and 241 respectively of the present Annual Report.

The Rules of Procedure of the Executive Board are intended to ensure that a consistent business policy is elaborated and implemented for the company in accordance with its strategic objectives. Within the framework of a consistent business policy, the principle of "delegation of responsibility" enjoys special status. In the interests of shareholders, importance is expressly attached to an organisation that facilitates cost-effective, quick and unbureaucratic decision processes. Open and trusting cooperation geared to the interest of the whole is the foundation of success. In this context, the members of the Executive Board bear joint responsibility for the overall management of business. Irrespective of their overall responsibility, each member of the Executive Board leads their own area of competence at their individual responsibility within the bounds of the resolutions adopted by the Executive Board. Only persons under the age of 65 may be appointed to the Executive Board. The term of appointment shall be determined such that it expires no later than the end of the month in which the member of the Executive Board turns 65. The Supervisory Board takes account of diversity considerations in the composition of the Executive Board.

The Rules of Procedure of the Supervisory Board provide inter alia that each member of the Supervisory Board must have the knowledge, skills and professional experience required for orderly performance of their tasks and that the Supervisory Board must have a sufficient number of independent members. Currently, four of the six shareholder representatives are independent as defined by Item 5.4.2 of the German Corporate Governance Code. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election and shall normally not belong to the Supervisory Board as a member for longer than three full consecutive terms of office; the term of office commencing from the end of the 2014 Annual General Meeting shall be counted as the first term of office in this regard. Nominations shall take account of the company's international activities as well as diversity. Furthermore, it shall be ensured that the proposed person can allocate the expected amount of time. For their part, each sitting member of the Supervisory Board shall also ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board has only participated in half of the meetings of the Supervisory Board and the committees or less in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

In the year under review the Supervisory Board adopted the regular procedure to evaluate the efficiency of the Supervisory Board's work in accordance with Item 5.6 of the German Corporate Governance Code.

Working practice of the committees of the Supervisory Board

In order to efficiently perform its tasks the Supervisory Board has formed a number of committees: the Finance and Audit Committee, the Standing Committee and the Nomination Committee. The Supervisory Board committees are each comprised of three members and prepare matters within their scope of competence for discussion and adoption of a resolution by the full Supervisory Board. In addition, the committees are also assigned their own authority to adopt resolutions.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the interim reports as well as the semi-annual reports prior to their publication. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. In addition, the committee prepares the Supervisory Board's decision on the commissioning of the independent auditor for the financial statements. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement. The minutes of the meetings of the Finance and Audit Committee are also made available to the members of the Supervisory Board who do not sit on the committee.

The Standing Committee prepares personnel decisions for the Supervisory Board. It bears responsibility for granting loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act as well as for approving contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act. It exercises the powers arising out of § 112 Stock Corporation Act in lieu of the Supervisory Board and – in cooperation with the Executive Board – ensures that long-term succession planning is in place.

The Nomination Committee is tasked with proposing to the Supervisory Board appropriate candidates for the nominations that it puts forward to the Annual General Meeting for election to the Supervisory Board.

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 238 to 240.

Compliance

Hannover Rück SE considers a properly functioning compliance structure to be an essential tool for ensuring compliance with external rules and regulations as well as requirements imposed internally by the company. Our compliance structure, which consists of compliance modules precisely tailored to the specific features of our Property & Casualty and Life & Health reinsurance business groups, facilitates optimal application. The compliance committees are comprised of members from the respective business groups as well as from the areas of Legal, Finance, Accounting and Investments. The chairs report directly to the Executive Board. This structure safeguards adherence to the standards that have been set.

The compliance report for the 2015 calendar year will be submitted to the Finance and Audit Committee in March 2016. The reporting sets out the structure and diverse range of activities of Hannover Re in this regard. The findings of the separate data privacy reporting for the 2015 calendar year are also included in the compliance report. After in-depth examination of topics such as directors' dealings, ad hoc and other disclosure requirements, the insider register, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that only a few circumstances have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in the future Hannover Re is in conformity with the internal and external requirements governing its business activities.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the corporate strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in this Annual Report on page 72 et seq.

Information regarding the following items is provided in the remuneration report:

- Remuneration report for the Executive Board and disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.6 of the German Corporate Governance Code,
- Securities transactions pursuant to Item 6.2 of the German Corporate Governance Code,
- Shareholdings pursuant to Item 6.2 of the German Corporate Governance Code.

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in Section 8.3 of the notes "Share-based payment", page 227 et seq., and in the remuneration report with respect to the members of the Executive Board.

In addition to the present Declaration on Corporate Governance, the Corporate Governance Report and the reports of recent years are published on our website pursuant to Item 3.10 of the German Corporate Governance Code (www.hannover-re.com/200801/declaration-of-conformity).

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Rück SE and explains the structure, composition and amount of the components of the remuneration received by the Executive Board in the 2015 financial year on the basis of the work performed by the Board members for Hannover Rück SE and companies belonging to the Group.

In addition, the amount of remuneration paid to the Supervisory Board on the basis of its work for Hannover Rück SE and companies belonging to the Group as well as the principles according to which this remuneration is determined are described; we also explain the principles on which the remuneration for senior executives below the level of the Executive Board is based.

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2015 consolidated financial statement as required by IAS 24 "Related Party Disclosures". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in this remuneration report and presented in summary form in the notes.

The provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act (VAG) in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) have been observed. In addition, we took into account the more specific provisions of DRS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies".

Remuneration of the Executive Board

Responsibility

In order to efficiently perform its tasks the Supervisory Board has formed various committees. The Standing Committee prepares remuneration-related matters of content relating to the Executive Board for discussion and adoption of a resolution by a full meeting of the Supervisory Board.

Objective, structure and system of Executive Board remuneration

The total remuneration of the Executive Board and its split into fixed and variable components conform to regulatory requirements – especially the provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV). An independent expert's report confirms that the system of remuneration meets the requirements of Art. 275 Commission Delegated Regulation (EU) 2015/35 for a remuneration policy and remuneration practices that are in line with the undertaking's business, strategy and risk profile.

The amount and structure of the remuneration of the Executive Board are geared to the size and activities of the company, its economic and financial position, its success and future prospects as well as the customariness of the remuneration, making reference to the benchmark environment (horizontal) and the remuneration structure otherwise applicable at the company (vertical). The remuneration is also guided by the tasks of the specific member of the Executive Board, his or her individual performance and the performance of the full Executive Board.

With an eye to these objectives, the remuneration system has two components: fixed salary/non-cash compensation and variable remuneration. The variable remuneration is designed to take account of both positive and negative developments. Overall, the remuneration is to be measured in such a way that it reflects the company's sustainable development and is fair and competitive by market standards. In the event of 100% goal attainment the remuneration model provides for a split into roughly 40% fixed remuneration and roughly 60% variable remuneration.

Fixed remuneration (approx. 40% of total remuneration upon 100% goal attainment)

Measurement basis and payment procedures for fixed remuneration M 71

Components	Measurement basis/ parameters	Condition of payment	Paid out
Basic remuneration; Non-cash compensation, fringe benefits: Accident, liability and luggage insurance, company car for business and – if desired – personal use (tax on the non-cash benefit payable by the Board member), reimbursement of travel expenses and other expenditures incurred in the interest of the company	Function, responsibility, length of service on the Executive Board Remuneration reviewed by the Supervisory Board normally at two-year intervals. Since 2014 gradual conversion of Executive Board contracts: review of annual fixed salary during the contract period no longer applies.	Contractual stipulations	12 equal monthly instalments

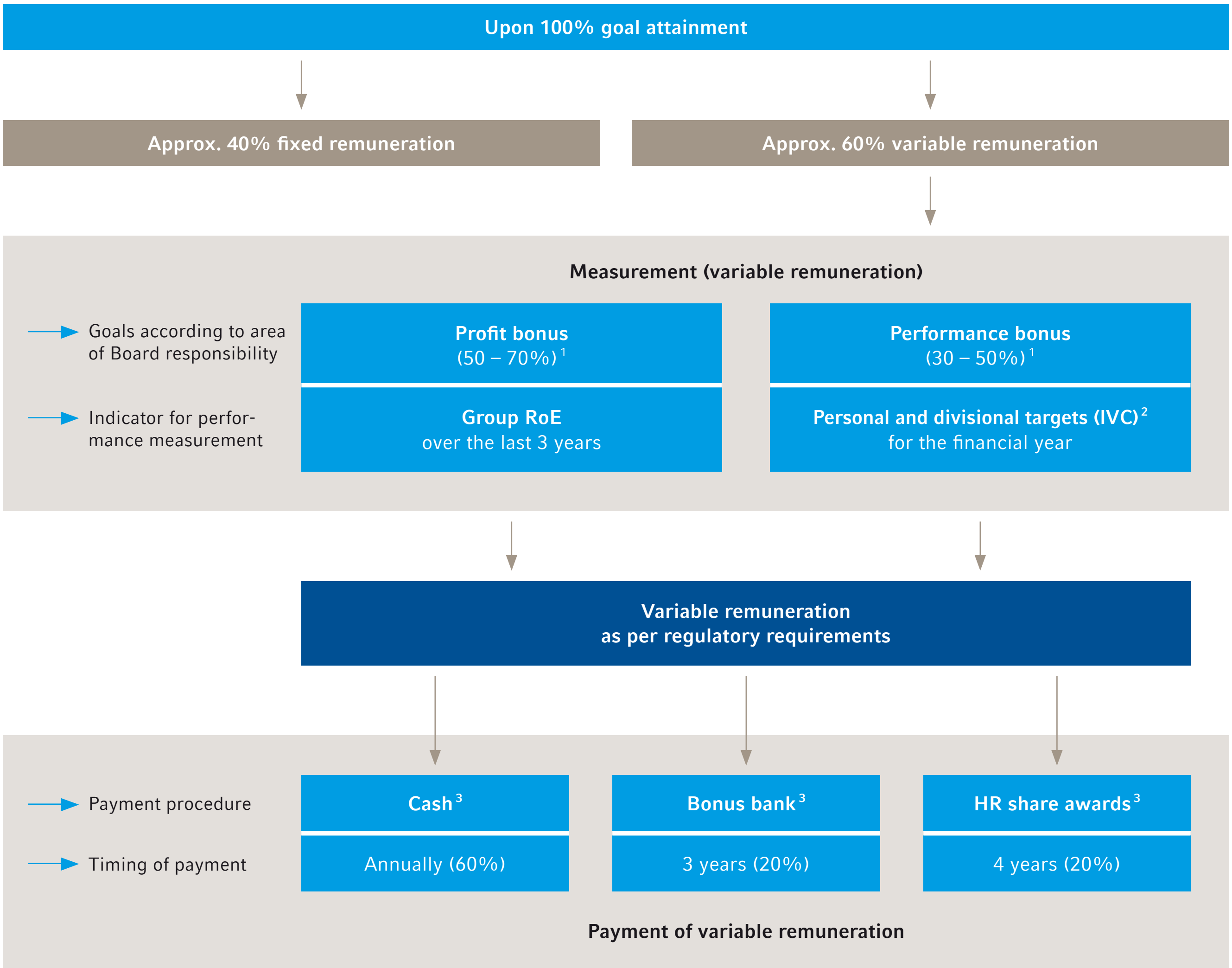
Variable remuneration (approx. 60% of total remuneration upon 100% goal attainment)

The profit- and performance-based remuneration (variable remuneration) is contingent on certain defined results and the attainment of certain set targets. The set targets vary according to the function of the Board member in question. The variable remuneration consists of a profit bonus and a performance bonus.

The variable remuneration is defined at the Supervisory Board meeting that approves the consolidated financial statement for the financial year just ended.

The following chart summarises the make-up of the variable remuneration components. For details of measurement and payment procedures please see the two tables following the chart.

Overview of the composition of variable remuneration M 72



[1] Chief Executive Officer / Chief Financial Officer 70% profit bonus, 30% performance bonus (personal targets); Board members with divisional responsibility: 50% profit bonus, 50% performance bonus (25% personal targets / 25% divisional targets)

[2] An instrument of value-based management used to measure the attainment of long-term goals on the level of the Group, business groups and operational units

[3] Split defined by legal minimum requirements

Measurement bases/conditions of payment for variable remuneration **M 73**

Component	Measurement basis/parameters	Condition of payment
Profit bonus		
Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 70%; Board member with divisional responsibility: 50%	The profit bonus is dependent on the risk-free interest rate and the average Group return on equity (RoE) of the past three financial years. An individually determined and contractually defined basic amount is paid for each 0.1 percentage point by which the RoE of the past three financial years exceeds the risk-free interest rate of 1.8%. Goal attainment of 100% corresponds to an RoE of 10.6%. Goal attainment can amount to a maximum of 200% and a minimum of -100%. The IFRS Group net income (excluding non-controlling interests) and the arithmetic mean of the IFRS Group shareholders' equity (excluding non-controlling interests) at the beginning and end of the financial year are used to calculate the RoE.	Contractual stipulations Attainment of three-year targets Decision of the Supervisory Board
	The risk-free interest rate is the average market rate for 10-year German government bonds over the past 5 years and is set at an agreed level of 2.8%. The arrangements governing the profit bonus may be adjusted if the risk-free interest rate of 2.8% changes to such an extent that an (absolute) deviation of at least one percentage point arises.	In view of the market interest rate the Supervisory Board has set the risk-free interest rate at 1.8%.

Component	Measurement basis/parameters	Condition of payment
Performance bonus The performance bonus for the Chief Executive Officer and the Chief Financial Officer is arrived at from individual qualitative and, as appropriate, quantitative targets defined annually by the Supervisory Board that are to be accomplished in the subsequent year. For members of the Executive Board with responsibility for a certain division, the performance bonus consists in equal parts of the divisional bonus and the individual bonus.		
Divisional bonus Proportion of variable remuneration: Board member with divisional responsibility: 25%	The basis for the divisional bonus is the return generated on the capital allocated to the division in the respective 3-year period just ended (= RoCA (Return on Capital Allocated)). An individually determined amount specified in the service contract is calculated for each 0.1 percentage point by which the average 3-year RoCA exceeds the level of 0%. Goal attainment of 100% is achieved in property and casualty reinsurance with a RoCA of 9.1% and in life and health reinsurance with a RoCA of 10.1%. These RoCA values are above the cost of capital and thus generate positive intrinsic value creation (IVC[1]). Goal attainment can amount to a maximum of 200% and from 2015 onwards a minimum of -100%. The method used to calculate the IVC as a basis for determining the divisional performance is checked by independent experts. The divisional bonus is determined by the Supervisory Board according to its best judgement. The determination also takes into account, in particular, the contribution made by the business under the responsibility of the Board member concerned to the achieved divisional performance and the relative change in the average IVC in the remuneration year. The Supervisory Board may make additions to or deductions from the arithmetically calculated values at any time in the event of over- or underfulfilment of the criteria. Special arrangements for 2013 and 2014: the basis for the average RoCA is the divisional performance from 2013 onwards; the minimum divisional bonus is EUR 0.	Attainment of three-year targets (basis for 2013 and 2014: divisional performance from 2013 onwards) Contractual agreement Decision of the Supervisory Board according to its best judgement
Individual bonus Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 30%; Board member with divisional responsibility: 25%	Personal qualitative, quantitative targets; individual contribution to the overall result, leadership skills, innovative skills, entrepreneurial skills, specific features of area of responsibility. The individual bonus for goal attainment of 100% is contractually stipulated. Over- and underfulfilment result in additions/deductions. The minimum individual bonus amounts to EUR 0 and the maximum is double the bonus payable upon complete goal attainment.	Attainment of annual targets Decision by the Supervisory Board according to its best judgement.

[1] An instrument of value-based management used to measure the attainment of long-term goals on the level of the Group, business groups and operational units (see also page 26 et seq.).

Payment procedures for the total variable remuneration

Of the total amount of defined variable remuneration, a partial amount of 60% is paid out in the month following the Supervisory Board meeting that approves the consolidated financial statement. The remaining amount of 40% is initially withheld as explained below with a view to encouraging long-term value creation:

Payment procedures for the total variable remuneration M 74

Short-term	Medium-term	Long-term
60% of the variable remuneration with the next monthly salary payment following the Supervisory Board resolution	**20% of the variable remuneration in the bonus bank;** withheld for three years; the positive amount contributed three years prior to the payment date is available for payment, provided this does not exceed the balance of the bonus bank in light of credits/debits up to and including those for the financial year just ended; an impending payment not covered by a positive balance in the bonus bank is omitted; a positive balance in the bonus bank is carried forward to the following year after deduction of any payment made; a negative balance is not carried forward to the following year; loss of claims due from the bonus bank in special cases: resignation from office without a compelling reason; contract extension on the same conditions is rejected; no interest is paid on credit balances.	Automatic granting of **virtual Hannover Re share awards (HR-SAs)** with a value equivalent to **20%** of the variable remuneration; payment of the value calculated at the payment date after a **vesting period of four years**; value of the share on awarding/payment: unweighted arithmetic mean of the Xetra closing prices five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement; additional payment of the sum total of all dividends per share paid out during the vesting period; changes in a cumulative amount of 10% or more in the value of the HR-SAs caused by structural measures trigger an adjustment; the Board member has no entitlement to the delivery of shares.
Negative variable total bonus = payment of EUR 0 variable remuneration. Any minus value of the variable total bonus for a financial year is transferred in full to the bonus bank (see "Medium-term" column).		

Handling of payment of variable remuneration components in special cases

In the event of voluntary resignation or termination/dismissal by the company for a compelling reason or if an offered contract extension on the same conditions (exception: the member of the Executive Board has reached the age of 60 and has served as a member of the Executive Board for two terms of office) is declined, all rights to payment of the balances from the bonus bank and from the HR-SAs are forfeited.

If the contractual relationship ends normally prior to the end of the vesting period for the bonus bank or HR-SAs, and if a contract extension is not offered, the member of the Executive Board retains his entitlements to payment from the bonus bank – making reference to a defined forward projection of the bonus bank – and for already awarded HR-SAs.

All claims to the allocation of amounts to the bonus bank and/or awarding of HR-SAs after leaving the company are excluded. In cases where an individual leaves the company because of non-reappointment, retirement or death this shall not apply with respect to claims to variable remuneration acquired (pro rata) in the final year of the Board member's work for the company.

Variable remuneration under the old remuneration structure (until 2011)

The virtual stock option plan with stock appreciation rights existing under the old remuneration structure remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2015 financial year no further stock appreciation rights were granted to active Board members. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 2.0 million (previous year: EUR 0.5 million) in 2015.

As at 31 December 2015 active members of the Executive Board had at their disposal a total of 79,464 (228,957) granted, but not yet exercised stock appreciation rights with a fair value of EUR 0.7 million (EUR 2.1 million).

Continued payment in case of disability

In the event of temporary incapacity for work the fixed annual salary shall continue to be paid in the same amount, at most until termination of the service contract.

If a member of the Executive Board is permanently incapacitated for work during the period of the service contract, the service contract shall terminate at the end of the sixth month after which the permanent incapacity for work is established – although no later than at the end of the service contract.

Other information

The contracts of the Board members do not include a commitment to benefits in the event of a premature termination of employment on the Executive Board owing to a change of control. Only the conditions for the granting of share-based remuneration in the form of stock appreciation rights provide for special exercise options in the event of the merger, spin-off or demerger of Hannover Re into another legal entity.

With regard to Item 4.2.3. Para. 2 "Caps on the amount of variable compensation elements in management board contracts" and Item 4.2.3 Para. 4 "Caps on severance payments in management board contracts" of the German Corporate Governance Code, we would refer the reader to our remarks in the 2015 Declaration of Conformity contained in the section "Statement of enterprise management practices" on page 99 et seq. of this Group Annual Report.

If the company insists on a non-competition clause with Mr. Wallin for two years after the termination of his service contract, he shall be recompensed in a monthly amount of 50% of his most recent fixed remuneration. Income earned through the application of his working capacity elsewhere shall be counted towards this compensation insofar as such income in combination with the compensation exceeds 100% of the most recently received fixed remuneration. The non-competition clause shall not apply if the contract ends prior to the age of 65 because the company does not extend it or because Mr. Wallin declines an extension offered to him on what are for him inferior terms, or if the premature termination or non-extension is due to a compelling reason for which the company is responsible.

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Rück SE on the basis of its work for Hannover Rück SE and the companies belonging to the Group is calculated from the sum of all the components set out in the following table pursuant to DRS 17 (amended 2010).

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.7 million (EUR 0.8 million).

Total remuneration of the active members of the Executive Board pursuant to DRS 17 (amended 2010) M 75

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration [1]	
		Basic salary	Non-cash compensation/ fringe benefits [2]	Short-term	
				Variable remuneration payable	
in EUR thousand				60% [3]	Netted remuneration from seats with Group bodies
Ulrich Wallin	**2015**	**596.4**	**14.8**	**650.4**	
	2014	569.7	16.2	678.4	
Sven Althoff [7]	**2015**	**280.0**	**14.8**	**334.2**	
	2014	199.0	7.2	183.1	
Claude Chèvre	**2015**	**380.0**	**12.8**	**440.1**	
	2014	348.7	13.2	416.9	
Jürgen Gräber	**2015**	**445.1**	**18.1**	**508.1**	
	2014	428.0	16.0	456.4	
Dr. Klaus Miller	**2015**	**356.1**	**3.7**	**366.5**	
	2014	342.4	13.9	404.5	
Dr. Michael Pickel	**2015**	**356.1**	**12.0**	**402.1**	
	2014	342.4	22.5	368.7	
Roland Vogel	**2015**	**422.9**	**14.8**	**372.5**	38.6
	2014	406.6	15.4	398.9	49.5
Total	**2015**	**2,836.6**	**91.0**	**3,073.9**	38.6
Total	2014	2,636.8	104.4	2,906.9	49.5

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2015. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.

2 The non-cash compensation has been carried in the amounts established for tax purposes.

3 In 2015 EUR 110,100 more in variable remuneration was paid out to Board members for 2014 than had been reserved.

4 The nominal amount is stated; full or partial repayment in 2019, depending on the development until such time of the balance in the bonus bank. In 2015 altogether EUR 36,100 more than had been originally reserved was allocated to the bonus bank for 2014.

5 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid in 2020 at the prevailing share price of Hannover Re. In 2015 nominal amounts of EUR 37,400 more than had been originally reserved were used as a basis for allocation of the 2014 share awards.

6 In order to calculate the number of share awards for 2015 reference was made to the Xetra closing price of the Hannover Re share on 30 December 2015 (EUR 105.65). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2016. The applicable market price of the Hannover Re share had increased from EUR 74.97 (30 December 2014) to EUR 89.06 by the allocation date (9 March 2015) of the share awards for 2014; the share awards actually allocated for 2014 are shown here, not those estimated in the 2014 Annual Report.

7 Mr. Althoff was appointed to the Executive Board on 1 August 2014. The amounts stated include his remuneration as a senior executive of Hannover Re for the period from 1 January to 31 July 2014.

	Performance-based remuneration [1]		Total	Number of share awards [6]
	Medium-term	Long-term		2014 = Actual 2015 = Estimate
	Bonus bank	Share awards		
in EUR thousand	20% (allocation) [4]	20% (allocation) [5]		
	216.8	**216.8**	**1,695.2**	**2,021**
	226.1	226.1	1,716.5	2,430
	110.8	**112.1**	**851.9**	**1,004**
	43.4	78.6	511.3	1,050
	146.7	**146.7**	**1,126.3**	**1,411**
	139.0	139.0	1,056.8	1,494
	169.3	**169.3**	**1,309.9**	**1,432**
	152.2	152.2	1,204.8	1,873
	122.1	**122.1**	**970.5**	**1,187**
	134.9	134.9	1,030.6	1,438
	134.1	**134.1**	**1,038.4**	**1,145**
	122.9	122.9	979.4	1,483
	124.2	**124.2**	**1,058.6**	**1,155**
	133.0	133.0	1,086.9	1,460
	1,024.0	**1,025.3**	**8,050.8**	**9,355**
	951.5	986.7	7,586.3	11,228

The following table shows the expense for share-based remuneration of the Executive Board in the financial year.

The table is to be viewed independently of the presentation of the total remuneration received by active members of the Executive Board pursuant to DRS 17.

Total expense for share-based remuneration of the Executive Board M 76

Name in EUR thousand	Year	Stock appreciation rights exercised	Change in reserve in 2015 for stock appreciation rights	Change in reserve for share awards from previous years[1]	Expense for share awards allocated in current financial year[2]	Total
Ulrich Wallin	**2015**	**380.4**	**(338.8)**	**633.4**	**79.8**	**754.8**
	2014	72.7	84.7	277.0	58.0	492.4
Sven Althoff[3]	**2015**	**63.6**	**(40.8)**	**131.8**	**41.0**	**195.6**
	2014	14.6	24.5	86.1	10.9	136.1
Claude Chèvre	**2015**	**–**	**–**	**215.0**	**30.7**	**245.7**
	2014	–	–	90.6	26.0	116.6
Jürgen Gräber	**2015**	**355.2**	**(319.0)**	**470.7**	**56.6**	**563.5**
	2014	87.6	54.8	201.3	40.4	384.1
Dr. Klaus Miller	**2015**	**44.6**	**(38.6)**	**336.7**	**34.1**	**376.8**
	2014	-	20.5	148.6	28.0	197.1
Dr. Michael Pickel	**2015**	**319.7**	**(287.1)**	**353.3**	**40.2**	**426.1**
	2014	78.8	49.3	152.3	29.7	310.1
Roland Vogel	**2015**	**164.7**	**(146.6)**	**406.5**	**54.1**	**478.7**
	2014	30.9	37.4	175.9	39.3	283.5
Total	**2015**	**1,328.2**	**(1,170.9)**	**2,547.4**	**336.5**	**3,041.2**
Total	2014	284.6	271.2	1,131.8	232.3	1,919.9

1 The change in the reserve for share awards from previous years derives from the increased market price of the Hannover Re share, the dividend approved for 2014 and the spreading of the expense for share awards across the remaining period of the individual service contracts.
2 The expense for share awards is spread across the remaining period of the individual service contracts. This gives rise to a difference relative to the nominal amount shown in the table of total remuneration.
3 Mr. Althoff was appointed to the Executive Board on 1 August 2014. The figures for 2014 therefore relate in part to his prior work as a senior executive at Hannover Re.

The following two tables show the remuneration of the Executive Board in the 2015 financial year in accordance with the recommendations of the German Corporate Governance Code:

German Corporate Governance Code, Item 4.2.5 Para. 3 – Table 1 (target/minimum/maximum remuneration as nominal amounts) M77

Benefits granted	Ulrich Wallin Chief Executive Officer				Sven Althoff Board member with divisional responsibility Date joined: 1 August 2014			
in EUR thousand	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	569.7	596.4	596.4	596.4	280.0	280.0	280.0	280.0
Fringe benefits	16.2	14.8	14.8	14.8	7.2	14.8	14.8	14.8
Total	**585.9**	**611.2**	**611.2**	**611.2**	**287.2**	**294.8**	**294.8**	**294.8**
One-year variable remuneration	480.0	504.0	0.0	1,008.0	252.0	252.0	0.0	504.0
Multi-year variable remuneration	356.6	398.1	(525.9)	734.1	174.2	181.3	(34.9)	349.3
Bonus bank 2014 (2018[1])/ 2015 (2019[1])	160.0	168.0	(588.0)	336.0	84.0	84.0	(48.2)	168.0
Share awards 2014 (2019[1])/ 2015 (2020[1])[2]	160.0	168.0	0.0	336.0	84.0	84.0	0.0	168.0
Dividend on share awards for 2013[3]	36.6	0.0	0.0	0.0	6.2	0.0	0.0	0.0
Dividend on share awards for 2014	0.0	62.1	62.1	62.1	0.0	13.3	13.3	13.3
Total	**1,422.5**	**1,513.3**	**85.3**	**2,353.3**	**713.4**	**728.1**	**259.9**	**1,148.1**
Service cost[4]	114.3	167.1	167.1	167.1	13.9	750.6	750.6	750.6
Total remuneration	**1,536.8**	**1,680.4**	**252.4**	**2,520.4**	**727.3**	**1,478.7**	**1,010.5**	**1,898.7**

Benefits granted	Dr. Klaus Miller Board member with divisional responsibility				Dr. Michael Pickel Board member with divisional responsibility			
in EUR thousand	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
Fixed remuneration	342.4	356.1	356.1	356.1	342.4	356.1	356.1	356.1
Fringe benefits	13.9	3.7	3.7	3.7	22.5	12.0	12.0	12.0
Total	**356.3**	**359.8**	**359.8**	**359.8**	**364.9**	**368.1**	**368.1**	**368.1**
One-year variable remuneration	288.0	288.0	0.0	576.0	288.0	288.0	0.0	576.0
Multi-year variable remuneration	212.3	226.9	(323.8)	418.9	212.6	227.4	(324.6)	419.4
Bonus bank 2014 (2018[1])/ 2015 (2019[1])	96.0	96.0	(358.8)	192.0	96.0	96.0	(360.0)	192.0
Share awards 2014 (2019[1])/ 2015 (2020[1])[2]	96.0	96.0	0.0	192.0	96.0	96.0	0.0	192.0
Dividend on share awards for 2013[3]	20.3	0.0	0.0	0.0	20.6	0.0	0.0	0.0
Dividend on share awards for 2014	0.0	34.9	34.9	34.9	0.0	35.4	35.4	35.4
Total	**856.6**	**874.7**	**36.0**	**1,354.7**	**865.5**	**883.5**	**43.5**	**1,363.5**
Service cost[4]	82.8	87.3	87.3	87.3	89.9	147.1	147.1	147.1
Total remuneration	**939.4**	**962.0**	**123.3**	**1,442.0**	**955.4**	**1,030.6**	**190.6**	**1,510.6**

1 Year of payment
2 Maximum value when awarded, amount paid out dependent upon the share price in the year of payment and the dividends paid until such time.
3 In the case of Mr. Althoff the dividend for 2013 refers to share awards from his work as a senior executive at Hannover Re.
4 For details of the service cost see the tables "Defined benefit commitments" and "Defined contribution commitments" on page 119.

	Claude Chèvre Board member with divisional responsibility				Jürgen Gräber Board member with divisional responsibility Coordinator of worldwide property & casualty reinsurance			
	2014	2015	2015 (Min)	2015 (Max)	2014	2015	2015 (Min)	2015 (Max)
	348.7	380.0	380.0	380.0	428.0	445.1	445.1	445.1
	13.2	12.8	12.8	12.8	16.0	18.1	18.1	18.1
	361.9	**392.8**	**392.8**	**392.8**	**444.0**	**463.2**	**463.2**	**463.2**
	297.0	342.0	0.0	684.0	360.0	360.0	0.0	720.0
	210.9	252.6	(339.2)	480.6	266.8	285.9	(404.1)	525.9
	99.0	114.0	(363.8)	228.0	120.0	120.0	(450.0)	240.0
	99.0	114.0	0.0	228.0	120.0	120.0	0.0	240.0
	12.9	0.0	0.0	0.0	26.8	0.0	0.0	0.0
	0.0	24.6	24.6	24.6	0.0	45.9	45.9	45.9
	869.8	**987.4**	**53.6**	**1,557.4**	**1,070.8**	**1,109.1**	**59.1**	**1,709.1**
	91.7	150.1	150.1	150.1	90.2	109.2	109.2	109.2
	961.5	**1,137.5**	**203.7**	**1,707.5**	**1,161.0**	**1,218.3**	**168.3**	**1,818.3**

	Roland Vogel Chief Financial Officer			
	2014	2015	2015 (Min)	2015 (Max)
	406.6	422.9	422.9	422.9
	15.4	14.8	14.8	14.8
	422.0	**437.7**	**437.7**	**437.7**
	288.0	288.0	0.0	576.0
	214.8	230.4	(297.6)	422.4
	96.0	96.0	(336.0)	192.0
	96.0	96.0	0.0	192.0
	22.8	0.0	0.0	0.0
	0.0	38.4	38.4	38.4
	924.8	**956.1**	**140.1**	**1,436.1**
	33.0	62.8	62.8	62.8
	957.8	**1,018.9**	**202.9**	**1,498.9**

German Corporate Governance Code, Item 4.2.5 Para. 3 – Table 2 (cash allocations in 2014 and 2015) M 78

Allocation	Ulrich Wallin Chief Executive Officer		Sven Althoff[1] Board member with divisional responsibility Date joined: 1 August 2014	
in EUR thousand	2014	2015	2014	2015
Fixed remuneration	569.7	596.4	199.0	280.0
Fringe benefits	16.2	14.8	7.2	14.8
Total	**585.9**	**611.2**	**206.2**	**294.8**
One-year variable remuneration[2]	603.0	649.2	98.0	199.3
Multi-year variable remuneration	72.7	613.4	14.6	63.6
Bonus bank 2011	0.0	233.0	0.0	0.0
ABR 2009 (2013–2019[3])	72.7	72.7	14.6	14.6
ABR 2010 (2015–2020[4])	0.0	307.7	0.0	49.0
Total	**1,261.6**	**1,873.8**	**318.8**	**557.7**
Service cost[5]	114.3	167.1	13.9	750.6
Total remuneration	**1,375.9**	**2,040.9**	**332.7**	**1,308.3**

Allocation	Dr. Klaus Miller Board member with divisional responsibility		Dr. Michael Pickel Board member with divisional responsibility	
in EUR thousand	2014	2015	2014	2015
Fixed remuneration	342.4	356.1	342.4	356.1
Fringe benefits	13.9	3.7	22.5	12.0
Total	**356.3**	**359.8**	**364.9**	**368.1**
One-year variable remuneration[2]	340.5	384.0	359.4	396.0
Multi-year variable remuneration	0.0	170.6	78.8	444.4
Bonus bank 2011	0.0	126.0	0.0	124.8
ABR 2009 (2013–2019[3])	0.0	0.0	78.8	78.8
ABR 2010 (2015–2020[4])	0.0	44.6	0.0	240.8
Total	**696.8**	**914.4**	**803.1**	**1,208.5**
Service cost[5]	82.8	87.3	89.9	147.1
Total remuneration	**779.6**	**1,001.7**	**893.0**	**1,355.6**

[1] The stated values include the remuneration of Mr. Althoff as a senior executive of Hannover Re for the period from 1 January to 31 July 2014. The service cost for 2015 includes a past service cost of EUR 704,500.

[2] This refers in each case to payment of the variable remuneration for the previous year. Remuneration for seats with Group bodies that is counted towards the variable remuneration accrues in the year of occurrence. The company's Supervisory Board only decides on the final amount paid out for the 2015 financial year after the remuneration report has been drawn up.

[3] Stock appreciation rights were awarded in 2009, exercise option at the discretion of the Executive Board until 31 December 2019 in the following tranches: 40% from 2012, 60% from 2013, 80% from 2014, 100% from 2015 onwards.

[4] Stock appreciation rights were awarded in 2010, exercise option at the discretion of the Executive Board until 31 December 2020 in the following tranches: 60% from 2015, 80% from 2016, 100% from 2017 onwards.

[5] For details of the service cost see the tables "Defined benefit commitments" and "Defined contribution commitments" on page 119.

	Claude Chèvre Board member with divisional responsibility		Jürgen Gräber Board member with divisional responsibility Coordinator of worldwide property & casualty reinsurance	
	2014	2015	2014	2015
	348.7	380.0	428.0	445.1
	13.2	12.8	16.0	18.1
	361.9	**392.8**	**444.0**	**463.2**
	340.5	399.0	444.8	500.4
	0.0	21.6	87.6	518.7
	0.0	21.6	0.0	163.5
	0.0	0.0	87.6	87.6
	0.0	0.0	0.0	267.6
	702.4	**813.4**	**976.4**	**1,482.3**
	91.7	150.1	90.2	109.2
	794.1	**963.5**	**1,066.6**	**1,591.5**

	Roland Vogel Chief Financial Officer	
	2014	2015
	406.6	422.9
	15.4	14.8
	422.0	**437.7**
	376.6	379.1
	30.9	313.8
	0.0	149.1
	30.9	30.9
	0.0	133.8
	829.5	**1,130.6**
	33.0	62.8
	862.5	**1,193.4**

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of Hannover Rück SE. The remuneration received for such seats at Group companies and other board functions is deducted when calculating the variable bonus and shown separately in the table of total remuneration.

Retirement provision

Final-salary pension commitment (appointment before 2009)

The contracts of members of the Executive Board first appointed prior to 2009 contain commitments to an annual retirement pension calculated as a percentage of the pensionable fixed annual remuneration (defined benefit). The target pension is at most 50% of the monthly fixed salary payable on reaching the age of 65. A non-pensionable fixed remuneration component was introduced in conjunction with the remuneration structure applicable from 2011 onwards.

Contribution-based pension commitment (appointment from 2009 onwards)

The commitments given to members of the Executive Board from 2009 onwards are based on a defined contribution scheme.

A Board member who has reached the age of 65 and left the company's employment receives a life-long retirement pension. The amount of the monthly retirement pension is calculated according to the reference date age (year of the reference date less year of birth) and the funding contribution on the reference date. The annual funding contribution for these contracts is paid by the company in the amount of a contractually specified percentage of the pensionable income (fixed annual remuneration as at the contractually specified reference date).

In both contract variants (i. e. defined benefit and defined contribution) other income received while drawing the retirement pension is taken into account pro rata or in its entirety under certain circumstances (e. g. in the event of incapacity for work or termination of the service contract before reaching the age of 65).

Provision for surviving dependants

If the Board member dies during the period of the service contract, the surviving spouse – or alternatively the eligible children – shall be entitled to continued payment of the fixed monthly salary for the month in which the Board member dies and the six months thereafter, at most until termination of the service contract. If the member of the Executive Board dies after pension payments begin, the surviving spouse and alternatively the dependent children shall receive continued payment of the retirement pension for the month of death and the following six months.

The widow's pension amounts to 60% of the retirement pay that the Board member received or would have received if he had been incapacitated for work at the time of his death.

An orphan's pension shall be granted in the amount of 15% – in the case of full orphans 25% (final-salary pension commitment) or 30% (contribution-based pension commitment) – of the retirement pay that the Board member received or would have received on the day of his death if the pensionable event had occurred owing to a permanent incapacity for work.

Adjustments

The following parameters are used for adjustments to retirement, widow's and orphan's benefits: the price index for the cost of living of all private households in Germany (contracts from 2001 onwards) or the price index for the cost of living of four-person households of civil servants and higher-income salaried employees (contracts from 1997 to 2000).

Current pensions based on the commitments given from 2009 onwards (defined contribution commitment) are increased annually by at least 1% of their most recent (gross) amount.

Pension payments to former members of the Executive Board

The pension payments to former members of the Executive Board and their surviving dependants, for whom 16 (16) pension commitments existed, totalled EUR 1.6 million (EUR 1.5 million) in the year under review. The projected benefit obligation of the pension commitments to former members of the Executive Board amounted to altogether EUR 25.0 million (EUR 28.8 million).

Defined benefit commitments M 79

Name in EUR thousand	Financial year	Attainable annual pension (age 65)	DBO 31.12.	Personnel expense
Ulrich Wallin	**2015**	**229.1**	**4,532.7**	**167.1**
	2014	229.1	5,159.5	114.3
Sven Althoff [1, 2]	**2015**	**91.9**	**898.9**	**750.6**
	2014	30.3	370.8	13.9
Jürgen Gräber	**2015**	**162.8**	**3,094.8**	**109.2**
	2014	158.5	3,493.9	90.2
Dr. Michael Pickel	**2015**	**129.0**	**1,875.6**	**147.1**
	2014	125.6	2,124.2	89.9
Roland Vogel [1, 3]	**2015**	**94.0**	**1,524.2**	**62.8**
	2014	91.7	1,652.3	33.0
Total	**2015**	**706.8**	**11,926.2**	**1,236.8**
Total	2014	635.2	12,800.7	341.3

1 Mr. Althoff and Mr. Vogel were first granted a pension commitment prior to 2001 on the basis of their service to the company prior to their appointment to the Executive Board; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry] / [attainable service years from entry to exit age]) of the final benefit. Measurement under IFRS consequently uses the defined benefit method. The values shown include the entitlements prior to appointment to the Executive Board, which in accordance with a resolution of the company's Supervisory Board shall remain unaffected by the pension commitment as a member of the Executive Board.

2 The first increased contribution was paid for Mr. Althoff in 2015 based on his appointment to the Executive Board in an amount of EUR 42,100 (25% of the pensionable income). The personnel expenditure in 2015 includes a past service cost of EUR 704,500. The values shown for 2014 refer to his entitlements based on the remuneration prior to appointment to the Executive Board (1 August 2014). The guaranteed interest rate of his commitment is 3.25%.

3 An annual premium of EUR 103,700 (25% of the pensionable income) was paid for Mr. Vogel for 2015. The guaranteed interest rate of his commitment is 3.25%.

Defined contribution commitments M 80

Name in EUR thousand	Financial year	Annual funding contribution [1]	Attainable annual pension (age 65)	Premium
Claude Chèvre [2]	**2015**	**39.5%**	**131.1**	**150.1**
	2014	25% to October 2014 39.5% from November 2014	117.8	91.7
Dr. Klaus Miller [2]	**2015**	**25%**	**53.0**	**87.3**
	2014	25%	51.4	82.8
Total	**2015**		**184.1**	**237.4**
Total	2014		169.2	174.5

1 Percentage of pensionable income (fixed annual remuneration as at the contractually specified reference date)

2 Guaranteed interest rate 2.25%

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Rück SE and regulated by the Articles of Association.

In accordance with § 14 of the Articles of Association as amended on 18 July 2013 and the resolution of the Annual General Meeting on 7 May 2013, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration measured according to the average earnings per share (EPS) of the company over the past three financial years preceding the Annual General Meeting at which the actions of the Supervisory Board for the last of these three years are ratified. The variable remuneration amounts to EUR 330 for each EUR 0.10 average earnings per share (EPS) of the company. The measurement of this performance-based remuneration component according to the average earnings per share of the last three financial years ensures that the variable remuneration is geared to sustainable corporate development. The variable remuneration is limited to an annual maximum of EUR 30,000. The Chairman of the Supervisory Board receives twice the aforementioned remuneration amounts and the Deputy Chairman of the Supervisory Board receives one-and-a-half times the said amounts.

In addition, the members of the Finance and Audit Committee formed by the Supervisory Board receive remuneration of EUR 15,000 for their committee work and the members of the Standing Committee formed by the Supervisory Board receive remuneration of EUR 7,500. In this case, too, the Chairman of the Committee receives twice and the Deputy Chairman one-and-a-half times the stated amounts. No remuneration is envisaged for the Nomination Committee.

Members who have only belonged to the Supervisory Board or one of its Committees for part of the financial year receive the remuneration pro rata temporis.

All the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board and the Committees in addition to the aforementioned remuneration. If a meeting of the Supervisory Board and one or more committee meetings fall on the same day, the attendance allowance for this day is only paid once in total.

Individual remuneration received by the members of the Supervisory Board M 81

Name in EUR thousand[1]	Function	Type of remuneration	2015	2014
Herbert K. Haas[2]	Chairman of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	100.0	100.0
		Variable remuneration	82.7	84.9
		Remuneration for committee work	85.0	85.0
		Attendance allowances	13.0	11.0
			280.7	**280.9**
Dr. Klaus Sturany	Deputy Chairman of the Supervisory Board Member of the Standing Committee	Fixed remuneration	45.0	45.0
		Variable remuneration	40.1	40.1
		Remuneration for committee work	7.5	7.5
		Attendance allowances	6.0	5.0
			98.6	**97.6**
Wolf-Dieter Baumgartl[2]	Member of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	50.0	50.0
		Variable remuneration	41.4	42.3
		Remuneration for committee work	22.5	22.5
		Attendance allowances	11.0	11.0
			124.9	**125.8**
Frauke Heitmüller[3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	26.7	26.6
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.7	**60.6**
Otto Müller[3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	26.7	26.6
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.7	**60.6**
Dr. Andrea Pollak	Member of the • Supervisory Board • Nomination Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	26.7	26.6
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.7	**60.6**
Dr. Immo Querner[2]	Member of the Supervisory Board	Fixed remuneration	50.0	50.0
		Variable remuneration	41.4	41.7
		Remuneration for committee work	10.0	10.0
		Attendance allowances	7.0	7.0
			108.4	**108.7**

Dr. Erhard Schipporeit	Member of the • Supervisory Board • Finance and Audit Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	26.7	27.1
		Remuneration for committee work	15.0	15.0
		Attendance allowances	7.0	6.0
			78.7	**78.1**
Maike Sielaff [3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	26.7	24.0
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.7	58.0
Gert Wächtler [4]	Member of the Supervisory Board (until 19 March 2013)	Fixed remuneration	–	–
		Variable remuneration	–	2.5
		Remuneration for committee work	–	–
		Attendance allowances	–	–
			–	**2.5**
Total			**934.1**	**933.4**

1 Amounts excluding reimbursed VAT
2 Including supervisory board remuneration and remuneration for committee work as well as advisory board remuneration received from entities affiliated with the company
3 Employee representatives
4 Former employee representative

The individualised presentation of the remuneration shows the expense charged to the financial year in question. Since the remuneration for a financial year becomes due at the end of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year, the relevant reserve allocations for the variable remuneration are recognised allowing for any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Rück SE or its subsidiaries may only grant loans to members of the Executive Board or Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2015 no loan relationships existed with members of the Executive Board or Supervisory Board of Hannover Rück SE, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rück SE effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). No such reportable transactions took place in the 2015 financial year.

Members of the Supervisory Board and Executive Board of Hannover Rück SE as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2015 amounted to 0.004% (0.004%) of the issued shares, i. e. 4,585 (4,549) shares.

Remuneration of staff and senior executives

Structure and system

The remuneration scheme for senior executives below the Executive Board (management levels 2 and 3) consists of a fixed annual salary and a system of variable remuneration. This is comprised of a short-term variable remuneration component, the annual cash bonus, and a long-term share-based remuneration component, the Share Award Plan. This variable remuneration has been uniformly applied worldwide since 1 January 2012 to all Group senior executives (i. e. Managing Directors, Directors and General Managers). It satisfies the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010, inasmuch as – in its basic principles and parameters – it meets the special requirements of § 4 VersVergV and is appropriately realised according to the various management levels. As part of the reorientation of the remuneration system for senior executives the Share Award Plan of the Executive Board was consciously extended to include management levels 2 and 3. Given that at the same time the stock appreciation rights plan for senior executives was cancelled with effect from the 2012 allocation year, this means that a uniform share-based remuneration component has been maintained for the Executive Board and senior executives alike.

Members of staff on the levels of Chief Manager, Senior Manager and Manager are also able to participate in a variable remuneration system through the Group Performance Bonus (GPB). The Group Performance Bonus (GPB) is a remuneration model launched in 2004 that is linked to the success of the company. This tool is geared to the minimum return on equity of 750 basis points above the risk-free interest rate and the return on equity actually generated. For those participating in the GPB 14.15 monthly salary payments are guaranteed; a maximum of 16.7 salary payments is attainable. Since its launch the maximum amount of the GPB was paid out in 2006, 2007, 2009, 2010, 2012, 2013 and 2014.

The group of participants and the total number of eligible participants in the variable remuneration systems of Hannover Re are set out in the following table.

Measurement of variable remuneration for senior executives

The measurement of the variable remuneration is based on three elements: Group net income, divisional targets and individual targets. The weighting of the elements is dependent upon whether responsibility is carried in a treaty / regional department or in a service department. In the treaty / regional departments the Group net income is weighted at 20%, the divisional targets at 40% and the individual targets also at 40%. In the service departments the Group net income carries a 40% weighting, while the individual targets account for 60%. Agreements on divisional targets and individual targets as well as on their degree of goal attainment are arrived at as part of the Management by Objectives (MbO) process.

The Group net income is measured by the three-year average return on equity (RoE) of the Hannover Re Group above the risk-free interest rate. Goal attainment is calculated as follows: for each individual financial year of the last three financial years it is calculated by how many percentage points the RoE of the Hannover Re Group exceeds the risk-free interest rate. The average of these three differences determines the three-year average RoE above the risk-free interest rate. The risk-free interest rate is the average market interest rate over the past five years for 10-year German government bonds.

If the three-year average RoE above the risk-free interest rate reaches the expected minimum return on equity of 750 basis points, goal attainment stands at 85%. Goal attainment of 100% is recorded at 882 basis points. The maximum possible goal attainment is 200%. A lower limit is placed on goal attainment of -50% (penalty) for management level 2 (Managing Director) and 0% for management level 3 (Director and General Manager).

The measurement of the divisional targets – which in the case of the treaty / regional departments account for 40% of overall goal attainment – is geared to the actual value created. The Intrinsic Value Creation (IVC) of the division encompassing the relevant area of responsibility is therefore used as a one-year measurement basis. Negative performance contributions are excluded here – the minimum possible goal attainment is 0%. The maximum possible goal attainment is limited to 150%.

Group of participants and total number of eligible participants in variable remuneration systems M 82
Valid: 31 December 2015

Participants		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	Management level 2	Cash bonus and Share Award Plan	**Hannover Re Group** All 160 Group senior executives worldwide receive a cash bonus upon corresponding goal attainment and participate in the Share Award Plan.
Director	Management level 3		
General Manager			
Chief Manager		Group Performance Bonus (GPB)	**Home Office Hannover** 699 staff (excl. seconded employees) out of the altogether 1,337 at Hannover Home Office (incl. 94 senior executives) are GPB-eligible.
Senior Manager			
Manager			

Attainment of the agreed IVC results in goal attainment of 100%. Outperformance of the divisional targets, i. e. a degree of goal attainment in excess of 100%, requires at least the agreement and attainment of a positive IVC. Furthermore, a degree of goal attainment in excess of 100% should be geared to a real comparison of planned IVC with actual IVC. A maximum degree of goal attainment of 150% is conditional upon attainment of an excellent positive IVC and implies that the actual IVC of the division is significantly in excess of the planned IVC.

In view of the fact that the Excess Return on Capital Allocated (xRoCA) is even more suitable for comparisons between units of differing size, it was decided that from 2016 onwards the xRoCA will be used as the measurement basis instead of the IVC. The xRoCA describes the IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Individual targets are agreed and measured for a period of one year. The degree of goal attainment is between 0% and 100%.

Amount and payment of variable remuneration for senior executives

The overall degree of goal attainment determines the amount of variable remuneration including share awards. On management level 2 (Managing Director) 60% of the variable remuneration is paid out annually in cash and 40% is granted in the form of share awards. On management level 3 (Director and General Manager) the variable remuneration is split into 65% cash payment and 35% granted as share awards.

On management level 3 (Director and General Manager) the minimum variable remuneration amounts to EUR 0 on the premise that the degree of attainment for all goals is 0%. For management level 2 (Managing Director) in treaty/regional departments the minimum limit for the variable remuneration is set at -10% if the degree of goal attainment for Group net income is -50% while at the same time goal attainment of 0% is determined for the divisional targets and individual targets. For management level 2 (Managing Director) in service departments -20% of the variable remuneration is possible as the lower limit, if the degree of goal attainment for Group net income is -50% and at the same time goal attainment of 0% is determined for the individual targets.

In view of the fact that outperformance of up to 200% is possible for Group net income and up to 150% for divisional targets, a maximum total degree of goal attainment of 140% can be attained in both treaty/regional departments and service departments. Given outperformance of all targets, a maximum of 140% of the variable remuneration can therefore be attained on management levels 2 and 3.

Allocation and payment of share awards to senior executives

The total number of share awards allocated is determined according to the value per share of Hannover Re. This value is arrived at from the average of the closing prices of the shares in a period extending from 20 trading days before to 10 trading days after the meeting of the Supervisory Board at which the consolidated financial statement is approved. The number of share awards is established by dividing the specified portion of the total bonus (40% or 35%) by the value per share, rounded up to the next full share.

Following expiry of a vesting period of four years the value of one Hannover Re share calculated at the disbursement date is paid out for each share award. The value of the Hannover Re share is again determined from the average of the closing prices of the shares in a period from 20 trading days before to 10 trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. In addition, a sum in the amount of the dividend is paid out for each share award, insofar as dividends were distributed to shareholders. The level of the dividend payment is the sum total of all dividends per share paid out during the period of the share awards multiplied by the number of share awards.

In the case of the allocation and payment of share awards to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the average share price is the average of the relevant exchange rate in a period from 20 trading days before to 10 trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. For payment of the dividend to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the dividend per share is the average of the relevant exchange rate in a period from 20 trading days before to 10 trading days after the Annual General Meeting that approves the dividend payment for the financial year just ended.

The cash bonus for the 2014 financial year was paid out in June 2015. The share awards for the 2014 financial year were also allocated in June 2015; they will be paid out in the spring of 2019 including dividends paid for the 2014, 2015, 2016 and 2017 financial years.

Always …

… quick

Keeping the flows of goods moving

The 2011 floods in Thailand caused considerably heavier losses than the insurance industry had anticipated. Many railway lines were blocked, while main highways and country roads were impassable. Along with the direct losses incurred by the Thai economy, supply disruptions impacted the worldwide computer and automobile industries. This market consequently experienced capacity shortages on the reinsurance side. Hannover Re was quick to respond, vigorously expanding its services for primary insurers in Thailand within a short space of time. As a result, we wrote substantially more business and helped to get the infrastructure and industrial plants back up and running.

Ratchadamri Road,
Bangkok, Thailand

Outlook

Forecast

- Solid prospects for 2016 in property and casualty reinsurance despite protracted soft market phase
- Further growth and increased profitability in life and health reinsurance
- Return on investment target of 2.9% for assets under own management
- Group net income expected in the order of EUR 950 million

Economic development

Global economy

Economic experts expect 2016 to bring a positive continuation of cyclical momentum on a slightly higher level: in its year-end forecast the Kiel Institute for the World Economy anticipates growth of 3.4% for the global economy in 2016, which is 0.3 percentage points stronger than in 2015.

The upturn in the developed economies will generally be sustained: monetary policy, which for the most part remains expansionary, gradually rising wages and the low price of oil are supporting progressive deleveraging processes in the private sector and boosting business activity. Expansion in emerging markets will initially continue to be curtailed by low commodity prices and structural problems, although the state of the economy in this group of countries is expected to bounce back little by little.

The risks to the economy seen in recent years still exist: on the political front, the development of flashpoints in the Near and Middle East is especially hard to foresee. The expansion of crisis zones or an upsurge in terrorist activity could unsettle the markets and undermine the anticipated global economic growth. Furthermore, geopolitically induced turmoil on financial markets cannot be ruled out: interest rate hikes in the United States, for example, could have increasingly negative repercussions on the world economy, especially because numerous countries are still in the throes of a restructuring process. As additional factors, movements in the oil price and the pace of growth in China are likely to impact the markets.

Growth in gross domestic product (GDP) M 83

in %	2015 (forecast from previous year)	2015 (provisional calculation)	2016 (forecast)
Economic areas			
World economy	3.7	3.1	3.4
Eurozone	1.2	1.5	1.7
Selected countries			
United States	3.2	2.5	2.8
China	7.0	6.8	6.5
India	6.5	7.2	7.2
Japan	0.8	0.7	1.0
Germany	1.7	1.8	2.2

Source: Kiel Institute for the World Economy

United States

Output in the United States is set to rise by 2.8% in 2016. With sales prospects looking brighter at home and abroad, the increase in corporate investment, in particular, will likely be sustained. Consumer spending is also continuing to trend clearly higher. Further improvement on the labour market will bring about progressive wage growth.

Europe

The Eurozone economy is gradually picking up momentum. The moderate revival in the winter months will in all likelihood be sustained for the entirety of 2016. Nevertheless, the structural problems affecting parts of the currency area will stubbornly persist. Growth is expected to come in slightly higher than in the previous year at 1.7%. Despite trending upwards, the increase in consumer prices in the Eurozone will continue to be very low at 1.0%. The unemployment rate is trending lower: it is forecast to nudge modestly lower again to 10.4%. The United Kingdom should generate growth almost on a par with the previous year at 2.3%.

Germany

After the growth in total output had slowed somewhat of late, there are signs of an appreciably accelerated pace of expansion in 2016. Particularly in the service sector, growth expectations are higher than at any point since the reunification boom. The experts at the Kiel Institute for the World Economy anticipate a growth rate of 2.2% for 2016 with a modestly rising tendency. Growth will continue to be driven primarily by stronger private consumption, which will be fed by sharply higher disposable incomes of private households. Corporate investment will see further expansion in an extremely favourable financing climate. Exporters have enjoyed a surge in competitiveness with the devaluation of the euro. This may lead to stronger exports and stimulate capital investment as the expansion picks up pace. A new factor affecting the economy is the high level of refugee migration, which will give an added boost to spending. The restraining influence of foreign markets that has been felt of late will fade, giving way to increasingly stimulating effects on the economy. Growth momentum is picking up in the countries that are Germany's major customers.

In the assessment of the Kiel Institute for the World Economy, employment will continue to trend higher, accompanied by appreciable wage growth. The fall in unemployment will, however, come to a halt as a consequence of the considerable influx of refugees. The jobless rate is expected to remain at around 6.3%.

China, India, Japan

Developments in emerging economies will continue to be hampered for the time being by low commodity prices and structural difficulties, although business activity in these markets too should gradually stabilise. Overall, the contribution made by these countries to global growth will fall short of the high levels seen in past years. The room for manoeuvre in fiscal policy remains very limited in many emerging markets because monetary policy there is geared more towards stabilising the currency than stimulating the economy. The government in China implemented numerous measures last year to prop up demand. In the assessment of economic experts, however, these steps will not suffice to bring about the desired structural shift towards a financially and environmentally more sustainable economy, not to mention one geared more towards private consumption. Nevertheless, they will likely result in the pace of expansion easing only slightly in the forecast period. Growth of 6.5% is anticipated for China in 2016, with a modestly slowing tendency.

Capital markets

The decision of the European Central Bank to stand by its low interest rate policy and purchase government bonds over an extended timeframe is intended to protect the Eurozone against the threat of deflation. The US Federal Reserve, by contrast, moved away from its expansionary interest rate policy and set in motion a cycle of rate hikes for the first time in almost a decade. This should be reflected in a continued strong US dollar. The next steps taken by the Federal Reserve and the signals that it sends out will come under particularly close scrutiny throughout 2016. The US central bank finds itself compelled to walk a fine line between the potential need for additional interest rate moves and the risk of adversely affecting the flow of money into other countries and weakening the US economy through precisely these measures.

International bond markets will again be shaped by below-average and increasingly divergent interest rate levels in 2016. In the relevant currency areas for our company we anticipate flatter yield curves. With respect to government bonds with higher risk premiums issued by countries of the European Monetary Union that have been the focus of so much attention of late, the situation should continue to stabilise. Generally speaking, the increased volatility observed on the capital market since the summer of 2015 is not expected to diminish. The effects of currency and oil price movements should therefore be all the more pronounced, with more risks than opportunities anticipated at this point in time for the world economy – also with an eye to geopolitical concerns. The consolidation of public finances in the industrial nations and the advanced phase of the credit cycle in the United States will continue to preoccupy the economic environment; they may, however, be more than offset by resurgent private consumption. In view of the existing uncertainties, broad diversification within the investment portfolio will therefore continue to be of considerable importance in 2016.

Insurance industry

According to general industry assessments, the international insurance industry will find itself operating in an environment in 2016 that is comparable with the previous year. Two key issues will continue to be the low Interest rate policy and implications of the implementation of Solvency II or similar regulatory regimes in many major markets around the world at the start of this year. They are helping to ensure that the insurance industry remains heavily focused on efficiency, shoring up its profitability and innovating on both the product and service side. Irrespective of the challenges that it is facing, the insurance sector should still remain on a stable course in the current year.

Along with Europe (Solvency II) and China (C-ROSS), South Africa will also be adopting a risk-based solvency system (Solvency Assessment and Management) during the year or at the beginning of 2017 at the latest.

The (re)insurance market had already witnessed various notable mergers and acquisitions in 2015. This trend is likely to be not only sustained but even accentuated in 2016, given that increased competition is making it especially difficult for smaller (re)insurers to generate their target margins. What is more, it is evident that primary insurers and contracting parties are tending to turn to highly profitable reinsurers with an above-average rating who can fall back on strong balance sheets and a positive cash flow. This has been accompanied by rising demand for partners with a diversified range of products and services.

Generating growth in what continues to be a highly competitive environment will doubtless remain a real challenge in 2016. Furthermore, industry experts anticipate stable or slightly lower premiums. If 2016 should again pass off without large losses from natural catastrophes or if reinsurers post adequate returns on equity from the perspective of shareholders, the soft market phase is likely to continue.

Property & Casualty reinsurance

Overview

After four years in a row of low major losses and good results for all market players, property and casualty reinsurance is once again seeing intense competition in the current financial year. This is being driven above all by the continued abundant oversupply of reinsurance capacity attributable to the fact that reinsurers have been able to boost their capital positions – on the back of minimal large loss expenditure – and also because capital has flowed in from the market for catastrophe bonds (ILS).

These factors also shaped the treaty renewals as at 1 January 2016, the date when some 65% of our property and casualty reinsurance portfolio (excluding facultative business and structured reinsurance) was renegotiated. Despite sometimes appreciable price erosion, we were broadly satisfied with the outcome of the renewals – even though the rate quality of the renewed portfolio was somewhat lower than in the previous year. Virtually unchanged conditions and stronger demand for multi-year covers are likely indications that the current soft market phase is bottoming out.

The latest round of renewals showed that financially robust reinsurers such as Hannover Re are more highly sought-after by cedants. Based on our excellent ratings, our long-standing customer relationships and our profit-oriented underwriting policy, we are in a good position to adapt to the soft market conditions. Hannover Re continues to practise its systematic cycle management combined with rigorous underwriting discipline and trusts in a broadly diversified portfolio of high-quality existing business, complemented by opportunities that may arise in niche and specialty lines.

Property & Casualty reinsurance: Forecast development for 2016 M 84

	Volume[1]	Profitability[2]
Target markets		
North America[3]	↗	+
Continental Europe[3]	↘	+/–
Specialty lines worldwide		
Marine	↘	+
Aviation	↘	–
Credit, surety and political risks	→	+
UK, Ireland, London market and direct business	↗	+/–
Facultative reinsurance	↘	+
Global reinsurance		
Worldwide treaty reinsurance	→	+
Catastrophe XL (Cat XL)	↘	–
Structured reinsurance and insurance-linked securities	↘	+/–

1 In EUR
2 ++ = significantly above the cost of capital
+ = above the cost of capital
+/– = on a par with the cost of capital
– = below the cost of capital
3 All lines with the exception of those reported separately

Expectations for the development of our property and casualty reinsurance business are described in greater detail below.

Target markets

North America

In North American primary insurance, where rate increases have been observed since 2011, softening is likely to emerge in the market in 2016 – and this could increasingly lead to rate reductions for major risks. The absence of sizeable claims expenditure on natural disasters and individual risks continues to make itself felt on the reinsurance side and will sustain the trend towards rate erosion in property and – to a lesser extent – casualty business, albeit in a more muted form. Mergers and acquisitions in the primary market will lead to a shakeup in reinsurance purchasing over the long term; in the short term, however, we see more opportunities than risks, which Hannover Re will be able to leverage thanks to its long-standing close and established customer relationships.

The latest round of renewals offered increasing indications of a bottoming out in both the property and casualty lines. We are adhering to our strategy of a margin-oriented underwriting policy, even if this compels us to forego premium growth. Nevertheless, in view of our long-standing and robust customer relationships, we expect to maintain our presence even in the soft market. Overall, then, we were satisfied with the outcome of the renewals as at 1 January 2016. The rate erosion has slowed somewhat. Modest rate reductions were recorded in non-proportional property business, especially under profitable loss-free programmes. On the other hand, premium increases were booked in all three subsectors of US liability business (standard, special and professional liability) – while conditions under proportional treaties remained stable. All in all, the premium volume for the North American portfolio renewed as at 1 January climbed by around 9% – in part due to the expansion of customer relationships. As things currently stand, we expect to see further intensification of competition in this segment in the treaty renewals as at 1 June and 1 July 2016 – the time of year when catastrophe XL covers, in particular, are renegotiated. On the whole, our North American business is expected to deliver slightly higher premium volume in the current financial year.

Continental Europe

In **Germany**, the largest single market within our Continental Europe segment, Hannover Re was able to further cement its excellent position. Hannover Re is active in this market through its subsidiary E+S Rück. Here, too, competition nevertheless remained keen. The increased retentions carried by larger clients were a particularly significant factor in the 1 January renewals, when virtually our entire portfolio was renegotiated. In motor business, the most important single line, we expect original rates to rise and have increased our shares accordingly. Moderate improvements were also possible in homeowners comprehensive insurance. The quality of results in non-proportional motor liability business will continue to improve due to better conditions as a consequence of higher priorities. Unfortunately, this will also entail accepting a decrease in premium.

Fierce competition and the large number of basic losses put adequate results in industrial fire insurance out of reach. With this in mind, we continued to write our business here very selectively. Our total portfolio in the domestic German market is expected to show a slightly reduced premium volume.

In the **other markets of Continental Europe** the picture was a mixed one: the expansion of existing customer accounts in France enabled us to offset the pressure on prices in loss-free programmes and the effect of discontinued treaties. In Northern European countries we were able to maintain our position as one of the preferred reinsurance providers. The markets of Southern and Eastern Europe were considerably more competitive. Broadly speaking, though, we still consider reinsurance prices here to be commensurate with the risks. Most notably, proportional and non-proportional treaties offering sufficient capital relief for the Solvency II requirements that have entered into force are enjoying a surge in demand. We were nevertheless selective in our underwriting approach with an eye to our minimum margin requirements.

All in all, we booked a moderate premium contraction in the treaty renewals for Continental European markets.

Specialty lines worldwide

Marine

In marine reinsurance we expect to see a sharp decline in rates for the 2016 financial year despite the sizeable number of large losses. Demand for primary insurance in the area of offshore energy risks is soft on the back of low oil prices. Combined with high capacity and fierce competition throughout the entire marine insurance market, our customers have booked reduced premium income. When it comes to our own portfolio, we anticipate a lower premium volume overall in 2016.

Aviation

The significant major losses incurred in aviation reinsurance in 2014 and 2015 have failed to bring about long-term stabilisation of rates. Although rising passenger numbers and fleet values are creating stronger demand for reinsurance in the original market, we anticipate a continued abundant oversupply of insurance capacities and sharply lower rates. With this in mind, we are scaling back our involvement and our market share in the aviation sector, and we expect to book a sharp contraction in premium volume.

Credit, surety and political risks

The premium volume in the area of credit, surety and political risks is expected to remain virtually unchanged in 2016. Slowing growth in China and the moderate rise in loss ratios in emerging markets will impact our business. While the risk appetite of primary insurers has grown steadily in recent years, we do not now anticipate any further increases in the premium that they retain for own account. Overall, leaving aside certain exceptions principally in the area of political risks business, it is our expectation that conditions will come under only slight pressure in 2016. Against this backdrop, the segment is expected to deliver a moderately improved profit contribution.

United Kingdom, London market and direct business

In the face of protracted competition we expect to see declining rates for our reinsurance business in this area in 2016, especially in the property lines. In non-proportional UK motor business, on the other hand, we are benefiting from stable rates and growth in the underlying business. Further risk selection and increased diversification should serve to boost the portfolio quality of our direct business and deliver stable earnings in 2016. In the treaty renewals as at 1 January 2016 we largely preserved our portfolio thanks to our established customer relationships, while we reduced shares in treaties that had come under heavier pressure. For the current year we expect to book a stable or slightly higher premium volume.

Facultative reinsurance

As is also the case in obligatory reinsurance, the soft market phase prevailing in facultative reinsurance is likely to continue in 2016. A revival in offshore energy business is not to be expected in view of reduced investment in the construction of drilling rigs due to the low oil price. Nevertheless, by taking a selective approach we also see attractive business opportunities. For example, we anticipate stronger demand in areas such as covers for renewables and cyber risks. An increased focus on US casualty business should also open up new prospects. In addition, thanks to our very good rating we should continue to profit from the pooling of reinsurance cessions on the part of large primary insurance groups. Our portfolio of facultative risks is expected to deliver a slightly reduced premium volume with continued healthy profitability in the current financial year.

Global reinsurance

Worldwide treaty reinsurance

The **Asia-Pacific markets** continue to rank as growth markets. Along with sustained rising demand for insurance products among the expanding middle classes of many emerging markets, regulatory changes – above all in China and India – are also having favourable implications for Hannover Re's positioning. In certain Asian countries, on the other hand, moves to reduce the outflow of reinsurance premiums into foreign markets are having adverse impacts.

The **Japanese** portfolio of the Hannover Re Group is expected to see slight erosion of the premium income but continued satisfactory profitability. Our positioning in this important market is nevertheless very good, giving us a range of excellent options for responding to future market changes.

Our reinsurance business in **China** is expected to deliver another significant surge in premium growth. The regulatory changes ushered in with the adoption of the C-ROSS solvency regime on 1 January 2016, Hannover Re's local presence and our strategy of building stronger customer relationships with a diversified business volume will support the growth of the portfolio.

The region of **South and Southeast Asia** should deliver continued growth, although it will be somewhat softer than in the previous year. Consequently, our portfolio here should show a further rise in premium income due to special volume-oriented and product initiatives that have already been launched. Rates for these initiatives are expected to be adequate.

In **Australia and New Zealand** we shall continue to systematically leverage our strategically important local presence and the company's financial strength in order to further expand our customer relationships in the region and hence moderately boost our premium volume. We shall devote special strategic attention here to the provision of holistic customer care and the cultivation of niche business.

In **South Africa** a risk-based solvency system known as SAM (Solvency Assessment and Management) is to be implemented for the insurance industry during 2016 or 2017. We expect the premium for our reinsurance portfolio and specialty business to contract in 2016, in part owing to exchange rate effects.

The market and the placement of reinsurance cessions in **Latin America** are just as fiercely competitive as in other regions. Thanks to our exceptionally good position in this region and our outstanding financial strength, we expect to achieve prices that are commensurate with the risks in the main renewal season as at 1 July 2016 – something which we were also able to do in the 1 January renewals. Despite the difficult state of the market we succeeded in holding our portfolio stable thanks to our focus on Latin America as a whole. In Argentina – one of the largest markets in Latin America – we anticipate a more business-friendly policy after the change of government at the end of 2015. To this extent, we remain confident of generating further profitable growth for our portfolio from Latin American markets in the current financial year by adhering to our selective underwriting policy.

Hannover Re expects demand to continue rising for coverage of **agricultural risks**. The increasing need for agricultural commodities and foodstuffs as well as the growing prevalence of extreme weather events are generating stronger demand for reinsurance covers, particularly in emerging and developing markets. In addition, the decision was taken at the Paris Climate Conference in December 2015 to insure a further 400 million people in poor and at-risk nations against the effects of climate change by the year 2020. In this regard, we see further growth potential for index-linked products among direct and indirect insurance concepts in emerging and developing countries. Hannover Re therefore expects its premium to come in higher for the current financial year.

We expect to write further profitable business on the level of the previous year for our **retakaful** portfolio in the current financial year.

Catastrophe XL (Cat XL)

An oversupply of reinsurance capacity continues to be the hallmark of natural catastrophe business. The inflow of capital from alternative and ILS markets slowed over the course of the year. The current soft market phase will only come to an end when the majority of market players reach a level of profitability that is insufficient – whether through high loss expenditures, inadequate reserving levels or influencing effects from the capital market. In the 1 January 2016 treaty renewals rates declined by around 8% as natural catastrophe losses remained below expectations. For the full financial year we therefore anticipate reduced premium income.

Structured reinsurance and insurance-linked securities

With the implementation of risk-based models for calculating solvency requirements not only within but also outside the European Union, we anticipate good business opportunities in our **structured reinsurance** business. The key driver here is the growing integration of reinsurance into insurers' risk management as a means of offsetting the effects of the increasingly exacting capital requirements placed upon them. The adoption of C-ROSS in China means that primary insurers require less capital for motor business (70% of property and casualty reinsurance business). Demand for quota share reinsurance arrangements offering solvency relief may therefore diminish.

In the area of **insurance-linked securities (ILS)** we expect to see steadily growing demand. Investors are seeking a low correlation with other financial investments and hence the diversification that this brings. What is more, the market for insurance risks is perceived by investors as relatively attractive compared to other investments. We are responding to this market situation with a strong emphasis on service, offering individually tailored products – from collateralised reinsurance to catastrophe bonds – and extending our range of services for life reinsurance risks. Over the coming years we expect our ILS activities to deliver a positive and consistently rising profit contribution.

In keeping with our strategy of "Long-term success in a competitive business", we have adjusted to this soft market phase in property and casualty reinsurance. With an expense ratio well below the average of our competitors and reserves that are calculated on a highly conservative basis, we are in a position – subject to normal major loss expenditure – to achieve good results. This is further supported by our good diversification across regions and lines of business.

Life & Health reinsurance

In the Life & Health reinsurance business group we are a globally operating and professional partner for our customers. We conduct profitable activities in international and highly competitive markets and, as a global reinsurer, we strive for sustainable success. In so doing, we do not restrict ourselves solely to our core business of offering our customers reinsurance solutions, but rather we also tackle the manifold other challenges posed by the life and health reinsurance market.

Life & Health reinsurance: Forecast development for 2016 **M 85**

	Volume [1]	Profitability [2]
Financial Solutions	↗	++
Risk Solutions		
Longevity	↗	+/–
Mortality	↘	+
Morbidity	↘	+/–

[1] In EUR
[2] ++ = significantly above the cost of capital
+ = above the cost of capital
+/– = on a par with the cost of capital
– = below the cost of capital

Developments on capital markets play a crucial role and will once again influence our business in the current year. The prevailing low interest rate environment will impact new business and the profitability of the existing portfolio in 2016, as it did in 2015. Especially in Europe, this situation is exerting a particularly dampening effect on demand for traditional savings products with interest rate guarantees. It is our expectation that attention in these markets will increasingly focus on risk-oriented and unit-linked solutions. There are also signs of further consolidation, principally affecting traditional life insurance business. It is evident that primary insurers are switching their new business with conventional life insurance products to innovative new concepts with a variable return. With a view to staying focused on writing new business, in-force portfolios are being passed on in block transactions to professional consolidation platforms. With the implementation of Solvency II effective 1 January 2016, we anticipate rising demand – especially in Germany – for innovative business possibilities and, in particular, for financially oriented reinsurance solutions that help to provide solvency relief for our primary insurance customers.

In South Africa and China, too, local insurance companies are facing fresh challenges with the implementation of new solvency regimes – namely SAM and C-ROSS respectively. As was already the case with the preparations for adoption of Solvency II, here too Hannover Re is optimally positioned to support our customers as an expert, reliable and solution-driven partner.

When it comes to longevity business, it is our expectation that the steady rise in worldwide demand will be sustained in the coming year and further profitable business opportunities will open up. Particularly in the Scandinavian markets and in the Netherlands, business potential can already be discerned.

In mature insurance markets we also see considerable upside in the years ahead for long-term care insurance products on account of the ageing population. Critical illness covers continue to be in demand on Asian markets. Thanks to our long-standing, international expertise Hannover Re is superbly positioned here to meet the needs of our customers going forward, as we have in the past. Changes affecting certain high-premium treaties can sometimes significantly reduce premium volume.

Right across markets stronger demand can be felt for health insurance products. We operate selectively in this segment and offer our customers bespoke solutions.

The continuing popularity of innovative, integrated, health-oriented insurance concepts is another worldwide trend. Society is placing greater emphasis on a health-conscious lifestyle and insurers are increasingly tackling these needs by extending their product ranges. Wearable devices, for example, enable users to track their fitness progress on a personalised basis. With the insured's consent, such data can assist with the assessment of an individual's state of health. The integration of the output of such mobile data sources into existing underwriting systems is a trend that will be sustained in the year ahead. We shall assist and systematically support our customers in this process with the aid of innovative concepts.

Investments

Bearing in mind the advanced phase of the credit cycle in the United States as well as the political and economic uncertainties in Europe, the conservative orientation of some parts of our investment portfolio will be preserved. Nevertheless, irrespective of the sovereign debt issue, the improved economic outlook will also be reflected in selective risk-taking. Our emphasis on broad diversification will be retained unchanged. By way of a neutral modified duration we shall continue to ensure that the interest rate risk is tightly managed.

The enlargement of the asset portfolio is expected to have a positive effect on investment income, although the average return will decline owing to persistently low interest rates. Our asset holdings are expected to increase again based on positive cash flow estimates. In view of the low returns on more secure investments, we shall continue to invest in products offering attractive credit spreads and selectively expand our portfolio in the areas of alternative investments and real estate.

Given the high capital requirements and potentially increased volatility on equity markets – which are in part driven by liquidity –, we take a cautious stance on further new investments in listed equities at current valuation levels.

Outlook for the full 2016 financial year

In the current financial year, despite a challenging environment in reinsurance business and on the capital market, we anticipate a good overall result for the Hannover Re Group. Bearing in mind developments both in property and casualty and in life and health reinsurance, we expect to book a stable or slightly reduced gross premium volume – based on constant exchange rates – for our total portfolio in the current financial year.

The premium volume in property and casualty reinsurance is expected to contract slightly based on constant exchange rates. This assumption is based firstly on our selective underwriting policy, according to which in large part we only write business that satisfies our margin requirements. It also reflects our expectation that high-volume quota share arrangements which still enjoyed strong demand among Chinese cedants in the year under review will be discontinued in 2016. The treaty renewals during the year are nevertheless anticipated to pass off favourably again thanks to our good ratings and long-standing stable customer relationships.

Even though market conditions in property and casualty reinsurance are likely to remain soft, the underwriting result should come in roughly on the level of the 2015 financial year – provided the major loss incidence remains within the bounds of our expectations. In terms of our targeted combined ratio, we continue to aim for a figure under 96%. The EBIT margin for property and casualty reinsurance should amount to at least 10%.

In life and health reinsurance we see further good business opportunities in the current year. We shall continue to strive to offer our customers not only traditional risk transfer but also comprehensive reinsurance service. Adjusted for exchange rate effects, we expect to book slightly higher gross premium in life and health reinsurance. It should, however, be borne in mind that changes affecting certain very high-premium treaties have significant implications for the business volume – and that these can be either positive or volume-reducing. The Value of New Business (VNB) should be in excess of EUR 220 million. Our target EBIT margins remain unchanged at 2% for financial solutions and longevity business and 6% for mortality and morbidity business.

With regard to the IVC targets that we use to map economic value creation, we anticipate a minimum 2% xRoCA for property and casualty reinsurance and at least 3% xRoCA for life and health reinsurance.

The expected positive cash flow that we generate from the technical account and our investments should – based on stable exchange rates – lead to further growth in our asset portfolio. We are looking to deliver a return on investment of 2.9%.

For 2016 we anticipate Group net income in the order of EUR 950 million. This is subject to the proviso that the burden of major losses does not significantly exceed the budgeted level of EUR 825 million and that there are no exceptional distortions on capital markets.

In terms of the dividend for the current financial year, Hannover Re envisages a payout ratio in the range of 35% to 40% of its IFRS Group net income. This ratio may increase in light of capital management considerations if the present comfortable level of capitalisation remains unchanged.

Events after the reporting date

No matters of special significance occurred after the closing date for the consolidated financial statements.