

# Governance and Dialogue

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Given that the trust of our stakeholders and an immaculate reputation are prerequisites for the success of our company, we make every effort to cultivate an active dialogue with our customers, employees, representatives of the capital market and society as a whole. In the context of numerous initiatives we play an active part in sharing knowledge with our stakeholders. In May 2017 our Chief Executive Officer took over again as chair of the Reinsurance Advisory Board. The goal is to support and maintain a stable, innovative and competitive market climate in the reinsurance industry.



## Governance and Dialogue

As an internationally operating company, we bear responsibility in various senses. This is true of our compliance with relevant laws and regulations, but also applies to our relationship with our staff, shareholders, the public at large and the cultures within which we operate. We publish an annual Declaration of Conformity with the German Corporate Governance Code (DCKG). In this context, we continuously track and review amendments made to this Code. Compliance with our high ethical and legal standards is also enshrined in our Code of Conduct.

Our compliance structures support adherence to laws and directives, e.g. governing respect for human rights, prevention of corruption, observance of sanctions and protection of customer data. Regular training and communication activities keep our staff informed about relevant regulations.

Our group-wide risk management is vital to the long-term success of our company. It encompasses the early detection, assessment and scrutiny of risks. Through established structures and responsibilities

we ensure comprehensive evaluation of the risks that we intend to take on.

Given that the trust of our stakeholders and an immaculate reputation are prerequisites for the success of our company, we 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 present Sustainability Report 2016 we are reporting on our achievements as a responsible enterprise. In so doing we follow the currently applicable and internationally recognised guidelines of the Global Reporting Initiative (GRI) G4 and the transparency requirements of Environmental, Social and Governance rating agencies (ESG rating agencies). In 2016 our sustainability performance was once again evaluated by the rating agency oekom Research; we were awarded "Prime" status in recognition of our above-average fulfilment of industry-specific requirements. In addition, in June 2016 we received confirmation of our inclusion in the worldwide FTSE4Good Index Series from the FTSE Environmental, Social and Governance Advisory Committee.

More information on the topic at

-  [AR 2016: Corporate Governance](#)
-  [AR 2016: Compliance](#)
-  [AR 2016: Opportunity and risk report](#)
-  [Website: Philosophy Hannover Re](#)






## Responsible enterprise management

We embody state-of-the-art corporate governance as a matter of course. In addition to constant engagement with changing legal framework conditions, we provide an annual Declaration of Conformity with the German Corporate Governance Code that can be accessed on our website. We regularly update the Corporate Governance Principles of Hannover Rück SE, track and review changes to the German Corporate Governance Code and with few exceptions we comply with the recommendations of the currently valid version of the Code as amended. We explain the reasons for divergences from the German Corporate Governance Code.

Our actions worldwide are guided by high ethical and legal standards, which we have defined in our Code of Conduct and can be viewed on our website.

As a listed European joint-stock company (SE) based in Hannover, we are subject to SE-specific laws, German laws governing stock corporations and the capital market, and laws on co-determination, especially the participation agreement concluded with the employees. The three governance bodies of Executive Board, Supervisory Board and General Meeting make up the governance structure of the undertaking. Their cooperation is regulated by law and by the company's Articles of Association.

More information on the topic at

-  AR 2016: Declaration on Corporate Governance
-  Website: Corporate Governance
-  Website: Declaration of Conformity
-  AR 2016: Remuneration report
-  Website: Compliance



## Management structure

As an European Company (Societas Europaea – SE) based in Hannover, the formal structure of our corporate governance is determined by national law. The fundamental hallmarks are the two-tier system with its transparent and effective split into the management of the company (Executive Board) and its oversight (Supervisory Board). Overall responsibility for enterprise management and Group-wide risk management as well as for the definition of the risk strategy rests with the Executive Board of our company. The Supervisory Board takes responsibility for advising and monitoring the Executive Board in its management of the company and also with respect to risk management. In accordance with the principle of co-determination, the Supervisory Board is made up of representatives of the shareholders and the employees. The shareholders exercise their rights of co-administration and supervision in the context of the General Meeting.

### Composition of the Executive Board

Our Executive Board is composed of seven members, who are appointed by the Supervisory Board. Along with their qualifications, the Supervisory Board also pays attention to diversity in the selection of members of the Executive Board. We have set ourselves a target of zero for the quota of women on the Executive Board by 30 June 2017. This is because the Executive Board is currently comprised exclusively of men and all existing Board contracts are valid beyond 30 June 2017. When appointing 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.

### Composition of the Supervisory Board

Our Supervisory Board consists of nine members. They are appointed for a term of office until the end of the General Meeting that ratifies the acts of management for the 2018 financial year.

Pursuant to statutory requirements and the Participation Agreement, the employees are represented by three members. Given that 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 assured. In addition, in its current composition

the Supervisory Board also fulfils the requirements of the German Corporate Governance Code with regard to independence.

In order to deal with complex matters and depending on the specific circumstances of the company, the Supervisory Board forms committees under its Rules of Procedure. These are currently the Standing Committee, the Finance and Audit Committee and the Nomination Committee. Appointments to the committees are crucially guided by the respective specialist aptitude required by the committee members.

When it comes to selecting the shareholder candidates who are proposed to the General Meeting for election to the Supervisory Board, the Supervisory Board takes care to ensure that the individuals in question have the necessary knowledge, abilities and specialist experience. The anticipated time that can be invested in a sustainable increase in the value of the company is similarly a central criterion in the selection of candidates. The principle of diversity is also taken into account when making a selection. Allowing for the term of appointment of the Supervisory Board, the Supervisory Board has therefore determined that it will achieve a target quota of 30% for women on the Supervisory Board by 30 June 2017. This target had already been fulfilled by the end of 2016 with a proportion of 33%.

Training activities are held as necessary in order to further enhance the expertise of the Supervisory Board, including for example in 2016 in connection with the implementation of the new solvency regime Solvency II.

### Avoidance of conflicts of interest

The avoidance of conflicts of interest is already extensively safeguarded by the control mechanisms stipulated in law and in the Articles of Association that exist between the three governance bodies. In order to assure the provision of independent advice to and oversight of the Executive Board by the Supervisory Board, no more than two former members of the Executive Board shall belong to the Supervisory Board. Members of the Supervisory Board may not undertake any executive role or consulting functions at significant competitors of the company.

## Avenues for dialogue on critical issues







Our stakeholders have the opportunity to report critical issues to the company's highest governance body. Within the framework of our established governance structures, critical concerns – including in relation to sustainability matters – are communicated on an ongoing basis to both the Executive Board and the Supervisory Board.

Our shareholders exercise their co-determination right at the Annual General Meeting of the company, in particular through the appointment of members of the Supervisory Board, the ratification of the acts

of management of the Executive Board and the Supervisory Board, the resolution on profit appropriation and through their right to ask questions and obtain information.

The participation of our employees in decision-making processes within the company is ensured by their right to have a say through the SE-Employee Councils, the joint German Employee Council of Hannover Rück SE, E+S Rückversicherung AG and International Insurance Company of Hannover SE as well as through the three employee representatives on the Supervisory Board elected by this joint Employee Council.

More information on the topic at

-  AR 2016: Working practice of the Executive Board and Supervisory Board
-  AR 2016: Further enterprise management principles
-  Website: Executive Board
-  Website: Supervisory Board
-  AR 2016: Report of the Supervisory Board
-  AR 2016: Supervisory Board Members

## Corporate Governance Code




Since 2003 we have provided an annual Declaration of Conformity with the German Corporate Governance Code (DCGK) which is published on our website and can be reviewed in the Annual Report. Furthermore, our Corporate Governance Principles are regularly revised and reflect the recommendations of the Code as amended.

As an instrument of self-regulation for the business world, the applicable version of the German Corporate Governance Code for 2016 dating 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.

Our positive attitude towards the Code is not contradicted by the fact that in the year under review we 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).

More information on the topic at

-  AR 2016: Declaration on Corporate Governance
-  Website: Corporate Governance
-  Website: Declaration of Conformity

## Remuneration and performance review

The correlation between the performance of our company and the remuneration of our Executive Board is assured by a remuneration scheme with two components: fixed salary / non-cash compensation and variable remuneration. The bases for measurement of the variable remuneration extend over several years, thereby promoting the sustainable development of the company.

The profit- and performance-based remuneration (variable remuneration) is contingent on the attainment of individual set targets and targets relating to company performance indicators (return on equity). The set targets vary according to the function of the Board member in question.

The remuneration scheme for the members of the Executive Board was presented at the General Meeting 2012 and put to the vote. The shareholders were thus given an opportunity in this forum to express their opinion on the remuneration scheme. The motion to approve the system of remuneration for the members of the Executive Board was

adopted. We draw upon the services of an external independent consultant both with respect to the elaboration of the remuneration scheme for the members of the Executive Board and when it comes to making the annual horizontal comparison with the benchmark environment.

In accordance with Item 5.6 of the German Corporate Governance Code we also follow a procedure at regular intervals to review the efficiency of the Supervisory Board's work and explore potential options for improvement. In the context of this self-assessment each member of the Supervisory Board has the opportunity to evaluate the quality of the work currently performed by the Supervisory Board in anonymised form and to make suggestions for future optimisation.

Detailed information on the remuneration of the Executive Board, Supervisory Board and senior executives below the level of the Executive Board is published in the remuneration report within the Group Annual Report 2016.

More information on the topic at

 [AR 2016: Remuneration report](#)

 [Website: Executive Board](#)

 [Website: Supervisory Board](#)

# Compliance

Integrity in dealings with our business partners, shareholders and the public at large is a matter of particular concern for us. It is for this reason that both our strategic planning and our day-to-day business are always conducted on the basis of the highest ethical and legal standards. Our revised Code of Conduct, which was revised and adopted by the Executive Board in May 2017, sets out internal rules of conduct that are applicable worldwide. Our Code of Conduct for Suppliers similarly requires our suppliers and subcontractors to comply with sustainability criteria.

Ensuring confidentiality, data privacy and data security is of the utmost importance to our company. The most significant rules in this regard are set out with binding effect for all members of staff in our Code of Conduct and in our information security and data privacy policies. Furthermore, our structures ensure that customer-related data is handled in conformity with all regulations pursuant to the German Federal Data Protection Act.

With the aid of our Tax Guideline, which is applicable Group-wide, and a "Tax Compliance System", which is currently under development, as well as the associated review of all relevant task areas,


processes and responsibilities, we ensure that going forward, as in the past, the tax claims arising out of our international operations are met in accordance with applicable national legal requirements.

We have defined in our Code of Conduct and Underwriting Guidelines the processes by means of which we observe sanctions that are relevant to our company. Furthermore, a compliance management system for sanctions, verification software, a Sanctions Screening Guideline and training activities for new staff facilitate the early identification and hence avoidance of any sanctions violations.

Since June 2012 our DIN ISO 14001-certified environmental management system has been in place to protect the environment. In 2015 we also transitioned to the more comprehensive environmental management system EMAS (Eco-Management and Audit Scheme). We publish the annual EMAS III environmental statement on our website; the statement for the 2016 financial year can already be viewed there.

An internal Donations Policy applicable to our Group worldwide makes it clear that through our social engagement we seek primarily to benefit the common good.

More information on the topic at

-  [Environment and Society](#)
-  [AR 2016: Compliance](#)
-  [Website: Environmental management](#)
-  [EMAS environmental statement](#)

## Code of Conduct

Along with the Group Strategy and Corporate Governance Principles, our Code of Conduct sets out rules for how all our employees are to behave with integrity and is intended to help them cope with ethical and legal challenges in their daily work. These rules reflect the high ethical and legal standards that guide our actions worldwide. We consider integrity in dealings with our stakeholders to be the foundation of a successful enterprise. Both in our strategic planning and in day-to-day business, we therefore aspire to live up to the highest ethical and legal standards when it comes to the demeanour, actions and behaviour of every one of us.

Since mid-2012 our Code of Conduct for Suppliers has also been in effect at the Hannover location. Among other things, this requires compliance with environmental and social standards and it forms an integral component of contracts when it comes to, for example, tendering and awarding infrastructure services as well as various construction works. Existing supplier relationships in the areas of Facility Management and IT are also progressively checked for fulfilment of the Code of Conduct as part of an ongoing process. In 2017 the Code of Conduct for Suppliers was revised against the backdrop of the new legal requirements associated with the UK Modern Slavery Act; the updated

version was approved by the Executive Board on 29 June and published on our website. Furthermore, we have explicitly committed to respecting and observing human rights concerns, such as equal treatment and anti-discrimination, and we also require this from our suppliers.

As a complementary tool, an application-supported procedure has also been developed for self-reporting by suppliers and service providers that similarly includes criteria from the Code of Conduct. The procedure is now used on a regular basis by Facility Management. In the context of an assessment carried out in 2014 all IT suppliers were contacted and evaluated on the basis of a checklist. This evaluation was stored in the supplier management system and will be factored into the selection of suppliers when placing future contracts; furthermore, these criteria are also used for the regular evaluation of suppliers. Contracts with critically assessed suppliers are not renewed; an early-warning system ensures that an adequate lead time is available to select and as necessary familiarise an alternative vendor. As a next step, we plan to extend this approach to our international offices in the United Kingdom and Ireland, followed progressively by our locations around the world.

More information on the topic at

 [Supplier management](#)



## Compliance structure and report

We consider an efficiently functioning compliance structure to be an essential tool for ensuring adherence to external rules and regulations as well as requirements imposed in-house. Our compliance structure was therefore most recently reviewed in 2015 against the backdrop of compliance requirements associated with Solvency II. In the 2016 reporting year we updated our Corporate Compliance Organisational Manual (known as the Compliance Manual). This manual summarises the main activities in the area of corporate compliance. It also describes the responsibilities within our company, the interfaces between GLS-Compliance and other areas as well as the various components of the compliance organisation.

The Chief Compliance Officer and the Compliance Department inform employees about changes in laws insofar as they affect their work. A worldwide compliance network of responsible compliance officers at the international locations supports the Chief Compliance Officer in his duties and reports to him. This means that local compliance violations can also be reported directly outside the local hierarchy. The Executive Board is updated on major compliance issues and developments in a report compiled annually by the Chief Compliance Officer.

In the year under review we updated the guideline with respect to obtaining legal advice. This guideline is intended to set out for those of our employees who have contacts in general legal matters – such as the purchasing of services of all kinds, in connection with official proceedings or in case of legal disputes – a concrete and binding scope of action with respect to seeking legal advice and, in particular, to stipulate those instances in which such legal advice must be sought.

With a view to improving cooperation within the compliance network on the European level, we organise an annual gathering of European Compliance Officers. Supplementary to this, conference calls are held in the other quarters when the meeting does not take place. This brings about closer coordination and facilitates verification of the implementation of compliance measures.

The Compliance Department is complemented by several Compliance Committees, the members of which come from the business groups as well as from the areas of Legal, Finance, Accounting and Investments. The Compliance Committees examine certain reinsurance contracts with a special eye to compliance with supervisory law, accounting requirements and other standards.

Adherence to internal company policies is safeguarded by the cooperation between the Chief Compliance Officer and other departments including for example Group Auditing. A Web-based whistleblower system has also been set up for the Group companies so as to enable employees, customers and third parties to report – anonymously if they so wish – serious compliance violations in the respective local language or in English. Any tips and the resulting measures taken are included in the annual Compliance Report. In the year under review one tip was received through the Group-wide whistleblower system regarding alleged wrongdoing. Based on the investigations conducted to date, however, no indications have been found of wrongdoing on the part of the employees and companies involved in the incident. Employees throughout the Group are able to seek advice on compliance matters through an e-mail address linked to the Compliance Department.

### Anti-corruption training

Our new members of staff in Germany participate in our compliance training when they join the company; this covers, among other aspects, the topic of corruption and appropriate practices that are in conformity with the law. In the year under review three training activities were held for altogether 69 employees. In order to stay updated on compliance issues such as combating corruption, we use traditional communication channels such as intranet portals and online newsletters. Important information of company-wide relevance is made available to the workforce in the intranet.




## Compliance Report

The Compliance Report for the 2016 calendar year was submitted to the Finance and Audit Committee in March 2017. The report describes the structure and wide-ranging activities of our company in this connection. The findings of the separate data privacy reporting for the 2016 calendar year are also included in the Compliance Report. After in-depth explorations of topics such as directors' dealings, ad hoc and other notification obligations, the insider list, consultancy agreements, data privacy and international sanctions, the report concludes that only a few facts and circumstances were known that would suggest violations of compliance-related provisions. Altogether, ten compliance-related incidents were reported. After extensive examination of these

incidents the necessary precautions were taken in order to ensure for the future that we are in conformity with the internal and external requirements governing our business operations. As a consequence of the incidents, we took a number of internal compliance and audit steps so as to improve the internal control system on the local level and at the interface between Home Office and branch.

Our annual compliance risk analysis was carried out in the year under review in cooperation with the areas of Human Resources Management, Accounting and Taxation. As a result of this risk analysis, the identified risks of non-compliance and the steps taken to prevent non-compliance were documented and examined with an eye to their adequacy.

More information on the topic at

-  [Supplier management](#)
-  [Organisation and process of risk management](#)
-  [AR 2016: Compliance](#)

## Legal framework

Our Group Legal department continuously monitors and assesses requirements arising out of the applicable legal framework, and it evaluates legally relevant changes and their implications for internal processes and policies. Ongoing legal monitoring is carried out for particularly relevant compliance issues by various specialist departments.

The Act for the Equal Participation of Women and Men in Leadership Positions in the Private Sector and the Public Sector, which had already entered into force in 2015, constituted a significant change in the legal framework affecting environmental or social aspects in the year under review. 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 company's Supervisory Board and Executive Board 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.

In addition, we monitored the development of the Act to Strengthen Companies' Non-Financial Reporting in their Management Reports and Group Management Reports (CSR Directive Implementation Act) and initiated appropriate measures for implementation of the law after its entry into force at the beginning of 2017.

### Conduct of energy audits

By means of the Act on Partial Implementation of the European Energy Efficiency Directive dated 15 April 2015 the Federal Republic of Germany enacted into law the mandatory conduct of regular energy audits at large enterprises. Under the legislation, large enterprises

that have a turnover of more than EUR 50 million and employ more than 250 staff are now required to conduct an energy audit for the first time by no later than 5 December 2015 and every four years thereafter. An exemption from the obligation to carry out an energy audit is available solely for companies that have an energy management system in accordance with DIN EN ISO 50001 or for those that have successfully implemented a validated environmental management system as defined by the directive, known specifically as EMAS III (Eco-Management and Audit Scheme), or have concrete plans to do so by the stipulated deadline. With this in mind we decided in 2015 to convert the existing environmental management system according to DIN EN ISO 14001 to the more comprehensive environmental management system EMAS in 2016 and, going forward, to publish an annual EMAS III environmental statement in the EMAS Register and on our website.

### Tax framework

As a globally operating reinsurance undertaking, we are subject to the tax laws of the respective national legal systems. We pay the incurred taxes according to the applicable legal provisions of the countries in which we operate.

The tax expenditure of our company in the 2016 financial year was EUR 65.0 million lower than in the previous year at EUR 391.2 million (previous year: EUR 465.2 million). This change is largely attributable to the decrease in pre-tax profits compared to the previous year. In addition, unlike in the previous year there was no effect associated with a change in trade tax. The effective tax rate amounted to 24.2% (previous year: 27.3%).

In order to ensure that going forward, as in the past, we continue to file complete and correct tax returns on a timely basis despite the growing complexity of tax claims from our international operations, we are currently working on implementation of a "Tax Compliance System". In this regard it is necessary to identify all relevant task areas and responsibilities, set out clear rules for them in a company-wide guideline and translate them into practice in the context of processes. The task areas in question are not exclusively those handled by the Taxation Department. In May 2017 our new Group Tax Guideline was adopted with this in mind.

More information on the topic at

 Website: EMAS

 AR 2016: Notes 7.5

## Data privacy

Ensuring confidentiality, data privacy and data security is of the utmost importance to us. The most significant rules in this regard are set out with binding effect for all members of staff in our Code of Conduct and in our information security and data privacy policies.

Furthermore, our established structures ensure that personal data is handled in conformity with all laws. In this regard, our Data Protection Officer assumes all functions, responsibilities and rights as set out according to the Federal Data Protection Act (BDSG). His tasks include, among others, working to ensure adherence to provisions governing data privacy, e.g. monitoring the proper use of programs that are used to process personal data. Sharing knowledge about data privacy and

drawing up the annual activity report also form part of his scope of duties. We are making intensive preparations for the entry into force effective May 2018 of the EU General Data Protection Regulation (GDPR). The GDPR is an important step towards a harmonised single European market and hence a consistent level of data protection Europe-wide.

No complaints were received about privacy breaches affecting personal data or the loss of such data during the period under review. There was therefore no requirement to fulfil the duty to notify data breaches pursuant to § 42a BDSG.

More information on the topic at

 Website: Compliance

## Sanctions

Observance of applicable sanctions regulations plays a central role for us on account of our international orientation. We have enshrined the requirement for compliance with relevant sanctions provisions in our Code of Conduct and Underwriting Guidelines. In addition, a Sanctions Screening Guideline is in place, stipulating when members of staff must perform sanctions screening with respect to the initiation of contracts and / or the payment of claims. A software-supported check continuously verifies whether the company's data inventories include the names of persons who are subject to sanctions and hence with whom no business may be transacted. In the year under review additional international offices were connected to this software-based screening tool. If the software alerts the user to any names, the reported alerts are investigated in a two-step process.

If matches are determined between the company's data inventory and a relevant list, defined processes are followed in order to prevent contract formation or the payment of funds to listed individuals and the monies in question are frozen. The training given to new members of

staff also includes a section on sanctions, with the result that all new employees at Home Office in Hannover receive basic instruction in sanctions law. Underwriters and claims managers receive additional training in the use of the screening software as well as in the scenarios in which a sanctions check must be made. Further training activities are offered as needed and on an individual basis for affected departments. Each working day staff in Group Legal check the Official Journal of the European Union for changes in sanctions law on the EU level and publicise relevant changes Group-wide without delay.

The sanctions screening software identified one legal entity in the Group's data inventory in the year under review that is the subject of an assets freeze. In addition, another legal entity was identified in the Group's data inventory that was indirectly controlled by a so-called "listed entity". Steps were taken to prevent both the renewal of the treaties in question and a repetition of such occurrences. These incidents demonstrate the effectiveness of the screening process.

## Risk management

Our risk strategy, the Framework Guideline on Risk Management and the system of limits and thresholds for material risks of our company constitute the central elements of our risk management system. The steering of all material risks is the task of the operational business units. The monitoring of all identified material risks is the responsibility of Group Risk Management.

The parameters and decisions of the Executive Board with respect to the risk appetite of our Group are fundamental to the acceptance of risks. These are based on the calculations of the company's risk-bearing capacity. 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.

More information on the topic at

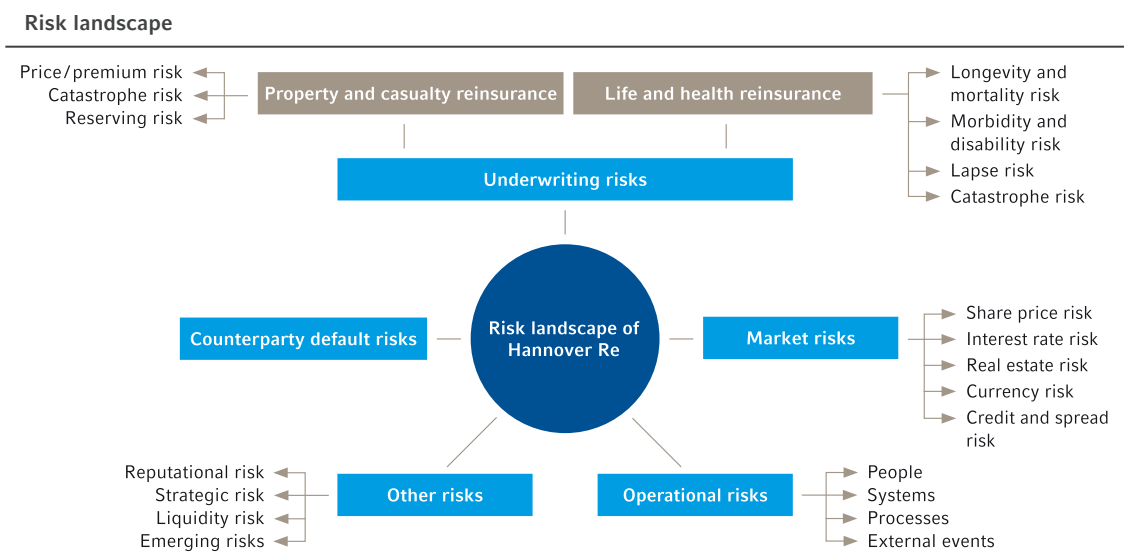
 [AR 2016: Opportunity and risk report](#)



# Risk landscape

Our risk landscape 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, liquidity or emerging risks.



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.

Emerging risks play a particularly important role for us because the content of such risks cannot as yet be reliably assessed with respect to the treaty portfolio. It is therefore vital to detect these risks at an early stage and then determine their relevance. Emerging risks include those associated with urbanisation as well as risks posed by increasing obesity in industrialised nations, the use of nanotechnology and the rise in digitisation / cybercrime.

The internal working group on emerging risks and the natural perils risk management team also regularly examine and review the latest scientific insights into climate change. For us, as a reinsurer, climate change brings both risks and opportunities: on the one hand, we can anticipate increased demand for reinsurance services, while on the other hand the potentially elevated catastrophe risk may result in a greater financial burden for our company. Strategies for dealing with the risks inherent in such perils are of the utmost importance to our company as a reinsurer. It is for this reason that our department specialising in the coverage of agricultural risks and the "Innovation Management" team work on products that can alleviate the financial impacts of climate change.

More information on the topic at

 AR 2016: Opportunity and risk report

## Organisation and process of risk management

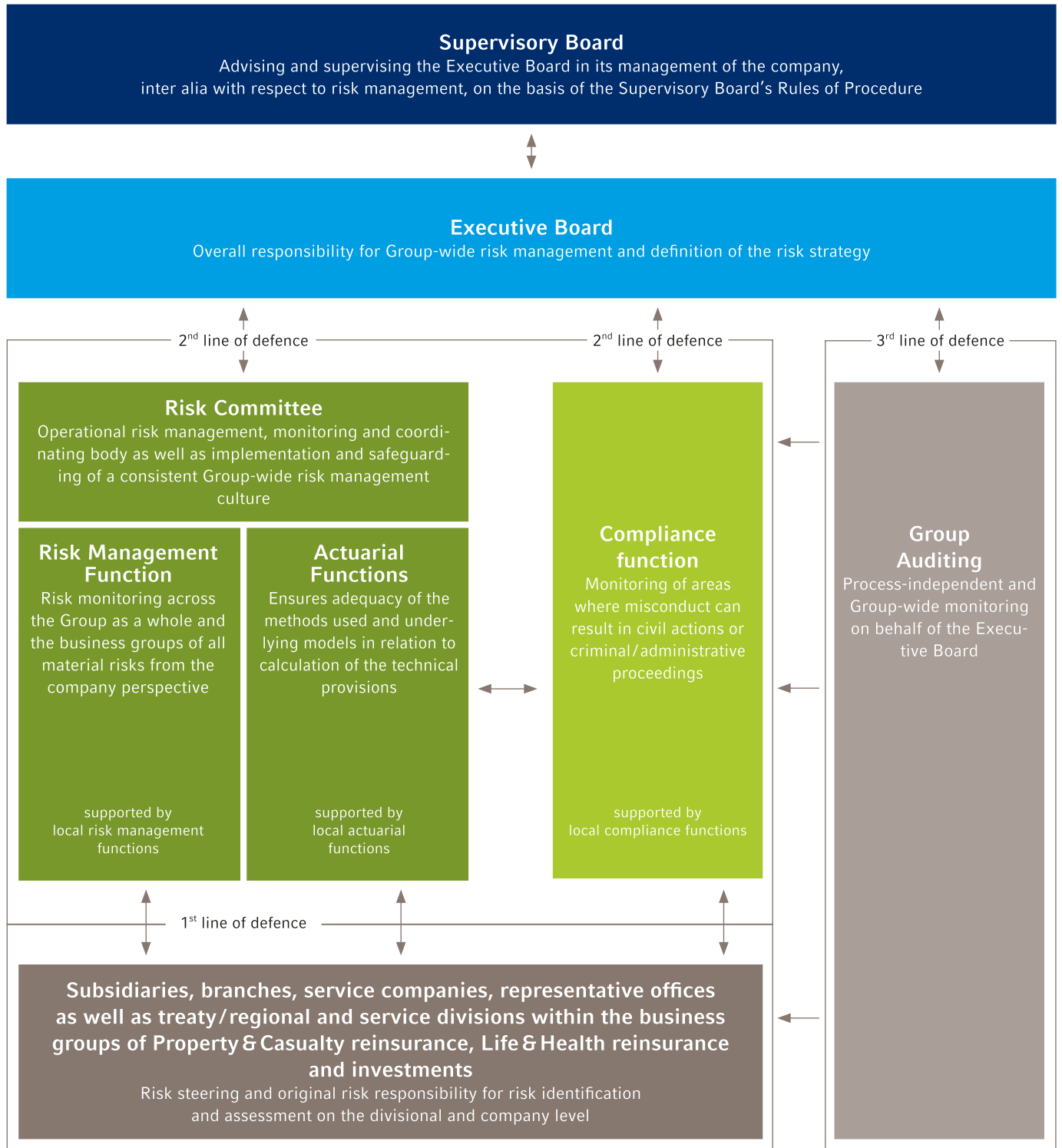
We have set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The organisation and interplay of the individual functions in risk management are crucial to our internal risk steering and control system. Responsibility for Group-wide risk management and the risk strategy rests with the Executive Board. The Supervisory Board advises the Executive Board on matters of risk management – among other things – in accordance with its Rules of Procedure.

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 "three lines of defence". The first line of defence consists of risk steering and the original risk re-

sponsibility 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. Supplementary to this, 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 and risk culture.

The following chart provides an overview of the central functions and bodies within the overall system as well as of their main tasks and powers:

Central functions of risk monitoring and steering



## Sustainability risks and opportunities

For the purpose of early detection of emerging risks we have had in place for many years 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. Along with the identification and evaluation of emerging risks, these specialists also focus on the analysis of global long-term trends. The working group reports quarterly on its findings to the "Emerging Risk Committee", which is led by a member of our Executive Board.

Key elements in our business opportunity management include the various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups. Innovative ideas from our staff that can be successfully translated into new business models are rewarded – including in financial terms. The "Innovation Management" department has been set up especially for this purpose as part of the area "Regulatory Affairs & Innovation". This service unit deals systematically with ideas and business opportunities and it concentrates its activities on generating additional premium volume with profit potential. In this context, among other things, ideas for new business opportunities are evaluated and refined and optimal framework conditions for acting on them are put in place.

More information on the topic at

 AR 2016: Opportunity and risk report

 Website: BaFin

## Risk capital (Solvency II)

A stable financial market is of vital importance both for global sustainable development and for us as a listed company. Particularly noteworthy in the period under review was the agreement reached in November 2013 on the implementation of Solvency II effective 1 January 2016. The Solvency II Directive has the principal goals of strengthening protection for insureds, creating consistent competitive standards in the insurance sector within the single European market and hence safeguarding largely uniform supervisory practice in Europe. We were quick to begin preparing for the requirements of Solvency II, and we have long practised a risk-based, value-based management approach of the type called for under the supervisory regime of Solvency II. Our internal capitalisation targets comfortably exceed the regulatory requirements. Effective 1 January 2016 the new supervisory regime Solvency II entered into force. We fulfilled the far-reaching requirements with respect to capital adequacy, governance and reporting in a timely manner. Our internal capital model was approved by the Federal Financial Supervisory Authority (BaFin) in August 2015. We are also able to leverage the know-how that we gained in the development of this capital model for the design of individual reinsurance solutions for primary insurers.

# Stakeholder dialogue

## G4-24, G4-25, G4-26, G4-27

We maintain an open dialogue with our stakeholders and have made the further systematic expansion of dialogue channels a goal of our Sustainability Strategy 2015 – 2017. By sharing information and opinions with our stakeholders we are able to integrate, as far as possible, the expectations and aspirations of the various groups into our business operations. Furthermore, this dialogue helps to identify risks and opportunities at an early stage and serves to build trust.

Our stakeholder universe was defined as part of the elaboration of the Sustainability Strategy. The selection of relevant stakeholders is based on our business operations and our geographical presence, and is regularly reconciled with representatives of the business units. The following stakeholder groups are particularly relevant to us: our clients, our employees, the capital market, the public sector and non-governmental organisations (NGOs).

We maintain an ongoing dialogue with our stakeholders in a variety of ways. Through conferences, roadshows and one-to-one meetings, for example, we stay in contact with representatives of the capital market. Analysts and institutional investors make the most of our annual Investors' Day, among other things, to engage in an intensive exchange with our management. Our employees cultivate the dialogue with our worldwide customers through direct, face-to-face discussions. Furthermore, we regularly measure customer satisfaction with the involvement of external market research institutes. We similarly engage in an ongoing dialogue with political decision-makers, supervisory authorities and insurance industry associations – mostly in relation to topical issues in insurance supervision and financial market regulation in Germany, the European Union and on the wider international level. These include, among other things, the preparations for the Solvency II review process, the development of a global, risk-based group-wide capital standard for insurers and negotiations between the European Union and the United States for a bilateral agreement on prudential insurance and reinsurance measures. In this context we contribute our specialist expertise from business practice to the public debate.



## Dialogue formats

In 2013, with a view to stepping up our dialogue with stakeholders on sustainability issues, we conducted a survey with the participation of 30 representatives spanning the capital market, clients, staff, NGOs and public sector workers. According to the stakeholders, it is in the field of responsible enterprise management that our activities are most widely recognised and most favourably evaluated. Room for improvement was identified in the areas of sustainability communication and product responsibility as well as in relation to corporate environmental protection and employees. Our stakeholders attach central significance to entrepreneurial responsibility with respect to economic aspects as well as product responsibility, including asset management. As part of our regular dialogue with our stakeholders we constantly encourage feedback on our activities and respond to emerging issues.

It is also important to pay attention to global concerns with an eye to the future. These are, for example, renewable energy sources, climate change, environmental protection, financial inclusion and tax policy. We took into account the opinions of our stakeholders when defining the focus topics of our Sustainability Strategy.

### Dialogue with ESG rating agencies

In keeping with the goals defined in our Sustainability Strategy 2015 – 2017 we are also continuing to expand the dialogue with Environmental, Social and Governance rating agencies (ESG rating agencies). Going forward, we intend to report at greater length on topics that have come up in discussions with rating agencies. These include, among other things, aspects of product responsibility, current research activities on ESG topics and products as well as cooperation with primary insurers on the management of ESG issues.

Since 2014 we have been listed in the FTSE4Good, a worldwide index series geared to sustainability ratings according to ESG criteria. Based on our published GRI Report, we were also evaluated in the year under review by the rating agency oekom research AG with an eye to our sustainability performance and – in recognition of our above-average fulfilment of the sector-specific requirements – we were again

awarded "Prime" status. Furthermore, we were evaluated by the ESG rating agencies Robeco SAM, Sustainalytics, Vigeo, MSCI and Sustainability Intelligence. We engage in a continuous dialogue on rating-specific sustainability issues as part of the annual rating processes. Additionally, we were included in the Global Challenges Index for the first time in the year under review and are listed in major STOXX indices.

### Cultivating our customer relationships

We participate in an ongoing dialogue with our clients around the world. Customer relationships are normally maintained by individual divisions at our company. In this regard, the Life & Health reinsurance business group is especially committed to long-term customer relationships founded on a trusting and partnership-based approach. Since 2014 we have published the quarterly newsletter "ReCent Medical News" as a source of information that enables our customers to learn about the latest research results in various fields of medicine as well as new methods with a bearing on medical underwriting.

The Property & Casualty reinsurance business group has organised the seminar series "Building Bridges" since 2012. The seminars, which are held once a year, enable it to respond more closely to the individual reinsurance needs of our customers.

### International employee survey

A worldwide employee survey was conducted in 2015 / 2016. A key finding was the very high level of satisfaction identified among our staff. This is true both of the average evaluation across all questions and for virtually all individual questions. The strong motivation and commitment expressed by our employees is especially gratifying. When it comes to room for improvement, they pointed to a broader-based system of remuneration and further improvements in the support given to their continuing individual training. Based on the insights of the survey, individual measures were explored in the year under review in various areas of the company and, where appropriate, implemented.

More information on the topic at

-  Website: Ratings
-  AR 2016: International employee survey
-  Website: ReCent Medical News

## Advocacy groups and memberships

Together with our stakeholders, we take part in numerous initiatives on sustainability issues. Contributing our specialist expertise, we get involved in the work of associations and societies, advocacy groups and organisations and we support the discourse about sustainability in society.

In the context of the "Climate Alliance Hannover 2020", a joint project of the state capital and Greater Hannover region, we have undertaken to emit 40% less harmful greenhouse gases by 2020 than in the base year of 1990. Our emissions have been regularly checked every two years since 2011 in the context of this project.

Under the "Climate Alliance Hannover 2020" we additionally participate in the Business Strategy Group of the "Master Plan 2050 for the City and Region of Hannover, 100% for Climate Protection".

Since 2007 we have also taken part in the "Ecological Project for Integrated Environmental Technology" (Ecoprofit) of the Greater Hannover region. The underlying idea of the project is the connection between economic gain and ecological benefit through preventive environmental protection. The participating companies are regularly involved in work on specific topics such as "Ecoprofit in the Urban Development Process" and "Current Changes in Energy Management". The energy-saving successes already achieved are publicised in the relevant project publications.

On the international level our Chief Executive Officer added his signature to the Geneva Association's "Climate Risk Statement" in 2009. In

May 2014 our CEO – together with the Chief Executives of a further 65 of the world's leading insurance undertakings – reaffirmed his support for this declaration, which had originally been made in 2009. The guiding principles set out therein describe how the insurance industry will play its part in global efforts to tackle climate-related risks. These include activities in the areas of product innovation, climate research and investment. We are additionally represented on the "Extreme Events + Climate Risk Working Group" of the Geneva Association.

The design of our investment policy is guided primarily by the ten principles of the United Nations Global Compact. We work towards safeguarding decent working conditions in our supply chain. Our Code of Conduct for Suppliers requires respect for human rights and compliance with the core labour standards of the International Labour Organization (ILO).

### International memberships






We are a member of numerous regional, national and global associations, interest groups and organisations. Our employees participate in working groups on various topics and contribute their specialist expertise to relevant discussions.

Among other things, we are a member of the Reinsurance Advisory Board (RAB), which has been registered since July 2015 in the EU Transparency Register. Our CEO took over again as chair of the RAB for a two-year term commencing in May 2017.

The following list shows a selection of the most significant bodies to which our company belongs:

- American Council of Life Insurers ([www.acli.com](http://www.acli.com))
- Chief Risk Officer Forum ([www.thecroforum.org](http://www.thecroforum.org))
- Dublin International Insurance & Management Association ([www.dima.ie](http://www.dima.ie))
- EIOPA WG-CATSTREAM ([www.eiopa.europa.eu](http://www.eiopa.europa.eu))
- German Insurance Association ([www.gdv.de](http://www.gdv.de))
- Geneva Association ([www.genevaassociation.org](http://www.genevaassociation.org))
- Global Earthquake Model ([www.globalquakemodel.org](http://www.globalquakemodel.org))
- Global Reinsurance Forum ([www.grf.info](http://www.grf.info))
- Insurance Association of China ([www.iachina.cn](http://www.iachina.cn))
- International Actuarial Association ([www.actuaries.org](http://www.actuaries.org))
- International Insurance Society ([www.internationalinsurance.org](http://www.internationalinsurance.org))
- International Underwriting Association of London ([www.iua.co.uk](http://www.iua.co.uk))
- OASIS ([www.oasislmf.org](http://www.oasislmf.org))
- Reinsurance Advisory Board of the Insurance Europe federation ([www.insuranceeurope.eu](http://www.insuranceeurope.eu))
- South African Insurance Association ([www.saia.co.za](http://www.saia.co.za))

More information on the topic at

-  Emissions
-  Website: Investor Relations
-  Website: Product responsibility
-  Website: Ecoprofit
-  Website: Geneva Association
-  Website: United Nations
-  Website: International Labour Organization
-  Website: Climate Alliance Hannover 2020