

Notes to the consolidated financial statements 2016

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1. Company information

Hannover Rück SE and its subsidiaries (collectively referred to as the “Hannover Re Group” or “Hannover Re”) transact all lines of property & casualty and life & health reinsurance. With gross premium of approximately EUR 16.4 billion, Hannover Re is the third-largest reinsurance group in the world. The company’s network consists of more than 130 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,900. The Group’s German business is conducted by the subsidiary E+S Rückversicherung AG. Hannover Rück SE

is a European Company, Societas Europaea (SE), which has its registered office at Karl-Wiechert-Allee 50, 30625 Hannover, Germany, and is entered in the commercial register of Hannover County Court under the number HR Hannover B 6778. 50.2% (rounded) of the shares of Hannover Rück SE are held by Talanx AG, Hannover, which in turn is majority-owned – with an interest of 79% – by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI), Hannover.

2. Accounting principles

Hannover Rück SE and its subsidiaries are required to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB).

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be applied within the European Union. In addition, we have made allowance for the regulations that are also applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the Articles of Association of Hannover Rück SE as amended on 30 May 2016.

The consolidated financial statement reflects all IFRS in force as at 31 December 2016 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the year under review. IFRS 4 “Insurance Contracts” requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 “Financial Instruments: Disclosures” requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 Number 2 German Commercial Code (HGB) also contains requirements for insurance undertakings with regard to information on the management of underwriting and financial risks that is to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

In view of the fact that reinsurance contracts, in conformity with IFRS 4 “Insurance Contracts”, are recognised according to the pertinent provisions of United States Generally Accepted

Accounting Principles (US GAAP) as applicable on the date of initial application of IFRS 4 on 1 January 2005, we cite individual insurance-specific standards of US GAAP using the designation “Statement of Financial Accounting Standard (SFAS)” that was valid at that time.

The declaration of conformity required pursuant to § 161 German Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code has been submitted and, as described in the Declaration of the Executive Board regarding the Corporate Governance of the Company, made permanently available on the Hannover Re website.

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IFRS 10 “Consolidated Financial Statements” there is no requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates are no earlier than three months prior to the closing date for the consolidated financial statement. Insofar as no interim accounts were drawn up, allowance has been made for the effects of significant transactions between the diverging reporting dates and the closing date for the consolidated financial statement.

The annual financial statements of all companies were drawn up in accordance with standard Group accounting and measurement rules pursuant to IFRS.

The consolidated financial statement was drawn up in euros (EUR), the amounts shown have been rounded to EUR thousands and – provided this does not detract from transparency – to EUR millions. Figures indicated in brackets refer to the previous year.

The present consolidated financial statement was released for publication by a resolution of the Executive Board on 23 February 2017.

New accounting standards or accounting standards applied for the first time

The amendments to existing standards listed below were applicable for the first time in the year under review and had no significant implications overall for the net assets, financial position or result of operations of the Hannover Re Group.

- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Annual Improvements to IFRSs 2012–2014 Cycle
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Annual Improvements to IFRSs 2010–2012 Cycle
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

Standards or changes in standards that have not yet entered into force or are not yet applicable

In January 2016 the IASB issued IFRS 16 “Leases” setting out new principles governing the recognition, measurement, presentation and disclosure of leases. The most significant new requirements relate principally to accounting by lessees. In future, the lessee shall as a general principle recognise a lease liability for all leases. At the same time it shall recognise a right to use the underlying asset. Accounting by lessors remains comparable with current practice, according to which the lessor classifies each lease as an operating lease or a finance lease. The standard is to be applied to annual periods beginning on or after 1 January 2019 and has still to be endorsed by the EU. Hannover Re has still to begin a detailed analysis of the new requirements.

In July 2014 the IASB published the final version of IFRS 9 “Financial Instruments”, which supersedes all previous versions of this standard and replaces the existing IAS 39 “Financial Instruments: Recognition and Measurement”. The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting. Initial mandatory application of the standard, which was endorsed by the EU in November 2016, is set for annual periods beginning on or after 1 January 2018. In September 2016, however, the IASB published “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)”. These amendments, which had still to be endorsed by the EU as at the balance sheet date, address the implications of the different effective dates for initial application of IFRS 9 and the anticipated new standard governing the accounting for insurance and reinsurance contracts. Under the so-called deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance and reinsurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognising their financial instruments in accordance with IFRS 9 until the recognition of insurance and reinsurance contracts has been finally settled, although this option may not be used after 1 January 2021.

Hannover Re reviewed the application requirements based on the consolidated financial statement as at 31 December 2015 with a positive outcome and decided to make use of the deferral approach. Irrespective of the deferral, Hannover Re is currently reviewing the implications of IFRS 9 and expects that they will relate primarily to the classification of financial instruments.

In May 2014 the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. IFRS 15 provides a single five-step model framework to be applied to all contracts with customers. In the “Clarifications to IFRS 15 Revenue from Contracts with Customers”, which were published in April 2016, the IASB clarified various principles of IFRS 15 and included additional transition relief provisions. Financial instruments and other contractual rights and obligations which are to be recognised under separate standards as well as (re)insurance contracts within the scope of IFRS 4 “Insurance Contracts” are expressly exempted from the standard’s scope of application. Both the standard and the clarifications are to be applied for the first time to annual periods beginning on or after 1 January 2018. The standard was endorsed by the EU in September 2016, but the clarifications have not yet been endorsed. Hannover Re subjected the service contracts existing as at the balance sheet date to analysis and does not anticipate any significant changes relative to current practice. The predominant activity of the Hannover Re Group falls within the scope of application of IFRS 4. Consequently, the services falling within the scope of application of IFRS 15 will probably not have any significant implications overall for the Group’s net assets, financial position or result of operations. Hannover Re intends to opt for the modified retrospective approach on initial application of IFRS 15, according to which the cumulative effect of applying the new standard is recognised in retained earnings as at 1 January 2018. In addition, the practical transition relief provided in the standard with respect to completed contracts and contract modifications will be utilised.

In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which was not yet mandatory for the year under

review and which are not being applied early by Hannover Re. Initial application of these new standards is not expected to have any significant implications for Hannover Re's net assets, financial position or result of operations:

Further IFRS Amendments and Interpretations

N06

Published:	Title	Initial application to annual periods beginning on or after the following date:
December 2016	Transfers of Investment Property (Amendments to IAS 40)	1 January 2018 (still to be endorsed by the EU)
December 2016	IFRIC Interpretation 22, Foreign Currency Transactions and Advance Consideration	1 January 2018 (still to be endorsed by the EU)
December 2016	Annual Improvements to IFRS Standards 2014–2016 Cycle	1 January 2018 (still to be endorsed by the EU)
June 2016	Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018 (still to be endorsed by the EU)
January 2016	Disclosure Initiative (Amendments to IAS 7)	1 January 2017 (still to be endorsed by the EU)
January 2016	Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017 (still to be endorsed by the EU)
September 2014	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	deferred (still to be endorsed by the EU)
January 2014	IFRS 14 Regulatory Deferral Accounts	1 January 2016 (still to be endorsed by the EU)

3. Accounting policies

3.1 Changes in accounting policies

For 2016 Hannover Re changed the disclosure of overnight money deposits in order to better reflect the extremely short-term and highly liquid nature of this asset class. These assets are now allocated to the balance sheet item "Cash and cash equivalents", whereas in previous years they had been recognised under the balance sheet item "Short-term investments".

This represents a change in an accounting policy, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is to be performed retrospectively with restatement of the comparative figures for previous periods. The effects of this change on the individual items of the consolidated balance sheet and the consolidated cash flow statement are shown in the following table. There were no implications for the consolidated statement of income.

Restatements pursuant to IAS 8

N07

in EUR thousand	1.1.2015	31.12.2015
Consolidated balance sheet		
Short-term investments	(81,621)	(28,391)
Cash and cash equivalents	81,621	28,391
Consolidated cash flow statement		
Cash and cash equivalents at the beginning of the period		81,621
Cash flow from investing activities		(59,479)
Exchange rate differences on cash		6,249
Cash and cash equivalents at the end of the period		28,391

3.2 Summary of major accounting policies

Reinsurance contracts: IFRS 4 “Insurance Contracts” represents the outcome of Phase I of the IASB project “Insurance Contracts” and serves as a transitional arrangement until the IASB defines the measurement of insurance contracts after completion of Phase II. IFRS 4 sets out basic principles for the accounting of insurance contracts. Underwriting business is to be subdivided into insurance and investment contracts. Contracts with a significant insurance risk are considered to be insurance contracts, while contracts without significant insurance risk are to be classified as investment contracts. The standard is also applicable to reinsurance contracts. IFRS 4 contains fundamental rules governing specific circumstances, such as the separation of embedded derivatives and unbundling of deposit components, but it does not set out any more extensive provisions relating to the measurement of insurance and reinsurance contracts. In conformity with the basic rules of IFRS 4 and the IFRS Framework, reinsurance-specific transactions therefore continue to be recognised in accordance with the pertinent provisions of US GAAP (United States Generally Accepted Accounting Principles) as applicable on the date of initial application of IFRS 4 on 1 January 2005.

Financial assets: as a basic principle we recognise the purchase and sale of directly held financial assets including derivative financial instruments as at the settlement date. The recognition of fixed-income securities includes apportionable accrued interest.

Financial assets held to maturity are comprised of non-derivative assets that entail fixed or determinable payments on a defined due date and are acquired with the intent and ability to be held until maturity. They are measured at amortised cost. The corresponding premiums or discounts are recognised in profit or loss across the duration of the instruments using the effective interest rate method. A write-down is taken in the event of permanent impairment. Please refer to our comments on impairments in this section.

Loans and receivables are non-derivative financial instruments that include fixed or determinable payments on a defined due date, are not listed on an active market and are not sold at short notice. They are carried at amortised cost.

Premiums or discounts are deducted or added within the statement of income using the effective interest rate method until the amount repayable becomes due. Impairment is taken only to the extent that repayment of a loan is unlikely or no longer expected in the full amount. Please refer to our comments on impairments in this section.

Financial instrument	Parameter	Pricing model
Fixed-income securities		
Unlisted plain vanilla bonds, interest rate swaps	Interest rate curve	Present value method
Unlisted structured bonds	Interest rate curve, volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted ABS/MBS, CDO/CLO	Risk premiums, default rates, prepayment speed and recovery rates	Present value method
Other invested assets		
Unlisted equities and equity investments	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Capitalised earnings method, discounted cash flow method, multiple-based approaches
Private equity funds, private equity real estate funds	Audited net asset values (NAV)	Net asset value method
Unlisted bond, equity and real estate funds	Audited net asset values (NAV)	Net asset value method
Other financial assets – at fair value through profit or loss		
Currency forwards	Interest rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Fair values, actuarial parameters, interest rate curve	Present value method

Financial assets at fair value through profit or loss consist of securities held for trading and those classified as measured at fair value through profit or loss since acquisition. This refers principally to unsecured debt instruments issued by corporate issuers and derivative financial instruments. Within the scope of the fair value option provided under IAS 39 “Financial Instruments: Recognition and Measurement”, according to which financial assets may be carried at fair value on first-time recognition subject to certain conditions, all structured securities that would have needed to have been broken down had they been recognised as available for sale or under loans and receivables are also recognised here. Hannover Re makes use of the fair value option solely for selected subportfolios of its financial assets. Securities held for trading and securities classified as measured at fair value through profit or loss since acquisition are carried at their fair value on the balance sheet date. If stock market prices are not available for use as fair values, the carrying amounts are determined using generally acknowledged measurement methods. All changes in fair values from this measurement are recognised in investment income. The classification of financial assets at fair value through profit or loss is compatible with Hannover Re’s risk management strategy and investment strategy, which are oriented extensively towards economic fair value variables.

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading.

Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – directly in shareholder’s equity after deduction of deferred taxes.

Establishment of the fair value of financial instruments carried as assets or liabilities: we establish the fair value of financial instruments carried as assets or liabilities using the methods and models described below. The fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial assets, their bid price is used; financial liabilities are valued at ask price. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table above. Financial assets for which no publicly available prices or observable market data can be used as inputs (financial instruments belonging to fair value hierarchy level 3) are for the most part measured on the basis of proven valuations drawn up by knowledgeable, independent experts, e.g. audited net asset value, the plausibility of which has previously been subjected to systematic review. For further information please see our explanatory remarks on the fair value hierarchy in section 6.1 “Investments under own management”.

Impairments: As at each balance sheet date we review our financial assets with an eye to the need to take impairments. Permanent impairments on all invested assets are recognised directly in the statement of income. In this context we take as a basis the same indicators as those subsequently discussed for fixed-income securities and securities with the character of equity. Qualitative case-by-case analysis is also carried out. IAS 39 “Financial Instruments: Recognition and Measurement” contains a list of objective, substantial indications for impairments of financial assets. In the case of fixed-income securities and loans reference is made, in particular, to the rating of the instrument, the rating of the issuer/borrower as well as the individual market assessment in order to establish whether they are impaired. With respect to held-to-maturity instruments as well as loans and receivables recognised at amortised cost, the level of impairment is arrived at from the difference between the book value of the asset and the present value of the expected future earnings flows. The book value is reduced directly by this amount which is then recognised as an expense. With the exception of value adjustments taken on accounts receivable, we recognize impairments directly on the assets side – without using an adjustment account – separately from the relevant items. If the reasons for the write-down no longer apply, a write-up is made in income up to at most the original amortised cost for fixed-income securities.

With respect to impairments on securities with the character of equity, IAS 39 “Financial Instruments: Recognition and Measurement” states, in addition to the aforementioned principles, that a significant or prolonged decrease in fair value below acquisition cost constitutes objective evidence of impairment. Hannover Re considers equity securities to be impaired under IAS 39 if their fair value falls significantly, i. e. by at least 20%, or for a prolonged period, i. e. at least nine months, below acquisition cost. In accordance with IAS 39 the reversal of impairment losses on equities to the statement of income once impairment has been taken is prohibited, as is adjustment of the cost basis. Impairment is tested in each reporting period using the criteria defined by Hannover Re. If an equity security is considered to be impaired on the basis of these criteria, IAS 39 requires that a value adjustment be recognised in the amount of the fair value less historical cost and less prior value adjustments, meaning that depreciation is taken on the fair value as at the closing date – if available, on the publicly quoted stock exchange price. We also apply this method to participations in funds that invest in private equity. In order to reflect the specific character of these funds (in this case initially negative yield and liquidity flows from the so-called “J curve” effect during the investment period of the funds), we take an impairment to net asset value as an approximation of the fair value for the first time after a two-year waiting period if there is a significant or prolonged decrease in value.

Netting of financial instruments: financial assets and liabilities are only netted and recognised in the appropriate net amount if a corresponding legal claim (reciprocity, similarity and maturity) exists or is expressly agreed by contract, in other words if the intention exists to offset such items on a net basis or to effect this offsetting simultaneously.

Other invested assets are for the most part recognised at nominal value. Insofar as such financial assets are not listed on public markets (e. g. participating interests in private equity firms), they are carried at the latest available net asset value as an approximation of the fair value. Loans included in this item are recognised at amortised cost.

Investments in associated companies are valued at equity on the basis of the proportionate shareholders’ equity attributable to the Group. Further information is provided in section 4.1 “Consolidation principles”.

Real estate used by third parties (investment property) is valued at cost less scheduled depreciation and impairment. Straight-line depreciation is taken over the expected useful life – at most 50 years. Under the impairment test the market value of real estate for third-party use (recoverable amount) is determined using acknowledged valuation methods and compared with the book value; arising impairments are recognised. Maintenance costs and repairs are expensed. Value-enhancing expenditures are capitalised if they extend the useful life.

Cash and cash equivalents are carried at face value. Cash collateral that we have received for the hedging of positive fair values of derivatives is shown under other liabilities.

Funds withheld are receivables due to reinsurers from their clients in the amount of the cash deposits contractually withheld by such clients; they are recognised at acquisition cost (nominal amount). Appropriate allowance is made for credit risks.

Contract deposits: under this item we report receivables and liabilities under insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 “Insurance Contracts” but fail to meet the risk transfer required by US GAAP. IFRS 4 in conjunction with SFAS 113 requires insurance contracts that transfer a significant technical risk from the ceding company to the reinsurer to be differentiated from those under which the risk transfer is of merely subordinate importance. Since the risk transfer under the affected transactions is of subordinate importance, these contracts are recognised using the “deposit accounting” method and hence eliminated from the technical account. The compensation for risk assumption booked to income under these contracts is netted under other income and expenses. The payment flows resulting from these contracts are shown in the cash flow statement under operating activities.

Accounts receivable: the accounts receivable under reinsurance business and the other receivables are carried at nominal value; value adjustments are made where necessary on the basis of a case-by-case analysis. We use adjustment accounts for value adjustments taken on reinsurance accounts receivable, while all other write-downs are booked directly against the underlying position.

Deferred acquisition costs principally consist of commissions and other variable costs directly connected with the acquisition or renewal of existing reinsurance contracts. These acquisition costs are capitalised and amortised over the expected period of the underlying reinsurance contracts. Deferred acquisition costs are regularly tested for impairment.

Reinsurance recoverables on technical reserves: shares of our retrocessionaires in the technical reserves are calculated according to the contractual conditions on the basis of the gross technical reserves. Appropriate allowance is made for credit risks.

Intangible assets: in accordance with IFRS 3 “Business Combinations” goodwill is not amortised; instead, impairments may be taken after an annual impairment test or as indicated. For the purposes of the impairment test, goodwill is to be allocated pursuant to IAS 36 “Impairment of Assets” to so-called “cash generating units” (CGUs). Each CGU to which goodwill is allocated should represent the lowest level on which goodwill is monitored for internal management purposes and may not be larger than a segment. Following allocation of the goodwill it is necessary to determine for each CGU the recoverable amount, defined as the higher of the value in use and the fair value less costs to sell. For impaired goodwill the recoverable amount is to be stated. The recoverable amount is to be compared with the book value of the CGU including goodwill. When the latter exceeds the recoverable amount, an impairment expense is to be recognised. For detailed information on the impairment method used and the goodwill recognised as at the balance sheet date, please see section 6.5 “Goodwill”.

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. Intangible assets are regularly tested for impairment and impairment is taken where necessary. The other intangible assets also include the expected profits from acquired life reinsurance portfolios. These are carried at the present value of future profits (PVFP) at time of acquisition, which is calculated as the present value of profits expected from the acquired blocks of business disregarding new business and tax effects. Scheduled amortisation is taken according to the periods of the underlying acquired contracts. The PVFP is regularly tested for impairment using a liability adequacy test and impairments are taken if necessary. In this regard please see section 3.3 “Major discretionary decisions and estimates”.

Deferred tax assets: IAS 12 “Income Taxes” requires that assets-side deferred taxes be established if assets have to be recognised in a lower amount or liabilities in a higher amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to reduced tax burdens in the future. In principle, temporary differences result from the valuation differences between the tax balance sheets drawn up in accordance with national standards and the IFRS balance sheets of the companies included in the consolidated financial statement drawn up in accordance with uniform group standards as well as from consolidation processes. Deferred tax assets and liabilities are not established if they arise out of assets or liabilities, the book value of which upon first-time recognition diverges from their initial tax base.

Deferred tax assets are also recognised on tax loss carry-forwards and tax credits. Insofar as the deferred taxes refer to items carried directly in equity, the resulting deferred taxes are also recognised directly in equity. Value adjustments are taken on deferred tax assets as soon as realisation of the receivable no longer appears likely. Deferred taxes are measured according to the tax regulations specific to the country concerned that are applicable or have been adopted as at the closing date.

Deferred tax assets may only be netted with deferred tax liabilities if an enforceable right exists to net actual tax refund claims with actual taxes owing. A precondition here is that the deferred tax assets and deferred tax liabilities refer to income taxes that are levied by the same revenue authority either for (i) the same taxable entity or for (ii) different taxable entities. In this regard, there must be an intention – in every future period in which the discharge or realisation of substantial amounts of deferred tax liabilities/deferred tax assets is to be expected – either to bring about the settlement of the actual taxes owing and refund claims on a net basis or to discharge the liabilities at the same time as the claims are realised.

Own-use real estate: The portfolio of own-use real estate is measured at cost less scheduled straight-line depreciation over a useful life of no more than 50 years. The fair values are determined for comparative purposes using the discounted cash flow method.

Other assets are accounted for at amortised cost.

Technical reserves: the technical reserves are shown for gross account in the balance sheet, i. e. before deduction of the share attributable to our reinsurers; cf. here the remarks concerning the corresponding assets. The reinsurers’ portion is calculated and accounted for on the basis of the individual reinsurance contracts.

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the realistically estimated future settlement amount based on long-standing established practice is carried. Recognised actuarial methods are used for estimation purposes. In this regard we make allowance for past experience, currently known facts and circumstances, the expertise of the market units as well as other assumptions relating to the future development, in particular economic, social and technical influencing factors. Subsequently, based on Group-wide analyses, we give separate consideration in this context to the inherent volatility of the reserves constituted for the reinsurance business, e. g. due to large losses. The interest rate-induced portion of the change in the reserve is shown in the statement of income on a consistent Group basis.

Benefit reserves are comprised of the underwriting reserves for guaranteed claims of ceding companies in life and health reinsurance. Benefit reserves are determined using actuarial methods on the basis of the present value of future payments to cedants less the present value of premium still payable by cedants. The calculation includes assumptions relating to mortality, disability, lapse rates and the future interest rate development. The actuarial bases used in this context allow an adequate safety margin for the risks of change, error and random fluctuation. They correspond to those used in the premium calculation and are adjusted if the original safety margins no longer appear to be sufficient.

Provisions for pensions are established in accordance with IAS 19 “Employee Benefits” using the projected unit credit method. They are calculated according to actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows’ benefits. The amount of the commitments is determined according to length of service and salary level. The pension plans are defined benefit plans. The basis of the valuation is the estimated future increase in the rate of compensation of the pension beneficiaries. The benefit entitlements are discounted by applying the capital market rate for highest-rated securities. All changes in valuation, especially actuarial gains and losses, are captured immediately in cumulative other comprehensive income. Service cost and interest cost are recognised in the statement of income. Returns on plan assets are determined using the same interest rate as that used in the calculation of the present value of the defined benefit obligation.

Contributions to defined contribution plans are expensed when the beneficiary of the commitment has performed the work that entitles them to such contributions.

Deferred tax liabilities: in accordance with IAS 12 “Income Taxes” deferred tax liabilities must be recognised if assets are to be recognised in a higher amount or liabilities in a lower amount in the consolidated balance sheet than in the tax balance sheet and if these temporary differences will lead to additional tax loads in the future; please see our explanatory remarks on deferred tax assets.

Under the balance sheet item **Other liabilities** we recognise not only the sundry non-technical provisions but also minority interests in partnerships. Direct minority interests in partnerships, i. e. liabilities to holders of minority shares in partnerships arising out of long-term capital commitments, which are puttable at fair value by the holder of the interest, are recognised as debt pursuant to IAS 32 and measured at the fair value of the redemption amount as at the balance sheet date.

Sundry non-technical provisions are established according to a realistic estimate of the amount required and shown under the balance sheet item “Other liabilities”. Allocation to such provisions is conditional upon the Group currently having a legal or actual obligation that results from a past event and in respect of which utilisation is probable and the amount can be reliably estimated.

Restructuring provisions are recognised if a detailed formal plan for restructuring measures exists and steps to implement it have already begun or if key details of the restructuring have been published. The provisions cover only expenditures arising directly as a consequence of restructuring that are not connected with the company’s regular activities.

Partial retirement obligations are carried at present value according to actuarial principles. During the phase when the employee is still working a provision is set aside to cover the liability amounting to the working hours not yet compensated. Top-up payments are accumulated in instalments until the end of the work phase. In periods when the employee is remunerated according to the partial retirement arrangements without performing any work, the provision is released.

Share-based payment: The share-based payment models existing within the Hannover Re Group are remuneration plans with cash settlement. In accordance with the requirements of IFRS 2 “Share-based Payment”, the services rendered by the eligible beneficiaries and the resulting liability are to be recognised at the fair value of the liability and expensed over the vesting period. Until settlement of the liability the fair value of the liability is remeasured at each closing date and at the settlement date. All changes in fair value are recognised in profit or loss for the period.

Debt and subordinated capital principally consists of subordinated liabilities that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost using the effective interest rate method. Both components of profit or loss arising out of the amortisation of transaction costs and premiums/discounts in connection with an issue and the nominal interest are shown as interest on hybrid capital.

Financial liabilities at fair value through profit or loss: Hannover Re does not make use of the fair value option provided by IAS 39 “Financial Instruments: Recognition and Measurement” to classify financial liabilities in this category upon first-time recognition.

Shareholders’ equity: the items “common shares” and “additional paid-in capital” are comprised of the amounts paid in by the shareholders of Hannover Rück SE on its shares. In addition to the statutory reserves of Hannover Rück SE and the allocations from net income, the retained earnings consist of reinvested profits generated by the Hannover Re Group companies in previous periods. What is more, in the event of a retrospective change of accounting policies, the adjustment for previous periods is recognised in the opening balance sheet value of the retained earnings and comparable items of the earliest reported period. Unrealised gains and losses from the fair value measurement of financial instruments held as available for sale are carried in cumulative other comprehensive income under unrealised gains and losses on investments. Translation differences resulting from the currency translation of separate financial statements of foreign subsidiaries are recognised under gains and losses from currency translation.

Non-controlling interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 “Presentation of Financial Statements” requires that non-controlling interests be recognised separately within Group shareholders’ equity. The non-controlling interest in profit or loss is shown separately following the net income. Further information is provided in section 6.14 “Non-controlling interests”.

Disclosures about financial instruments: IFRS 7 “Financial Instruments: Disclosures” requires more extensive disclosures according to classes of financial instruments. In this context, the term “class” refers to the classification of financial instruments according to their risk characteristics. A minimum distinction is required here between measurement at amortised cost or at fair value. A more extensive or divergent distinction should, however, be geared to the purpose of the corresponding disclosures in the notes. In contrast, the term “category” is used within the meaning of the measurement categories defined in IAS 39 “Financial Instruments: Recognition and Measurement” (held to maturity, loans and receivables, available for sale and financial assets at fair value through profit or loss with the subcategories of trading and designated financial instruments). Essentially, the following classes of financial instruments are established:

- Fixed-income securities
- Equities, equity funds and other variable-yield securities
- Other financial assets – at fair value through profit or loss
- Certain financial assets in the balance sheet item “Real estate and real estate funds”
- Other invested assets
- Short-term investments
- Certain financial assets in the balance sheet item “Other assets”
- Certain financial assets in the balance sheet item “Other liabilities”
- Long-term debt
- Subordinated debt

This grouping into classes is not, however, solely determinative for the type and structure of each disclosure in the notes. Rather, guided by the underlying business model of reinsurance, the disclosures are made on the basis of the facts and circumstances existing in the financial year and in light of the principle of materiality.

Currency translation: financial statements of Group subsidiaries were drawn up in the currencies corresponding to the economic environment in which each subsidiary primarily operates. These currencies are referred to as functional currencies. The euro is the reporting currency in which the consolidated financial statement is prepared.

Transactions in foreign currencies reported in Group companies' individual financial statements are converted into the functional currency at the transaction rate. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" the recognition of exchange differences on translation is guided by the nature of the underlying balance sheet item. Exchange differences from the translation of monetary assets and liabilities are recognised directly in the statement of income. Currency translation differences from the translation of non-monetary assets measured at fair value via the statement of income are recognised with the latter as profit or loss from fair value measurement changes. Exchange differences from non-monetary items – such as equity securities – classified as available for sale are initially recognised outside income in a separate item of shareholders' equity and only booked to income when such non-monetary items are settled.

The individual companies' statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity.

Effective 1 January 2016 the functional currency of the Group entity Hannover Re (Ireland) Designated Activity Company, Dublin, changed from the euro to the US dollar. This change was prompted by the regrouping of large parts of the securities portfolio held by the company into US dollar-denominated instruments. Taken together with the fact that major portions of the insurance business written by the company are transacted in US dollars, the currency of the primary economic environment in which the Group entity operates is now the US dollar.

Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

	31.12.2016	31.12.2015	2016	2015
1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4591	1.4981	1.4858	1.4840
BHD	0.3972	0.4122	0.4155	0.4197
CAD	1.4191	1.5158	1.4630	1.4241
CNY	7.3206	7.0970	7.3246	6.9934
GBP	0.8553	0.7381	0.8162	0.7289
HKD	8.1753	8.4692	8.5567	8.6269
KRW	1,266.9800	1,281.5964	1,278.7281	1,257.9722
MYR	4.7293	4.6929	4.5774	4.3356
SEK	9.5524	9.1938	9.4499	9.3450
USD	1.0540	1.0927	1.1025	1.1128
ZAR	14.4632	16.8447	16.1886	14.2609

Earned premium and unearned premium: assumed reinsurance premiums, commissions and claim settlements as well as assumed portions of the technical reserves are recognised according to the terms and conditions of the reinsurance treaties, giving due consideration to the underlying contracts for which reinsurance was taken out.

Ceded reinsurance premiums are deducted from the gross written premium for the purpose of reconciliation to net premium earned. Assets and liabilities in connection with reinsurance ceded are recognised on a gross basis. The reinsured portions of the reserves are estimated on a basis consistent with the reserves attributable to the reinsured risk. Income and expenses in connection with reinsurance treaties are recognised on a basis consistent with the underlying risk of the reinsured business.

Premiums for reinsurance treaties are booked to income as earned across the period of the contracts in proportion to the insurance protection already provided or when they become due. Unearned premiums are calculated individually for each treaty in order to establish the portion of the premium volume that is not booked to income. This applies principally to property and casualty reinsurance and parts of accident and health reinsurance. Premiums already collected that are attributable to future risk periods are deferred pro rata temporis and recognised in conformity with the pertinent standards of US GAAP. In this context, assumptions are to be made if the data required for a calculation pro rata temporis is not available. The unearned premium corresponds to the insurance protection afforded in future periods.

Taxes: the taxes are comprised of the actual tax load on corporate profits of the Group companies, to which the applicable local tax rates are applied, as well as changes in deferred tax assets and liabilities. Income and expenses arising out of interest or penalties payable to the revenue authorities are shown under other income and expenses. The calculation of the deferred tax assets and liabilities is based on tax loss carry-forwards, unused tax credits and temporary differences between the book values of assets and liabilities in the consolidated balance sheet of the Hannover Re Group and their tax values. Further information on deferred taxes is provided in our remarks on deferred tax assets and liabilities.

Non-current assets held for sale and discontinued operations: in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, non-current assets and disposal groups are classified as held for sale if the relevant book value is realised largely through sale rather than through continued use. Components of an entity that can be clearly distinguished from the rest of the entity for operational and accounting purposes and were classified as sold or for sale are recognised as discontinued operations. Measurement is at the lower of book value and fair value less costs to sell. Scheduled depreciation is not taken on non-current assets classified as held for sale. Impairment losses on fair value less costs to sell are recognised in profit or loss; a gain for any subsequent increase in fair value less costs to sell leads to the realisation of profit up to the amount of the cumulative impairment. If the impairment loss to be taken on a disposal group exceeds the book value of the corresponding non-current assets, the need to establish a provision within the meaning of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” is reviewed.

3.3 Major discretionary decisions and estimates

In the consolidated financial statement it is to some extent necessary to make estimates and assumptions which affect the assets and liabilities shown in the balance sheet, the information on contingent claims and liabilities as at the balance sheet date and the disclosure of income and expenses during the reporting period. Key facts and circumstances subject to such assumptions and estimates include, for example, the recoverability of contingent reinsurance liabilities, the recoverability of investments in associated companies, the valuation of derivative financial instruments as well as assets and liabilities relating to employee benefits. The actual amounts may diverge from the estimated amounts.

In order to measure the ultimate liability in property and casualty reinsurance the expected ultimate loss ratios are calculated for all lines. Actuarial methods such as the “chain ladder” method provide the starting point for these calculations. The realistically estimated future settlement amount is recognised in the balance sheet. The development until completion of the run-off is projected on the basis of statistical triangles from the original notifications of ceding companies. The more recent underwriting years in actuarial projections are of course subject to greater uncertainty, although this can be considerably reduced with the aid of a variety of additional information on improvements in the rates and conditions of the business written and on loss trends. The amounts arrived at as the difference between the ultimate losses and the reported losses are set aside as the IBNR reserve for losses that have been incurred but are not yet known or have still to be reported. In applying statistical methods, separate consideration is given to large losses.

By analysing a broad range of observable information it is possible to classify losses as major individual loss events. Measurement of the obligations existing in this connection is carried out using a separate process, which is based largely on contract-specific estimates.

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 73 et seq. We would further refer to our explanatory remarks on the technical reserves in section 3.2 “Summary of major accounting policies” and section 6.7 “Technical provisions”.

In life business, too, the calculation of reserves and assets is crucially dependent on actuarial projections of the covered business. So-called model points are defined according to the type of business covered. The main distinguishing criteria are the age, sex and (non-)smoker status of the insured, tariff, policy period, period of premium payment and amount of insurance. The portfolio development is simulated for each model point, in which regard the key input parameters are either predefined by the tariff (e.g. allowance for costs, amount of premium, actuarial interest rate) or need to be estimated (e.g. mortality or disability rates, lapse rates). These assumptions are heavily dependent on country-specific parameters and on the sales channel, quality of the cedant’s underwriting and claims handling, type of reinsurance and other framework conditions of the reinsurance treaty. The superimposition of numerous model points gives rise to a projection, which incorporates inter alia assumptions concerning the portfolio composition and the commencement of covered policies within the year. Such assumptions are estimated at the inception of a reinsurance treaty and subsequently adjusted to the actual projection.

The projections, which cover various model scenarios (“conservative assumptions” versus “best estimate”), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying amounts and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities (“liability adequacy test”). In this context we would refer the reader to our comments on technical assets and provisions in section 3.2 “Summary of major accounting policies” and on the liability adequacy tests in section 6.7 “Technical provisions”.

In determining the carrying amounts for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in section 3.2 “Summary of major accounting policies” concerning financial assets at fair value through profit or loss and securities held as available for sale as well as in section 6.1 “Investments under own management” concerning investment property. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in section 3.2 “Summary of major accounting policies”.

4. Consolidation

4.1 Consolidation principles

Capital consolidation

The capital consolidation is carried out according to the requirements of IFRS 10 “Consolidated Financial Statements” on the basis of a consistent consolidation model for all entities that identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. Group companies are consolidated from the point in time when Hannover Re gains control over them. Control exists if Hannover Re directly or indirectly has decision-making power over a Group company on the basis of voting rights or other rights, if it has exposure or rights to positive and negative variable returns from its involvement with the Group company and if it can use its power to influence these returns. All of these criteria must be met. Other circumstances may also give rise to control, for example the existence of a principal-agent relationship. In this case a party outside the Group with decision-making powers (agent) acts for Hannover Re, but does not control the company since it merely exercises decision-making powers that have been delegated by Hannover Re (principal). These principles are also applied to structured entities, on which further information is provided in Section 4.2 “Consolidated companies and complete list of shareholdings”. Group companies are consolidated until the Hannover Re Group loses control over them. The accounting policies of Group companies are adjusted, where necessary, in order to ensure consistent application of the Hannover Re Group’s accounting policies.

The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs, measured at the fair value of the consideration rendered by the parent company on the acquisition date, are netted with the proportionate shareholders’ equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 “Business Combinations” are to be accounted for separately from goodwill, the difference between the revalued shareholders’ equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence. Costs associated with acquisition are expensed.

Companies over which Hannover Re is able to exercise a significant influence are consolidated as associated companies using the equity method of accounting. We therefore measure investments in associated companies with the proportion of the shareholders’ equity attributable to the Group. According to the proportionate interest method required by IAS 28 “Investments in Associates”, the goodwill attributable to associated companies is recognised together with the investments in associated companies. The share of an associated company’s year-end profit or loss relating to the Group is included in the income from investments and shown separately in the consolidated statement of income. Shareholders’ equity and profit or loss are taken from the associated company’s latest available financial statement. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. We also derive evidence of significant influence over an associated company from representation on a governing body of such company, participation in its policy-making processes – e. g. with respect to dividends or other distributions –, the existence of material inter-company transactions, the possibility of interchanging managerial personnel or the provision of key technical information for the company. Further particulars on companies consolidated using the equity method of accounting are provided in Section 6.1 “Investments under own management” under “Associated companies”.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company’s total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 19 (18) companies at home and abroad were not consolidated in the year under review. A further 18 (12) companies were not included at equity in the consolidated financial statement for the same reason. The business object of these altogether 37 (30) companies is for the most part the rendering of services for reinsurance companies within the Group.

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated.

Transactions between a disposal group and the continuing operations of the Group were similarly eliminated in accordance with IFRS 10.

4.2 Consolidated companies and complete list of shareholdings

In addition to Hannover Rück SE as the parent company of the Group, the scope of consolidation of the Hannover Re Group encompasses the companies listed in the table below.

Information on subsidiaries

Scope of consolidation	N 10	
	2016	2015
Number of companies		
Consolidated companies (Group companies)		
Germany	21	25
Abroad	65	66
Total	86	91
Companies included at equity		
Germany	2	3
Abroad	4	7
Total	6	10

Information on the non-controlling interests in shareholders' equity and profit or loss as well as on the major non-controlling interests is provided in Section 6.14 "Non-controlling interests". On the balance sheet date there were no significant restrictions on access to or the use of Group assets due to protective rights in favour of non-controlling interests.

The sale or transfer of shares of E+S Rückversicherung AG takes place by way of an endorsement and is permissible only with the approval of the company's Supervisory Board. The Supervisory Board enjoys the right to grant or deny approval unconditionally, without being obliged to state reasons in the event of denial.

National provisions of company law or requirements of supervisory law may in certain countries limit the ability of the Hannover Re Group to transfer assets between companies belonging to the Group. These limitations result principally from local minimum capital and solvency requirements as well as to a lesser extent from foreign exchange restrictions.

As security for our technical liabilities and as collateral for liabilities arising out of existing derivative transactions Hannover Re has established blocked custody accounts and trust accounts in certain countries, while for liabilities in connection with real estate transactions – to the extent that is customary under such transactions – it has pledged assets in favour of third parties outside the Group. For further information please see our explanatory remarks in Section 8.7 "Contingent liabilities and commitments".

List of shareholdings

The following list of shareholdings is provided in the present Group annual financial report in accordance with § 313 Para. 2 German Commercial Code (HGB). In the year under review, in the context of initial application of the provisions amended by the Accounting Directive Implementing Act (BilRUG), all companies were included in this list in which shares are held with the intention of serving the investor's own business interests through creation of a lasting relationship. Previously applicable participation thresholds no longer apply. The number of companies to be listed in the Group annual financial report has

consequently increased slightly. The stipulations of IFRS 12.10 and IFRS 12.21 have also been observed.

The figures for the capital and reserves as well as the result for the last financial year are taken from the local financial statements drawn up by the companies.

With regard to the major acquisitions and disposals in the year under review please see our remarks in the following paragraphs of this section.

List of shareholdings

N 11

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Domestic companies				
Affiliated consolidated companies				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany ^{1,2}	100.00	EUR	2,341,925	–
Hannover Life Re AG, Hannover/Germany ^{1,2}	100.00	EUR	1,873,188	–
HILSP Komplementär GmbH, Hannover/Germany ³	100.00	EUR	33	3
International Insurance Company of Hannover SE, Hannover/Germany ^{1,2}	100.00	EUR	165,845	–
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany ³	100.00	EUR	20,388	53
FUNIS GmbH & Co. KG, Hannover/Germany ¹	100.00	EUR	75,123	3,875
HR Verwaltungs-GmbH, Hannover/Germany ¹	100.00	EUR	12	(1)
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany ¹	95.42	EUR	237,381	40,194
HAPEP II Holding GmbH, Hannover/Germany ¹	95.42	EUR	6,010	909
Hannover Re Global Alternatives GmbH & Co KG, Hannover/Germany ¹	94.72	EUR	41,628	2,852
Hannover Re Euro PE Holdings GmbH & Co, KG, Hannover/Germany ¹	91.20	EUR	251,203	20,291
Hannover Re Euro RE Holdings GmbH, Hannover/Germany ¹	87.68	EUR	886,721	21,602
HR GLL Central Europe GmbH & Co, KG, Munich/Germany ¹	87.67	EUR	326,930	4,334
HR GLL Central Europe Holding GmbH, Munich/Germany ¹	87.67	EUR	61,419	1,183
HAPEP II Komplementär GmbH, Hannover/Germany ¹	82.40	EUR	39	3
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany ¹	67.54	EUR	633	11,738
HEPEP III Holding GmbH, Cologne/Germany ¹	67.54	EUR	2,627	1,618
E+S Rückversicherung AG, Hannover/Germany ¹	64.79	EUR	696,413	125,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany ¹	60.58	EUR	5,434	10,848

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Deutschland ¹	57.89	EUR	1,226	1,044
HEPEP II Holding GmbH, Cologne/Germany ¹	57.89	EUR	22	(1,760)
Affiliated non-consolidated companies				
International Hannover Holding AG, Hannover/Germany ^{4,5}	100.00	EUR	39	(2)
Oval Office Grundstücks GmbH, Hannover/Germany ^{1,4,6}	50.00	EUR	1,589	(21)
Associated companies				
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany ⁷	32.96	EUR	83,207	11,857
HANNOVER Finanz GmbH, Hannover/Germany ⁷	27.78	EUR	74,801	11,324
Other participations				
b2b protect GmbH, Hildesheim/Germany ⁷	48.98	EUR	378	(361)
Internationale Schule Hannover Region GmbH, Hannover/Germany ^{8,9}	9.17	EUR	3,689	302
FinLeap GmbH, Berlin/Germany ^{1,10}	8.26	EUR	25,253	(3,470)
Nürnberger Beteiligungs-AG, Nuremberg/Germany ^{7,9}	1.75	EUR	630,154	44,618
Foreign companies				
Affiliated consolidated companies				
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg ¹	100.00	EUR	34,647	288
Hannover Finance (UK) Limited, London/United Kingdom ¹	100.00	GBP	2,703	(18)
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda ¹	100.00	USD	391,271	34,588
Hannover Life Reassurance Company of America, Orlando/USA ¹	100.00	USD	333,442	25,033
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton/Bermuda ¹	100.00	USD	9,233	2,395
Hannover Re (Ireland) Designated Activity Company, Dublin/Ireland ¹	100.00	USD	1,709,897	105,225
Hannover Life Re of Australasia Ltd, Sydney/Australia ¹	100.00	AUD	480,863	2,466
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda ¹	100.00	USD	1,237,845	201,363
Hannover ReTakaful B.S.C.(c), Manama/Bahrain ¹	100.00	BHD	65,810	4,080
Hannover Services (UK) Limited, London/United Kingdom ¹	100.00	GBP	794	(66)
Inter Hannover (No. 1) Limited, London/United Kingdom ¹	100.00	GBP	(35)	–
Integra Insurance Solutions Limited, Bradford/United Kingdom ⁷	100.00	GBP	2,789	2,748
The Congregational & General Insurance Public Limited Company, Bradford/United Kingdom ¹	100.00	GBP	11,920	2,891
Glencar Underwriting Managers, Inc., Chicago/USA ⁷	100.00	USD	5,985	757
Leine Investment General Partner S.à r.l., Luxembourg/Luxembourg ^{1,11}	100.00	EUR	550	509

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Leine Investment SICAV-SIF, Luxembourg/Luxembourg ^{1, 11}	100.00	USD	65,509	3,095
LI RE, Hamilton/Bermuda ^{1, 11}	100.00	USD	–	–
Fracom FCP, Paris/France ¹²	100.00	EUR	1,219,475	18,479
Hannover Finance, Inc., Wilmington/USA ^{1, 11}	100.00	USD	163,451	7,617
Sand Lake Re, Inc., Burlington/USA ¹	100.00	USD	11,883	(117)
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa ¹	100.00	ZAR	219,820	209,916
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa ¹	100.00	ZAR	555,797	31,770
Hannover Reinsurance Africa Limited, Johannesburg/South Africa ¹	100.00	ZAR	728,000	59,243
Compass Insurance Company Limited, Johannesburg/South Africa ¹	100.00	ZAR	195,883	33,692
Peachtree (Pty) Ltd., Johannesburg/South Africa ^{4, 13}	100.00	ZAR	–	–
Hannover Re Real Estate Holdings, Inc., Orlando/USA ¹¹	95.25	USD	654,438	8,864
GLL HRE CORE Properties, L.P., Wilmington/USA ^{1, 11}	95.15	USD	557,316	(310)
101BOS LLC, Wilmington/USA ^{1, 11}	95.15	USD	51,322	445
11 Stanwix, LLC, Wilmington/USA ^{1, 11}	95.15	USD	36,373	1,411
402 Santa Monica Blvd, LLC, Wilmington/USA ^{1, 11}	95.15	USD	775	823
300 California, LLC, Wilmington/USA ¹⁴	95.15	USD	–	–
111ORD LLC, Wilmington/USA ^{1, 11}	95.15	USD	73,529	2,418
140EWR LLC, Wilmington/USA ^{1, 11}	95.15	USD	79,402	(2,589)
7550IAD LLC, Wilmington/USA ^{1, 11}	95.15	USD	76,260	1,151
Nashville West, LLC, Wilmington/USA ^{1, 11}	95.15	USD	29,140	987
1225 West Washington, LLC, Wilmington/USA ^{1, 11}	95.15	USD	24,082	1,020
975 Carroll Square, LLC, Wilmington/USA ^{1, 11}	95.15	USD	51,145	1,156
Broadway 101, LLC, Wilmington/USA ^{1, 11}	95.15	USD	12,518	626
River Terrace Parking, LLC, Wilmington/USA ^{1, 11}	95.15	USD	20,028	364
3290ATL LLC, Wilmington/USA ^{1, 11}	95.15	USD	69,861	160
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa	88.00	ZAR	6,680	25,811
Kaith Re Ltd., Hamilton/Bermuda ¹	88.00	USD	915	(327)
HR GLL Roosevelt Kft, Budapest/Hungary ¹	87.67	HUF	19,635,268	1,388,757

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
HR GLL Liberty Corner SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNÓŚCIA, Warsaw/Poland ¹	87.67	PLN	45,973	(2,185)
HR GLL Griffin House SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNÓŚCIA, Warsaw/Poland ¹	87.67	PLN	34,480	(3,629)
Akvamarín Beta s.r.o., Prague/Czech Republic ¹	87.67	CZK	87,899	34,132
HR GLL Europe Holding S.à r.l., Luxembourg/Luxembourg ¹	87.67	EUR	159,740	932
HR GLL CDG Plaza S.r.l., Bucharest/Romania ¹	87.67	RON	155,292	6,219
Pípera Business Park S.r.l., Bucharest/Romania ¹	87.67	RON	94,520	8,930
Mustela s.r.o., Prague/Czech Republic ¹	87.67	CZK	1,276,016	19,021
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa ¹	70.00	ZAR	199,372	34,180
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa ¹	70.00	ZAR	8,925	4,709
Cargo Transit Insurance (Pty) Ltd., Helderkruijn/South Africa ^{4, 15}	56.00	ZAR	(4,499)	–
Svedea AB, Stockholm/Sweden ⁷	53.00	SEK	6,119	626
SUM Holdings (Pty) Ltd., Johannesburg/South Africa ¹	50.54	ZAR	20,150	12,628
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg/South Africa ¹	49.00	ZAR	610	127
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa ¹	49.00	ZAR	1,464	2,887
Thatch Risk Acceptances (Pty) Ltd., Johannesburg/South Africa ¹	49.00	ZAR	2,733	2,135
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa ¹	45.85	ZAR	4,490	2,988
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg/South Africa ¹	45.49	ZAR	1,327	5,043
Construction Guarantee (Pty) Ltd., Johannesburg/South Africa ^{4, 15}	42.00	ZAR	–	–
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	39.67	ZAR	415	201
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	35.70	ZAR	3,212	1,944
Synergy Targeted Risk Solutions (Pty) Ltd, Johannesburg/South Africa	35.70	ZAR	2,042	–
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg/South Africa ¹	35.70	ZAR	(709)	583
Affiliated non-consolidated companies				
International Mining Industry Underwriters Limited, London/United Kingdom ¹	100.00	GBP	131	23
HR Hannover Re. Correduría de Reaseguros. S.A., Madrid/Spain ¹	100.00	EUR	424	47
LRA Superannuation Plan Pty Ltd., Sydney/Australia ¹⁴	100.00	AUD	–	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China ^{4, 7}	100.00	USD	52	–
Hannover Re Services Japan, Tokyo/Japan ¹	100.00	JPY	114,354	11,892

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Re Consulting Services India Private Limited, Mumbai/India ¹⁶	100.00	INR	101,793	10,523
Hannover Services (México) S.A. de C.V., Mexico City/Mexico ⁷	100.00	MXN	8,025	(909)
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	3,474	(31)
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil ⁷	100.00	BRL	2,923	483
L & E Holdings Limited, London/United Kingdom ¹	100.00	GBP	5	–
London & European Title Insurance Services Limited, London/United Kingdom ¹	100.00	GBP	390	91
Iconica Business Services Limited, Bradford/United Kingdom ⁷	100.00	GBP	1,760	122
Hannover Re Risk Management Services India Private Limited, New Delhi/India ¹⁶	100.00	INR	67,945	15,719
Hannover Re Services Italy S.r.l., Milan/Italy	99.65	EUR	365	102
Dowset Investments Spółka z ograniczona odpowiedzialnoscia, Warsaw/Poland ¹	87.67	PLN	(22)	(27)
U FOR LIFE SDN. BHD., Petaling Jaya/Malaysia ⁷	60.00	MYR	(6,177)	(5,487)
HMIA Pty Ltd, Sydney/Australia ⁷	55.00	AUD	(313)	(185)
Svedea Skadeservice AB, Stockholm/Sweden ¹⁷	53.00	SEK	284	234
Associated companies				
ITAS Vita S.p.A., Trento/Italy ⁷	34.88	EUR	98,161	4,014
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa ¹	26.11	ZAR	17,431	12,782
Clarenfin (Pty) Ltd., Johannesburg/South Africa ¹	26.11	ZAR	126	(30)
Vela Taxi Finance (Pty) Ltd., Johannesburg/South Africa ¹	14.36	ZAR	(2,849)	(2,036)
Other participations				
Reaseguradora del Ecuador S.A., Guayaquil/Ecuador ⁷	30.00	USD	10,433	1,092
Energi, Inc., Peabody/USA ⁷	28.50	USD	20,168	(1,437)
Energi Insurance Services, Inc., Peabody/USA ⁷	28.50	USD	1,021	289
Energi of Canada Ltd., Toronto/Canada ⁷	28.50	CAD	42	(559)
Energi RE, LLC, Wilmington/USA ⁷	28.50	USD	22,264	749
Hurst Holme Insurance Company Limited – account 2006-03 SCC, Hamilton/Bermuda ^{4,7}	28.50	USD	160	(69)
E Claims Management. Inc., Peabody/USA ¹⁴	28.50	USD	–	–
E-Marketing Strategies, Inc., Peabody/USA ¹⁸	28.50	USD	–	–
E-Risk Solutions, Inc., Peabody/USA ¹⁸	28.50	USD	–	–

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
E-Technology Services. Inc., Peabody/USA ¹⁸	28.50	USD	–	–
David Edwards Insurance Brokers Limited, Solihull/United Kingdom ^{1,16}	21.00	GBP	148	191
Meribel Topco Limited, St. Helier/Jersey ¹	20.11	EUR	2,490	20,543
Meribel Midco Limited, St. Helier/Jersey ¹	20.11	EUR	57,248	92,352
Monument Insurance Group Limited, Hamilton/Bermuda ¹⁸	20.00	USD	–	–
Monument Midco Limited, Hamilton/Bermuda ¹⁸	20.00	USD	–	–
Monument Finco Limited, George Town/Cayman Islands ¹⁸	20.00	USD	–	–
Monument Re Limited, Hamilton/Bermuda ¹⁸	20.00	USD	–	–
Inlife Holding (Liechtenstein) AG, Triesen/Liechtenstein ^{9,19}	15.00	CHF	10,713	7,450
Life Invest Holding AG, Zurich/Switzerland ^{1,9,20}	15.00	CHF	38,776	36,776
Sureify Labs, Inc., Wilmington/USA ^{1,8,10}	14.82	USD	(456)	(364)
Somerset Reinsurance Ltd., Hamilton/Bermuda ^{7,10,21}	12.31	USD	34,418	(9,262)
Weisshorn Re AG, Zurich/Switzerland ^{7,10}	12.31	CHF	20,608	(18)
Acte Vie S.A., Schiltigheim/France ⁷	9.38	EUR	9,088	92
Liberty Life Insurance Public Company Ltd, Nicosia/Cyprus ^{7,9}	3.30	EUR	11,427	821

¹ Provisional (unaudited) figures

² Year-end result after profit transfer

³ Financial year as at 30 September 2016

⁴ Company is in liquidation

⁵ Abbreviated financial year from 1 January 2015 to 30 June 2015

⁶ Abbreviated financial year from 1 April 2016 to 31 December 2016

⁷ Figures as at 31 December 2015

⁸ Financial year as at 31 July 2016

⁹ Listed for the first time based on requirement of Accounting Directive Implementing Act (BiIRUG)

¹⁰ Addition in 2016 financial year, listed based on requirement of Accounting Directive Implementing Act (BiIRUG)

¹¹ IFRS figures

¹² Financial year as at 31 October 2016

¹³ Figures as at 31 December 2014

¹⁴ Company is inactive

¹⁵ Figures as at 31 December 2013

¹⁶ Financial year as at 31 March 2016

¹⁷ Financial year from 7 October 2014 to 31 December 2015

¹⁸ Company was newly established in 2016; an annual financial statement is not yet available.

¹⁹ Financial year from 24 August 2015 to 31 December 2015

²⁰ Financial year from 5 June 2015 to 31 December 2016

²¹ Formerly Weisshorn Re Ltd., Hamilton/Bermuda

Material branches of the Group

We define the branch of a Group company as an unincorporated business unit that is physically and organisationally separate from the Group company, is bound by the latter's instructions in their internal relationship and has its own independent market presence.

The Hannover Re Group companies listed in the following table maintain branches that we consider to be material to an understanding of the Group's position.

Material branches of the Group

N 12

Group company/Branch Figures in EUR thousand	Gross written premium ¹		Net income ¹	
	2016	2015	2016	2015
Hannover Rück SE				
Hannover Rueck SE Australian Branch, Sydney/Australia	170,556	135,928	11,261	30,686
Hannover Rück SE Canadian Branch, Toronto/Canada	254,702	206,295	34,712	35,161
Hannover Rück SE, Hong Kong Branch, Wanchai/Hong Kong	260,814	171,721	17,858	6,999
Hannover Rueck SE Malaysian Branch, Kuala Lumpur/Malaysia	427,194	354,915	27,222	23,345
Hannover Rück SE, Tyskland Filial, Stockholm/Sweden	235,154	220,102	21,719	2,895
Hannover Rück SE Succursale Francaise, Paris/France	710,352	710,849	34,762	(26,442)
Hannover Rueck SE Bahrain Branch, Manama/Bahrain	129,902	145,992	1,258	(2,707)
Hannover Rück SE Shanghai Branch, Shanghai/China	697,727	1,254,150	11,466	20,465
Hannover Rück SE Korea Branch, Seoul/South Korea	46,789	46,013	2,086	2,631
Hannover Re UK Life Branch, London/United Kingdom	284,357	299,435	12,356	2,114
International Insurance Company of Hannover SE				
International Insurance Company of Hannover SE, Australian Branch, Sydney/Australia	32,558	23,966	59	789
International Insurance Company of Hannover SE, Canadian Branch, Toronto/Canada	65,761	33,450	1,036	(247)
International Insurance Company of Hannover SE, Italian Branch, Milan/Italy ²				
International Insurance Company of Hannover SE, Scandinavian Branch, Stockholm/Sweden	192,910	186,020	4,249	4,359
International Insurance Company of Hannover SE, UK Branch, London/United Kingdom	333,358	412,952	3,532	(1,078)

¹ Figures before consolidation

² Branch is in liquidation.

In addition, other companies belonging to the Hannover Re Group maintain further branches in New Zealand, Canada and Bahrain that both individually and collectively are to be classified as immaterial to the Group.

Consolidation of structured entities

Business relations with structured entities are to be examined in accordance with IFRS 10 with an eye to their implications for consolidation. In the context of their operational activities some companies belonging to the Hannover Re Group enter into business relations with structured entities that are to be analysed and accounted for according to these new provisions.

Structured entities are entities designed in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. A structured entity frequently has some or all of the following features or attributes:

- Restricted activities;
- A narrow and well-defined business objective;
- Insufficient equity to allow it to finance its activities without subordinated financial support;
- Financing in the form of multiple contractually linked instruments issued to investors that create concentrations of credit or other risks (tranches).

Consolidated structured entities

The following structured entities were consolidated as at the balance sheet date:

- Kaith Re Ltd., Hamilton, Bermuda
- LI RE, Hamilton, Bermuda

Kaith Re Ltd. is a so-called segregated accounts company (SAC), the sole object of which is the securitisation of reinsurance risks in the form of investment products. Under this transformation a complete underwriting risk transfer always takes place to the investor in question. In a SAC further segregated accounts exist under a general account; it is in these segregated accounts, which for liability purposes are entirely separate from one another and from the general account, that the aforementioned securitisations take place for the investors.

Pursuant to IFRS 10 we consider the general account and the segregated accounts to be separate units to which the principles of so-called “silo accounting” are applied. In accordance with this concept, Hannover Re is required to consolidate the

In accordance with the consistent consolidation model, a structured entity – just like a subsidiary – must be consolidated if Hannover Re gains control over the said entity. With regard to the criteria for control please see also Section 4.1 “Consolidation principles”. Within the Hannover Re Group the requirement to consolidate structured entities is examined as part of an analysis that encompasses both transactions in which a structured entity is initiated by us with or without the involvement of third parties and those in which we enter into contractual relations with an already existing structured entity with or without the involvement of third parties. Consolidation decisions are reviewed as necessary and at least once a year. The list of all consolidated structured entities forms part of the list of shareholdings.

general account of Kaith Re Ltd. and is contractually responsible for the fees due to external service providers that are to be covered from the general account’s own funds. Each individual segregated account is to be examined separately by the parties concerned (investors) with an eye to a consolidation requirement and is to be consolidated according to the particular contractual arrangements in each case.

LI RE is a segregated account of Kaith Re Ltd., the purpose of which – as with all segregated accounts under Kaith Re Ltd. – is the securitisation of underwriting risks. In contrast to the other segregated accounts, the sole investor and hence the risk carrier of LI RE is the Hannover Re Group through its subsidiary Leine Investment SICAV-SIF, Luxembourg.

As at the balance sheet date Hannover Re had not rendered any financial or other support for a consolidated structured entity. Hannover Re does not intend to render financial or other support for one or more of such entities without being contractually required to do so.

Unconsolidated structured entities

The business relations of Hannover Re Group companies with structured entities set out below do not give rise to consolidation because the criteria for control pursuant to IFRS 10 contained in our consolidation principles are not met.

Investing activities and investments in catastrophe bonds (ILS)

Within the scope of its investment activities Hannover Re has participated since 1988 inter alia in numerous structured entities. These are predominantly special purpose entities in the form of funds, which for their part transact certain types of equity and debt capital investments. These investments encompass private equity funds, fixed income funds, collateralised debt obligations, real estate funds, index funds and other public funds. The volume of these transactions is derived from the book values of the respective investments and amounted to EUR 3,239.4 million (EUR 2,893.3 million) as at the balance sheet date. The maximum risk of loss corresponds to the book values.

Retrocession and securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of structured entities.

The catastrophe bond (CAT bond) Eurus III was issued by Hannover Re for the purpose of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The CAT bond, which had a volume of nominally EUR 100.0 million and a maturity date of 31 March 2016, was placed by Eurus III Ltd., a special purpose entity domiciled in Hamilton/Bermuda. The structured entity was fully funded by contractually defined investments in the form of cash and equivalent liquid assets. Given that the maximum liability of the structured entity was therefore wholly collateralised, there was no risk of loss for Hannover Re. The transaction had ended as at the balance sheet date.

By way of its “K” transactions Hannover Re has raised underwriting capacity for catastrophe risks on the capital market. The “K Cession”, which was placed with investors in North and South America, Europe and Asia, involves a quota share cession

Hannover Re participates through its subsidiary Leine Investment SICAV-SIF, Luxembourg, in a number of structured entities that issue catastrophe bonds for the securitisation of catastrophe risks by investing in such bonds. Leine Investment General Partner S.à r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. In addition, a portfolio of such securities is also managed by Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover. The volume of these transactions is derived from the book values of the respective investments and amounted to EUR 70.3 million (EUR 108.3 million) as at the balance sheet date. The maximum risk of loss corresponds to the book values.

on worldwide natural catastrophe business as well as aviation and marine risks. Of the total volume of the “K Cession”, a large part equivalent to EUR 384.4 million (EUR 304.0 million) was securitised via structured entities as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Segregated accounts of Kaith Re Ltd. are used for transformer purposes for part of this transaction. Hannover Re also uses further segregated accounts of Kaith Re Ltd. and other structured entities outside the Group for various retrocessions of both its traditional and ILS covers, which in each case are passed on to institutional investors in securitised form. The volume of these transactions is measured by the ceded exposure limit of the underlying retrocession agreements and amounted to altogether EUR 1,844.7 million (EUR 1,872.6 million) as at the balance sheet date. The structured entities are in all cases fully funded by contractually defined investments in the form of cash and equivalent liquid assets. Given that the entire exposure limit of the structured entities is therefore wholly collateralised in each case, there is no risk of loss for Hannover Re.

Collateralised fronting (ILS)

As part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re has concluded so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using structured entities. The purpose of such transactions is to directly transfer clients' business. The volume of the transactions is derived from the ceded exposure limit of the underlying retrocession agreements and amounted to EUR 4,914.2 million (EUR 4,701.0 million) as at the balance sheet date. Part of the ceded exposure limit is funded and collateralised by contractually defined investments in the form of cash and equivalent liquid assets, while a further part remains uncollateralised or is collateralised by less liquid assets. The

maximum risk of loss from these transactions is derived from the uncollateralised exposure limit and the credit risk of the collateral and amounted to EUR 2,860.6 million (EUR 2,779.9 million) as at the balance sheet date. This does not, however, correspond to the economic risk of loss, which is established using recognised actuarial methods. The expected loss on a modelled basis in a worst-case scenario of 10,000 years amounts to at most EUR 50.0 million (EUR 50.0 million).

The book values of the assets and liabilities from the specified transactions with unconsolidated structured entities were as follows as at the balance sheet date:

Book values from business relations with unconsolidated structured entities

N 13

in EUR thousand	31.12.2016		
	General investing activities	Investment in catastrophe bonds (ILS)	Retrocession: securitisations and ILS transactions
Assets			
Fixed-income securities – held to maturity	996	–	–
Fixed-income securities – loans and receivables	11,870	–	–
Fixed-income securities – available for sale	1,782,279	–	–
Fixed-income securities – at fair value through profit or loss	–	70,291	–
Equity securities – available for sale	255,853	–	–
Real estate and real estate funds	390,207	–	–
Other invested assets	712,434	–	–
Short-term investments	85,778	–	–
Reinsurance recoverables on unpaid claims	–	–	398,113
Prepaid reinsurance premium	–	–	49,037
Accounts receivable	–	–	7,558
Total assets	3,239,417	70,291	454,708
Liabilities			
Reinsurance payable	–	–	241,597
Total liabilities	–	–	241,597

in EUR thousand	31.12.2015		
	General investing activities	Investment in catastrophe bonds (ILS)	Retrocession: securitisations and ILS transactions
Assets			
Fixed-income securities – held to maturity	968	–	–
Fixed-income securities – loans and receivables	16,357	–	–
Fixed-income securities – available for sale	1,628,911	–	–
Fixed-income securities – at fair value through profit or loss	–	108,273	–
Equity securities – available for sale	139,745	–	–
Real estate and real estate funds	371,254	–	–
Other invested assets	717,253	–	–
Short-term investments	18,763	–	–
Reinsurance recoverables on unpaid claims	–	–	137,892
Prepaid reinsurance premium	–	–	29,869
Accounts receivable	–	–	188
Total assets	2,893,251	108,273	167,949
Liabilities			
Reinsurance payable	–	–	32,256
Total liabilities	–	–	32,256

The income and expenses from business relations with unconsolidated structured entities are shown in investment income insofar as they result from general investment activities or investments in catastrophe bonds and are recognised in the technical account insofar as they are attributable to retrocessions and securitisations.

As at the balance sheet date Hannover Re had not rendered any financial or other support for an unconsolidated structured entity. Hannover Re does not intend to render financial or other support for one or more of such entities without being contractually required to do so.

With regard to commitments and obligations that we do not consider to be support, particularly outstanding capital commitments from special investments, please see our remarks in Section 8.7 “Contingent liabilities and commitments”.

4.3 Major acquisitions and new formations

On 10 May 2016 Hannover Re acquired all the shares in the company The Congregational & General Insurance Public Limited Company (CGI), Bradford, UK, through its subsidiary International Insurance Company of Hannover SE, Hannover. The purchase price of the shares amounted to EUR 11.3 million. Along with the company, Hannover Re also acquired its 25% stake in Integra Insurance Solutions Limited, Bradford, UK. In total, therefore, Hannover Re holds all the shares through various subsidiaries.

The business was included in the consolidated financial statement for the first time as at 1 May 2016. For the purposes of initial consolidation and in accordance with appropriate

measurement methods, the fair values of the acquired assets and assumed liabilities were to some extent established on the basis of assumptions and estimations. The assumptions and estimates that had been made were put into concrete terms as at the balance sheet date, and initial consolidation was therefore finalised within the measurement period.

The assets and liabilities of the acquired business as at the date of initial consolidation are as follows:

Assets and liabilities of the acquired business	N 15
in EUR thousand	1.5.2016
Assets	
Fixed-income securities – available for sale	4,845
Equity securities – available for sale	1,116
Investments in associated companies	13,699
Cash and cash equivalents	2,629
Reinsurance recoverables on unpaid claims	2,733
Prepaid reinsurance premium	3,313
Deferred acquisition costs	1,395
Accounts receivable	2,903
Deferred tax assets	440
Other assets	2,583
Accrued interest and rent	112
	35,768
Liabilities	
Loss and loss adjustment expense reserve	4,408
Unearned premium reserve	4,926
Reinsurance payable	2,047
Provisions for pensions	1,353
Other liabilities	1,163
	13,897
Net assets	21,871

In view of the fact that the fair values of the recognised, identifiable assets, liabilities and contingent commitments exceed the acquisition costs associated with the transaction, the capital consolidation gave rise to negative goodwill of EUR 10.5 million which was recognised immediately in income in accordance with the requirements of IFRS 3.34.

This non-recurring item from the transaction is accounted for in the consolidated statement of income under other operating income. The negative goodwill resulted primarily from the limitation of the revaluation of the assumed pension provisions to the amount that was to be recognised in accordance with IAS 19 as required by IFRS 3.26.

The gross written premium of the assumed business from the date of initial consolidation until the balance sheet date amounted to EUR 1.7 million. For the same period net income of EUR 0.8 million was booked from the assumed business. This does not include the other operating income resulting from reversal of the negative goodwill.

Effective 8 January 2016 Funis GmbH & Co. KG (“Funis”), a wholly owned subsidiary of Hannover Rück SE, increased its interest in the share capital of Glencar Underwriting Managers Inc. (“Glencar”), Chicago, USA, from 49% to 100% and thereby acquired control of the company. Glencar, which had previously been included at equity in the consolidated financial

statements, was therefore consolidated as a subsidiary from the first quarter of 2016 onwards. Derecognition of the assets and liabilities and measurement of the previous shares at fair value gave rise to an expense of EUR 0.7 million that was recognised in investment income. In addition, cumulative other comprehensive income from currency translation amounting to EUR 1.2 million was realised. A purchase price of EUR 5.6 million was paid for the acquisition of the remaining shares. In the context of the purchase price allocation, the calculation of the fair values of acquired assets and assumed liabilities undertaken for the purposes of initial consolidation gave rise to goodwill of EUR 5.4 million.

4.4 Major disposals and retirements

Atlantic Capital Corporation, Wilmington, which was owned by Hannover Finance, Inc., Wilmington, was liquidated on 22 December 2016. Deconsolidation had no effect on income.

Following the sale of the property that it held and repatriation of the capital in the previous year, Oval Office Grundstücks GmbH, Hannover, ceased its business operations. Against this backdrop, the measurement of the company at equity was discontinued on materiality grounds with effect from the first

quarter of 2016 and since then the company has been recognised as a participating interest at amortised cost. The expense resulting from deconsolidation was in a negligible amount.

Within the 95.1%-owned US subgroup Hannover Re Real Estate Holdings, Inc., the special purpose property companies 101BOS LLC and 3290ATL LLC, both of which have their registered office in Wilmington, were established via the subsidiary GLL HRE Core Properties, LP, for the purpose of real estate acquisition. Altogether, an amount of roughly EUR 114.0 million was invested in this connection.

Within the US subgroup Hannover Re Real Estate Holdings, Inc., the special purpose property company 300 South Orange Avenue, LLC, Orlando, was liquidated in December 2016. The property previously held by the company had already been sold at the end of 2014.

4.5 Other corporate changes

The Irish Companies Act 2014 requires all insurance companies to change their legal form to a Designated Activity Company (DAC). In the case of the Group company Hannover Re (Ireland) Designated Activity Company, Dublin, Ireland, formerly Hannover Re (Ireland) Limited, the change of legal form took place effective 8 December 2016. This change has no implications for the business operations of the company or for the net assets, financial position or result of operations of the Group.

5. Segment reporting

Based on the “management approach” of IFRS 8, which requires segment information to be presented as it is reported internally to management and normally used by the chief operating decision maker to decide upon the allocation of resources to a segment and evaluate its performance, Hannover Re has identified the reportable segments of property & casualty reinsurance and life & health reinsurance. With regard to the object of business operations within the two segments please see the corresponding remarks in the management report.

The segment information shown follows the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of segments and decides on the allocation of resources to them.

The “Consolidation” column includes not only the elimination of cross-segment transactions but also, more significantly, companies whose business operations cannot be unambiguously allocated to property and casualty reinsurance or life and health reinsurance. These are principally the service and financing companies belonging to the Group.

During the financial year no material changes occurred in the organisational structure that could have influenced the composition of the segments. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided.

Both The Congregational & General Insurance Public Limited Company (CGI), Bradford, UK, Glencar Underwriting Managers Inc., Chicago, USA, and the special purpose property companies 101BOS LLC and 3290ATL LLC, both of which have their registered office in Wilmington, USA – which were consolidated for the first time in 2016 – and Oval Office Grundstücks GmbH, Hannover, and 300 South Orange Avenue, LLC, Orlando, USA – which were deconsolidated – are allocated to the property and casualty reinsurance segment.

Segmentation of assets in EUR thousand	Property and casualty reinsurance	
	31.12.2016	31.12.2015 ¹
Assets		
Fixed-income securities – held to maturity	342,793	810,256
Fixed-income securities – loans and receivables	2,539,270	2,807,317
Fixed-income securities – available for sale	24,337,185	21,779,850
Equity securities – available for sale	905,307	452,108
Financial assets at fair value through profit or loss	73,352	110,836
Other invested assets	3,391,140	3,236,748
Short-term investments	259,598	244,817
Cash and cash equivalents	579,112	638,305
Total investments and cash under own management	32,427,757	30,080,237
Funds withheld	1,263,533	1,284,958
Contract deposits	(105)	497
Total investments	33,691,185	31,365,692
Reinsurance recoverables on unpaid claims	1,250,770	1,070,380
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	133,858	162,529
Reinsurance recoverables on other reserves	3,590	6,860
Deferred acquisition costs	758,429	696,406
Accounts receivable	2,130,342	2,167,691
Other assets in the segment	1,115,251	1,334,802
Assets held for sale	15,086	–
Total assets	39,098,511	36,804,360
Segmentation of liabilities		
in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	24,010,367	22,822,777
Benefit reserve	–	–
Unearned premium reserve	3,171,056	3,019,217
Provisions for contingent commissions	127,865	119,668
Funds withheld	456,877	425,360
Contract deposits	(3,628)	4,448
Reinsurance payable	675,669	655,157
Long-term liabilities	313,378	308,484
Other liabilities in the segment	2,150,083	2,135,696
Total liabilities	30,901,667	29,490,807

¹ Adjusted pursuant to IAS 8 (cf. section 3.1)

Life and health reinsurance		Consolidation		Total	
31.12.2016	31.12.2015 ¹	31.12.2016	31.12.2015 ¹	31.12.2016	31.12.2015 ¹
134,045	163,890	8,117	33,519	484,955	1,007,665
24,324	62,548	–	–	2,563,594	2,869,865
7,831,889	7,598,153	13,099	238,445	32,182,173	29,616,448
–	–	–	–	905,307	452,108
224,230	37,748	–	–	297,582	148,584
210,413	109,574	70,677	177	3,672,230	3,346,499
565,899	839,122	13,490	800	838,987	1,084,739
267,623	177,537	1,932	5,153	848,667	820,995
9,258,423	8,988,572	107,315	278,094	41,793,495	39,346,903
10,409,726	12,516,887	–	–	11,673,259	13,801,845
170,610	188,107	–	–	170,505	188,604
19,838,759	21,693,566	107,315	278,094	53,637,259	53,337,352
255,716	325,515	(194)	(614)	1,506,292	1,395,281
1,189,420	1,367,173	–	–	1,189,420	1,367,173
1,069	1,517	–	(23)	134,927	164,023
8,641	1,827	–	–	12,231	8,687
1,439,660	1,398,264	–	1	2,198,089	2,094,671
1,547,740	1,498,436	(52)	(190)	3,678,030	3,665,937
723,648	675,435	(681,631)	(828,423)	1,157,268	1,181,814
–	–	–	–	15,086	–
25,004,653	26,961,733	(574,562)	(551,155)	63,528,602	63,214,938
4,119,245	3,734,225	(194)	(614)	28,129,418	26,556,388
10,289,854	12,206,721	–	(22)	10,289,854	12,206,699
169,595	140,146	–	–	3,340,651	3,159,363
234,525	205,860	–	–	362,390	325,528
777,196	839,675	–	–	1,234,073	1,265,035
4,301,971	4,678,036	–	–	4,298,343	4,682,484
539,581	735,027	786	(178)	1,216,036	1,390,006
–	–	1,490,840	1,489,853	1,804,218	1,798,337
1,659,712	1,747,491	(696,723)	(829,559)	3,113,072	3,053,628
22,091,679	24,287,181	794,709	659,480	53,788,055	54,437,468

Consolidated segment report as at 31 December

Segment statement of income in EUR thousand	Property and casualty reinsurance	
	1.1. – 31.12.2016	1.1. – 31.12.2015
Gross written premium	9,204,554	9,337,973
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	9,204,554	9,337,973
Net premium earned	7,985,047	8,099,717
Net investment income	900,919	944,962
thereof		
Change in fair value of financial instruments	2,452	851
Total depreciation, impairments and appreciation of investments	75,997	35,556
Income/expense on funds withheld and contract deposits	24,031	20,162
Claims and claims expenses	5,330,662	5,616,450
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,975,912	1,849,059
Administrative expenses	199,380	201,962
Other income and expenses	(39,720)	(35,900)
Operating profit/loss (EBIT)	1,340,292	1,341,308
Interest on hybrid capital	–	–
Net income before taxes	1,340,292	1,341,308
Taxes	339,064	368,383
Net income	1,001,228	972,925
thereof		
Non-controlling interest in profit or loss	51,337	58,198
Group net income	949,891	914,727

Life and health reinsurance		Consolidation		Total	
1.1. – 31.12.2016	1.1. – 31.12.2015	1.1. – 31.12.2016	1.1. – 31.12.2015	1.1. – 31.12.2016	1.1. – 31.12.2015
7,149,023	7,730,885	45	(195)	16,353,622	17,068,663
(45)	195	45	(195)	–	–
7,149,068	7,730,690	–	–	16,353,622	17,068,663
6,432,387	6,492,412	181	913	14,417,615	14,593,042
638,898	709,173	10,603	10,958	1,550,420	1,665,093
23,702	50	(88)	–	26,066	901
31	177	–	2,365	76,028	38,098
308,118	374,871	–	–	332,149	395,033
5,480,293	5,458,957	370	–	10,811,325	11,075,407
80,490	101,123	22	34	80,512	101,157
1,032,384	1,075,078	2	2	3,008,298	2,924,139
201,973	197,254	192	(704)	401,545	398,512
67,122	35,919	(4,409)	(3,703)	22,993	(3,684)
343,267	405,092	5,789	8,836	1,689,348	1,755,236
–	–	71,693	84,316	71,693	84,316
343,267	405,092	(65,904)	(75,480)	1,617,655	1,670,920
86,522	109,713	(34,357)	(21,889)	391,229	456,207
256,745	295,379	(31,547)	(53,591)	1,226,426	1,214,713
3,860	5,790	–	–	55,197	63,988
252,885	289,589	(31,547)	(53,591)	1,171,229	1,150,725

6. Notes on the individual items of the balance sheet

6.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”.

Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments and cash.

The following table shows the regional origin of the investments under own management.

Investments	N 17	
in EUR thousand	2016	2015
Regional origin		
Germany	7,512,169	7,039,131
United Kingdom	2,705,587	2,959,291
France	1,834,876	1,605,671
Other	6,850,690	6,763,836
Europe	18,903,322	18,367,929
USA	14,141,199	12,525,280
Other	1,783,517	1,613,473
North America	15,924,716	14,138,753
Asia	2,210,353	2,429,402
Australia	2,435,296	2,352,170
Australasia	4,645,649	4,781,572
Africa	403,407	334,691
Other	1,916,401	1,723,958
Total	41,793,495	39,346,903

Maturities of the fixed-income and variable-yield securities
N 18

in EUR thousand	2016		2015	
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value
Held to maturity				
due in one year	144,327	145,003	516,518	523,403
due after one through two years	87,517	90,601	142,835	147,242
due after two through three years	28,500	30,907	92,480	96,765
due after three through four years	35,083	40,284	28,933	31,692
due after four through five years	140,256	162,586	35,024	40,966
due after five through ten years	48,276	54,398	190,907	219,086
due after more than ten years	996	311	968	323
Total	484,955	524,090	1,007,665	1,059,477
Loans and receivables				
due in one year	209,243	210,524	411,608	422,774
due after one through two years	140,840	144,552	280,642	289,989
due after two through three years	185,067	198,725	152,075	159,589
due after three through four years	228,296	247,919	200,139	219,242
due after four through five years	329,506	354,351	220,728	243,500
due after five through ten years	987,545	1,194,792	898,664	1,035,482
due after more than ten years	483,097	543,506	706,009	858,523
Total	2,563,594	2,894,369	2,869,865	3,229,099
Available for sale				
due in one year ²	4,470,510	4,479,500	4,088,058	4,096,488
due after one through two years	3,382,457	3,404,847	3,889,262	3,915,448
due after two through three years	2,820,187	2,866,629	3,803,539	3,827,843
due after three through four years	3,748,106	3,841,259	2,572,827	2,624,891
due after four through five years	3,134,627	3,190,102	3,829,675	3,915,469
due after five through ten years	11,351,605	11,588,659	9,449,584	9,659,645
due after more than ten years	4,234,143	4,498,831	3,253,590	3,482,398
Total	33,141,635	33,869,827	30,886,535	31,522,182
Financial assets at fair value through profit or loss				
due in one year	11,698	11,698	13,703	13,703
due after one through two years	210,510	210,510	19,027	19,027
due after two through three years	7,881	7,881	53,432	53,432
due after three through four years	9,828	9,828	19,841	19,841
due after four through five years	–	–	2,979	2,979
Total	239,917	239,917	108,982	108,982

¹ Including accrued interest

² Including short-term investments, cash and cash equivalents

The stated maturities may in individual cases diverge from the contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Variable-rate bonds (so-called “floaters”) are shown under the maturities due in one year and constitute our interest-related, within-the-year reinvestment risk.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value

N 19

in EUR thousand	2016				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	60,967	1,147	1,195	4	62,158
US Treasury notes	9,694	165	2	–	9,696
Debt securities issued by semi-governmental entities	85,877	1,247	3,915	–	89,792
Corporate securities	91,683	1,522	8,732	–	100,415
Covered bonds/asset-backed securities	236,734	5,441	25,980	685	262,029
Total	484,955	9,522	39,824	689	524,090

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value

N 20

in EUR thousand	2015				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	163,206	4,126	2,395	7	165,594
US Treasury notes	82,688	646	139	–	82,827
Other foreign government debt securities	20,074	65	65	–	20,139
Debt securities issued by semi-governmental entities	219,019	4,317	6,503	–	225,522
Corporate securities	92,070	1,521	7,635	81	99,624
Covered bonds/asset-backed securities	430,608	9,255	35,808	645	465,771
Total	1,007,665	19,930	52,545	733	1,059,477

The carrying amount of the portfolio held to maturity is arrived at from the amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value
N21

in EUR thousand	2016				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,609,907	25,638	225,273	3,701	1,831,479
Corporate securities	367,942	3,422	17,310	1,644	383,608
Covered bonds/asset-backed securities	585,745	10,334	93,537	–	679,282
Total	2,563,594	39,394	336,120	5,345	2,894,369

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value
N22

in EUR thousand	2015				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,595,127	26,617	243,934	1	1,839,060
Corporate securities	468,607	5,906	18,604	4,732	482,479
Covered bonds/asset-backed securities	806,131	12,968	101,457	28	907,560
Total	2,869,865	45,491	363,995	4,761	3,229,099

The carrying amount of the loans and receivables is arrived at from the amortised cost plus accrued interest.

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

N23

in EUR thousand	2016				Fair value
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,402,598	16,815	167,294	11,931	2,557,961
US Treasury notes	6,791,606	23,616	19,277	148,893	6,661,990
Other foreign government debt securities	2,310,277	19,932	21,163	30,583	2,300,857
Debt securities issued by semi-governmental entities	5,259,815	41,765	254,479	37,088	5,477,206
Corporate securities	11,872,850	130,611	389,364	77,183	12,185,031
Covered bonds/asset-backed securities	2,703,570	26,666	156,406	16,659	2,843,317
Investment funds	113,265	–	42,546	–	155,811
	31,453,981	259,405	1,050,529	322,337	32,182,173
Equity securities					
Shares	554,419	–	100,114	5,079	649,454
Investment funds	212,293	–	43,560	–	255,853
	766,712	–	143,674	5,079	905,307
Short-term investments	838,987	2,367	–	–	838,987
Total	33,059,680	261,772	1,194,203	327,416	33,926,467

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value

N24

in EUR thousand	2015 ¹				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,394,804	19,460	135,191	3,849	2,526,146
US Treasury notes	5,382,835	12,699	13,566	32,877	5,363,524
Other foreign government debt securities	2,148,576	18,299	25,602	38,766	2,135,412
Debt securities issued by semi-governmental entities	4,436,469	41,568	236,064	11,728	4,660,805
Corporate securities	11,911,422	140,011	320,712	168,280	12,063,854
Covered bonds/asset-backed securities	2,599,092	27,919	147,909	19,549	2,727,452
Investment funds	107,603	–	33,096	1,444	139,255
	28,980,801	259,956	912,140	276,493	29,616,448
Equity securities					
Shares	290,609	–	26,733	4,979	312,363
Investment funds	125,744	–	14,001	–	139,745
	416,353	–	40,734	4,979	452,108
Short-term investments	1,084,739	1,585	–	–	1,084,739
Total	30,481,893	261,541	952,874	281,472	31,153,295

¹ Adjusted pursuant to IAS 8 (cf. section 3.1)

The carrying amounts of the fixed-income securities and equity securities classified as available for sale as well as the short-term investments allocated to this category correspond to their fair values, in the case of interest-bearing assets including accrued interest.

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets

N25

in EUR thousand	2016	2015	2016	2015	2016	2015
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	239,917	108,566	–	416	239,917	108,982
	239,917	108,566	–	416	239,917	108,982
Other financial assets						
Derivatives	57,665	39,602	–	–	57,665	39,602
	57,665	39,602	–	–	57,665	39,602
Total	297,582	148,168	–	416	297,582	148,584

The carrying amounts of the financial assets at fair value through profit or loss correspond to their fair values including accrued interest.

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 57.7 million (EUR 39.6 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 239.9 million (EUR 109.0 million) designated in this category. The increase in this item is largely attributable to a structured bond that was acquired in connection with a retrocession treaty in the area of life and health reinsurance.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that fair value reductions of EUR 2.2 million were attributable to a changed credit risk. In the previous year no fair value changes were due to changes in credit risks.

We additionally use an internal rating method to back up this analysis. Our internal rating system is based on the corresponding credit ratings of securities assigned by the agencies Standard & Poor's and Moody's and in each case reflects the lowest of the available ratings.

For further information please see the explanatory remarks in section 8.1 "Derivative financial instruments and financial guarantees".

Carrying amounts before impairment

N26

in EUR thousand	2016		2015 ¹	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	484,955	–	1,010,030	2,365
Fixed-income securities – loans and receivables	2,563,594	–	2,869,865	–
Fixed-income securities – available for sale	32,182,862	689	29,616,845	397
Short-term investments	838,987	–	1,084,739	–
Equity securities – available for sale	935,448	30,141	453,997	1,889
Participating interests and other invested assets, real estate funds	2,170,696	15,342	1,922,482	6,694
Total	39,176,542	46,172	36,957,958	11,345

¹ Adjusted pursuant to IAS 8 (cf. section 3.1)

For further explanatory remarks on the impairment criteria please see section 3.2 "Summary of major accounting policies".

Rating structure of fixed-income securities
N27

in EUR thousand	2016								Total
	AAA	AA	A	BBB	BB	B	C	Other	
Fixed-income securities – held-to-maturity	303,675	118,989	52,291	10,000	–	–	–	–	484,955
Fixed-income securities – loans and receivables	1,729,470	454,311	175,440	176,365	25,213	–	–	2,795	2,563,594
Fixed-income securities – available-for-sale	14,222,049	5,011,396	5,466,586	6,114,696	921,352	151,673	3,251	291,170	32,182,173
Fixed-income securities – at fair value through profit or loss	–	–	–	–	44,042	–	–	195,875	239,917
Total fixed-income securities	16,255,194	5,584,696	5,694,317	6,301,061	990,607	151,673	3,251	489,840	35,470,639

Rating structure of fixed-income securities
N28

in EUR thousand	2015								Total
	AAA	AA	A	BBB	BB	B	C	Other	
Fixed-income securities – held-to-maturity	594,316	218,555	136,257	58,537	–	–	–	–	1,007,665
Fixed-income securities – loans and receivables	1,869,317	551,144	184,580	157,506	82,178	4,925	–	20,215	2,869,865
Fixed-income securities – available-for-sale	12,270,732	5,002,570	5,971,866	5,329,934	806,651	114,680	6,258	113,757	29,616,448
Fixed-income securities – at fair value through profit or loss	–	–	–	–	54,033	8,982	–	45,967	108,982
Total fixed-income securities	14,734,365	5,772,269	6,292,703	5,545,977	942,862	128,587	6,258	179,939	33,602,960

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Breakdown of investments by currencies

N 29

in EUR thousand	2016								Total
	AUD	CAD	CNY	EUR	GBP	USD	ZAR	Other	
Fixed-income securities – held to maturity	–	19,192	–	359,148	44,926	61,689	–	–	484,955
Fixed-income securities – loans and receivables	–	–	15,191	2,006,831	41,254	500,318	–	–	2,563,594
Fixed-income securities – available-for-sale	2,049,431	1,163,323	364,631	7,853,948	2,660,674	16,556,245	202,476	1,331,445	32,182,173
Fixed-income securities – at fair value through profit or loss	–	–	–	26,485	–	213,432	–	–	239,917
Equity securities – available-for-sale	–	–	–	474,201	58,519	372,587	–	–	905,307
Other financial assets – at fair value through profit or loss	–	–	–	6,198	5,520	45,804	143	–	57,665
Other invested assets	–	–	–	1,695,019	1,910	1,964,905	7,955	2,441	3,672,230
Short-term investments, cash	94,924	25,678	100,026	219,013	90,994	475,326	152,809	528,884	1,687,654
Total	2,144,355	1,208,193	479,848	12,640,843	2,903,797	20,190,306	363,383	1,862,770	41,793,495

Breakdown of investments by currencies

N30

in EUR thousand	2015								Total
	AUD	CAD	CNY	EUR	GBP	USD	ZAR	Other	
Fixed-income securities – held to maturity	–	58,813	–	628,496	80,673	239,683	–	–	1,007,665
Fixed-income securities – loans and receivables	–	–	87,851	2,107,800	47,801	626,413	–	–	2,869,865
Fixed-income securities – available-for-sale	1,923,332	886,984	191,808	7,042,147	3,051,928	15,131,219	181,058	1,207,972	29,616,448
Fixed-income securities – at fair value through profit or loss	–	–	–	5,061	709	103,212	–	–	108,982
Equity securities – available-for-sale	–	–	–	333,222	–	118,886	–	–	452,108
Other financial assets – at fair value through profit or loss	–	–	–	9,045	1,265	29,292	–	–	39,602
Other invested assets	–	–	–	1,670,086	2,592	1,653,348	10,032	10,441	3,346,499
Short-term investments, cash	86,202	22,175	407,697	325,441	62,564	490,382	99,771	411,502	1,905,734
Total	2,009,534	967,972	687,356	12,121,298	3,247,532	18,392,435	290,861	1,629,915	39,346,903

The maximum credit risk of the items shown here corresponds to their carrying amounts.

Associated companies

The associated companies included at equity in the consolidated financial statement that both on an individual basis and in their entirety are not material for the Hannover Re Group pursuant to IFRS 12 are comprised of

- WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany,
- HANNOVER Finanz GmbH, Hannover, Germany,
- ITAS Vita S.p.A., Trento, Italy,

as well as the following companies included at equity within the subgroup Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa:

- Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa,
- Clarenfin (Pty) Ltd., Johannesburg, South Africa,
- Vela Taxi Finance (Pty) Ltd., Johannesburg, South Africa.

Information on the percentage share held by the Hannover Re Group in the capital of the associated companies as well as on the amount of capital and reserves and the result for the last financial year of these companies is provided in the list of shareholdings in Section 4.2 “Consolidated companies and complete list of shareholdings”.

The following table shows combined financial information on the Hannover Re Group's individually non-material investments in associated companies.

Financial information on investments in associated companies

N31

in EUR thousand	2016	2015
Group share of net income from continuing operations	9,101	19,169
Group share of income and expense recognised directly in equity	(9,087)	2,407
Group share of total recognised income and expense	14	21,576

The carrying amount of the investments in associated companies changed as follows in the year under review:

Investments in associated companies

N32

in EUR thousand	2016	2015
Net book value at 31 December of the previous year	128,008	154,822
Currency translation at 1 January	263	113
Net book value after currency translation	128,271	154,935
Disposals	6,395	33,952
Profit or loss on investments in associated companies	9,101	19,169
Dividend payments	7,158	14,713
Change recognised outside income	(9,087)	2,407
Currency translation at 31 December	(99)	162
Net book value at 31 December of the year under review	114,633	128,008

No discontinued operations existed in the year under review among the companies measured at equity. Insofar as there are commitments from contingent liabilities of associated companies, the Hannover Re Group shares in such commitments in proportion to its respective shareholding.

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 18.5 million (EUR 21.9 million). For further details please see Section 4 "Consolidation".

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). Own-use real estate is recognised under other assets.

Real estate is valued at cost of acquisition less scheduled depreciation with useful lives of at most 50 years.

The investment property in the portfolio which is used to generate income is shown under the investments. Income and expenses from rental agreements are included in the investment income.

Development of investment property

N33

in EUR thousand	2016	2015
Gross book value at 31 December of the previous year	1,374,305	1,023,281
Currency translation at 1 January	22,117	39,440
Gross book value after currency translation	1,396,422	1,062,721
Additions	119,252	314,661
Disposals	17,969	6,935
Reclassification	–	26
Currency translation at 31 December	5,095	3,832
Gross book value at 31 December of the year under review	1,502,800	1,374,305
Cumulative depreciation at 31 December of the previous year	71,602	44,979
Currency translation at 1 January	1,260	2,402
Cumulative depreciation after currency translation	72,862	47,381
Disposals	1,592	2,748
Depreciation	28,885	23,750
Impairments	–	3,619
Appreciation	273	616
Reclassification	–	26
Currency translation at 31 December	675	190
Cumulative depreciation at 31 December of the year under review	100,557	71,602
Net book value at 31 December of the previous year	1,302,703	978,302
Net book value at 1 January of the year under review	1,323,560	1,015,340
Net book value at 31 December of the year under review	1,402,243	1,302,703

The fair value of investment property amounted to EUR 1,541.1 million (EUR 1,388.7 million) as at the balance sheet date.

The additions to this item are attributable to the increased investment activities of the real estate companies belonging to the Hannover Re Group, principally due to investments in the United States.

In terms of diversification across various real estate sectors the focus is on office properties (78%), followed by retail properties (17%). The allocation is complemented by investments in further sectors, including for example logistics and parking facilities. In geographical terms, exposures are spread across the United States (50%), Europe (excluding Germany; 29%) as well as Germany (21%).

The real estate in the investment portfolio is normally subject to internal and external valuation by an appraiser as at the balance sheet date. The two analyses do not differ from one another in the methodology used, which means that the findings are comparable at all times and on a continuous basis. Generally speaking, the fair value of the real estate is determined using

the discounted cash flow (DCF) method, with rental income capitalised in consideration of the associated management costs. The valuation result is also influenced by increases and reductions based on specific property circumstances (upkeep, vacancies, rent divergences from the market level, etc.). The evaluation of international real estate also draws primarily on the discounted cash flow method. The main feature of this method is the present value estimation of projected annual free cash flows.

Real estate which is held for sale as defined by IFRS 5 is recognised separately in the consolidated balance sheet. Intentions to sell are substantiated by individual real estate market conditions and specific property circumstances, taking into consideration current and future opportunity/risk profiles. In the year under review one property was reclassified to assets held for sale. At the time of reclassification and at the end of the reporting period the gross book value of the property amounted to EUR 16.6 million (previous year: none) and the cumulative depreciation totalled EUR 1.5 million (previous year: none). Measurement of the property in the context of classification as a non-current asset held for sale did not give rise to an impairment loss.

In addition, we held indirect real estate investments measured at fair values in an amount of EUR 390.7 million (EUR 371.3 million) in the year under review, the amortised costs of which amounted to EUR 323.5 million (EUR 316.0 million). The differences between the carrying amounts and amortised

costs were recognised as unrealised gains of EUR 70.8 million (EUR 56.4 million) and unrealised losses of EUR 3.7 million (EUR 1.2 million) under cumulative other comprehensive income.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 1,463.1 million (EUR 1,396.0 million), the amortised cost of which amounted to EUR 1,042.2 million (EUR 976.5 million). The differences between the carrying amounts and the amortised costs were recognised as unrealised gains of EUR 427.8 million (EUR 426.2 million) and unrealised losses

of EUR 6.9 million (EUR 6.7 million) under cumulative other comprehensive income.

In addition, acquired life insurance policies measured at fair value through profit or loss were recognised under the other invested assets in an amount of EUR 55.1 million (EUR 79.4 million).

Short-term investments

This item comprises investments with a maturity of up to one year at the time of investment.

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13 “Fair Value Measurement”, financial assets and liabilities are to be assigned to a three-level fair value hierarchy.

If input factors from different levels are used to measure a financial instrument, the level of the lowest input factor material to measurement is determinative.

The fair value hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

The operational units responsible for coordinating and documenting measurement are organisationally separate from the operational units that enter into investment risks. All relevant valuation processes and valuation methods are documented. Decisions on fundamental valuation issues are taken by a valuation committee that meets monthly.

- Level 1: Assets or liabilities measured at (unadjusted) prices quoted directly in active and liquid markets
- Level 2: Assets or liabilities which are measured using observable market data and are not allocable to level 1. Measurement is based, in particular, on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Assets or liabilities that cannot be measured or can only be partially measured using observable market inputs. The measurement of such instruments draws principally on valuation models and methods.

In the financial year just ended, as in the previous year, no investments were allocable to another level of the fair value hierarchy.

The following table shows the breakdown of financial assets and liabilities recognised at fair value into the three-level fair value hierarchy.

Fair value hierarchy of financial assets and liabilities recognised at fair value

N34

in EUR thousand	2016			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	38,603	32,383,487	–	32,422,090
Equity securities	905,297	–	10	905,307
Other financial assets	–	57,665	–	57,665
Real estate and real estate funds	–	–	390,676	390,676
Other invested assets	–	–	1,653,902	1,653,902
Short-term investments	838,987	–	–	838,987
Other assets	–	794	–	794
Total financial assets	1,782,887	32,441,946	2,044,588	36,269,421
Other liabilities	–	17,820	168,943	186,763
Total financial liabilities	–	17,820	168,943	186,763

Fair value hierarchy of financial assets and liabilities recognised at fair value

N35

in EUR thousand	2015 ¹			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	34,077	29,691,353	–	29,725,430
Equity securities	452,098	–	10	452,108
Other financial assets	–	39,602	–	39,602
Real estate and real estate funds	–	–	371,254	371,254
Other invested assets	–	–	1,475,415	1,475,415
Short-term investments	1,084,739	–	–	1,084,739
Other assets	–	1,999	–	1,999
Total financial assets	1,570,914	29,732,954	1,846,679	33,150,547
Other liabilities	–	13,860	156,144	170,004
Total financial liabilities	–	13,860	156,144	170,004

¹ Adjusted pursuant to IAS 8 (cf. section 3.1)

The following table provides a reconciliation of the fair values of financial assets and liabilities included in level 3 at the beginning of the financial year with the fair values as at 31 December of the financial year.

Movements in level 3 financial assets and liabilities

N36

in EUR thousand	2016				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 31 December of the previous year	–	10	371,254	1,475,415	156,144
Currency translation at 1 January	–	–	5,686	32,916	5,733
Net book value after currency translation	–	10	376,940	1,508,331	161,877
Income and expenses					
recognised in the statement of income	–	–	(3,081)	14,666	(22,575)
recognised directly in shareholders' equity	–	–	10,646	(9,386)	–
Purchases	–	–	84,792	383,328	25,771
Sales	–	–	78,120	250,428	(3,559)
Settlements	–	–	–	–	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 31 December of the year under review	–	–	(501)	7,391	311
Net book value at 31 December of the year under review	–	10	390,676	1,653,902	168,943

Movements in level 3 financial assets and liabilities

N37

in EUR thousand	2015				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 31 December of the previous year	522	8	320,956	1,258,903	136,486
Currency translation at 1 January	59	2	17,605	88,473	15,339
Net book value after currency translation	581	10	338,561	1,347,376	151,825
Income and expenses					
recognised in the statement of income	–	–	(921)	(13,829)	(17,771)
recognised directly in shareholders' equity	–	–	(9,679)	(41,991)	–
Purchases	–	–	143,631	368,895	53,050
Sales	–	–	99,962	182,540	31,038
Settlements	567	–	–	–	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 31 December of the year under review	(14)	–	(376)	(2,496)	78
Net book value at 31 December of the year under review	–	10	371,254	1,475,415	156,144

The breakdown of income and expenses recognised in the statement of income in the financial year in connection with financial assets and liabilities assigned to level 3 is as follows:

Income and expenses from level 3 financial assets and liabilities

N 38

in EUR thousand	2016		
	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the financial year			
Ordinary investment income	–	214	–
Realised gains and losses on investments	–	23,192	–
Change in fair value of financial instruments	–	2,924	22,575
Total depreciation, impairments and appreciation of investments	(3,081)	(11,664)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	–	214	–
Change in fair value of financial instruments	–	2,924	22,575
Total depreciation, impairments and appreciation of investments	(1,264)	(11,665)	–

Income and expenses from level 3 financial assets and liabilities

N 39

in EUR thousand	2015		
	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the financial year			
Realised gains and losses on investments	(79)	(16,108)	–
Change in fair value of financial instruments	–	8,131	17,771
Total depreciation, impairments and appreciation of investments	(842)	(5,852)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Change in fair value of financial instruments	–	8,131	17,771
Total depreciation, impairments and appreciation of investments	(842)	(5,851)	–

If models are used to measure financial assets and liabilities included in level 3 under which the adoption of alternative inputs leads to a material change in fair value, IFRS 13 requires disclosure of the effects of these alternative assumptions. Of the financial assets included in level 3 with fair values of altogether EUR 2,044.6 million (EUR 1,846.7 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,853.8 million (EUR 1,767.3 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. The remaining financial assets included in

level 3 with a volume of EUR 190.8 million (EUR 79.4 million) relate to investments, the valuation of which is based inter alia on technical parameters. Derivative financial instruments in connection with the reinsurance business were recognised under the other liabilities included in level 3 in the year under review. Their performance is dependent upon the risk experience of an underlying group of primary insurance contracts with statutory reserving requirements. The application of alternative inputs and assumptions has no material effect on the consolidated financial statement.

Fair value hierarchy of financial assets and liabilities measured at amortised cost

N 40

in EUR thousand	2016			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	3,364,927	53,532	3,418,459
Real estate and real estate funds	–	–	1,541,101	1,541,101
Other invested assets	–	13,955	96,821	110,776
Total financial assets	–	3,378,882	1,691,454	5,070,336
Long-term debt and subordinated capital	–	1,977,801	–	1,977,801
Total financial liabilities	–	1,977,801	–	1,977,801

Fair value hierarchy of financial assets and liabilities measured at amortised cost

N 41

in EUR thousand	2015			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	4,276,334	12,242	4,288,576
Real estate and real estate funds	–	–	1,388,656	1,388,656
Other invested assets	–	11,224	57,894	69,118
Total financial assets	–	4,287,558	1,458,792	5,746,350
Long-term debt and subordinated capital	–	1,969,384	–	1,969,384
Total financial liabilities	–	1,969,384	–	1,969,384

6.2 Funds withheld (assets)

The funds withheld totalling EUR 11,673.3 million (EUR 13,801.8 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to

the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The decrease in funds withheld was attributable principally to partial withdrawals for specific underwriting years in relation to our UK single premium business.

6.3 Contract deposits (assets)

The contract deposits on the assets side decreased by EUR 18.1 million in the year under review from EUR 188.6 million to EUR 170.5 million.

6.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 6.7 "Technical provisions" on page 198 et seq. as well as the remarks in the risk report on page 73 et seq.

SFAS 60 requires that acquisition costs be capitalised as assets and amortised in proportion to the earned premium.

In the case of reinsurance treaties for unit-linked life insurance policies classified as "universal life-type contracts" pursuant to SFAS 97, the capitalised acquisition costs are amortised on the basis of the estimated gross profit margins from the reinsurance treaties, making allowance for the period of the insurance contracts. A discount rate based on the interest for medium-term government bonds was applied to such contracts. In the case of annuity policies with a single premium payment, these values refer to the expected policy period or period of annuity payment.

In life and health reinsurance the deferred acquisition costs associated with life and annuity policies with regular premium payments are determined in light of the period of the contracts, the expected surrenders, the lapse expectancies and the anticipated interest income.

In property and casualty reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

N 42

in EUR thousand	2016	2015
Net book value at 31 December of the previous year	2,094,671	1,914,598
Currency translation at 1 January	1,728	71,870
Net book value after currency translation	2,096,399	1,986,468
Changes in the consolidated group	1,327	–
Additions	614,050	600,389
Amortisations	525,581	498,666
Currency translation at 31 December	11,894	6,480
Net book value at 31 December of the year under review	2,198,089	2,094,671

For further explanatory remarks please see Section 3.2 “Summary of major accounting policies”.

The age structure of the accounts receivable which were unadjusted but considered overdue as at the balance sheet date is presented below.

Age structure of overdue accounts receivable

N 43

in EUR thousand	2016		2015	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	218,703	117,141	236,444	140,600

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 90 et seq.

The default risks associated with accounts receivable under reinsurance business are determined and recognised on the basis of case-by-case analysis.

The value adjustments on accounts receivable that we recognise in adjustment accounts changed as follows in the year under review:

Value adjustments on accounts receivable

N 44

in EUR thousand	2016	2015
Cumulative value adjustments at 31 December of the previous year	35,992	42,221
Currency translation at 1 January	(274)	(4,047)
Cumulative value adjustments after currency translation	35,718	38,174
Value adjustments	30,602	23,565
Reversal	15,533	10,892
Utilisation	10,319	14,855
Cumulative value adjustments at 31 December of the year under review	40,468	35,992
Gross book value of accounts receivable at 31 December of the year under review	3,718,498	3,701,929
Cumulative value adjustments at 31 December of the year under review	40,468	35,992
Net book value of accounts receivable at 31 December of the year under review	3,678,030	3,665,937

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 6.7 “Technical

provisions”. With regard to the credit risks resulting from technical assets we would also refer the reader to our comments on page 90 et seq. of the risk report.

6.5 Goodwill

In accordance with IFRS 3 “Business Combinations” scheduled amortisation is not taken on goodwill. Goodwill was subject to an impairment test.

Development of goodwill

N 45

in EUR thousand	2016	2015
Net book value at 31 December of the previous year	60,244	58,220
Currency translation at 1 January	(1,200)	1
Net book value after currency translation	59,044	58,221
Additions	5,368	2,365
Currency translation at 31 December	197	(342)
Net book value at 31 December of the year under review	64,609	60,244

This item principally includes the goodwill from the acquisition of E+S Rückversicherung AG as well as from the acquisition of the shares of Integra Insurance Solutions Limited. Goodwill equivalent to altogether EUR 5.4 million was added in the context of the initial consolidation of Glencar Underwriting Managers, Inc.

For the purposes of the impairment test, the goodwill was allocated to the cash-generating units (CGUs) that represent the lowest level on which goodwill is monitored for internal management purposes. In the instances of goodwill recognised as at the balance sheet date, the CGUs are the respective business units/legal entities. The recoverable amount is established on the basis of the value in use, which is calculated using the discounted cash flow method. In this context, the detailed planning phase draws on the planning calculations of the CGUs/companies covering the next five years. These planning calculations represent the outcome of a detailed planning process in which all responsible members of management are involved and where allowance is made for the latest market developments affecting the relevant entity (in relation to the sector and the economy as a whole). The subsequent perpetuity phase is guided by the profit margins and revenue growth rates that management believes can be sustainably generated. The capitalisation rate is based on the Capital Asset Pricing Model (CAPM) as well as

growth rates that are considered realistic in light of the specific market environment. The risk-free basic interest rate is determined, where possible, using corresponding yield curve data from the respective national banks. If this data cannot be obtained or can only be obtained with a disproportionately high effort, reference is made to the yields of the respective 30-year government bonds. Both the yield curves and the government bonds reflect the current interest rate trend on financial markets. The selection of the market risk premium is guided by the current recommendations of the Institute of Public Auditors in Germany (IDW). The beta factor is calculated for Hannover Rück SE on the basis of publicly accessible capital market data. The foreign exchange rates used for currency translation correspond to the situation on the balance sheet date.

The following capitalisation rates and growth rates were recognised for the individual cash-generating units:

Capitalisation rates

N 46

	Capitalisation rate	Growth rate
E+S Rückversicherung AG	6.000%	0.800%
Integra Insurance Solutions Limited	7.312%	1.000%

Sensitivity analyses were performed in which the capitalisation rates as well as material and value-influencing items of the relevant planning calculations (such as premium volumes, investment income or loss ratios) were varied. In this context individual parameters were each varied within appropriate ranges that could be anticipated in view of the prevailing

market circumstances and developments. It was established that in the event of changes in parameters within ranges that could reasonably occur, the values in use were in each case higher than the corresponding book values. We would also refer to our basic remarks in Section 3.2 “Summary of major accounting policies”.

6.6 Other assets

Other assets	N 47	
in EUR thousand	2016	2015
Present value of future profits on acquired life reinsurance portfolios	76,592	78,261
Other intangible assets	52,088	47,777
Insurance for pension commitments	87,303	82,152
Own-use real estate	67,171	66,736
Tax refund claims	58,129	96,986
Fixtures, fittings and equipment	27,234	28,707
Other receivables	8,921	8,533
Other	296,951	271,391
Total	674,389	680,543

Of this, other assets of EUR 3.9 million (EUR 4.6 million) are attributable to affiliated companies.

The item “Other” includes receivables of EUR 209.0 million (EUR 194.7 million) which correspond to the present value of future premium payments in connection with derivative financial instruments arising from transactions in the life and health

reinsurance business group. For further explanation please see Section 8.1 “Derivative financial instruments and financial guarantees”.

The other receivables include items of EUR 0.2 million (previous year: none) that were overdue by between three and twelve months but unadjusted as at the balance sheet date.

Present value of future profits (PVFP) on acquired life reinsurance portfolios

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios	N 48	
in EUR thousand	2016	2015
Gross book value at 31 December of the previous year	131,701	131,102
Currency translation at 1 January	4,352	598
Gross book value at 31 December of the year under review	136,053	131,700
Cumulative depreciation at 31 December of the previous year	53,440	48,712
Currency translation at 1 January	1,478	598
Cumulative depreciation after currency translation	54,918	49,310
Amortisation	4,343	5,186
Currency translation at 31 December	200	(1,057)
Cumulative depreciation at 31 December of the year under review	59,461	53,439
Net book value at 31 December of the previous year	78,261	82,390
Net book value at 31 December of the year under review	76,592	78,261

This item consists of the present value of future cash flows recognised on business acquired in 2009 in the context of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium income.

The period of amortisation amounts to altogether 30 years. For further information please refer to our explanatory notes on intangible assets in Section 3.2 “Summary of major accounting policies”.

Insurance for pension commitments

Effective 1 July 2003 Hannover Rück SE took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 “Employee

Benefits” they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 87.3 million (EUR 82.2 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment	N 49	
in EUR thousand	2016	2015
Gross book value at 31 December of the previous year	147,459	143,788
Currency translation at 1 January	1,290	3,078
Gross book value after currency translation	148,749	146,866
Additions	9,288	7,352
Disposals	3,281	7,848
Reclassifications	–	993
Changes in consolidated group	794	196
Currency translation at 31 December	262	(100)
Gross book value at 31 December of the year under review	155,812	147,459
Cumulative depreciation at 31 December of the previous year	118,752	110,621
Currency translation at 1 January	1,067	2,740
Cumulative depreciation after currency translation	119,819	113,361
Disposals	2,552	7,349
Depreciation	10,812	12,225
Reclassifications	–	419
Changes in consolidated group	490	144
Currency translation at 31 December	9	(48)
Cumulative depreciation at 31 December of the year under review	128,578	118,752
Net book value at 31 December of the previous year	28,707	33,167
Net book value at 31 December of the year under review	27,234	28,707

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 “Summary of major accounting policies”.

Other intangible assets

Development of other intangible assets

N50

in EUR thousand	2016	2015
Gross book value at 31 December of the previous year	247,773	220,296
Currency translation at 1 January	283	221
Gross book value after currency translation	248,056	220,517
Changes in the consolidated group	202	6,131
Additions	17,727	22,773
Disposals	635	632
Currency translation at 31 December	(130)	(1,016)
Gross book value at 31 December of the year under review	265,220	247,773
Cumulative depreciation at 31 December of the previous year	199,996	182,834
Currency translation at 1 January	(355)	103
Cumulative depreciation after currency translation	199,641	182,937
Changes in the consolidated group	-	50
Disposals	555	174
Appreciation	5	17
Depreciation	13,924	17,466
Currency translation at 31 December	127	(266)
Cumulative depreciation at 31 December of the year under review	213,132	199,996
Net book value at 31 December of the previous year	47,777	37,462
Net book value at 31 December of the year under review	52,088	47,777

The item includes EUR 0.8 million (EUR 1.6 million) for self-created software and EUR 37.3 million (EUR 31.2 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 10.1 million (EUR 13.4 million) for purchased software and EUR 0.3 million (EUR 1.1 million) for capitalised development costs for self-created software.

The gross book values include rights from long-term reinsurance treaties still existing as at the balance sheet date. The intangible assets resulting from these rights were recognised in the context of business acquisitions in the years 1997 and 2002 and were written off in full as at the balance sheet date.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 90 et seq.

6.7 Technical provisions

In order to show the net technical provisions remaining in the retention the following table compares the gross provisions with the corresponding retrocessionaires' shares, which are shown as assets in the balance sheet.

Technical provisions

N51

in EUR thousand	2016			2015		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	28,129,418	1,506,292	26,623,126	26,556,388	1,395,281	25,161,107
Benefit reserve	10,289,854	1,189,420	9,100,434	12,206,699	1,367,173	10,839,526
Unearned premium reserve	3,340,651	134,927	3,205,724	3,159,363	164,023	2,995,340
Other technical provisions	362,390	12,231	350,159	325,528	8,687	316,841
Total	42,122,313	2,842,870	39,279,443	42,247,978	2,935,164	39,312,814

The loss and loss adjustment expense reserves are in principle calculated on the basis of the information supplied by ceding companies. Additional IBNR reserves are established for losses that have been incurred but not as yet reported. The development of the loss and loss adjustment expense reserve is shown in the following table. Commencing with the gross reserve, the change in the reserve after deduction of the reinsurers' portions is shown in the year under review and the previous year.

in EUR thousand	2016			2015		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	26,556,388	1,395,281	25,161,107	24,112,056	1,376,432	22,735,624
Currency translation at 1 January	383,428	37,654	345,774	1,118,172	55,998	1,062,174
Net book value after currency translation	26,939,816	1,432,935	25,506,881	25,230,228	1,432,430	23,797,798
Incurring claims and claims expenses (net) ¹						
Year under review	8,791,598	615,771	8,175,827	8,906,387	865,140	8,041,247
Previous years	2,985,840	350,342	2,635,498	3,211,467	177,307	3,034,160
	11,777,438	966,113	10,811,325	12,117,854	1,042,447	11,075,407
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,753,750)	(231,712)	(2,522,038)	(2,896,318)	(444,929)	(2,451,389)
Previous years	(7,826,003)	(659,985)	(7,166,018)	(8,013,708)	(619,536)	(7,394,172)
	(10,579,753)	(891,697)	(9,688,056)	(10,910,026)	(1,064,465)	(9,845,561)
Changes in the consolidated group	4,179	2,613	1,566	–	–	–
Specific value adjustment for retrocessions	–	1,250	(1,250)	–	3	(3)
Reversal of impairments	–	3	(3)	–	29	(29)
Portfolio entries/exits	–	–	–	–	176	(176)
Currency translation at 31 December	(12,262)	(2,425)	(9,837)	118,332	(15,333)	133,665
Net book value at 31 December of the year under review	28,129,418	1,506,292	26,623,126	26,556,388	1,395,281	25,161,107

¹ Including expenses recognised directly in shareholders' equity

In the year under review, as in the previous year, minimal specific value adjustments were established and reversed on retrocessions, i. e. on the reinsurance recoverables on unpaid claims. On balance, therefore, cumulative specific value adjustments of EUR 1.4 million (EUR 0.1 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 26,621.7 million (EUR 25,161.0 million) as at the balance sheet date.

Run-off of the net loss reserve in the property and casualty reinsurance segment

To some extent the loss and loss adjustment expense reserves are inevitably based upon estimations that entail an element of uncertainty. The difference between the loss reserves constituted in the previous year and the losses paid out of these reserves is reflected in the net run-off result. In this regard, owing to the fact that the period of some reinsurance treaties is not the calendar year or because they are concluded on an underwriting-year basis, it is frequently impossible to make an exact allocation of claims expenditures to the current financial year or the previous year.

The run-off triangles provided by the reporting units are shown after adjustment for the currency effects arising out of translation of the respective transaction currency into the local reporting currency. The run-off triangles of the reporting units delivered in foreign currencies are translated to euro at the current rate on the balance sheet date in order to show run-off results after adjustment for currency effects. In cases where the originally estimated ultimate loss corresponds to the actual ultimate loss in the original currency, it is ensured that also after translation to the Group reporting currency (EUR) a run-off result induced purely by currency effects is not shown.

The run-off triangles show the run-off of the net loss reserve (loss and loss adjustment expense reserve) established as at each balance sheet date, this reserve comprising the provisions constituted in each case for the current and preceding occurrence years.

The figures reported for the 2006 balance sheet year also include the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2016 financial year for the individual run-off years.

The following table shows the net loss reserve for the property and casualty reinsurance business group in the years 2006 to 2016 as well as the run-off of the reserve (so-called run-off

Net loss reserve and its run-off in the property and casualty reinsurance segment											N53
in EUR million	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012	31.12. 2013	31.12. 2014	31.12. 2015	31.12. 2016
Loss and loss adjustment expense reserve (from balance sheet)	13,646.5	13,017.0	13,882.1	14,179.4	15,465.5	16,823.2	17,439.3	18,029.3	19,859.1	21,851.1	22,759.8
Cumulative payments for the year in question and previous years											
One year later	2,643.2	2,569.4	3,041.8	2,832.7	2,521.3	3,220.0	2,999.0	3,265.1	3,587.9	3,353.0	
Two years later	4,446.5	4,427.5	4,721.7	4,086.3	4,202.5	5,002.4	4,654.5	5,096.2	5,364.9		
Three years later	5,826.6	5,576.2	5,494.2	4,923.5	5,220.5	5,954.9	5,872.9	6,233.0			
Four years later	6,654.7	6,133.3	6,092.3	5,584.1	5,881.8	6,908.0	6,736.1				
Five years later	7,056.1	6,574.5	6,581.8	6,095.8	6,655.3	7,636.4					
Six years later	7,400.7	6,942.7	6,915.5	6,604.3	7,208.4						
Seven years later	7,677.4	7,222.7	7,264.6	6,957.0							
Eight years later	7,906.7	7,515.6	7,530.0								
Nine years later	8,143.5	7,729.0									
Ten years later	8,308.8										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	13,646.5	13,017.0	13,882.1	14,179.4	15,465.5	16,823.2	17,439.3	18,029.3	19,859.1	21,851.1	22,759.8
One year later	12,911.4	13,307.8	14,977.3	13,643.3	14,773.9	16,519.8	16,984.2	17,769.4	19,341.7	21,046.1	
Two years later	12,494.1	13,239.1	13,690.3	12,832.4	14,136.6	16,143.6	16,570.7	17,127.7	18,296.8		
Three years later	12,419.9	12,747.0	12,763.5	12,234.1	13,717.1	15,650.3	16,057.3	16,125.7			
Four years later	11,988.9	11,828.6	12,255.1	11,813.6	13,234.1	15,029.7	15,331.6				
Five years later	11,145.6	11,472.8	11,917.2	11,336.3	12,667.6	14,321.8					
Six years later	10,870.7	11,167.3	11,407.9	10,805.5	12,094.4						
Seven years later	10,592.8	10,755.0	10,918.3	10,385.4							
Eight years later	10,272.6	10,335.9	10,540.5								
Nine years later	9,857.3	10,058.7									
Ten years later	9,656.1										
Change relative to previous year											
Net run-off result	201.2	76.1	100.6	42.3	153.0	134.8	17.7	276.3	43.0	(240.9)	
As percentage of original loss reserve	1.5	0.6	0.7	0.3	1.0	0.8	0.1	1.5	0.2	-1.1	

The run-off profit of altogether EUR 804.1 million in the 2016 financial year derives, as in the previous year, above all from positive run-offs of reserves in short-tail property business as well as in the areas of marine/aviation, motor third party liability.

Maturities of the technical reserves

IFRS 4 “Insurance Contracts” requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put

up as collateral for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see section 3.2 “Summary of major accounting policies”.

Maturities of the technical reserves

N54

in EUR thousand	2016					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	7,632,814	358,009	7,274,805	612,059	137,894	474,165
Due after one through five years	10,812,304	661,217	10,151,087	1,941,731	853,841	1,087,890
Due after five through ten years	4,160,760	224,772	3,935,988	1,061,394	71,956	989,438
Due after ten through twenty years	2,726,059	128,750	2,597,309	506,519	4,983	501,536
Due after twenty years	1,240,032	59,955	1,180,077	1,197,415	117,231	1,080,184
	26,571,969	1,432,703	25,139,266	5,319,118	1,185,905	4,133,213
Deposits	1,557,449	74,983	1,482,466	4,970,736	3,515	4,967,221
Total	28,129,418	1,507,686	26,621,732	10,289,854	1,189,420	9,100,434

Maturities of the technical reserves

N55

in EUR thousand	2015					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	7,307,701	391,609	6,916,092	889,225	448,136	441,089
Due after one through five years	10,514,893	561,676	9,953,217	2,074,902	790,242	1,284,660
Due after five through ten years	3,869,011	187,607	3,681,404	1,074,674	69,053	1,005,621
Due after ten through twenty years	2,527,158	112,346	2,414,812	722,625	34,890	687,735
Due after twenty years	1,182,110	55,298	1,126,812	1,076,414	20,569	1,055,845
	25,400,873	1,308,536	24,092,337	5,837,840	1,362,890	4,474,950
Deposits	1,155,515	86,891	1,068,624	6,368,859	4,283	6,364,576
Total	26,556,388	1,395,427	25,160,961	12,206,699	1,367,173	10,839,526

The average maturity of the loss and loss adjustment expense reserves was 5.1 years (5.0 years), or 5.1 years (5.0 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 10.7 years (9.9 years) – or 12.1 years (11.8 years) on a net basis.

The average maturity of the reserves is determined using actuarial projections of the expected future payments. A payment pattern is calculated for each homogenous category of our portfolio – making allowance for the business sector, geographical considerations, treaty type and the type of reinsurance – and applied to the outstanding liabilities for each underwriting year and run-off status.

The payment patterns are determined with the aid of actuarial estimation methods and adjusted to reflect changes in payment behaviour and outside influences. The calculations can also be distorted by major losses, and these are therefore considered separately using reference samples or similar losses. The payment patterns used can be compared year for year by contrasting the projected payments with the actual amounts realised. Liabilities in liability and motor reinsurance traditionally have long durations, sometimes in excess of 20 years, while liabilities in property business are settled within the first ten years.

A benefit reserve is established for life, annuity, personal accident and health reinsurance contracts. Based on the duration of these contracts, long-term reserves are constituted for life and annuity policies and predominantly short-term reserves are set aside for health and personal accident business.

The parameters used to calculate the benefit reserve are interest income, lapse rates and mortality/morbidity rates.

The values for the first two components (interest income and lapse rates) differ according to the country concerned, product type, investment year etc.

The mortality and morbidity rates used are chosen on the basis of national tables and the insurance industry standard. Empirical values for the reinsured portfolio, where available, are also taken into consideration. In this context insights into the gender, age and smoker structure are incorporated into the calculations, and allowance is also made for factors such as product type, sales channel and the frequency of premium payment by policyholders.

At the inception of every reinsurance contract, assumptions about the three parameters are made and locked in for the purpose of calculating the benefit reserve. At the same time, safety/fluctuation loadings are built into each of these components. In order to ensure at all times that the originally chosen assumptions continue to be adequate throughout the contract, checks are made on a regular – normally annual – basis in order to determine whether these assumptions need to be adjusted (“unlocked”).

The benefit reserve is established in accordance with the principles set out in SFAS 60. The provisions are based on the Group companies’ information regarding mortality, interest and lapse rates.

Development of the benefit reserve

N56

in EUR thousand	2016			2015		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	12,206,699	1,367,173	10,839,526	11,757,132	676,219	11,080,913
Currency translation at 1 January	(615,388)	4,822	(620,210)	716,643	48,141	668,502
Net book value after currency translation	11,591,311	1,371,995	10,219,316	12,473,775	724,360	11,749,415
Changes	197,019	116,507	80,512	502,461	401,304	101,157
Portfolio entries/exits	(1,529,022)	(327,771)	(1,201,251)	(813,517)	245,745	(1,059,262)
Currency translation at 31 December	30,546	28,689	1,857	43,980	(4,236)	48,216
Net book value at 31 December of the year under review	10,289,854	1,189,420	9,100,434	12,206,699	1,367,173	10,839,526

The development in the year under review was influenced by portfolio withdrawals attributable principally to partial withdrawals from specific underwriting years in relation to UK single premium business.

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and

established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

in EUR thousand	2016			2015		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	3,159,363	164,023	2,995,340	2,748,594	149,257	2,599,337
Currency translation at 1 January	25,681	5,658	20,023	114,612	6,266	108,346
Net book value after currency translation	3,185,044	169,681	3,015,363	2,863,206	155,523	2,707,683
Changes in the consolidated group	4,694	3,167	1,527	–	–	–
Changes	156,575	(29,808)	186,383	259,834	3,307	256,527
Portfolio entries/exits	(9,917)	(5,919)	(3,998)	–	–	–
Currency translation at 31 December	4,255	(2,194)	6,449	36,323	5,193	31,130
Net book value at 31 December of the year under review	3,340,651	134,927	3,205,724	3,159,363	164,023	2,995,340

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. In the context of the adequacy testing of technical liabilities (liability adequacy test pursuant to IFRS 4 in conjunction with loss recognition test as per US GAAP) the anticipated future contractual payment obligations are compared with the anticipated

future income. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 1,234.1 million (EUR 1,265.0 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The

maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side decreased by EUR 384.2 million in the year under review from EUR 4,682.5 million to EUR 4,298.3 million. The contract deposits item on the liabilities side essentially encompasses

balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The decrease was due principally to partial withdrawals from specific underwriting years in relation to UK single premium business.

6.10 Provisions for pensions and other post-employment benefit obligations

Pension commitments are given in accordance with the relevant version of the pension plan as amended. The 1968 pension plan provides for retirement, disability, widows' and orphans' benefits. The pension entitlement is dependent on length of service; entitlements under the statutory pension insurance scheme are taken into account. The pension plan was closed to new participants with effect from 31 January 1981.

On 1 April 1993 (1 June 1993 in the case of managerial staff) the 1993 pension plan came into effect. This pension plan provides for retirement, disability and surviving dependants' benefits. The scheme is based upon annual determination of the pension contributions, which are calculated according to the pensionable employment income and the company's performance. The pension plan was closed to new participants with effect from 31 March 1999.

From 1997 onwards it has been possible to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are protected by an insurance contract with HDI Lebensversicherung AG, Cologne.

As at 1 July 2000 the 2000 pension plan came into force for the entire Group. Under this plan, new employees included in the group of beneficiaries are granted an indirect commitment from HDI Unterstützungskasse e. V. This pension plan provides for retirement, disability and surviving dependants' benefits.

Effective 1 December 2002 Group employees have an opportunity to accumulate additional old-age provision at unchanged conditions by way of deferred compensation through membership of HDI Pensionskasse AG.

In addition to these pension plans, managerial staff and members of the Executive Board, in particular, enjoy individual commitments as well as commitments given under the benefits plan of the Bochumer Verband.

The commitments to employees in Germany predominantly comprise benefit obligations financed by the Group companies. The pension plans are unfunded. The provisions for pensions in Germany and abroad were calculated on the basis of uniform standards according to prevailing economic circumstances.

Provisions for pensions are established in accordance with actuarial principles and are based upon the commitments made by the Hannover Re Group for retirement, disability and widows' benefits. The amount of the commitments is determined according to length of service and salary level.

The defined benefit plans expose Hannover Re to the following actuarial risks:

- longevity
- currency
- interest rate
- disablement
- pension progression
- rate of compensation increase

Longevity entails the risk that the mortality contained in the actuarial bases does not correspond to the actual mortality and that pension payments have to be rendered and funded for a longer duration than had been assumed.

Disablement entails the risk that the assumed number of retirements from the subportfolio of eligible beneficiaries on grounds of disability does not correspond to the actual experience and for this reason increased benefit obligations have to be met.

The pension progression entails the risk that the anticipated development of the consumer price index factored into the trend assumptions was too low and that increased benefit obligations arise on account of the pension indexation required by law.

The rate of compensation increase entails the risk that the increases in pensionable salaries factored into the trend assumptions on a parallel basis do not adequately reflect the actual developments. In addition, in the case of plans under which the determinative income components above and below the income threshold for contributions to the statutory pension insurance scheme are differently weighted for the purpose of calculating the benefit, there is a risk of a diverging trend in the future with respect to salary and income threshold.

The calculation of the provisions for pensions is based upon the following assumptions:

Measurement assumptions

N58

in %	2016			2015	
	Germany	Australia	United Kingdom	Germany	Australia
Discount rate	1.65	3.62	2.70	2.36	3.60
Rate of compensation increase	1.59	3.00	2.35	2.50	3.50
Pension indexation	2.17	3.00	2.15	1.86	3.00

The movements in the net pension liability for the Group's various defined benefit plans were as follows:

Movements in net liability from defined benefit pension plans

N59

	2016	2015	2016	2015	2016	2015
	Defined benefit obligation		Fair value of plan assets		Impact of minimum funding requirement/asset ceiling	
in EUR thousand						
Position at 1 January of the financial year	154,832	187,034	4,533	15,533	–	–
Recognised in profit or loss						
Current service costs	3,169	4,274	–	–	–	–
Past service cost and plan curtailments	–	1,285	–	–	–	–
Net interest component	3,459	2,636	133	37	–	–
	6,628	8,195	133	37	–	–
Recognised in cumulative other comprehensive income						
Actuarial gain (–)/loss (+) from change in biometric assumptions	–	–	–	–	–	–
Actuarial gain (–)/loss (+) from change in financial assumptions	21,998	(17,840)	–	–	–	–
Experience gains (–)/losses (+)	17,755	(1,034)	–	–	–	–
Return on plan assets, excluding amounts included in interest income	–	–	11,904	123	–	–
Change in asset ceiling	–	–	–	–	40	–
Exchange differences	(431)	47	(403)	14	–	–
	39,322	(18,827)	11,501	137	40	–
Other changes						
Employer contributions	–	–	123	5,084	–	–
Employee contributions and deferred compensation	27	–	382	–	–	–
Benefit payments	(4,701)	(20,191)	(2)	(16,247)	–	–
Additions and disposals	11,605	(1,155)	10,311	(225)	–	–
Effects of plan settlements	(92)	(224)	–	214	–	–
	6,839	(21,570)	10,814	(11,174)	–	–
Position at 31 December of the financial year	207,621	154,832	26,981	4,533	40	–

The plan assets consist exclusively of qualifying insurance policies as defined by IAS 19.

The actuarial gains and losses from the change in financial assumptions for defined benefit obligations were chiefly influenced in the financial year just ended by the decrease in the discount rate compared to the previous year.

As a consequence of developments on the capital markets, funding of the minimum adjustment to current benefits from the surplus participation can no longer be anticipated. From a longer-term perspective, a required excess interest share of at

least 1% p. a. can no longer be assumed. For this reason, certain pension commitments given through provident funds were actuarially measured for the first time in the year under review in accordance with the requirements for defined benefit plans. The modified measurement of these pension commitments is reflected in the rise in experience losses to EUR 17.8 million (experience gain of EUR 1.0 million). This reclassification further gives rise to an increase in the return on plan assets to EUR 11.9 million (EUR 0.1 million).

The additions shown under the “Other changes” reflect the acquisition of CGI in the 2016 financial year.

The reconciliation of the projected benefit obligations with the recognised provisions for pensions is as follows:

Provisions for pensions		N 60	
in EUR thousand		2016	2015
Projected benefit obligations at 31 December of the financial year		207,621	154,832
Fair value of plan assets at 31 December of the financial year		26,981	4,533
Effect of minimum funding requirement on asset ceiling		40	–
Recognised pension obligations at 31 December of the financial year		180,680	150,299
Provisions for pensions		180,680	150,299

In the current financial year Hannover Re anticipates contribution payments of EUR 2.4 million under the plans set out above. The weighted average duration of the defined benefit obligation is 17.9 (17.5) years.

Sensitivity analysis

An increase or decrease in the key actuarial assumptions would have the following effect on the present value of the defined benefit obligation as at the balance sheet date:

Effect on the defined benefit obligation		N 61	
in EUR thousand		Parameter increase	Parameter decrease
Discount rate	(+/- 0.5%)	-15,848	20,409
Rate of compensation increase	(+/- 0.25%)	1,034	-1,013
Pension indexation	(+/- 0.25%)	6,106	-5,818

Furthermore, a change is possible with respect to the assumed mortality rates and lifespans. The underlying mortality tables were adjusted by reducing the mortalities by 10% in order to

determine the longevity risk. Extending the lifespans in this way would have produced a EUR 6.9 million (EUR 5.0 million) higher pension commitment at the end of the financial year.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the financial year in accordance with IAS 19 "Employee Benefits" was EUR 17.9 million (EUR 20.0 million), of which EUR 7.2 million (EUR 6.6 million) was attributable to the most significant defined contribution commitment, the contribution to the statutory pension insurance scheme in Germany. The other amounts recognised here result from defined contribution plans of the Group companies abroad. The 2000 pension plan, which had

also been recognised in the previous years as a defined contribution plan, was for the first time in its entirety no longer estimated as a defined contribution plan as at the balance sheet date, but rather it was measured as a defined benefit plan.

6.11 Other liabilities

Other liabilities	N62	
in EUR thousand	2016	2015
Liabilities from derivatives	186,763	170,004
Interest	31,387	30,908
Deferred income	32,579	28,819
Direct minority interests in partnerships	6,475	25,155
Sundry non-technical provisions	199,626	191,711
Sundry liabilities	223,566	252,336
Total	680,396	698,933

Of this, other liabilities of EUR 7.6 million (EUR 10.4 million) are attributable to affiliated companies.

With regard to the liabilities from derivatives in an amount of EUR 186.8 million (EUR 170.0 million), please see our explanatory remarks on derivative financial instruments in Section 8.1 “Derivative financial instruments and financial guarantees”.

The sundry liabilities include, most notably, distributions within the year of EUR 76.9 million (EUR 84.6 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions

N 63

in EUR thousand	Balance at 31 December 2015	Currency translation at 1 January	Balance at 1 January of the year under review
Provisions for			
Audits and costs of publishing the annual financial statements	7,092	41	7,133
Consultancy fees	1,805	16	1,821
Suppliers' invoices	11,040	121	11,161
Partial retirement arrangements and early retirement obligations	2,518	(7)	2,511
Holiday entitlements and overtime	9,233	111	9,344
Anniversary bonuses	3,664	24	3,688
Management bonuses	36,886	594	37,480
Other	119,473	720	120,193
Total	191,711	1,620	193,331

The maturities of the sundry non-technical provisions as at the balance sheet date are shown in the following table:

Maturities of the sundry non-technical provisions

N 64

in EUR thousand	2016	2015
Due in one year	98,652	86,075
Due after one through five years	94,488	101,640
Due after five years	6,486	3,996
Total	199,626	191,711

6.12 Debt and subordinated capital

On 15 September 2014 Hannover Rück SE placed a EUR 500.0 million subordinated bond on the European capital market. The issue has a perpetual maturity with a first scheduled call option on 26 June 2025 and may be redeemed at each coupon date thereafter. It carries a fixed coupon of 3.375% p. a. until 26 June 2025, after which the interest rate basis changes to 3-month EURIBOR +325 basis points.

On 20 November 2012 Hannover Rück SE placed a EUR 500.0 million subordinated bond in the European capital market via its subsidiary Hannover Finance (Luxembourg) S.A. The bond has a maturity of approximately 30 years with a first scheduled call option on 30 June 2023 and may be redeemed at each coupon date thereafter. It carries a fixed coupon of 5.00% p. a. until this date, after which the interest rate basis changes to a floating rate of 3-month EURIBOR +430 basis points.

On 14 September 2010 Hannover Rück SE placed a subordinated bond on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. This subordinated debt of EUR 500.0 million has a maturity of 30 years with a first scheduled call option after ten years and may be redeemed at each coupon date thereafter. The bond carries a fixed coupon of 5.75% in the first ten years, after which the interest rate basis changes to a floating rate of 3-month EURIBOR +423.5 basis points.

Changes in consolidated group	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31 December 2016
(1)	6,974	6,515	55	38	7,574
-	2,380	1,783	170	(3)	2,245
(4)	9,574	15,715	521	(14)	4,481
-	(245)	333	-	-	1,933
-	5,836	5,253	-	(3)	9,924
-	747	27	-	10	4,418
128	29,884	23,985	438	90	43,159
45	43,210	27,067	10,640	151	125,892
168	98,360	80,678	11,824	269	199,626

Altogether three (three) subordinated bonds were recognised as at the balance sheet date with an amortised cost of EUR 1,490.8 million (EUR 1,489.9 million).

Debt and subordinated capital

N65

in EUR thousand				2016			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Rück SE, 2014	3.375	n/a	EUR	494,471	17,154	8,692	520,317
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	497,511	81,264	12,603	591,378
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,859	71,986	8,507	579,352
				1,490,841	170,404	29,802	1,691,047
Debt				313,377	3,179	1,218	317,774
Total				1,804,218	173,583	31,020	2,008,821

Debt and subordinated capital

N 66

in EUR thousand				2015			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Rück SE, 2014	3.375	n/a	EUR	493,950	4,025	8,668	506,643
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	497,246	82,054	12,568	591,868
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,657	78,838	8,484	585,979
				1,489,853	164,917	29,720	1,684,490
Debt				308,483	6,130	1,188	315,801
Other long-term liabilities				1	–	–	1
Total				1,798,337	171,047	30,908	2,000,292

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated

using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Maturities of financial liabilities

N 67

in EUR thousand	2016						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities ¹	65,972	219,933	985	–	–	643	–
Debt	40,165	63,754	185,234	24,224	–	–	–
Subordinated loans	–	–	–	–	–	996,370	494,471
Total	106,137	283,687	186,219	24,224	–	997,013	494,471

¹ Excluding minority interests in partnerships, sundry non-technical provisions and derivative financial instruments; the maturities of the latter two items are broken down separately

Maturities of financial liabilities

N68

in EUR thousand	2015						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities ¹	55,112	256,058	893	–	–	–	–
Debt	–	39,047	246,117	23,319	–	–	–
Subordinated loans	–	–	–	–	–	995,903	493,950
Other long-term liabilities	–	1	–	–	–	–	–
Total	55,112	295,106	247,010	23,319	–	995,903	493,950

¹ Excluding minority interests in partnerships, sundry non-technical provisions and derivative financial instruments; the maturities of the latter two items are broken down separately

Net gains and losses from debt and subordinated capital

N69

in EUR thousand	2016		2015		2016		2015	
	Ordinary income/expenses		Amortisation		Net result			
Debt	(11,967)	(11,862)	780	732	(11,187)	(11,130)		
Subordinated loans	(70,706)	(80,954)	(987)	(3,362)	(71,693)	(84,316)		
Total	(82,673)	(92,816)	(207)	(2,630)	(82,880)	(95,446)		

The ordinary expenses principally include interest expenses of nominally EUR 70.7 million (EUR 81.0 million) resulting from the issued subordinated debt.

6.13 Shareholders' equity and treasury shares

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The common shares (share capital of Hannover Rück SE) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered ordinary shares in the form of no-par-value shares. The shares are paid in full. Each share carries an equal voting right and an equal dividend entitlement.

Conditional capital of up to EUR 60,299 thousand is available; it can be used to grant shares to holders of bonds and/or profit-sharing rights with conversion rights and warrants. Authorised capital is also available in an amount of up to EUR 60,299 thousand. Both have a time limit of 9 May 2021; the subscription right of shareholders may be excluded with the consent of the Supervisory Board under certain conditions. The Executive Board is authorised, with the consent of the Supervisory Board, to use an amount of up to EUR 1,000 thousand of the existing authorised capital to issue employee shares.

Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share option plan Hannover Rück SE acquired altogether 16,413 (12,922) treasury shares during the second quarter of 2016 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2020. This transaction

The Executive Board is further authorised, with the consent of the Supervisory Board, to acquire treasury shares – including through the use of derivatives – up to an amount of 10% of the share capital. The authorisation has a time limit of 5 May 2020.

The Annual General Meeting of Hannover Rück SE resolved on 10 May 2016 that a gross dividend of EUR 4.75 per share should be paid for the 2015 financial year. This corresponds to a total distribution of EUR 572.8 million (EUR 512.5 million). The distribution consists of a dividend of EUR 3.25 per share and a special dividend of EUR 1.50 per share.

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 10.1 million (decrease recognised in equity of EUR 11.9 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

The disclosures on capital management arising out of IAS 1 "Presentation of Financial Statements" are provided in the "Financial position" section on page 56 et seq. of the management report, to which the reader is referred. This includes both a presentation of our capital management objectives and procedures and a description of our policyholders' surplus, together with a summary of the diverse capital requirements to which we are subject. The Solvency II regulatory framework, in particular, gives rise to capital requirements and consequences for capital management, which we discuss more closely in the risk report on page 73 et seq.

resulted in an expense of EUR 0.4 million (EUR 0.3 million), which was recognised under personnel expenditure, as well as a negligible change in retained earnings recognised in equity. The company was no longer in possession of treasury shares as at the balance sheet date.

6.14 Non-controlling interests

Non-controlling interests in the shareholders' equity of subsidiaries are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". They amounted to EUR 743.3 million (EUR 709.1 million) as at the balance sheet date.

Non-controlling interests in partnerships are reported in accordance with IAS 32 "Financial Instruments: Presentation" under long-term liabilities. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 55.2 million (EUR 64.0 million) in the year under review.

Subsidiaries with material non-controlling interests

N70

in EUR thousand	2016	2015
	E+S Rückversicherung AG, Hannover, Germany	
Participation of non-controlling interests	35.21%	35.21%
Voting rights of non-controlling interests	35.21%	35.21%
Net income	133,367	147,794
thereof attributable to non-controlling interests	46,956	52,036
Income/expense recognised directly in equity	60,473	(41,416)
Total recognised income and expense	193,840	106,378
Shareholders' equity	1,978,546	1,894,706
thereof attributable to non-controlling interests	696,615	667,096
Dividends paid	110,000	120,000
thereof attributable to non-controlling interests	38,729	42,250
Assets	10,627,940	11,321,496
Liabilities	8,649,394	9,426,790
Cash flow from operating activities	293,299	358,705
Cash flow from investing activities	(187,314)	(239,012)
Cash flow from financing activities	(110,000)	(124,365)

7. Notes on the individual items of the statement of income

7.1 Gross written premium

The following table shows the breakdown of the gross written premium according to regional origin.

Gross written premium	N71	
in EUR thousand	2016	2015
Regional origin		
Germany	1,241,991	1,368,419
United Kingdom	2,532,399	2,759,809
France	682,894	701,380
Other	1,880,892	1,776,980
Europe	6,338,176	6,606,588
USA	4,566,467	4,318,201
Other	766,434	771,729
North America	5,332,901	5,089,930
Asia	2,416,250	2,950,202
Australia	913,780	1,008,059
Australasia	3,330,030	3,958,261
Africa	454,514	503,754
Other	898,001	910,130
Total	16,353,622	17,068,663

7.2 Investment income

Investment income	N72	
in EUR thousand	2016	2015
Income from real estate	142,956	140,994
Dividends	27,481	6,928
Interest income	943,682	993,218
Other investment income	47,857	112,303
Ordinary investment income	1,161,976	1,253,443
Profit or loss on shares in associated companies	9,101	19,169
Appreciation	294	616
Realised gains on investments	294,017	234,465
Realised losses on investments	87,721	98,618
Change in fair value of financial instruments	26,066	901
Impairments on real estate	31,966	28,212
Impairments on equity securities	30,141	1,889
Impairments on fixed-income securities	689	2,762
Impairments on participating interests and other financial assets	13,526	5,851
Other investment expenses	109,140	101,202
Net income from assets under own management	1,218,271	1,270,060
Interest income on funds withheld and contract deposits	453,643	462,898
Interest expense on funds withheld and contract deposits	121,494	67,865
Total investment income	1,550,420	1,665,093

The impairments totalling EUR 47.4 million (EUR 15.0 million) were attributable in an amount of EUR 30.1 million (EUR 1.9 million) to equities or equity funds because their fair values had fallen either significantly (by at least 20%) or for a prolonged period (for at least nine months) below acquisition cost. Impairments of EUR 11.7 million (EUR 5.9 million) were taken on alternative investments, thereof EUR 11.4 million (EUR 5.9 million) on private equity. An impairment loss of just EUR 0.7 million (EUR 2.8 million) was taken in the area of

fixed-income securities. In the real estate sector EUR 3.1 million (EUR 4.5 million) of the investments were recognised as impaired.

These write-downs contrasted with write-ups of EUR 0.3 million (EUR 0.6 million) made on investment property that had been written down in previous periods. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments

in EUR thousand	2016	2015
Fixed-income securities – held to maturity	25,280	61,439
Fixed-income securities – loans and receivables	96,696	106,911
Fixed-income securities – available for sale	798,618	802,858
Financial assets – at fair value through profit or loss	3,188	3,215
Other	19,900	18,795
Total	943,682	993,218

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses as well as impairments and appreciation. In

the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, income and expenses from changes in fair value are also recognised.

Making allowance for the other investment expenses of EUR 109.1 million (EUR 101.2 million), net income from assets under own management of altogether EUR 1,218.3 million (EUR 1,270.1 million) was recognised in the year under review.

Net gains and losses on investments

N 74

in EUR thousand	2016				
	Ordinary investment income ¹	Realised gains and losses	Impairments/appreciation	Change in fair value	Net income from assets under own management ²
Held to maturity					
Fixed-income securities	23,486	(8)	–	–	23,478
Loans and receivables					
Fixed-income securities	95,858	2,841	–	–	98,699
Available for sale					
Fixed-income securities	744,783	161,068	668	–	905,183
Equity securities	21,152	7,060	30,141	–	(1,929)
Other invested assets	138,302	36,086	15,342	–	159,046
Short-term investments	15,414	35	–	–	15,449
At fair value through profit or loss					
Fixed-income securities	3,622	–	–	(9,458)	(5,836)
Other financial assets	–	–	–	15,177	15,177
Other invested assets	–	1,588	–	3,652	5,240
Other	128,460	(2,374)	29,877	16,695	112,904
Total	1,171,077	206,296	76,028	26,066	1,327,411

¹ Including income from associated companies, for reconciliation with the consolidated statement of income

² Excluding other investment expenses

Net gains and losses on investments

N 75

in EUR thousand	2015				
	Ordinary investment income ¹	Realised gains and losses	Impairments/appreciation	Change in fair value	Net income from assets under own management ²
Held to maturity					
Fixed-income securities	61,646	981	2,365	–	60,262
Loans and receivables					
Fixed-income securities	103,734	3,975	–	–	107,709
Available for sale					
Fixed-income securities	733,577	170,517	397	–	903,697
Equity securities	2,117	114	1,889	–	342
Other invested assets	192,983	646	6,694	–	186,935
Short-term investments	18,659	72	–	–	18,731
At fair value through profit or loss					
Fixed-income securities	3,215	110	–	(260)	3,065
Other financial assets	1,099	(5,684)	–	(25,823)	(30,408)
Other invested assets	–	(23,525)	–	9,468	(14,057)
Other	155,582	(11,359)	26,753	17,516	134,986
Total	1,272,612	135,847	38,098	901	1,371,262

¹ Including income from associated companies, for reconciliation with the consolidated statement of income

² Excluding other investment expenses

7.3 Reinsurance result

Reinsurance result

N 76

in EUR thousand	2016	2015
Gross written premium	16,353,622	17,068,663
Ceded written premium	1,749,624	2,219,094
Change in unearned premium	(156,575)	(259,834)
Change in ceded unearned premium	(29,808)	3,307
Net premium earned	14,417,615	14,593,042
Other technical income	470	1,290
Total net technical income	14,418,085	14,594,332
Claims and claims expenses paid	9,688,056	9,845,561
Change in loss and loss adjustment expense reserve	1,123,269	1,229,846
Claims and claims expenses	10,811,325	11,075,407
Change in benefit reserve	80,512	101,157
Net change in benefit reserve	80,512	101,157
Commissions	3,057,375	3,025,208
Change in deferred acquisition costs	89,150	97,673
Change in provision for contingent commissions	20,254	(9,106)
Other acquisition costs	16,292	5,652
Other technical expenses	3,997	1,348
Administrative expenses	401,545	398,512
Net technical result	115,935	93,827

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 6.7 “Technical provisions”. The change in the benefit

reserve relates exclusively to the life and health reinsurance segment. The administrative expenses amounted to altogether 2.8% (2.7%) of net premium earned.

Other technical income

N 77

in EUR thousand	2016	2015
Other technical income (gross)	4,110	4,074
Reinsurance recoverables	3,640	2,784
Other technical income (net)	470	1,290

Commissions and brokerage, change in deferred acquisition costs**N 78**

in EUR thousand	2016	2015
Commissions paid (gross)	3,240,829	3,313,301
Reinsurance recoverables	183,454	288,093
Change in deferred acquisition costs (gross)	7,927	119,918
Reinsurance recoverables	(81,223)	22,245
Change in provision for contingent commissions (gross)	23,661	(5,643)
Reinsurance recoverables	3,407	3,463
Commissions and brokerage, change in deferred acquisition costs (net)	2,988,479	2,918,429

Other technical expenses**N 79**

in EUR thousand	2016	2015
Other technical expenses (gross)	5,434	2,180
Reinsurance recoverables	1,437	832
Other technical expenses (net)	3,997	1,348

7.4 Other income and expenses**Other income/expenses****N 80**

in EUR thousand	2016	2015
Other income		
Exchange gains	496,755	374,351
Reversals of impairments on receivables	15,536	10,920
Income from contracts recognised in accordance with the deposit accounting method	105,858	98,377
Income from services	26,338	2,156
Deconsolidation	2,265	412
Other interest income	30,120	43,810
Sundry income	42,242	28,033
	719,114	558,059
Other expenses		
Other interest expenses	26,630	80,258
Exchange losses	457,884	289,467
Expenses from contracts recognised in accordance with the deposit accounting method	35,246	35,718
Separate value adjustments on receivables	31,885	23,570
Expenses for the company as a whole	64,814	57,986
Depreciation, amortisation, impairments	12,182	14,060
Expenses for services	27,593	7,961
Sundry expenses	39,887	52,723
	696,121	561,743
Total	22,993	(3,684)

The separate value adjustments were attributable to accounts receivable in an amount of EUR 30.6 million (EUR 23.6 million).

7.5 Taxes on income

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 "Income Taxes" are recognised under this item.

The reader is referred to the remarks in Section 3.2 "Summary of major accounting policies" regarding the basic approach to the recognition and measurement of deferred taxes.

Effective 1 January 2016 the raising of the trade tax multiplier for the City of Hannover from 460.0% to 480.0% was approved.

A tax rate of 32.63% (rounded to 32.7%; previous year: 31.93%, rounded to 32.0%) was therefore used to calculate the deferred taxes of the major domestic companies. It is

arrived at from the unchanged corporate income tax rate of 15.0%, the unchanged German solidarity surcharge of 5.5% and a trade earnings tax rate of 16.8% (16.1%). The Group tax rate showed a corresponding increase to 32.7% (32.0%). The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

Tax-relevant bookings on the Group level are made using the Group tax rate unless they refer specifically to individual companies.

Deferred tax liabilities on profit distributions of significant affiliated companies are established in the year when they are received.

Breakdown of taxes on income

The breakdown of actual and deferred income taxes was as follows:

Income tax	N 81	
in EUR thousand	2016	2015
Actual tax for the year under review	460,017	261,328
Actual tax for other periods	20,425	16,620
Deferred taxes due to temporary differences	(76,024)	186,579
Deferred taxes from loss carry-forwards	7,482	(24,905)
Change in deferred taxes due to changes in tax rates	(2,676)	21,548
Value adjustments on deferred taxes	(17,995)	(4,963)
Total	391,229	456,207

Domestic/foreign breakdown of recognised tax expenditure/income	N 82	
in EUR thousand	2016	2015
Current taxes		
Germany	413,063	195,884
Abroad	67,379	82,064
Deferred taxes		
Germany	(97,845)	186,898
Abroad	8,632	(8,639)
Total	391,229	456,207

The following table presents a breakdown of the deferred tax assets and liabilities into the balance sheet items from which they are derived.

Deferred tax assets and deferred tax liabilities of all Group companies

N83

in EUR thousand	2016	2015 ¹
Deferred tax assets		
Tax loss carry-forwards	105,940	118,379
Loss and loss adjustment expense reserves	325,929	229,865
Benefit reserve	135,794	156,980
Other technical/non-technical provisions	71,228	55,897
Funds withheld	21,060	22,780
Deferred acquisition costs	44,434	41,907
Accounts receivable/reinsurance payable	45,183	13,989
Valuation differences relating to investments	36,748	6,787
Contract deposits	3,196	–
Other valuation differences	46,841	41,680
Value adjustments ²	(27,527)	(45,352)
Total	808,826	642,912
Deferred tax liabilities		
Loss and loss adjustment expense reserves	215,852	55,223
Benefit reserve	149,531	124,232
Other technical/non-technical provisions	108,894	98,954
Equalisation reserve	1,119,135	1,214,395
Funds withheld	15,850	18,551
Deferred acquisition costs	186,623	205,227
Accounts receivable/reinsurance payable	71,446	63,613
Valuation differences relating to investments	255,699	239,012
Contract deposits	76,859	–
Present value of future profits on acquired life reinsurance portfolios (PVFP)	9,574	9,783
Other valuation differences	34,044	113,144
Total	2,243,507	2,142,134
Deferred tax liabilities	1,434,681	1,499,222

¹ For the year under review expanded netting opportunities arose in the calculation of deferred taxes. The previous year's figures were restated accordingly for the sake of comparability. There are no implications for recognition in the balance sheet.

² Thereof on tax loss carry-forwards: -EUR 26,880 thousand (-EUR 44,737 thousand)

The deferred tax assets and deferred tax liabilities are shown according to their origin in the above table. Deferred taxes resulting from a single transaction and with respect to which the corresponding temporary valuation differences are simultaneously reversed were already netted on recognition. Further

netting was made based on the timing of the reversal of temporary differences and other offsetting possibilities, ultimately resulting in the following disclosure of deferred tax assets and deferred tax liabilities in the balance sheet:

Netting of deferred tax assets and deferred tax liabilities

N84

in EUR thousand	2016	2015
Deferred tax assets	408,292	433,500
Deferred tax liabilities	1,842,973	1,932,722
Net deferred tax liabilities	1,434,681	1,499,222

In view of the unrealised gains on investments and on currency translation recognised directly in equity in the financial year, actual and deferred tax expenditure – including amounts attributable to non-controlling interests – of EUR 4.8 million (EUR 142.8 million) was also recognised directly in equity.

The following table presents a reconciliation of the expected expense for income taxes with the actual expense for income taxes reported in the statement of income. The pre-tax result is multiplied by the Group tax rate in order to calculate the Group's expected expense for income taxes.

Reconciliation of the expected expense for income taxes with the actual expense

N 85

in EUR thousand	2016	2015
Profit before taxes on income	1,617,655	1,670,920
Group tax rate	32.7%	32.0%
Expected expense for income taxes	528,973	534,694
Change in tax rates	(2,677)	21,548
Differences in tax rates affecting subsidiaries	(112,973)	(120,541)
Non-deductible expenses	44,122	66,902
Tax-exempt income	(41,654)	(39,216)
Tax expense/income not attributable to the reporting period	30,435	16,117
Value adjustments on deferred taxes/loss carry-forwards	(17,995)	(4,963)
Trade tax modifications	(39,645)	(24,597)
Other	2,644	6,263
Actual expense for income taxes	391,229	456,207

The expense for income taxes in the financial year was EUR 65.0 million lower than in the previous year at EUR 391.2 million (EUR 456.2 million).

The effective tax rate amounted to 24.2% (27.3%).

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards and tax credits of EUR 459.4 million (EUR 455.4 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 109.7 million (EUR 164.4 million) thereof was not capitalised since realisation is not sufficiently certain.

No deferred taxes were established on liabilities-side taxable temporary differences amounting to EUR 40.2 million (EUR 57.5 million) in connection with interests in Group companies because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

Availability of loss carry-forwards that have not been capitalised:

Expiry of non-capitalised loss carry-forwards and temporary differences

N 86

in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Temporary differences	–	–	–	3,804	3,804
Loss carry-forwards	–	–	–	105,876	105,876
Total	–	–	–	109,680	109,680

8. Other notes

8.1 Derivative financial instruments and financial guarantees

Derivatives are financial instruments, the fair value of which is derived from an underlying instrument such as equities, bonds, indices or currencies. We use derivative financial instruments in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.2 “Summary of major accounting policies” with regard to the measurement models used.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 2.5 million (EUR 3.6 million) and other financial assets at fair value through profit or loss in an amount of EUR 0.2 million (EUR 0.1 million).

Hannover Re’s portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions taken out to hedge currency risks. These transactions gave rise to recognition of other liabilities in an amount of EUR 10.0 million (EUR 3.1 million) and other financial assets at fair value through profit or loss in an amount of EUR 16.8 million (EUR 15.0 million). The reduction in equity from hedging instruments recognised directly in equity pursuant to IAS 39 in an amount of EUR 4.9 million derived solely from the forward exchange transactions taken out to hedge currency risks from long-term investments in foreign operations. These hedging instruments resulted in the recognition of other liabilities in an amount of EUR 2.3 million. Ineffective components of the hedge were recognised in profit or loss under other investment expenses in an amount of EUR 0.6 million.

In order to hedge the risk of share price changes in connection with the stock appreciation rights granted under the share award plan, Hannover Re has taken out hedges since 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 0.8 million (EUR 2.0 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss. The hedge gave rise to a decrease in equity from hedging instruments recognised directly in equity in an amount of EUR 0.9 million (increase in equity recognised directly in equity of EUR 5.9 million); ineffective components of the hedge were recognised in a minimal amount under other investment expenses and income of EUR 1.1 million was realised through profit or loss.

The maturities of the fair values and notional values of the hedging instruments described above can be broken down as follows:

Maturity structure of derivative financial instruments
A87

in EUR thousand	2016			31.12.2016
	Less than one year	One to five years	Five to ten years	
Interest rate hedges				
Fair values	(337)	(1,973)	–	(2,310)
Notional values	44,918	120,414	–	165,332
Currency hedges				
Fair values	10,398	(3,172)	(354)	6,872
Notional values	814,730	28,534	2,093	845,357
Share price hedges				
Fair values	794	–	–	794
Notional values	32,294	–	–	32,294
Total hedging instruments				
Fair values	10,855	(5,145)	(354)	5,356
Notional values	891,942	148,948	2,093	1,042,983

Maturity structure of derivative financial instruments
N88

in EUR thousand	2015			31.12.2015
	Less than one year	One to five years	Five to ten years	
Interest rate hedges				
Fair values	(709)	(2,776)	–	(3,485)
Notional values	83,781	119,813	–	203,594
Currency hedges				
Fair values	8,891	2,403	561	11,855
Notional values	655,412	33,122	6,396	694,930
Share price hedges				
Fair values	1,999	–	–	1,999
Notional values	25,486	–	–	25,486
Total hedging instruments				
Fair values	10,181	(373)	561	10,369
Notional values	764,679	152,935	6,396	924,010

The net changes in the fair value of these instruments resulted in a charge of EUR 6.6 million to the result of the financial year (improvement in the result of EUR 4.0 million).

Hannover Re enters into derivative transactions on the basis of standardised master agreements that contain global netting agreements. The netting agreements set out below normally

do not meet the criteria for netting in the balance sheet, since Hannover Re has no legal right whatsoever at the present moment in time to netting of the recognised amounts. The right to netting can, as a matter of principle, only be enforced upon occurrence of certain future defined events. Collateral furnished or received is recognised per counterparty up to at most the amount of the respective net liability or net asset.

in EUR thousand	2016				Net amount
	Fair value	Netting agreement	Cash collateral received/ furnished	Other collateral received/ furnished	
Derivative receivables	18,640	4,268	13,842	476	54
Derivative liabilities	9,969	4,268	–	487	5,214

in EUR thousand	2015				Net amount
	Fair value	Netting agreement	Cash collateral received/ furnished	Other collateral received/ furnished	
Derivative receivables	17,881	1,678	5,081	1,802	9,320
Derivative liabilities	3,146	1,678	–	–	1,468

Derivative financial instruments in connection with reinsurance

A number of treaties in life and health reinsurance meet criteria which require application of the prescriptions in IFRS 4 “Insurance Contracts” governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract (“host contract”), reported separately at fair value in accordance with IAS 39 “Financial Instruments: Recognition and Measurement” and recognised under investments. Fluctuations in the fair value of the derivative components are to be recognised through profit and loss in subsequent periods.

Within the scope of the accounting of “modified coinsurance” and “coinsurance funds withheld” (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair values of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a “credit spread” method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a positive value of EUR 24.6 million (EUR 23.2 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss. In the course of the year the change in the fair value of the derivative gave rise to income of EUR 0.5 million before tax (expense of EUR 26.1 million).

A derivative financial instrument was also unbundled from another similarly structured transaction. This gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 4.1 million (other liabilities of EUR 3.5 million). The performance of this derivative improved the result by EUR 7.5 million in the financial year (charge to the result of EUR 3.6 million).

A number of transactions concluded in the life and health reinsurance business group in previous years, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables recognised under other assets were to be carried in the same amount. Please see section 6.6 “Other assets”. The fair value of these instruments was EUR 168.9 million (EUR 156.1 million) on the balance sheet date and was recognised under other liabilities. The change in value in subsequent periods is dependent upon the risk experience and led to an improvement of EUR 22.6 million (EUR 17.8 million) in investment income in the financial year.

A retrocession agreement was concluded in the financial year in the area of life and health reinsurance, under which the premiums are deposited with Hannover Re and invested in a structured bond, the fair value of which has been guaranteed by the retrocessionaire. In accordance with the requirements of IFRS 4 this guarantee was to be unbundled from the

retrocession agreement and is carried as a derivative financial instrument at fair value. The derivative was recognised with a positive fair value of EUR 10.6 million as at the balance sheet date under other financial assets at fair value through profit or loss. In the course of the year the change in the fair value of the derivative resulted in income of EUR 10.1 million. Conversely, the performance of the structured bond, which is also measured at fair value, gave rise to a charge in the same amount.

All in all, application of the standards governing the accounting for derivatives in connection with the technical account led to recognition of assets totalling EUR 40.6 million

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,674.6 million (EUR 3,544.4 million); an amount equivalent to EUR 2,745.8 million (EUR 2,483.4 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by the Hannover Re Group cover their payment obligations. Under some of the transactions the payments resulting from the swaps in

(EUR 24.5 million) as well as recognition of liabilities in an amount of EUR 174.3 million (EUR 163.3 million) from the derivatives resulting from technical items as at the balance sheet date. Improvements in investment income amounting to EUR 40.9 million (EUR 18.5 million) as well as charges to income of EUR 1.8 million (EUR 29.7 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date.

8.2 Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties as group entities of a common parent, associated entities, legal entities under the influence of key management personnel and the key management personnel of the entity itself. Transactions between Hannover Rück SE and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the year under review the following significant business relations existed with related parties.

Talanx AG holds an unchanged majority interest of 50.22% in Hannover Rück SE. For its part, HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI), Hannover, holds a stake of 79.0% in Talanx AG and therefore indirectly holds 39.7% (rounded) of the voting rights in Hannover Rück SE.

The business relationship between Hannover Rück SE and its subsidiary E+S Rückversicherung AG is based on a cooperation agreement. A retrocession by Hannover Rück SE to E+S Rückversicherung AG exists in property and casualty reinsurance. The exclusive responsibilities of E+S Rückversicherung AG for German business and of Hannover Rück SE for international markets have been preserved.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, contractors all risks, group accident and business travel insurance. Divisions of Talanx AG also performed services for the Hannover Re Group in the areas of taxes and general administration.

Talanx Reinsurance Broker AG grants Hannover Rück SE and E+S Rückversicherung AG a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Rück SE and E+S Rückversicherung AG are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them. In certain circumstances Hannover Rück SE and E+S Rückversicherung AG are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker AG.

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

For the year under review and the previous year these business relations can be broken down as follows:

Business assumed and ceded in Germany and abroad

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in EUR thousand	2016		2015	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Property and casualty reinsurance	479,433	15,045	579,410	(67,022)
Life and health reinsurance	149,279	21,470	158,803	23,909
	628,712	36,515	738,213	(43,113)
Business ceded				
Property and casualty reinsurance	(7,091)	(5,095)	(10,784)	(2,377)
Life and health reinsurance	(34,237)	(11,201)	(67,276)	(10,963)
	(41,328)	(16,296)	(78,060)	(13,340)
Total	587,384	20,219	660,153	(56,453)

The reinsurance relationships with related parties in the year under review are shown with their total amounts in the table.

In the context of a bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 48.3 million (EUR 48.3 million) including accrued interest of EUR 1.3 million (EUR 1.3 million).

HDI Lebensversicherung AG, Cologne, participated in a nominal amount of EUR 50.0 million in the subordinated bond issued by Hannover Rück SE in September 2014 with a coupon of 3.375%.

Within the contractually agreed framework Talanx Asset Management GmbH performs investment and asset management services for Hannover Rück SE and the vast majority of its subsidiaries. Assets in special funds are managed by Ampega Investment GmbH. Talanx Immobilien Management GmbH performs services for Hannover Re under a number of management contracts.

In 2014 Hannover Rück SE reached an agreement with Talanx Asset Management GmbH that allows Talanx Asset Management GmbH to use software for checking sanctions lists.

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2015 to Talanx Service AG, Hannover. In addition, lease agreements exist with Talanx Service AG for use of a portion of the space in our data-processing computer centre.

Furthermore, IT and management services were performed for Talanx Reinsurance Broker AG, Hannover, under service contracts.

Actuarial opinions with respect to the pension commitments given to staff are drawn up for Hannover Rück SE and E+S Rückversicherung AG by Talanx Pensionsmanagement AG and HDI Lebensversicherung AG under an actuarial service contract.

Talanx AG performs various services in the area of taxes for a number of investment vehicles of the Hannover Re Group in the asset classes of private equity and real estate. In this regard corresponding agreements have been concluded with altogether 14 Hannover Re companies.

Since 2012 a service agreement has existed between Hannover Rück SE and Talanx AG regarding the purchase of services for operation of data acquisition software.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the active members of the Executive Board of Hannover Re amounted to altogether EUR 9.0 million (EUR 8.1 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 0.3 million (EUR 0.7 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 16 (16) pension commitments existed, totalled EUR 1.6 million (EUR 1.6 million) in the year under review; altogether, a provision of EUR 25.3 million (EUR 25.0 million) has been set aside for these commitments.

The total remuneration of the Supervisory Board of Hannover Re amounted to EUR 1.0 million (EUR 0.9 million). There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

The members of the governing bodies did not receive any advances or loans in the year under review. Nor were there any other material reportable circumstances or contractual relationships as defined by IAS 24 between companies of the Hannover Re Group and the members of the governing bodies or their related parties in the year under review. Furthermore,

Hannover Rück SE has concluded a service contract with Talanx Service AG in the area of flight services as well as a contract regarding the reciprocal provision of business continuity management services.

above and beyond the aforementioned remuneration as Supervisory Board members at Group companies, the members of the Supervisory Board were not in receipt of any remuneration or benefits for personally rendered services as defined by Item 5.4.6 Para. 3 of the German Corporate Governance Code.

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 103 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2016 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". 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 the remuneration report. Consequently, we have not provided any further explanation in the notes.

8.3 Share-based payment

In the 2016 financial year the following share-based payment plans with cash settlement existed within the Hannover Re Group:

1. Stock Appreciation Rights Plan (in effect since 2000, cancelled in stages from 2011 onwards and currently being wound up)
2. Share Award Plan (valid since 2011)

Stock Appreciation Rights Plan

With effect from 1 January 2000 the Executive Board of Hannover Rück SE, with the consent of the Supervisory Board, introduced a virtual stock option plan that provides for the granting of stock appreciation rights to certain managerial staff. The content of the stock option plan is based solely on the Conditions for the Granting of Stock Appreciation Rights. All the members of the Group's management are eligible for the award of stock appreciation rights. Exercise of the stock appreciation rights does not give rise to any entitlement to the delivery of shares of Hannover Rück SE, but merely to payment of a cash amount linked to the performance of the Hannover Rück SE share.

The Conditions for the Granting of Stock Appreciation Rights were cancelled for all eligible recipients. Awarded stock appreciation rights continue to be exercisable until the end of their period of validity.

Stock appreciation rights were first granted for the 2000 financial year and were awarded separately for each subsequent financial year (allocation year) until cancellation of the plan, provided the performance criteria defined in the Conditions for the Granting of Stock Appreciation Rights were satisfied.

The maximum period of the stock appreciation rights is ten years, commencing at the end of the year in which they are awarded. Stock appreciation rights which are not exercised by the end of the 10-year period lapse. Stock appreciation rights may only be exercised after a waiting period and then only within four exercise periods each year. Upon expiry of a four-year waiting period a maximum 60% of the stock appreciation rights awarded for an allocation year may be exercised. The waiting period for each additional 20% of the stock appreciation rights awarded for this allocation year to a member of the managerial staff is one further year. Each exercise period lasts for ten trading days, in each case commencing on the sixth trading day after the date of publication of the quarterly report of Hannover Rück SE.

Upon exercise of a stock appreciation right the amount paid out to the entitled party is the difference between the basic price and the current market price of the Hannover Rück SE share at the time of exercise. In this context, the basic price corresponds to the arithmetic mean of the closing prices of the Hannover Rück SE share on all trading days of the first full calendar month of the allocation year in question. The current market price of the Hannover Rück SE share at the time when

stock appreciation rights are exercised is determined by the arithmetic mean of the closing prices of the Hannover Rück SE share on the last twenty trading days prior to the first day of the relevant exercise period.

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question. In the event of cancellation or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2007 and 2009 to 2011 gave rise to commitments in the 2016 financial year shown in the following table. No allocations were made for the years 2005 or 2008.

Stock appreciation rights of Hannover Rück SE

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	Allocation year			
	2011	2010	2009	2007
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008
Period	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years
Basic price (in EUR)	40.87	33.05	22.70	34.97
Participants in year of issue	143	129	137	110
Number of rights granted	263,515	1,681,205	1,569,855	926,565
Fair value at 31 December 2016 (in EUR)	32.13	8.92	8.76	10.79
Maximum value (in EUR)	32.21	8.92	8.76	10.79
Weighted exercise price	32.21	8.92	8.76	10.79
Number of rights existing at 31 December 2016	110,310	398,639	42,159	8,356
Provisions at 31 December 2016 (in EUR million)	3.25	3.56	0.37	0.09
Amounts paid out in the 2016 financial year (in EUR million)	4.40	2.73	0.18	0.03
Expense in the 2016 financial year (in EUR million)	0.65	0.54	–	(0.05)

The existing stock appreciation rights are valued on the basis of the Black-Scholes option pricing model.

The calculations were based on the price of the Hannover Re share of EUR 103.00 as at the reference date of 15 December 2016, expected volatility of 21.09% (historical volatility on a five-year basis), an expected dividend yield of 4.61% and risk-free interest rates of -0.79% for the 2007 allocation year, -0.71% for the 2009 allocation year, -0.59% for the 2010 allocation year and -0.43% for the 2011 allocation year.

In the 2016 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2007 and 2009, for 80% of those awarded in 2010 and for 60% of those awarded in 2011. 2,443 stock appreciation rights from the 2007 allocation year, 20,809 stock appreciation rights from the 2009 allocation year, 305,726 stock appreciation rights from the 2010 allocation year and 136,746 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out stood at EUR 7.3 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 7.3 million (EUR 13.5 million) for the 2016 financial year. The expense totalled altogether EUR 1.1 million (EUR 3.6 million).

Share Award Plan

With effect from the 2011 financial year the Supervisory Board of Hannover Rück SE implemented a Share Award Plan for the members of the Executive Board of Hannover Re; this provides for the granting of stock participation rights in the form of virtual shares (referred to as “share awards”). The Executive Board of Hannover Re decided to adopt a Share Award Plan for certain management levels at Hannover Re as well with effect from the 2012 financial year.

The Share Award Plan replaces the cancelled Stock Appreciation Rights Plan. Please see our remarks under “Stock Appreciation Rights Plan” in this section. The share awards do not establish any claim against Hannover Re to the delivery of stock, but merely to payment of a cash amount in accordance with the conditions set out below.

The members of the Executive Board and management of Hannover Re who are eligible recipients under the Share Award Plan are those who have been allowed a contractual claim to the granting of share awards and whose service/employment relationship exists at the time when the share awards are granted and does not end through cancellation or a termination agreement on an effective date prior to expiry of the vesting period.

Share awards were granted separately for the first time for the 2011 financial year and then for each financial year (allocation year) thereafter. The first payout of share awards took place in the 2016 financial year for those share awards that had been allocated in the 2011 financial year to the eligible members of the Executive Board.

The total number of share awards granted is based on the value per share of Hannover Rück SE. The value per share is established according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share. In the conditions applicable to members of the Executive Board a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended is envisaged for the calculation. For senior executives a period of twenty trading days before to ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended has been agreed. The prices calculated in this way also determine the payout value of the share awards that have become payable. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the respective eligible recipients by the value per share, rounded up to the next full share. For members of the Executive Board 20% and for

senior executives 40% or 35% – according to management levels – of the defined variable remuneration shall be granted in the form of share awards.

The share awards are granted automatically without any requirement for a declaration. 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. This value is calculated according to the provisions of the preceding paragraph.

The eligible recipient shall be paid an amount that corresponds to the sum total of the values of the share awards calculated at the disbursement date for which the vesting period of four years has expired. The amount is to be paid in the month after expiry of the determinative period for calculating the value per share according to the preceding paragraphs.

In addition, upon payment of the value of the share awards, a sum shall be paid out in the amount of the dividend insofar as dividends were distributed to shareholders. The amount of the dividend is the sum total of all dividends per share paid out during the term of the share awards multiplied by the number of share awards due for disbursement to the eligible recipient at the disbursement date. In the event of early disbursement of the share awards, the value of the dividends shall only be paid out for the period until occurrence of the event that triggers early disbursement. No pro rata allowance shall be made for dividends that have not yet been distributed.

In the event that the Board mandate or service relationship with the member of the Executive Board or the employment relationship with the manager ends, the eligible recipient shall retain his claims to payment of the value of already granted share awards after expiry of the applicable vesting period, unless such termination is based on resignation of office/voluntary termination on the part of the member of the Executive Board or voluntary termination on the part of the manager or dismissal by Hannover Re for a compelling reason. In the event of death the claims arising out of the already granted and/or still to be granted share awards pass to the heirs.

Any entitlement to the granting of share awards after leaving the company is excluded. This shall not apply with respect to claims to variable remuneration acquired (pro rata) in the last year of service of the eligible recipient in the event of exit from the company on account of non-reappointment, occurrence of the pensionable event or death.

The Share Award Plan of Hannover Rück SE gives rise to the amounts shown in the following table.

Share awards of Hannover Rück SE

N93

	Allocation year								
	2016	2015		2014		2013		2012	
	Anticipated allocation	Final allocation 2016 for 2015	Anticipated allocation	Final allocation 2015 for 2014	Anticipated allocation	Final allocation 2014 for 2013	Anticipated allocation	Final allocation 2013 for 2012	Anticipated allocation
Valuation date									
Executive Board	30.12.2016	17.3.2016	30.12.2015	17.3.2015	30.12.2014	18.3.2014	30.12.2013	14.3.2013	28.12.2012
Senior executives	30.12.2016	24.3.2016	30.12.2015	24.3.2015	30.12.2014	25.3.2014	30.12.2013	21.3.2013	28.12.2012
Value per share award in EUR									
Executive Board	102.80	97.64	105.65	89.06	74.97	60.53	62.38	61.54	58.96
Senior executives	102.80	95.30	105.65	87.26	74.97	61.38	62.38	59.86	58.96
Number of allocated share awards in the allocation year									
Executive Board	10,704	11,244	9,355	12,172	13,308	16,631	14,418	16,452	16,053
Senior executives	81,322	79,383	65,107	85,460	85,159	99,783	91,660	102,900	100,531
Other adjustments ¹	–	(284)	–	(3,047)	–	(4,795)	–	(5,756)	–
Total	92,026	90,343	74,462	94,585	98,467	111,619	106,078	113,596	116,584

¹ This figure results from originally granted share awards that have since lapsed.

Development of the provision for share awards of Hannover Rück SE

N94

in EUR thousand	Allocation year						Total
	2016	2015	2014	2013	2012	2011	
Allocation 2011	–	–	–	–	–	289	289
Allocation 2012	–	–	–	–	1,839	409	2,248
Allocation 2013	–	–	–	1,426	1,442	285	3,153
Allocation 2014	–	–	1,534	2,364	2,549	529	6,976
Allocation 2015	–	1,658	3,102	4,288	5,020	1,036	15,104
Provision at 31 December of the previous year	–	1,658	4,636	8,078	10,850	2,548	27,770
Allocation 2016	1,918	2,429	1,920	2,177	2,133	–	10,577
Utilisation 2016	–	–	–	–	–	2,445	2,445
Release 2016	–	–	–	–	–	103	103
Provision at 31 December of the year under review	1,918	4,087	6,556	10,255	12,983	–	35,799

The aggregate provision – recognised under the sundry non-technical provisions – amounted to EUR 35.8 million (EUR 27.8 million) as at the balance sheet date.

The personnel expense for share awards in the case of members of the Executive Board is spread on an accrual basis across the relevant term of the share awards or the shorter term of

the service contracts; in the case of senior executives the personnel expense is spread across the relevant term of the share awards. The allocation of the financial year recognised in the expenditures on personnel totalled altogether EUR 10.6 million (EUR 15.1 million). This consists of the expense for share awards of the 2015 financial year as well as the dividend claim and the additionally earned portion of the share awards granted in earlier financial years. The value of the share awards finally granted is also influenced by movements in the share price. The sum total of the dividends included in the expenditures on personnel for earlier financial years amounted to EUR 2.0 million (EUR 1.4 million). The distributed dividend is recognised, with no allowance made for expected dividend payments. Dividend claims are recognised in the discounted amounts.

In the year under review the 22,232 share awards finally allocated in 2011 with a value of EUR 97.64 each plus the dividend entitlement of EUR 12.35 each were paid out to the eligible members of the Executive Board. The release of the provision for this tranche results from the difference between the share price of EUR 105.65 as at the last balance sheet date and the price of EUR 97.64 from March 2016 on which the payout was based.

With regard to the effects of the equity swaps taken out to hedge price risks, please see our explanatory remarks in Section 8.1 “Derivative financial instruments and financial guarantees”.

8.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,804 (2,747); of this number, 2,575 (2,553) were employed at Group companies allocable to

operational insurance business. As at the balance sheet date altogether 2,893 (2,762) staff were employed by the Hannover Re Group, with 1,349 (1,337) employed in Germany and 1,544 (1,425) working for the consolidated Group companies abroad.

Personnel information

N95

	2016					2015	
	31.3.	30.6.	30.9.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,780	2,789	2,794	2,893	2,804	2,762	2,747

Expenditures on personnel

The expenditures on insurance business, claims expenses (claims settlement) and expenditures on the administration of investments include the following personnel expenditures:

Personnel expenditures

N96

in EUR thousand	2016	2015
a) Wages and salaries	258,111	246,391
	258,111	246,391
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	22,082	23,037
bb) Expenditures for pension provision	25,520	25,430
bc) Expenditures for assistance	5,016	4,784
	52,618	53,251
Total	310,729	299,642

8.5 Earnings per share and dividend proposal

Calculation of the earnings per share

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	2016	2015
Group net income in EUR thousand	1,171,229	1,150,725
Weighted average of issued shares	120,596,997	120,597,026
Basic earnings per share in EUR	9.71	9.54
Diluted earnings per share in EUR	9.71	9.54

The earnings per share is calculated by dividing the net income attributable to the shareholders of Hannover Rück SE by the weighted average number of shares outstanding within the period under review.

Neither in the year under review nor in the previous reporting period were there any dilutive effects. The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees.

Dividend per share

A dividend of EUR 572.8 million (EUR 512.5 million) was paid in the year under review for the 2015 financial year.

It will be proposed to the Annual General Meeting on 10 May 2017 that a dividend of EUR 3.50 per share as well as

The weighted average number of shares does not include 16,413 (12,922) treasury shares pro rata temporis for the duration of the holding period. For further details please see our comments in section 6.13 “Shareholders’ equity and treasury shares”.

There were no other extraordinary components of income which should have been recognised or disclosed separately in the calculation of the earnings per share.

The earnings per share could potentially be diluted in future through the issue of shares or subscription rights from the authorised or conditional capital.

a special dividend of EUR 1.50 per share should be paid for the 2016 financial year. This corresponds to a total distribution of EUR 603.0 million. The dividend proposal does not form part of this consolidated financial statement.

8.6 Lawsuits

Member companies of the Hannover Re Group are involved in judicial and supervisory procedures as well as in arbitration proceedings as part of the conduct of insurance and reinsurance business. Depending upon the subject matter of the procedure, the Hannover Re Group sets aside provisions for the amount in dispute in such proceedings – for the most part in the technical account and in exceptional cases as a charge to other income and expenses – if and to the extent that the resulting commitments are likely to materialise and their amount can be estimated with sufficient accuracy. The provision established in each case covers the expense that can be expected in our assessment as at the balance sheet date.

Neither the outcome nor the duration of pending procedures can be definitively foreseen at the time when provisions are established. The final liabilities of Hannover Re may diverge considerably from the constituted provisions because the assessment of probability and the quantification of these uncertain liabilities in large measure require estimates that may prove not to be accurate as the proceedings in question

continue to progress. This is also true of procedures for which no provisions were established. Insofar as a commitment exists under such procedures as at the balance sheet date that may possibly but will probably not result in a loss, the Hannover Re Group estimates this potential loss – where practicable – and reports a contingent liability. For estimation purposes Hannover Re takes into account a number of factors. These include, among others, the nature of the claim, the status of the procedure concerned, decision of courts and arbitration bodies, prior settlement discussions, experience from comparable cases as well as expert opinions and the assessments of legal advisers and other experts. If a provision has been established for a particular procedure, a contingent liability is not recognised.

The lawsuits pending in the year under review and as at the balance sheet date were not material for the Hannover Re Group either individually or combined. Furthermore, no contingent liabilities from lawsuits were to report as at the balance sheet date.

8.7 Contingent liabilities and commitments

Hannover Rück SE has secured by subordinated guarantee the subordinated debts issued by Hannover Finance (Luxembourg) S.A. in the 2010 and 2012 financial years in amounts of EUR 500.0 million each.

The guarantees given by Hannover Rück SE for the subordinated debts attach if the issuer fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Rück SE does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 3,850.7 million (EUR 3,511.5 million) and EUR 45.6 million (EUR 27.2 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 1,857.5 million (EUR 1,810.3 million) in the form of so-called "single trust funds". This amount includes a sum equivalent to EUR 1,328.7 million (EUR 1,281.2 million) which was furnished by investors as security for potential reinsurance obligations from ILS transactions.

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,954.6 million (EUR 2,775.8 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

Letter of credit (LoC) facilities existed with a number of financial institutions as at the balance sheet date. A syndicated letter of credit facility taken out in 2011 with a volume of nominally USD 1.0 billion originally had a term maturing at the beginning of 2019. It was terminated in January 2016 and partially refinanced through bilateral credit facilities.

Letter of credit facilities with various terms (maturing at the latest in 2021) and a total volume equivalent to EUR 2,826.0 million (EUR 2,764.4 million) exist on a bilateral basis with financial institutions.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 1,343.7 million (EUR 1,335.2 million). In a departure from the previous year, this figure does not include letters of credit furnished in favour of Group companies in an amount of EUR 996.3 million (EUR 1,729.4 million).

A number of LoC facilities include standard market contractual clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see also our explanatory remarks in the "Financial position" section of the management report, page 60 et seq., on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

We put up own investments with a book value of EUR 49.8 million (EUR 57.9 million) as collateral for existing derivative transactions. We received collateral with a fair value of EUR 17.7 million (EUR 6.9 million) for existing derivative transactions.

As security for liabilities in connection with participating interests in real estate companies and real estate transactions the usual collateral under such transactions has been furnished to various banks, the amount of which totalled EUR 594.4 million (EUR 592.7 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 1,096.4 million (EUR 837.1 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

Group companies are members of the association for the reinsurance of pharmaceutical risks and several atomic and nuclear pools. The failure of one of the other pool members to meet its liabilities would result in an additional call according to the quota participation.

The application of tax regulations may not have been resolved at the time when tax items are brought to account. The calculation of tax refund claims and tax liabilities is based on what we consider to be the regulations most likely to be applied in each case. The revenue authorities may, however, take a differing view, as a consequence of which additional tax liabilities could arise in the future.

Hannover Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements

under which Hannover Rück SE guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

8.8 Rents and leasing

Leased property

Future leasing commitments

N 98

in EUR thousand	Payments
2017	9,874
2018	9,425
2019	7,835
2020	6,354
2021	5,471
Subsequent years	7,100

Operating leasing contracts produced expenditures of EUR 11.3 million (EUR 10.8 million) in the year under review.

Rented property

Altogether, non-cancellable contracts will produce the rental income shown below in subsequent years:

Rental income

N 99

in EUR thousand	Payments to be received
2017	89,118
2018	84,775
2019	80,844
2020	77,208
2021	70,654
Subsequent years	95,066

Rental income totalled EUR 94.8 million (EUR 87.8 million) in the year under review. The rental income resulted principally

from the renting out of properties by the Group's real estate companies.

8.9 Fee paid to the auditor

The appointed auditor of the consolidated financial statement of Hannover Re as defined by § 318 German Commercial Code (HGB) is KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG

AG). The expense recognised for the fees paid to KPMG AG and worldwide member firms of KPMG International (KPMG) in the year under review can be broken down as follows:

in EUR thousand	2016		2015	
	KPMG worldwide	thereof KPMG AG	KPMG worldwide	thereof KPMG AG
Services relating to auditing of the financial statements	8,540	2,445	7,124	1,603
Other assurance services	401	320	534	428
Tax consultancy services	678	515	614	152
Other services	2,283	2,088	3,253	3,242
Total	11,902	5,368	11,525	5,425

The auditor responsible for performance of the audit engagement as defined by § 38 Para. 2 of the Professional Charter for Accountants/Certified Auditors (Berufssatzung WP/vBP) as amended on 21 June 2016 is Mr. Florian Möller. He served as

the engagement partner responsible for the audit of the annual and consolidated financial statements for the first time as at 31 December 2015.

8.10 Events after the balance sheet date

In a press release dated 28 December 2016 we announced that we had been given final approval to establish a branch in India. After Hannover Re received this approval from the Insurance Regulatory and Development Authority of India (IRDAI) in December 2016, an application was submitted to the Indian Registrar of Companies in January 2017 for registration of the Hannover Rück SE-India Branch with its registered office in Mumbai. The branch, which writes both property and casualty reinsurance – including agricultural risks – and life and health reinsurance, commenced its business operations on 1 February 2017.

On 2 December 2016 the rating agency Standard & Poor’s (S&P) downgraded South Africa’s local debt rating to BBB. Consequently, the ratings of our subsidiaries Hannover Reinsurance

Africa Limited and Hannover Life Reassurance Africa Limited, both with their registered office in Johannesburg, were put on credit watch negative on 12 December 2016. In order to avert a possible downgrade, Hannover Rück SE (guarantor) furnished a guarantee for each of the companies effective 1 January 2017. The guarantees extend to all payment obligations of the companies arising out of the insurance and reinsurance contracts written by them. No conditions are attached to the guarantees, which are ongoing and binding upon the guarantor, and the commitments under the guarantees are equally ranked with all other unsecured liabilities of the guarantor. Upon recognition of the guarantees by S&P the negative credit watch was lifted on 8 February 2017 and both companies received the group rating (AA-/stable outlook).

Hannover, 7 March 2017

Executive Board



Wallin



Althoff



Chèvre



Gräber



Dr. Miller



Dr. Pickel



Vogel