085070 - Hannover Rück SE

Report Revision Date: 11/02/2016

Rating and Commentary [1]		*Financial* [2]		*General Information* [3]	
Best's Credit Rating:	09/30/2016	**Time Period:**	Annual - 2015	**Corporate Structure:**	N/A
Rating Rationale:	09/30/2016	**Last Updated:**	03/18/2016	**States Licensed:**	N/A
Report Commentary:	11/02/2016	**Status:**	Quality Cross Checked	**Officers and Directors:**	N/A
Best's Credit Rating Methodology		Disclaimer		Best's Rating Guide	

[1] The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

[2] The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

[3] The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Additional Online Resources	
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Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - Germany

Operating Company Composite

Ultimate Parent: HDI V.a.G.

Hannover Rück SE

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AMB #: 085070	**Ultimate Parent #:** 085259	**NAIC #:** N/A	**AIIN#:** AA-1340125

Report Revision Date: 11/02/2016

Best's Credit Ratings

Best's Financial Strength Rating: A+ **Outlook:** Stable

Best's Issuer Credit Rating: aa- **Outlook:** Stable

Rating Effective Date: 09/30/2016

Financial Size Category: XV

Rating Rationale

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Rating Rationale: The ratings of Hannover Rueck SE (Hannover Re) reflect its excellent consolidated risk-adjusted capitalisation, highly diversified earnings and superior business profile. Partly offsetting factors are Hannover Re's exposure to the deteriorating conditions of the global reinsurance market and the underperformance of some segments of its life and health portfolio.

The ratings of Hannover Re have also been extended to its main operating subsidiaries: E+S Rueckversicherung AG, Hannover Re (Bermuda) Limited, Hannover Life Reassurance Company of America, Hannover Re (Ireland) DAC, Hannover Life Reassurance Bermuda Limited and International Insurance Company of Hannover SE. These subsidiaries all maintain adequate levels of stand-alone risk-adjusted capitalisation. A.M. Best believes that capital is fungible across the Hannover Re group of companies.

Hannover Re's excellent consolidated risk-adjusted capitalisation is supported by the group's strong earnings generation, access to the traditional and alternative retrocession markets and hybrid debt programme. This structure is consistent with Hannover Re's capital management strategy, which seeks to optimise the group's competitive advantage through the use of low-cost capital. Intangible elements also contribute to the significant capital buffers inherent in the group's risk-adjusted capitalisation, as in the case of the value of in-force life business (an embedded value concept) for which A.M. Best applies partial credit within its capital model assessment. Hannover Re's balance sheet strength is supported by conservative investment and reserving strategies, high-quality retrocession placements and a comprehensive enterprise risk management framework. The group's excellent earnings generation and robust capital management strategy are factors expected to sustain its consolidated risk-adjusted capitalisation prospectively.

Hannover Re's highly diversified profile and robust enterprise risk management, which utilises the "intrinsic value creation (IVC)" concept (an approach that promotes the generation of profits in excess of the cost of capital) to support strategic decisions, continue to aid in the resilience and stability of the group's operating results. This is in spite of the ongoing intense competitive conditions, low interest rates and economic challenges it faces within its target markets. Despite the high frequency of catastrophe/large losses experienced during the second quarter of 2016, Hannover Re's performance remained strong, with the group reporting a non-life combined ratio of 95.4% for the first half of the year, unchanged from the results reported in the same period of 2015. Total major losses arising during the first half of 2016 amounted to EUR 353 million (or 9.2% of non-life net earned premium), compared with the EUR 197 million (5.0%) for the same period in 2015. The life and health account produced a healthy EBIT margin (relative to net earned premium) of 5.4%, delivering on Hannover Re's overall internal target.

The mortality and morbidity segments of the life and health account remain areas of underperformance for Hannover Re. This largely reflects the higher than expected levels of claims experience from the U.S. mortality account. Although management has taken corrective actions to improve profitability, the performance of the mortality and morbidity segments consistently fails to meet internal expectations, as demonstrated by the combined EBIT margin of 4.3% for the first half of 2016 relative to the group's internal target of 6.0%. Nonetheless, forthcoming earnings associated with new in-force business appears healthy, with the value of new business amounting to EUR 543 million in 2015, outperforming Hannover Re's internal benchmark of EUR 180 million.

As the third-largest global reinsurer, Hannover Re benefits from its highly diversified profile (by product, service offerings and geographic spread), excellent financial strength, strong brand recognition and long-standing relationships with various stakeholders in the market. The group also benefits from its lean and efficient infrastructure, which supports its relatively low expense base, allowing the group to focus on selective underwriting in the intense competitive environment. A partly offsetting factor is the protracted deterioration of the global reinsurance market and the negative effect it may have on Hannover Re's technical performance going forward. However, any downside is likely to be limited by the benefit of Hannover Re's superior business profile.

A.M. Best believes that the Hannover Re group of companies maintains a high degree of financial and operational independence from the other operations of Talanx AG, the intermediate non-operating holding parent.

Positive rating action could occur if Hannover Re maintains its strong rating fundamentals during the depressed reinsurance cycle. Additionally, Hannover Re's ability to demonstrate fundamentals that consistently exceed that of its peers could also support upwards rating movement.

Negative rating action could occur if Hannover Re's consolidated risk-adjusted capitalisation or operating performance were to fall to a level outside of A.M. Best's expectations, due to factors such as unexpectedly high catastrophic losses, deterioration in underwriting risk controls resulting in sustained decline in technical results or the implementation of a materially high-risk investment strategy.

Five Year Rating History

	BEST'S	
Date	FSR	ICR
09/30/2016	A+	aa-
09/25/2015	A+	aa-
09/19/2014	A+	aa-
08/23/2013	A+	aa-
09/05/2012	A+	aa-
11/04/2011	A	a+

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Balance Sheet Items

	EUR (000) 2015	EUR (000) 2014	EUR (000) 2013	EUR (000) 2012	EUR (000) 2011
Liquid assets	18,671,464	16,849,504	14,803,805	13,547,260	11,527,399
Total investments	25,566,263	23,101,588	20,836,310	19,503,890	17,460,258
Total assets	57,581,320	55,498,930	42,002,878	38,785,533	35,570,479
Unrealized gain/(loss) on investments	3,244,969	2,643,059	1,836,451	2,729,172	1,879,786
Total gross technical reserves	39,924,648	40,137,070	31,141,200	28,596,484	26,545,893
Net technical reserves	27,218,278	29,594,382	25,031,313	22,891,304	21,142,733
Total liabilities	52,224,858	50,671,597	37,512,191	34,567,563	31,850,166
Capital & surplus	5,356,462	4,827,333	4,490,687	4,217,970	3,720,313

Income Statement Items

	EUR (000) 2015	EUR (000) 2014	EUR (000) 2013	EUR (000) 2012	EUR (000) 2011
Gross premiums written	14,139,332	10,864,912	11,047,916	10,457,301	9,130,245
Net premiums written	10,325,020	8,612,325	8,307,303	7,948,244	7,080,081
Balance on technical account(s)	-170,489	-457,211	-199,283	-121,724	-332,104
Profit/(loss) before tax	1,200,102	875,429	647,851	886,622	566,069
Profit/(loss) after tax	1,041,930	698,883	634,878	750,911	562,792

Business Profile

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Hannover Re maintains a superior business profile as the third-largest composite reinsurer globally with gross written premium (GWP) of EUR 17 billion in 2015. This reflects its highly diversified business mix (by product offerings and geographic spread), excellent financial strength, established brand and strong relationships with various stakeholders in the market. In addition, the group's excellent reputation, which is underpinned by the expertise of its management team and successful track record of executing its strategy, further supports Hannover Re's superior profile.

The group's excellent competitive position is a reflection of its business strategy, which pursues value-driven growth and the generation of risk-based returns in excess of the cost of capital. Hannover Re achieves these strategic objectives through its ability to undertake active cycle management, allowing the group to optimally diversify its insurance portfolio whilst balancing its risk return profile. Hannover Re therefore benefits from its ability to effectively deploy capital across its various business segments, thereby providing the group with the flexibility to manoeuvre through the varying market cycles.

Furthermore, Hannover Re's lean and efficient structures support its ability to focus on selective underwriting and bottom-line profits, particularly in challenging market conditions, without immediate concerns of an expense strain.

In its domestic market of Germany, Hannover Re benefits from its affiliation with Talanx AG, a leading multi-brand insurance group in Europe, and the excellent competitive position of its subsidiary, E+S Rueckversicherung AG, the second-largest composite reinsurer in Germany and a leading player within the domestic motor segment. E+S Rueckversicherung AG's profile is further enhanced by its strong relationship with some mutual insurers in the market that are also its shareholders.

In addition to its reinsurance portfolio, Hannover Re underwrites a small account of complementary primary business through its subsidiaries, International Insurance Company of Hannover SE and South African-based Compass Insurance Company Limited. These operations benefit from solid profiles in their respective markets. Primary business accounts for less than 10% of Hannover Re's consolidated GWP.

Hannover Re reports through two business segments: Non-life Reinsurance and Life and Health Reinsurance.

Non-life Reinsurance:

The non-life portfolio (representing approximately 55% of consolidated GWP) is highly diversified by line of business and territory.

Hannover Re operates through three market segments: target markets comprising the markets of North America and Continental Europe (31% of non-life GWP in 2015); specialty lines (31%), which consist of marine, aviation, credit and surety, the UK, Ireland and London markets, and facultative reinsurance; and global reinsurance (38%), which includes all other markets worldwide. This includes global catastrophe business, predominantly written out of Hannover Re (Bermuda)

Ltd, structured reinsurance and insurance-linked securities (ILS), as well as Sharia-compliant retakaful business. Hannover Re demonstrates a low appetite for natural catastrophe business in view of the intense competition for this segment.

Geographically, GWP sourced from the non-life portfolio is derived from North America (31%), rest of Europe (18%), Asia (17%), Germany (12%), UK (10%), Latin America (7%), Africa (3%) and Australia (2%). Outside of its domestic market, the majority of its business is sourced through brokers, especially for non-proportional business, which accounts for approximately 35% of non-life GWP.

The non-life portfolio has achieved a good level of growth over the past five years, as demonstrated by a compound annual growth rate (CAGR) of 8.1%. However, growth has been subject to fluctuations, ranging between 1.1% and 18.2% over the period. The 18.2% (8.1% on a constant currency basis) rise in GWP in 2015 was largely driven by a number of sizeable individual contracts, particularly for treaties written in Asia, the US and agriculture.

Hannover Re continued to benefit from its strong market profile as a provider of alternative reinsurance products and services, with structured reinsurance and ILS offerings supporting the group's expansion in 2015. Additionally, Hannover Re's expansion continued to benefit from strong economic demand in the emerging markets, as well as strengthening macroeconomic conditions in the US. For the first half of 2016, market characteristics remained unchanged with regard to the deteriorating operating environment. Premium volumes were therefore affected, with GWP reducing by 6.9% (5.6% decline on a constant currency basis) to EUR 4.6 billion, reflecting the impact of ongoing softening in market conditions. Hannover Re reported early indications of bottoming in reinsurance prices, particularly within the North America and specialty lines portfolio, where the group achieved growth.

In the absence of major loss events or sustained hardening across the global reinsurance markets, A.M. Best does not expect Hannover Re to generate double-digit increases in premiums on a sustained basis. This reflects the impact of the protracted softening in market conditions on reducing technical margins, the continued influx of capacity from the alternative markets into an already capital-abundant reinsurance market, and the subsequent capacity deployment by the traditional market to classes of business that have better technical margins, thus perpetuating the intense competitive environment.

As one of the two largest providers of structured reinsurance in the world, Hannover Re is likely to benefit from the rise in demand from companies seeking solvency relief, particularly due to the increasingly onerous capital requirements of regulators both in the mature and emerging markets.

Life and Health Reinsurance:

The life and health portfolio (representing approximately 45% of consolidated GWP) has been a growth story, supported both organically and through acquisitions. In 2009, Hannover Re acquired the ING US individual life reinsurance business from Scottish Re Group Limited, along with its infrastructure to support the underwriting of new term reinsurance treaties. This transaction enhanced Hannover Re's profile in the US life segment, becoming one of the top five traditional market participants.

Hannover Re operates its life and health business through two categories, namely financial solutions (16% of life and health GWP in 2015) and risk solutions, which consists of mortality (46%), longevity (19%), and morbidity (18%) business. The group is a leading provider of financial solutions, which seeks to optimise cedants' balance sheets through capital and reserve relief. Such transactions provide funding for new business strain and mergers and acquisitions, release embedded values in maturing portfolios and optimise tax, solvency and surplus requirements.

North America and the UK are Hannover Re's largest life markets representing 28% and 24% of life and health GWP, respectively, in 2015, followed by Asia (17%), Australia and New Zealand (11%), rest of Europe (10%), Central and Latin America (4%), Germany (3%) and Africa (3%). In the US, Hannover Re is focused on the areas of mortality and financial solutions, whilst in Europe the group targets the areas of longevity, retirement provisions and long-term care. Life and health business is generally sourced on a direct basis through a worldwide network of branch offices and subsidiaries.

Growth of the life and health portfolio has also been subject to significant fluctuations over the past five years as demonstrated by the CAGR for the segment of 8.7%, with growth rates of between 1.4% and 19.7% over the period. In addition to the group's acquisitive expansion in the period, the movement in premium volumes has been affected by the prevailing strong competitive conditions, particularly in Europe; demand for capital relief offerings, especially in regions moving to a risk-based insurance regulatory approach; and the strong economic activity of the emerging markets.

In 2015, life and health GWP grew by 19.9% (9.5% on a constant currency basis). The rise in premium volumes for this segment was largely supported by growth of the financial solutions portfolio in North America and Asia, as well as the provision of niche insurance products, such as Vitality in the US (lifestyle insurance products that actively promote a healthy lifestyle.)

For the first half of 2016, Hannover Re reported GWP growth of 1.2% (4.2% on a constant currency basis). The group continued to focus on providing innovative products, via partnerships, to the market. At the same time, Hannover Re experienced good growth within the emerging markets. Nonetheless, conditions in Northern and Western Europe remained difficult due to the protracted low interest rates (particularly in Germany) as economic and regulatory conditions make the life sector less appealing to policyholders.

Growth prospects for the life and health portfolio are likely to be derived from the continued demand for financial solutions products to support the solvency positions of cedants, as well as from further penetration of new and existing markets, as the group leverages its capabilities to provide innovative and niche insurance offerings.

Affiliations: Hannover Re is the intermediate operating holding company of the Hannover Re group of companies. The reinsurer is indirectly owned by Talanx AG (which held a 50.2% share of the group in 2015), institutional investors (42.0%) and private investors (7.8%). Hannover Re became a Societas Europea (SE) (a European public limited company) in March 2013.

Talanx AG is the intermediate non-operating holding company of the Talanx group of companies, a leading multi-brand insurance holding group in Europe. Talanx AG consists mainly of primary insurance companies, in addition to its stake in Hannover Re. Less than 5% of Hannover Re's business is derived from subsidiaries of the Talanx group. A.M. Best believes that the Hannover Re group of companies maintains a high degree of financial and operational independence from the other operations of Talanx AG.

In October 2012, Talanx AG was listed on the Frankfurt Stock Exchange resulting in its majority ultimate parent, HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI V.a.G.), maintaining a 79.04% stake in Talanx AG. HDI V.a.G. is a mutual holding company and its stake in Talanx remained relatively unchanged at year-end 2015. Less than 5% of the company is held by Meiji Yasuda Life Insurance Company, with the remainder being free float.

Hannover Re underwrites business through more than 100 subsidiaries and branch and representative offices. The group's main rated operating entities are as follows:

E+S Rueckversicherung AG is a leading composite insurer in Germany. Hannover Re owns a 64.8% stake in the company, with the remainder held by eight German mutual companies. E+S Rueckversicherung AG underwrites the majority of its business on a direct basis.

Life reinsurance is written by specialist carriers mainly through Ireland, the US, Bermuda and Germany, as well as in Australia and South Africa. The main rated life operating companies are Hannover Life Reassurance Bermuda Ltd, Hannover Life Reassurance Company of America and Hannover Re (Ireland) DAC.

Hannover Life Reassurance Bermuda Ltd and Irish-based subsidiary, Hannover Re (Ireland) DAC, are significant components of the group's life strategy as providers of regulatory and other arbitrage solutions. Hannover Re (Ireland) DAC also provides financial and structured reinsurance products in the life and non-life markets. Additionally, Hannover Life Reassurance Company of America is the group's US subsidiary, providing life reinsurance solutions in the group's key markets.

Hannover Re Bermuda Ltd is the key centre of excellence for catastrophe underwriting in the group. The company supports the underwriting capacities of various group subsidiaries and branches through the provision of individual protections, which sit below the group's worldwide retro programme.

International Insurance Company of Hannover SE is Hannover Re's primary writer, supporting the group's strategy to diversify its income stream through the provision of complementary insurance risks. International Insurance Company of Hannover SE cedes approximately 90% of its business to Hannover Re. International Insurance Company of Hannover SE was re-domiciled to Germany in 2015 for the purpose of achieving better alignment of its objectives and increased efficiencies through shared services between the company and its parent. Additionally, the re-domestication allows for optimal capital management.

Risk Management

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

In A.M. Best's opinion, Hannover Re's robust enterprise risk management (ERM) adequately supports the complexity of its operations and has contributed to the group's strong earnings profile over the past five years, a period marked by significant volatility associated with major loss events and the crisis in the financial markets.

A strong risk culture is evident across the organisation underpinned by a robust governance structure and a strong and highly experienced management team, dedicated to effective risk management. Hannover Re undertakes a centralised approach in the identification, monitoring and mitigation of risks, supporting a consistent framework in the management of the group's exposures.

Key to Hannover Re's risk management framework is its economic capital model, which has been in operation since 2000. The internal model continues to be a vital tool with which the group manages its risk exposures in order to achieve a positive IFRS net income with a probability of at least 90% and ensure the probability of a loss of the economic and IFRS shareholders' equity does not exceed 0.03% per annum.

Hannover Re utilises the 'intrinsic value creation (IVC)' concept to support strategic decisions - a measure which indicates whether the group's business is generating a profit in excess of the cost of capital, thereby deriving value for its shareholders. Where the business segment fails to meet the IVC metric, the group is proactive in its response of applying corrective measures. Hannover Re's use of the IVC concept has resulted in better and more stable performance since 2008 relative to the previous five-year period.

Catastrophe Exposure & Management: Hannover Re demonstrates a conservative framework in place to support its catastrophe risk management. This process begins with the implementation of the group's potential catastrophe risk appetite within the strategic planning process, in which a defined portion of Hannover Re's capital is then allocated to the planned exposures for the year, according to the outcome of an internal model. The group's retrocession protection is then considered, based on underwriters' capacity demands and considering the risk budget for the group's catastrophic exposures.

Constant monitoring is undertaken of Hannover Re's exposures with the use of sophisticated modelling tools and support from the actuarial function. Additionally, stress tests are applied based on scenarios of various catastrophic events and their impact on the group's financial profile. Model validations are regularly undertaken to assess the limitations of the model and to test the validity of the model's outcome. In A.M. Best's opinion, Hannover Re demonstrates a thorough understanding of its catastrophe models and compensates prudently for any shortfalls.

Hannover Re's evaluation of its exposures to major catastrophic events also encompasses terrorism risk. With no standard models available, the group utilises various tools, along with company- and market-specific data to support the assessment of its exposures based on several realistic disaster scenarios in key locations. Pandemic risk and the risk of adverse long-term mortality trends associated with its life and health portfolio are also actively monitored.

Operating Performance

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Operating Results: Hannover Re's excellent operating performance reflects the benefit of its highly diversified income stream and is comparable to that of its peers. Over the past five years, Hannover Re has produced an average return on equity (ROE) of 14.8%, (based on A.M. Best's calculations) with double-digit returns experienced in each year over the period. Despite the high incidence of major losses in 2011, Hannover Re was able to produce an excellent return of 14.3%, which A.M. Best believes is a testament to its robust ERM framework.

The group has generated better and more stable results since 2008, with a ROE range of between 14.8% and 16.5% over the most recent five-year period, compared with the five-year period prior to 2008, when the ROE varied between -4.4% and 26.8%. The improvement in Hannover Re's earnings follows a backdrop of increasingly difficult operating conditions compared to the period prior to 2008. A.M. Best believes that Hannover Re's better performance has been driven by several factors that include the implementation of a more conservative investment and reserving strategy, the stringent management of its natural catastrophe exposures and a shift to a less volatile business mix. In 2015, the life and health segment accounted for 45% of consolidated GWP compared with approximately a quarter of premium volumes in the mid-2000s.

Operating results in 2016 are expected to remain strong, subject to normal levels of catastrophic activity in the second half of the year. For the first half of the year, Hannover Re reported a 4.3% decline in pre-tax profits of EUR 709 million compared with the same period of 2015. Results were affected by a 1.5% reduction in gross premium volumes, following the substantial double-digit rise in premium volumes experienced for the comparable period of 2015. Additionally, the non-life portfolio was affected by the occurrence of a high frequency of catastrophic/large losses during the second quarter of 2016, although Hannover Re was able to maintain its strong combined ratio of 95.4%, unchanged compared with the same period of 2015.

The group's technical earnings were affected by total major losses of EUR 353 million (or 9.2% of non-life net earned premium) compared with the EUR 197 million (5.0% of non-life net earned premium) produced for the comparable period of 2015. Despite the challenges experienced within the non-life segment, the life and health account produced a healthy EBIT margin (relative to net earned premium) of 5.4%, delivering on Hannover Re's overall internal target.

Underwriting Results

Underwriting Results: Non-Life Reinsurance:

The underwriting performance of Hannover Re's non-life portfolio is strong, as demonstrated by a five-year weighted average non-life combined ratio of 96.8% and is consistent with that of its peers over the period. Excluding the 2011 year, which was affected by a high incidence of major loss events resulting in a combined ratio of 104.5%, the combined ratio has remained below 100% since 2008. This is in contrast to the five-year period before 2008, in which the group consistently produced a combined ratio in excess of 100% (including the benefits of run-off profits).

Hannover Re incorporates an annual major loss load within its forecast, amounting to EUR 825 million for the 2015 year (2014: EUR 690 million). Major losses have contributed on average roughly 10 percentage points to the combined ratio between 2010 and 2015. Additionally, contributions from the positive run-off in reserves to technical results have been relatively stable and within expectations, with an average annual contribution of 4.2 percentage points over the same period.

A weakness underpinning the assessment of the performance of the non-life portfolio has been the poor results of Hannover Re's primary business. In particular, this relates to the underperforming agency business, written through International Insurance Company of Hannover SE, while the non-life portfolio derived from Hannover Re's South African operation has been impacted by soft market conditions, difficult macroeconomic conditions and increased frequency of large weather-related and single-risk losses. However, with primary business accounting for less than 10% of consolidated GWP, A.M. Best does not consider these underperforming segments to be an immediate concern within the assessment of Hannover Re's financial strength.

Hannover Re will likely report a combined ratio below 100% in 2016, absent a high frequency of catastrophic activity in the second half of the year. Technical results are expected to be supported by the unutilised portion of the major loss budget and the benefit of the group's highly diversified business mix.

Life and Health Reinsurance:

The technical performance of the life and health segment is a partially offsetting rating factor, owing to the underperformance of the mortality/morbidity portfolios. These accounts have generated higher-than-expected levels of mortality and morbidity experience due to a combination of factors that have affected the market as a whole, particularly for the US mortality and Australian disability income insurance (DII) sector. Although, corrective measures have been taken to improve the profitability of the life and health segment, the results of the mortality and morbidity accounts continue to fail to consistently meet Hannover Re's internal performance expectations.

Hannover Re reported an EBIT margin (relative to net earned premium) for the life and health portfolio of 5.4% for the first half of the 2016 (half-year 2015: 6.4%) delivering on Hannover Re's internal targets for the life and health segment. However, the mortality/morbidity account produced an EBIT margin of 4.3%, below Hannover Re's internal target of 6.0%, largely owing to higher than expected mortality and lapses affecting the US mortality portfolio.

The life and health segment is expected to continue to yield positive earnings, supported by the good level of profit emergence anticipated from the life and health portfolio. The profitability associated with new business written continued to develop positively with the value of new business amounting to EUR 543 million in 2015 (2014: EUR 448 million), outperforming Hannover Re's internal targets of EUR 180 million.

Investment Results

Investment Results: Investment results contribute materially to Hannover Re's overall earnings, making the group's operating performance susceptible to the sustained low interest rate environment.

Hannover Re's operating results have benefitted from a relatively stable investment return (including realised and unrealised gains and losses and excluding funds withheld and contract deposits) of 3.6% in the past five years. The impact of low interest rates on the group's investment earnings has been compensated by the effect of the rise in premium volumes on a larger asset base, higher investment income derived from the group's expanding corporate bond asset class and, more recently, the equity and real estate portfolio.

For the first half of the 2016, the group reported investment earnings (excluding funds withheld and contract deposits) of EUR 569 million (first half of 2015: EUR 601 million), which represent a 1.5% return on average investments as at June 2016. This is modestly lower than the return generated for the same period of 2015.

Profitability Ratios (%)

	2015	2014	2013	2012	2011
Loss ratio	81.0	78.2	75.9	75.0	76.8
Operating expense ratio	20.4	26.7	26.1	26.1	27.5
Combined ratio	101.4	105.0	102.1	101.0	104.3
Other technical expense or (income) ratio	...	...	...	0.1	...
Net investment income ratio	14.5	16.7	14.5	14.2	11.3
Operating ratio	86.9	88.3	87.6	86.9	93.0
Return on net premiums written	10.1	8.1	7.6	9.4	7.9
Return on total assets	1.8	1.4	1.6	2.0	1.7
Return on capital & surplus	20.5	15.0	14.6	18.9	15.7

Balance Sheet Strength

Capitalization

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Capitalization: Hannover Re's consolidated risk-adjusted capitalisation is maintained at an excellent level with contributions from intangible elements to maintain the significant capital buffers. These include partial credit for the group's hybrid debt, amounting to EUR 1.5 billion as at half-year 2016, and the value of in-force business derived from its life portfolio. Hannover Re's capital management strategy encompasses the utilisation of other sources of capital, which include hybrid debt and traditional and alternative retrocession protection, to offset the high costs associated with the use of equity capital.

Growth of Hannover Re's surplus base has been largely internally generated, as demonstrated by a CAGR over the past five years of 12.3% and 12.5% for the group's shareholders' funds and retained earnings, respectively. Nonetheless, Hannover Re's consolidated equity consists of sizeable unrealised profits associated with the protracted low interest rate environment, exposing the group to upward interest rate movement. As at June 2016, Hannover Re reported a rise in shareholders' funds (including minority interests) of 4.1% to EUR 9.1 billion. Contributions from positive net income of EUR 514 million were offset by a dividend payment (including minority interests) of EUR 612 million, such that growth in the period was mainly supported by unrealised gains.

A BCAR assessment evaluating the impact of a 200-basis-point rise in credit spreads demonstrates that Hannover Re will likely maintain sufficient capital buffers within its risk-adjusted capitalisation to continue to support its current rating level.

Hannover Re's strong financial flexibility reflects its excellent earnings generation. The group's retained earnings have grown at a double-digit rate in each of the past five years, in spite of Hannover Re's total dividend payments (including minority interests) of between 37% and 48% of total net income in the years 2011 to 2015. At year-end 2015, Hannover Re proposed a dividend in the amount of EUR 572.8 million (excluding minority interests) which was paid in May 2016 and represents 60% of the group's full-year guidance for group net income.

Hannover Re's access to the debt markets, as well as the traditional and alternative markets to support its retrocession needs, is also a factor that underpins A.M. Best's opinion of the group's financial flexibility. Additionally, the group has access to letters of credit and other facilities with various financial institutions to support its operations. Hannover Re maintains financial leverage and interest coverage ratios at levels that are within A.M. Best's tolerances. Hannover Re's financial flexibility was enhanced by the initial public offering of its intermediate parent, Talanx, in 2012, which also maintains strong risk-adjusted capitalisation.

Hannover Re's capital is managed at the group level and is considered to be fungible across its subsidiaries. The allocation of capital across the group's operational companies is based upon the economic risk content of the respective business operations, after taking into consideration the capital and solvency requirements.

Loss Reserves

Loss Reserves: The group demonstrates a conservative approach in the establishment of reserve provisions. Reserves are determined based on statistical (stochastic and deterministic) methods, with the adequacy verified and agreed upon by an independent third party on an annual basis. Contributions from prior-year run-off profits have generally been within A.M. Best's expectations, with positive claims development illustrated over the past five-year period.

A.M. Best believes that Hannover Re's conservative reserving strategy is likely to continue to support the generation of strong technical profits, despite the deterioration in market fundamentals.

Leverage Ratios (%)

	2015	2014	2013	2012	2011
Net premiums written to capital & surplus	192.8	178.4	185.0	188.4	190.3
Net technical reserves to capital & surplus	508.1	613.1	557.4	542.7	568.3
Gross premiums written to capital & surplus	264.0	225.1	246.0	247.9	245.4
Gross technical reserves to capital & surplus	745.4	831.5	693.5	678.0	713.5
Total debtors to capital & surplus	62.9	53.9	49.6	57.5	80.6
Total liabilities to capital & surplus	975.0	999.9	835.3	819.5	856.1

Liquidity

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Liquidity: Hannover Re maintains excellent liquidity levels, as demonstrated by a substantial operating cash flow of EUR 3.1 billion, with cash holdings of EUR 793 million and short-term investments of EUR 1.1 billion at year-end 2015. The group maintains a highly liquid portfolio, and the fixed income portfolio is of a relatively short duration with a weighted average duration of 4.4 years.

The group benefits from a number of credit facilities, which include various unsecured letter of credit facilities of various terms (maturing at the latest in 2022) that amount to EUR 2.6 billion, and a long-term unsecured line of credit available specifically for US life business in the amount of EUR 226 million.

Liquidity Ratios (%)

	2015	2014	2013	2012	2011
Total debtors to total assets	5.9	4.7	5.3	6.3	8.4
Liquid assets to net technical reserves	68.6	56.9	59.1	59.2	54.5
Liquid assets to total liabilities	35.8	33.3	39.5	39.2	36.2
Total investments to total liabilities	49.0	45.6	55.5	56.4	54.8

Investments

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

Investments: Hannover Re maintains a conservative investment strategy. The group's investment portfolio consists of fixed income securities (87% of total investments as at June 2016), cash and short-term investments (5%), and real estate.

Although Hannover Re's significant holdings of fixed income securities expose the group to rising interest rates, A.M. Best considers that its capital adequacy, as measured by the BCAR model, is likely to remain sufficient for its current ratings in the event of a rise in credit spreads of 200 basis points. Furthermore, the downside potential associated with rising interest rates is likely to be tempered by the relatively short duration of the group's investments and its stringent asset/liability management policy.

The quality of the group's fixed income investments is strong, with roughly 96% of the portfolio being of investment grade and 61% rated within the 'aa-' or better category at year-end 2015. Additionally, Hannover Re maintains modest investment exposure to Greece, Italy, Ireland, Portugal and Spain, with these economies representing less than 3% of assets under management. A.M. Best does not expect a significant deviation from its current strategic asset allocation.

History

Date Incorporated: 1966 **Date Commenced:** 1966 **Domicile:** Germany

Hannover RE was founded in Germany in 1966 as a reinsurance and direct insurance company and was incorporated under the name Aktiengesellschaft fuer Transport und Rueckversicherung. In 1976, the company adopted the name, Hannover Rueckversicherung Aktiengesellschaft, after transferring its direct marine portfolio to its parent company, HDI Haftpflichtverband der Deutschen Industrie V.a.G. Since then, the company has written reinsurance business.

In 1997, Hannover Re acquired part of the in-force reinsurance portfolios of Skandia International Insurance Company of Stockholm, as well as Skandia's related infrastructure. The transaction complemented Hannover Re's activity in certain growth segments, namely, life and health reinsurance, facultative reinsurance and aviation/space insurance. The transaction provided further geographic diversification and consequently positioned the group as a leader in the worldwide aviation market. Hannover Re also acquired the renewal rights of all the property and casualty reinsurance business as of 1 January 1998.

Hannover Re played a pioneering role in the securitisation of insurance risk and announced the first financing securitised by life insurance policies in 1998. The company established a reinsurer in Bermuda in 2001 and has since participated successfully in the global catastrophe market.

With the disposal of Praetorian Financial Group Inc. (Praetorian) in 2007, Hannover Re decided to concentrate on its core business of non-life and life and health reinsurance. Based in New York, Praetorian is a primary specialty insurer, established in 2005 to take over the in-force business of Clarendon Insurance Group, Inc. (Clarendon). Hannover Re acquired Clarendon in 1999 providing the group with access to US programmes via the specialty segment of the market. The run-off business of Clarendon was sold in 2011 (closing date July 12, 2011).

In 2009, Hannover Re acquired the ING US individual life reinsurance business from Scottish Re Group Limited. With this transaction, Hannover Re became one of the top five traditional market participants in the United States.

In 2013, Hannover Re completed its conversion to become a European Company, Societas Europaea. Hence, the company bears the name, Hannover Rueck SE. The company's registered office remains in Hannover, Germany.

Management

Hannover Re benefits from a strong and highly experienced management team that demonstrates extensive knowledge of the reinsurance markets. The group's management team has demonstrated a successful track record of meeting its strategic objectives, based on value-driven principles. As part of its objectives, Hannover Re's targets a minimum ROE of 9.0% above the risk-free rate, with the risk-free rate defined as the five-year average on 10-year German government bonds. Additionally, the group purses a double-digit rise in IFRS profits. This target has been met in each of the past five years. In 2008, Hannover Re failed to meet this target due to the crisis in the capital markets.

Supervisory Board: Wolf-Dieter Baumgartl, Herbert K. Haas (Chairman), Frauke Heitmueller (Employee Representative), Otto Mueller (Employee Representative), Dr. Andrea Pollak, Dr. Immo Querner, Dr. Erhard Schipporeit, Maike Sielaff (Employee Representative), Dr. Klaus Sturany.

Board of Management: Sven Althoff, Claude Chèvre, Juergen Graeber, Dr. Klaus Miller, Dr. Michael Pickel, Roland Vogel (Chief Financial Officer), Ulrich Wallin (Chief Executive Officer).

Reinsurance

The following text is derived from A.M. Best's consolidated Credit Report on Hannover Rück SE (AMB# 084092).

In A.M. Best's opinion, Hannover Re's retrocession strategy is a successful component within its risk management framework, preserving the group's balance sheet strength and supporting the stabilisation of its strong technical results.

In addition to its traditional retrocession placements, Hannover Re benefits from its securitisation programmes, allowing the group to control its aggregate exposures thereby maintaining losses within its risk appetite. In particular, Hannover Re benefits from its K-cession catastrophe bond. This is a capital market transaction, providing fully collateralised proportional retrocession protection on peak worldwide natural catastrophe exposures. Despite ongoing losses experienced on the catastrophe bond, Hannover Re continues to attract capacity to the K-cession, meeting its targets of obtaining approximately USD 400 million of retrocession cover. Placement in 2016 was for EUR 517 million of capacity compared with the EUR 396 million reported in the previous year.

The group is not dependent on retrocession capacity to support its business model, as demonstrated by a net premium retention ratio of 87%. Furthermore, in regard to its credit risk exposure to its panel of retrocessionaires, A.M. Best believes that the downside associated with the potential for default is limited. This reflects the low counterparty exposure to a single party and the excellent credit quality of its panel. At year-end 2015, 88% of Hannover Re's retrocessionaires were rated 'a' or better. Additionally, 41,7% of recoverables were collateralised with deposits or letters of credit.

Hannover Re further benefits from its superior business profile in managing its credit risk exposure. As a provider of reinsurance globally, Hannover Re transacts inward reinsurance business with its retrocessionaires, hence providing the potential to offset claims recoverables with its own liabilities.

Balance Sheet

Assets

	12/31/2015 EUR(000)	12/31/2015 % of total	12/31/2015 USD(000)
Cash & deposits with credit institutions	847,731	1.5	926,316
Bonds & other fixed interest securities	15,736,600	27.3	17,195,383
Shares & other variable interest instruments	2,087,133	3.6	2,280,610
Liquid assets	18,671,464	32.4	20,402,309
Mortgages & loans	540,371	0.9	590,463
Real Estate	3,551	...	3,880
Real estate for own use	29,714	0.1	32,468
Inter-company investments	6,299,564	10.9	6,883,534
Other investments	21,599	...	23,601
Total investments	25,566,263	44.4	27,936,256
Reinsurers' share of technical reserves - unearned premiums	403,406	0.7	440,802
Reinsurers' share of technical reserves - claims	4,127,463	7.2	4,510,079
Reinsurers' share of technical reserves - life	8,157,086	14.2	8,913,248
Reinsurers' share of technical provisions - other	18,415	...	20,122
Total reinsurers share of technical reserves	12,706,370	22.1	13,884,250
Deposits with ceding companies	15,636,934	27.2	17,086,478
Insurance/reinsurance debtors	2,161,772	3.8	2,362,168
Inter-company debtors	412,530	0.7	450,772
Other debtors	797,552	1.4	871,485
Total debtors	3,371,854	5.9	3,684,425
Fixed assets	19,273	...	21,060
Prepayments & accrued income	168,241	0.3	183,837
Other assets	112,385	0.2	122,803
Total assets	57,581,320	100.0	62,919,108

Liabilities

	12/31/2015 EUR(000)	12/31/2015 % of total	12/31/2015 USD(000)
Capital	120,597	0.2	131,776
Paid-up capital	120,597	0.2	131,776
Non-distributable reserves	1,511,119	2.6	1,651,200
Claims equalisation reserve	3,066,746	5.3	3,351,033
Retained earnings	658,000	1.1	718,997
Capital & surplus	5,356,462	9.3	5,853,006
Gross provision for unearned premiums	2,141,877	3.7	2,340,429
Gross provision for outstanding claims	20,938,878	36.4	22,879,912
Gross provision for long term business - life	16,519,121	28.7	18,050,444
Fund for future appropriations - life	680	...	743
Gross provision for other technical reserves	324,092	0.6	354,135
Total gross technical reserves	39,924,648	69.3	43,625,663

Other borrowings	1,500,000	2.6	1,639,050
External borrowings	1,500,000	2.6	1,639,050
Deposits received from reinsurers	8,795,263	15.3	9,610,584
Insurance/reinsurance creditors	1,200,571	2.1	1,311,864
Other creditors	395,642	0.7	432,318
Total creditors	1,596,213	2.8	1,744,182
Accruals & deferred income	8	...	9
Other liabilities	408,726	0.7	446,615
Total liabilities & surplus	57,581,320	100.0	62,919,108

Summary Of Operations

Summarized Accounts as of December 31, 2015

Data reflected within all tables of this report has been compiled from the financial statements of this company (Source: Company Financial Statement). An independent audit of the company's affairs through December 31, 2015, was conducted by KPMG AG Wirtschaftsprüfungsgesellschaft.

US $ per Local Currency Unit 1.0927 = 1 Euro (EUR)

Statement of Income

Technical account:	12/31/2015	12/31/2015
	EUR(000)	USD(000)
Reinsurance premiums assumed	14,139,332	15,450,048
Gross premiums written	14,139,332	15,450,048
Reinsurance ceded	3,814,312	4,167,899
Net premiums written	10,325,020	11,282,149
Increase/(decrease) in gross unearned premiums	284,910	311,321
Increase/(decrease) in reinsurers share unearned premiums	138,492	151,330
Net premiums earned	10,178,602	11,122,158
Other technical income	15	16
Total underwriting income	10,178,617	11,122,175
Net claims paid	6,494,740	7,096,802
Net increase/(decrease) in claims provision	1,747,511	1,909,505
Net claims incurred	8,242,251	9,006,308
Acquisition expenses	823,519	899,859
Net operating expenses	2,105,799	2,301,007
Other technical expenses	1,056	1,154
Total underwriting expenses	10,349,106	11,308,468
Balance on technical account	-170,489	-186,293

Combined technical account:	12/31/2015	12/31/2015
	EUR(000)	USD(000)
Reinsurance premiums assumed	14,139,332	15,450,048
Gross premiums written	14,139,332	15,450,048
Reinsurance ceded	3,814,312	4,167,899
Net premiums written	10,325,020	11,282,149
Increase/(decrease) in gross unearned premiums	284,910	311,321

Increase/(decrease) in reinsurers share unearned premiums	138,492	151,330
Net premiums earned	10,178,602	11,122,158
Other technical income	15	16
Total revenue	10,178,617	11,122,175
Net claims paid	6,494,740	7,096,802
Net increase/(decrease) in claims provision	1,747,511	1,909,505
Net claims incurred	8,242,251	9,006,308
Acquisition expenses	823,519	899,859
Net operating expenses	2,105,799	2,301,007
Other technical expenses	1,056	1,154
Total underwriting expenses	10,349,106	11,308,468
Balance on combined technical account	-170,489	-186,293

Non-technical account:	12/31/2015 EUR(000)	12/31/2015 USD(000)
Net investment income	1,475,931	1,612,750
Realised capital gains/(losses)	93,990	102,703
Unrealised capital gains/(losses)	-78,112	-85,353
Other income/(expense)	-121,218	-132,455
Profit/(loss) before tax	1,200,102	1,311,351
Taxation	158,172	172,835
Profit/(loss) after tax	1,041,930	1,138,517
Increase/(decrease) in the equalisation provision	136,129	148,748
Retained Profit/(loss) for the financial year	905,801	989,769
Retained Profit/(loss) carried forward	905,801	989,769

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Best's Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Debt/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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