

Supervisory Board

Report of the Supervisory Board

of Hannover Rück SE

In our function as the Supervisory Board we considered at length during the 2018 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board of Hannover Rück SE held four regular meetings and two extraordinary meetings in order to adopt the necessary resolutions after appropriate discussion. In addition, the Supervisory Board adopted two resolutions in the reporting period by a written procedure. All nine Supervisory Board members took part in each of the Supervisory Board meetings held in 2018. Two representatives of the Federal Financial Supervisory Authority attended one meeting on a routine basis. In addition, we were informed by the Executive Board in writing and orally on the basis of the quarterly statements about the course of business as well as the position of the company and the Group. The quarterly reports with the components of the financial statements and key figures for

Key points of deliberation

On 12 February 2018 we held an extraordinary meeting dedicated to addressing the US tax reform and its implications for the reinsurance business transacted by Hannover Rück SE as well as specific financing measures.

At the meeting on 8 March 2018 the Supervisory Board discussed the audited annual and consolidated financial statements as well as the Executive Board's proposal for the appropriation of the disposable profit for the 2017 financial year. In this regard, as in the previous year, the Executive Board described all material indicators from the technical and non-technical accounts as well as key data on the investment side and the independent auditor directly presented the results of the audit and elaborated on the audit procedure. The Executive Board outlined the prospects for the current 2018 financial year and we discussed the major insights from the compliance, audit and risk reports. Among the steps taken as part of the annual revision of the investment guidelines, the product catalogue was expanded to include cross-currency swaps and adjustments were made to asset allocations in a few specific cases in response to market developments. Following the announcement that two members of the Supervisory Board – namely Mr. Wolf-Dieter Baumgartl and Dr. Klaus Sturany – would be stepping down with effect from the end of the Annual General Meeting in May, the Supervisory Board

the Hannover Re Group constituted an important source of information for the Supervisory Board.

We received an analysis of the 2017 results in property & casualty and life & health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2018 financial year and the operational planning for the 2019 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association.

No audit measures pursuant to § 111 Para. 2 Sentence 1 Stock Corporation Act (AktG) were required in the 2018 financial year.

discussed the corresponding by-elections of Mr. Torsten Leue and Dr. Ursula Lipowsky, who attended the meeting as guests for this purpose. In this connection consideration was given to the areas of expertise within the body as a whole as well as the envisaged changes to the composition of the committees. The other agenda items to be dealt with at the upcoming Annual General Meeting were also determined. Having chosen the preferred auditing firm in 2017 as recommended by the Finance and Audit Committee following the selection procedure, the Supervisory Board appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft as the independent auditor for the first time in accordance with this determination. Furthermore, the variable remuneration of the members of the Executive Board was defined on the basis of the findings with respect to attainment of the respective targets for the 2017 financial year and, after an in-depth exploration of the matter, a capital increase was approved at the subsidiary Glencar Insurance Company.

On 4 May 2018 the Executive Board reported to us on the first quarter of 2018 and we explored the overall results of the previous year in greater detail; in this regard the Executive Board presented relevant analyses regarding the quality of the loss reserves in property and casualty reinsurance and the intrinsic value creation (IVC). In addition to the outlook for

the current financial year, the examination of the Own Risk and Solvency Assessment (ORSA) and the capitalisation under Solvency II constituted further key points of deliberation. Following up on this, the structure of the Regular Supervisory Report (RSR) and its differences and overlaps relative to the ORSA were explained. We also received a report on the return on investment as compared with peer companies. The deliberations on the joint growth initiative in specialty lines between Hannover Rück SE and HDI Global SE formed another major part of our work on the Supervisory Board.

At the extraordinary meeting of the Supervisory Board on 7 May 2018 the necessary by-elections on the committees were held after the Annual General Meeting, together with a by-election for our Deputy Chairman. The personnel particulars in this regard are to be found below in the present report (“Changes on the Supervisory Board and the Executive Board”).

On 8 August 2018 the Executive Board reported on the first half of 2018; in this context, as usual, it described the material indicators from the technical and non-technical accounts and outlined the attainment status of the strategic objectives based on the target matrix. The outlook for the current financial year was followed by a discussion of the key insights from the risk report. In addition, the management measures chosen by the company in connection with the so-called US Brock portfolio and the description of the recognition and development of the business concerned were a major focus of the August meeting. The corresponding project “Reboot Update” was also considered at length in the meetings of the Finance and Audit Committee. We also received the audit report on the solvency balance sheet. Furthermore, the Supervisory Board received a detailed explanation of the company’s digitalisation strategy from the Executive Board, which it subsequently discussed. With an eye to the self-assessment of the Supervisory Board’s areas of expertise that had once more been carried out, the Supervisory Board decided that

Committees of the Supervisory Board

Of the committees formed by the Supervisory Board within the meaning of § 107 Para. 3 Stock Corporation Act (AktG), the Finance and Audit Committee met on four occasions, the Standing Committee met three times and the Nomination Committee met twice. The Chairman of the Supervisory Board updated the full Supervisory Board on the major deliberations of the committee meetings at its next meeting and provided an opportunity for further questions.

The Finance and Audit Committee considered inter alia the consolidated financial statement and the quarterly reports drawn up in accordance with IFRS and the individual financial statement of Hannover Rück SE drawn up in accordance with the German Commercial Code (HGB) and it discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on

the extensive list of topics which goes beyond the regulatory requirements will be used again in 2019. Responding to the insights gained from this self-assessment in the previous year, the Supervisory Board took part in an IT training session. The Supervisory Board also received a report on the development of the investment dating from 2016 in Somerset Re, a Bermuda-based reinsurer. In August the Supervisory Board was additionally introduced to Mr. Jean-Jacques Henchoz as a potential successor to Mr. Ulrich Wallin in the role of Chief Executive Officer.

At the last meeting of the year on 7 November 2018, we deliberated at length on the key preliminary results in the business performance together with the outlook for the current financial year. We were provided with the report on employee capacities. The Executive Board also presented the operational planning for 2019; we considered this in detail and subsequently approved the annual/results planning submitted to us. We discussed the latest insights from the risk report and were informed of the status of major pending legal proceedings. The ongoing project “Nukleus” and our associated decision to terminate the control and profit transfer agreement with International Insurance Company of Hannover SE was another focus of our deliberations. As in every year, the full Supervisory Board considered the adequacy of the remuneration system for the members of the Executive Board. We received a report on the allocation, structure and profitability of the real estate portfolio. Based on the findings of the “Fit & Proper” self-assessment that had been conducted, we engaged in an extensive exchange of views on a development plan for the full Supervisory Board. Furthermore, we dedicated a significant part of our discussion to corporate governance issues and in this regard we approved a revised diversity concept and the updated Declaration of Conformity (see also further information below).

As in every year, we were regularly briefed on the work of the Supervisory Board committees.

the adequacy of the loss reserves in property and casualty reinsurance was noted, the retrocession structure of the Hannover Re Group and the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk reports, the compliance report and the report on adherence to corporate governance principles were discussed and reports on the major subsidiaries were received and considered. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and prepared the audit concentrations for the 2018 financial year for adoption by the full Supervisory Board.

The Committee was provided with detailed reports on the recognition and measurement of the risk-oriented book of US life reinsurance business acquired in 2009 from Scottish Re (Brock portfolio) as well as on the rate increases that had been initiated. The Committee also considered the allocation, structure and profitability of the real estate portfolio. Furthermore, the Committee prepared various resolutions to be adopted by the Supervisory Board. Consideration of the US tax reform and its implications for the reinsurance business transacted by Hannover Rück SE was another focus of deliberations in the work carried out by the Finance and Audit Committee. The Committee's discussions also gave appropriate consideration to the joint growth initiative in specialty lines between Hannover Rück SE and HDI Global SE.

A further subject of discussion was the review of the successful completion of the transition phase between the previous and currently mandated auditing firm. The Finance and Audit Committee subsequently assured itself – including through direct dialogue with the auditors in the context of a meeting – that the change of auditing firm had been completed in an orderly fashion.

The Standing Committee dealt with, among other things, the adequacy of the system of remuneration for the members of the Executive Board, the determination of the variable remuneration of the members of the Executive Board for the 2017 financial year based on the findings with respect to attainment of their respective targets and the examination of the

Corporate Governance

The Government Commission on the German Corporate Governance Code (DCKG) did not make any changes to the German Corporate Governance Code in 2018. We nevertheless devoted considerable attention to the topic of corporate governance. For example, the Supervisory Board expanded the diversity concept in the year under review (cf. page 126 of the combined management report in the Annual Report) and reported on the manner of its implementation as well as the results achieved in the financial year. Furthermore, diversity on the Supervisory Board and Executive Board was increased in the financial year and steps were initiated to bring about a further improvement in the coming years.

We considered the report by the Executive Board on non-financial matters (cf. page 75 et seq. of the combined management report in the Annual Report) and examined it with the support of a knowledgeable external consultant.

In addition, the Supervisory Board received a report on the design of the remuneration schemes as well as the compliance, internal audit and risk reports. The Supervisory Boards further noted that at least two of its members – namely Dr. Andrea Pollak and Dr. Ursula Lipowsky – are to be considered independent members of the Supervisory Board.

remuneration for the Board members who were due for review. In all these matters the Committee drew up corresponding recommendations for the full Supervisory Board. The Committee deliberated at length on the medium- and long-time succession arrangements for the Executive Board and recommended to the full Supervisory Board the appointment of Mr. Henchoz as a member of the Executive Board, his nomination as Chief Executive Officer to succeed Mr. Wallin and the reappointment of Mr. Claude Chèvre.

The Nomination Committee recommended to the Supervisory Board the candidates for the necessary by-elections to the Supervisory Board. On this basis the Supervisory Board recommended the candidates to the Annual General Meeting on 7 May 2018, which followed the recommendation and elected the candidates to the Supervisory Board. In addition, the Nomination Committee discussed suitable candidates for the upcoming election of new shareholder representatives to the Supervisory Board in the coming year. When recommending candidates for nomination, the Committee takes into account the legal and supervisory stipulations, the goals set by the Supervisory Board itself for the composition of the body, the guidelines regarding the specialist and personal requirements for the members of the Supervisory Board – which the latter had approved in updated form in 2017 – as well as the current self-assessments of each of the members of the Supervisory Board and the self-assessments of the candidates for the Supervisory Board.

Notwithstanding the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board decided not to fully comply with the recommendations contained in Code Section 4.2.3 Para. 2 regarding caps on the amount of variable compensation elements in management board contracts, in Code Section 4.2.3 Para. 4 concerning a cap on severance payments in management board contracts, in Code Section 5.3.2 Para. 3 Sentence 3 concerning the Chair of the Audit Committee and in Code Section 5.3.2 Para. 3 Sentence 2 concerning the independence of the Chair of the Audit Committee. Justification for these divergences is provided in the Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code, which is reproduced in the Group Annual Report as part of the Declaration on Corporate Governance (cf. page 122 et seq.). Further information on the topic of corporate governance is available on the website of Hannover Rück SE.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the combined management report were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft. The Supervisory Board chose the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. Along with the audit concentrations of the German Financial Reporting Enforcement Panel (DPR), the additional audit concentrations defined by the European Securities and Markets Authority (ESMA) also formed part of the scope of the audit. The mandate for the review report by the independent auditors on the Half-yearly Financial Report as at 30 June 2018 was also awarded again. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft issued unqualified audit certificates. It was also determined that the annual financial statement contains the information pursuant to § 289f German Commercial Code (HGB). The Finance and Audit Committee discussed the financial statements and the combined management report with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its reviews. The audit reports were distributed to all the members of the Supervisory Board and explored in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by PricewaterhouseCoopers GmbH Wirtschaftsprü-

Changes on the Supervisory Board and the Executive Board

There were changes in the composition of the Supervisory Board, its committees and the Executive Board in the year under review.

On the Supervisory Board Mr. Baumgartl and Dr. Sturany informed the Chairman of the Supervisory Board that they would be resigning their Supervisory Board mandates with effect from the end of the Annual General Meeting of Hannover Rück SE on 7 May 2018. Mr. Baumgartl also sat on the Standing Committee, the Finance and Audit Committee and the Nomination Committee. Dr. Sturany belonged to the Standing Committee. Dr. Lipowsky and Mr. Leue were elected to the Supervisory Board in the scheduled by-election held at the Annual General Meeting on 7 May 2018 with effect from the end of the Annual General Meeting.

At the extraordinary Supervisory Board meeting held after the Annual General Meeting Dr. Erhard Schipporeit resigned his mandate as a member of the Finance and Audit Committee. Dr. Lipowsky and Mr. Leue were subsequently elected to the Finance and Audit Committee. Mr. Leue and Dr. Schippo-

fungsgesellschaft and given the following unqualified audit certificate:

“Having audited the report in accordance with our professional duties, we confirm that

1. the factual details of the report are correct;
2. in the case of the transactions detailed in the report, the expenditure of the company was not unreasonably high.”

We have examined

- a. the annual financial statements of the company, the financial statements of the Hannover Re Group and the combined management report prepared by the Executive Board for the company and the Group, and
- b. the report of the Executive Board pursuant to § 312 Stock Corporation Act (AktG) (Report on relations with affiliated companies)

– in each case drawn up as at 31 December 2018 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report.

The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. Our proposal regarding the appropriation of the disposable profit for 2018 is in accordance with that of the Executive Board.

reit were elected to the Standing Committee. In addition, Mr. Leue was elected to the Nomination Committee.

As a member of the Supervisory Board and employee representative on the company's Supervisory Board, Mr. Otto Müller stepped down from the Supervisory Board effective 31 May 2018 at the end of his active employment relationship with the company. Ms. Benita Bierstedt succeeded Mr. Müller on the Supervisory Board as the appointed personal substitute member with effect from 1 June 2018. Ms. Bierstedt then resigned her mandate as a Supervisory Board member and employee representative on the company's Supervisory Board for personal reasons effective 6 July 2018. In the by-election that was then held for the vacant seat as an employee representative, Mr. Müller was re-elected to the Supervisory Board as an external employee representative with effect from 12 July 2018.

Mr. Henchoz was appointed as a member of the Executive Board with effect from 1 April 2019 and nominated as Chairman of the Executive Board with effect from the end of the

Annual General Meeting on 8 May 2019; from this date onwards he will therefore take over as Chief Executive Officer from Mr. Wallin, who is retiring. Mr. Chèvre was reappointed as a member of the Executive Board.

On 9 November 2018 Mr. Jürgen Gräber, a long-serving member of the Executive Board, passed away suddenly and entirely unexpectedly. Mr. Gräber had joined the company as an underwriter in 1981 after graduating from university. He

was appointed to the Executive Board in 1997, most recently overseeing the areas of Worldwide Treaty Reinsurance, Catastrophe XL business, Structured Reinsurance and Insurance-Linked Securities as well as coordination of the Property&Casualty reinsurance business group; he was additionally responsible for Quotations and Retrocessions. Thanks to his efforts and dedication, Mr. Gräber was directly involved in shaping the excellent underwriting results recorded by the company over the past years.

Word of thanks to the Executive Board and members of staff

The good result generated by Hannover Rück SE for the 2018 financial year was made possible by the exceptional performance of the Executive Board and the members of staff working for the company and the Group. The Supervisory Board would like to express its recognition and special appreciation to the Executive Board and all the employees for their efforts.

Hannover, 6 March 2019

The Supervisory Board



Haas



Leue



Heitmüller



Dr. Lipowsky



Müller



Dr. Pollak



Dr. Querner



Dr. Schipporeit



Dr. Sielaff

Supervisory Board of Hannover Rück SE

Herbert K. Haas^{1,2,3}

Burgwedel

Chairman

**Former Chief Executive Officer of Talanx AG and
HDI Haftpflichtverband der Deutschen Industrie V.a.G.**

Torsten Leue^{1,2,3}

Hannover

(since 7 May 2018)

Deputy Chairman

**Chairman of the Board of Management of
HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Chairman of the Board of Management of Talanx AG**

Dr. Klaus Sturany¹

Ascona, Switzerland

(until 7 May 2018)

Deputy Chairman

Former member of the Executive Board of RWE AG

Wolf-Dieter Baumgartl^{1,2,3}

Berg

(until 7 May 2018)

**Former Chief Executive Officer of Talanx AG and
HDI Haftpflichtverband der Deutschen Industrie V.a.G.**

Benita Bierstedt⁴

Hannover

(from 1 June 2018 to 6 July 2018)

Employee

Frauke Heitmüller⁴

Hannover

Employee

Dr. Ursula Lipowsky²

Munich

(since 7 May 2018)

**Member of the Supervisory Board of the Association,
Association of German Dioceses (VDD),
Corporation under Public Law**

Otto Müller⁴

Hannover

(until 31 May 2018 and since 12 July 2018)

Employee

Dr. Andrea Pollak³

Vienna, Austria

Independent management consultant

Dr. Immo Querner

Celle

**Member of the Board of Management of
HDI Haftpflichtverband der Deutschen Industrie V.a.G.
Member of the Board of Management of Talanx AG**

Dr. Erhard Schipporeit¹

Hannover

Member of various supervisory boards

Maike Sielaff⁴

Burgwedel

Employee

¹ Member of the Standing Committee

² Member of the Finance and Audit Committee

³ Member of the Nomination Committee

⁴ Staff representative

Details of memberships of legally required supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the Annual Report of Hannover Rück SE.