

*somewhat
different*

Interim Report 3/2014

Key figures

in EUR million	2014					2013		
	1.1.– 30.6.	1.7.– 30.9.	+/- previous year	1.1.– 30.9.	+/- previous year	1.7.– 30.9. ¹	1.1.– 30.9. ¹	31.12.
Results								
Gross written premium	7,064.9	3,639.6	+9.9%	10,704.5	+1.6%	3,311.2	10,537.9	
Net premium earned	5,839.4	3,126.8	+6.9%	8,966.1	-1.7%	2,925.8	9,117.3	
Net underwriting result	14.5	(26.3)	-36.4%	(11.8)	-51.8%	(41.4)	(24.6)	
Net investment income	707.5	413.8	+13.6%	1,121.3	+6.5%	364.2	1,053.2	
Operating profit (EBIT)	683.7	407.1	+39.1%	1,090.8	+10.7%	292.7	985.8	
Group net income	444.4	251.0	+21.4%	695.4	+10.3%	206.7	630.2	
Balance sheet								
Policyholders' surplus	8,563.5			9,635.0	+9.9%			8,767.9
Equity attributable to shareholders of Hannover Rück SE	6,411.7			6,995.6	+18.8%			5,888.4
Non-controlling interests	660.9			702.4	+9.5%			641.6
Hybrid capital	1,490.9			1,937.0	-13.4%			2,237.8
Investments (excl. funds withheld by ceding companies)	32,382.7			35,033.0	+9.9%			31,875.2
Total assets	55,435.4			59,107.6	+9.6%			53,915.5
Share								
Earnings per share (basic and diluted) in EUR	3.69	2.08	+21.4%	5.77	+10.3%	1.71	5.23	
Book value per share in EUR	53.17			58.01	+18.8%		47.73	48.83
Share price at the end of the period in EUR	65.81			64.02	+2.6%		54.36	62.38
Market capitalisation at the end of the period	7,936.5			7,720.6	+2.6%		6,555.7	7,522.8
Ratios								
Combined ratio (P&C reinsurance) ²	95.0%	95.8%		95.3%		96.3%	95.0%	
Large losses as percentage of net premium earned (P&C reinsurance) ³	3.1%	7.9%		4.7%		11.1%	8.8%	
Retention	87.7%	85.7%		87.0%		86.4%	88.9%	
Return on investment (excl. funds withheld by ceding companies) ⁴	3.3%	3.8%		3.4%		3.4%	3.4%	
EBIT margin ⁵	11.7%	13.0%		12.2%		10.0%	10.8%	
Return on equity (after tax)	14.5%	15.0%		14.4%		14.6%	14.3%	

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

² Including funds withheld

³ Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned

⁴ Excluding effects from ModCo derivatives and inflation swaps

⁵ Operating result (EBIT)/net premium earned



Ulrich Wallin
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

After the first half of the year passed off on a broadly pleasing note, our business again fared very well in the third quarter of 2014. Group net income for the first nine months improved on the already good result of the previous year's period by roughly another 10 percent to reach EUR 695 million. We can therefore be very confident at this point in time of achieving our profit target for the full financial year in the order of EUR 850 million. This performance is especially gratifying given that the basic conditions facing the reinsurance industry are currently even more challenging than in the previous year and the protracted low interest rate environment is hampering the potential scope for returns on our investments.

Both our business groups and the investment portfolio played a part in the excellent result as at 30 September 2014. Along with another good underwriting result in property and casualty reinsurance, profitability was boosted in life and health reinsurance. Despite the challenging conditions on financial markets, the income from our investments under own management also increased. We are similarly satisfied with the development of our premium volume: gross premium – on a currency-adjusted basis – grew by around 3 percent to EUR 11 billion.

I would like to go into more detail below on developments in property/casualty and life/health reinsurance and in the investment portfolio:

Most property and casualty reinsurance markets remain fiercely competitive. The reasons for this continue to be the absence of market-changing major losses as well as the fact that ceding companies are able to carry more risks in their retention thanks to solid levels of capital resources. As a further factor, the additional capacities from the insurance-linked securities (ILS) market, especially in US natural catastrophe business, are giving rise to significant price erosion. Based on our profit-oriented

underwriting policy, we nevertheless believe that we are well placed to navigate the soft market and we shall be disciplined in our adherence to this approach. In segments where the prices that can be obtained are not commensurate with the risks we are prepared to relinquish business going forward, as we have in the past. Indeed, we acted accordingly in the treaty renewals as at 1 July 2014, when parts of the North American portfolio as well as some agricultural risks and business from Latin America were up for renewal. In keeping with our strategy, we accepted modest premium erosion in order to preserve the quality of our property and casualty reinsurance portfolio.

Despite our disciplined underwriting approach, gross premium in property and casualty reinsurance – adjusted for exchange rate effects – rose slightly by around 3 percent as at 30 September 2014 to EUR 6 billion. Increases in emerging markets were a particularly key driver of this growth.

The profit trend in property and casualty reinsurance also gave grounds for satisfaction: having already achieved a very good operating result (EBIT) in the previous year, the figure for the period under review was boosted by another 5 percent to some EUR 847 million. This also means that we should again be able to generate full-year EBIT in excess of EUR 1 billion.

Major losses came in comfortably below the expected level for the first nine months at EUR 242 million. The resulting positive effect on our underwriting result is nevertheless limited because – as in the past – we did not release the unused major loss budget to income. With this in mind, the combined ratio of 95.3 percent is an especially pleasing achievement. With an EBIT margin of 16.6 percent – well above our target of 10 percent – and Group net income of EUR 561 million, property and casualty reinsurance entirely lived up to our expectations as at 30 September 2014.

We are also satisfied with the development of our life and health reinsurance portfolio: the strains that we incurred in the previous year in Australian disability business and to some extent also in US mortality business played virtually no further role in the current reporting period. The measures that we had initiated to improve the profitability of this business began to bear fruit.

With an operating profit (EBIT) of EUR 234 million for life and health reinsurance we therefore booked a pleasing improvement overall on the previous year's result (EUR 168 million). The EBIT margins recorded for business in our reporting categories of Financial Solutions/Longevity and Mortality/Morbidity each beat their respective targets. This reaffirms our expectation that for 2014 as a whole we will also be able to substantially improve the result in life and health reinsurance.

Gross premium in life and health reinsurance – adjusted for exchange rate effects – grew by almost 3 percent to around EUR 5 billion. Although this puts us closer to the lower end of our range of expectations, we still see further potential for growth. This is true of both mature insurance markets, where supervisory and regulatory changes necessitate individually tailored solutions, and emerging markets, where growing prosperity is generating a greater need for insurance.

We are once again thoroughly satisfied with the development of our investments: in view of higher fair values due to declining yields on government bonds and narrowing credit spreads on US corporate bonds – but above all also driven by currency translation effects associated with our USD and GBP holdings and the cash inflow from the technical account – our portfolio of assets under own management grew by an appreciable EUR 3 billion to EUR 35 billion. Ordinary investment income rose slightly despite a further fall in interest rates. We were able to more than offset declines in interest income with stronger returns from our exposure to private equity and real estate. Net income from assets under own management climbed to a very pleasing EUR 836 million. This is equivalent to an average return of 3.3 percent. We expect to achieve our target of 3.2 percent for the full financial year.

Owing to sharply higher valuation reserves and movements in exchange rates, your company's shareholders' equity increased by around 19 percent relative to the position at year-end 2013 to stand at EUR 7 billion. Despite this increase the return on equity of 14.4 percent once again reached a very pleasing level clearly in excess of our minimum target. The book value per share rose to EUR 58.01.

As mentioned at the outset, based on the Group net income reported here as at 30 September 2014 we are very confident of achieving our year-end target in the order of EUR 850 million. As you are aware, this forecast is subject to the proviso that major loss expenditure does not significantly exceed the expected level of around EUR 670 million and that there are no unforeseen downturns on capital markets.

I would like to thank you – also on behalf of my colleagues on the Executive Board – most sincerely for your trust in Hannover Re. Going forward, as in the past, our paramount objective will be to lead your company responsibly and securely into a continuing profitable future.

Yours sincerely,



Ulrich Wallin
Chairman of the Executive Board

Interim management report



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Report on economic position

Business development

- Business continues to develop well in the third quarter
- Both business groups achieve their targets
- Premium growth as planned
- Pleasing investment income – target return generated
- On track to deliver targeted Group net income for the year

We are satisfied with the development of our business in the third quarter. Although market conditions for reinsurers – especially in property and casualty reinsurance – remain challenging on account of vigorous competition, Hannover Re's positioning nevertheless enabled the company to achieve and in some cases surpass its targets. Both business groups and the investment portfolio contributed to very pleasing Group net income for the first nine months.

Gross written premium in total business increased by a modest 1.6% as at 30 September 2014 to EUR 10.7 billion (EUR 10.5 billion). At constant exchange rates, growth would have come in at 2.9%. We are thus within our target corridor of generating stable to slightly higher gross premium for the full financial year. The level of retained premium decreased to 87.0% (88.9%). Net premium earned consequently contracted by 1.7% to EUR 9.0 billion (EUR 9.1 billion). A reduction of 0.5% would have been booked at constant exchange rates.

Given the protracted low interest rate environment, we are highly satisfied with the development of our investments. The portfolio of assets under own management stood at EUR 35.0 billion, a level considerably higher than at the end of the previous year (31 December 2013: EUR 31.9 billion). This increase derived in part from currency translation effects associated with our USD and GBP holdings. It was also driven by the positive operating cash flow as well as a further increase in the unrealised gains in our portfolio of fixed-income securities due to declining yields and narrowing risk premiums on US corporate bonds. Despite stubbornly low interest rates, ordinary investment income (excluding interest on deposits) was slightly higher than in the previous year's period at EUR 791.8 million (EUR 781.1 million). Interest on deposits improved to EUR 285.3 million (EUR 267.6 million).

Net realised gains on investments as at 30 September 2014 climbed to EUR 137.4 million (EUR 97.4 million), while changes in the fair value of our assets recognised at fair value through profit or loss were negative at -EUR 8.8 million (-EUR 18.8 million). The impairments taken in the period under review were once again only very minimal. Although conditions on financial markets remained challenging, income from investments under own management surpassed the level of the comparable period (EUR 785.6 million) to come in at a pleasing EUR 836.0 million.

We are thoroughly satisfied with the operating profit (EBIT) of EUR 1,090.8 million (EUR 985.8 million) as at 30 September 2014. Group net income further improved by an appreciable 10.3% on the already good performance of the previous year's corresponding period to reach EUR 695.4 million (EUR 630.2 million). Earnings per share stood at EUR 5.77 (EUR 5.23).

Hannover Re's equity base was again substantially boosted to EUR 7.0 billion (31 December 2013: EUR 5.9 billion) as at 30 September 2014. The book value per share rose sharply to EUR 58.01 (31 December 2013: EUR 48.83). The annualised return on equity for the first nine months was a pleasing 14.4% (31 December 2013: 15.0%).

In the third quarter we successfully placed another subordinated bond with a volume of EUR 500 million on the capital market. This new issue enabled us to take advantage of the low level of interest rates and at the same time optimise the maturity profile of our outstanding hybrid capital. The bond has a perpetual maturity with a first scheduled call option after approximately ten years. It carries a fixed coupon of 3.375% until this date.

Results of operations, financial position and net assets

Property and casualty reinsurance

- **Property and casualty reinsurance still highly competitive**
- **Moderate major losses in the first nine months**
- **Another good underwriting result**

Property and casualty reinsurance continues to be intensely competitive. The supply of reinsurance comfortably exceeds demand. This state of affairs was therefore also instrumental in shaping the treaty renewals as at 1 July 2014. Parts of the North American portfolio, most agricultural risks and business from Latin America traditionally come up for renewal on this date.

US business recorded rate decreases of between 5% and 10% under programmes that had been spared losses. For loss-impacted treaties, on the other hand, increases of up to 30% were achieved. Prices in US property catastrophe business remained under heavy pressure, particularly due to the absence of major losses and the inflow of capital from alternative markets. In certain segments and regions, however, there were isolated positive indications that a bottom might have been reached. Competition in the US casualty market was even fiercer than it had been in the renewals at the beginning of the year. Against the backdrop of our selective underwriting policy, we slightly reduced our premium volume for North America as at 1 July 2014.

Broadly speaking, we were satisfied with the outcome of the treaty renewals in Latin America. Growth here remains strong, even though modest rate decreases are also being seen in the markets of Central and South America. Parts of our business with agricultural risks were also up for renewal. Although an excess supply of reinsurance capacity also prevails in this segment, we nevertheless succeeded in preserving our good market position.

The premium volume for total property and casualty reinsurance remained stable despite our selective underwriting policy. The gross premium of EUR 6.1 billion was slightly higher than the previous year's figure (EUR 6.0 billion). At constant exchange rates growth of 3.2% would have been booked. The level of retained premium was virtually unchanged at 89.6% (89.1%). Net premium earned was on a par with the previous year at EUR 5.1 billion (EUR 5.1 billion); adjusted for exchange rate effects, a gain of 1.5% would have been reported.

After lower-than-average major losses in the first half of 2014, major loss expenditure rose somewhat in the third quarter. The aviation line was particularly hard hit. The crash of the Malaysia Airlines plane over Ukraine resulted in a net strain of EUR 32.2 million. The largest single loss was caused by armed clashes in Libya, which left Tripoli airport heavily damaged. We have set aside reserves of EUR 50.0 million for this loss. The total net burden of major losses for the first nine months stood at EUR 242.2 million (EUR 446.7 million) – a figure well below our major loss budget for this period. The combined ratio of 95.3% (95.0%) was not only positive, it was also well below our targeted ceiling of 96%. The underwriting result for property and casualty reinsurance as at 30 September 2014 came in at a pleasing EUR 225.3 million (EUR 243.4 million).

Income from assets under own management rose to EUR 632.1 million (EUR 567.2 million) for property and casualty reinsurance. The normalised result from changes in the fair value of inflation swaps, which stood at -EUR 4.2 million after -EUR 27.4 million in the comparable period of the previous year, was a contributory factor here. Hannover Re uses inflation swaps to hedge inflation risks associated with part of the loss reserves in its technical account.

The operating profit (EBIT) for property and casualty reinsurance as at 30 September 2014 reached EUR 846.8 million, thereby surpassing the previous year's figure (EUR 804.6 million) by 5.2%. The EBIT margin came in at 16.6% (15.8%), comfortably beating the minimum target of 10%. Group net income improved by 5.0% to EUR 560.8 million (EUR 534.4 million). Earnings per share increased to EUR 4.65 (EUR 4.43).

Key figures for property and casualty reinsurance

in EUR million	2014				2013		
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	4,078.1	1,981.9	+6.6%	6,060.0	+1.7%	1,859.4	5,956.4
Net premium earned	3,370.2	1,734.2	+2.7%	5,104.5	+0.2%	1,689.3	5,093.2
Underwriting result	158.3	66.9	+11.8%	225.3	-7.5%	59.9	243.4
Net investment income	398.8	248.8	+15.8%	647.6	+12.0%	214.9	578.0
Operating result (EBIT)	521.0	325.8	+27.5%	846.8	+5.2%	255.5	804.6
Group net income	347.9	212.9	+23.6%	560.8	+5.0%	172.3	534.4
Earnings per share in EUR	2.89	1.77	+23.6%	4.65	+5.0%	1.43	4.43
EBIT margin ¹	15.5%	18.8%		16.6%		15.1%	15.8%
Combined ratio ²	95.0%	95.8%		95.3%		96.3%	95.0%
Retention	91.1%	86.6%		89.6%		86.7%	89.1%

¹ Operating result (EBIT)/net premium earned

² Including funds withheld

Life and health reinsurance

- Positive profit trend sustained
- EBIT well above the level of the previous year's period
- First regular premium annuity treaty in the French market successfully completed

Our life and health reinsurance portfolio developed in line with our expectations in the course of the third quarter. In Germany the continued very low level of interest rates has served to ratchet up the pressure on life insurers to find solutions for the long term that will enable them to meet their benefit obligations under existing policies despite such low rates. The adoption of new – and in most instances also more rigorous – regulatory requirements around the world is another dominant topic on the international life insurance market.

In Australia the result for the third quarter just ended improved on the comparable period, despite in some cases slightly negative effects from group business. US business was shaped by opposing developments: while the experience in seniors markets did not entirely live up to our expectations, the development of new business as a whole was exceptionally pleasing. Overall, our expectations were surpassed, even though somewhat reduced profitability was also observed in mortality business in the third quarter.

In the period under review we successfully completed the first regular premium annuity treaty in France. Bearing in mind that the evolution of the longevity market in Europe outside the United Kingdom is still in an early phase, it is all the more gratifying that we were able to reinsure an annuity portfolio with a leading French life insurer covering more than 22,000 insureds with associated pension liabilities representing almost EUR 750 million. Under the arrangement we assume solely the biometric risk and receive in return a premium of around EUR 47.5 million for 2014.

Total gross premium in life and health reinsurance amounted to EUR 4.6 billion (EUR 4.6 billion) as at 30 September 2014. This is equivalent to growth of 1.4% relative to the previous year's period; the increase would have been 2.6% on a currency-adjusted basis. The retention retreated to 83.7% after 88.5% in the comparable period. Net premium earned consequently contracted by 4.0% to EUR 3.9 billion (EUR 4.0 billion); adjusted for currency translation effects, the decrease would have been 2.9%.

Investment income including interest on deposits was on a par with the previous year at EUR 461.8 million (EUR 460.5 million). The performance of the embedded ModCo derivatives deteriorated from EUR 5.2 million to -EUR 1.6 million.

The operating result (EBIT) in life and health reinsurance was boosted by steps taken to improve profitability, with EBIT rising sharply by 39.6% as at 30 September 2014 to EUR 233.9 million (EUR 167.6 million). In the areas of Financial Solutions and Longevity this is reflected in an EBIT margin of 5.6% (4.6%). The target mark of 2% was thus surpassed.

The EBIT margin of 6.3% (2.8%) for our Mortality and Morbidity business beat the 6% target. Group net income rose by 8.6% to EUR 166.2 million (EUR 153.0 million). This increase was significantly less than the EBIT growth on account of lower tax expenditure in the comparable period. Earnings per share amounted to EUR 1.38 (EUR 1.27).

Key figures for life and health reinsurance

in EUR million	2014				2013 ¹		
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	2,986.9	1,657.7	+14.2%	4,644.6	+1.4%	1,451.9	4,581.6
Net premium earned	2,469.0	1,392.4	+12.6%	3,861.4	-4.0%	1,236.3	4,023.7
Investment income	299.5	162.2	+12.0%	461.8	+0.3%	144.9	460.5
Operating result (EBIT)	154.8	79.1	+134.2%	233.9	+39.6%	33.8	167.6
Net income after tax	115.4	50.8	-4.9%	166.2	+8.6%	53.4	153.0
Earnings per share in EUR	0.96	0.42	-4.9%	1.38	+8.6%	0.44	1.27
Retention	83.1%	84.7%		83.7%		86.1%	88.5%
EBIT margin ²	6.3%	5.7%		6.1%		2.7%	4.2%

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

² Operating result (EBIT)/net premium earned

Investments

- Diversified investment portfolio continues to be of a high quality
- Ordinary investment income somewhat better than the previous year's level
- Return on investment of 3.3% higher than target

The investment environment was once again challenging in the period under review and continued to be shaped by the protracted low level of interest rates as well as relatively modest risk premiums on corporate bonds. UK and Eurozone government bonds saw further – in some cases marked – declines in yields across all durations. This was also true of the Southern European countries with higher risk premiums – which have been the focus of so much attention of late – and Ireland. Yields on US treasuries retreated only at the long end of the curve, with increases recorded across shorter and medium durations.

Credit spreads on US corporate bonds moved lower in most rating classes, whereas they remained largely stable in the case of European corporate bonds. In general, credit spreads on corporate bonds from emerging economies were virtually unchanged or recorded modest declines. In total, the unrealised gains on our fixed-income securities increased to EUR 1,461.8 million (EUR 767.9 million). This was a factor in the appreciable growth of our portfolio of assets under own management, which rose by EUR 3.2 billion to EUR 35.0 billion (EUR 31.9 billion). The primary drivers of this increase,

however, were exchange rate effects associated with our USD and GBP holdings as well as the inflow of cash from the technical account.

We left the allocation of our assets to individual classes of securities broadly unchanged in the reporting period, making only minor adjustments as part of regular portfolio maintenance and modestly expanding our exposure to emerging markets. We also continued to slightly enlarge our real estate portfolio. The modified duration of our fixed-income portfolio was virtually unchanged from the previous year at 4.5 (4.4).

Despite the low interest rate environment, ordinary investment income excluding interest on deposits was slightly higher than in the corresponding period of the previous year at EUR 791.8 million (EUR 781.1 million). In this context we enjoyed stronger income from our exposure to private equity and real estate, which more than offset reduced income from fixed-income instruments. Interest on deposits was higher than in the comparable period at EUR 285.3 million (EUR 267.6 million).

Impairments of altogether EUR 16.1 million (EUR 13.7 million) were taken. This includes impairments of EUR 2.4 million (EUR 3.5 million) on alternative investments; as in the corresponding period of the previous year, no impairments had to be taken on fixed-income securities or equities. Scheduled depreciation on directly held real estate rose to EUR 13.7 million (EUR 10.1 million).

The net balance of gains realised on disposals stood at EUR 137.4 million (EUR 97.4 million). It can be attributed primarily to portfolio regrouping measures in connection with the changeover in reporting currency at our subsidiary in Bermuda, the repayment in the first quarter of this year of the bond that we had issued in 2004 and amounts realised as part of regular portfolio maintenance.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to fair value changes of -EUR 1.6 million (EUR 5.2 million) recognised in investment income. The inflation swaps taken out to hedge part of the inflation risks associated with the loss

reserves in our technical account have produced fair value changes in the year to date of -EUR 4.2 million (-EUR 27.4 million) recognised in investment income. These changes in fair value are recognised in income as a derivative pursuant to IAS 39. In economic terms we assume a neutral development for these two items over time, and hence the volatility that can occur in specific quarters has no bearing on the actual business performance. Altogether, the changes in the fair value of our assets recognised at fair value through profit or loss amounted to -EUR 8.8 million (-EUR 18.8 million).

Our investment income (including interest on deposits) of EUR 1,121.3 million was higher than in the corresponding period of the previous year (EUR 1,053.2 million). With interest rates remaining stubbornly low, we are thoroughly satisfied with this performance – in particular also because we were able to keep our ordinary income somewhat above the previous year's level. Altogether, net income from assets under own management totalled EUR 836.0 million (EUR 785.6 million) as at 30 September 2014, equivalent to an annualised average return of 3.3%. We are thus well on track to achieve our anticipated target of 3.2% for the full financial year.

Net investment income

	in EUR million		2014		2013	
	1.1.–30.6.	1.7.–30.9.	+/- previous year	1.1.–30.9.	+/- previous year	1.7.–30.9.
						1.1.–30.9.
Ordinary investment income ¹	490.1	301.7	+8.7%	791.8	+1.4%	277.5
Result from participations in associated companies	4.3	1.2	-66.9%	5.5	-44.0%	3.6
Realised gains/losses	88.5	48.9	+278.3%	137.4	+41.0%	12.9
Appreciation	–	–	–	–	–	0.3
Depreciation, amortisation, impairments ²	10.3	5.8	+11.1%	16.1	+18.3%	5.2
Change in fair value of financial instruments ³	10.0	(18.8)	-200.5%	(8.8)	–	18.7
Investment expenses	50.0	23.6	+1.2%	73.7	+4.4%	23.3
Net investment income from assets under own management	532.6	303.5	+6.8%	836.0	+6.4%	284.1
Net investment income from funds withheld	174.9	110.3	+37.8%	285.3	+6.6%	80.1
Total investment income	707.5	413.8	+13.6%	1,121.3	+6.5%	364.2
						1,053.2

¹ Excluding expenses on funds withheld and contract deposits

² Including depreciation/impairments on real estate

³ Portfolio at fair value through profit or loss and trading

Opportunity and risk report

Risk report

- Taking a deliberate and controlled approach, we enter into a broad variety of risks which, on the one hand, can open up opportunities for profit but, on the other hand, can also have adverse implications for our company.
- We are convinced that our risk management system gives us a transparent overview of the current risk situation at all times and that our overall risk profile is appropriate.

Risk landscape of Hannover Re

As part of its business operations the Hannover Re Group enters into a broad variety of risks. These risks are deliberately accepted and controlled in order to be able to act on the associated opportunities. For the purpose of systematising and managing these risks we split them into:

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

The parameters and decisions of the Executive Board with respect to the risk appetite of the Hannover Re Group, which are based on the calculations of risk-bearing capacity, are fundamental to the acceptance of risks. Through our business operations on all continents and the diversification between our Property & Casualty and Life & Health reinsurance business groups we are able to effectively allocate our capital in light of opportunity and risk considerations and generate a higher-than-average return on equity. In property and casualty reinsurance we practise active cycle management and adopt a selective and disciplined underwriting approach.

By expanding our portfolio of life and health reinsurance we reduce the volatility of results within the Group and maintain stable dividend payments. Along with our principal business operations as a reinsurer of property/casualty and life/health business, we also transact primary insurance business in selected niche markets as a complement to our core reinsurance business. With this approach we are well positioned for

further profitable growth. Crucial importance attaches to our risk management in order to ensure, among other things, that risks to the reinsurance portfolio remain calculable and also that exceptional major losses do not have an unduly adverse impact on the result.

Strategy implementation

The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. The strategy is implemented on multiple levels. Our corporate strategy encompasses ten basic strategic principles, which safeguard across divisions the accomplishment of our mission “Growing Hannover Re profitably”. The orientations of the different business groups are guided by these principles and thus contribute directly to attainment of the overarching goals. Key strategic points of departure for our Group-wide risk management are the principles of active risk management, an adequate capital base and sustained compliance. The risk strategy specifies more concretely the goals derived from our corporate strategy with respect to risk management and documents our understanding of risk. With a view to achieving these goals, we have defined ten overriding principles:

1. We keep to the risk appetite defined by the Executive Board.
2. We integrate risk management into value-based management.
3. We promote an open risk culture and the transparency of the risk management system.
4. We aspire to each rating agency's highest risk management rating and we seek approval of our internal capital model for Solvency II.
5. We define a materiality limit for our risks.
6. We use appropriate quantitative methods.
7. We apply suitable qualitative methods.
8. We practise risk-based allocation of our capital.
9. We ensure the necessary separation of functions in our organisational structure.
10. We evaluate the risk content of new business areas and new products.

The risk strategy is specified with an increasing degree of detail on the various levels of the company, for example down to the adoption and testing of contingency plans in the event of an emergency or the underwriting guidelines of our treaty and regional departments. The risk strategy and the guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are reviewed at least once a year. In this way, we ensure that our risk management system is kept up-to-date.

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

Major external factors influencing risk management

Opportunities are expected to open up for Hannover Re inter alia as a consequence of the impending implementation of risk-based solvency systems such as Solvency II in Europe. The main goals of the Solvency II framework directive are to strengthen protection for insureds, put in place consistent competitive standards in the insurance sector of the European Single Market and hence ensure a broadly uniform regulatory practice in Europe. Key details must still be determined on the European and national level before the new regime can fully enter into effect on 1 January 2016. Hannover Re has been preparing intensively for Solvency II for years and is well equipped to provide the markets with tailored products. We believe that we are well placed for Solvency II because we are a solid and low-risk contracting partner with an excellent rating. We can make multiple use of the know-how that we have acquired through development of the internal capital model, and we expect the convergence of supervisory, rating and internal capital requirements to bring relief that will provide us with additional reinsurance capacity. Further major external influencing factors are the protracted low level of interest rates and the Euro debt crisis.

Risk capital

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of the Hannover Re Group is a stochastic enterprise model. It covers all subsidiaries and business areas of the Hannover Re Group. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the business valuation likely to be adopted in future under Solvency II. Hannover Re's internal capital model reflects all risks that influence the development of the economic capital. They are split into technical risks, market risks affecting investments, credit risks and operational risks. For each of these risk classes we have identified a number of risk factors for which we define probability distributions. These risk factors include, for example, economic indicators specific to each currency area, such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators such as the mortality of a particular age group within our insurance portfolio in a particular country or the number of natural catastrophes in a certain region and the insured loss amount per catastrophe. The specification of the probability distributions for the risk factors draws upon historic and publically available data as well as on the internal (re)insurance data stock of the Hannover Re Group. The process is further supplemented by the know-how of internal and external experts. The suitability of the probability distributions is regularly checked by our specialist departments, although more importantly it is also verified in the context of the regular, company-wide use of the capital model when assessing risks and allocating the cost of capital. Hannover Re calculates the required risk capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation of the Hannover Re Group is therefore significantly higher than the confidence level of 99.5% which will be required in future under Solvency II. It goes without saying that Hannover Rück SE also meets the current capital requirements set by regulators. Since the corresponding calculation is neither market-consistent nor risk-based a relevant comparison with the coverage ratio under the internal capital model is not possible. The Hannover Re Group is seeking approval of its internal model for the determination of regulatory capital under Solvency II. In the event of approval and depending on the final measurement rules of Solvency II, the capitalisation with a confidence level of 99.5% constitutes an indication of the fulfilment of future regulatory requirements. Our excess capital coverage at the target confidence level of 99.97% is currently very comfortable. We hold additional capital above all to meet the requirements of the rating agencies for our target rating. In this connection

we strive for a rating from the rating agencies most relevant to our industry that facilitates and secures our access to all reinsurance business worldwide. Hannover Re is analysed by the rating agencies Standard & Poor's (S&P) and A.M. Best as part of an interactive rating process, meaning that both these rating agencies are also given access to confidential information about Hannover Re. The current financial strength ratings are assessed as "AA-" (Very Strong, stable outlook) by Standard & Poor's and "A+" (Superior, stable outlook) by A.M. Best. Standard & Poor's evaluates Hannover Re's risk management as "Very Strong", the best possible rating. The rating highlights, in particular, the company's very good risk management, the consistent and systematic implementation of corporate strategy by management and the excellent capital resources. Hannover Re's internal capital model is also examined as part of the rating. Based on this review, Standard & Poor's factors the results of the internal capital model of the Hannover Re Group into the determination of the target capital for the rating.

Organisation and processes of risk management

Our Group-wide risk management is geared to making a significant contribution to profitable growth and hence to implementation of our strategy through the systematic weighing up of opportunities and risks. Profit and value creation constitute the foundation of our sustainable development in the interests of our clients, shareholders, employees and business partners. Hannover Re has set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The individual elements of risk management are closely interlinked in this system and the roles, tasks and reporting channels are clearly defined and documented in guidelines. This makes possible a shared understanding of Group-wide and holistic monitoring of all material risks. Regular meetings of the Group-wide risk management functions are held in order to promote risk communication and establish an open risk culture. The organisation and interplay of the individual risk management functions are fundamental to our internal risk management and control system. The chart on the following page provides an overview of the central functions and bodies within the overall system as well as of their major tasks and powers.

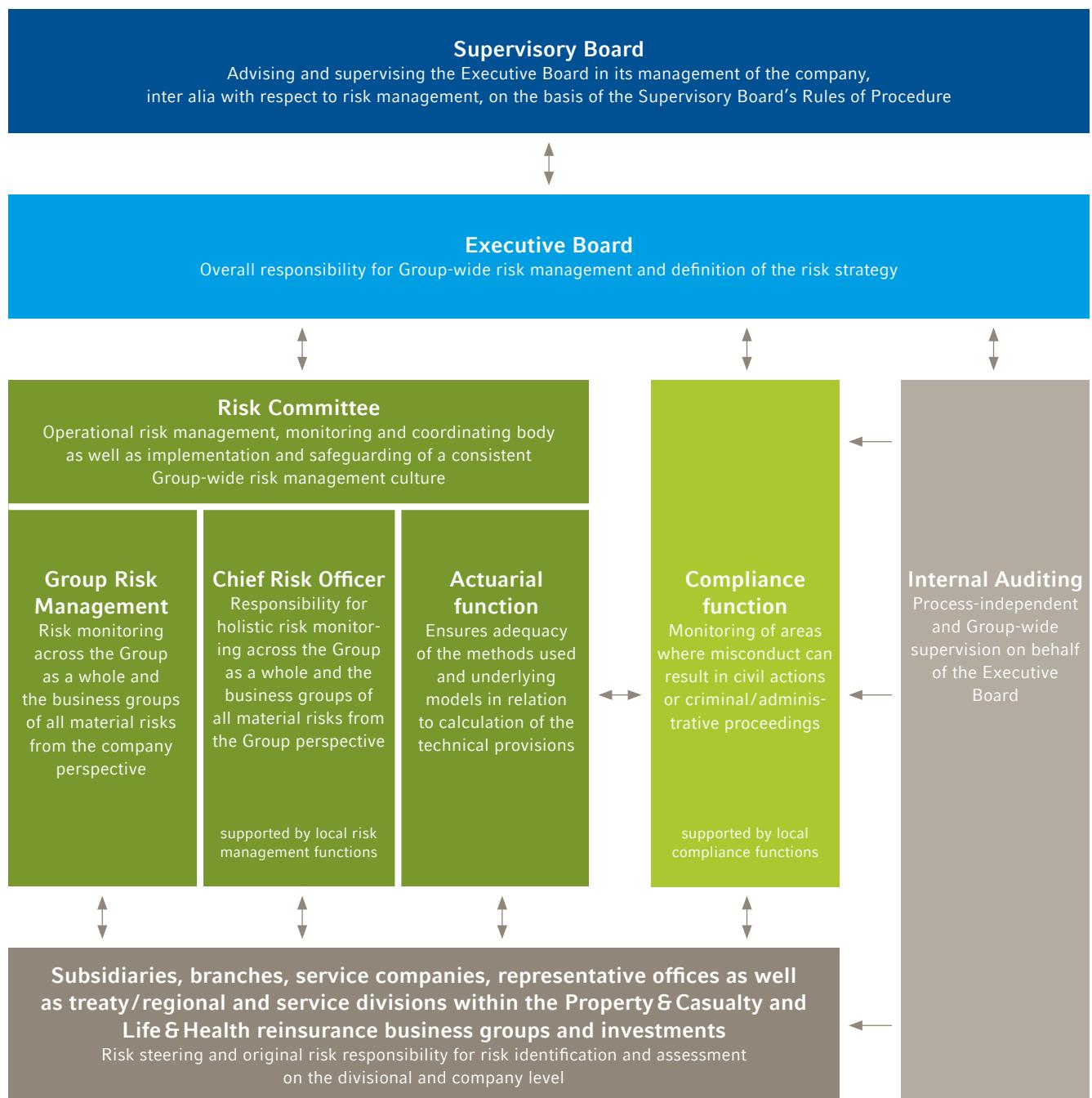
Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are crucial to the effectiveness of risk management as a whole. Only by giving prompt consideration to risks can the continued existence of our Group be assured. The system that is in place – in common with the corporate and risk strategy – is subject to a constant cycle of planning, action, control and improvement.

The Hannover Re Group's Framework Guideline on Risk Management sets out the existing elements of the risk management system that has been put in place. It describes, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The guideline also contains principles governing the evaluation of new products in light of risk considerations as well as requirements for the outsourcing of functions. It aims to establish homogeneous Group standards for risk management. Key elements of our risk management system are as follows:

Risk-bearing capacity concept

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

Central functions of risk monitoring and steering



Risk identification

The most important source of information for monitoring risks is the risk identification carried out on a rotating basis. In order to ensure that all risks are identified in the context of risk identification an overarching categorisation containing all material risks has been established. Risk identification is carried out – adjusted to fit the particular risk – by way of, for example, structured assessments, interviews, scenario

analyses, checklists or standardised questionnaires. External insights such as recognised industry know-how (e.g. from position papers of the CRO Forum; the CRO Forum is an international organisation comprised of the Chief Risk Officers (CRO) of large insurance and reinsurance companies) are incorporated into the process. Risk identification ensures that new risks identified from the current and rotating monitoring are added and known risks can be revised if necessary.

Risk analysis and assessment

Every risk that is identified and considered material is quantitatively assessed. Only risk types for which quantitative risk measurement is currently impossible or difficult are qualitatively assessed, e.g. reputational risks or emerging risks. Evaluation is carried out using, for example, qualitative self-assessments. As part of the Hannover Re risk model Group Risk Management carries out a quantitative assessment of material risks and the overall risk position. In so doing, allowance is made as far as possible for risk accumulations and concentrations.

Risk steering

The steering of all material risks is the task of the operational business units on the divisional and company level. In this context, risk steering encompasses the process of developing and implementing strategies and concepts that are designed to consciously accept, avoid or minimise identified and analysed risks. The risk/reward ratio and the required capital are factored into the division's decision. Risk steering is operationally assisted by, among other things, the parameters of the local underwriting guidelines, the system of limits and thresholds and the internal control system.

Risk monitoring

The monitoring of all identified material risks is a fundamental risk management task. This includes, inter alia, monitoring execution of the risk strategy and adherence to the defined limits and thresholds. A further major task of risk monitoring is the ascertainment of whether risk steering measures were carried out at the planned point in time and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

The Executive Board is responsible for the implementation of Group-wide risk communication and risk culture. Risk Management takes responsibility for operational implementation on behalf of the Executive Board. Key elements of communication include internal and external risk reporting, information on risk complexes in the intranet (e.g. position papers on emerging risks) as well as regular meetings of risk management officers within the Group.

Risk reporting

The aim of our risk reporting is to provide systematic and timely information about risks and their potential implications and to safeguard adequate internal communication within the company about all material risks. The central risk reporting system consists primarily of regular risk reports, e.g. on the overall risk situation, adherence to the parameters defined in the risk strategy or on the capacity utilisation of natural catastrophe scenarios. Complementary to the regular risk reporting, immediate internal reporting on material risks that emerge at short notice takes place as necessary.

Process-integrated/-independent monitoring and quality assurance

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

Internal control system

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

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

The proper functioning of the ICS necessitates the involvement of management, executive staff and employees on all levels. Yet even with an optimally designed ICS it is not possible to avoid all errors. The system comes up against its limits, most notably with respect to fraud risks and imprecise or incomplete rules and responsibilities. The financial reporting of the parent company and the Group must satisfy international and national financial reporting standards as well as regulatory requirements. This is safeguarded in the area of accounting and reporting by processes with integrated controls which ensure the completeness and accuracy of the annual and consolidated financial statements. A structure made up of differentiated criteria, control points and materiality thresholds assures our ability to identify and minimise

the risk of material errors in the annual and consolidated financial statements at an early stage. All components of the accounting-related internal control system, the processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statement as well as the accompanying controls are consistently documented. In order to safeguard and continuously improve the adequacy of the control system it is subject to regular review and evaluation. In this regard, the internal audit function ensures that the quality of the control system is constantly monitored. All relevant accounting principles are collated in a Group Accounting Manual that sets out uniform Group-wide rules for the recognition, measurement and reporting of items in the consolidated financial statement.

The process for updating and, if necessary, adjusting these rules is clearly regulated with respect to information channels, responsibilities and period of validity. Not only that, we provide prompt Group-wide notification of significant developments and modified requirements in Group financial reporting. Within the scope of our control system the Group companies are responsible for Group-wide adherence to the accounting policies and the internal control guidelines. The managing directors and chief financial officers of the Group companies defined as material in our control system affirm to the Executive Board of Hannover Rück SE at each closing date the completeness, correctness and reliability of the financial data that they pass on to Group Accounting. Data for the preparation of the consolidated financial statement is delivered using a Web-based IT application. The relevant data for Group financial reporting is collected in a database and processed via automatic interfaces in a consolidation system. Depending upon the results of our checks, these figures can be corrected if necessary. Given that our Group financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls. Authorisation concepts regulate system access and for each step content-based as well as system-side checks have been implemented, by means of which errors are analysed and promptly eliminated.

Internal risk assessment

Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. The corresponding accounting principles also apply largely to the IVC. While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as technical risks. In a departure from the measurement rules currently under discussion in relation to Solvency II, we use risk-free interest rates derived from the yields on high-quality government bonds for discounting of our future cash flows. Market prices for options and guarantees embedded in insurance contracts are determined or approximated using option valuation models from the field of financial mathematics. The methods used are the same as those adopted in the calculation of our Market Consistent Embedded Value. The valuation reserves for investments indicate the difference between fair value and book value of those investments recognised under IFRS at book values. Other valuation adjustments encompass above all deferred tax assets and liabilities that arise in connection with valuation adjustments.

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

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

Technical risks in property and casualty reinsurance

Risk management in property and casualty reinsurance has defined various overall guidelines for efficient risk steering. These include, among other things, the limited use of retrocessions to reduce volatility and conserve capital. It is also crucially important to consistently maximise the available risk capacities on the basis of the risk management parameters of the Hannover Re Group and to steer the acceptance of risks systematically through the existing underwriting guidelines. Diversification within the Property & Casualty reinsurance business group is actively managed through allocation of the cost of capital according to the contribution made to diversification. A high diversification effect arises out of the underwriting of business in different lines and different regions with different business partners. In addition, the active limitation of individual risks – such as natural catastrophes – enhances the diversification effect.

Given that the establishment of inadequate reserves constitutes the greatest risk in property and casualty reinsurance, the conservative level of our reserves is crucial to our risk management. We make a fundamental distinction between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk. With respect to the catastrophe risk, we differentiate between natural catastrophes and man-made disasters.

The reserving risk, i. e. the risk of under-reserving losses and the resulting strain on the underwriting result, is the overriding priority in our risk management. We attach the utmost importance to a conservative reserving level and therefore traditionally have a high confidence level. In order to counter this potential risk we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The segment reserve is calculated on a differentiated basis according to risk categories and regions. In the case of asbestos- and pollution-related claims it is difficult to reliably estimate future loss payments. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue. The statistical run-off triangles used by our company are another monitoring tool. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods. Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of actuaries and auditors.

Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. These serve to protect parts of the loss reserves against inflation risks. An inflation risk exists particularly inasmuch as the liabilities (e.g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation. We also secure parts of the inflation protection for our loss reserves by purchasing bonds with inflation-linked coupon payments.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios. Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into

account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action. For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation.

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The development of the combined ratio in property and casualty reinsurance is shown in the table below:

Combined and catastrophe loss ratio

in %	Q1–3 2014	2013	2012	2011	2010	2009	2008	2007	2006	2005 ¹	2004 ¹
Combined ratio (P&C reinsurance)	95.3	94.9	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2
Thereof catastrophe losses ²	4.7	8.4	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3

¹ Including financial reinsurance and specialty insurance

² Net share of the Hannover Re Group for natural catastrophes and other major claims in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)

Technical risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks (especially the miscalculation of mortality, life expectancy, morbidity and occupational disability); they constitute material risks for our company in the area of life and health reinsurance. Our goal is to find a balance between biometric risks. Counterparty, lapse and catastrophe risks are also material since we additionally prefinance our cedants' new business acquisition costs. The reserves are determined on the basis of secure biometric actuarial bases in light of the information provided by our clients. The biometric actuarial bases used and the lapse assumptions are continuously reviewed with an eye to their adequacy and if necessary adjusted. This is done using the company's own empirical data as well as market-specific insights. We calculate the diversification effect between mortality and longevity risks prudently in view of the fact that the contracts are normally taken out for different regions, age groups and individuals.

Diversification is a central management tool for our company. We seek to spread risks as far as possible across different risk classes and different regions. In our pricing of reinsurance treaties we provide incentives to further increase diversification. Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or of deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular

scrutiny also takes place on the level of the subsidiaries. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent approach in order to obtain an overall view of the risks in life and health reinsurance. Our global underwriting guidelines provide underwriters with an appropriate framework for this purpose. Another major element of risk management in life and health reinsurance is the Market Consistent Embedded Value (MCEV). The MCEV is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The MCEV is established on the basis of the principles of the CFO Forum published in October 2009 (the CFO Forum is an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises). For detailed information please see the MCEV report 2013 published on our website.

Market risks

Faced with a challenging capital market climate, particularly high importance attaches to preserving the value of assets under own management and the stability of the return. Hannover Re's portfolio is therefore guided by the principles of a balanced risk/return profile and broad diversification. Based on a risk-averse asset mix, the investments reflect both the currencies and durations of our liabilities. Market price risks include equity risks, interest rate risks, currency risks, real estate risks, spread risks and credit risks.

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system defines clear thresholds and escalation channels for the cumulative fluctuations in fair value and realised gains/losses on investments since the beginning of the year. These are unambiguously defined in conformity with our risk appetite and trigger specified information and escalation channels if a corresponding fair value development is overstepped. The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. The model takes into account interest rate risks, credit and spread risks, systematic and specific equity risks, commodity risks and option-specific risks.

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

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities and private equity ¹	Share prices -10%	-68.2	-68.2
	Share prices -20%	-136.4	-136.4
	Share prices +10%	+68.2	+68.2
	Share prices +20%	+136.4	+136.4
Fixed-income securities	Yield increase +50 basis points	-706.9	-591.4
	Yield increase +100 basis points	-1,381.1	-1,155.2
	Yield decrease -50 basis points	+729.8	+608.9
	Yield decrease -100 basis points	+1,490.4	+1,243.4

¹ In contrast to the first quarter this item now includes not only listed equities but also data on private equity. It has been expanded to reflect the increased significance of these investments.

Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives in our portfolio. We hold such assets only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio.

The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond of the same maturity. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency

coverage in light of various collateral conditions such as different accounting requirements by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling.

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

We use derivative financial instruments only to the extent necessary to hedge risks. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. A modest portion of our cash flows from the insurance business as well as currency risks associated with the difficulty of efficiently ensuring matching currency coverage are partially hedged using forward exchange transactions. Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. These serve to protect parts of the loss reserves against inflation risks. Hannover Re holds further derivative financial instruments to hedge interest rate risks from loans taken out to finance real estate. . In the first quarter of 2014 Hannover Re also took out hedging instruments in the form of equity swaps to hedge price risks connected with the stock appreciation rights granted under the share award plan. They are intended to neutralise changes in the fair values of the stock options granted. In order to avoid credit risks associated with the use of derivative transactions the contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual

instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level.

In order to limit the risk of counterparty default we set various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Rating structure of our fixed-income securities¹

Rating classes	Government bonds		Securities issued by semi-governmental entities ²		Corporate bonds		Covered bonds/ asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	68.0	4,893.5	52.6	3,420.5	1.5	189.2	61.1	2,899.0
AA	16.3	1,175.8	44.2	2,875.6	15.8	1,944.7	17.1	811.5
A	9.8	704.1	1.5	97.2	48.2	5,927.3	12.9	611.5
BBB	4.9	353.7	1.2	80.3	28.3	3,486.7	5.4	256.3
< BBB	1.0	68.7	0.5	31.8	6.2	769.4	3.5	167.7
Total	100.0	7,195.9	100.0	6,505.4	100.0	12,317.3	100.0	4,746.1

¹ Securities held through investment funds are recognised pro rata with their corresponding individual ratings

² Including government-guaranteed corporate bonds

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 241.7 million on a fair value basis. This corresponds to a proportion of 0.7%. The individual countries account for the following shares: Spain EUR 115.5 million, Italy EUR 71.3 million, Ireland EUR 29.3 million and Portugal EUR 25.7 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers. On a fair value basis EUR 4,152.6 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 3,491.7 million was attributable to banks. The vast majority of these bank bonds (76.3%) are rated “A” or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Credit risks

The credit risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, among other things, by reviewing broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A.M. Best but also internal and external

expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a major loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Alongside traditional retrocessions in property and casualty reinsurance we also transfer risks to the capital market.

Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds. In terms of the Hannover Re Group's major companies, EUR 302.1 million (8.9%) of our accounts receivable from reinsurance business totalling EUR 3,389.4 million were older than 90 days as at the balance sheet date. The average default rate over the past three years was 0.1%.

Operational risks

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

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

With the aid of Self-Assessments for Operational Risks (SAOR) we determine the degree of maturity of our operational risk management and define action fields for improvements. Based on these measurements, limits and thresholds are developed in light of risk indicators and efficiency considerations. One key indicator in this regard is the SAOR-based capital commitment in our internal model.

The assessment is carried out, for example, by evaluating the degree of maturity of the respective risk management function or of the risk monitoring and reporting. The system enables us, among other things, to prioritise operational risks. Within the overall framework we consider, in particular, business process risks, compliance risks, risks associated with sales channels and outsourcing of functions, fraud risks, personnel risks, information technology risks/information security risks and business interruption risks.

Business process risks are associated with the risk of deficient or flawed internal processes, which can arise as a consequence of an inadequate process organisation. We have defined criteria to evaluate the degree of maturity of the material processes, e.g. for the reserving process. This enables us to ensure that process risks are monitored. In cooperation with the process participants, the process owner evaluates the risks of the metaprocess and develops measures for known, existing risks. Data quality is also a highly critical success factor, especially in risk management, because – among other things – the validity of the results delivered by the internal model depends primarily on the data provided. The overriding goal of our data quality management is the sustainable improvement and safeguarding of data quality within the Hannover Re Group. Appropriate management of data quality risks is conditional upon clearly defined roles and associated responsibilities. Within the scope of process-integrated risk monitoring, centralised data quality management is responsible for establishing and maintaining the system and in so doing has the authority to prescribe standards and methods.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsequential detrimental implications for the business activities of the Hannover Re Group. Regulatory compliance, compliance with the company's Code of Conduct, data privacy and compliance with anti-trust and competition laws have been defined as issues of particular relevance to compliance. The compliance risk also includes tax and legal risks. Responsibilities within the compliance organisation are regulated and documented Group-wide and interfaces with risk management have been put in place. The set of tools is rounded off with regular compliance training programmes.

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

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

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

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

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

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the key framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests. Regular risk reporting to the Risk Committee and the Executive Board has also been put in place.

Other risks

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

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used Group-wide in order to pinpoint any necessary measures (e.g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks arising out of the emergence of large cities and urban conurbations – so-called megacities – are analysed by this working group. The growth of such urban centres goes hand-in-hand with a host of different problems, including a growing demand for food, drinking water, energy and living space. These challenges may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e.g. through increased demand for reinsurance products. Climate change, nanotechnology, political unrest, amendments to laws and changes in regulatory requirements may be cited as examples of other emerging risks.

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

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

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i. e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid even in times of financial stress. In addition, we manage the liquidity of the portfolio by checking on each trading day the liquidity of the instruments contained therein; their underlying parameters are verified on a regular and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Opportunity report

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

Key elements in Hannover Re's opportunity management include its various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups. What is more, innovative and creative ideas are generated by our employees. If they can be successfully translated into additional profitable premium volume, such ideas are financially rewarded. Further elements are the "Future Radar" initiative and the working group on "Emerging Risks and Scientific Affairs". Not only that, Hannover Re has set up a stand-alone organisational unit for "Business Opportunity Management". This service unit deals exclusively and systematically with ideas and opportunities and it concentrates its activities on generating additional premium volume with profit potential. In this context, among other things, ideas on business opportunities are refined and optimal framework conditions for fresh commercial ideas are put in place.

The "Future Radar" initiative, the members of which cut across divisions and hierarchies, picks up on a broad range of topics and arrives at initial business approaches. The working group is tasked with evaluating trends and issues of the future. This includes, for example, increasing fluctuations in the weather, obstacles to the turnaround in energy policy, greater scarcity of resources, developments in the health market or cybercrime.

In general terms, attractive business opportunities are analysed prospectively by the "Future Radar" in order to translate them, as a second step, into marketable insurance and reinsurance products. For this purpose, concrete topics are examined by cross-divisional and interdisciplinary teams and potential business approaches are elaborated. The analyses carried out in the "Future Radar" encompass not only topics of the future but also the steps taken by competitors to identify business opportunities and niche markets at an early stage.

These business approaches are subsequently evaluated and given concrete shape by the Business Opportunity Management service unit. This unit also supports selected projects from the conceptual design of integrated business models to their operational implementation or until their handover to line responsibility. The goal is to generate new business and thereby sustainably foster Hannover Re's profitable growth. Since the unit was set up several initiatives and projects have evolved out of the roughly 100 ideas developed by the worldwide network. Under an attractive employee incentive system various project groups have already been financially rewarded, including those working on the opportunity management projects "Weather" and "Energy Savings Protect" ("Energie Einspar Protect = EEP").

Since 2010 the stand-alone service unit Business Opportunity Management has been assigned to the Chief Executive Officer's area of responsibility – a reflection of the considerable importance that Hannover Re attaches to business opportunity management. In view of the diverse range of potential future opportunities, close links exist with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities (see page 22 et seq. "Other risks"). The working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks analysed but also any available business opportunities. Issues such as fracking and the repercussions of protracted heatwaves were explored by the working group.

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

Overall assessment by the Executive Board

We are convinced that our risk management affords us a transparent overview of the current risk situation at all times, that our overall risk profile is appropriate and that our business opportunity management plays an important part in Hannover Re's profitable growth. Based on our currently available insights arrived at from a holistic analysis of the opportunities and risks, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of the Hannover Re Group in the short or medium term or have a material and lasting effect on its assets, financial position or net income.

As an internationally operating reinsurance group, we move in a highly complex environment. Nevertheless, thanks to our business activities in all lines of reinsurance we are able to achieve optimal risk spreading through geographical and risk-specific diversification while at the same time maintaining a balanced opportunity/risk profile. We consider the risks described in the above sections to be manageable, particularly because our steering and monitoring measures are effectively and optimally interlinked. Despite these diverse mechanisms, individual and especially accumulation risks can decisively affect our assets, financial position and net income. In accordance with our understanding of risk, however, we consider not only risks but also at the same time opportunities. We therefore only enter into those risks that go hand-in-hand with opportunities.

Our steering and monitoring tools as well as our organisational and operational structure ensure that we identify risks at an early stage and are able to act on our opportunities. Our central monitoring tool is the system of risk management that we have installed Group-wide, which brings together both qualitative and quantitative information for the purpose of effective risk monitoring. Most notably, the interplay between domestic and foreign risk management functions affords us a holistic and Group-wide overview.

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Key monitoring indicators, reporting limits and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity. In this context, the necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital buffer to be able both to absorb risks and act on business opportunities that may arise.

Similarly, our very good ratings also testify to our financial stability. The quality of our Enterprise Risk Management (ERM) is evaluated separately by Standard & Poor's. Most notably, our established risk culture promotes the development of appropriate risk monitoring systems and strategic risk management. The evaluation encompasses above all the areas of risk culture, risk controls, the management of emerging risks, risk models and strategic risk management. This external appraisal confirms the quality of our holistic approach to risk management. In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor. The Group-wide risk management system is also a regular part of the audits conducted by the internal audit function. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2013.

Outlook

Forecast

- Good prospects for 2014 in property and casualty reinsurance despite softer market conditions
- Improving profitability in life and health reinsurance
- Stable to modestly higher gross premium volume in total business
- Targeted return on investment of 3.2% for assets under own management clearly within reach
- Group net income guidance in the order of EUR 850 million confirmed

The general business climate in the international (re)insurance industry remains challenging. On the one hand, the protracted low level of interest rates is making it difficult to generate attractive investment returns. At the same time, reinsurers are facing a significantly more competitive environment than in previous years. Hannover Re is nevertheless optimally placed to handle these conditions thanks to its selective underwriting policy in property and casualty reinsurance, broadly diversified investment strategy and prudent reserving approach.

Despite the pressure of competition in property and casualty reinsurance, opportunities for growth are still available to our company as a financially robust reinsurer with a very good rating. This is especially true of the Asia-Pacific markets and Latin America, where increasing insurance density and the rising concentration of values in urban population centres are

key factors. Along with traditional reinsurance protection we assist our clients on an individual basis with an eye to the implementation of risk-based solvency systems as well as the analysis and evaluation of insurance risks.

For the current financial year we expect to book – at constant exchange rates – largely stable or slightly higher gross premium volume in total property and casualty reinsurance. We will not make any concessions to our systematic underwriting policy and we shall continue to exercise discipline in ensuring that treaty conditions are commensurate with the risks. We are targeting a combined ratio of less than 96%; in terms of the EBIT margin, our goal of at least 10% remains unchanged. As things currently stand, we can expect to achieve these targets for the current financial year.

Looking ahead to the 1 January 2015 treaty renewals, we see signs of reinsurance rates stabilising – aside from certain exceptions – because the scope to make further rate cuts without neglecting the return on equity required by reinsurers is ultimately limited. This was also the tone of discussions at the industry gatherings in September in Monte Carlo and in October in Baden-Baden and the United States.

The favourable development of business in life and health reinsurance should be sustained. Despite intense competition, we anticipate promising opportunities and are confident that here too we are well placed as an expert partner to assist our clients with the fulfilment of extensive regulatory requirements such as those of Solvency II. In particular, reinsurance structures offering capital relief and solvency optimisation will be of growing significance in this context. With this in mind, we expect to see further growth in demand in the area of Financial Solutions.

Increased demand for reinsurance solutions to cover longevity risks is also evident – not only in the United Kingdom but also in other markets such as Continental Europe. In emerging economies we see further growth potential on account of rising affluence in society and the resulting need for greater protection. No changes are expected in the intensely competitive climate currently prevailing in Germany.

Our 2014 guidance for life and health reinsurance of currency-adjusted organic gross premium growth in the low single-digit percentage range remains unchanged. The performance of our Australian disability portfolio, in particular, is expected to further stabilise and improve. Overall, we anticipate increased profitability in life and health reinsurance. The targeted EBIT margin for our Financial Solutions and Longevity business remains unchanged at 2%. In the reporting categories of Mortality and Morbidity we continue to target an EBIT margin of 6%.

In both property/casualty and life/health reinsurance it is our expectation that we will achieve our internal return targets.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to growth in our asset portfolio. In the area of fixed-income securities we continue to emphasise the high quality and diversification of our portfolio. We are not currently planning to make any significant changes to the allocation of our investments to individual asset classes. The focus here is primarily on stability while maintaining an adequate risk/return ratio, thereby enabling us to respond flexibly to general developments and opportunities that may present themselves. We are targeting a return on investment of 3.2% for 2014.

We expect to book stable or slightly higher premium income – based on constant exchange rates – for the Hannover Re Group in the current financial year.

Assuming that the burden of major losses does not significantly exceed the expected level of EUR 670 million and that there are no extraordinary movements on capital markets, Hannover Re expects at this point in time to achieve its forecast Group net income of EUR 850 million for the 2014 financial year.

Our envisaged payout ratio for the dividend remains unchanged in the range of 35% to 40% of Group net income.

For the 2015 financial year we currently anticipate – adjusted for currency translation effects – stable or slightly higher gross premium volume for the Group as a whole. The return on investment will likely be around 3.0%, while Group net income should be in the order of EUR 875 million. As usual, these statements are subject to the proviso that major losses remain within the expected bounds and that there are no unforeseen adverse movements on capital markets.

Events after the reporting date

Matters of special significance arising after the closing date for the quarterly consolidated financial statements are discussed in Section 7.6 of the notes “Events after the end of the quarter” on page 66.

Consolidated financial statements



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Consolidated balance sheet as at 30 September 2014

Assets

in EUR thousand	30.9.2014	31.12.2013
Fixed-income securities – held to maturity	2,299,340	2,666,787
Fixed-income securities – loans and receivables	2,938,241	3,209,100
Fixed-income securities – available for sale	25,473,467	22,409,892
Fixed-income securities – at fair value through profit or loss	53,723	36,061
Equity securities – available for sale	32,642	28,980
Other financial assets – at fair value through profit or loss	88,967	70,082
Real estate and real estate funds	1,310,691	1,094,563
Investments in associated companies	148,998	144,489
Other invested assets	1,285,511	1,023,214
Short-term investments	582,958	549,138
Cash	818,461	642,936
Total investments and cash under own management	35,032,999	31,875,242
Funds withheld	15,484,123	14,267,831
Contract deposits	80,901	75,541
Total investments	50,598,023	46,218,614
Reinsurance recoverables on unpaid claims	1,404,634	1,403,804
Reinsurance recoverables on benefit reserve	529,457	344,154
Prepaid reinsurance premium	197,833	139,039
Reinsurance recoverables on other technical reserves	6,382	6,893
Deferred acquisition costs	1,854,199	1,672,398
Accounts receivable	3,389,374	2,945,685
Goodwill	58,288	57,070
Deferred tax assets	387,500	508,841
Other assets	676,052	603,627
Accrued interest and rent	5,838	4,193
Assets held for sale	–	11,226
Total assets	59,107,580	53,915,544

Liabilities

in EUR thousand	30.9.2014	31.12.2013
Loss and loss adjustment expense reserve	23,725,991	21,666,932
Benefit reserve	11,513,393	10,631,451
Unearned premium reserve	2,967,865	2,405,497
Other technical provisions	286,035	269,571
Funds withheld	723,317	648,026
Contract deposits	5,846,269	5,569,932
Reinsurance payable	1,134,068	1,071,654
Provisions for pensions	152,838	116,412
Taxes	218,738	222,795
Deferred tax liabilities	1,917,976	1,712,392
Other liabilities	634,359	605,895
Long-term debt and subordinated capital	2,288,702	2,464,960
Total liabilities	51,409,551	47,385,517
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597		
Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	985,035	533,745
Cumulative foreign currency translation adjustment	97,842	(246,279)
Changes from hedging instruments	(9,046)	(9,455)
Other changes in cumulative other comprehensive income	(37,014)	(16,452)
Total other comprehensive income	1,036,817	261,559
Retained earnings	5,113,651	4,781,718
Equity attributable to shareholders of Hannover Rück SE	6,995,627	5,888,436
Non-controlling interests	702,402	641,591
Total shareholders' equity	7,698,029	6,530,027
Total liabilities and shareholders' equity	59,107,580	53,915,544

Consolidated statement of income as at 30 September 2014

in EUR thousand	1.7.–30.9.2014	1.1.–30.9.2014	1.7.–30.9.2013 ¹	1.1.–30.9.2013 ¹
Gross written premium	3,639,599	10,704,491	3,311,242	10,537,904
Ceded written premium	520,271	1,386,330	448,697	1,173,087
Change in gross unearned premium	(11,020)	(398,486)	46,063	(299,645)
Change in ceded unearned premium	18,445	46,438	17,146	52,101
Net premium earned	3,126,753	8,966,113	2,925,754	9,117,273
Ordinary investment income	301,655	791,798	277,474	781,075
Profit/loss from investments in associated companies	1,183	5,490	3,572	9,812
Realised gains and losses on investments	48,858	137,356	12,915	97,413
Change in fair value of financial instruments	(18,820)	(8,823)	18,727	(18,796)
Total depreciation, impairments and appreciation of investments	5,810	16,146	5,228	13,393
Other investment expenses	23,610	73,659	23,324	70,526
Net income from investments under own management	303,456	836,016	284,136	785,585
Income/expense on funds withheld and contract deposits	110,345	285,290	80,081	267,630
Net investment income	413,801	1,121,306	364,217	1,053,215
Other technical income	1,334	2,945	1,600	2,436
Total revenues	3,541,888	10,090,364	3,291,571	10,172,924
Claims and claims expenses	2,384,934	6,794,035	2,224,407	6,776,707
Change in benefit reserves	21,386	36,083	(6,197)	45,270
Commission and brokerage, change in deferred acquisition costs	658,237	1,868,537	659,568	2,050,707
Other acquisition costs	464	2,848	1,730	3,620
Other technical expenses	1,546	5,679	1,536	8,246
Administrative expenses	87,854	273,725	87,728	259,726
Total technical expenses	3,154,421	8,980,907	2,968,772	9,144,276
Other income and expenses	19,646	(18,658)	(30,060)	(42,860)
Operating profit (EBIT)	407,113	1,090,799	292,739	985,788
Interest on hybrid capital	21,636	70,483	31,947	94,988
Net income before taxes	385,477	1,020,316	260,792	890,800
Taxes	104,530	260,185	52,529	224,521
Net income	280,947	760,131	208,263	666,279
thereof				
Non-controlling interest in profit and loss	29,925	64,687	1,523	36,049
Group net income	251,022	695,444	206,740	630,230
Earnings per share (in EUR)				
Basic earnings per share	2.08	5.77	1.71	5.23
Diluted earnings per share	2.08	5.77	1.71	5.23

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

Consolidated statement of comprehensive income as at 30 September 2014

in EUR thousand	1.7.- 30.9.2014	1.1.- 30.9.2014	1.7.- 30.9.2013 ¹	1.1.- 30.9.2013 ¹
Net income	280,947	760,131	208,263	666,279
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	(14,730)	(33,680)	3,089	5,552
Tax income (expense)	4,702	10,751	(986)	(1,771)
	(10,028)	(22,929)	2,103	3,781
Income and expense recognised directly in equity that cannot be reclassified				
Gains (losses) recognised directly in equity	(14,730)	(33,680)	3,089	5,552
Tax income (expense)	4,702	10,751	(986)	(1,771)
	(10,028)	(22,929)	2,103	3,781
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	142,144	765,129	24,841	(489,009)
Transferred to the consolidated statement of income	(41,579)	(106,653)	(8,683)	(83,197)
Tax income (expense)	(16,976)	(172,641)	(997)	156,352
	83,589	485,835	15,161	(415,854)
Currency translation				
Gains (losses) recognised directly in equity	293,306	379,937	(76,101)	(168,709)
Transferred to the consolidated statement of income	–	50	–	(5,507)
Tax income (expense)	(21,406)	(31,235)	12,139	25,083
	271,900	348,752	(63,962)	(149,133)
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	24	47	14	(13)
	24	47	14	(13)
Changes from hedging instruments				
Gains (losses) recognised directly in equity	(44)	536	–	–
Tax income (expense)	14	(171)	–	–
	(30)	365	–	–
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	435,430	1,145,649	(51,246)	(657,731)
Transferred to the consolidated statement of income	(41,579)	(106,603)	(8,683)	(88,704)
Tax income (expense)	(38,368)	(204,047)	11,142	181,435
	355,483	834,999	(48,787)	(565,000)
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	420,700	1,111,969	(48,157)	(652,179)
Transferred to the consolidated statement of income	(41,579)	(106,603)	(8,683)	(88,704)
Tax income (expense)	(33,666)	(193,296)	10,156	179,664
	345,455	812,070	(46,684)	(561,219)
Total recognised income and expense	626,402	1,572,201	161,579	105,060
thereof				
Attributable to non-controlling interests	42,437	102,458	517	17,905
Attributable to shareholders of Hannover Rück SE	583,965	1,469,743	161,062	87,155

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

Consolidated statement of changes in shareholders' equity as at 30 September 2014

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2013	120,597	724,562	987,918	(16,119)
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity ¹	–	–	(399,586)	(146,922)
Net income ¹	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.9.2013	120,597	724,562	588,332	(163,041)
Balance as at 1.1.2014	120,597	724,562	533,745	(246,279)
Changes in ownership interest with no change of control status	–	–	959	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	450,331	344,121
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.9.2014	120,597	724,562	985,035	97,842

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

Continuation: Other reserves (cumulative other comprehensive income)		Retained earnings	Equity attributable to shareholders of Hannover Rück SE	Non-controlling interests	Total shareholders' equity
Hedging instruments	Other				
(9,455)	(24,417)	4,249,386	6,032,472	681,672	6,714,144
–	–	(1,345)	(1,345)	1,425	80
–	–	–	–	(14,265)	(14,265)
–	–	–	–	119	119
–	–	–	–	(2,046)	(2,046)
–	–	5	5	–	5
–	3,433	–	(543,075)	(18,144)	(561,219)
–	–	630,230	630,230	36,049	666,279
–	–	(361,791)	(361,791)	(47,972)	(409,763)
(9,455)	(20,984)	4,516,485	5,756,496	636,838	6,393,334
(9,455)	(16,452)	4,781,718	5,888,436	641,591	6,530,027
–	–	(1,707)	(748)	738	(10)
–	–	–	–	(1,387)	(1,387)
–	–	–	–	3	3
–	–	–	–	(64)	(64)
–	–	(13)	(13)	–	(13)
409	(20,562)	–	774,299	37,771	812,070
–	–	695,444	695,444	64,687	760,131
–	–	(361,791)	(361,791)	(40,937)	(402,728)
(9,046)	(37,014)	5,113,651	6,995,627	702,402	7,698,029

Consolidated cash flow statement as at 30 September 2014

in EUR thousand	1.1.–30.9.2014	1.1.–30.9.2013 ¹
I. Cash flow from operating activities		
Net income	760,131	666,279
Appreciation/depreciation	33,105	21,701
Net realised gains and losses on investments	(137,356)	(97,413)
Change in fair value of financial instruments	8,823	18,796
Realised gains and losses on deconsolidation	(2,602)	(6,661)
Income from the recognition of negative goodwill	–	(176)
Amortisation of investments	58,522	71,857
Changes in funds withheld	(344,432)	(168,622)
Net changes in contract deposits	(32,913)	163,211
Changes in prepaid reinsurance premium (net)	351,545	247,264
Changes in tax assets/provisions for taxes	201,845	558
Changes in benefit reserve (net)	43,876	(98,205)
Changes in claims reserves (net)	935,513	1,041,278
Changes in deferred acquisition costs	(77,797)	42,863
Changes in other technical provisions	4,610	62,488
Changes in clearing balances	(223,420)	(275,908)
Changes in other assets and liabilities (net)	(202,143)	(13,369)
Cash flow from operating activities	1,377,307	1,675,941

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

in EUR thousand	1.1.–30.9.2014	1.1.–30.9.2013
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	442,833	883,773
Purchases	(4,582)	(46,980)
Fixed-income securities – loans and receivables		
Maturities, sales	348,139	390,717
Purchases	–	(254,586)
Fixed-income securities – available for sale		
Maturities, sales	8,193,066	6,091,855
Purchases	(9,318,583)	(7,876,488)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	9,636	74,639
Purchases	(24,556)	(11,548)
Equity securities – available for sale		
Sales	9,923	9,715
Purchases	(8,546)	(9,247)
Other financial assets – at fair value through profit or loss		
Sales	19,321	44
Purchases	(6,409)	(325)
Other invested assets		
Sales	114,426	93,553
Purchases	(191,724)	(120,456)
Affiliated companies and participating interests		
Sales	–	9,178
Purchases	(44,975)	(2,787)
Real estate and real estate funds		
Sales	53,364	35,039
Purchases	(201,107)	(371,855)
Short-term investments		
Changes	(948)	(144,281)
Other changes (net)		
	(29,367)	(23,142)
Cash flow from investing activities	(640,089)	(1,273,182)

in EUR thousand	1.1.–30.9.2014	1.1.–30.9.2013
III. Cash flow from financing activities		
Contribution from capital measures	2,991	119
Payment on capital measures	(2,152)	(3,985)
Structural change without loss of control	(10)	80
Dividends paid	(402,728)	(409,763)
Proceeds from long-term debts	554,627	50,954
Repayment of long-term debts	(757,608)	(28)
Acquisition/disposal of treasury shares	(13)	5
Cash flow from financing activities	(604,893)	(362,618)
IV. Exchange rate differences on cash	47,259	(20,908)
Cash and cash equivalents at the beginning of the period	642,936	572,188
Change in cash and cash equivalents (I.+II.+III.+IV.)	179,584	19,233
Changes in the consolidated group	(4,059)	(3,833)
Cash and cash equivalents at the end of the period	818,461	587,588
Supplementary information on the cash flow statement¹		
Income taxes paid (on balance)	(36,343)	(216,956)
Dividend receipts ²	65,230	42,413
Interest received	966,095	1,083,589
Interest paid	(127,905)	(151,111)

¹ The income taxes paid as well as the dividend receipts and interest received are included entirely in the cash flow from operating activities. The interest paid is attributable in an amount of EUR 28,347 thousand (EUR 32,233 thousand) to the cash flow from operating activities and in an amount of EUR 118,275 thousand (EUR 118,878 thousand) to the cash flow from financing activities.

² Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements as at 30 September 2014



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Notes

1. General reporting principles

Hannover Rück SE and its subsidiaries (collectively referred to as the “Hannover Re Group” or “Hannover Re”) are 50.22% owned by Talanx AG and included in its consolidated financial statement. Talanx AG is majority-owned by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI). Hannover Re is obliged to prepare a consolidated financial statement and group management report in accordance with § 290 German Commercial Code (HGB). Furthermore, HDI is required by §§ 341 i et seq. German Commercial Code (HGB) to prepare consolidated annual accounts that include the annual financial statements of Hannover Rück SE and its subsidiaries. Hannover Rück SE is a European Company, Societas Europaea (SE), and its registered office is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

The consolidated financial statement of Hannover Re was drawn up in compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as “International Financial Reporting Standards (IFRS)”; the standards dating from earlier years still bear the name “International Accounting Standards (IAS)”. Standards are cited in our notes accordingly; in cases where the notes do not make explicit reference to a particular standard, the term IFRS is used. 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.

As provided for by IAS 34, in our preparation of the consolidated quarterly financial statement, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in shareholders’ equity and selected explanatory notes, we draw on estimates and assumptions to a greater extent than is the case with the annual financial reporting. This can have implications for items in the balance sheet and the statement of income as well as for other financial obligations. Although the estimates are always based on realistic premises, they are of course subject to uncertainties that may be reflected accordingly in the result. Losses from natural disasters and other catastrophic losses impact the result of the reporting period in which they occur. Furthermore, belatedly reported claims for major loss events can also lead to substantial fluctuations in individual quarterly results. Gains and losses on the disposal of investments are accounted for in the quarter in which the investments are sold.

The present consolidated quarterly financial statement was prepared by the Executive Board on 27 October 2014 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2014.

The consolidated quarterly financial report was compiled in accordance with IAS 34 “Interim Financial Reporting”. Consequently, the accounting policies adopted in the period under review were the same as those applied in the preceding consolidated annual financial statement; changes made in specific

justified cases pursuant to IAS 8 are reported separately in the section entitled “Changes in accounting policies”. For more details of the accounting policies please see the Group annual financial report for the previous year.

All standards adopted by the IASB as at 30 September 2014 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

In June 2013 the IASB issued “Novation of Derivatives and Continuation of Hedge Accounting” (Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”). These amendments allow a novation of an OTC derivative designated as a hedging instrument to be deemed to be a continuation of the existing hedging relationship. The amendments, which were endorsed by the EU in December 2013, have a mandatory effective date for annual periods beginning on or after 1 January 2014. The amendments did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

In May 2013 the IASB published IFRIC 21 “Levies”. IFRIC 21 provides guidance on the accounting of outflows imposed on entities by governments that do not constitute outflows within the scope of IAS 12 “Income Taxes”. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014 and was endorsed by the EU on 13 June 2014. The interpretation did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

In December 2011 the IASB issued “Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)”. While the offsetting rules for financial instruments remain unchanged, the application guidance of the standard clarifies the meaning of “currently has a legally enforceable right to set-off” and “simultaneous”. The amendments have a mandatory effective date for annual periods beginning on or after 1 January 2014 and were endorsed by the EU in December 2012. The amendments did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

In May 2011 the IASB published five new or revised standards governing consolidation, the accounting of investments in associated companies and joint ventures and the related disclosures in the notes.

In this connection IFRS 10 “Consolidated Financial Statements” and IFRS 11 “Joint Arrangements” replaced the previous standards governing consolidated financial statements and special purpose entities (IAS 27 “Consolidated and Separate Financial Statements” and SIC-12 “Consolidation – Special Purpose Entities”) as well as the standards governing the accounting of interests in joint ventures (IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”). The major new feature of IFRS 10 is that it identifies control as the single

basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

In addition, the disclosure requirements previously contained in IAS 27 and IAS 31 have been combined and restructured in IFRS 12 “Disclosure of Interests in Other Entities”. With the aim of clarifying for the users of financial statements the nature of an entity’s interest in other entities as well as the effects of those interests on its financial position, financial performance and cash flows, significantly expanded disclosures of information are required in comparison with the previous requirements.

Further amendments were made to the standards in 2012. In June 2012 the IASB issued “Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12”. The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12. These amendments were endorsed by the EU in April 2013. In October 2012 the IASB issued “Investment Entities (Changes to IFRS 10, IFRS 12 and IAS 27)”. Given that the parent company of the Hannover Re Group does not meet the definition of an investment entity, these amendments – which were endorsed by the EU in November 2013 – are not relevant to Hannover Re.

The revised version of IAS 27 consists solely of requirements for the accounting of investments in subsidiaries, jointly controlled entities and associates in separate (non-consolidated) financial statements of the parent company. In this context, only minimal changes were made relative to the previous wording of the standard.

The revised version of IAS 28 “Investments in Associates and Joint Ventures” extends the content of standards governing the accounting of investments in associated companies to include rules governing the accounting of investments in joint ventures. In both instances application of the equity method is required.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 were to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012, however, that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date for annual periods beginning on or after 1 January 2014. With the exception of the rules governing investment entities,

the new requirements, especially with respect to disclosure requirements, were not amended in IAS 34 "Interim Financial Reporting". The new IFRS 10, 11, 12 and the revised IAS 27 and 28 as well as the changes published in 2012 have now been endorsed in their entirety by the EU. Initial application of the new and revised standards on consolidation did not give rise to any changes in Hannover Re's scope of consolidation.

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

In September 2014 the IASB published the "Annual Improvements to IFRSs 2012 – 2014 Cycle". These annual improvements involve amendments and clarifications relating to the following standards: IFRS 4 "Non-current Assets Held for Sale and Discontinued Operations", IFRS 7 "Financial Instruments: Disclosures", IAS 19 "Employee Benefits" and IAS 34 "Interim Financial Reporting". The amendments are effective for annual periods beginning on or after 1 January 2016 and have still to be endorsed by the EU.

In September 2014 the IASB also published "Amendments to IFRS 10 and IAS 28: Sales or Contributions of Assets between an Investor and its Associate or Joint Venture". These clarify that the extent of gain or loss recognition for transactions between an investor and its associate or joint venture depends upon whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after 1 January 2016 and have still to be endorsed by the EU.

In July 2014 the IASB published the final version of IFRS 9 "Financial Instruments", which replaces all previous versions of this standard. The standard now contains requirements governing classification and measurement, impairment based on the new expected loss impairment model and general hedge accounting. The originally included model for macro hedge accounting, which considers risk management that assesses risk exposures on a continuous basis and at a portfolio level, is being treated separately from general hedge accounting by the IASB outside of IFRS 9. IFRS 9, which has still to be endorsed by the EU, is effective for annual periods beginning on or after 1 January 2018. Hannover Re is currently reviewing the implications of this standard.

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 to be applied to all contracts with customers. 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 are expressly exempted from the standard's scope of application. The standard is to be applied to an annual reporting period beginning on or after 1 January 2017, but has still to be endorsed by the EU. Hannover Re does not expect the new requirements to have significant implications.

In May 2014 the IASB also amended a number of existing standards.

The "Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation" provide additional guidance on the methods that can be used to calculate depreciation or amortisation of property, plant and equipment and intangible assets. The new guidelines are effective for annual periods beginning on or after 1 January 2016, but have still to be endorsed by the EU.

The "Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations" clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business as defined in IFRS 11. These amendments are effective for annual periods beginning on or after 1 January 2016, but have still to be endorsed by the EU.

In January 2014 the IASB issued IFRS 14 "Regulatory Deferral Accounts". The standard permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for "regulatory deferral account balances" in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. IFRS 14 applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, but has still to be endorsed by the EU.

In December 2013 the IASB issued “Annual Improvements to IFRSs 2010–2012 Cycle” and “Annual Improvements to IFRSs 2011–2013 Cycle”. The annual improvements involve minor amendments and clarifications relating to the following standards: IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”, IFRS 8 “Operating Segments”, IFRS 13 “Fair Value Measurement”, IAS 16 “Property, Plant and Equipment”, IAS 24 “Related Party Disclosures”, IAS 38 “Intangible Assets”, IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 40 “Investment Property”. Both collections of improvements are effective for annual periods beginning on or after 1 July 2014, but they have still to be endorsed by the EU. Hannover Re is currently reviewing the implications of these amendments.

Key exchange rates

The individual companies’ statements of income prepared in the national 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

In November 2013 the IASB issued “Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)” and thereby clarified the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendments are intended to provide relief in that entities are allowed to deduct contributions from service cost in the period in which the service is rendered. The amendments are effective for annual periods beginning on or after 1 July 2014, but they have still to be endorsed by the EU. Hannover Re is currently reviewing the implications of these amendments.

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.

Key exchange rates

1 EUR corresponds to:	30.9.2014	31.12.2013	1.1.–30.9.2014	1.1.–30.9.2013
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4447	1.5513	1.4848	1.3512
BHD	0.4747	0.5190	0.5095	0.4969
CAD	1.4066	1.4751	1.4799	1.3501
CNY	7.7829	8.3445	8.3299	8.1309
GBP	0.7778	0.8357	0.8115	0.8505
HKD	9.7779	10.6752	10.4839	10.2243
KRW	1,338.9517	1,452.2507	1,408.9348	1,453.8469
MYR	4.1539	4.5351	4.3899	4.1460
SEK	9.1478	8.9114	9.0464	8.6043
USD	1.2588	1.3766	1.3516	1.3180
ZAR	14.2096	14.4390	14.4982	12.5182

Changes in accounting policies

For certain contracts in the area of life and health reinsurance an option was exercised differently at various Group companies with respect to the accounting of the interest rate-induced portion of the change in the loss and loss adjustment expense reserve (loss reserve). In some cases this item was recognised in the statement of income, while in other cases it was recognised directly in equity. In accordance with the provisions of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, we recognised this item on a consistent Group-wide basis in the statement of income in the fourth quarter of 2013 and we restated the comparable figures accordingly pursuant to IAS 8.41.

The following restatements were to be made in the consolidated statement of income for the comparable period of the previous year due to retrospective application of the aforementioned changes:

Consolidated statement of income

	1.1.–30.9.2013 as reported	Restatements	1.1.–30.9.2013
in EUR thousand			
Claims and claims expenses	6,800,868	(24,161)	6,776,707
Operating profit (EBIT)	961,627	24,161	985,788
Net income before taxes	866,639	24,161	890,800
Taxes	217,411	7,110	224,521
Net income	649,228	17,051	666,279
thereof			
Non-controlling interest in profit and loss	36,049	–	36,049
Group net income	613,179	17,051	630,230
Earnings per share (in EUR)			
Basic earnings per share	5.08	0.15	5.23
Diluted earnings per share	5.08	0.15	5.23

The following restatements were to be made in the consolidated statement of comprehensive income for the comparable period of the previous year due to retrospective application of the aforementioned changes:

Consolidated statement of comprehensive income

	1.1.–30.9.2013 as reported	Restatements	1.1.–30.9.2013
in EUR thousand			
Net income	649,228	17,051	666,279
Reclassifiable to the consolidated statement of income			
Currency translation			
Gains (losses) recognised directly in equity	(170,935)	2,226	(168,709)
Transferred to the consolidated statement of income	(5,507)	–	(5,507)
Tax income (expense)	25,083	–	25,083
	(151,359)	2,226	(149,133)
Other changes			
Gains (losses) recognised directly in equity	27,332	(27,332)	–
Tax income (expense)	(8,055)	8,055	–
	19,277	(19,277)	–
Reclassifiable income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	(632,625)	(25,106)	(657,731)
Transferred to the consolidated statement of income	(88,704)	–	(88,704)
Tax income (expense)	173,380	8,055	181,435
	(547,949)	(17,051)	(565,000)
Total income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	(627,073)	(25,106)	(652,179)
Transferred to the consolidated statement of income	(88,704)	–	(88,704)
Tax income (expense)	171,609	8,055	179,664
	(544,168)	(17,051)	(561,219)
Total recognised income and expense	105,060	–	105,060
thereof			
Attributable to non-controlling interests	17,905	–	17,905
Attributable to shareholders of Hannover Rück SE	87,155	–	87,155

3. Consolidated companies and 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. 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 normally consolidated “at equity” as associated companies with the proportion of the shareholders’ equity attributable to the Group. 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. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Non-controlling interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. 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 64.7 million (EUR 36.0 million) as at 30 September 2014.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2013.

Consolidation of business transactions within the Group

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

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

Consolidation of structured entities

Business relations with structured entities are to be examined in accordance with IFRS 10 “Consolidated Financial Statements” with an eye to their implications for consolidation. As part of their operational activities some companies

belonging to the Hannover Re Group enter into business relations with special purpose entities which are to be analysed and accounted for in accordance with these new requirements.

Retrocessions and Insurance-Linked Securities (ILS)

As part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re writes 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. Due to the lack of a controlling influence over the structured entities involved, there is no consolidation requirement for Hannover Re with respect to these transactions.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington/USA, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity with effect from 12 July 2011. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. Since Hannover Re is not able to exercise control over the special purpose entity either by influencing its relevant activities or by influencing variable returns, there is no requirement to consolidate this special purpose entity.

Securitisation of reinsurance risks

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

In 2012 Hannover Re issued a catastrophe ("CAT") bond for the purpose of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the CAT bond, which has a volume of nominally EUR 100.0 million, runs until 31 March 2016; it was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd. Eurus III Ltd. is a special purpose entity domiciled in Hamilton/Bermuda that was registered in August 2012 as a "special purpose insurer" under the Bermuda Insurance Act 1978. The retrocessions concluded with the special purpose entity under the transaction afford Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Re does not exercise a controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

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 America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation was equivalent to EUR 254.4 million (EUR 238.9 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a structured entity domiciled in Bermuda, is used as a transformer for part of the transaction.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with IFRS 10 Kaith Re Ltd. is included in the consolidated financial statement.

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment are effected with the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks. The transactions serve the purpose, for example, of transferring extreme mortality risks above a contractually defined retention or transferring longevity risks. Given that Hannover Re, on the basis of its business relations with these structured entities, cannot influence their relevant activities and has no rights or exposure to – nor is it able to affect – the majority of the positive or negative variable returns, it does not exercise a controlling influence over the structured entities. Consequently, there is no consolidation requirement for Hannover Re.

Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either in the technical account or as derivative financial instruments or as financial guarantees. Please see also our remarks in Section 7.1 "Derivative financial instruments and financial guarantees".

Investments

Within the scope of its asset management activities Hannover Re has participated since 1988 in numerous structured entities – predominantly funds –, which for their part transact certain types of equity and debt capital investments. On the basis of our analysis of our relations with these entities we concluded that the Group does not exercise a controlling influence in any of these transactions and a consolidation requirement therefore does not exist.

Hannover Re participates through the Luxembourg-based company Leine Investment SICAV-SIF, which was established in September 2012, in a number of special purpose entities for the securitisation of catastrophe risks by investing in “disaster bonds” (or “CAT 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. Since Hannover Re cannot exercise a controlling influence in any of these transactions either there is no requirement to consolidate the relevant structured entities.

Major acquisitions and new formations

Under an agreement dated 6 August 2014 HR GLL Europe Holding S.à.r.l., Luxembourg, acquired all shares in the special purpose property company Mustela s.r.o., Prague, which holds and manages a commercial property in Prague, for a purchase price of EUR 68.9 million. No contingent liabilities, conditional payments or separate transactions as defined by IFRS 3 were identified. The company is included in the consolidated financial statement with effect from the third quarter of 2014.

With effect from 3 March 2014 Hannover Re established the company Hannover Life Reassurance Company of America (Bermuda) Ltd. based in Hamilton, Bermuda. All shares in the company are held by Hannover Life Reassurance Company of America, Orlando. The business object of the company is to

assume life insurance risks by way of reinsurance and using capital market instruments as well as to transfer them to other Group companies. The company commenced its business operations in the first quarter of 2014 and has been included in full in Hannover Re’s consolidated financial statement since that date.

In August 2013 Hannover Rück SE reached agreement with another investor on a financial interest in a company, the business object of which is the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg. The regulatory approvals have now been given and the acquisition was closed effective 31 March 2014. Since that date the shares in the company have been recognised as an equity investment measured at amortised cost.

Major disposals and retirements

Effective 24 March 2014 Funis GmbH & Co. KG (“Funis”) redeemed the voting puttable preference shares that it held in Glencar Underwriting Managers Inc., Chicago, United States (“Glencar”) and hence relinquished its majority voting interest in the company. In the context of this transaction a change was also made to the composition of Glencar’s managing board as per the contractual agreement, since Hannover Re no longer had majority representation on this body. In view of the fact that Hannover Re is therefore no longer able to exercise control over Glencar, but continues to be able to

exercise a significant influence over the company, Glencar was deconsolidated as at the end of the first quarter of 2014 and included at equity in the consolidated financial statement. The derecognition of assets and liabilities as well as recognition of the participating interest at fair value gave rise to income of EUR 2.7 million, which was carried under other income and expenses. In addition, cumulative other comprehensive income of -EUR 0.1 million was realised from currency translation.

Other corporate changes

In accordance with the purchase agreement of 3 February 2014 Hannover Rück SE assumed 15% of the shares in Hannover Re Euro RE Holdings GmbH, Hannover, previously held through E+S Rückversicherung AG. The effects of the change in the amount of holding were recognised in the consolidated

financial statement as an equity transaction pursuant to IFRS 10. Since it involves an internal transaction within the Group between companies under common control, this purchase transaction does not give rise to goodwill nor does it have any implications for Group net income.

4. Group segment report

Segmentation of assets

	Property and casualty reinsurance	
in EUR thousand	30.9.2014	31.12.2013
Assets		
Fixed-income securities – held to maturity	1,984,578	2,351,409
Fixed-income securities – loans and receivables	2,863,424	3,111,351
Fixed-income securities – available for sale	18,707,175	16,227,978
Equity securities – available for sale	32,642	28,980
Financial assets at fair value through profit or loss	68,489	18,157
Other invested assets	2,626,332	2,155,774
Short-term investments	266,049	267,682
Cash	596,584	430,552
Total investments and cash under own management	27,145,273	24,591,883
Funds withheld	1,090,542	888,118
Contract deposits	–	1,717
Total investments	28,235,815	25,481,718
Reinsurance recoverables on unpaid claims	1,096,517	1,168,791
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	196,426	137,670
Reinsurance recoverables on other reserves	2,607	439
Deferred acquisition costs	612,104	491,354
Accounts receivable	2,035,224	1,702,357
Other assets in the segment	1,589,582	1,508,210
Assets held for sale	–	11,226
Total assets	33,768,274	30,501,765

Segmentation of liabilities

in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	20,485,278	18,847,749
Benefit reserve	–	–
Unearned premium reserve	2,827,217	2,297,054
Provisions for contingent commissions	150,258	129,343
Funds withheld	423,085	429,168
Contract deposits	8,026	11,098
Reinsurance payable	651,421	674,469
Long-term liabilities	302,050	227,130
Other liabilities in the segment	2,014,231	1,822,435
Total liabilities	26,861,566	24,438,446

Life and health reinsurance		Consolidation		Total	
30.9.2014	31.12.2013	30.9.2014	31.12.2013	30.9.2014	31.12.2013
196,309	197,857	118,453	117,521	2,299,340	2,666,787
74,817	71,714	—	26,035	2,938,241	3,209,100
6,456,769	5,768,474	309,523	413,440	25,473,467	22,409,892
—	—	—	—	32,642	28,980
60,450	68,706	13,751	19,280	142,690	106,143
116,791	105,232	2,077	1,260	2,745,200	2,262,266
316,330	190,898	579	90,558	582,958	549,138
215,743	208,641	6,134	3,743	818,461	642,936
7,437,209	6,611,522	450,517	671,837	35,032,999	31,875,242
14,393,581	13,379,713	—	—	15,484,123	14,267,831
80,901	73,824	—	—	80,901	75,541
21,911,691	20,065,059	450,517	671,837	50,598,023	46,218,614
309,570	236,532	(1,453)	(1,519)	1,404,634	1,403,804
529,457	344,154	—	—	529,457	344,154
1,566	1,434	(159)	(65)	197,833	139,039
3,775	6,454	—	—	6,382	6,893
1,242,091	1,181,040	4	4	1,854,199	1,672,398
1,354,226	1,243,469	(75)	(141)	3,389,374	2,945,685
672,895	551,240	(1,134,799)	(885,719)	1,127,678	1,173,731
—	—	—	—	—	11,226
26,025,271	23,629,382	(685,965)	(215,603)	59,107,580	53,915,544
3,242,166	2,820,702	(1,453)	(1,519)	23,725,991	21,666,932
11,513,456	10,631,512	(63)	(61)	11,513,393	10,631,451
140,648	108,443	—	—	2,967,865	2,405,497
135,821	140,228	(44)	—	286,035	269,571
300,232	218,858	—	—	723,317	648,026
5,838,243	5,558,834	—	—	5,846,269	5,569,932
482,674	397,326	(27)	(141)	1,134,068	1,071,654
—	—	1,986,652	2,237,830	2,288,702	2,464,960
2,062,897	1,690,822	(1,153,217)	(855,763)	2,923,911	2,657,494
23,716,137	21,566,725	831,848	1,380,346	51,409,551	47,385,517

Segment statement of income	Property and casualty reinsurance	
	1.1.–30.9.2014	1.1.–30.9.2013
in EUR thousand		
Gross written premium	6,060,044	5,956,438
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	6,060,044	5,956,438
Net premium earned	5,104,478	5,093,209
Net investment income	647,628	577,987
thereof		
Change in fair value of financial instruments	(3,406)	(26,128)
Total depreciation, impairments and appreciation of investments	16,026	13,340
Income/expense on funds withheld and contract deposits	15,494	10,784
Claims and claims expenses	3,524,728	3,540,004
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,210,807	1,166,653
Administrative expenses	143,690	143,120
Other income and expenses	(26,125)	(16,806)
Operating profit/loss (EBIT)	846,756	804,613
Interest on hybrid capital	–	–
Net income before taxes	846,756	804,613
Taxes	232,901	233,795
Net income	613,855	570,818
thereof		
Non-controlling interest in profit or loss	53,006	36,423
Group net income	560,849	534,395

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2013. It 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/casualty reinsurance or life/health reinsurance. These are principally the service and financing companies belonging to the Group. 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. We would also refer to the relevant information in the consolidated financial statement as at 31 December 2013. Both Hannover Life Reassurance Company of America (Bermuda) Ltd., which was consolidated for the first time in the first quarter of 2014, and the financial investment in the aforementioned acquisition company are allocable to the life and health reinsurance segment. Glencar Underwriting Managers Inc., which has been included at equity in the consolidated financial statement as an associated company since the first quarter of 2014, and the special purpose property company Mustela s.r.o., which was consolidated for the first time in the period under review, are allocable to the property and casualty reinsurance segment.

Life and health reinsurance		Consolidation		Total	
1.1.–30.9.2014	1.1.–30.9.2013 ¹	1.1.–30.9.2014	1.1.–30.9.2013	1.1.–30.9.2014	1.1.–30.9.2013 ¹
4,644,581	4,581,613	(134)	(147)	10,704,491	10,537,904
134	147	(134)	(147)	–	–
4,644,447	4,581,466	–	–	10,704,491	10,537,904
3,861,383	4,023,679	252	385	8,966,113	9,117,273
461,762	460,543	11,916	14,685	1,121,306	1,053,215
(5,452)	6,785	35	547	(8,823)	(18,796)
120	53	–	–	16,146	13,393
269,796	256,846	–	–	285,290	267,630
3,269,325	3,236,706	(18)	(3)	6,794,035	6,776,707
36,085	45,137	(2)	133	36,083	45,270
663,312	893,479	–	5	1,874,119	2,060,137
130,156	116,419	(121)	187	273,725	259,726
9,649	(24,876)	(2,182)	(1,178)	(18,658)	(42,860)
233,916	167,605	10,127	13,570	1,090,799	985,788
–	–	70,483	94,988	70,483	94,988
233,916	167,605	(60,356)	(81,418)	1,020,316	890,800
56,020	14,950	(28,736)	(24,225)	260,185	224,521
177,896	152,654	(31,620)	(57,193)	760,131	666,279
11,681	(374)	–	–	64,687	36,049
166,215	153,028	(31,620)	(57,193)	695,444	630,230

5. Notes on the individual items of the balance sheet

5.1 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.

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.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2013.

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

Investments	in EUR thousand	30.9.2014	31.12.2013
Regional origin			
Germany		6,272,702	6,125,564
United Kingdom		2,653,648	2,396,053
France		1,735,755	1,644,587
Other		7,449,659	7,377,339
Europe		18,111,764	17,543,543
USA		9,620,853	8,478,865
Other		1,428,425	1,300,371
North America		11,049,278	9,779,236
Asia		1,773,202	1,275,917
Australia		2,368,265	2,081,609
Australasia		4,141,467	3,357,526
Africa		346,481	321,665
Other		1,384,009	873,272
Total		35,032,999	31,875,242

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.9.2014		31.12.2013	
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value
Held to maturity				
due in one year	1,009,189	1,030,237	587,925	594,854
due after one through two years	719,099	752,679	1,062,548	1,114,378
due after two through three years	187,517	198,522	513,930	546,127
due after three through four years	70,194	73,609	140,576	148,806
due after four through five years	48,116	50,315	95,480	98,983
due after five through ten years	264,752	303,945	264,473	286,236
due after more than ten years	473	551	1,855	2,255
Total	2,299,340	2,409,858	2,666,787	2,791,639
Loans and receivables				
due in one year	238,599	242,362	237,228	240,952
due after one through two years	353,431	371,693	220,144	228,825
due after two through three years	305,971	324,252	376,062	399,698
due after three through four years	85,054	88,593	280,019	298,656
due after four through five years	148,221	163,220	141,240	149,437
due after five through ten years	1,059,961	1,200,829	1,106,317	1,184,496
due after more than ten years	747,004	902,044	848,090	923,723
Total	2,938,241	3,292,993	3,209,100	3,425,787
Available for sale				
due in one year ²	3,752,161	3,767,768	3,095,796	3,103,923
due after one through two years	2,546,432	2,589,768	2,789,025	2,838,390
due after two through three years	2,672,043	2,733,491	1,848,794	1,899,960
due after three through four years	3,209,438	3,257,466	2,318,986	2,384,389
due after four through five years	2,432,709	2,509,115	2,700,046	2,728,465
due after five through ten years	8,231,714	8,674,843	7,765,540	7,896,895
due after more than ten years	3,033,908	3,342,435	2,657,402	2,749,944
Total	25,878,405	26,874,886	23,175,589	23,601,966
Financial assets at fair value through profit or loss				
due in one year	5,169	5,169	8,339	8,339
due after one through two years	2,356	2,356	4,337	4,337
due after two through three years	11,905	11,905	2,182	2,182
due after three through four years	21,281	21,281	5,991	5,991
due after four through five years	39	39	–	–
due after five through ten years	215	215	–	–
due after more than ten years	12,758	12,758	15,212	15,212
Total	53,723	53,723	36,061	36,061

¹ Including accrued interest

² Including short-term investments and cash

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

in EUR thousand	30.9.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	395,877	11,763	–	7,206	414,846
US treasury notes	360,939	5,270	–	4,529	370,737
Other foreign government debt securities	29,375	244	–	388	30,006
Debt securities issued by semi-governmental entities	420,913	18,400	1,051	5,538	443,800
Corporate securities	233,659	11,548	119	3,719	248,807
Covered bonds/asset-backed securities	820,895	64,465	–	16,302	901,662
Total	2,261,658	111,688	1,170	37,682	2,409,858

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

in EUR thousand	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	389,642	16,775	–	7,078	413,495
US treasury notes	497,681	12,436	–	3,622	513,739
Other foreign government debt securities	48,922	406	–	142	49,470
Debt securities issued by semi-governmental entities	518,178	23,185	–	8,015	549,378
Corporate securities	229,775	10,142	1,653	3,142	241,406
Covered bonds/asset-backed securities	941,355	63,561	–	19,235	1,024,151
Total	2,625,553	126,505	1,653	41,234	2,791,639

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

in EUR thousand	30.9.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,626,006	229,674	–	24,929	1,880,609
Corporate securities	376,925	19,989	423	6,727	403,218
Covered bonds/asset-backed securities	890,059	105,512	–	13,595	1,009,166
Total	2,892,990	355,175	423	45,251	3,292,993

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

in EUR thousand	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,822,223	145,725	4,554	29,970	1,993,364
Corporate securities	373,987	14,667	5,492	5,501	388,663
Covered bonds/asset-backed securities	962,407	71,141	4,800	15,012	1,043,760
Total	3,158,617	231,533	14,846	50,483	3,425,787

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

in EUR thousand	30.9.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,964,936	121,767	962	18,890	2,104,631
US treasury notes	2,482,562	23,467	7,628	5,631	2,504,032
Other foreign government debt securities	1,715,907	13,013	25,914	10,739	1,713,745
Debt securities issued by semi-governmental entities	4,163,718	223,767	6,003	46,570	4,428,052
Corporate securities	11,039,849	483,850	43,855	142,158	11,622,002
Covered bonds/asset-backed securities	2,783,720	196,302	5,261	30,467	3,005,228
Investment funds	71,839	23,938	–	–	95,777
	24,222,531	1,086,104	89,623	254,455	25,473,467
Equity securities					
Shares	12,254	7,758	1	–	20,011
Investment funds	8,011	4,620	–	–	12,631
	20,265	12,379	1	–	32,642
Short-term investments	580,485	–	–	2,473	582,958
Total	24,823,281	1,098,482	89,624	256,928	26,089,067

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

in EUR thousand	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,888,024	40,708	19,518	18,075	1,927,289
US treasury notes	1,707,269	15,141	20,175	5,397	1,707,632
Other foreign government debt securities	1,521,815	5,776	34,698	10,484	1,503,377
Debt securities issued by semi-governmental entities	3,803,818	117,838	24,549	45,377	3,942,484
Corporate securities	10,042,461	295,414	112,472	136,357	10,361,760
Covered bonds/asset-backed securities	2,695,036	167,867	18,132	35,628	2,880,399
Investment funds	73,774	14,114	937	–	86,951
	21,732,197	656,858	230,481	251,318	22,409,892
Equity securities					
Shares	12,588	4,682	1	–	17,269
Investment funds	8,452	3,259	–	–	11,711
	21,040	7,941	1	–	28,980
Short-term investments	546,999	–	–	2,139	549,138
Total	22,300,236	664,799	230,482	253,457	22,988,010

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

in EUR thousand	30.9.2014	31.12.2013	30.9.2014	31.12.2013	30.9.2014	31.12.2013
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	53,198	23,863	525	596	53,723	24,459
Covered bonds/asset-backed securities	–	11,547	–	55	–	11,602
	53,198	35,410	525	651	53,723	36,061
Other financial assets						
Derivatives	88,967	70,082	–	–	88,967	70,082
	88,967	70,082	–	–	88,967	70,082
Total	142,165	105,492	525	651	142,690	106,143

Information on fair values and fair value hierarchy

The methods and models set out below are used to establish the fair value of financial instruments on the assets and liabilities side of the balance sheet. The fair value of a financial instrument corresponds in principle 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 instruments,

their bid price is used. 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 following table.

Valuation models

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
Inflation swaps	Inflation swap rates (Consumer Price Index), historical index fixings, interest rate curve	Present value method with seasonality adjustment
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

Fair value hierarchy

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

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

- 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.

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 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.

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

in EUR thousand	2014			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	26,994	25,499,692	504	25,527,190
Equity securities	32,634	–	8	32,642
Other financial assets – at fair value through profit or loss	–	88,967	–	88,967
Other invested assets	–	44,096	1,460,263	1,504,359
Short-term investments	582,958	–	–	582,958
Total financial assets	642,586	25,632,755	1,460,775	27,736,116
Other liabilities	–	77,101	124,472	201,573
Total financial liabilities	–	77,101	124,472	201,573

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

in EUR thousand	2013			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	26,035	22,414,739	5,179	22,445,953
Equity securities	28,972	–	8	28,980
Other financial assets – at fair value through profit or loss	–	70,082	–	70,082
Other invested assets	–	36,306	1,199,851	1,236,157
Short-term investments	549,138	–	–	549,138
Total financial assets	604,145	22,521,127	1,205,038	24,330,310
Other liabilities	–	50,157	68,827	118,984
Total financial liabilities	–	50,157	68,827	118,984

The following table provides a reconciliation of the fair values of financial assets and liabilities included in level 3 at the beginning of the period with the fair values as at the balance sheet date.

Movements in level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–30.9.2014			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1.1. of the year under review	5,179	8	1,199,851	68,827
Currency translation at 1.1.	474	–	64,707	–
Net book value after currency translation	5,653	8	1,264,558	68,827
Income and expenses				
recognised in the statement of income	–	–	(8,222)	(3,668)
recognised directly in shareholders' equity	–	–	77,688	–
Purchases	–	–	248,622	(49,493)
Sales	593	–	132,685	–
Settlements	4,118	–	–	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 30.9. of the year under review	(438)	–	10,302	9,820
Closing balance at 30.9. of the year under review	504	8	1,460,263	124,472

Movements in level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–30.9.2013			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1.1. of the year under review	27,329	8	1,061,953	54,812
Currency translation at 1.1.	(469)	–	(15,711)	–
Net book value after currency translation	26,860	8	1,046,242	54,812
Changes in the consolidated group	(7,276)	–	(8,973)	–
Income and expenses				
recognised in the statement of income	1,071	–	(3,774)	1,079
recognised directly in shareholders' equity	–	–	30,066	–
Purchases	–	–	159,257	(2,565)
Sales/Settlements	16,522	–	102,061	(407)
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 30.9. of the year under review	590	–	(1,442)	(1,295)
Closing balance at 30.9. of the year under review	4,723	8	1,119,315	52,438

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

Income and expenses from level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–30.9.2014		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	–	(5,819)	3,668
Total depreciation, impairments and appreciation of investments	–	(2,403)	–
Thereof attributable to financial instruments included in the portfolio at 30.9. of the year under review			
Change in fair value of financial instruments	–	(5,819)	3,668
Total depreciation, impairments and appreciation of investments	–	(2,403)	–

Income and expenses from level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–30.9.2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	1,071	(297)	(1,079)
Total depreciation, impairments and appreciation of investments	–	(3,477)	–
Thereof attributable to financial instruments included in the portfolio at 30.9. of the year under review			
Change in fair value of financial instruments	1,071	(297)	(1,079)
Total depreciation, impairments and appreciation of investments	–	(3,477)	–

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 1,460.8 million (EUR 1,205.0 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,358.2 million (EUR 1,109.7 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 102.6 million (EUR 95.3 million) relate in very large part to acquired life insurance policies, the valuation of which is based 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.

5.2 Debt and subordinated capital

Hannover Re recognised altogether four (four) subordinated bonds with an amortised cost of EUR 1,986.0 million as at the balance sheet date.

Hannover Re has placed three (four) subordinated debts from the 2005, 2010 and 2012 financial years in amounts of EUR 500.0 million each on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. The debt issued in 2004 with a volume of EUR 750.0 million was cancelled by the issuer in the full nominal amount at the first scheduled call date and repaid on 26 February 2014. The fair value of the aforementioned bonds as at 30 September 2014 was EUR 1,671.4 million (31 December 2013:

EUR 2,424.9 million). For further information on these bonds please see the previous year's Group annual financial report.

On 15 September 2014 Hannover Re placed another EUR 500.0 million subordinated bond on the European capital market through Hannover Rück SE, Hannover. The issue has a perpetual maturity with a first scheduled call option on 26 June 2025. It carries a fixed coupon of 3.375% p. a. until this date, after which the interest rate basis changes to 3-month EURIBOR +325 basis points. The fair value of this bond was EUR 491.1 million as at the balance sheet date.

5.3 Shareholders' equity, non-controlling interests 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.

In addition, conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of convertible bonds and bonds with warrants as well as to holders of participating bonds with conversion rights and warrants and has a time limit of 2 May 2016.

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

The Annual General Meeting of Hannover Rück SE resolved on 7 May 2014 that a dividend of EUR 3.00 per share should be paid for the 2013 financial year. This corresponds to a total distribution of EUR 361.8 million (EUR 361.8 million).

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 702.4 million (EUR 641.6 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rückversicherung AG in an amount of EUR 671.9 million (EUR 620.3 million).

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 21,608 (18,750) treasury shares during the second quarter of 2014 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2018. This transaction resulted in an expense of EUR 0.4 million (EUR 0.4 million), which was recognised under personnel expenditure, as well as a negligible increase in retained earnings recognised in equity. The company was not in possession of treasury shares at any time during the third quarter of 2014.

Authorised capital of up to EUR 60,299 thousand is available with a time limit of 3 May 2015. The subscription right of shareholders may be excluded with the consent of the Supervisory Board. New, no-par-value registered shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 39.5 million (decrease recognised in equity of EUR 42.8 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

6.1 Gross written premium

Gross written premium

in EUR thousand	1.1.–30.9.2014	1.1.–30.9.2013
Regional origin		
Germany	999,481	1,016,424
United Kingdom	1,862,473	1,932,126
France	482,853	435,323
Other	1,236,414	1,326,571
Europe	4,581,221	4,710,444
USA	2,383,740	2,512,056
Other	527,545	537,546
North America	2,911,285	3,049,602
Asia	1,622,490	1,230,796
Australia	667,398	594,549
Australasia	2,289,888	1,825,345
Africa	320,501	339,428
Other	601,596	613,085
Total	10,704,491	10,537,904

6.2 Investment income

Investment income

in EUR thousand	1.1.–30.9.2014	1.1.–30.9.2013
Income from real estate	62,962	47,174
Dividends	2,380	1,936
Interest income	700,895	732,203
Other income	25,561	(238)
Ordinary investment income	791,798	781,075
Profit or loss on shares in associated companies	5,490	9,812
Appreciation	–	261
Realised gains on investments	155,876	121,462
Realised losses on investments	18,520	24,049
Change in fair value of financial instruments	(8,823)	(18,796)
Impairments on real estate	13,743	10,056
Impairments on equity securities	–	3
Impairments on participating interests and other financial assets	2,403	3,595
Other investment expenses	73,659	70,526
Net income from assets under own management	836,016	785,585
Interest income on funds withheld and contract deposits	382,544	350,188
Interest expense on funds withheld and contract deposits	97,254	82,558
Total investment income	1,121,306	1,053,215

The impairments totalling EUR 2.4 million (EUR 3.6 million) were attributable entirely to the area of alternative investments – specifically, exclusively to private equity investments. In the reporting period and in the comparable period of the previous year no impairments were recognised on equities or equity funds because their fair values did not fall significantly – i.e. by at least 20% – or for a prolonged period – i.e.

for at least nine months – below acquisition cost. Nor was it necessary to recognise any impairments on fixed-income securities. These write-downs were not opposed by any write-ups on investments written down in previous periods (EUR 0.3 million). 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	1.1.– 30.9.2014	1.1.– 30.9.2013
Fixed-income securities – held to maturity	64,866	85,816
Fixed-income securities – loans and receivables	80,950	90,329
Fixed-income securities – available for sale	544,079	540,594
Financial assets – at fair value through profit or loss	1,412	736
Other	9,588	14,728
Total	700,895	732,203

7. Other notes

7.1 Derivative financial instruments and financial guarantees

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 3.2 million (31 December 2013: EUR 1.4 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge currency risks. These transactions gave rise to recognition of other liabilities in an amount of EUR 27.5 million (EUR 5.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 33.9 million (EUR 16.7 million).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other liabilities amounting to EUR 38.1 million (EUR 34.1 million) and other financial assets at fair value through profit or loss in an amount of EUR 1.4 million).

Derivative financial instruments in connection with reinsurance

Certain reinsurance treaties meet criteria which require application of the prescriptions in IFRS 4 governing embedded derivatives. These accounting regulations require that derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract") according to the conditions specified in IFRS 4 and IAS 39 and recognised separately at fair value in accordance with IAS 39. Fluctuations in the fair value of the derivative components are to be recognised in income in subsequent periods.

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 took out hedges in the first quarter of 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to -EUR 0.4 million (none) as at the balance sheet date and was recognised under other assets. The hedge gave rise to a change in equity from hedging instruments recognised directly in equity in an amount of EUR 0.4 million; ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 6.9 million to the result of the period under review (30 September 2013: EUR 18.9 million).

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 55.1 million as at 30 September 2014 (31 December 2013: EUR 52.1 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 132.4 million (31 December 2013: EUR 78.0 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 124.5 million (31 December 2013: EUR 68.8 million) is attributable to a number of transactions in the Life & Health reinsurance business group that are to be classified as derivative financial instruments. Under these transactions Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging 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 classified and recognised as stand-alone credit derivatives pursuant to IAS 39. These instruments gave rise to an improvement in investment income of EUR 3.7 million (30 September 2013: charge against investment income of EUR 1.1 million).

Of the derivatives carried on the assets side, fair values of EUR 48.3 million (31 December 2013: EUR 45.3 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

Financial guarantees

Structured transactions were entered into in the life and health reinsurance segment in order to finance statutory reserves (so-called Triple-X or AXXX reserves) associated with the US business of some of our 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 2,481.7 million (EUR 1,372.2 million); an amount equivalent to EUR 1,473.7 million (EUR 892.1 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

7.2 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 period under review the following significant business relations existed with related parties.

Within the scope of the accounting of 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 value 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 ModCo derivatives gave rise to a charge against investment income of EUR 1.6 million before tax as at 30 September 2014 (30 September 2013: improvement in investment income of EUR 5.2 million).

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.

HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI) holds an unchanged majority interest of 50.22% in Hannover Rück SE through Talanx AG.

In November 2013 the responsible bodies of Hannover Rück SE and E+S Rückversicherung AG decided to reorganise the business relationship between the two companies with effect from 1 January 2014. The exchange of business under the previously existing underwriting partnership was discontinued at the beginning of 2014. In property and casualty reinsurance, however, a retrocession by Hannover Rück SE to E+S Rückversicherung AG has been maintained. The exclusive responsibilities of E+S Rückversicherung AG for German business and Hannover Rück SE for international markets have been preserved.

Within the contractually agreed framework Talanx Asset Management GmbH performs investment and asset management services for Hannover Rück SE and some 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.

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

Business assumed and ceded in Germany and abroad

in EUR thousand	1.1.–30.9.2014		1.1.–30.9.2013	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Property and casualty reinsurance	344,175	51,575	378,276	49,381
Life and health reinsurance	113,870	20,001	139,535	16,739
	458,045	71,576	517,811	66,120
Business ceded				
Property and casualty reinsurance	(8,468)	(5,279)	(13,126)	(7,057)
Life and health reinsurance	(43,242)	(5,188)	(40,849)	(7,825)
	(51,710)	(10,467)	(53,975)	(14,882)
Total	406,335	61,109	463,836	51,238

In the context of a new bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in the previous year 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 47.9 million (EUR 48.3 million) including accrued interest of EUR 0.9 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.

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.

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 major reinsurance relationships with related parties in the period under review are listed in the following table.

7.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,460 during the period under review (average in 2013: 2,376).

As at the balance sheet date altogether 2,510 (2,419) staff were employed by the Hannover Re Group, with 1,272 (1,219) employed in Germany and 1,238 (1,200) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1.–30.9.2014	1.1.–30.9.2013 ¹
Group net income in EUR thousand	695,444	630,230
Weighted average of issued shares	120,596,894	120,596,926
Basic earnings per share in EUR	5.77	5.23
Diluted earnings per share in EUR	5.77	5.23

¹ Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

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 period under review nor in the previous reporting period were there any dilutive effects.

On the basis of this year's employee share option plan Hannover Rück SE acquired treasury shares in the course of the second quarter of 2014 and sold them to eligible employees. The weighted average number of shares does not include 21,608

(18,750) treasury shares pro rata temporis for the duration of the holding period. For further details please see our comments in Section 5.3 "Shareholders' equity, non-controlling interests 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.

7.5 Contingent liabilities and commitments

Hannover Rück SE has secured by subordinated guarantee the subordinated debts issued by Hannover Finance (Luxembourg) S.A. in the 2005, 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 3,035.6 million (EUR 2,748.1 million) and EUR 23.6 million (EUR 21.5 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 581.5 million (EUR 565.6 million) in the form of so-called "single trust funds".

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 2,671.5 million (EUR 2,514.4 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.

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 2,965.4 million (EUR 2,895.1 million).

In addition, we put up own investments with a book value of EUR 45.5 million as collateral for existing derivative transactions. In the previous year we kept own investments with a book value of EUR 53.8 million in blocked custody accounts for the provision of corresponding collateral. We received collateral with a fair value of EUR 19.6 million (EUR 18.6 million) for existing derivative transactions.

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 604.7 million (EUR 459.9 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 660.8 million (EUR 598.5 million). These primarily

involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

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 Rück SE 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.

7.6 Events after the end of the quarter

Effective 17 October 2014 Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, acquired shares of E+S Rück from a non-controlling interest for a purchase price of around EUR 20.1 million.

Contact information

Corporate Communications

Karl Steinle

Tel. +49 511 5604-1500

Fax +49 511 5604-1648

karl.steinle@hannover-re.com

Media Relations

Gabriele Handrick

Tel. +49 511 5604-1502

Fax +49 511 5604-1648

gabriele.handrick@hannover-re.com

Investor Relations

Julia Hartmann

Tel. +49 511 5604-1529

Fax +49 511 5604-1648

julia.hartmann@hannover-re.com

Published by

Hannover Rück SE

Karl-Wiechert-Allee 50
30625 Hannover, Germany
Tel. +49 511 5604-0
Fax +49 511 5604-1188

Concept, design and realisation

Whitepark GmbH & Co., Hamburg
www.whitepark.de

Print

LD Medien und Druckgesellschaft mbH, Hamburg

Printed on paper from environmentally responsible, socially compatible and economically viable forest management

