Consolidated financial statements

Consolidated balance sheet as at 31 December 2014

N 01

Assets in EUR thousand	Notes	31.12.2014	31.12.2013
Fixed-income securities – held to maturity	6.1	2,139,742	2,666,787
Fixed-income securities – loans and receivables	6.1	2,988,187	3,209,100
Fixed-income securities – available for sale	6.1	26,817,523	22,409,892
Fixed-income securities – at fair value through profit or loss	6.1	64,494	36,061
Equity securities – available for sale	6.1	32,804	28,980
Other financial assets – at fair value through profit or loss	6.1	66,394	70,082
Real estate and real estate funds	6.1	1,299,258	1,094,563
Investments in associated companies	6.1	154,822	144,489
Other invested assets	6.1	1,316,604	1,023,214
Short-term investments	6.1	575,300	549,138
Cash and cash equivalents	6.1	772,882	642,936
Total investments and cash under own management		**36,228,010**	**31,875,242**
Funds withheld	6.2	15,826,480	14,267,831
Contract deposits	6.3	92,069	75,541
Total investments		**52,146,559**	**46,218,614**
Reinsurance recoverables on unpaid claims	6.7	1,376,432	1,403,804
Reinsurance recoverables on benefit reserve	6.7	676,219	344,154
Prepaid reinsurance premium	6.7	149,257	139,039
Reinsurance recoverables on other technical reserves	6.7	5,446	6,893
Deferred acquisition costs	6.4	1,914,598	1,672,398
Accounts receivable	6.4	3,113,978	2,945,685
Goodwill	6.5	58,220	57,070
Deferred tax assets	7.5	393,923	508,841
Other assets	6.6	618,280	603,627
Accrued interest and rent		4,672	4,193
Assets held for sale	6.1	–	11,226
Total assets		**60,457,584**	**53,915,544**

Liabilities in EUR thousand	Notes	31.12.2014	31.12.2013
Loss and loss adjustment expense reserve	6.7	24,112,056	21,666,932
Benefit reserve	6.7	11,757,132	10,631,451
Unearned premium reserve	6.7	2,748,594	2,405,497
Other technical provisions	6.7	324,240	269,571
Funds withheld	6.8	817,137	648,026
Contract deposits	6.9	6,072,338	5,569,932
Reinsurance payable		1,101,317	1,071,654
Provisions for pensions	6.10	171,501	116,412
Taxes	7.5	260,137	222,795
Deferred tax liabilities	7.5	1,875,591	1,712,392
Other liabilities	6.11	694,234	605,895
Long-term debt and subordinated capital	6.12	2,270,347	2,464,960
Total liabilities		**52,204,624**	**47,385,517**
Shareholders' equity			
Common shares	6.13	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	6.13		
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		1,169,255	533,745
Cumulative foreign currency translation adjustment		190,454	(246,279)
Changes from hedging instruments		(8,748)	(9,455)
Other changes in cumulative other comprehensive income		(48,288)	(16,452)
Total other comprehensive income		**1,302,673**	**261,559**
Retained earnings		5,402,926	4,781,718
Equity attributable to shareholders of Hannover Rück SE		**7,550,758**	**5,888,436**
Non-controlling interests	6.14	702,202	641,591
Total shareholders' equity		**8,252,960**	**6,530,027**
Total liabilities		**60,457,584**	**53,915,544**

Consolidated statement of income 2014

N 02

in EUR thousand	Notes	1.1.–31.12.2014	1.1.–31.12.2013
Gross written premium	7.1	14,361,801	13,963,409
Ceded written premium		1,781,064	1,542,921
Change in gross unearned premium		(154,362)	(203,238)
Change in ceded unearned premium		(3,294)	9,414
Net premium earned		**12,423,081**	**12,226,664**
Ordinary investment income	7.2	1,068,361	1,041,318
Profit/loss from investments in associated companies	7.2	1,042	12,536
Realised gains and losses on investments	7.2	182,453	144,151
Change in fair value of financial instruments	7.2	(33,257)	(27,136)
Total depreciation, impairments and appreciation of investments	7.2	27,558	19,098
Other investment expenses	7.2	95,256	97,309
Net income from investments under own management		**1,095,785**	**1,054,462**
Income/expense on funds withheld and contract deposits	7.2	376,056	357,348
Net investment income		**1,471,841**	**1,411,810**
Other technical income	7.3	1,641	1,907
Total revenues		**13,896,563**	**13,640,381**
Claims and claims expenses	7.3	9,464,172	9,127,546
Change in benefit reserves	7.3	28,625	146,691
Commission and brokerage, change in deferred acquisition costs	7.3	2,579,368	2,690,173
Other acquisition costs		4,878	5,608
Other technical expenses	7.3	7,461	7,874
Administrative expenses	7.3	363,859	333,674
Total technical expenses		**12,448,363**	**12,311,566**
Other income and expenses	7.4	18,190	(99,753)
Operating profit/loss (EBIT)		**1,466,390**	**1,229,062**
Interest on hybrid capital	6.12	95,720	126,670
Net income before taxes		**1,370,670**	**1,102,392**
Taxes	7.5	305,563	163,143
Net income		**1,065,107**	**939,249**
thereof			
Non-controlling interest in profit and loss	6.14	79,458	43,782
Group net income		**985,649**	**895,467**
Earnings per share (in EUR)	**8.5**		
Basic earnings per share		8.17	7.43
Diluted earnings per share		8.17	7.43

Consolidated statement of comprehensive income 2014

N 03

in EUR thousand	1.1.–31.12.2014	1.1.–31.12.2013
Net income	**1,065,107**	**939,249**
Not reclassifiable to the consolidated statement of income		
Actuarial gains and losses		
Gains (losses) recognised directly in equity	(51,190)	13,106
Tax income (expense)	16,287	(4,203)
	(34,903)	**8,903**
Income and expense recognised directly in equity that cannot be reclassified		
Gains (losses) recognised directly in equity	(51,190)	13,106
Tax income (expense)	16,287	(4,203)
	(34,903)	**8,903**
Reclassifiable to the consolidated statement of income		
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	1,051,409	(536,739)
Transferred to the consolidated statement of income	(147,075)	(118,169)
Tax income (expense)	(240,809)	181,079
	663,525	**(473,829)**
Currency translation		
Gains (losses) recognised directly in equity	476,440	(269,180)
Transferred to the consolidated statement of income	50	(5,507)
Tax income (expense)	(33,301)	40,930
	443,189	**(233,757)**
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	10,217	1,712
	10,217	**1,712**
Changes from hedging instruments		
Gains (losses) recognised directly in equity	1,066	–
Tax income (expense)	(340)	–
	726	**–**
Reclassifiable income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	1,539,132	(804,207)
Transferred to the consolidated statement of income	(147,025)	(123,676)
Tax income (expense)	(274,450)	222,009
	1,117,657	**(705,874)**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	1,487,942	(791,101)
Transferred to the consolidated statement of income	(147,025)	(123,676)
Tax income (expense)	(258,163)	217,806
	1,082,754	**(696,971)**
Total recognised income and expense	**2,147,861**	**242,278**
thereof		
Attributable to non-controlling interests	123,107	23,179
Attributable to shareholders of Hannover Rück SE	2,024,754	219,099

Consolidated statement of changes in shareholders' equity 2014

N04

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	–	–	(454,173)	(230,160)
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2013	**120,597**	**724,562**	**533,745**	**(246,279)**
Balance as at 1.1.2014	**120,597**	**724,562**	**533,745**	**(246,279)**
Changes in ownership interest with no change of control status	–	–	2,172	(103)
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised in equity	–	–	633,338	436,836
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2014	**120,597**	**724,562**	**1,169,255**	**190,454**

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**
–	–	(1,349)	(1,349)	1,426	77
–	–	–	–	(14,265)	(14,265)
–	–	–	–	115	115
–	–	–	–	(2,043)	(2,043)
–	–	5	5	–	5
–	7,965	–	(676,368)	(20,603)	(696,971)
–	–	895,467	895,467	43,782	939,249
–	–	(361,791)	(361,791)	(48,493)	(410,284)
(9,455)	**(16,452)**	**4,781,718**	**5,888,436**	**641,591**	**6,530,027**
(9,455)	**(16,452)**	**4,781,718**	**5,888,436**	**641,591**	**6,530,027**
–	(60)	(2,637)	(628)	(19,452)	(20,080)
–	–	–	–	(1,387)	(1,387)
–	–	–	–	4	4
–	–	–	–	(72)	(72)
–	–	(13)	(13)	–	(13)
707	(31,776)	–	1,039,105	43,649	1,082,754
–	–	985,649	985,649	79,458	1,065,107
–	–	(361,791)	(361,791)	(41,589)	(403,380)
(8,748)	**(48,288)**	**5,402,926**	**7,550,758**	**702,202**	**8,252,960**

Consolidated cash flow statement 2014

N 05

in EUR thousand	1.1.–31.12.2014	1.1.–31.12.2013
I. Cash flow from operating activities		
Net income	1,065,107	939,249
Appreciation/depreciation	58,384	30,622
Net realised gains and losses on investments	(182,453)	(144,151)
Change in fair value of financial instruments (through profit or loss)	33,257	27,136
Realised gains and losses on deconsolidation	(2,602)	(6,661)
Income from the recognition of negative goodwill	–	(173)
Amortisation of investments	83,382	98,146
Changes in funds withheld	(482,106)	(70,492)
Net changes in contract deposits	119,362	(78,143)
Changes in prepaid reinsurance premium (net)	157,349	193,824
Changes in tax assets/provisions for taxes	182,543	(89,114)
Changes in benefit reserve (net)	57,841	75,705
Changes in claims reserves (net)	1,106,308	1,118,155
Changes in deferred acquisition costs	(121,881)	67,431
Changes in other technical provisions	38,995	70,075
Changes in clearing balances	73,975	(106,432)
Changes in other assets and liabilities (net)	(256,569)	100,319
Cash flow from operating activities	**1,930,892**	**2,225,496**

in EUR thousand	1.1.–31.12.2014	1.1.–31.12.2013
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	618,208	912,993
Purchases	(1,395)	(46,980)
Fixed-income securities – loans and receivables		
Maturities, sales	427,121	462,581
Purchases	(100,302)	(283,585)
Fixed-income securities – available for sale		
Maturities, sales	11,304,019	8,220,723
Purchases	(13,167,728)	(10,519,496)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	9,649	79,646
Purchases	(34,622)	(12,074)
Equity securities – available for sale		
Sales	10,932	15,432
Purchases	(9,793)	(12,302)
Other financial assets – at fair value through profit or loss		
Sales	59,706	4,481
Purchases	(19,148)	(92)
Other invested assets		
Sales	142,588	131,650
Purchases	(259,511)	(172,207)
Affiliated companies and participating interests		
Sales	24,688	22,514
Purchases	(45,408)	(3,105)
Real estate and real estate funds		
Sales	102,472	55,963
Purchases	(230,502)	(508,308)
Short-term investments		
Changes	11,735	(74,218)
Other changes (net)	(38,050)	(35,134)
Cash flow from investing activities	**(1,195,341)**	**(1,761,518)**

in EUR thousand	1.1.–31.12.2014	1.1.–31.12.2013
III. Cash flow from financing activities		
Contribution from capital measures	876	1,920
Payment on capital measures	(4,769)	(6,096)
Structural change without loss of control	(20,080)	77
Dividends paid	(403,380)	(410,284)
Proceeds from long-term debts	554,095	77,405
Repayment of long-term debts	(774,338)	(10,705)
Acquisition/disposal of treasury shares	(13)	5
Cash flow from financing activities	**(647,609)**	**(347,678)**
IV. Exchange rate differences on cash	**46,058**	**(41,719)**
Cash and cash equivalents at the beginning of the period	**642,936**	**572,188**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**134,000**	**74,581**
Changes in the consolidated group	**(4,054)**	**(3,833)**
Cash and cash equivalents at the end of the period	**772,882**	**642,936**
Supplementary information on the cash flow statement[1]		
Income taxes paid (on balance)	(113,032)	(278,326)
Dividend receipts[2]	71,844	60,673
Interest received	1,415,936	1,457,912
Interest paid	(175,025)	(168,701)

[1] The income taxes paid, dividend receipts as well as interest received and paid are included entirely in the cash flow from operating activities.
[2] Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements 2014

1. Company information

Hannover Rück SE and its subsidiaries (collectively referred to as the "Hannover Re Group" or "Hannover Re") transact all lines of property & casualty and life & health reinsurance. With gross premium of approximately EUR 14.4 billion, Hannover Re is the third-largest reinsurance group in the world. The company's network consists of more than 120 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,500. The Group's German business is conducted by the subsidiary E+S Rückversicherung AG. Hannover Rück SE is a European Company, Societas Europaea (SE), and its registered office is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany. In total, 50.2% (rounded) of the shares of Hannover Rück SE are directly and indirectly held by Talanx AG, which in turn is majority-owned – with an interest of 79% – by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

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

Pursuant to EU Regulation (EC) No. 1606/2002, the present consolidated financial statement and group management report of Hannover Re have been drawn up in accordance with the International Financial Reporting Standards (IFRS) that are to be applied within the European Union. In addition, we have made allowance for the regulations that are also applicable pursuant to § 315a Para. 1 German Commercial Code (HGB) and the supplementary provisions of the Articles of Association of Hannover Rück SE as amended on 18 July 2013.

The consolidated financial statement reflects all IFRS in force as at 31 December 2014 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2014 financial year. IFRS 4 "Insurance Contracts" requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 Number 2 German Commercial Code (HGB) also contains requirements for insurance undertakings with regard to information on the management of underwriting and financial risks that is to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

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.

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

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

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

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

The present consolidated financial statement was released for publication by a resolution of the Executive Board on 26 February 2015.

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 amounts 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 in June 2014. The interpretation did not have any implications for the carrying amounts 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 amounts 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 the proportionate inclusion of interests in joint ventures – a practice not adopted by Hannover Re – will no longer be permissible. Rather, interests in joint ventures must be accounted for using the equity method. IFRS 12 "Disclosure of Interests in Other Entities" encompasses the disclosure requirements for IFRS 10 and 11 as well as IAS 27 and IAS 28. 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, this gave rise to expanded annual mandatory disclosures in comparison with the previous requirements. 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 corresponding disclosures are mostly provided in Sections 4.1, 4.2, 6.1 and 6.14.

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. 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

The IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the consolidated financial statement of Hannover Re, application of which is not yet mandatory for the year under review and which are not being applied early by Hannover Re:

In December 2014 the IASB published "Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception". The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. They are effective for annual periods beginning on or after 1 January 2016 and have still to be endorsed by the EU.

In December 2014 the IASB also issued "Amendments to IAS 1: Disclosure Initiative". The amendments provide clarifications in relation to materiality considerations, the aggregation and disaggregation of disclosures and the understandability and comparability of the notes to the IFRS financial statements. They 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 published the "Annual Improvements to IFRSs 2012–2014 Cycle". These annual improvements involve amendments and clarifications relating to the following standards: IFRS 5 "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 July 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 July 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. Initial mandatory application of the standard, which has still to be endorsed by the EU, is tentatively set for annual periods beginning on or after 1 January 2018. Hannover Re is currently reviewing the implications of this standard and anticipates significant implications for the consolidated financial statement.

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.

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 and were endorsed by the EU in December 2014.

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 and were endorsed by the EU in December 2014.

3. Accounting policies

3.1 Summary of major accounting policies

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

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

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

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

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

Valuation models

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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

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

Financial assets classified as available for sale are carried at fair value; accrued interest is recognised in this context. We allocate to this category those financial instruments that do not satisfy the criteria for classification as held to maturity, loans and receivables, at fair value through profit or loss, or trading. Unrealised gains and losses arising out of changes in the fair value of securities held as available for sale are recognised – with the exception of currency valuation differences on monetary items – directly in shareholder's equity after deduction of deferred taxes.

Establishment of the fair value of financial instruments carried as assets or liabilities: we establish the fair value of financial instruments carried as assets or liabilities using the methods and models described below. The fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial assets, their bid price is used; financial liabilities are valued at ask price. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance.

Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table on the previous page. Financial assets for which no publicly available prices or observable market data can be used as inputs (financial instruments belonging to fair value hierarchy level 3) are for the most part measured on the basis of proven valuations drawn up by knowledgeable, independent experts, e. g. audited net asset value, the plausibility of which has previously been subjected to systematic review. For further information please see our explanatory remarks on the fair value hierarchy in Section 6.1 "Investments under own management".

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

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

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

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

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Further information is provided in Section 4.1 "Consolidation principles".

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

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

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

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

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

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

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

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

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. Intangible assets are regularly tested for impairment and impairment is taken where necessary. The other intangible assets also include the expected profits from acquired life reinsurance portfolios. These are carried at the present value of future profits (PVFP) at time of acquisition, which is calculated as the present value of profits expected from the acquired blocks of business disregarding new business and tax effects. Scheduled amortisation is taken according to the periods of the underlying acquired contracts. The PVFP is regularly tested for impairment using a liability adequacy test and impairments are taken if necessary. In this regard please see Section 3.2 "Major discretionary decisions and estimates".

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

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

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

Own-use real estate: The portfolio of own-use real estate is measured at cost less scheduled straight-line depreciation over useful lives of 10 to 50 years. The fair values are determined for comparative purposes using the discounted cash flow method.

Other assets are accounted for at amortised cost.

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

Loss and loss adjustment expense reserves are constituted for payment obligations from reinsurance losses that have occurred but have not yet been settled. They are subdivided into reserves for reinsurance losses reported by the balance sheet date and reserves for reinsurance losses that have already been incurred but not yet reported (IBNR) by the balance sheet date. The loss and loss adjustment expense reserves are based on estimates that may diverge from the actual amounts payable. In reinsurance business a considerable period of time may elapse between the occurrence of an insured loss, notification by the insurer and pro-rata payment of the loss by the reinsurer. For this reason the best estimate of the future settlement amount is carried. With the aid of actuarial methods, the estimate makes allowance for past experience and assumptions relating to the future development. The interest rate-induced portion of the change in the reserve is shown in the statement of income on a consistent Group basis. With the exception of a few reserves, future payment obligations are not discounted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Fixed-income securities
  - Equities, equity funds and other variable-yield securities
  - Other financial assets – at fair value through profit or loss
- Other invested assets
- Short-term investments
- Other receivables
- Other liabilities
- Long-term debt
- Subordinated debt
- Other long-term liabilities

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

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

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

The individual companies' statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Effective 1 January 2014 the functional currency of the Group companies Hannover Life Reassurance Bermuda Ltd. and Hannover Re (Bermuda) Ltd. changed from euro to US dollar. This changeover was prompted by the regrouping of large parts of the securities portfolios held by the companies to USD-denominated instruments. Taken in conjunction with the fact that large parts of the insurance business written by the companies are transacted in US dollars, the currency of the primary economic environment in which the Group companies operate is the US dollar. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

Key exchange rates N 07

1 EUR corresponds to:	31.12.2014	31.12.2013	2014	2013
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4879	1.5513	1.4789	1.3842
BHD	0.4583	0.5190	0.4997	0.5012
CAD	1.4131	1.4751	1.4652	1.3726
CNY	7.5533	8.3445	8.1675	8.1738
GBP	0.7825	0.8357	0.8059	0.8480
HKD	9.4289	10.6752	10.2814	10.3112
KRW	1,333.7220	1,452.2507	1,395.8961	1,452.1050
MYR	4.2580	4.5351	4.3460	4.2069
SEK	9.4845	8.9114	9.1143	8.6671
USD	1.2155	1.3766	1.3256	1.3293
ZAR	14.1409	14.4390	14.3566	12.8556

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

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

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

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

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

3.2 Major discretionary decisions and estimates

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

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

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

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 86 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.1 "Summary of major accounting policies" and Section 6.7 "Technical provisions".

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

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying amounts and embedded values as well as contract-specific analyses, e. g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.1 "Summary of major accounting policies" and on the liability adequacy tests in Section 6.7 "Technical provisions".

In determining the carrying amounts for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.1 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.1 "Summary of major accounting policies".

4. Consolidation

4.1 Consolidation principles

Capital consolidation

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

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

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

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 17 (15) companies at home and abroad were not consolidated in the year under review. A further 14 (13) companies were not included at equity in the consolidated financial statement for the same reason. The business object of these altogether 31 (28) companies is for the most part the rendering of services for reinsurance companies within the Group.

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated. Transactions between a disposal group and the continuing operations of the Group were similarly eliminated in accordance with IFRS 10.

4.2 Consolidated companies and complete list of shareholdings

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

Information on subsidiaries

Scope of consolidation N 08

Number of companies	2014	2013
Consolidated companies		
Germany	18	18
Abroad	60	59
Total	**78**	**77**
Consolidated structured entities		
Abroad	3	3
Sum total	**81**	**80**
Companies included at equity		
Germany	3	3
Abroad	8	7
Total	**11**	**10**

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

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

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

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

The following list of shareholdings is provided in full in the present Group annual financial report in accordance with § 313 Para. 2 German Commercial Code (HGB) as amended by the Act on the Modernisation of Accounting Law (BilMoG). The stipulations of IFRS 12.10 and IFRS 12.21 have also been observed.

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 24 June 2014, the following table also lists the percentage share in capital, the capital and reserves and the result for the last financial year for major participations in unconsolidated third companies.

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

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

List of shareholdings N 09

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Domestic companies				
Affiliated consolidated companies				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany [1, 2]	100.00	EUR	2,091,925	–
Hannover Life Re AG, Hannover/Germany [1, 2]	100.00	EUR	1,705,385	–
HILSP Komplementär GmbH, Hannover/Germany [3]	100.00	EUR	27	(3)
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany [3]	100.00	EUR	198	93
FUNIS GmbH & Co. KG, Hannover/Germany	100.00	EUR	28,806	2,854
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany [1]	95.42	EUR	190,590	25,843
HAPEP II Holding GmbH, Hannover/Germany [1]	95.42	EUR	15,611	11,284
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover/Germany [1]	91.20	EUR	175,845	2,385
Hannover Re Euro RE Holdings GmbH, Hannover/Germany [1]	87.68	EUR	728,604	8,791
HR GLL Central Europe GmbH & Co. KG, Munich/Germany [1]	87.67	EUR	204,183	(292)
HR GLL Central Europe Holding GmbH, Munich/Germany [1]	87.67	EUR	61,941	(27)
HAPEP II Komplementär GmbH, Hannover/Germany [1]	82.40	EUR	31	3
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany [1]	67.54	EUR	32,077	1,865
HEPEP III Holding GmbH, Cologne/Germany [1]	67.54	EUR	12,857	(525)
E+S Rückversicherung AG, Hannover/Germany [1]	64.79	EUR	691,413	126,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany [1]	60.58	EUR	50,416	12,257
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Germany [1]	57.89	EUR	9,893	3,096
HEPEP II Holding GmbH, Cologne/Germany [1]	57.89	EUR	8,203	421
Affiliated non-consolidated companies				
International Hannover Holding AG, Hannover/Germany [1, 4]	100.00	EUR	39	(3)
Associated companies				
Oval Office Grundstücks GmbH, Hannover/Germany	50.00	EUR	59,842	1,930
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany [5]	32.96	EUR	86,817	10,335
HANNOVER Finanz GmbH, Hannover/Germany [5]	27.78	EUR	69,805	6,378
Other participations				
b2b protect GmbH, Hildesheim/Germany [5, 6]	41.86	EUR	467	(236)
Foreign companies				
Affiliated consolidated companies				
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg [1]	100.00	EUR	54,353	28,830

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Hannover Finance (UK) Limited, London/United Kingdom [1]	100.00	GBP	2,734	2,084
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda [1]	100.00	USD	405,355	38,085
Hannover Life Reassurance Company of America, Orlando/USA [1]	100.00	USD	212,052	26,876
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton/Bermuda [1]	100.00	USD	5,826	117
Hannover Re (Ireland) Limited, Dublin/Ireland [1]	100.00	EUR	1,452,048	78,898
Hannover Life Re of Australasia Ltd, Sydney/Australia [1]	100.00	AUD	478,191	26,770
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda [1]	100.00	USD	1,465,820	243,214
Hannover ReTakaful B.S.C. (c), Manama/Bahrain [1]	100.00	BHD	55,389	7,125
Hannover Services (UK) Limited, London/United Kingdom [1]	100.00	GBP	712	109
International Insurance Company of Hannover SE, London/United Kingdom [1, 7]	100.00	GBP	136,823	(6,300)
Inter Hannover (No. 1) Limited, London/United Kingdom [1]	100.00	GBP	–	–
Leine Investment General Partner S.à r.l., Luxemburg/Luxembourg [1, 8]	100.00	EUR	38	157
Leine Investment SICAV-SIF, Luxemburg/Luxembourg [1, 8]	100.00	USD	75,040	1,204
LI RE, Hamilton/Bermuda [1, 8]	100.00	USD	–	–
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey [1]	100.00	EUR	–	–
Fracom FCP, Paris/France [9]	100.00	EUR	1,140,137	26,854
Hannover Finance, Inc., Wilmington/USA [1, 8]	100.00	USD	440,055	8,328
Atlantic Capital Corporation, Wilmington/USA [8, 10, 11]	100.00	USD	(111,867)	–
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	209,906	4
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	611,281	78,621
Hannover Reinsurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	752,060	11,094
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	132,364	6,585
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	18,880	2,925
Peachtree (Pty) Ltd., Johannesburg/South Africa [10]	100.00	ZAR	–	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	44,816	(3,232)
Hannover Re Real Estate Holdings, Inc., Orlando/USA [1, 8]	95.25	USD	488,570	19,289
GLL HRE CORE Properties, L.P., Wilmington/USA [8]	95.15	USD	229,382	15,889
11 Stanwix, LLC, Wilmington/USA [8]	95.15	USD	36,711	1,095
402 Santa Monica Blvd, LLC, Wilmington/USA [8]	95.15	USD	28,158	654

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
300 California, LLC, Wilmington / USA [12]	95.15	USD	–	–
300 South Orange Avenue, LLC, Orlando / USA [8]	95.15	USD	1,493	10,040
Nashville West, LLC, Wilmington / USA [8]	95.15	USD	30,457	49
1225 West Washington, LLC, Wilmington / USA [8]	95.15	USD	23,647	1,067
975 Carroll Square, LLC, Wilmington / USA [8]	95.15	USD	55,571	1,897
Broadway 101, LLC, Wilmington / USA [8]	95.15	USD	11,536	258
River Terrace Parking, LLC, Wilmington / USA [8]	95.15	USD	21,971	54
Kaith Re Ltd., Hamilton / Bermuda [1]	88.00	USD	418	(321)
HR GLL Roosevelt Kft, Budapest / Hungary [1]	87.67	HUF	20,635,541	628,492
HR GLL Liberty Corner SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw / Poland [1]	87.67	PLN	48,489	(3,233)
HR GLL Griffin House SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw / Poland [1]	87.67	PLN	39,480	(3,221)
Akvamarín Beta s.r.o., Prague / Czech Republic [1]	87.67	CZK	109,499	27,806
HR GLL Europe Holding S.à r.l., Luxembourg / Luxembourg [1]	87.67	EUR	103,462	(17)
HR GLL CDG Plaza S.r.l., Bucharest / Romania [1]	87.67	RON	173,426	1,315
Mustela s.r.o., Prague / Czech Republic [1]	87.67	CZK	1,234,391	(21,671)
Integra Insurance Solutions Limited, Bradford / United Kingdom [5]	74.99	GBP	3,019	2,035
Svedea AB, Stockholm / Sweden [5]	53.00	SEK	13,976	(16,764)
Lireas Holdings (Pty) Ltd., Johannesburg / South Africa	51.00	ZAR	191,451	21,623
MUA Insurance Company Ltd., Cape Town / South Africa	51.00	ZAR	–	204
Transit Underwriting Managers (Pty) Ltd., Cape Town / South Africa	45.90	ZAR	940	1,760
MUA Insurance Acceptances (Pty) Ltd., Cape Town / South Africa	40.80	ZAR	13,232	5,603
Cargo Transit Insurance (Pty) Ltd., Helderkruin / South Africa [5, 10]	40.80	ZAR	(4,499)	–
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein / South Africa	38.51	ZAR	3,211	2,114
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg / South Africa	36.82	ZAR	1,640	3,805
SUM Holdings (Pty) Ltd., Johannesburg / South Africa	36.82	ZAR	16,361	4,573
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg / South Africa	35.70	ZAR	1,491	2,573
Thatch Risk Acceptances (Pty) Ltd., Johannesburg / South Africa	33.14	ZAR	1,433	1,752
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg / South Africa	30.60	ZAR	278	449

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Construction Guarantee (Pty) Ltd., Johannesburg/South Africa [5, 10]	30.60	ZAR	–	–
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	201	161
Woodworking Risk Acceptances (Pty) Ltd., Johannesburg/South Africa [10]	30.60	ZAR	321	1,473
Synergy Targeted Risk Solutions (Pty) Ltd, Johannesburg/South Africa	30.60	ZAR	1,980	1,039
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg/South Africa	26.01	ZAR	(1,960)	32
Affiliated non-consolidated companies				
International Mining Industry Underwriters Limited, London/United Kingdom [5]	100.00	GBP	552	63
HR Hannover Re, Correduría de Reaseguros, S.A., Madrid/Spain [1]	100.00	EUR	341	39
LRA Superannuation Plan Pty Ltd., Sydney/Australia [4]	100.00	AUD	–	–
Mediterranean Reinsurance Services Ltd., Hong Kong/China [1, 10]	100.00	USD	52	–
Hannover Re Services Japan, Tokyo/Japan [1]	100.00	JPY	97,785	1,208
Hannover Re Consulting Services India Private Limited, Bombay/India [13]	100.00	INR	79,502	10,573
Hannover Life Re Consultants, Inc., Orlando/USA [1]	100.00	USD	187	(18)
Hannover Services (México) S.A. de C.V., Mexico City/Mexico [5]	100.00	MXN	9,546	225
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	978	80
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil [5]	100.00	BRL	2,083	849
L&E Holdings Limited, London/United Kingdom [1]	100.00	GBP	5	–
London & European Title Insurance Services Limited, London/United Kingdom [1]	100.00	GBP	241	–
Hannover Re Risk Management Services India Private Limited, New Delhi/India [13]	100.00	INR	36,451	(3,549)
Hannover Re Services Italy S.R.L., Milan/Italy	99.65	EUR	511	69
HMIA Pty Ltd, Sydney/Australia [12]	55.00	AUD	–	–
Svedea Skadeservice AB, Stockholm/Sweden [12]	53.00	SEK	–	–
Associated companies				
Glencar Underwriting Managers, Inc., Chicago/USA [5]	88.20	USD	5,475	2,973
ITAS Vita S.p.A., Trient/Italy [5]	34.88	EUR	85,794	5,326
ASPECTA Assurance International AG, Vaduz/Liechtenstein [5]	30.00	CHF	20,941	7,847
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg/South Africa [14]	29.78	ZAR	1,497	1,419
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa	20.40	ZAR	5,279	20,366
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa	19.02	ZAR	13,204	26,023

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Camargue Underwriting Managers (Pty) Ltd., Johannesburg/South Africa	14.79	ZAR	13,783	5,983
Synergy XOL (Pty) Ltd., Johannesburg/South Africa [12]	10.20	ZAR	–	–
Other participations				
Energi, Inc., Peabody/USA [5]	28.50	USD	7,922	1,875
Energi Insurance Services, Inc., Peabody/USA [5]	28.50	USD	(1,629)	859
Energi of Canada Ltd., Toronto/Canada [5]	28.50	CAD	(48)	(11)
Energi Re, LLC, Dover/USA [5]	28.50	USD	7,878	2,958
Hurst Holme Insurance Company Limited – account 2006-03 SCC, Hamilton/Bermuda [5, 10]	28.50	USD	298	(415)
Hurst Holme Insurance Company Limited – account 2009-01 SCC, Hamilton/Bermuda [5, 10]	28.50	USD	518	(390)
XS Direct Holdings Limited, Dublin/Ireland [5]	25.00	EUR	2,005	(392)
SimShare Limited, Dublin/Ireland [5]	25.00	EUR	633	(14)
XS Direct Insurance Brokers Limited, Dublin/Ireland [5]	25.00	EUR	113	(186)
New PF Limited, Dublin/Ireland [5, 10]	25.00	EUR	(6)	–
Meribel Topco Limited, St. Helier/Jersey [15]	20.11	EUR	2,403	(54)
Meribel Midco Limited, St. Helier/Jersey [15]	20.11	EUR	246,851	20,628
Clarenfin (Pty) Ltd., Johannesburg/South Africa	19.02	ZAR	–	–
Iconica Business Services Limited, Bradford/United Kingdom [16]	18.75	GBP	(462)	(461)
Vela Taxi Finance (Pty) Ltd, Johannesburg/South Africa [12]	10.46	ZAR	–	–
Acte Vie S.A. Compagnie d' Assurances sur la Vie et de Capitalisation, Strasbourg/France [5]	9.38	EUR	8,742	261

1 Provisional (unaudited) figures
2 Year-end result after profit transfer
3 Financial year as at 30 September 2014
4 Company is inactive.
5 Figures as at 31 December 2013
6 Formerly WetterProtect GmbH
7 Formerly International Insurance Company of Hannover Plc/Limited
8 IFRS figures
9 Financial year as at 31 October 2014
10 Company is in liquidation.
11 Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.
12 Company was newly established in 2014; an annual financial statement is not yet available.
13 Financial year as at 31 March 2014
14 Formerly Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd.
15 Financial year from 2 August 2013 to 31 December 2014
16 Financial year from 1 October 2012 to 31 December 2013

Consolidation of structured entities

Business relations with structured entities are to be examined in accordance with IFRS 10 in conjunction with IFRS 12 with an eye to their implications for consolidation. In the context of their operational activities some companies belonging to the Hannover Re Group enter into business relations with structured entities that are to be analysed and accounted for according to these new provisions.

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

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

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

Consolidated structured entities

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

- Hannover Re (Guernsey) PCC Limited, St Peter Port, Guernsey
- Kaith Re Ltd., Hamilton, Bermuda
- LI RE, Hamilton, Bermuda

Hannover Re PCC (Guernsey) Ltd. was a so-called protected cell company under the "Protected Cell Companies Ordinance 1997", the primary objective of which was to offer services in the area of direct insurance and reinsurance. The PCC has been closed to new business since 2009 and was wound up effective 31 December 2014. The liquidation of the company, which is planned for the first quarter of 2015, will merely give rise to a minimal amount of residual commitments for Hannover Re.

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

Pursuant to IFRS 10 we consider the general account and the segregated accounts to be separate units to which the principles of so-called "silo accounting" are applied. In accordance with this concept, Hannover Re is required to consolidate the general account of Kaith Re Ltd. and is contractually responsible for the fees due to external service providers that are to be covered from the general account's own funds. Each individual segregated account is to be examined separately by the parties concerned (investors) with an eye to a consolidation requirement and is to be consolidated according to the particular contractual arrangements in each case.

Effective 16 October 2014, LI RE was established as a segregated account of Kaith Re Ltd., the purpose of which – as with all segregated accounts under Kaith Re Ltd. – is the securitisation of underwriting risks. In contrast to the other segregated accounts, the sole investor and hence the risk carrier of LI RE is Hannover Re.

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

Unconsolidated structured entities

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

Investment including investments in catastrophe bonds (ILS)

Within the scope of its investment activities Hannover Re has participated since 1988 inter alia in numerous structured entities. These are predominantly special purpose entities in the form of funds, which for their part transact certain types of equity and debt capital investments. These investments encompass private equity funds, fixed income funds, collateralised debt obligations, real estate funds, index funds and other public funds. The volume of these transactions is derived from the book values of the respective investments and amounted to EUR 2,489.4 million as at the balance sheet date. The maximum risk of loss corresponds to the book values.

Hannover Re participates through its subsidiary Leine Investment SICAV-SIF, Luxembourg, in a number of structured entities that issue catastrophe bonds for the securitisation of catastrophe risks by investing in such bonds. Leine Investment General Partner S.à r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. The volume of these transactions is derived from the book values of the respective investments and amounted to EUR 50.3 million as at the balance sheet date. The maximum risk of loss corresponds to the book values.

Retrocession and securitisation of reinsurance risks

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a structured entity with effect from 12 July 2011. The term of the retrocession arrangement ran until the underlying obligations had been finally settled. The contract was commuted and terminated effective 31 December 2014.

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

In 2012 Hannover Re issued a catastrophe 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 retrocession contract concluded with the special purpose entity under the transaction affords Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. The aforementioned volume of the transaction is measured by the ceded exposure limit of the retrocession contract. The structured entity is fully funded by contractually defined investments in the form of cash and equivalent liquid assets. Given that the maximum liability of the structured entity is therefore wholly collateralised, there is no risk of an underwriting loss for Hannover Re.

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 the “K Cession” securitised via structured entities was equivalent to EUR 169.2 million as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Segregated accounts of Kaith Re Ltd. are used for transformer purposes for part of this transaction. Hannover Re also uses further segregated accounts of Kaith Re Ltd. and other structured entities for various retrocessions of its traditional covers, which are passed on to institutional investors in securitised form. The volume of these transactions is measured by the ceded exposure limit of the underlying retrocession agreements and amounted to EUR 847.9 million as at the balance sheet date. The structured entities are in all cases fully funded by contractually defined investments in the form of cash and equivalent liquid assets. Given that the entire exposure limit of the structured entities is therefore wholly collateralised in each case, there is no risk of an underwriting loss for Hannover Re.

Insurance-linked securities (ILS)

As part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re has concluded so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using structured entities (special purpose entities). The purpose of such transactions is to directly transfer clients' business. The volume of the transactions is derived from the ceded exposure limit of the underlying retrocession agreements and amounted to EUR 3,135.3 million as at the balance sheet date. Part of the ceded exposure limit is funded by contractually defined investments in the form of cash and equivalent liquid assets. In these cases the exposure limit is wholly collateralised and to this extent there is no risk of an underwriting loss for Hannover Re. A further part of the exposure limit of these transactions remains uncollateralised or is collateralised by less liquid assets. The maximum risk of loss from these transactions is derived from the uncollateralised exposure limit and the credit risk of the collateral and amounted to EUR 1,942.4 million as at the balance sheet date. This does not, however, correspond to the economic risk of loss, which is established using recognised actuarial methods. The expected loss on a modelled basis in a worst-case scenario of 10,000 years amounts to at most EUR 50.0 million.

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

Book values from business relations with unconsolidated structured entities **N 10**

in EUR thousand	31.12.2014 General investment activities	Investment in catastrophe bonds (ILS)	Retrocession: securitisations and ILS transactions
Assets			
Fixed-income securities – held to maturity	491	–	–
Fixed-income securities – loans and receivables	19,401	–	–
Fixed-income securities – available for sale	951,578	–	–
Fixed-income securities – at fair value through profit or loss	–	50,344	–
Equity securities – available for sale	13,283	–	–
Real estate and real estate funds	320,956	–	–
Other invested assets	1,153,878	–	–
Short-term investments	29,824	–	–
Reinsurance recoverables on unpaid claims	–	–	124,048
Prepaid reinsurance premium	–	–	22,514
Accounts receivable	–	–	13,371
Total assets	**2,489,411**	**50,344**	**159,933**
Liabilities			
Reinsurance payable	–	–	28,837
Total liabilities	**–**	**–**	**28,837**

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

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

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

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. Given that the risks from such transfer transactions are entirely recognised in the technical/non-technical account of the Hannover Re Group, it is immaterial whether the active reinsurance business is assumed from structured or other entities. Although Hannover Re is exposed to variable returns from the business relations with such entities, these are independent of the purpose and design of the respective structured entity. Rather, these business relations correspond to regular cedant-reinsurer relations and are therefore not the subject of this disclosure. Some of the transactions include features that are to be classified as financial guarantees. For the corresponding disclosures please see our remarks in Section 8.1 "Derivative financial instruments and financial guarantees".

4.3 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.

Since March 2014 Hannover Rück SE has participated in Meribel TopCo Limited, St. Helier, Jersey, in the form of a financial interest in a direct amount of 19.9% of the company's shares. The business object of the company is the indirect acquisition of life insurance companies, inter alia Heidelberger Lebensversicherung AG, Heidelberg. Taken together with the shares held by Hannover Re Euro PE Holdings GmbH & Co. KG through a fund, Hannover Re directly and indirectly holds altogether 20.1% of the company's shares. With effect from the first quarter of 2014 the shares in the company have been recognised in the consolidated financial statement as an equity investment measured at amortised cost.

4.4 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.

After Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, had been deconsolidated and carried as a participating interest at net asset value in the previous year, the remaining shares held by Hannover Rück SE were returned effective 31 December 2014 and the participation in the company was terminated.

4.5 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.

Effective 17 October 2014 Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover, all shares of which are held by Hannover Rück SE, acquired 838 shares in E+S Rückversicherung AG for a purchase price of EUR 20.1 million from a third party outside the Group. By way of an increase in its shareholding of 1.1% with no change of control status Hannover Rück Beteiligung Verwaltungs-GmbH holds 64.79% of the shares in E+S Rückversicherung AG upon closing of the transaction. In connection with the acquisition of the shares Hannover Rück SE contributed an amount of EUR 20.1 million to the additional paid-in capital of Hannover Rück Beteiligung Verwaltungs-GmbH.

5. Segment reporting

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

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

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

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

Both Hannover Life Reassurance Company of America (Bermuda) Ltd., which was consolidated for the first time with effect from the first quarter of 2014, and the financial interest in Meribel TopCo Limited are allocable to the life and health reinsurance segment. Glencar Underwriting Managers Inc., which has been included at equity in the consolidated financial statement since the first quarter of 2014 as an associated company, 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.

Consolidated segment report as at 31 December 2014 N 11

Segmentation of assets	**Property and casualty reinsurance**	
in EUR thousand	31.12.2014	31.12.2013
Assets		
Fixed-income securities – held to maturity	1,841,982	2,351,409
Fixed-income securities – loans and receivables	2,912,110	3,111,351
Fixed-income securities – available for sale	19,822,832	16,227,978
Equity securities – available for sale	32,804	28,980
Financial assets at fair value through profit or loss	63,648	18,157
Other invested assets	2,644,817	2,155,774
Short-term investments	242,463	267,682
Cash	580,490	430,552
Total investments and cash under own management	**28,141,146**	**24,591,883**
Funds withheld	1,123,858	888,118
Contract deposits	–	1,717
Total investments	**29,265,004**	**25,481,718**
Reinsurance recoverables on unpaid claims	1,052,357	1,168,791
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	147,846	137,670
Reinsurance recoverables on other reserves	421	439
Deferred acquisition costs	597,299	491,354
Accounts receivable	1,493,908	1,702,357
Other assets in the segment	1,416,187	1,508,210
Assets held for sale	–	11,226
Total assets	**33,973,022**	**30,501,765**

Segmentation of liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	20,797,820	18,847,749
Benefit reserve	–	–
Unearned premium reserve	2,626,890	2,297,054
Provisions for contingent commissions	158,410	129,343
Funds withheld	442,211	429,168
Contract deposits	4,285	11,098
Reinsurance payable	358,836	674,469
Long-term liabilities	283,855	227,130
Other liabilities in the segment	2,042,408	1,822,435
Total liabilities	**26,714,715**	**24,438,446**

Life and health reinsurance		Consolidation		Total	
31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
179,209	197,857	118,551	117,521	2,139,742	2,666,787
76,077	71,714	–	26,035	2,988,187	3,209,100
6,639,186	5,768,474	355,505	413,440	26,817,523	22,409,892
–	–	–	–	32,804	28,980
54,262	68,706	12,978	19,280	130,888	106,143
123,922	105,232	1,945	1,260	2,770,684	2,262,266
332,262	190,898	575	90,558	575,300	549,138
186,224	208,641	6,168	3,743	772,882	642,936
7,591,142	**6,611,522**	**495,722**	**671,837**	**36,228,010**	**31,875,242**
14,702,622	13,379,713	–	–	15,826,480	14,267,831
92,069	73,824	–	–	92,069	75,541
22,385,833	**20,065,059**	**495,722**	**671,837**	**52,146,559**	**46,218,614**
325,534	236,532	(1,459)	(1,519)	1,376,432	1,403,804
676,219	344,154	–	–	676,219	344,154
1,470	1,434	(59)	(65)	149,257	139,039
5,025	6,454	–	–	5,446	6,893
1,317,295	1,181,040	4	4	1,914,598	1,672,398
1,620,237	1,243,469	(167)	(141)	3,113,978	2,945,685
680,215	551,240	(1,021,307)	(885,719)	1,075,095	1,173,731
–	–	–	–	–	11,226
27,011,828	23,629,382	(527,266)	(215,603)	60,457,584	53,915,544

3,315,694	2,820,702	(1,458)	(1,519)	24,112,056	21,666,932
11,757,188	10,631,512	(56)	(61)	11,757,132	10,631,451
121,704	108,443	–	–	2,748,594	2,405,497
165,830	140,228	–	–	324,240	269,571
374,926	218,858	–	–	817,137	648,026
6,068,053	5,558,834	–	–	6,072,338	5,569,932
742,649	397,326	(168)	(141)	1,101,317	1,071,654
–	–	1,986,492	2,237,830	2,270,347	2,464,960
1,982,821	1,690,822	(1,023,766)	(855,763)	3,001,463	2,657,494
24,528,865	21,566,725	961,044	1,380,346	52,204,624	47,385,517

Annual financial statements

Consolidated segment report as at 31 December 2014

Segment statement of income	Property and casualty reinsurance	
in EUR thousand	1.1.–31.12.2014	1.1.–31.12.2013
Gross written premium	7,903,369	7,817,866
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	7,903,369	7,817,866
Net premium earned	7,011,347	6,866,317
Net investment income	843,552	781,192
thereof		
Change in fair value of financial instruments	(23,344)	(38,432)
Total depreciation, impairments and appreciation of investments	27,429	18,937
Income/expense on funds withheld and contract deposits	20,394	14,947
Claims and claims expenses	4,827,939	4,821,804
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,643,705	1,532,749
Administrative expenses	188,198	176,250
Other income and expenses	(4,265)	(55,665)
Operating profit/loss (EBIT)	**1,190,792**	**1,061,041**
Interest on hybrid capital	–	–
Net income before taxes	**1,190,792**	**1,061,041**
Taxes	296,084	206,721
Net income	**894,708**	**854,320**
thereof		
Non-controlling interest in profit or loss	65,560	46,587
Group net income	**829,148**	**807,733**

Life and health reinsurance		Consolidation		Total	
1.1.–31.12.2014	1.1.–31.12.2013	1.1.–31.12.2014	1.1.–31.12.2013	1.1.–31.12.2014	1.1.–31.12.2013
6,458,669	6,145,370	(237)	173	14,361,801	13,963,409
237	(173)	(237)	173	–	–
6,458,432	6,145,543	–	–	14,361,801	13,963,409
5,411,425	5,359,847	309	500	12,423,081	12,226,664
614,201	611,516	14,088	19,102	1,471,841	1,411,810
(9,083)	11,394	(830)	(98)	(33,257)	(27,136)
129	161	–	–	27,558	19,098
355,662	342,401	–	–	376,056	357,348
4,636,243	4,305,742	(10)	–	9,464,172	9,127,546
28,620	146,518	5	173	28,625	146,691
946,361	1,168,993	–	6	2,590,066	2,701,748
175,682	156,667	(21)	757	363,859	333,674
25,097	(42,913)	(2,642)	(1,175)	18,190	(99,753)
263,817	**150,530**	**11,781**	**17,491**	**1,466,390**	**1,229,062**
–	–	95,720	126,670	95,720	126,670
263,817	**150,530**	**(83,939)**	**(109,179)**	**1,370,670**	**1,102,392**
44,941	(10,857)	(35,462)	(32,721)	305,563	163,143
218,876	**161,387**	**(48,477)**	**(76,458)**	**1,065,107**	**939,249**
13,898	(2,805)	–	–	79,458	43,782
204,978	164,192	(48,477)	(76,458)	985,649	895,467

6. Notes on the individual items of the balance sheet

6.1 Investments under own management

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

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

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

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

Investments N 12

in EUR thousand	2014	2013
Regional origin		
Germany	6,592,773	6,125,564
United Kingdom	2,674,766	2,396,053
France	1,769,512	1,644,587
Other	7,649,712	7,377,339
Europe	**18,686,763**	**17,543,543**
USA	9,875,092	8,478,865
Other	1,468,426	1,300,371
North America	**11,343,518**	**9,779,236**
Asia	1,819,615	1,275,917
Australia	2,556,507	2,081,609
Australasia	**4,376,122**	**3,357,526**
Africa	352,192	321,665
Other	1,469,415	873,272
Total	**36,228,010**	**31,875,242**

Maturities of the fixed-income and variable-yield securities N 13

in EUR thousand	2014		2013	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	1,089,446	1,110,905	587,925	594,854
due after one through two years	539,118	561,992	1,062,548	1,114,378
due after two through three years	145,300	151,217	513,930	546,127
due after three through four years	97,896	103,592	140,576	148,806
due after four through five years	32,696	35,894	95,480	98,983
due after five through ten years	234,795	273,704	264,473	286,236
due after more than ten years	491	568	1,855	2,255
Total	**2,139,742**	**2,237,872**	**2,666,787**	**2,791,639**
Loans and receivables				
due in one year	261,575	265,156	237,228	240,952
due after one through two years	373,036	390,647	220,144	228,825
due after two through three years	268,376	283,396	376,062	399,698
due after three through four years	143,511	152,077	280,019	298,656
due after four through five years	197,584	219,375	141,240	149,437
due after five through ten years	979,791	1,122,393	1,106,317	1,184,496
due after more than ten years	764,314	954,282	848,090	923,723
Total	**2,988,187**	**3,387,326**	**3,209,100**	**3,425,787**
Available for sale				
due in one year[2]	3,731,723	3,747,673	3,095,796	3,103,923
due after one through two years	2,415,488	2,449,568	2,789,025	2,838,390
due after two through three years	2,908,199	2,972,420	1,848,794	1,899,960
due after three through four years	2,904,276	2,951,154	2,318,986	2,384,389
due after four through five years	2,655,178	2,741,708	2,700,046	2,728,465
due after five through ten years	9,181,834	9,760,031	7,765,540	7,896,895
due after more than ten years	3,122,626	3,543,151	2,657,402	2,749,944
Total	**26,919,324**	**28,165,705**	**23,175,589**	**23,601,966**
Financial assets at fair value through profit or loss				
due in one year	5,306	5,306	8,339	8,339
due after one through two years	2,433	2,433	4,337	4,337
due after two through three years	12,251	12,251	2,182	2,182
due after three through four years	20,590	20,590	5,991	5,991
due after four through five years	10,790	10,790	–	–
due after five through ten years	146	146	–	–
due after more than ten years	12,978	12,978	15,212	15,212
Total	**64,494**	**64,494**	**36,061**	**36,061**

[1] Including accrued interest
[2] Including short-term investments, cash and cash equivalents

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

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value N 14

in EUR thousand	2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	391,809	7,071	10,099	–	401,908
US Treasury notes	257,279	1,395	3,067	–	260,346
Other foreign government debt securities	29,196	96	200	–	29,396
Debt securities issued by semi-governmental entities	427,611	6,444	16,019	1,463	442,167
Corporate securities	238,426	3,189	11,051	159	249,318
Covered bonds/asset-backed securities	795,421	15,527	59,316	–	854,737
Total	2,139,742	33,722	99,752	1,622	2,237,872

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as held to maturity as well as their fair value N 15

in EUR thousand	2013				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	396,720	7,078	16,775	–	413,495
US Treasury notes	501,303	3,622	12,436	–	513,739
Other foreign government debt securities	49,064	142	406	–	49,470
Debt securities issued by semi-governmental entities	526,193	8,015	23,185	–	549,378
Corporate securities	232,917	3,142	10,142	1,653	241,406
Covered bonds/asset-backed securities	960,590	19,235	63,561	–	1,024,151
Total	2,666,787	41,234	126,505	1,653	2,791,639

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

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value N 16

in EUR thousand	2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,655,060	27,559	260,622	–	1,915,682
Corporate securities	463,830	5,661	20,578	453	483,955
Covered bonds / asset-backed securities	869,297	13,495	118,402	10	987,689
Total	**2,988,187**	**46,715**	**399,602**	**463**	**3,387,326**

Amortised cost, unrealised gains and losses and accrued interest on loans and receivables as well as their fair value N 17

in EUR thousand	2013				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,852,193	29,970	145,725	4,554	1,993,364
Corporate securities	379,488	5,501	14,667	5,492	388,663
Covered bonds / asset-backed securities	977,419	15,012	71,141	4,800	1,043,760
Total	**3,209,100**	**50,483**	**231,533**	**14,846**	**3,425,787**

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

Amortised cost, unrealised gains and losses and accrued interest on the portfolio of investments classified as available for sale as well as their fair value N 18

in EUR thousand	2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,411,949	18,573	169,231	1,733	2,579,447
US Treasury notes	2,684,743	7,145	36,544	4,904	2,716,383
Other foreign government debt securities	1,816,756	16,522	27,294	33,322	1,810,728
Debt securities issued by semi-governmental entities	4,183,118	42,250	305,078	2,954	4,485,242
Corporate securities	11,371,250	140,368	557,169	46,694	11,881,725
Covered bonds/asset-backed securities	3,030,708	33,214	222,538	7,547	3,245,699
Investment funds	72,618	–	25,681	–	98,299
	25,571,142	**258,072**	**1,343,535**	**97,154**	**26,817,523**
Equity securities					
Shares	12,323	–	7,215	17	19,521
Investment funds	8,011	–	5,272	–	13,283
	20,334	**–**	**12,487**	**17**	**32,804**
Short-term investments	575,300	3,886	–	–	575,300
Total	**26,166,776**	**261,958**	**1,356,022**	**97,171**	**27,425,627**

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 N 19

in EUR thousand	2013				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,906,099	18,075	40,708	19,518	1,927,289
US Treasury notes	1,712,666	5,397	15,141	20,175	1,707,632
Other foreign government debt securities	1,532,299	10,484	5,776	34,698	1,503,377
Debt securities issued by semi-governmental entities	3,849,195	45,377	117,838	24,549	3,942,484
Corporate securities	10,178,818	136,357	295,414	112,472	10,361,760
Covered bonds / asset-backed securities	2,730,664	35,628	167,867	18,132	2,880,399
Investment funds	73,774	–	14,114	937	86,951
	21,983,515	**251,318**	**656,858**	**230,481**	**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	549,138	2,139	–	–	549,138
Total	**22,553,693**	**253,457**	**664,799**	**230,482**	**22,988,010**

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

Fair value of financial assets at fair value through profit or loss before and after accrued interest as well as accrued interest on such financial assets N 20

in EUR thousand	2014	2013	2014	2013	2014	2013
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	63,795	23,863	699	596	64,494	24,459
Covered bonds / asset-backed securities	–	11,547	–	55	–	11,602
	63,795	**35,410**	**699**	**651**	**64,494**	**36,061**
Other financial assets						
Derivatives	66,394	70,082	–	–	66,394	70,082
	66,394	**70,082**	**–**	**–**	**66,394**	**70,082**
Total	**130,189**	**105,492**	**699**	**651**	**130,888**	**106,143**

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

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 66.4 million (EUR 70.1 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 64.5 million (EUR 36.1 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that fair value changes of EUR 0.3 million (none) were due to changes in ratings.

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

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

Carrying amounts before impairment **N 21**

in EUR thousand	2014		2013	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	2,139,742	–	2,666,787	–
Fixed-income securities – loans and receivables	2,990,187	2,000	3,209,100	–
Fixed-income securities – available for sale	26,817,523	–	22,410,663	771
Short-term investments	575,300	–	549,138	–
Equity securities – available for sale	32,804	–	28,983	3
Participating interests and other invested assets, real estate funds	1,643,408	5,847	1,274,691	4,077
Total	**34,198,964**	**7,847**	**30,139,362**	**4,851**

For further explanatory remarks on the impairment criteria please see Section 3.1 "Summary of major accounting policies".

Rating structure of fixed-income securities **N22**

in EUR thousand	2014								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,102,639	492,209	474,167	65,658	–	–	5,069	–	2,139,742
Fixed-income securities – loans and receivables	1,808,018	616,470	317,318	135,878	46,117	4,732	–	59,654	2,988,187
Fixed-income securities – available-for-sale	9,688,957	5,080,801	6,951,209	4,105,419	760,200	114,779	12,507	103,651	26,817,523
Fixed-income securities – at fair value through profit or loss	–	67	9,203	226	35,220	7,448	–	12,330	64,494
Total fixed-income securities	**12,599,614**	**6,189,547**	**7,751,897**	**4,307,181**	**841,537**	**126,959**	**17,576**	**175,635**	**32,009,946**

Rating structure of fixed-income securities **N23**

in EUR thousand	2013								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	887,752	1,254,110	407,966	116,959	–	–	–	–	2,666,787
Fixed-income securities – loans and receivables	1,287,512	1,502,316	215,414	139,227	46,910	–	4,554	13,167	3,209,100
Fixed-income securities – available-for-sale	5,575,538	6,422,823	5,936,222	3,609,584	644,251	106,301	13,835	101,338	22,409,892
Fixed-income securities – at fair value through profit or loss	–	–	11,874	–	18,099	4,604	–	1,484	36,061
Total fixed-income securities	**7,750,802**	**9,179,249**	**6,571,476**	**3,865,770**	**709,260**	**110,905**	**18,389**	**115,989**	**28,321,840**

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

Breakdown of investments by currencies N 24

in EUR thousand	2014								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	101,700	1,273,877	154,598	–	609,567	–	–	2,139,742
Fixed-income securities – loans and receivables	–	6,490	2,112,064	45,092	–	724,533	–	100,008	2,988,187
Fixed-income securities – available-for-sale	1,769,408	753,826	8,246,517	2,794,734	138,381	11,808,473	204,544	1,101,640	26,817,523
Fixed-income securities – at fair value through profit or loss	–	–	18,014	649	–	45,831	–	–	64,494
Equity securities – available-for-sale	–	–	19,409	–	–	13,395	–	–	32,804
Other financial assets – at fair value through profit or loss	–	–	19,083	967	–	46,344	–	–	66,394
Other invested assets	–	–	1,427,513	1,790	–	1,337,537	3,839	5	2,770,684
Short-term investments, cash	117,146	46,533	235,930	73,385	35,642	405,008	119,709	314,829	1,348,182
Total	**1,886,554**	**908,549**	**13,352,407**	**3,071,215**	**174,023**	**14,990,688**	**328,092**	**1,516,482**	**36,228,010**

Breakdown of investments by currencies **N25**

in EUR thousand	2013								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	119,696	1,498,316	145,257	–	903,518	–	–	2,666,787
Fixed-income securities – loans and receivables	–	6,217	2,349,152	42,221	–	707,590	–	103,920	3,209,100
Fixed-income securities – available-for-sale	1,439,895	659,360	7,638,934	2,401,680	129,003	8,888,541	232,899	1,019,580	22,409,892
Fixed-income securities – at fair value through profit or loss	–	–	23,455	575	–	12,031	–	–	36,061
Equity securities – available-for-sale	–	–	16,872	–	–	12,108	–	–	28,980
Other financial assets – at fair value through profit or loss	–	–	24,374	344	–	45,364	–	–	70,082
Other invested assets	–	–	1,103,840	2,157	–	1,153,495	2,774	–	2,262,266
Short-term investments, cash	128,449	24,416	328,904	53,613	7,442	379,868	52,670	216,712	1,192,074
Total	**1,568,344**	**809,689**	**12,983,847**	**2,645,847**	**136,445**	**12,102,515**	**288,343**	**1,340,212**	**31,875,242**

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

Associated companies

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

- Oval Office Grundstücks GmbH, Hannover, Germany,
- WeHaCo Unternehmensbeteiligungs-GmbH, Hannover, Germany,
- HANNOVER Finanz GmbH, Hannover, Germany,
- Glencar Underwriting Managers, Inc., Chicago, United States,
- ITAS Vita S.p.A., Trento, Italy,
- ASPECTA Assurance International AG, Vaduz, Liechtenstein,

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

- Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg, South Africa,
- Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa,
- Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa,
- Camargue Underwriting Managers (Pty) Ltd., Johannesburg, South Africa,
- Synergy XOL (Pty) Ltd., Johannesburg, South Africa.

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

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

Financial information on investments in associated companies N 26

in EUR thousand	2014	2013
Group share of net income from continuing operations	1,042	12,536
Group share of income and expense recognised directly in equity	10,217	1,712
Group share of total recognised income and expense	**11,259**	**14,248**

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

Investments in associated companies N 27

in EUR thousand	2014	2013
Net book value at 31 December of the previous year	**144,489**	**133,017**
Currency translation at 1 January	58	(906)
Net book value after currency translation	**144,547**	**132,111**
Additions	5,297	1,848
Disposals	264	–
Profit or loss on investments in associated companies	1,042	12,536
Dividend payments	6,667	3,763
Change recognised outside income	10,217	1,712
Currency translation at 31 December	650	45
Net book value at 31 December of the year under review	**154,822**	**144,489**

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

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 23.1 million (EUR 19.4 million). For further details of our major participating interests please see Section 4 “Consolidation”.

Real estate

Real estate is divided into real estate for own use and third-party use (investment property). The investment property in the portfolio which is used to generate income is shown under the investments. Income and expenses from rental agreements are included in the investment income.

Own-use real estate is recognised under other assets.

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

Development of investment property N 28

in EUR thousand	2014	2013
Gross book value at 31 December of the previous year	872,905	505,727
Currency translation at 1 January	46,322	(13,366)
Gross book value after currency translation	**919,227**	**492,361**
Additions	144,407	395,930
Disposals	41,388	1,725
Reclassification	4,766	–
Reclassification to assets held for sale	–	(11,968)
Currency translation at 31 December	(3,731)	(1,693)
Gross book value at 31 December of the year under review	**1,023,281**	**872,905**
Cumulative depreciation at 31 December of the previous year	25,741	14,067
Currency translation at 1 January	2,035	(394)
Cumulative depreciation after currency translation	**27,776**	**13,673**
Disposals	4,835	1,454
Depreciation	18,513	13,970
Impairments	1,323	597
Appreciation	126	59
Reclassification	1,997	–
Reclassification to assets held for sale	–	(756)
Currency translation at 31 December	331	(230)
Cumulative depreciation at 31 December of the year under review	**44,979**	**25,741**
Net book value at 31 December of the previous year	**847,164**	**491,660**
Net book value at 1 January of the year under review	**891,451**	**478,688**
Net book value at 31 December of the year under review	**978,302**	**847,164**

The fair value of investment property amounted to EUR 1,038.6 million (EUR 875.3 million) as at the balance sheet date.

The market value of the real estate was determined using the discounted cash flow method.

The additions to this item are due to the increased investment activities of the real estate companies belonging to the Hannover Re Group. They are attributable entirely to investments in Europe.

In addition, we held indirect real estate investments measured at fair values in an amount of EUR 321.0 million (EUR 247.4 million) in the year under review, the amortised costs of which amounted to EUR 260.1 million (EUR 204.9 million). The differences between the carrying amounts and amortised costs were recognised as unrealised gains of EUR 62.1 million (EUR 43.7 million) and unrealised losses of EUR 1.2 million (EUR 1.2 million) under cumulative other comprehensive income.

Real estate which is held for sale as defined by IFRS 5 is recognised separately in the consolidated balance sheet. Intentions to sell are substantiated by individual real estate market conditions and specific property circumstances, taking into consideration current and future opportunity/risk profiles. In the year under review no properties were reclassified to assets held for sale.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 1,153.9 million (EUR 898.6 million), the amortised cost of which amounted to EUR 749.7 million (EUR 622.7 million). The differences between the carrying amounts and the amortised costs were recognised as unrealised gains of EUR 409.0 million (EUR 282.1 million) and unrealised losses of EUR 4.8 million (EUR 6.2 million) under cumulative other comprehensive income.

In addition, acquired life insurance policies measured at fair value through profit or loss were recognised under the other invested assets in an amount of EUR 105.0 million (EUR 90.2 million).

Short-term investments

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

Fair value hierarchy

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

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.

In the year under review alternative investments with a fair value of EUR 36.3 million were no longer allocable to level 2 but rather to 3 as a consequence of model-based pricing. In the previous year fixed-income securities with a fair value of EUR 7,603.4 million, which were measured using average prices from price service agencies, were no longer allocable to level 1 but rather to level 2. For the most part they involved bonds traded on the OTC market. Reallocation was carried out in accordance with the position on accounting practice "IDW RS HFA 47 Einzelfragen zur Ermittlung des Fair Value nach IFRS 13" adopted by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW) on 6 December 2013, according to which average prices from service agencies constitute level 2 inputs if the underlying data on which these average prices are based are firm bid prices or observable transaction-based prices. The previous year's reclassification was therefore based neither on changed liquidity characteristics of these instruments nor on a modified investment strategy. No further reclassifications were made in the previous year.

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 N 29

in EUR thousand	2014			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	28,752	26,852,743	522	26,882,017
Equity securities	32,796	–	8	32,804
Other financial assets	–	66,394	–	66,394
Real estate and real estate funds	–	–	320,956	320,956
Other invested assets	–	–	1,258,903	1,258,903
Short-term investments	575,300	–	–	575,300
Other assets	–	1,066	–	1,066
Total financial assets	**636,848**	**26,920,203**	**1,580,389**	**29,137,440**
Other liabilities	–	103,760	136,486	240,246
Total financial liabilities	**–**	**103,760**	**136,486**	**240,246**

Fair value hierarchy of financial assets and liabilities recognised at fair value N 30

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	–	70,082	–	70,082
Real estate and real estate funds	–	–	247,400	247,400
Other invested assets	–	36,306	952,451	988,757
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 financial year with the fair values as at 31 December of the financial year.

Movements in level 3 financial assets and liabilities N 31

in EUR thousand	2014				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 31 December of the previous year	**5,179**	**8**	**247,400**	**952,451**	**68,827**
Currency translation at 1 January	649	–	14,229	82,228	–
Net book value after currency translation	**5,828**	**8**	**261,629**	**1,034,679**	**68,827**
Income and expenses					
recognised in the statement of income	1	–	(11)	(8,773)	(3,604)
recognised directly in shareholders' equity	–	–	14,031	72,694	–
Purchases	–	–	86,018	258,548	57,281
Sales	597	–	43,512	139,710	–
Settlements	4,118	–	–	–	–
Transfers to level 3	–	–	–	36,292	–
Transfers from level 3	–	–	–	–	–
Currency translation at 31 December of the year under review	(592)	–	2,801	5,173	13,982
Net book value at 31 December of the year under review	**522**	**8**	**320,956**	**1,258,903**	**136,486**

Movements in level 3 financial assets and liabilities N 32

in EUR thousand	2013				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 31 December of the previous year	**27,329**	**8**	**156,301**	**905,652**	**54,812**
Currency translation at 1 January	(850)	–	(3,561)	(24,908)	–
Net book value after currency translation	**26,479**	**8**	**152,740**	**880,744**	**54,812**
Changes in the consolidated group	(7,276)	–	–	(8,973)	–
Income and expenses					
recognised in the statement of income	1,090	–	(494)	(3,641)	(987)
recognised directly in shareholders' equity	–	–	13,428	27,572	–
Purchases	567	–	–	–	18,653
Sales	242	–	116,065	169,261	1,335
Settlements	16,280	–	33,381	109,279	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 31 December of the year under review	841	–	(958)	(3,233)	(2,316)
Net book value at 31 December of the year under review	**5,179**	**8**	**247,400**	**952,451**	**68,827**

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

Income and expenses from level 3 financial assets and liabilities N 33

in EUR thousand	2014			
	Fixed-income securities	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the financial year				
Change in fair value of financial instruments	1	–	(3,014)	3,604
Total depreciation, impairments and appreciation of investments	–	(11)	(5,759)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review				
Change in fair value of financial instruments	1	–	(3,014)	3,604
Total depreciation, impairments and appreciation of investments	–	(11)	(5,759)	–

Income and expenses from level 3 financial assets and liabilities N 34

in EUR thousand	2013			
	Fixed-income securities	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the financial year				
Change in fair value of financial instruments	1,090	–	(97)	987
Total depreciation, impairments and appreciation of investments	–	(494)	(3,544)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review				
Change in fair value of financial instruments	1,090	–	(97)	987
Total depreciation, impairments and appreciation of investments	–	–	(3,544)	–

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 1,580.4 million (EUR 1,205.0 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,474.8 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 105.6 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.

Fair value hierarchy of financial assets and liabilities measured at amortised cost **N 35**

in EUR thousand	2014			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	5,625,198	–	5,625,198
Real estate and real estate funds	–	–	1,038,579	1,038,579
Other invested assets	–	2,657	55,045	57,702
Total financial assets	**–**	**5,627,855**	**1,093,624**	**6,721,479**
Long-term debt and subordinated capital	–	2,469,795	–	2,469,795
Total financial liabilities	**–**	**2,469,795**	**–**	**2,469,795**

Fair value hierarchy of financial assets and liabilities measured at amortised cost **N 36**

in EUR thousand	2013			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	6,217,426	–	6,217,426
Real estate and real estate funds	–	–	875,321	875,321
Other invested assets	–	1,260	33,197	34,457
Total financial assets	**–**	**6,218,686**	**908,518**	**7,127,204**
Long-term debt and subordinated capital	–	2,582,464	–	2,582,464
Total financial liabilities	**–**	**2,582,464**	**–**	**2,582,464**

6.2 Funds withheld (assets)

The funds withheld totalling EUR 15,826.5 million (EUR 14,267.8 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The increase in funds withheld was attributable principally to new business and exchange rate effects.

6.3 Contract deposits (assets)

The contract deposits on the assets side increased by EUR 16.6 million in the year under review from EUR 75.5 million to EUR 92.1 million.

6.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 6.7 "Technical provisions" on page 200 et seq. as well as the remarks in the risk report on page 86 et seq.

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

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

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

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

Development of deferred acquisition costs N37

in EUR thousand	2014	2013
Net book value at 31 December of the previous year	1,672,398	1,841,279
Currency translation at 1 January	113,388	(98,288)
Net book value after currency translation	**1,785,786**	**1,742,991**
Additions	489,910	279,480
Amortisations	368,029	346,911
Currency translation at 31 December	6,931	(3,162)
Net book value at 31 December of the year under review	**1,914,598**	**1,672,398**

For further explanatory remarks please see Section 3.1 "Summary of major accounting policies".

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

Age structure of overdue accounts receivable N38

in EUR thousand	2014		2013	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	218,824	142,102	170,564	123,549

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

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

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

Value adjustments on accounts receivable N39

in EUR thousand	2014	2013
Cumulative value adjustments at 31 December of the previous year	35,990	40,703
Currency translation at 1 January	667	1,572
Cumulative value adjustments after currency translation	**36,657**	**42,275**
Value adjustments	21,635	7,331
Reversal	16,071	13,616
Cumulative value adjustments at 31 December of the year under review	**42,221**	**35,990**
Gross book value of accounts receivable at 31 December of the year under review	3,156,199	2,981,675
Cumulative value adjustments at 31 December of the year under review	42,221	35,990
Net book value of accounts receivable at 31 December of the year under review	**3,113,978**	**2,945,685**

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 6.7 "Technical provisions". With regard to the credit risks resulting from technical assets we would also refer the reader to our comments on page 94 et seq. of the risk report.

6.5 Goodwill

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

Development of goodwill N 40

in EUR thousand	2014	2013
Net book value at 31 December of the previous year	57,070	59,099
Currency translation at 1 January	1,150	(2,029)
Net book value at 31 December of the year under review	**58,220**	**57,070**

This item principally included the goodwill from the acquisition of E+S Rückversicherung AG as well as from the acquisition of a 75% interest in Integra Insurance Solutions Limited.

For the purposes of the impairment test, the goodwill was allocated to the cash-generating units (CGUs) that represent the lowest level on which goodwill is monitored for internal management purposes. In the instances of goodwill recognised as at the balance sheet date, the CGUs are the respective business units/legal entities. The recoverable amount is established on the basis of the value in use, which is calculated using the discounted cash flow method. In this context, the detailed planning phase draws on the planning calculations of the CGUs/companies covering the next five years. These planning calculations represent the outcome of a detailed planning process in which all responsible members of management are involved. The subsequent perpetuity phase is guided by the profit margins and revenue growth rates that management believes can be sustainably generated. The capitalisation rate is based on the Capital Asset Pricing Model (CAPM) as well as growth rates that are considered realistic. The risk-free basic interest rate is determined, where possible, using corresponding yield curve data from the respective national banks. If this data cannot be obtained or can only be obtained with a disproportionately high effort, reference is made to the yields of the respective 30-year government bonds. The selection of the market risk premium is guided by the current recommendations of the Institute of Public Auditors in Germany (IDW). The beta factor is calculated for Hannover Rück SE on the basis of publicly accessible capital market data.

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

Capitalisation rates N 41

	Capitalisation rate	Growth rate
E+S Rückversicherung AG	7.400%	1.00%
Integra Insurance Solutions Limited	8.215%	1.00%

Sensitivity analyses were performed in which the capitalisation rates as well as material and value-influencing items of the relevant planning calculations (such as premium volumes, investment income or loss ratios) were varied. In this context it was established that in the event of changes in parameters within ranges that could reasonably occur, the values in use were in each case higher than the corresponding book values. Please see also our basic remarks in Section 3.1 "Summary of major accounting policies".

6.6 Other assets

Other assets **N 42**

in EUR thousand	2014	2013
Present value of future profits on acquired life reinsurance portfolios	82,390	85,270
Other intangible assets	37,462	30,843
Insurance for pension commitments	76,601	71,622
Own-use real estate	67,699	70,396
Tax refund claims	64,785	181,326
Fixtures, fittings and equipment	33,167	30,220
Other receivables	29,771	8,921
Other	226,405	125,029
Total	**618,280**	**603,627**

Of this, other assets of EUR 5.1 million (EUR 4.2 million) are attributable to affiliated companies.

The item "Other" includes receivables of EUR 165.6 million (EUR 73.6 million) which correspond to the present value of future premium payments in connection with derivative financial instruments arising from transactions in the life and health reinsurance business group. For further explanation please see Section 8.1 "Derivative financial instruments and financial guarantees".

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. On the basis of specific impairment analyses no value adjustments (previous year: EUR 0.3 million) were taken on other receivables in the year under review.

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

Development of the present value of future profits (PVFP) on acquired life reinsurance portfolios **N 43**

in EUR thousand	2014	2013
Net book value at 31 December of the previous year	85,270	92,100
Amortisation	3,037	3,420
Disposals	–	3,761
Currency translation at 31 December	157	351
Net book value at 31 December of the year under review	**82,390**	**85,270**

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

The period of amortisation amounts to altogether 30 years. For further information please refer to our explanatory notes on intangible assets in Section 3.1 "Summary of major accounting policies".

Insurance for pension commitments

Effective 1 July 2003 Hannover Rück SE took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 "Employee Benefits" they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 76.6 million (EUR 71.6 million).

Fixtures, fittings and equipment

Fixtures, fittings and equipment N 44

in EUR thousand	2014	2013
Gross book value at 31 December of the previous year	129,828	121,815
Currency translation at 1 January	3,773	(2,584)
Gross book value after currency translation	**133,601**	**119,231**
Additions	13,863	17,272
Disposals	4,245	6,272
Changes in consolidated group	(131)	69
Currency translation at 31 December	700	(472)
Gross book value at 31 December of the year under review	**143,788**	**129,828**
Cumulative depreciation at 31 December of the previous year	99,608	97,804
Currency translation at 1 January	2,943	(1,906)
Cumulative depreciation after currency translation	**102,551**	**95,898**
Disposals	3,852	6,071
Depreciation	11,436	9,880
Changes in consolidated group	(35)	18
Currency translation at 31 December	521	(117)
Cumulative depreciation at 31 December of the year under review	**110,621**	**99,608**
Net book value at 31 December of the previous year	**30,220**	**24,011**
Net book value at 31 December of the year under review	**33,167**	**30,220**

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.1 "Summary of major accounting policies".

The changes in the consolidated group refer to the deconsolidation of Glencar Underwriting Managers, Inc.; please see our explanatory remarks in Section 4.4 "Major disposals and retirements".

Other intangible assets

Development of other intangible assets N 45

in EUR thousand	2014	2013
Gross book value at 31 December of the previous year	196,689	184,725
Currency translation at 1 January	1,243	(847)
Gross book value after currency translation	**197,932**	**183,878**
Changes in the consolidated group	–	(8)
Additions	22,847	13,243
Disposals	569	405
Currency translation at 31 December	86	(19)
Gross book value at 31 December of the year under review	**220,296**	**196,689**
Cumulative depreciation at 31 December of the previous year	165,846	152,589
Currency translation at 1 January	879	(544)
Cumulative depreciation after currency translation	**166,725**	**152,045**
Disposals	468	308
Appreciation	15	25
Depreciation	16,525	14,130
Currency translation at 31 December	67	4
Cumulative depreciation at 31 December of the year under review	**182,834**	**165,846**
Net book value at 31 December of the previous year	**30,843**	**32,136**
Net book value at 31 December of the year under review	**37,462**	**30,843**

The item includes EUR 2.2 million (EUR 3.2 million) for self-created software and EUR 30.0 million (EUR 19.1 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 18.0 million (EUR 5.0 million) for purchased software and EUR 1.0 million (EUR 0.9 million) for capitalised development costs for self-created software.

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

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

6.7 Technical provisions

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

Technical provisions N 46

in EUR thousand	2014			2013		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	24,112,056	1,376,432	22,735,624	21,666,932	1,403,804	20,263,128
Benefit reserve	11,757,132	676,219	11,080,913	10,631,451	344,154	10,287,297
Unearned premium reserve	2,748,594	149,257	2,599,337	2,405,497	139,039	2,266,458
Other technical provisions	324,240	5,446	318,794	269,571	6,893	262,678
Total	**38,942,022**	**2,207,354**	**36,734,668**	**34,973,451**	**1,893,890**	**33,079,561**

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

Loss and loss adjustment expense reserve N 47

in EUR thousand	2014			2013		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	21,666,932	1,403,804	20,263,128	21,610,698	1,538,215	20,072,483
Currency translation at 1 January	1,361,796	92,399	1,269,397	(975,601)	(77,759)	(897,842)
Net book value after currency translation	**23,028,728**	**1,496,203**	**21,532,525**	**20,635,097**	**1,460,456**	**19,174,641**
Incurred claims and claims expenses (net)[1]						
Year under review	7,517,863	796,409	6,721,454	7,728,660	815,189	6,913,471
Previous years	2,983,219	240,501	2,742,718	2,443,788	229,713	2,214,075
	10,501,082	**1,036,910**	**9,464,172**	**10,172,448**	**1,044,902**	**9,127,546**
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,692,876)	(471,824)	(2,221,052)	(2,767,574)	(449,729)	(2,317,845)
Previous years	(6,830,593)	(691,203)	(6,139,390)	(6,390,642)	(637,437)	(5,753,205)
	(9,523,469)	**(1,163,027)**	**(8,360,442)**	**(9,158,216)**	**(1,087,166)**	**(8,071,050)**
Specific value adjustment for retrocessions	–	40	(40)	–	–	–
Reversal of impairments	–	341	(341)	–	451	(451)
Portfolio entries/exits	2,578	–	2,578	61,660	–	61,660
Currency translation at 31 December	103,137	6,045	97,092	(44,057)	(14,839)	(29,218)
Net book value at 31 December of the year under review	**24,112,056**	**1,376,432**	**22,735,624**	**21,666,932**	**1,403,804**	**20,263,128**

[1] Including expenses recognised directly in shareholders' equity

In the year under review minimal (previous year: none) specific value adjustments were established on retrocessions, i. e. on the reinsurance recoverables on unpaid claims, while they were reversed in the amount of EUR 0.3 million (EUR 0.5 million). On balance, therefore, cumulative specific value adjustments of EUR 0.2 million (EUR 0.5 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 22,735.5 million (EUR 20,262.7 million) as at the balance sheet date.

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

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

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

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

The following table shows the net loss reserve for the property and casualty reinsurance business group in the years 2004 to 2014 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2004 balance sheet year also include the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2014 financial year for the individual run-off years.

Net loss reserve and its run-off in the property and casualty reinsurance segment N48

in EUR million	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012	31.12. 2013	31.12. 2014
Loss and loss adjustment expense reserve (from balance sheet)											
	12,594.1	13,382.1	13,454.2	12,838.0	13,702.0	14,024.0	15,286.3	16,673.7	17,302.5	17,925.5	**19,746.9**
Cumulative payments for the year in question and previous years											
One year later	4,176.8	3,024.7	2,587.4	2,522.7	2,989.6	2,796.1	2,486.9	3,172.8	2,970.0	3,235.8	
Two years later	6,225.3	5,062.4	4,350.5	4,341.2	4,644.5	4,040.8	4,149.7	4,940.0	4,608.8		
Three years later	7,212.8	6,226.4	5,694.2	5,470.7	5,412.1	4,874.1	5,160.3	5,881.5			
Four years later	8,000.6	7,360.9	6,505.9	6,026.3	6,007.7	5,530.3	5,818.0				
Five years later	8,802.6	7,995.1	6,906.1	6,466.6	6,494.7	6,040.1					
Six years later	9,264.3	8,315.1	7,249.8	6,833.5	6,827.6						
Seven years later	9,536.8	8,586.4	7,525.7	7,113.4							
Eight years later	9,744.5	8,816.9	7,754.9								
Nine years later	9,928.1	9,002.9									
Ten years later	10,080.9										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	**12,594.1**	**13,382.1**	**13,454.2**	**12,838.0**	**13,702.0**	**14,024.0**	**15,286.3**	**16,673.7**	**17,302.5**	**17,925.5**	**19,746.9**
One year later	15,014.5	13,915.4	12,708.5	13,127.0	14,801.8	13,512.3	14,665.0	16,368.5	16,879.3	17,649.9	
Two years later	14,748.5	12,854.3	12,279.2	13,050.5	13,525.3	12,778.3	14,057.2	16,022.3	16,455.5		
Three years later	14,006.9	12,311.7	12,193.7	12,558.4	12,679.7	12,191.5	13,637.9	15,518.0			
Four years later	13,543.7	12,312.1	11,762.4	11,721.4	12,177.1	11,770.0	13,148.1				
Five years later	13,580.3	11,940.7	10,999.4	11,366.8	11,839.4	11,292.8					
Six years later	13,274.1	11,241.0	10,724.8	11,062.9	11,330.9						
Seven years later	12,690.9	11,040.5	10,448.4	10,651.0							
Eight years later	12,561.1	10,827.3	10,128.2								
Nine years later	12,407.9	10,600.6									
Ten years later	12,238.0										
Change relative to previous year											
Net run-off result	169.9	56.8	93.5	91.8	96.6	(31.3)	12.6	14.3	(80.4)	(148.2)	
As percentage of original loss reserve	1.3	0.4	0.7	0.7	0.7	-0.2	0.1	0.1	-0.5	-0.8	

The run-off profit of altogether EUR 275.6 million in the 2014 financial year derives, as in the previous year, above all from positive run-offs of reserves in the areas of marine / aviation and short-tail property business.

Maturities of the technical reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as collateral for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.1 "Summary of major accounting policies".

Maturities of the technical reserves N 49

in EUR thousand	2014					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	6,873,894	410,537	6,463,357	368,073	14,498	353,575
Due after one through five years	9,430,724	530,791	8,899,933	1,403,573	342,156	1,061,417
Due after five through ten years	3,604,852	182,255	3,422,597	1,186,478	277,396	909,082
Due after ten through twenty years	2,323,594	100,496	2,223,098	558,283	25,807	532,476
Due after twenty years	1,039,392	46,431	992,961	856,508	11,248	845,260
	23,272,456	**1,270,510**	**22,001,946**	**4,372,915**	**671,105**	**3,701,810**
Deposits	839,600	106,094	733,506	7,384,217	5,114	7,379,103
Total	**24,112,056**	**1,376,604**	**22,735,452**	**11,757,132**	**676,219**	**11,080,913**

Maturities of the technical reserves N 50

in EUR thousand	2013					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	6,160,224	394,571	5,765,653	190,264	13,835	176,429
Due after one through five years	8,335,299	551,507	7,783,792	662,966	85,903	577,063
Due after five through ten years	3,181,135	174,727	3,006,408	986,066	186,716	799,350
Due after ten through twenty years	2,113,511	101,954	2,011,557	569,149	36,203	532,946
Due after twenty years	1,097,585	56,006	1,041,579	767,731	15,576	752,155
	20,887,754	**1,278,765**	**19,608,989**	**3,176,176**	**338,233**	**2,837,943**
Deposits	779,178	125,511	653,667	7,455,275	5,921	7,449,354
Total	**21,666,932**	**1,404,276**	**20,262,656**	**10,631,451**	**344,154**	**10,287,297**

The average maturity of the loss and loss adjustment expense reserves was 5.0 years (5.2 years), or 5.0 years (5.2 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 10.7 years (12.6 years) – or 11.5 years (13.1 years) on a net basis.

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

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

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

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

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

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

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

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

Development of the benefit reserve N 51

in EUR thousand	2014			2013		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	10,631,451	344,154	10,287,297	10,974,570	507,257	10,467,313
Currency translation at 1 January	763,126	34,666	728,460	(269,269)	(7,819)	(261,450)
Net book value after currency translation	**11,394,577**	**378,820**	**11,015,757**	**10,705,301**	**499,438**	**10,205,863**
Changes	205,140	176,515	28,625	178,894	32,203	146,691
Portfolio entries/exits	126,506	97,290	29,216	(257,122)	(186,136)	(70,986)
Currency translation at 31 December	30,909	23,594	7,315	4,378	(1,351)	5,729
Net book value at 31 December of the year under review	**11,757,132**	**676,219**	**11,080,913**	**10,631,451**	**344,154**	**10,287,297**

The unearned premium reserve derives from the deferral of ceded reinsurance premium. The unearned premium is determined by the period during which the risk is carried and established in accordance with the information supplied by ceding companies. In cases where no information was received, the unearned premium was estimated using suitable methods. Premium paid for periods subsequent to the date of the balance sheet was deferred from recognition within the statement of income.

Development of the unearned premium reserve N52

in EUR thousand	2014			2013		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	2,405,497	139,039	2,266,458	2,339,809	138,373	2,201,436
Currency translation at 1 January	168,330	9,603	158,727	(120,960)	(7,852)	(113,108)
Net book value after currency translation	**2,573,827**	**148,642**	**2,425,185**	**2,218,849**	**130,521**	**2,088,328**
Corporate changes	–	307	(307)	–	–	–
Changes	154,362	(3,294)	157,656	203,238	9,414	193,824
Currency translation at 31 December	20,405	3,602	16,803	(16,590)	(896)	(15,694)
Net book value at 31 December of the year under review	**2,748,594**	**149,257**	**2,599,337**	**2,405,497**	**139,039**	**2,266,458**

The adequacy of the technical liabilities arising out of our reinsurance treaties is reviewed as at each balance sheet date. In the context of the adequacy testing of technical liabilities (liability adequacy test pursuant to IFRS 4 in conjunction with loss recognition test as per US GAAP) the anticipated future contractual payment obligations are compared with the anticipated future income. Should the result of the test indicate that the anticipated future income will not be sufficient to fund future payments, the entire shortfall is recognised in income by first writing off capitalised acquisition costs corresponding to the shortfall. Any remaining difference is constituted as an additional provision.

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 817.1 million (EUR 648.0 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side increased by EUR 502.4 million in the year under review from EUR 5,569.9 million to EUR 6,072.3 million. The contract deposits item on the liabilities side essentially encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The increase was due principally to exchange rate effects.

6.10 Provisions for pensions and other post-employment benefit obligations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Measurement assumptions **N 53**

in %	2014		2013	
	Germany	Australia	Germany	Australia
Discount rate	1.70	2.60	3.63	3.94
Rate of compensation increase	2.20	3.50	2.75	3.50
Pension indexation	1.65	3.00	2.06	3.00

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

Movements in net liability from defined benefit pension plans N54

in EUR thousand	2014	2013	2014	2013	2014	2013
	Defined benefit obligation		Fair value of plan assets		Impact of minimum funding requirement/asset ceiling	
Position at 1 January of the financial year	129,602	141,105	13,510	14,979	75	30
Recognised in profit or loss						
Current service costs	3,149	3,337	–	–	–	–
Past service cost and plan curtailments	194	–	–	–	–	–
Net interest component	4,547	4,417	393	545	3	2
	7,890	**7,754**	**393**	**545**	**3**	**2**
Recognised in cumulative other comprehensive income						
Actuarial gain (–)/loss (+) from change in biometric assumptions	11	(352)	–	–	–	–
Actuarial gain (–)/loss (+) from change in financial assumptions	52,930	(11,705)	–	–	–	–
Experience gains (–)/losses (+)	(1,160)	(885)	–	–	–	–
Return on plan assets, excluding amounts included in interest income	–	–	513	207	–	–
Change in asset ceiling	–	–	–	–	(78)	43
Exchange differences	553	(2,701)	519	(2,652)	–	–
	52,334	**(15,643)**	**1,032**	**(2,445)**	**(78)**	**43**
Other changes						
Employer contributions	–	–	600	439	–	–
Benefit payments	(2,891)	(3,608)	(2)	(3)	–	–
Additions and disposals	99	(6)	–	(5)	–	–
	(2,792)	**(3,614)**	**598**	**431**	**–**	**–**
Position at 31 December of the financial year	**187,034**	**129,602**	**15,533**	**13,510**	**–**	**75**

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

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

Provisions for pensions N 55

in EUR thousand	2014	2013
Projected benefit obligations at 31 December of the financial year	187,034	129,602
Fair value of plan assets at 31 December of the financial year	15,533	13,510
Impact of minimum funding requirement/asset ceiling at 31 December of the financial year	–	75
Recognised pension obligations at 31 December of the financial year	**171,501**	**116,167**
thereof: Capitalised assets	–	245
Provisions for pensions	171,501	116,412

In the current financial year Hannover Re anticipates contribution payments of EUR 0.8 million under the plans set out above. The weighted average duration of the defined benefit obligation is 14.8 years.

Sensitivity analysis

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

Effect on the defined benefit obligation N 56

in EUR thousand		Parameter increase	Parameter decrease
Discount rate	(+/-0.5%)	-15,186	+17,058
Rate of compensation increase	(+/-0.25%)	+934	-875
Pension indexation	(+/-0.25%)	+5,657	-5,193

Furthermore, a change is possible with respect to the assumed mortality rates and lifespans. The underlying mortality tables were adjusted by reducing the mortalities by 10% in order to determine the longevity risk. Extending the lifespans in this way would have produced a EUR 5.3 million higher pension commitment at the end of the financial year.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the financial year in accordance with IAS 19 "Employee Benefits" was EUR 18.7 million (EUR 17.4 million), of which EUR 1.2 million (EUR 1.1 million) was due to obligations to members of staff in key positions and EUR 6.5 million (EUR 6.0 million) to contributions to the statutory pension insurance scheme in Germany.

6.11 Other liabilities

Other liabilities N 57

in EUR thousand	2014	2013
Liabilities from derivatives	240,246	118,984
Interest	41,781	73,096
Deferred income	31,732	31,315
Direct minority interests in partnerships	28,603	30,993
Sundry non-technical provisions	154,779	134,303
Sundry liabilities	197,093	217,204
Total	**694,234**	**605,895**

Of this, other liabilities of EUR 7.6 million (EUR 11.1 million) are attributable to affiliated companies.

With regard to the liabilities from derivatives in an amount of EUR 240.2 million (EUR 119.0 million), please see our explanatory remarks on derivative financial instruments in Section 8.1 “Derivative financial instruments and financial guarantees”.

The sundry liabilities include, most notably, distributions within the year of EUR 87.5 million (EUR 72.0 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions N 58

in EUR thousand	Balance at 31 December 2013	Currency translation at 1 January
Provisions for		
Audits and costs of publishing the annual financial statements	5,899	54
Consultancy fees	2,624	128
Suppliers' invoices	7,017	221
Partial retirement arrangements and early retirement obligations	3,723	7
Holiday entitlements and overtime	6,378	128
Anniversary bonuses	2,866	35
Management bonuses	28,951	962
Restructuring	3,693	251
Other	73,152	1,278
Total	**134,303**	**3,064**

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

Maturities of the sundry non-technical provisions N 59

in EUR thousand	2014	2013
Due in one year	81,252	67,236
Due after one through five years	69,668	62,115
Due after five years	3,859	4,952
Total	**154,779**	**134,303**

6.12 Debt and subordinated capital

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 and may be redeemed at each coupon date thereafter. It carries a fixed coupon of 3.375% p.a. until 26 June 2025, after which the interest rate basis changes to 3-month EURIBOR +325 basis points.

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

	Balance at 1 January of the year under review	Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31 December 2014
	5,953	6,879	5,368	103	39	7,400
	2,752	1,484	1,809	294	9	2,142
	7,238	15,736	16,898	367	117	5,826
	3,730	19	531	–	(3)	3,215
	6,506	5,870	3,640	–	(7)	8,729
	2,901	465	17	–	10	3,359
	29,913	24,737	19,545	–	194	35,299
	3,944	620	–	–	19	4,583
	74,430	27,444	10,459	7,609	420	84,226
	137,367	83,254	58,267	8,373	798	154,779

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

On 1 June 2005 Hannover Rück SE issued further subordinated debt in the amount of EUR 500.0 million through its subsidiary Hannover Finance (Luxembourg) S.A. The bond is perpetual and carries a fixed coupon of 5.00% in the first ten years. It may be redeemed on 1 June 2015 at the earliest and at each coupon date thereafter. If the bond is not called at the end of the tenth year, the coupon will step up to a floating-rate yield of quarterly EURIBOR +268 basis points. The interest will be serviced according to the same principles as those practised in the past.

The subordinated debt issued in 2004 by Hannover Finance (Luxembourg) S.A. 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.

Altogether four (four) subordinated bonds were recognised as at the balance sheet date with an amortised cost of EUR 1,986.5 million (EUR 2,237.8 million).

Debt and subordinated capital **N 60**

in EUR thousand				2014			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Rück SE, 2014	3.375	n/a	EUR	493,464	8,221	4,947	506,632
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	496,922	89,933	12,603	599,458
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,447	89,653	8,507	596,607
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	497,658	8,802	14,589	521,049
				1,986,491	**196,609**	**40,646**	**2,223,746**
Debt				283,853	2,839	1,136	287,828
Other long-term liabilities				3	–	–	3
Total				**2,270,347**	**199,448**	**41,782**	**2,511,577**

Debt and subordinated capital N 61

in EUR thousand				2013			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	496,653	33,847	12,603	543,103
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,247	58,663	8,507	565,417
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	493,337	19,108	14,589	527,034
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	749,593	3,407	36,390	789,390
				2,237,830	**115,025**	**72,089**	**2,424,944**
Debt				227,115	2,479	1,085	230,679
Other long-term liabilities				15	–	–	15
Total				**2,464,960**	**117,504**	**73,174**	**2,655,638**

The aggregated fair value of the extended subordinated loans is based on quoted, active market prices. If such price information was not available, fair value was determined on the basis of the recognised effective interest rate method or estimated using other financial assets with similar rating, duration and return characteristics. Under the effective interest rate method the current market interest rate levels in the relevant fixed-interest-rate periods are always taken as a basis.

Maturities of financial liabilities N 62

in EUR thousand	2014						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities [1]	33,993	236,189	247	–	–	176	–
Debt	15,259	39	257,789	10,766	–	–	–
Subordinated loans	–	–	–	–	–	995,369	991,122
Other long-term liabilities	–	3	–	–	–	–	–
Total	**49,252**	**236,231**	**258,036**	**10,766**	**–**	**995,545**	**991,122**

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

Maturities of financial liabilities N 63

in EUR thousand	2013						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities [1]	82,362	237,012	1,443	798	–	–	–
Debt	13	–	195,574	31,528	–	–	–
Subordinated loans	–	–	–	–	749,593	994,900	493,337
Other long-term liabilities	–	–	15	–	–	–	–
Total	**82,375**	**237,012**	**197,032**	**32,326**	**749,593**	**994,900**	**493,337**

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

Net gains and losses from dept and subordinated capital N 64

in EUR thousand	2014	2013	2014	2013	2014	2013
	Ordinary income/expenses		Amortisation		Net result	
Debt	(11,718)	(9,281)	593	613	(11,125)	(8,668)
Subordinated loans	(90,432)	(121,857)	(5,288)	(4,813)	(95,720)	(126,670)
Total	**(102,150)**	**(131,138)**	**(4,695)**	**(4,200)**	**(106,845)**	**(135,338)**

The ordinary expenses principally include interest expenses of nominally EUR 90.4 million (EUR 121.9 million) resulting from the issued subordinated debt.

Other financial facilities

Letter of credit (LoC) facilities exist with a number of financial institutions. A syndicated letter of credit facility taken out in 2011 with a volume equivalent to EUR 822.7 million (EUR 726.4 million) has a maturity until the beginning of 2019.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2022) and a total volume equivalent to EUR 2,559.3 million (EUR 2,488.0 million) exist on a bilateral basis with financial institutions; in addition, a long-term unsecured line of credit intended specifically for US life reinsurance business taken out in December 2009 has a total volume equivalent to EUR 226.2 million (EUR 363.2 million).

For further information on the letters of credit provided please see our explanatory remarks in Section 8.7 "Contingent liabilities and commitments".

A number of LoC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see also our explanatory remarks in the "Financial position" section of the management report, page 59 et seq., on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

6.13 Shareholders' equity and treasury shares

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

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

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.

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 Executive Board is authorised – with the consent of the Supervisory Board – to acquire treasury shares of up to 10% of the existing share capital. The authorisation is limited until 3 May 2015.

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).

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 33.0 million (decrease recognised in equity of EUR 69.2 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

For the disclosures arising out of IAS 1 "Presentation of Financial Statements" with regard to the management of capital, the reader is referred to the "Financial position" section on page 56 of the management report.

Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share option plan Hannover Rück SE acquired altogether 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 no longer in possession of treasury shares as at the balance sheet date.

6.14 Non-controlling interests

Non-controlling interests in the shareholders' equity of subsidiaries are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". They amounted to EUR 702.2 million (EUR 641.6 million) as at the balance sheet date.

Non-controlling interests in partnerships are reported in accordance with IAS 32 "Financial Instruments: Presentation" under long-term liabilities.

The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 79.5 million (EUR 43.8 million) in the year under review.

Subsidiaries with material non-controlling interests N 65

in EUR thousand	2014	2013
	E+S Rückversicherung AG, Hannover, Germany	
Participation of non-controlling interests	35.21%	36.31%
Voting rights of non-controlling interests	35.21%	36.31%
Net income	211,042	103,960
thereof attributable to non-controlling interests	76,341	37,752
Income/expense recognised directly in equity	95,661	(50,845)
Total recognised income and expense	306,703	53,115
Shareholders' equity	1,908,328	1,711,625
thereof attributable to non-controlling interests	671,892	621,563
Dividends paid	110,000	130,000
thereof attributable to non-controlling interests	39,946	47,208
Assets	11,292,700	13,502,177
Liabilities	9,383,417	11,796,441
Cash flow from operating activities	387,294	381,119
Cash flow from investing activities	(262,061)	(252,691)
Cash flow from financing activities	(111,409)	(130,000)

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

7.1 Gross written premium

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

Gross written premium N 66

in EUR thousand	2014	2013
Regional origin		
Germany	1,225,113	1,264,120
United Kingdom	2,489,788	2,619,728
France	666,892	565,698
Other	1,626,667	1,726,952
Europe	**6,008,460**	**6,176,498**
USA	3,242,010	3,364,082
Other	693,976	679,595
North America	**3,935,986**	**4,043,676**
Asia	2,214,766	1,637,028
Australia	921,279	776,991
Australasia	**3,136,045**	**2,414,019**
Africa	451,265	476,183
Other	830,045	853,033
Total	**14,361,801**	**13,963,409**

7.2 Investment income

Investment income N 67

in EUR thousand	2014	2013
Income from real estate	100,341	72,029
Dividends	4,836	3,085
Interest income	949,498	969,644
Other investment income	13,686	(3,440)
Ordinary investment income	**1,068,361**	**1,041,318**
Profit or loss on shares in associated companies	1,042	12,536
Appreciation	126	319
Realised gains on investments	208,077	177,032
Realised losses on investments	25,624	32,881
Change in fair value of financial instruments	(33,257)	(27,136)
Impairments on real estate	19,924	15,060
Impairments on equity securities	–	3
Impairments on fixed-income securities	2,000	771
Impairments on participating interests and other financial assets	5,760	3,583
Other investment expenses	95,256	97,309
Net income from assets under own management	**1,095,785**	**1,054,462**
Interest income on funds withheld and contract deposits	485,088	479,887
Interest expense on funds withheld and contract deposits	109,032	122,539
Total investment income	**1,471,841**	**1,411,810**

The impairments totalling EUR 9.2 million (EUR 5.4 million) were largely attributable in an amount of EUR 5.8 million (EUR 3.5 million) to the area of alternative investments – specifically, exclusively to private equity investments. No impairments were recognised on equities or equity funds in the year under review or the comparable period 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. Impairments of EUR 2.0 million (EUR 0.8 million) were recognised in the area of fixed-income securities. An impairment of EUR 1.4 million (EUR 1.1 million) was taken on investments in real estate. These impairments contrasted with write-ups of EUR 0.1 million (EUR 0.3 million) on investments written down in previous periods. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments N 68

in EUR thousand	2014	2013
Fixed-income securities – held to maturity	84,878	110,058
Fixed-income securities – loans and receivables	108,181	120,461
Fixed-income securities – available for sale	734,381	720,753
Financial assets – at fair value through profit or loss	1,810	958
Other	20,248	17,414
Total	**949,498**	**969,644**

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses as well as impairments and appreciation. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, income and expenses from changes in fair value are also recognised. Making allowance for the other investment expenses of EUR 95.3 million (EUR 97.3 million), net income from assets under own management of altogether EUR 1,095.8 million (EUR 1,054.5 million) was recognised in the year under review.

Net gains and losses on investments N 69

in EUR thousand	2014				
	Ordinary investment income[1]	Realised gains and losses	Impairments/appreciation	Change in fair value	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	85,093	168	–	–	85,261
Loans and receivables					
Fixed-income securities	105,161	15,588	2,000	–	118,749
Available for sale					
Fixed-income securities	674,992	148,642	–	–	823,634
Equity securities	935	394	–	–	1,329
Other invested assets	82,850	5,770	5,847	–	82,773
Short-term investments	20,112	215	–	–	20,327
At fair value through profit or loss					
Fixed-income securities	1,810	201	–	(1,291)	720
Other financial assets	3,175	337	–	(4,612)	(1,100)
Other invested assets	–	788	–	(3,014)	(2,226)
Other	95,275	10,350	19,711	(24,340)	61,574
Total	**1,069,403**	**182,453**	**27,558**	**(33,257)**	**1,191,041**

[1] Including income from associated companies, for reconciliation with the consolidated statement of income
[2] Excluding other investment expenses

Net gains and losses on investments N 70

in EUR thousand	2013				
	Ordinary investment income[1]	Realised gains and losses	Impairments/appreciation	Change in fair value	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	104,254	3,259	–	–	107,513
Loans and receivables					
Fixed-income securities	117,130	10,566	–	–	127,696
Available for sale					
Fixed-income securities	653,765	106,758	510	–	760,013
Equity securities	929	759	3	–	1,685
Other invested assets	59,416	16,101	4,077	–	71,440
Short-term investments	16,151	158	–	–	16,309
At fair value through profit or loss					
Fixed-income securities	2,056	438	–	1,264	3,758
Other financial assets	2,372	(688)	–	(7,500)	(5,816)
Other invested assets	–	4,989	–	644	5,633
Other	97,781	1,811	14,508	(21,544)	63,540
Total	**1,053,854**	**144,151**	**19,098**	**(27,136)**	**1,151,771**

[1] Including income from associated companies, for reconciliation with the consolidated statement of income
[2] Excluding other investment expenses

7.3 Reinsurance result

Reinsurance result N71

in EUR thousand	2014	2013
Gross written premium	14,361,801	13,963,409
Ceded written premium	1,781,064	1,542,921
Change in unearned premium	(154,362)	(203,238)
Change in ceded unearned premium	(3,294)	9,414
Net premium earned	**12,423,081**	**12,226,664**
Other technical income	1,641	1,907
Total net technical income	**12,424,722**	**12,228,571**
Claims and claims expenses paid	8,360,442	8,071,050
Change in loss and loss adjustment expense reserve	1,103,730	1,056,496
Claims and claims expenses	**9,464,172**	**9,127,546**
Change in benefit reserve	28,625	146,691
Net change in benefit reserve	**28,625**	**146,691**
Commissions	2,672,826	2,528,741
Change in deferred acquisition costs	121,961	(91,357)
Change in provision for contingent commissions	28,503	70,075
Other acquisition costs	4,878	5,608
Other technical expenses	7,461	7,874
Administrative expenses	363,859	333,674
Net technical result	**(23,641)**	**(82,995)**

With regard to the claims and claims expenses as well as the change in the benefit reserve the reader is also referred to Section 6.7 "Technical provisions". The change in the benefit reserve relates exclusively to the life and health reinsurance segment.

The administrative expenses amounted to altogether 2.9% (2.7%) of net premium earned.

Other technical income N72

in EUR thousand	2014	2013
Other technical income (gross)	2,864	3,506
Reinsurance recoverables	1,223	1,599
Other technical income (net)	**1,641**	**1,907**

Commissions and brokerage, change in deferred acquisition costs N 73

in EUR thousand	2014	2013
Commissions paid (gross)	2,922,711	2,761,122
Reinsurance recoverables	249,885	232,381
Change in deferred acquisition costs (gross)	142,026	(67,095)
Reinsurance recoverables	20,065	24,262
Change in provision for contingent commissions (gross)	27,119	74,717
Reinsurance recoverables	(1,384)	4,642
Commissions and brokerage, change in deferred acquisition costs (net)	**2,579,368**	**2,690,173**

Other technical expenses N 74

in EUR thousand	2014	2013
Other technical expenses (gross)	5,843	9,430
Reinsurance recoverables	(1,618)	1,556
Other technical expenses (net)	**7,461**	**7,874**

7.4 Other income and expenses

Other income/expenses N 75

in EUR thousand	2014	2013
Other income		
Exchange gains	338,895	189,122
Reversals of impairments on receivables	4,448	8,007
Income from contracts recognised in accordance with the deposit accounting method	71,895	68,184
Income from services	11,742	10,806
Deconsolidation	2,602	6,661
Other interest income	15,310	21,483
Sundry income	18,151	14,595
	463,043	**318,858**
Other expenses		
Other interest expenses	58,719	77,028
Exchange losses	231,946	179,254
Expenses from contracts recognised in accordance with the deposit accounting method	14,369	14,521
Separate value adjustments on receivables	21,753	7,955
Expenses for the company as a whole	54,962	54,080
Depreciation, amortisation, impairments	13,500	11,814
Expenses for services	10,489	7,524
Sundry expenses	39,115	66,435
	444,853	**418,611**
Total	**18,190**	**(99,753)**

The separate value adjustments were attributable to accounts receivable in an amount of EUR 21.7 million (EUR 7.9 million).

7.5 Taxes on income

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

The reader is referred to the remarks in Section 3.1 “Summary of major accounting policies” regarding the basic approach to the recognition and measurement of deferred taxes.

The tax rate used to calculate the deferred taxes of the domestic companies was unchanged from the previous year at 31.93% (rounded to 32%). It is arrived at from the corporate income tax rate of 15.0%, the German reunification charge of 5.5% and a uniform trade earnings tax rate of 16.1%. The deferred taxes at the companies abroad were calculated using the applicable country-specific tax rates.

Tax-relevant bookings on the Group level are made using the Group tax rate of 32% unless they refer specifically to individual companies.

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

Breakdown of taxes on income

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

Income tax N 76

in EUR thousand	2014	2013
Actual tax for the year under review	283,911	131,873
Actual tax for other periods	(16,190)	(39,069)
Deferred taxes due to temporary differences	52,937	82,053
Deferred taxes from loss carry-forwards	(1,288)	(29,051)
Change in deferred taxes due to changes in tax rates	–	(6,739)
Value adjustments on deferred taxes	(13,807)	24,076
Total	**305,563**	**163,143**

Domestic/foreign breakdown of recognised tax expenditure/income N 77

in EUR thousand	2014	2013
Current taxes		
Germany	182,541	9,015
Abroad	85,181	83,790
Deferred taxes		
Germany	53,289	91,174
Abroad	(15,448)	(20,836)
Total	**305,563**	**163,143**

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

Deferred tax assets and deferred tax liabilities of all Group companies N 78

in EUR thousand	2014	2013
Deferred tax assets		
Tax loss carry-forwards	94,401	90,467
Loss and loss adjustment expense reserves	210,604	200,328
Benefit reserve	79,596	43,071
Other technical/non-technical provisions	380,690	341,699
Funds withheld	620,013	948,054
Deferred acquisition costs	44,298	30,547
Accounts receivable/reinsurance payable	78,881	15,472
Valuation differences relating to investments	31,308	13,740
Contract deposits	754	19
Other valuation differences	38,410	33,926
Value adjustments [1]	(51,544)	(64,600)
Total	**1,527,411**	**1,652,723**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	45,563	27,711
Benefit reserve	100,324	880,026
Other technical/non-technical provisions	482,658	86,101
Equalisation reserve	1,114,641	1,046,733
Funds withheld	476,105	183,751
Deferred acquisition costs	218,590	319,989
Accounts receivable/reinsurance payable	109,280	86,681
Valuation differences relating to investments	401,707	199,532
Present value of future profits on acquired life reinsurance portfolios (PVFP)	10,299	10,659
Other valuation differences	49,912	15,091
Total	**3,009,079**	**2,856,274**
Deferred tax liabilities	1,481,668	1,203,551

[1] Thereof on tax loss carry-forwards: -EUR 50,927 thousand (-EUR 45,551 thousand)

The deferred tax assets and deferred tax liabilities are shown unoffset in the above table. The deferred taxes are recognised as follows in the balance sheet after appropriate netting:

Netting of deferred tax assets and deferred tax liabilities N 79

in EUR thousand	2014	2013
Deferred tax assets	393,923	508,841
Deferred tax liabilities	1,875,591	1,712,392
Net deferred tax liabilities	**1,481,668**	**1,203,551**

In view of the unrealised gains on investments and on currency translation recognised directly in equity in the financial year, actual and deferred tax expenditure – including amounts attributable to non-controlling interests – of EUR 258.2 million (EUR 217.8 million) was also recognised directly in equity.

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

Reconciliation of the expected expense for income taxes with the actual expense N 80

in EUR thousand	2014	2013
Profit before taxes on income	1,370,670	1,102,392
Group tax rate	32%	32%
Expected expense for income taxes	438,614	352,765
Change in tax rates	–	(6,739)
Differences in tax rates affecting subsidiaries	(90,919)	(85,929)
Non-deductible expenses	54,025	20,402
Tax-exempt income	(52,854)	(152,066)
Tax expense/income not attributable to the reporting period	(34,269)	5,233
Value adjustments on deferred taxes/loss carry-forwards	(13,807)	24,077
Other	4,773	5,400
Actual expense for income taxes	**305,563**	**163,143**

The expense for income taxes in the financial year climbed sharply year-on-year by EUR 142.4 million to EUR 305.6 million (EUR 163.1 million). The increase is due in large measure to the adjustment of deferred taxes made in the previous year on the portion of the equalisation reserve attributable to permanent establishments of Hannover Rück SE that are tax-exempt under double taxation agreements. In addition, the larger volume of Group-internal retrocessions of certain portfolios in life and health reinsurance, which results in tax-exempt income in the country of origin but gives rise to expenses that are allowable for tax purposes in Germany, contributed to a reduction in the tax burden in the previous year. The tax ratio amounted to 22.3% (14.8%).

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards and tax credits of EUR 352.8 million (EUR 321.8 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 183.1 million (EUR 172.5 million) thereof was not capitalised since realisation is not sufficiently certain.

No deferred taxes were established on assets-side taxable temporary differences amounting to EUR 135.0 million (EUR 108.4 million) and liabilities-side temporary differences of EUR 52.3 million (EUR 36.6 million) in connection with interests in Group companies because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

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

Expiry of non-capitalised loss carry-forwards and temporary differences N 81

in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Temporary differences	–	–	–	3,083	3,083
Loss carry-forwards	–	3,220	–	179,842	183,062
Total	**–**	**3,220**	**–**	**182,925**	**186,145**

8. Other notes

8.1 Derivative financial instruments and financial guarantees

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

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.1 "Summary of major accounting policies" with regard to the measurement models used.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 4.0 million (EUR 1.4 million) and other financial assets at fair value through profit or loss in an amount of EUR 0.5 million (none).

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 30.6 million (EUR 5.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 14.5 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 63.6 million (EUR 34.1 million and other financial assets at fair value through profit or loss in an amount of EUR 1.4 million).

In order to hedge the risk of share price changes in connection with the stock participation rights granted under the share award plan, Hannover Re took out hedges in the form of equity swaps. The fair value of these instruments amounted to EUR 1.1 million (none) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss. The hedge gave rise to a change in equity from hedging instruments recognised directly in equity in an amount of EUR 1.1 million.

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

Maturity structure of derivative financial instruments **N 82**

in EUR thousand	2014				
	Less than three months	Three months to one year	One to five years	Five to ten years	Total
Interest rate hedges					
Fair values	(90)	–	(3,861)	469	(3,482)
Notional values	15,269	–	156,817	36,199	208,285
Currency hedges					
Fair values	(340)	(13,124)	(2,634)	–	(16,098)
Notional values	2,332	758,336	26,860	–	787,528
Inflation hedges					
Fair values	–	(36,263)	(27,325)	–	(63,588)
Notional values	–	1,568,881	322,131	–	1,891,012
Share price hedges					
Fair values	1,066	–	–	–	1,066
Notional values	17,344	–	–	–	17,344
Total hedging instruments					
Fair values	636	(49,387)	(33,820)	469	(82,102)
Notional values	34,945	2,327,217	505,808	36,199	2,904,169

Maturity structure of derivative financial instruments N 83

in EUR thousand	2013				
	Less than three months	Three months to one year	One to five years	Five to ten years	Total
Interest rate hedges					
Fair values	–	–	(2,629)	1,234	(1,395)
Notional values	–	–	136,164	31,963	168,127
Currency hedges					
Fair values	(370)	15,358	(3,722)	(104)	11,162
Notional values	1,491	362,946	20,061	927	385,425
Inflation hedges					
Fair values	–	(1,034)	(19,151)	(12,527)	(32,712)
Notional values	–	1,033,794	1,437,956	296,138	2,767,888
Total hedging instruments					
Fair values	(370)	14,324	(25,502)	(11,397)	(22,945)
Notional values	1,491	1,396,740	1,594,181	329,028	3,321,440

The net changes in the fair value of these instruments resulted in a charge of EUR 32.9 million to the result of the financial year (EUR 33.1 million).

Hannover Re enters into derivative transactions on the basis of standardised master agreements that contain master netting agreements. The netting agreements set out below normally do not meet the criteria for netting in the balance sheet, since Hannover Re has no legal right whatsoever at the present moment in time to netting of the recognised amounts. The right to netting can, as a matter of principle, only be enforced upon occurrence of certain future defined events. Collateral furnished or received is recognised per counterparty up to at most the amount of the respective net liability or net asset.

Netting agreements N 84

in EUR thousand	2014				
	Fair value	Netting agreement	Cash collateral received/furnished	Other collateral received/furnished	Net amount
Derivative receivables	13,899	2,307	10,140	–	1,452
Derivative liabilities	94,188	2,307	–	77,636	14,245

Netting agreements N 85

in EUR thousand	2013				
	Fair value	Netting agreement	Cash collateral received/furnished	Other collateral received/furnished	Net amount
Derivative receivables	18,031	4,349	3,472	10,210	–
Derivative liabilities	39,312	4,349	–	26,454	8,509

Derivative financial instruments in connection with reinsurance

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

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

Hannover Re calculates the fair values of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a positive value of EUR 44.8 million (EUR 45.3 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss.

In the course of the year the change in the fair value of the derivative gave rise to a charge against investment income of EUR 6.8 million before tax (increase in investment income of EUR 7.4 million).

A number of transactions concluded in the life and health reinsurance business group in the previous year, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables recognised under other assets were to be carried in the same amount. Please see Section 6.6 "Other assets". The fair value of these instruments on the balance sheet date was EUR 136.5 million (EUR 68.8 million), which was recognised under other liabilities. The change in value in subsequent periods is dependent upon the risk experience and led to an improvement of EUR 6.3 million (EUR 1.0 million) in investment income in the financial year.

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 5.7 million (EUR 6.5 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 0.8 million (EUR 1.1 million) as at 31 December 2014.

All in all, application of the standards governing the accounting for derivatives in connection with the technical account led to recognition of assets totalling EUR 51.4 million (EUR 52.1 million) as well as recognition of liabilities in an amount of EUR 142.2 million (EUR 78.0 million) from the derivatives resulting from technical items as at the balance sheet date. Increases in investment income amounting to EUR 11.4 million (EUR 8.5 million) as well as charges to income of EUR 7.5 million (EUR 4.4 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,079.4 million (EUR 1,372.2 million); an amount equivalent to EUR 1,887.0 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 the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

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

8.2 Related party disclosures

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

Talanx AG directly and indirectly holds an unchanged majority interest of altogether 50.22% in Hannover Rück SE. For its part, HDI-Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Riethorst 2, 30659 Hannover (HDI) holds a stake of 79.0% in Talanx AG and therefore indirectly holds 39.7% (rounded) of the voting rights in Hannover Rück SE.

In the previous year the responsible bodies of Hannover Rück SE and E+S Rückversicherung AG decided to reorganise the business relationship between the two companies under the cooperation agreement with effect from 1 January 2014. In property and casualty reinsurance 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 of Hannover Rück SE for international markets have been preserved.

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

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

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions. For the year under review and the previous year these business relations can be broken down as follows:

Business assumed and ceded in Germany and abroad N 86

in EUR thousand	2014		2013	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Property and casualty reinsurance	462,040	27,104	508,628	33,646
Life and health reinsurance	156,206	27,905	184,373	26,079
	618,246	**55,009**	**693,001**	**59,725**
Business ceded				
Property and casualty reinsurance	(11,713)	(8,993)	(15,830)	(6,950)
Life and health reinsurance	(44,478)	(8,503)	(53,127)	(8,579)
	(56,191)	**(17,496)**	**(68,957)**	**(15,529)**
Total	562,055	37,513	624,044	44,196

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

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

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

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

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

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2014 to Talanx Service AG, Hannover. In addition, lease agreements exist with Talanx Service AG for use of a portion of the space in our data-processing computer centre.

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

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

Talanx AG performs various services in the area of taxes for a number of investment vehicles of the Hannover Re Group in the asset classes of private equity and real estate. In this regard corresponding agreements were concluded with altogether 13 Hannover Re companies in the financial year just ended.

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

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

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 8.2 million (EUR 7.2 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 0.2 million (EUR 0.4 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 16 (14) pension commitments existed, totalled EUR 1.5 million (EUR 1.4 million) in the year under review; altogether, a provision of EUR 28.8 million (EUR 21.4 million) has been set aside for these commitments.

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

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

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

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 105 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2014 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

8.3 Share-based payment

In the 2014 financial year the following share-based payment plans with cash settlement existed within the Hannover Re Group:

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

Stock Appreciation Rights Plan

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

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

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

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

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

The amount paid out is limited to a maximum calculated as a quotient of the total volume of compensation to be granted in the allocation year and the total number of stock appreciation rights awarded in the year in question.

In the event of cancellation or termination of the employment relationship as a consequence of a termination agreement or a set time limit, a holder of stock appreciation rights is entitled to exercise all such rights in the first exercise period thereafter. Stock appreciation rights not exercised in this period and those in respect of which the waiting period has not yet expired shall lapse. Retirement, disability or death of the member of management shall not be deemed to be termination of the employment relationship for the purpose of exercising stock appreciation rights.

The allocations for the years 2006, 2007 and 2009 to 2011 gave rise to commitments in the 2014 financial year shown in the following table. No allocations were made for 2005 or 2008.

Stock appreciation rights of Hannover Rück SE N 87

	Allocation year					
	2011	2010	2009	2007	2006	2004
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	40.87	33.05	22.70	34.97	30.89	27.49
Participants in year of issue	143	129	137	110	106	109
Number of rights granted	263,515	1,681,205	1,569,855	926,565	817,788	211,171
Fair value at 31 December 2014 (in EUR)	26.80	8.92	8.76	10.79	10.32	24.62
Maximum value (in EUR)	32.21	8.92	8.76	10.79	10.32	24.62
Weighted exercise price	–	–	8.76	10.79	10.32	24.62
Number of rights existing at 31 December 2014	256,402	1,625,130	345,690	25,161	4,831	–
Provisions at 31 December 2014 (in EUR million)	4.43	12.76	3.03	0.27	0.05	–
Amounts paid out in the 2014 financial year (in EUR million)	–	–	2.55	0.25	0.04	–
Expense in the 2014 financial year (in EUR million)	2.31	4.95	0.56	–	–	–

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

The calculations were based on the price of the Hannover Re share of EUR 71.89 as at the reference date of 15 December 2014, expected volatility of 24.12% (historical volatility on a five-year basis), an expected dividend yield of 4.17% and risk-free interest rates of 0.05% for the 2006 allocation year, 0.04% for the 2007 allocation year, 0.09% for the 2009 allocation year, 0.20% for the 2010 allocation year and 0.32% for the 2011 allocation year.

In the 2014 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2004, 2006 and 2007 and for 80% of those awarded in 2009.

3,438 stock appreciation rights from the 2006 allocation year, 23,179 stock appreciation rights from the 2007 allocation year and 290,797 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out stood at EUR 2.84 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 20.5 million for the 2014 financial year (EUR 16.3 million). The expense totalled altogether EUR 7.8 million (EUR 5.2 million).

Share Award Plan

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

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

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

Share awards are granted separately for the first time for the 2011 financial year and then for each financial year (allocation year) thereafter.

The total number of share awards granted is based on the value per share of Hannover Rück SE. The value per share is established according to the unweighted arithmetic mean of the Xetra closing prices of the Hannover Re share. In the conditions applicable to members of the Executive Board a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended is envisaged for the calculation. For managers a period of twenty trading days before to ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statement for the financial year just-ended has been agreed. The total number of share awards granted is established by dividing the amount available for the granting of share awards to the respective eligible recipients by the value per share, rounded up to the next full share. For members of the Executive Board 20% and for managers 40% or 35% – according to management levels – of the defined variable remuneration shall be granted in the form of share awards.

The share awards are granted automatically without any requirement for a declaration. Following expiry of a vesting period of four years the value of one Hannover Re share calculated at the disbursement date is paid out for each share award. This value is calculated according to the provisions of the preceding paragraph.

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

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

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

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

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

Share awards of Hannover Rück SE N 88

	Allocation year						
	2014	2013		2012		2011	
	Probable allocation	Final allocation in 2014 for 2013	Probable allocation	Final allocation in 2013 for 2012	Probable allocation	Final allocation in 2012 for 2011	Probable allocation
Valuation date	30.12.2014	25.3.2014	30.12.2013	21.3.2013	28.12.2012	21.3.2012	30.12.2011
Value per share award in EUR	74.97	61.38	62.38	59.86	58.96	42.09	38.33
Number of allocated share awards in the allocation year							
Executive Board	13,308	16,631	14,418	16,452	16,053	22,232	24,390
Managers	85,159	99,783	91,660	102,900	100,531	–	–
Other adjustments	–	(517)	–	(1,421)	–	–	–
Total	**98,467**	**115,897**	**106,078**	**117,931**	**116,584**	**22,232**	**24,390**
Personnel expense in EUR thousand [1]	1,534	2,364	1,379	2,549	1,839	529	269
thereof: Recognised dividend in EUR thousand [2]	–	297.8	–	403.7	–	66.7	–
Provision in EUR thousand	1,534	3,790	1,379	5,830	1,839	1,512	269

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

2 Dividend distributed for the allocation year, no allowance is made for expected dividend payments; dividend claims are recognised in the discounted amounts.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 12.7 million for the 2014 financial year (EUR 5.7 million). The expense totalled altogether EUR 7.0 million (EUR 3.2 million).

8.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,475 (2,376). As at the balance sheet date altogether 2,534 (2,419) staff were employed by the Hannover Re Group, with 1,289 (1,219) employed in Germany and 1,245 (1,200) working for the consolidated Group companies abroad.

Personnel information N 89

	2014					2013	
	31.3.	30.6.	30.9.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,442	2,468	2,510	2,534	2,475	2,419	2,376

Nationality of employees in 2014 N 90

	German	USA	UK	South African	Australian	Swedish	Irish	Other	Total
Number of employees	1,198	289	213	154	94	91	44	451	2,534

Expenditures on personnel

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

Personnel expenditures **N 91**

in EUR thousand	2014	2013
a) Wages and salaries	224,659	203,056
	224,659	**203,056**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	21,290	18,481
bb) Expenditures for pension provision	22,816	22,748
bc) Expenditures for assistance	4,616	3,711
	48,722	**44,940**
Total	**273,381**	**247,996**

8.5 Earnings per share and dividend proposal

Calculation of the earnings per share **N 92**

	2014	2013
Group net income in EUR thousand	985,649	895,467
Weighted average of issued shares	120,596,954	120,596,978
Basic earnings per share in EUR	8.17	7.43
Diluted earnings per share in EUR	8.17	7.43

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

Neither in the year under review nor in the previous reporting period were there any dilutive effects.

The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees. 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 6.13 "Shareholders' equity and treasury shares".

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

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

Dividend per share

A dividend of EUR 361.8 million (EUR 361.8 million) was paid in the year under review for the 2013 financial year.

It will be proposed to the Annual General Meeting on 6 May 2015 that a dividend of EUR 3.00 per share as well as a special dividend of EUR 1.25 per share should be paid for the 2014 financial year. This corresponds to a total distribution of EUR 512.5 million. The dividend proposal does not form part of this consolidated financial statement.

8.6 Lawsuits

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

Neither the outcome nor the duration of pending procedures can be definitively foreseen at the time when provisions are established. The final liabilities of Hannover Re may diverge considerably from the constituted provisions because the assessment of probability and the quantification of these uncertain liabilities in large measure require estimates that may prove not to be accurate as the proceedings in question continue to progress. This is also true of procedures for which no provisions were established. Insofar as a commitment exists under such procedures as at the balance sheet date that may possibly but will probably not result in a loss, the Hannover Re Group estimates this potential loss – where practicable – and reports a contingent liability. For estimation purposes Hannover Re takes into account a number of factors. These include, among others, the nature of the claim, the status of the procedure concerned, decision of courts and arbitration bodies, prior settlement discussions, experience from comparable cases as well as expert opinions and the assessments of legal advisers and other experts. If a provision has been established for a particular procedure, a contingent liability is not recognised.

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

8.7 Contingent liabilities and commitments

Hannover Rück SE has secured by subordinated guarantee the subordinated debts issued by Hannover Finance (Luxembourg) S.A. in the 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 3,173.7 million (EUR 2,748.1 million) and EUR 24.4 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 650.0 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 2,694.0 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 2,899.1 million (EUR 2,895.1 million). The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position" section of the management report, page 59 et seq., on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 6.12 "Debt and subordinated capital" on other financial facilities.

In addition, we put up own investments with a book value of EUR 78.9 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 12.9 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 574.3 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 665.6 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 Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which Hannover Rück SE guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

8.8 Long-term commitments

Several Group companies are members of the association for the reinsurance of pharmaceutical risks and the association for the insurance of German nuclear reactors. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member's share within the framework of the quota participation.

8.9 Rents and leasing

Leased property

Future leasing commitments N 93

in EUR thousand	Payments
2015	10,690
2016	9,638
2017	5,442
2018	4,478
2019	3,871
Subsequent years	7,149

Operating leasing contracts produced expenditures of EUR 9.3 million (EUR 8.5 million) in the year under review.

Rented property

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

Rental income N 94

in EUR thousand	Payments to be received
2015	71,260
2016	69,052
2017	62,561
2018	56,698
2019	57,482
Subsequent years	80,769

Rental income totalled EUR 76.2 million (EUR 58.7 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

8.10 Fee paid to the auditor

An expense of altogether EUR 3.7 million (EUR 3.5 million) was incurred in the year under review for the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). Of this total amount, EUR 1.4 million (EUR 1.3 million) was attributable to the fee for auditing services in relation to the financial statement, EUR 0.4 million (EUR 0.6 million) to other assurance services, EUR 0.5 million (EUR 0.2 million) to tax consultancy services and EUR 1.4 million (EUR 1.4 million) to other services.

Hannover, 6 March 2015

Executive Board

Wallin Althoff Chèvre Gräber

Dr. Miller Dr. Pickel Vogel

Auditors' report

We have audited the consolidated financial statements prepared by Hannover Rück SE, Hannover – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – as well as the combined management report of the company and the Group for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The combined management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 6 March 2015

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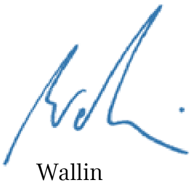
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Hannover, 6 March 2015

Executive Board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Gräber


Dr. Miller


Dr. Pickel


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