Combined management report

Foundations of the Group

Business model

- As the third-largest reinsurer in the world, we transact all lines of property & casualty and life & health reinsurance with the goal of achieving the most balanced possible regional and line-based diversification
- Competitive advantages due to our low cost of capital and administrative expense ratio
- Financial strength secured through rigorous risk management

With a gross premium volume of around EUR 14.0 billion, Hannover Re is the third-largest reinsurer in the world. We transact reinsurance in our Property & Casualty and Life & Health business groups.

The business models in both property & casualty and life & health reinsurance support our Group's paramount mission, namely: "Long-term success in a competitive business". Our entire business operations are geared to our goal of being the best option for our business partners when they come to choose their reinsurance provider. It is for this reason that our clients and their concerns form the focus of our activities.

We generate competitive advantages to the benefit of our clients and shareholders by conducting our insurance business with lower capital costs and administrative expenses than our rivals. In this way we deliver above-average profitability while at the same time being able to offer our customers reinsurance protection on competitive terms.

Through the acceptance of largely uncorrelated reinsurance risks by our Property & Casualty and Life & Health business groups in all lines of business and based on our global presence, we are able to achieve efficient risk diversification. In conjunction with our capital management, this is the key to our comparatively low cost of capital.

With a view to securing our financial strength on a lasting basis, we steer our business with an eye to preserving a capital base that is commensurate with the long-term nature of our business opportunities. This goal is achieved through rigorous risk management aligned with our clearly defined risk appetite.

As a reinsurance specialist, we transact primary insurance in selected market niches as a complement to our reinsurance activities. In this context, we always work together with partners from the primary insurance sector.

Our subsidiary E+S Rückversicherung AG, as the "dedicated reinsurer for the German market", offers a range of products and services tailored to the specific features of the German market. Of special importance here are the mutual insurers with whom we have established a particularly trusting cooperation that is underscored through their participation in E+S Rück.

In property and casualty reinsurance we consider ourselves to be a reliable, flexible and innovative market player that ranks among the best in any given market. Cost leadership, effective cycle management and superlative risk management are the key elements of our competitive position.

In life and health reinsurance we are recognised – as customer surveys confirm – as one of the top players and the leading provider of innovative solutions. We have achieved this standing by opening up new markets and by fulfilling future customer requirements through the identification and forecasting of emerging trends.

Management system

Value-based management

Our integrated system of enterprise management is central to the accomplishment of our strategic objectives. Located at its core are, first and foremost, our profit and growth targets, which are summarised for the Group and its business groups in the so-called target matrix. In addition to traditional performance indicators geared to the IFRS balance sheet, our system of strategic targets also includes economic targets derived from our internal capital model. The targets are regularly analysed and adjusted as necessary, for example in the context of the strategy review for the 2015–2017 cycle. Our focus is on long-term strategic target attainment.

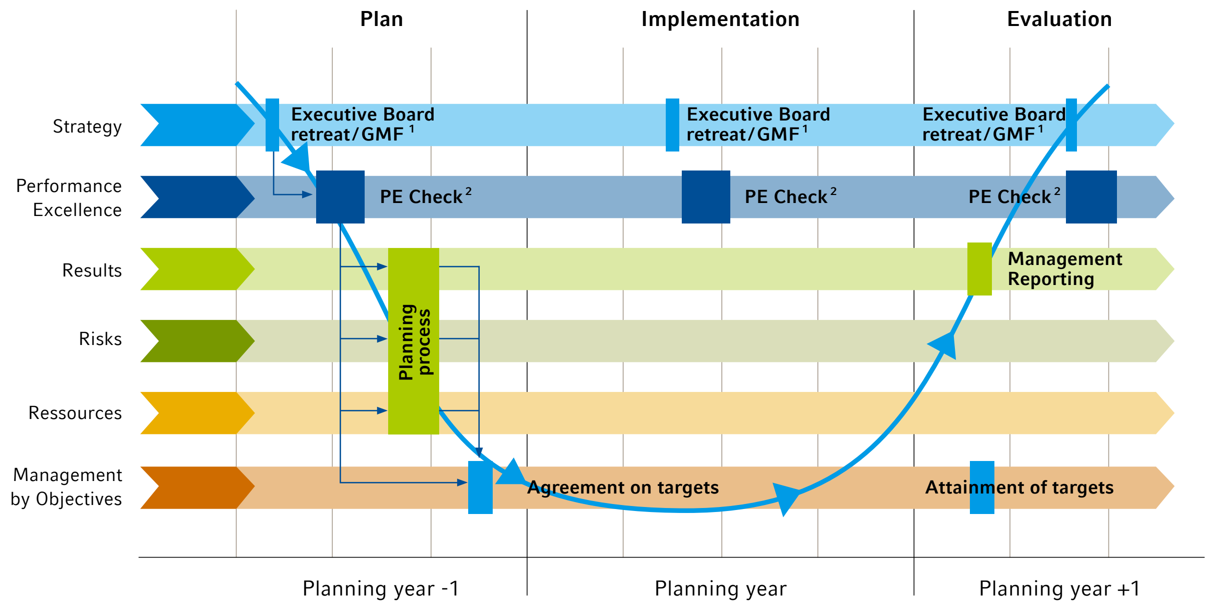
Target attainment **M 01**

Business group	Key data	Targets for 2014	Target attainment			
			2014	2013	2012[1]	Ø 2012–2014[2]
Group	Investment return[3]	≥ 3.2%	3.3%	3.4%	4.1%	3.6%
	Return on equity[4]	≥ 9.2%	14.7%	15.0%	15.4%	15.0%
	Growth in earnings per share (year-on-year comparison)	≥ 10%	10.1%	5.4%	40.2%	17.6%
	Value creation per share[5]	≥ 10%	34.4%	3.6%	26.4%	19.7%
Property & Casualty reinsurance	Gross premium growth[6]	3–5%	1.2%	3.5%	9.3%	4.6%
	Combined ratio	≤ 96%[7]	94.7%	94.9%	95.8%	95.1%
	EBIT margin[8]	≥ 10%	17.0%	15.5%	15.9%	16.1%
	xRoCA[9]	≥ 2%	10.7%	4.7%	6.0%	7.2%
Life & Health reinsurance	Gross premium growth[10]	5–7%	4.9%	5.1%	9.8%	6.6%
	Value of New Business (VNB) growth	≥ EUR 180 million	EUR 448 million	EUR 309 million	EUR 314 million	EUR 357 million
	EBIT margin[8, 11] Financial Solutions/Longevity	≥ 2%	5.0%	5.2%	5.0%	5.1%
	EBIT margin[8, 11] Mortality/Morbidity	≥ 6%	4.8%	1.2%	5.2%	3.8%
	xRoCA[9]	≥ 3%	7.5%	8.4%	-1.3%	5.0%

1 Adjusted pursuant to IAS 8
2 Average annual growth, otherwise weighted averages
3 Excluding effects from ModCo derivatives and inflation swaps
4 After tax; target value: 750 basis points above the 5-year average return on 10-year German government bonds
5 Growth in book value per share including dividends paid
6 Average over the reinsurance cycle at constant exchange rates
7 Including major loss budget of EUR 670 million
8 EBIT/net premium earned
9 Excess return on allocated economic capital
10 Organic growth only; annual average growth (5 years); at constant exchange rates
11 Reclassification of treaties

In Performance Excellence (PE) we have at our disposal a consistent method Group-wide that enables us to steer the development of the company and measure the extent to which we have achieved our strategic objectives. The decentralised approach used by PE is of special importance in this context: every single organisational unit defines and continuously examines its contributions to execution of the Hannover Re Group strategy and develops improvement initiatives.

System of value-based management:
Performance Excellence (PE) combines the strategic and operational levels — **M 02**



[1] The Global Management Forum (GMF) brings together senior managers of the Hannover Re Group from around the world for the purpose of defining strategic orientations.
[2] Verification and elaboration of contributions to the Group strategy

Planning process

The planning process spans the three levels of Results, Risks and Resources, which are closely interrelated. These three levels are planned by the responsible officers with central support and are reviewed and approved by the Executive Board. On the basis of the corporate strategy and the corresponding strategy contributions of all treaty/regional departments and service units, the planning is adopted by the Executive Board and subsequently communicated within the Group.

Management by Objectives

The targets that emerge out of the planning process are integrated into the individual agreements on objectives with managers. When it comes to the definition of objectives, the participants take into account not only standardised financial indicators but also non-financial variables derived from the strategic parameters.

Management Reporting

The annual Management Reporting presents in detail the degree of target attainment for each individual treaty/regional department and service unit as well as for the two business groups of Property & Casualty and Life & Health and for the Group as a whole. On this basis appropriate performance controlling is carried out, potential scope for improvement and refinement is identified and performance-oriented remuneration components defined in the context of Management by Objectives are established.

Capital allocation

The basis of value-based management is the risk-appropriate allocation of capital to the individual business activities. This enables us to evaluate the acceptance of underwriting risks and investment risks both in light of individual risk/return aspects and against the backdrop of our overall risk appetite. Our economic capital model supplies the key parameters for this purpose. In addition, along with considerations of business policy, outside influencing factors such as the requirements of regulatory authorities and rating agencies also play a major role in the allocation of capital. Allowance is therefore made for them in the form of collateral conditions on the various allocation levels. Starting out from the Group's overall risk situation, capital is first allocated to the functional areas of underwriting and investments. We then further divide the capital within the underwriting sector, first between the business segments of property/casualty reinsurance and life/health reinsurance and then between the various reinsurance products and according to risk categories/treaty types and lines. In this way, we ensure that our profit targets including risk, cost and return considerations are consistently factored into the evaluation and pricing of our various reinsurance products.

IVC – the decisive management ratio

In order to fine-tune the portfolios and individual treaties we apply underwriting-year-oriented measurement principles based on expected cash flows that appropriately accommodate the specific characteristics of property/casualty and life/health reinsurance. The accomplishment of targets in a particular financial year is also of interest – especially from the standpoint of shareholders. Based on our economic capital model, the foundation of our enterprise management, we strive to generate a profit in excess of the cost of capital. This return – which is the decisive ratio for the management of our business activities – is referred to as Intrinsic Value Creation (IVC).

With the aid of the IVC ratio it is possible to compare the value contributions of the Group as a whole, its two business groups and the individual operational units. This enables us to reliably identify value creators and value destroyers. In this way, we can

- optimise the allocation of capital and resources,
- identify opportunities and risks and
- measure strategy contributions with an eye to our demanding profit and growth targets.

The IVC (Intrinsic Value Creation) is calculated according to the following formula:
Adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital) = IVC

The adjusted operating profit (EBIT) is comprised of two factors: the IFRS Group net income recognised after tax and the change in the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet. By way of the latter we make allowance for changes in the fair values of assets not recognised in income under IFRS, discount effects of the loss reserves and the Embedded Value Not Recognised (EVNR) in life/health reinsurance. In addition, interest on hybrid capital already recognised in the IFRS Group net income and the non-controlling interest in profit and loss are included back in the calculation.

Intrinsic Value Creation and excess return on capital allocated **M 03**

in EUR million	2014		2013			
	IVC	xRoCA	Reported IVC	Adjustment [1]	Final IVC	xRoCA
Property and casualty reinsurance	616.2	10.7%	295.5	(39.8)	255.7	4.7%
Life and health reinsurance	175.7	7.5%	226.6	2.0	228.6	8.4%
Investments [2]	615.5	26.2%	108.6	(10.5)	98.1	5.6%
Group	**1,401.5**	**12.0%**	**617.1**	**(48.2)**	**568.9**	**5.4%**

1 Adjustment based on amended allocation of economic effects (property and casualty reinsurance/investments) and final MCEV calculation (life and health reinsurance)

2 Income above risk-free after deduction of risk-appropriate cost of capital

The allocated capital consists of three components: the IFRS shareholders' equity including non-controlling interests, the balancing items for differences between economic valuations and amounts stated in the IFRS balance sheet and the hybrid capital. In this context, capital that is not at risk (excess capital) is disregarded, i. e. it is not broken down into business activities. Capital is allocated to the profit centres as described above according to the risk content of the business in question. A systematic distinction is made here between the assumption of underwriting risks, on the one hand, and investment risks, on the other. Under the IVC calculation, therefore, only risk-free interest income on the generated cash flows is allocated to the business segments of property/casualty and life/health reinsurance. The investment income above and beyond risk-free is allocated in its entirety to the functional area of investments and included in the IVC after deduction of the risk-appropriate cost of capital and the administrative expenses.

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our new strategic return on equity target of 900 basis points above risk-free – which comes into effect from 2015 onwards – thus already contains a substantial target value creation. We allocate equity sparingly and use equity substitutes to optimise our average cost of capital. At 5.6%, our average cost of capital is comparatively low.

Since comparison of absolute amounts is not always meaningful, we have introduced the xRoCA (excess return on capital allocated) in addition to the IVC. This describes the IVC in relation to the allocated capital and shows us the relative excess return generated above and beyond the weighted cost of capital.

Operational management system

A number of IFRS-based financial performance indicators are also embedded in our strategic system of targets and coordinated with our parameters for value creation derived from the economic capital model. We use these indicators for operational management within the year, in part because they are available promptly and also because they already provide initial pointers as to whether we are likely to achieve our higher-order strategic objectives. These are for both business groups the growth in gross premium, for property and casualty reinsurance the combined ratio, for life and health reinsurance the EBIT margin and for the Group as a whole the return on investment. Non-financial performance indicators, on the other hand, are not used for operational management within the year.

Research and development

As a reinsurer, Hannover Re does not have its own R&D department but it does develop products and solutions for its own benefit and that of its clients as part of day-to-day business operations. By way of example, our move to give capital market players direct access to insurance risks as far back as the mid-1990s through our "K" transactions puts us among the industry pioneers. The intervening years have seen the evolution of a market for so-called insurance-linked securities, which is one of the fastest growing markets in the insurance sector. Another example of Hannover Re's development activities is the creation of its own internal model for risk management under Solvency II that caters to the requirements of various stakeholders (regulators, rating agencies, capital providers). Not only that, through our active involvement and the provision of financial assistance we support scientific initiatives geared to developing products, solutions or markets that will be crucial success factors going forward in the viability of any reinsurance undertaking.

Reinsurance business is founded on the comprehensive understanding and active management of risks. Our specialists therefore continuously analyse known risks with an eye to changes in their structure and probability of occurrence, while at the same time focusing on the early detection of newly emerging risks and working to provide our clients with appropriate solutions tailored to their needs (cf. here also the Opportunity report on page 98 et seq.).

Above and beyond this, Hannover Re makes systematic efforts to identify new business opportunities in order to achieve sustainable growth and strengthen the profitable development of the company. The goal is to generate new business and thereby support Hannover Re's profitable growth on a lasting basis. For further details please see the Opportunity report on page 98 et seq.

Eduardo Llorente Aguilera is a Senior Underwriter with Hannover Re working in the area of "Personal Accident, Sports and Entertainment/Contingency"

Sport and entertainment

Sport has grown into an important economic factor, as evidenced by the rising number of investors buying up football clubs from the richest leagues. Yet business success is dependent not only on sporting success but also on good risk management, especially when it comes to major events faced with the possibility of cancellation or relocation due to terrorist attacks, severe weather, boycotts, political unrest etc.

Hannover Re offers insurance solutions designed to minimise the uncertainties associated with risks, for example, in connection with the accident-related absence of sporting figures or the loss of income or profits due to weather events or other natural disasters.

Top-flight football clubs increasingly have a vested interest in protecting their balance sheets by taking out coverage for their human capital so as to be compensated for the equivalent value if one of their players is incapacitated due to accident or illness.

Karin Fröhling is a General Manager with responsibility for the longevity business written by Hannover Re worldwide

Regular premium annuity treaty

Retirement related liabilities substantially increased during the last years due to improved life expectancy and current low interest rates. For corporations offering occupational pensions and pension funds this is problematic as the uncertainty about future liabilities makes mergers and acquisitions difficult. In addition, corporations are frequently pressurised from shareholders to focus on their core business. Therefore, they are looking for a way to reduce their longevity risk. Hannover Re offers a solution that conserves the company’s liquidity position while providing planning reliability about future liabilities: the regular premium annuity treaty. Hannover Re considers the diversification for its portfolio to be beneficial and is therefore able to offer competitive conditions to its clients for longevity transactions.

Report on economic position

Macroeconomic climate and industry-specific environment

- Global economy shows patchy growth; deflation concerns in Europe
- Sustained low interest rates remain a challenge for insurers
- Solvency II Directive set for Europe-wide implementation in 2016
- Modest losses from natural disasters

Macroeconomic climate

The global economy grew by 3.4% in 2014, a figure slightly higher than in the previous year (3.2%). From a medium-term perspective this represents a moderate growth rate. Within the year, however, the development of the world's economy can be split into two phases: after only a very restrained increase in output during the first six months of the year, it picked up sharply in the second half. Global trade also moved in step with output.

In advanced economies and economic regions the cyclical trend also varied rather widely: positive signals came out of the United States and United Kingdom. Thanks to the considerably brighter state of their labour markets, the expansionary trend in both countries gathered appreciable momentum. In the Eurozone, on the other hand, business activity picked up only marginally – after the economic recovery had actually ground to a complete halt in the spring – because there was no significant improvement in the basic framework conditions. Japan even slipped back into recession, although this is likely to be merely temporary.

Economic developments in emerging markets gave more grounds for satisfaction in 2014, although the underlying tendency remains muted. China and India saw the onset of a low-level revival during the course of the year. This was also true of Latin America, where Brazil turned the corner after sinking to an economic low point. While Russia did not experience the anticipated decline in total economic output thanks to a record grain harvest, the political crisis in relation to Ukraine cast an increasingly dark shadow over its investment climate.

United States

The US economy was able to put its upward trend on a stable footing: gross domestic product (GDP) recorded a growth rate of 2.2%, just as in the previous year. The economy in the US thus expanded more vigorously than virtually any other industrialised nation. Exports picked up, but other sectors of the economy also showed impressive gains. Along with increased investment by companies and higher consumer spending, the state also played its part in growth – boosting arms spending, for example, to an extent not seen for years. Gainful employment continued to rise on the labour market, causing the jobless rate to fall to its lowest level in a long time in October at 5.8%.

Europe

While the Eurozone economy recovered in 2014, it remained weak overall. After the decline of the previous year (-0.4%), modest growth of 0.8% was recorded in 2014. Two key factors in the persistently unsatisfactory development of the economy were the protracted sluggish growth in Italy (-0.4%) and the fact that Germany's uptick came very late in the year. In France, too, economic output climbed only marginally (+0.4%). In crisis-ridden Greece the recovery was sustained (+1.0%) and in Spain, too, the economy began to rally (+1.3%). The European labour market continued to stabilise, although unemployment was still high at 11.6% and the disparities between individual countries were in some cases considerable. The rise in consumer prices was again smaller than in the previous year at just 0.5%.

Growth in Europe was supported by further monetary policy measures taken by the European Central Bank (ECB) in June and September of 2014 as well as by the sharp drop in the price of oil towards year-end.

Germany

Buoyed by the mild winter weather, the economy in Germany got off to a good start in 2014. However, the investment climate soon began to cool appreciably during the spring. It was not until the end of the year that signs of a recovery began to emerge again. For the year as a whole gross domestic product grew by 1.5%. Private consumption was a major driver of the upswing, with low interest rates and modest energy prices further helping to boost consumption. The overall economic development was also helped by foreign trade: exports grew more strongly than imports during the six summer months. All in all, though, it was the domestic economy that remained the most significant growth engine. The recovery on the labour market was sustained over the year as a whole, with the working population reaching a record level of 43.1 million in November (+1.0%).

Prices in Germany continued to trend higher in 2014, although low energy costs put a significant brake on inflation. Consumer prices rose by 1.0%. On the domestic producer side prices for intermediate, capital and consumer goods moved higher, while the upsurge in the cost of construction work was sustained. The increase in residential property prices was comparatively moderate.

Asia

After showing marked weakness in the first half of 2014, production rallied in most major emerging economies in the second half of the year. In China the recovery had already set in during the spring, although the full-year growth figure of 7.4% was moderate by that country's standards. What is more, it was assisted by temporary economic policy stimuli. On the market side the Chinese economy benefited from particularly lively foreign demand; it came under strain, on the other hand, from the downturn on the property market. This depressed prices for residential accommodation and curtailed the impetus for higher consumer prices.

India extended its growth rate year-on-year to 5.9%, although the pace of the increase in industrial output was already slowing towards year-end.

In Japan the hike in value-added tax in the spring prompted a steep drop in demand among consumers, which dissipated only hesitantly as the year progressed. Business activity was also noticeably depressed, slumping particularly sharply in the second quarter of 2014. This prompted the central bank to resort once more to monetary policy measures. By year-end the signs were again pointing towards recovery. All in all, growth came in at 0.2% for 2014.

Capital markets

The lingering effects of the Euro debt crisis on capital markets were merely indirect in 2014. Markets were considerably more influenced, especially towards year-end in the Eurozone, by concerns among market players that deflation might take hold. The expansionary monetary policy pursued by central banks in our main currency areas (euro and US dollar) was therefore maintained. The European Central Bank (ECB) trimmed the main interest rate for Euroland twice in the course of the year from 0.25% to the current level of 0.05%, while the US Federal Reserve left key interest rates unchanged in the low range of 0.00% to 0.25% – where they have been since 2008. It should, however, be noted that the Federal Reserve discontinued its supportive purchases on the US bond market in the fourth quarter, whereas the ECB put just such a bond-buying programme on the table at year-end for the Euro government bond market. Over the year as a whole German and UK government bonds saw sometimes marked declines in yields across all maturities. The yield on ten-year German government bonds, for example, retreated from 1.9% to 0.5% in the course of the year. These declines were facilitated by the anticipation of impending active market intervention by the ECB as well as by considerable liquidity in the markets and the search for safe investment opportunities. In the case of US Treasuries, isolated modest yield rises could be observed only in the short- to medium-term maturity segments; here too, however, longer maturities saw yields drop. The return on ten-year US Treasuries, for example, fell from 3.0% to 2.2% over the course of the year. This decline can be attributed primarily to muted inflation expectations. As for the European nations with higher risk premiums that have been the focus of so much attention in recent years, the picture was largely one of recovery. Greek government bonds reflected emerging uncertainties at the end of the year about the country's future economic policy with rising yields. Risk premiums on investment grade corporate bonds in our main currency areas decreased somewhat as the year progressed. The picture in the sub-Investment grade segment was a mixed one. The declines in yields that ultimately ensued were fuelled principally by the interest rate component.

Major equity markets moved higher in the course of the year, in some cases soaring to new record highs, although only the US market was able to book appreciable price gains over the year as whole. In contrast, European indices were, if anything, left treading water year-on-year. Here, too, markets were influenced by the continued expansionary monetary policy pursued by central banks and by the quest among investors for high-return investments. Ultimately, though, the elevated price levels could only partially be explained by the underlying fundamentals. The development of the world's economy continues to be subject to a broad range of uncertainties and risks. Most notably, the global patchwork of differing economic developments and local flashpoints such as in Ukraine may be mentioned as causal factors here. These disparities are being further exacerbated by the precipitous fall in the price of oil, which has a beneficial economic effect on countries with a large appetite for energy but jeopardises the budgets of oil-producing nations.

The euro dropped sharply year-on-year against the US dollar from USD 1.38 to USD 1.22. It similarly depreciated considerably against the pound sterling as well as the Australian and Canadian dollar, especially in the second half of the year. This can be attributed in large measure to the prevailing low level of returns offered by the euro area, but also reflects the minimal expectations as to a recovery any time soon.

For more detailed remarks on the development of Hannover Re's investments please see the "Investments" section on page 52 et seq.

Industry-specific environment

The tense economic climate and the associated economic policy measures still in place in some areas again shaped the landscape for the international insurance industry in 2014: faced with protracted low interest rates, particularly great importance attaches to preserving the value of investments and the stability of returns.

The interest rate situation continued to be reflected in the technical pricing of premiums on primary and reinsurance markets. Discipline was once again the order of the day in 2014 so as to offset further declines in investment income.

With investors searching for higher-return investments, the market for insurance-linked securities (ILS) once again attracted very substantial (re)insurance capacity: additional alternative capital here came up against an unchanged level of demand. Pressure on prices and conditions consequently intensified still further, especially in natural catastrophe business.

In addition, (re)insurers were heavily preoccupied in the year under review with the impending implementation of the Solvency II Directive – which is now planned for 2016. Most significantly, the preparations for the new requirements presented companies with considerable challenges: in 2014, for example, a stress test was conducted under Solvency II conditions by the European regulator EIOPA (European Insurance and Occupational Pensions Authority) – supported inter alia by Germany's Federal Financial Supervisory Authority (BaFin) – as a form of dress rehearsal for insurance undertakings. The participants on the German side included property/casualty as well as life and health insurers. It was evident from the test that the reinsurance industry, in particular, meets and in some cases comfortably surpasses all requirements to the necessary extent.

The announced reform of the UK Pensions Act by the Chancellor of the Exchequer in March of the year under review caused a stir in that country's pensions market. For the longevity (re) insurance industry, it means that the current tried and tested insurance solutions will have to be reworked and modified in line with the changed conditions and requirements.

Generally speaking, though, the favourable development of longevity business in Europe – including for example in France, Spain and Scandinavia – has given grounds for satisfaction. Stronger demand for reinsurance protection in this segment has reaffirmed our expectation that due to shifts in demographics the insurance market for longevity risks offers a promising business potential which extends well beyond the borders of the United Kingdom.

In 2014 the industry incurred relatively slight insured losses from extreme weather events. A winter storm that impacted Japan in February was the most expensive natural catastrophe for the (re)insurance sector, measured by the total economic losses. In Europe storm Ela, which swept across France, Belgium and western Germany over the Pentecost weekend, caused the heaviest losses.

Business development

- Highest Group net income in Hannover Re's history
- Very good result in property and casualty reinsurance
- Major loss expenditure well below the expected level
- Pleasing development in life and health reinsurance
- Very good investment income despite challenging conditions
- Further strengthening of capital base
- Return on equity surpasses target at 14.7%

We are thoroughly satisfied with the development of our business in the year under review. We further improved on the record profit of 2013 and – at EUR 985.6 million – achieved the highest ever Group net income in company history. This is especially gratifying in view of the fact that market conditions for reinsurers in the financial year just ended were even more challenging than in the comparable period and the protracted low level of interest rates has curtailed opportunities to generate returns on the investment side.

Please find below a brief summary of the development of our two business groups – Property & Casualty and Life & Health reinsurance – and our investments. More detailed information is to be found on pages 35 to 53.

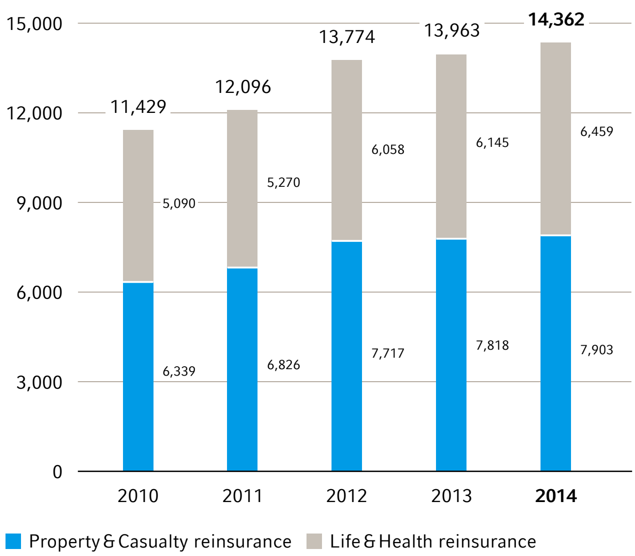
Property & Casualty reinsurance

We are highly satisfied overall with the development of our business in property and casualty reinsurance, even though competition was even more intense than in the previous year. Despite our selective underwriting policy, we were able to modestly grow our premium income. Gross premium increased by 1.1% as at 31 December 2014 to EUR 7.9 billion (previous year: EUR 7.8 billion). At constant exchange rates the increase would have been 1.2%.

Investment income from assets under own management for property and casualty reinsurance rose by 7.4% year-on-year to reach EUR 823.2 million (EUR 766.2 million). This was assisted inter alia by an improved result from the fair value development of the inflation swaps, which stood at -EUR 28.8 million after -EUR 41.0 million in the comparable period, and higher realised gains. We use inflation swaps to help hedge inflation risks associated with part of the loss reserves in our technical account.

The underwriting result was also thoroughly gratifying at EUR 351.5 million (EUR 335.5 million). With major loss expenditure coming in well below the expected level, the combined ratio of 94.7% showed another slight improvement on the previous year's very good figure (94.9%). The operating profit (EBIT) as at 31 December 2014 climbed by 12.2% to EUR 1,190.8 million (EUR 1,061.0 million). The EBIT margin amounted to 17.0% (15.5%), thereby comfortably beating the target of at least 10% and reflecting the outstanding performance in property and casualty reinsurance. Group net income in property and casualty reinsurance reached EUR 829.1 million (EUR 807.7 million), the highest figure to date in the company's history. This represents an increase of 2.7% on the previous year.

Gross premium by business group M 04
in EUR million



Life & Health reinsurance

As anticipated, our life and health reinsurance business showed a pleasing development in the financial year just ended. Despite the fresh challenges faced by life and health reinsurance as a consequence of the appreciable increase in international competition and the strained state of capital and financial markets, we boosted our gross premium volume by 5.1% to EUR 6.5 billion (EUR 6.1 billion). Adjusted for exchange rate effects, the growth of 4.9% was within the bounds of our expectations for 2014. The planned target of more than EUR 180 million for the Value of New Business was clearly surpassed in the year under review at EUR 448.4 million. For more detailed information in this regard and on the Market Consistent Embedded Value (MCEV) please see the MCEV Report published separately on our website.

Investment income improved slightly by 0.4% to EUR 614.2 million (EUR 611.5 million). Of this, EUR 258.5 million (EUR 269.1 million) was attributable to assets under own management; the remaining EUR 355.7 million (EUR 342.4 million) derived from securities deposited with ceding companies.

The operating profit (EBIT) normalised in the reporting period and reached a level of EUR 263.8 million (EUR 150.5 million). The sharp rise of 75.3% year-on-year was due largely to reduced strengthening of reserves as well as lower losses in Australian disability business. The EBIT margin for mortality and morbidity business consequently developed favourably in the reporting period compared to the previous year, but at 4.8% it still fell short of our 6% target. Financial solutions and longevity business, on the other hand, which delivered EBIT margins of 6.5% and 2.9% respectively, comfortably beat their 2% target and clear reflected the pleasing profitability of the underlying business.

The normalised and generally positive business development in life and health reinsurance caused Group net income for this business group to improve substantially on the previous year's performance: it came in at EUR 205.0 million (EUR 164.2 million) for the financial year just ended, thereby boosting the relative contribution made to overall Group net income.

Investments

Bearing in mind the protracted low interest rate environment, we are thoroughly satisfied with the development of our total investments as at 31 December 2014. The portfolio of investments under own management stood at EUR 36.2 billion, a level comfortably higher than at the end of the previous year (31 December 2013: EUR 31.9 billion). The increase derived in large measure from the currency revaluation of our holdings in US dollars and pound sterling. Additional factors were the positive operating cash flow as well as a further increase in the hidden reserves for our fixed-income securities due to declining yields on government bonds in our main currency areas.

Despite the sustained low level of interest rates, ordinary investment income excluding interest on funds withheld and contract deposits came in at EUR 1,068.4 million, a slightly higher level than in the previous year (EUR 1,041.3 million). Interest on funds withheld and contract deposits improved to EUR 376.1 million (EUR 357.3 million).

Net realised gains on investments as at 31 December 2014 rose sharply to EUR 182.5 million (EUR 144.2 million), contrasting with negative fair value changes of -EUR 33.3 million (-EUR 27.1 million) in our financial assets measured at fair value through profit or loss. Write-downs were again taken in only a minimal volume in the year under review, the vast bulk of them being due to scheduled depreciation on real estate. Although conditions on financial markets remained challenging, income from assets under own management surpassed the previous year's level to reach a pleasing EUR 1,095.8 million (EUR 1,054.5 million). The resulting annual return (excluding ModCo derivatives and inflation swaps) amounted to 3.3% (3.4%). It thus came in slightly higher than our anticipated figure of 3.2%; this was due to higher net realised gains in connection with the change in reporting currency at our Bermuda subsidiaries and the redemption of a bond issued in 2004. Steps taken to act on opportunities for realising gains in the real estate sector were also a positive factor here. Investment income including interest on funds withheld and contract deposits consequently increased to EUR 1,471.8 million (EUR 1,411.8 million), a gain of 4.3%.

Total result

The gross premium in our total business increased slightly by 2.9% as at 31 December 2014 to EUR 14.4 billion (EUR 14.0 billion). At constant exchange rates the increase would have been 2.8%. We thus achieved our guidance, which had anticipated stable to slightly higher gross premium volume in the original currencies. The level of retained premium retreated slightly to 87.6% (89.0%), while net premium earned rose by 1.6% to EUR 12.4 billion (EUR 12.2 billion). At unchanged exchange rates growth would have come in at 1.5%.

We are absolutely satisfied with the development of our results for the 2014 financial year. The operating profit (EBIT) improved by a further substantial 19.3% on the very good previous year to reach EUR 1,466.4 million (EUR 1,229.1 million). Despite the broadly challenging environment, both in reinsurance business and on capital markets, we generated the highest Group net income in our company's history at EUR 985.6 million (EUR 895.5 million). Along with the healthy investment income, this was driven by a very good result in property and casualty reinsurance and the considerably improved performance of life and health reinsurance. Earnings per share for the Hannover Re Group amounted to EUR 8.17 (EUR 7.43).

The equity attributable to shareholders of Hannover Re also developed favourably in the year under review: in view of the increase in retained earnings, sharply higher valuation reserves and positive movements in exchange rates, shareholders' equity grew by a substantial 28.2% relative to the position at year-end 2013 to reach EUR 7.6 billion (EUR 5.9 billion). Despite this vigorous increase, we generated another very good return on equity of 14.7% (15.0%). This figure is clearly in excess of our minimum target of 9.2%. The book value per share also rose substantially: it reached EUR 62.61 for 2014 compared to EUR 48.83 at the end of the previous year; this is the highest book value per share in the company's history.

The total policyholders' surplus, consisting of shareholders' equity, non-controlling interests and hybrid capital, amounted to EUR 10.2 billion (EUR 8.8 billion) as at 31 December 2014.

Business development in the year under review — M 05

	Forecast 2014	Target attainment 2014
Gross premium growth (Group)	stable to slightly higher gross premium volume[1]	+2.8% at constant exchange rates +2.9% not adjusted for currency effects
Gross premium growth for Property & Casualty reinsurance	stable[1]	+1.2% at constant exchange rates +1.1% not adjusted for currency effects
Gross premium growth for Life & Health reinsurance	growth in the low to mid-single-digit percentage range[1, 2]	+4.9% at constant exchange rates +5.1% not adjusted for currency effects
Return on investment[3]	≈ 3.2%	3.3%
Group net income	≈ EUR 850 million[4]	EUR 985.6 million

1 At constant exchange rates
2 Organic growth only
3 Excluding inflation swaps and ModCo derivatives
4 Assuming stable capital markets and/or major loss expenditure in 2014 that does not exceed EUR 670 million

Overall assessment of the business position

The Executive Board of the Hannover Re Group is satisfied with the development of business in 2014. Not only did the company achieve its targets for important key indicators such as the operating profit (EBIT) and Group net income, return on equity and combined ratio, in some cases it also clearly surpassed them. The investment income and the generated return on investment developed successfully bearing in mind the continued low level of interest rates. Group net income reached the highest level ever recorded in the company's history. The company's shareholders' equity also showed a very pleasing increase, as a consequence of which the total policyholders' surplus now stands at a new record high. At the time of preparing the management report, the business position of the Hannover Re Group remains highly favourable and its financial strength has been further strengthened.

Results of operations

In the following sections we discuss the development of the financial year in our two strategic business groups, namely Property & Casualty reinsurance and Life & Health reinsurance, as well as the performance of our investments and the financial position and assets of our Group. Supplementary to the information provided here, the segment reporting in Section 5 of the notes to this Annual Report shows the key balance sheet items and profit components of the two business groups.

Property & Casualty reinsurance

- Highest-ever Group net income of EUR 829.1 million
- Major loss expenditure significantly below expectations at EUR 425.7 million
- Pleasing combined ratio of 94.7%
- Currency-adjusted premium growth of +1.2% according to plan

Accounting for 55% of our premium volume, Property & Casualty reinsurance is Hannover Re's largest business group. Effective 1 September 2014 we reorganised the responsibilities in property and casualty reinsurance owing to a change on the Executive Board, as a result of which the composition of our Board areas of responsibility – "Target markets", "Specialty lines worldwide" and "Global reinsurance" – differs somewhat from the previous year in terms of markets and regions.

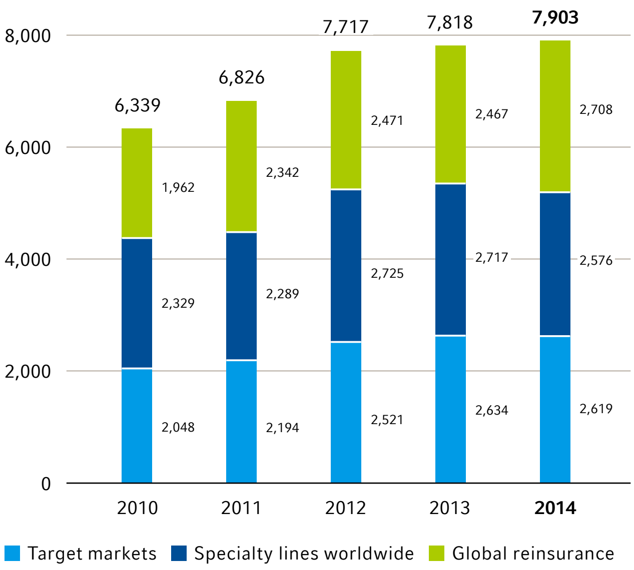
Key figures for Property & Casualty reinsurance **M06**

in EUR million	2014	+/– previous year	2013	2012[1]	2011	2010
Gross written premium	7,903.4	+1.1%	7,817.9	7,717.5	6,825.5	6,339.3
Net premium earned	7,011.3	+2.1%	6,866.3	6,854.0	5,960.8	5,393.9
Underwriting result	351.5	+4.8%	335.5	272.2	(268.7)	82.4
Net investment income	843.6	+8.0%	781.2	944.5	845.4	721.2
Operating result (EBIT)	1,190.8	+12.2%	1,061.0	1,091.4	599.3	879.6
Group net income	829.1	+2.7%	807.7	685.6	455.6	581.0
Earnings per share in EUR	6.88	+2.7%	6.70	5.68	3.78	4.82
EBIT margin[2]	17.0%		15.5%	15.9%	10.1%	16.3%
Retention	90.6%		89.9%	90.2%	91.3%	88.9%
Combined ratio[3]	94.7%		94.9%	95.8%	104.3%	98.2%

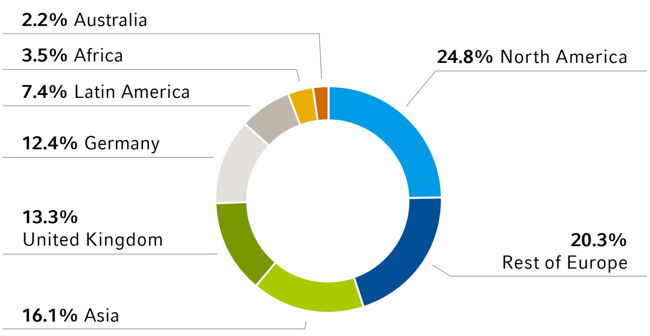
1 Adjusted pursuant to IAS 8
2 Operating result (EBIT)/net premium earned
3 Including expenses on funds withheld and contract deposits

Property & Casualty reinsurance at a glance

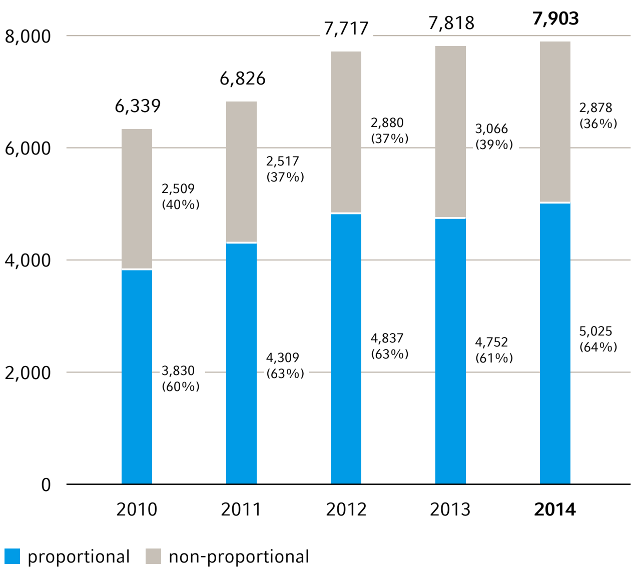
Gross written premium in P&C reinsurance M 07
in EUR million



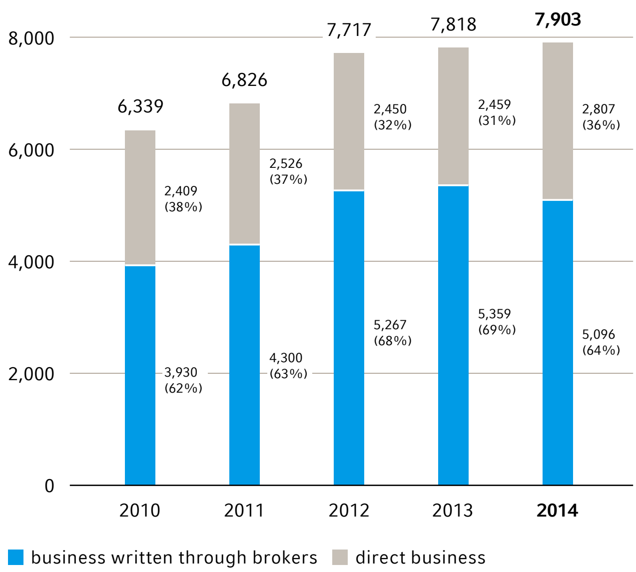
Geographical breakdown of gross written premium in 2014 M 08



Breakdown of proportional and non-proportional treaties by volume M 09
in % and in EUR million



Breakdown into business written through brokers and direct business M 10
in % and in EUR million



In many property and casualty reinsurance markets competition intensified still further in the year under review. This was driven by the renewed absence of market-changing major losses as well as the tendency among ceding companies to carry more risks in their retention thanks to their healthy capital resources. As a further factor, additional capacities from the market for catastrophe bonds (ILS) and alternative capacities, especially in US natural catastrophe business, led to appreciable price erosion.

Hannover Re counters this fiercely competitive climate with a profit-oriented underwriting policy and is thus well placed to handle the challenging market conditions. In regions and lines where prices failed to satisfy our profitability requirements we systematically reduced our shares. In areas where margins were commensurate with the risks we expanded our business. This strategy of active cycle management enables us – despite soft market conditions – to preserve the high rate quality of our portfolio. Overall, Hannover Re again benefited from its enduring customer relationships as well as its position as one of the world's leading and most financially robust reinsurance groups.

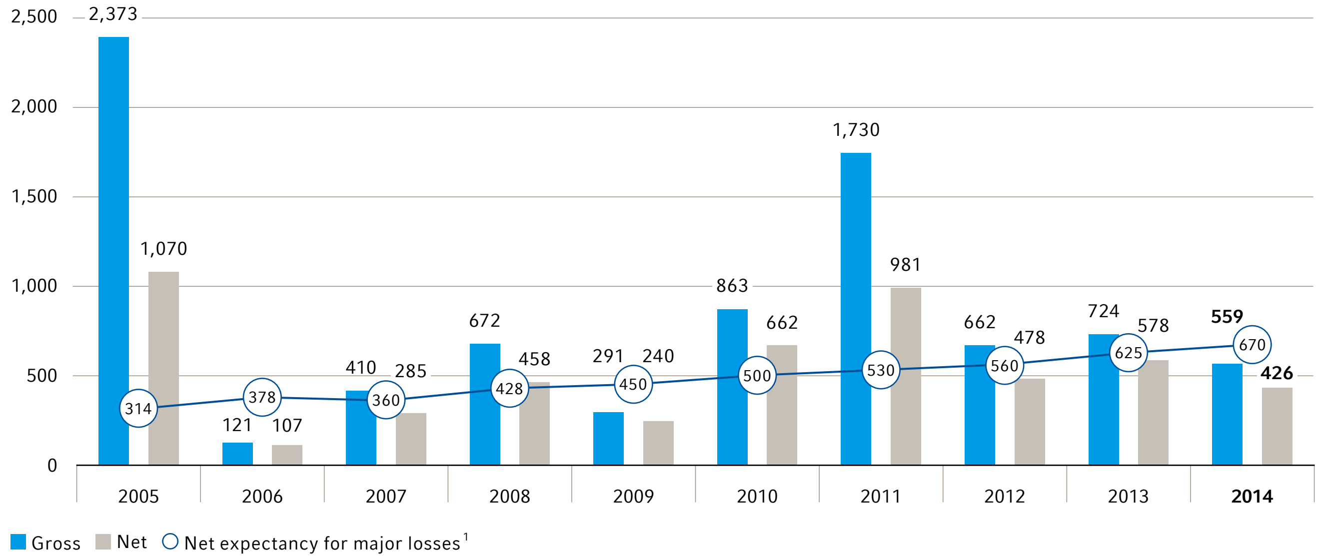
We are broadly satisfied with the outcome of the various rounds of treaty renewals during the year under review. The largest business volume was renewed on 1 January 2014, the date when almost two-thirds of our treaties in traditional reinsurance were renegotiated. Thanks to our underwriting discipline we were for the most part able to achieve adequate margins. Rate increases were booked above all under loss-impacted programmes: this was especially true of catastrophe covers in Germany and Canada as well as marine business, which had incurred significant losses in 2012 and 2013. We acted on opportunities for further growth in the markets of Asia, Latin America as well as Central and Eastern Europe. On the other hand, rate reductions had to be accepted for property catastrophe business in the United States and in the aviation line owing to very good underwriting results from the previous year. Although property and casualty reinsurance as a whole was overshadowed by soft market conditions and rate erosion, we nevertheless also discerned some positive signals in the second half of the year.

The total gross premium volume for our Property & Casualty reinsurance business group climbed in the year under review – not least thanks to new business opportunities – by a modest 1.1% to EUR 7.9 billion (previous year: EUR 7.8 billion); at constant exchange rates growth would have reached 1.2%. We had anticipated a broadly stable currency-adjusted premium volume. The level of retained premium rose to 90.6% (89.9%). Net premium earned increased by 2.1% to EUR 7.0 billion (EUR 6.9 billion); growth would have also been 2.1% at constant exchange rates.

As in the previous year, the burden of major losses that we incurred in 2014 remained moderate. The year under review was, however, one of heavy losses for the aviation line. A number of crashes involving passenger aircraft cost hundreds of lives. In addition, several planes were destroyed on the ground at Tripoli airport.

Property & Casualty reinsurance: Major loss trend [1]
in EUR million

M 11



[1] Natural catastrophes and other major losses in excess of EUR 10 million gross (until 31 December 2011: in excess of EUR 5 million gross)

Even though the hurricane season in North America and the Caribbean again passed off thoroughly innocuously, the year under review still saw a number of natural catastrophe events. In Western Europe the heaviest losses were caused by storm Ela, with a net strain of EUR 49.1 million for Hannover Re's account. These and other major losses (see also page 88) resulted in net loss expenditure for our company totalling EUR 425.7 million (EUR 577.6 million), a figure well below our expected level of EUR 670 million.

We improved further on the good combined ratio of the previous year (94.9%) to post a figure of 94.7% in the year under review, once again comfortably beating the target mark of 96%. The underwriting result including administrative expenses also showed another modest improvement to reach EUR 351.5 million (EUR 335.5 million).

Investment income in the Property & Casualty reinsurance group climbed in the year under review by a very pleasing 8.0% to EUR 843.6 million (EUR 781.2 million). The operating profit (EBIT) increased by 12.2% to EUR 1,190.8 million, clearly demonstrating that profitability was maintained on a high level even in such a competitive environment. Group net income for the Property & Casualty reinsurance business group, which had been positively influenced by a tax effect in the previous year, improved again to EUR 829.1 million (EUR 807.7 million); this is the highest figure ever recorded. Earnings per share stood at EUR 6.88 (EUR 6.70) for this business group.

On the following pages we report in detail on developments in the individual markets and lines of our Property & Casualty reinsurance group, which is split into the three areas of Board responsibility referred to at the beginning of this section.

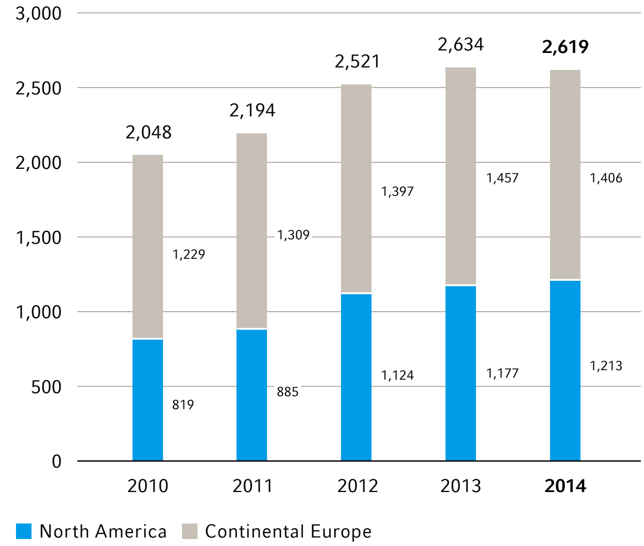
Property & Casualty reinsurance: Key figures for individual markets and lines in 2014 M 12

	Gross premium 2014 in EUR million	Change in gross premium relative to previous year	Gross premium 2013 in EUR million	EBIT in EUR million	Combined ratio	Maximum tolerable combined ratio (MtCR)
Target markets	**2,619.4**	**-0.6%**	**2,634.2**	**507.6**	**92.5%**	**95.9%**
North America	1,213.4	3.1%	1,177.3	258.2	91.8%	95.1%
Continental Europe	1,406.1	-3.5%	1,456.9	249.4	93.1%	96.5%
Specialty lines worldwide	**2,575.6**	**-5.2%**	**2,716.8**	**169.4**	**100.2%**	**95.9%**
Marine	280.6	-4.1%	292.7	85.7	67.2%	94.2%
Aviation	364.0	-9.4%	401.7	(2.4)	112.1%	97.3%
Credit, surety and political risks	531.4	-10.3%	592.5	87.2	92.2%	96.0%
UK, Ireland, London market and direct business	442.0	-21.2%	561.2	(12.8)	110.3%	95.5%
Facultative reinsurance	957.6	10.2%	868.7	11.8	103.9%	95.8%
Global reinsurance	**2,708.4**	**9.8%**	**2,466.9**	**513.8**	**91.6%**	**95.9%**
Worldwide treaty reinsurance	1,480.7	0.2%	1,477.6	225.6	98.5%	98.1%
Catastrophe XL (Cat XL)	310.0	-16.6%	371.5	185.6	39.3%	75.5%
Structured reinsurance and Insurance-linked securities	917.7	48.6%	617.8	102.6	94.1%	99.4%

Target markets

We classify North America and Continental Europe as target markets. The premium volume remained virtually unchanged at EUR 2,619.4 million (EUR 2,634.2 million). This puts us in line with our planning. The combined ratio improved to 92.5% (100.4%), as a consequence of which the operating profit (EBIT) rose very substantially to EUR 507.6 million (EUR 277.2 million).

Property & Casualty reinsurance: Breakdown of gross written premium in target markets M 13
in EUR million



North America

The North American (re)insurance market is the largest single market both worldwide and for Hannover Re. Our business is written through brokers.

After pausing for breath in the first half of 2014, the US economy picked up the pace of growth again as the year progressed, hence also pushing up the premium volume in the original market. Given the continued absence of significant natural catastrophe events in the United States, the combined ratio for the reinsurance market was once again better than that of the primary market.

The rate increases that have prevailed in the original market since 2011 flagged appreciably over the course of the year under review. In most lines, however, increases of 1% to 2% were still recorded. In some property insurance lines the trend turned negative. This was especially true of large programmes, whereas under small and mid-sized programmes the situation remained relatively stable. Casualty business in the original market continued to see rate increases, albeit at a declining pace. Conditions here for the most part remained unchanged. Sporadic rate increases were observed in Canada on the back of the flood losses in 2013, but overall rates here were flat or softened slightly.

Intense competition was the hallmark of the US property reinsurance market in the year under review. An absence of market-changing major losses coupled with reduced reinsurance cessions on the part of primary insurers led to further rate cuts, sometimes running into double-digit percentages. Only for loss-impacted programmes were modestly positive price adjustments recorded. Some softening in conditions could also be observed, for example in the form of longer hours clauses or poorer reinstatement conditions.

Rates in the US catastrophe XL market came under additional pressure due to the inflow of capital from alternative markets and the sustained decline in prices – a reflection of the favourable loss experience for US hurricanes.

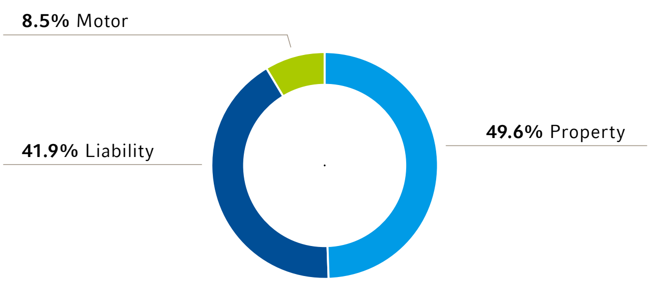
The pressure on rates similarly intensified in US casualty business in the year under review. Under proportional programmes conditions also deteriorated for reinsurers. This included instances of coverage extensions, more limits of liability or increased cost reimbursements.

Even though no particularly notable loss events occurred in the casualty sector, the greater awareness of cyber-risks – given the topicality of this issue – will trigger stronger demand in this area.

Hannover Re is very well positioned in the North American market and thanks to its excellent rating, its financial standing and its experience the company is a valued partner for its clients. This is especially important in long-tail liability business. Access to the entire market spectrum enables us to optimally diversify our portfolio: we write business in the United States and Canada with some 600 clients.

On the claims side North America experienced a number of smaller natural catastrophe events, which resulted in merely moderate losses for reinsurers. This was particularly the case with the hurricane season, which again passed off thoroughly benignly in the year under review. We incurred a loss from only one event. In addition, Hannover Re booked a major loss of EUR 15.8 million for net account from a fire loss.

Property & Casualty reinsurance: Breakdown of gross written premium in North America by line of business **M 14**

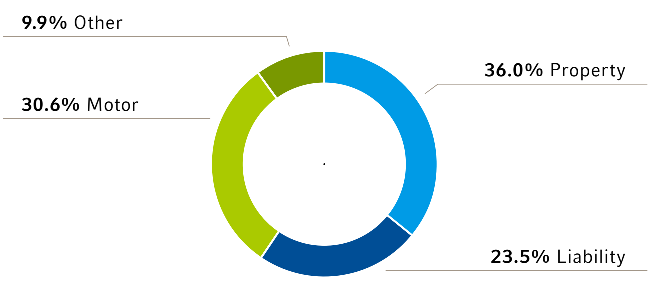


Despite the competitive climate and our margin-oriented underwriting policy, the gross premium for our business in North America rose slightly to EUR 1,213.4 million (EUR 1,177.3 million). The combined ratio improved in the year under review to 91.8% (93.1%). The operating profit (EBIT) climbed to EUR 258.2 million (EUR 236.4 million), a performance with which we are highly satisfied.

Continental Europe

We group together the markets of Northern, Eastern and Central Europe as Continental Europe. The largest single market here is Germany. The premium volume for our business in Continental Europe in the year under review came in at EUR 1,406.1 million (EUR 1,456.9 million). The combined ratio stood at 93.1% (106.1%). The operating profit (EBIT) improved to EUR 249.4 million (EUR 40.7 million).

Property & Casualty reinsurance: Breakdown of gross written premium in Continental Europe by line of business **M 15**



Germany

The German market – the second-largest in the world for property and casualty reinsurance – is served within the Hannover Re Group by our subsidiary E+S Rück. As the "dedicated reinsurer for Germany", the company is a sought-after partner thanks to its very good rating and the continuity of its business relationships. E+S Rück is superbly positioned in its domestic market and a market leader in property and casualty reinsurance.

The state of property and casualty insurance in Germany revealed a clear dichotomy in the year under review: whereas the premium quality in retail lines improved, especially in motor and homeowners business, industrial lines – above all fire insurance – were fiercely competitive. A further factor is that loss ratios here have been rising steadily since 2010, yet underwriting profits have not been generated market-wide since 2011. Despite slight premium increases in industrial fire business in 2013 and 2014, it remained the case that in the year under review – with a combined ratio well in excess of 100% – the market showed no effects of the efforts made to restore business to profitability. Against this backdrop, we are adhering to a highly selective underwriting approach.

The impact of moves to rehabilitate the motor own damage line was curtailed in the face of heavy losses from storm Ela in June – which also left its mark on homeowners insurance – as well as belatedly reported claims from the storms of the previous year. Yet the line closed in the black for the first time since 2007. Given the increased frequency of extreme weather events in Germany and the associated higher loss expenditure, there is now greater awareness of the resulting risks. Using highly specialised analysis programmes, we assist our customers with the individual exposure mapping of their own damage portfolios and draw on these insights to develop bespoke reinsurance solutions.

Motor liability insurance continued to stabilise in the year under review on the back of tariff increases. Allowing for the run-off from previous years, the combined ratio for the year as a whole is likely to reach a level of 96% market-wide. General liability business in Germany will similarly see the technical income statement close in positive territory.

Once again we made personal accident business a special focus of our attention. In the year under review, for example, we successfully completed development work on our functional disability insurance product for children. Children aged four or older now have access to comprehensive accident and disability coverage encompassing an accident annuity, an annuity for diminished organ function, pension benefits due to the loss of one or more basic skills and pension benefits based on a need for long-term care from care level 1 or higher (LTC annuity). With the aid of the "EsmerIT" underwriting tool that we have developed in-house and make available to our ceding companies free of charge, quick and uncomplicated underwriting can be performed directly at the point of sale.

The loss situation in Germany was once again notable in the year under review for a number of extreme weather events. The largest such loss event was storm Ela in June 2014, which cost the German insurance industry some EUR 650 million.

Rest of Continental Europe

European markets are still intensely competitive; this is true not only of countries in Central and Eastern Europe but also of most mature markets such as France. Along with difficult economic conditions, surplus capacities put the insurance industry under strain; rate reductions and poorer conditions were therefore once again a feature of the French market, especially in the industrial lines. We nevertheless succeeded in maintaining our market share, in part by increasing our shares with selected cedants and also by writing additional business in less competitive lines. Hailstorm Ela caused sizeable losses in France and Belgium as well, both in the property lines and in motor own damage.

Despite a slow economic recovery in Spain and Portugal, the insurance industry is still suffering from a contraction in premium volume. With this in mind, the margins that can be generated are limited.

In Northern European countries the competition was less intense in retail lines than in large industrial programmes, where rates were under pressure. In terms of losses, the region was impacted by another series of extreme weather events in the year under review after experiencing several violent storms in 2013.

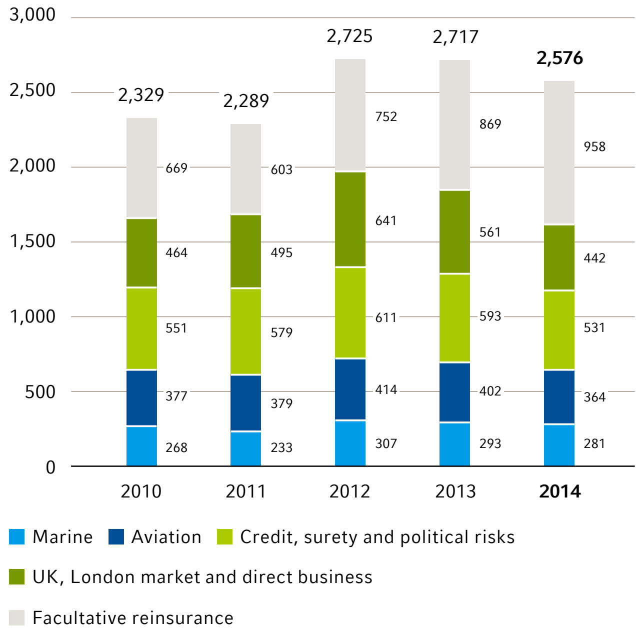
Developments in Central and Eastern Europe varied: compared to Western European primary markets, growth rates here are still better than average. Competition therefore remains intense and original rates in most markets are under pressure. On the reinsurance side, however, it was again possible to obtain risk-appropriate rates and conditions in the year under review and hence we were able – as forecast – to enlarge our premium volume. On the claims side the region was impacted by numerous small and mid-sized events. In addition, more sizeable losses resulted from an explosion at a refinery in Russia, flooding in Southeast Europe and a hailstorm in Bulgaria.

Specialty lines worldwide

Under specialty lines we include marine and aviation reinsurance, credit and surety reinsurance, business written on the London Market as well as direct business and facultative reinsurance.

The premium volume for specialty lines contracted in the year under review from EUR 2,716.8 million to EUR 2,575.6 million. The combined ratio deteriorated from 93.0% to 100.2%. The operating profit (EBIT) for specialty lines fell to EUR 169.4 million (EUR 339.6 million).

Property & Casualty reinsurance: Breakdown of gross written premium in worldwide specialty lines M 16
in EUR million



Marine

After years of heavy expenditure on major losses such as the wrecked cruise ship "Costa Concordia" and Superstorm Sandy, which had led to marked rate increases, marine business now finds itself at the onset of a soft market phase. In the case of offshore energy risks, where the last significant major losses date back even further, the rate decline was consequently even more appreciable.

Unlike in other lines, alternative capital – originating for example from hedge funds – does not directly influence the price trend in the marine and offshore energy market. This is because the medium- to long-term nature of many products as well as the fact that loss amounts sometimes takes years to finalise diminish the appeal of this business for investors. To this extent, the additional capacity in the marine market derives from reinsurers who are looking for, among other things, greater diversification effects relative to their other property and casualty lines. Prices came under further pressure because large insurance groups are increasingly purchasing their reinsurance on a centralised basis, as a result of which the total ceded premium volume has contracted.

Surplus capacities were especially prevalent in the hull market in the year under review. Cargo covers, which had long been rather profitable for most ceding companies, proved less attractive in the financial year just ended. Declining profitability was evident in the energy offshore segment: after the low loss burdens and associated good results recorded in recent years, rates here saw marked decreases running into double-digit percentages.

Hannover Re's underwriting policy remains unswerving in its focus on selective diversification of the portfolio, both regionally and in terms of individual lines. We continue to take a restrictive approach to writing offshore energy risks in the Gulf of Mexico on account of the considerable potential for natural hazards exposure.

Gross premium for our marine portfolio contracted by 4.1% to EUR 280.6 million (EUR 292.7 million).

The loss situation in the year under review was dominated above all by the removal of the wreck of the "Costa Concordia", which led to a significantly increased market loss of around EUR 1.5 billion. In view of this, we strengthened our reserves by an additional EUR 23 million to almost EUR 82 million in total. The loss expenditure for the wrecked container vessel "Rena" similarly came in higher than originally estimated.

The underwriting result for our marine business was a clear improvement on the previous year. The combined ratio decreased to 67.2% (78.3%). The operating profit (EBIT) reached a satisfactory level of EUR 85.7 million (EUR 66.0 million).

Aviation

Compared to previous years, the year under review was a very costly one for the international aviation (re)insurance industry. Several hundred people perished in crashes involving two passenger aircraft operated by Malaysia Airlines as well as two other passenger planes in Mali and Indonesia. Not only that, armed clashes in Libya caused considerable damage to Tripoli airport in the reporting period.

The sum total of airline losses far exceeded the corresponding annual premium. Despite this, the ensuing rate increases fell short of expectations owing to both existing and new capacities. Depending on the risk, original business in the airline segment presented a very mixed picture that ranged from stable premiums to significant rate increases. Nor could a single unambiguous trend be discerned in general aviation business, although further rate declines under existing business were largely avoided. Given recent loss events, expectations for price increases were especially high when it came to war covers. While we did observe premium increases in this segment, they did not match up to our expectations.

In terms of our underwriting strategy, we retained a clear focus on non-proportional business; we operate here as one of the market leaders, contrasting with the selective approach that we adopt in our underwriting of proportional business.

The premium volume for our total aviation portfolio contracted sharply to EUR 364.0 million (EUR 401.7 million).

The largest single loss for our company in the year under review – coming in at EUR 63.4 million for net account – was the event in Tripoli. Reflecting these loss expenditures, the underwriting result – after years of robust profitability – posted a marked decline in the year under review. The combined ratio slipped to 112.1% (78.8%). The operating result (EBIT) consequently deteriorated to -EUR 2.4 million (EUR 101.0 million).

Credit, surety and political risks

Hannover Re ranks among the market leaders in worldwide credit and surety reinsurance.

With the global economy showing tepid growth and faced with continued difficult economic conditions, the level of insolvencies remained consistently high. Only in a few countries, including Germany, did numbers come down. Despite this challenging overall situation, a disciplined underwriting policy made it possible to hold claims rates in credit insurance on a good level. This led into a growing risk appetite and hence reduced reinsurance cessions on the primary insurance side. All in all, moderate erosion in reinsurance rates could be observed.

Although the prevalence of mid-sized losses in the surety line was considerably diminished in the year under review compared to 2012 and 2013, the losses recorded in previous years failed to bring about a fundamental improvement in conditions owing to the intensely competitive climate. Under loss-free programmes conditions came under pressure, and a trend towards rising retentions was evident.

Despite greater risk awareness, the claims burden in the area of political risks remained minimal. Prices in this line consequently moved moderately lower.

Having substantially enlarged our credit and surety portfolio in 2009 and 2010, we see no reason – given the current capacity surplus and the associated diminished appeal of treaty conditions – to further expand our market share. We continued to follow through on our strategy of boosting the proportion of the total portfolio deriving from business with political risks.

Total gross premium income contracted by 10.3% in 2014 to EUR 531.4 million (EUR 592.5 million).

Our results in the area of credit, surety and political risks were satisfactory. We did not incur any major losses in 2014 and basic losses were also lower overall. The crisis in Ukraine only gave rise to relatively minor loss events in the year under review. The combined ratio improved to 92.2% (94.5%). The operating profit (EBIT) was boosted to EUR 87.2 million (EUR 64.6 million).

United Kingdom, London market and direct business

Traditional reinsurance

We are largely satisfied with the reinsurance business that we write in the United Kingdom and on the London market. While fierce competition raged in the primary sector with rate reductions running into double-digit percentages, especially in motor insurance, conditions on the reinsurance side were more favourable. In non-proportional motor business it was possible to push through further rate hikes in 2014 – building on appreciable increases in the previous year –, although these levelled off towards year-end. Rates in the other property lines broadly remained stable or slipped slightly lower. As planned, we expanded our portfolio in the United Kingdom.

Direct business

We also write direct business through our subsidiary in the United Kingdom, International Insurance Company of Hannover SE (Inter Hannover). This essentially involves tightly defined portfolios of niche or other non-standard business that complements our principal commercial activity as a reinsurer.

Compared to 2013, the economic climate in the United Kingdom once again failed to show any significant improvement. The brisk competition among insurers and reinsurers writing business in this market continued to intensify. Inevitably, this was reflected in a declining rate level in many lines. Most lines suffered under rate erosion, including not only motor insurance but also private homeowners insurance and commercial covers for small and mid-sized businesses. We responded by further trimming our exposures from agency acceptances in these areas in 2014.

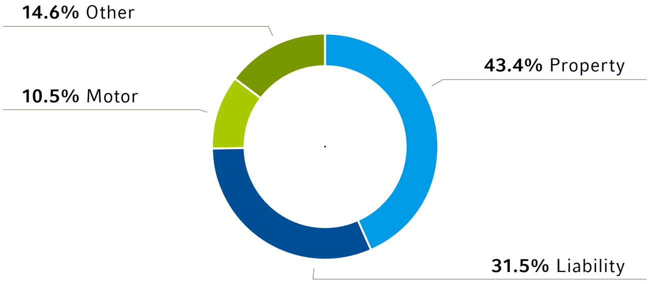
Inter Hannover's business written in Sweden again performed satisfactorily overall in 2014 despite a number of sizeable losses in the aviation sector. The development of business at the branches in Australia and Canada – markets which are highly competitive – was in line with expectations.

The gross premium booked from the United Kingdom, London market and direct business contracted from EUR 561.2 million to EUR 442.0 million. The combined ratio stood at 110.3% (105.9%). The operating result (EBIT) slipped into negative territory at -EUR 12.8 million (EUR 6.8 million).

Facultative reinsurance

In contrast to obligatory reinsurance, a reinsurer underwrites primarily individual risks in facultative business. The general environment for both types of reinsurance in the various markets is, however, for the most part comparable.

Property & Casualty reinsurance: Breakdown of gross written premium in facultative reinsurance M 17



In facultative reinsurance, too, the story was one of excess capacity and hence lively competition. This state of affairs was exacerbated by the fact that many reinsurance customers raised their retentions. Thanks to our very good rating, however, we were frequently able to stand up to this price war because many primary insurers and brokers prefer to cooperate with reinsurers who have proven their long-term reliability.

In the year under review we stepped up our involvement in Latin American markets and in Turkey. Driven also in part by increased acceptances in very new segments such as renewables, our premium volume consequently remained stable overall. Particularly long and solid partnerships proved advantageous in that we were able to preserve a large portion of the portfolio at viable prices.

Rate movements – while generally trending lower – varied from market to market. The spectrum ranged from moderate reductions of 5% to 10% to as much as 50% or more.

Price drops were most marked in property business, as in the case of fire and construction risks, and in the energy lines. Less significant decreases were recorded in liability business and in specialty lines such as personal accident and sports covers.

Combined management report

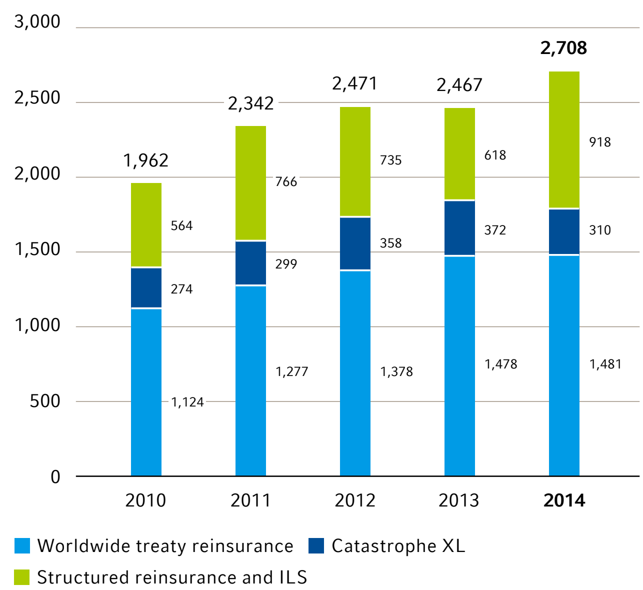
Despite the soft market, we are broadly satisfied with the development of our total facultative portfolio in the year under review: we grew and continued to diversify our business. Our premium volume increased to EUR 957.6 million (EUR 868.7 million). Virtually no major losses were recorded, but there was an accumulation of mid-sized losses – which also impacted our portfolio. As a result, the combined ratio climbed to 103.9% (94.7%). The operating profit (EBIT) fell well short of the previous year's figure at EUR 11.8 million (EUR 101.1 million).

Global reinsurance

We combine all markets worldwide under global reinsurance with the exception of our target markets and specialty lines. This segment also encompasses global catastrophe business, the reinsurance of agricultural risks and Sharia-compliant retakaful business.

The premium volume increased in the year under review by 9,8% to EUR 2,708.4 million (EUR 2,466.9 million). This is in line with our forecast of continuous and stable growth. The combined ratio deteriorated slightly from 90.8% to 91.6%. The operating profit (EBIT) improved from EUR 444.3 million to EUR 513.8 million.

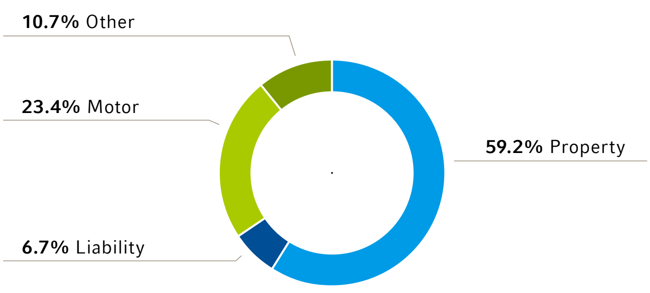
Property & Casualty reinsurance: Breakdown of gross written premium in global reinsurance **M 18**
in EUR million



Worldwide treaty reinsurance

We were satisfied with the development of our worldwide treaty reinsurance portfolio. The gross premium volume nudged higher in line with our expectations to reach EUR 1,480.7 million (EUR 1,477.6 million). The combined ratio deteriorated from 95.0% to 98.5%. The operating profit (EBIT) increased to EUR 225.6 million (EUR 217.9 million).

Property & Casualty reinsurance: Breakdown of gross written premium in worldwide treaty reinsurance **M 19**



Asia-Pacific region

The Asia-Pacific countries continue to be a growth region for Hannover Re, and with this in mind we further expanded our position in the year under review. Developments in the individual markets varied widely; the region was the scene of increasing competition on account of the available growth opportunities. Although the loss expenditure incurred in certain markets was striking, it can still be assessed as satisfactory overall.

In Japan, a key market for our company, continued market consolidation led to a contraction in ceded reinsurance premiums – a trend which also impacted Hannover Re. Thanks to our broadly diversified product range and our long-standing loyalty to our Japanese cedants, however, we successfully set ourselves apart from our competitors. Conditions came under pressure after the light losses incurred in both 2012 and 2013, but they are still adequate. Our premium volume was down slightly as planned.

Aside from one snowstorm, catastrophe covers – an important area of business for Japan – did not suffer any notable loss events in the year under review. We did, however, set aside an appreciable reserve for a pharmaceutical claim in the casualty line, which had been spared losses for many years. Against this backdrop we were satisfied with the performance of our Japanese portfolio.

The Chinese insurance market again delivered double-digit percentage growth in the year under review. Hannover Re, which is present in the country with a locally licensed branch, was able to successfully pursue the strategy that it had followed in previous years – namely consolidating its business relationships with selected clients. The development of our Chinese portfolio received a boost from discussions surrounding the adoption of a nuanced system of solvency requirements (C-ROSS), which will benefit local reinsurance placements going forward. All in all, the market remained highly competitive, as reflected not only in original business but also in conditions for reinsurance treaties. Our selective underwriting policy nevertheless enabled us to further enlarge the premium volume. Given the absence of sizeable losses, we are satisfied with the result in the year under review.

In South and Southeast Asia we were again able to significantly improve our market penetration. Almost all the primary markets in this region are growing disproportionately strongly compared to the more mature Asian markets. Key drivers here are, above all, the rising insurance density and urbanisation.

Our portfolio in many parts of this region consists predominantly of property, motor and accident business. We further scaled back the proportion of catastrophe-exposed business in the year under review because, in our assessment, the considerable capacity surplus on the reinsurance side had resulted in conditions that were no longer commensurate with the risks.

The service company established in India last year, which concentrates its efforts exclusively on the growing segment of microinsurance, has gained a good footing in the market. This segment already recorded growth in the year under review and will play an even greater role for us going forward.

Despite a number of loss events, we are thoroughly satisfied with the development and performance of our business in South and Southeast Asian markets. The result came under strain from floods in Pakistan and India as well as a cyclone that impacted India, typhoons in the Philippines and a large fire at a semiconductor factory in Thailand. The premium volume from this region once again surged vigorously in the year under review.

Other Asian markets such as Korea, Taiwan and Hong Kong delivered a pleasing result with stable or slightly lower premium income.

Australia and New Zealand looked set to close with a very good result as the year progressed, only for the Greater Brisbane area to be hit by a severe hailstorm in November. With primary insurers carrying higher retentions, however, this event led to a merely moderate strain for our company as a reinsurer. Other than that, the year passed off relatively benignly as far as natural catastrophes were concerned. In common with other market players, we were nevertheless compelled in the year under review to strengthen our IBNR reserve for the New Zealand earthquakes of 2010 and 2011. Based on our good market position, we were able to assert our status as the third-largest property and casualty reinsurer in Australia. Despite this, our premium volume declined slightly in the year under review – a reflection of the ongoing market consolidation, sustained pressure on conditions and our selective underwriting policy.

South Africa

Our business in South Africa is written through our subsidiary Hannover Reinsurance Africa Limited. This market is notable for what is still a relatively low insurance density; most vehicles on public roads, for example, are uninsured. While a large section of the population has not taken out any insurance for property damage or bodily injury, the situation with respect to commercial undertakings is nevertheless comparable with that of industrial nations.

The insurance market only grew in step with inflation in the year under review. Competition remains intense, thereby curtailing profitability. The underwriting result for the insurance market nevertheless closed in marginally positive territory in 2014. A number of major losses occurred in the reporting period, primarily impacting reinsurers – and hence also our subsidiary Hannover Re Africa. Yet the company was still able to generate a modestly positive business result thanks to its disciplined underwriting approach.

We also write direct business in South Africa. These activities are conducted through Compass Insurance Company Limited, a subsidiary for so-called agency business. Although primary insurers were certainly able to push through rate increases for existing business based on a higher level of retained premium, it cannot be assumed that general hardening of the market has set in. What is more, the industry suffered a number of substantial major losses in the year under review. Despite the difficult environment prevailing in the South African market overall, Compass Insurance Company Limited succeeded in delivering a positive result.

Latin America

Hannover Re is well positioned in Latin America and a market leader in some countries. The most important markets for our company are Brazil, where we are present with a representative office, as well as Mexico, Argentina, Colombia and Ecuador.

Most Latin American markets have enjoyed very vigorous growth in recent years and are still showing solid gains. The strong demand for reinsurance covers remains undiminished owing to the considerable exposure to natural catastrophe risks. Nevertheless, premium growth has been somewhat curbed in certain countries due to a number of different factors, including local market regulation, adverse exchange rate effects and higher retentions carried by primary insurers.

Movements in reinsurance rates varied; prices differed regionally from country to country and also by lines. Particularly in property business, larger Latin American markets experienced sometimes marked premium erosion of 10% to 15% under non-proportional treaties and an increase in commissions for proportional covers. We were nevertheless able to act on business opportunities that satisfied our margin requirements. In niche markets where we are market leader there was no decline in prices. In casualty business, where particularly great importance is attached to a reinsurer's know-how and very good rating, we made the most of growth opportunities in all our markets and stepped up our acceptances.

We succeeded in preserving our market leadership in Argentina despite the restrictions placed on foreign reinsurers. In the English-speaking Caribbean we have been able to enlarge our market share in recent years, while staying firmly focused on the profitability of the business.

The losses and damage caused by natural disasters in the year under review were largely attributable to the earthquake in Chile and hurricane Odile, which swept across Mexico. The resulting strains for the (re)insurance industry were nevertheless moderate. Hannover Re recorded a net loss of EUR 18.8 million from the hurricane.

Overall, we are highly satisfied with the development of our business in Latin America.

Agricultural risks

Lower prices for corn, soya, wheat and other products in the year under review led to reduced sums insured and hence to a moderate premium decline for agricultural risks. Driven by rising demand for food and with extremes of weather becoming increasingly common, we nevertheless continue to see this area as a growth market. Index-linked products are taking on greater importance relative to traditional multi-risk insurance policies.

Rates and conditions remained broadly stable on the primary insurance side. Prices in reinsurance business came under pressure due to new market players; still, the influence of alternative capital on the US market fortunately remained limited.

Hannover Re continues to be one of the largest providers of agricultural covers and also plays an active role in product development. We entered into cooperative ventures with governments and international organisations in the year under review with a view to expanding protection for agricultural risks.

We were successful in our efforts to further diversify the portfolio mix in terms of both countries and lines of business; a contributory factor here, for example, was an enlarged proportion of microinsurance products.

We are satisfied with the development of our agricultural risks business. The losses incurred by Hannover Re were moderate overall: sizeable hail events occurred inter alia in Southeast Europe and the United States. In Turkey much of the apricot and hazelnut crop was destroyed by frost. In each case the resulting strains were in the low single-digit million euros. We did not incur any major losses.

Retakaful business

We write retakaful business, i.e. reinsurance transacted in accordance with Islamic law, both on the Arabian Peninsula and in Southeast Asia. We are present in Bahrain with a dedicated subsidiary for this business and also maintain a branch responsible for writing traditional reinsurance in the Arab world. All in all, we are satisfied with the development of our business.

The member states of the Gulf Cooperation Council (GCC) – namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – posted further robust growth in the year under review. Investments in infrastructure projects are delivering substantial economic stimuli. These major construction projects are reliant primarily on government funding.

Bearing in mind that takaful and retakaful markets have become intensely competitive, brisker premium growth is offset by lower rates. New international providers on the reinsurance markets served to keep up the pressure on rates. On the other hand, the influence of alternative capital (ILS) in the region continues to be negligible.

Hannover Re has been present in Bahrain with its subsidiary since 2006 and is strongly positioned in retakaful business. The largest single market for our company is still Saudi Arabia, where we enjoyed further growth in the year under review. Our branch established in 2014 in Labuan, Malaysia, delivered additional growth impetus. Industrial fire business, where we similarly succeeded in expanding our portfolio, is the largest single line.

In view of the highly competitive state of the markets, we are not currently guided by any specific premium targets but focus instead on preserving the profitability of our portfolio. Nevertheless, we believe that the retakaful market will continue to generate dynamic growth rates going forward.

The largest loss event for our company in the year under review was a fire which caused extensive damage to a large bakery plant in Saudi Arabia.

Catastrophe XL (Cat XL)

We write the bulk of our catastrophe business out of Bermuda, which has established itself as a worldwide centre of competence. In the interest of diversifying the portfolio our subsidiary Hannover Re (Bermuda) Ltd. has also written some of the specialty lines since 2013.

As expected, catastrophe business became even more competitive in the year under review in most markets, and especially in the United States. The principal drivers here were the continued absence of major losses, additional capacities from the capital markets and reduced reinsurance cessions from ceding companies enjoying a healthy level of capitalisation. Overall, rates declined in almost all markets in the financial year just ended, albeit not always as sharply as they did in the United States. In markets where alternative capital is not a factor – such as Latin America – rates also slipped back, but on a more moderate scale. In regions that had been impacted by major losses, such as Europe and Canada, the price level was in large measure maintained in the treaty renewals as at 1 January 2014; indeed, improved rates were actually obtained under some programmes.

As in the previous years, losses were very much on the moderate side for both insurers and reinsurers; there were no major natural disasters resulting in heavy losses. Neither the storms in Europe and Canada nor the earthquake in Chile had any implications for pricing on account of the relatively slight market losses. The largest single loss incurred by our company from natural catastrophe business was the low pressure area known as Ela, which swept across France, Belgium and Germany causing net loss expenditure of EUR 49.1 million. The hurricane season in the United States and the Caribbean also passed off comparatively quietly in the year under review. Only hurricane Gonzalo, which primarily impacted Bermuda, resulted in loss expenditure for Hannover Re's account.

Bearing in mind the enormous competition over property catastrophe covers, our subsidiary in Bermuda wrote business extremely selectively and reduced its premium volume. On the other hand, we booked growth in the liability and specialty lines, where more adequate prices could be obtained.

The gross premium volume for our global catastrophe business contracted by 16.6% in the year under review to EUR 310.0 million (EUR 371.5 million). The combined ratio improved to 39.3% (49.5%). The operating profit (EBIT) came in at EUR 185.6 million (EUR 188.2 million).

Structured reinsurance and Insurance-linked securities

Structured reinsurance

Hannover Re is one of the largest providers in the world of structured reinsurance solutions. These products are designed, among other things, to optimise the cost of capital for our ceding companies.

As forecast, demand for bespoke alternative reinsurance solutions continued to grow in the year under review. This trend also extends to aggregate excess of loss covers, which protect the net retention of our clients against a large number of basic losses in lower layers.

Structured reinsurance is benefiting from growth impetus associated in particular with preparations for the adoption of Solvency II in the European Union as well as with the implementation of risk-based capital requirements in various other countries.

In keeping with our objective we pressed ahead with the enlargement of our customer base and further improved the regional diversification of our portfolio in the year under review. We also stepped up our involvement in the area of corporate captives. Quota share arrangements in motor business designed to provide solvency relief continued to enjoy brisk demand.

The premium volume for the area of Advanced Solutions / structured reinsurance increased in the year under review. Results were good and lived up to our expectations.

Insurance-linked securities (ILS)

Demand on the capital market for ILS products shows no signs of easing. Thus, for example, we were able to renew our "K cession" – a modelled quota share cession consisting of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine (including offshore) lines that we have placed inter alia on the ILS market for 20 years now – on an unchanged level of roughly USD 320 million for 2014.

Yet in addition to using the capital market to protect our own property catastrophe risks, we also transfer risks to it in a structured and packaged form on behalf of our cedants. Not only that, we take the role of investor ourselves by investing in catastrophe bonds.

The year under review, in common with the two previous years, brought another strong inflow of cash into the ILS market. In the first place, investors value the low correlation with other financial assets and the associated diversification, while at the same time they also find the market for insurance risks relatively appealing in comparison with other investments. As a result, there has been no let-up in the lively demand for catastrophe bonds among investors. Prices for these bonds have consequently fallen considerably. At the same time, though, the issuance of catastrophe bonds has become a more attractive proposition. The volume of new issues in the market was once again higher at USD 8.7 billion (USD 7.7 billion).

The available funds currently exceed by far the opportunities for new investments in catastrophe bonds. This has prompted investors to look for other means of investing in the reinsurance sector. So-called collateralised reinsurance programmes again enjoyed particularly strong growth in the year under review and surpassed the volume of funds invested in catastrophe bonds. Under collateralised reinsurance business the investor assumes reinsurance risks that are normally collateralised in the amount of the limit of liability.

Hannover Re's product range encompasses the entire spectrum of activities typically associated with the ILS market. We thereby offer investors optimised and customised access to the capital market. In the year under review, for example, we successfully transferred windstorm risks with a volume of USD 400 million to the capital market for the Texas Windstorm Insurance Association (TWIA) in the form of a catastrophe bond.

In the year under review we continued to expand our cooperation with selected managers of investor funds in the area of collateralised reinsurance business and thereby generated attractive margins. When it comes to investing in catastrophe bonds, on the other hand, we showed restraint on account of the sharp decline in prices.

Life & Health reinsurance

- Growth expectations for currency-adjusted gross premium achieved at 4.9%
- First transaction for longevity risks in France successfully completed
- Results from Australian disability business on the expected level
- Profit targets accomplished

Our strategic business group of Life & Health reinsurance accounted for 45% (previous year: 44%) of Group gross premium in the financial year just ended. This clearly shows the significant role played by these lines in Hannover Re's overall portfolio. Thanks to partnership-based business relationships with our customers, our expertise and our worldwide presence, we not only identify trends and new markets; we also shape them and generate sustained, profitable growth.

Total business

The international market climate in life and health reinsurance was influenced by a number of different effects in the reporting period just ended. In mature insurance markets such as the United States, Germany, the United Kingdom, France and Scandinavia the pressure on companies to consolidate increased. The strained state of capital and financial markets was also a factor in the generally moderate development of routine business in these regions. Turning to the major emerging and growth markets, the implementation of regulatory measures has been – and continues to be – stepped up, thereby increasingly opening up fresh business opportunities. This is especially evident in Asia. The growing prevalence of regulatory changes consistently poses new challenges for the entire international insurance sector. In many instances established product solutions have to be reworked or even entirely redesigned in order to satisfy the new requirements for all parties concerned. With this in mind, the development of Hannover Re's life and health reinsurance business was very pleasing.

Our gross premium income for the year under review totalled EUR 6,458.7 million (EUR 6,145.4 million). This represents an increase of 5.1%. With growth of 4.9% adjusted for exchange rate fluctuations, we almost achieved the anticipated currency-adjusted gross premium growth of 5% to 7%. The level of retained premium developed as planned in the financial year just ended to stand at 83.9% (87.7%). Net premium improved slightly by 1.0% to EUR 5,411.4 million (EUR 5,359.8 million). Adjusted for exchange rate effects, the change in net premium would have been 0.7%.

Investment income in life and health reinsurance consists of two earnings components: on the one hand, from our assets under own management and, secondly, from securities deposited with ceding companies. In the financial year just ended income of EUR 258.5 million (EUR 269.1 million) was generated from the assets under own management, while the income from securities deposited with ceding companies came in at EUR 355.7 million (EUR 342.4 million). Taken together, the investment income in life and health reinsurance climbed by a modest 0.4% to EUR 614.2 million (EUR 611.5 million). This performance is especially gratifying in view of the protracted low level of interest rates and the correspondingly strained state of capital markets.

The development of the operating result (EBIT) was highly pleasing. Compared to the previous year – which had been substantially impacted by losses in Australian disability business – EBIT surged by a significant 75.3% and has now normalised relative to 2013 at EUR 263.8 million (EUR 150.5 million).

In the following section we discuss in detail developments in life and health reinsurance. Our business is split into the reporting categories of financial solutions and risk solutions. Reflecting the differentiation by biometric risks, risk solutions is further divided into longevity, mortality and morbidity and hence corresponds to the breakdown used within our internal risk management system.

Key figures for Life & Health reinsurance M 20

in EUR million	2014	+/− previous year	2013	2012[1]	2011	2010
Gross written premium	6,458.7	+5.1%	6,145.4	6,057.9	5,270.1	5,090.1
Net premium earned	5,411.4	+1.0%	5,359.8	5,425.6	4,788.9	4,653.9
Investment income	614.2	+0.4%	611.5	685.1	512.6	508.2
Claims and claims expenses	4,636.2	+7.7%	4,305.7	4,023.5	3,328.6	3,135.8
Change in benefit reserve	28.6	-80.5%	146.5	529.4	619.7	653.5
Commissions	946.4	-19.0%	1,169.0	1,098.0	985.8	1,022.8
Own administrative expenses	175.7	+12.1%	156.7	144.1	130.6	118.7
Other income/expenses	25.1		(42.9)	(36.7)	(19.2)	53.0
Operating result (EBIT)	263.8	+75.3%	150.5	279.0	217.6	284.4
Net income after tax	205.0	+24.8%	164.2	222.5	182.3	219.6
Earnings per share in EUR	1.70	+24.8%	1.36	1.84	1.51	1.82
Retention	83.9%		87.7%	89.3%	91.0%	91.7%
EBIT margin[2]	4.9%		2.8%	5.1%	4.5%	6.1%

1 Adjusted pursuant to IAS 8
2 Operating result (EBIT)/net premium earned

Financial solutions

We categorise reinsurance solutions that focus on our clients' capital and liquidity management and thereby assist them with – among other things – new business financing and/or help to optimise their capital or solvency structure as financial solutions. There is less emphasis on the transfer of biometric risks with this form of reinsurance, although it is always present.

Hannover Re is equipped with long-standing expertise in the financial solutions business segment and ranks as one of the leading providers in a number of markets, including the United States. A special hallmark of our business philosophy is that we make virtually no use of standardised reinsurance solutions. Particularly when it comes to financial solutions transactions, we offer financing solutions as well as concepts designed to provide relief for capital and reserves that are individually tailored to our customers' needs. This has enabled us to further enlarge our portfolio and generate a pleasing profit contribution. The rigorous and complex supervisory requirements in the US insurance market, which is one of the most highly developed in the world, are the key factor driving the stable strong demand for financial solutions and the pleasing development of this business segment. In addition, we again significantly expanded our financial solutions business in Asia – most notably in Japan and China. Not only that, we are also enjoying successes on the African continent, where we assumed a substantial portfolio of life insurance policies from a leading South African client. Traditional new business financing arrangements in Europe – including Southern and Eastern Europe – were another key driver of this segment in the reporting period just ended. We benefited here from lively demand for individual, innovative financing solutions.

All in all, against the backdrop of the developments described above, gross premium contracted by 16.7% owing to a strictly profit-oriented underwriting policy. We deliberately relinquished premium volume in cases where we were unable to fully satisfy our margin requirements. The gross premium for the year under review amounted to EUR 1,295.2 million (EUR 1,554.3 million), equivalent to 20.1% of the total gross premium income booked in life and health reinsurance. The operating result (EBIT) of EUR 74.6 million fell well short of the previous year's figure (EUR 128.5 million).

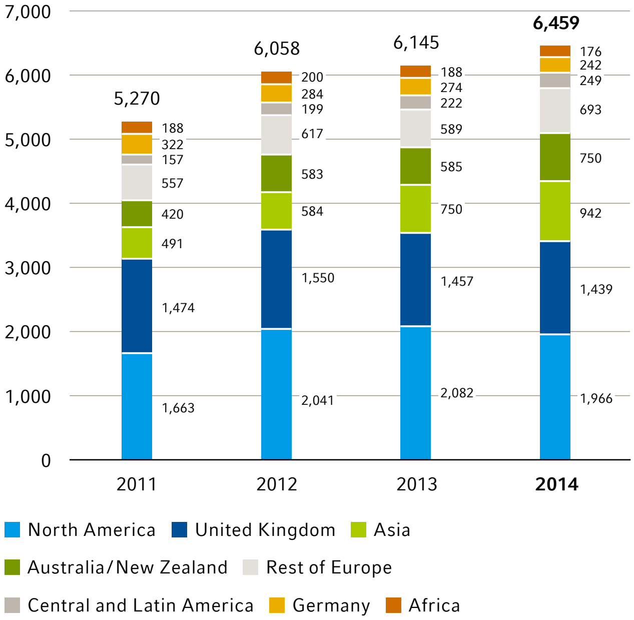
Longevity

Our longevity reporting category encompasses all annuity and pension reinsurance business, insofar as the material risks here are longevity risks. With few exceptions we predominantly cover policies in the pay-out phase.

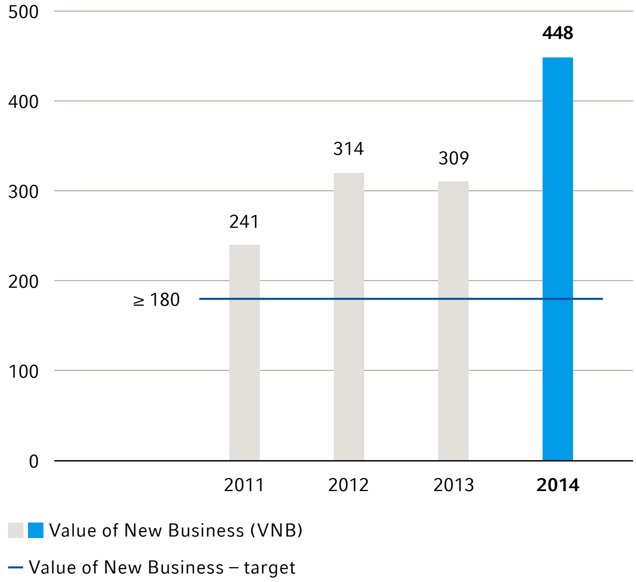
Our portfolio consists principally of enhanced annuities on a single premium basis as well as large-volume annuity blocks with regular premium payments, in return for which we take over the annuity payments that will become due in the future. In the United Kingdom, which continues to be our largest longevity market by premium volume, demand has become more selective and competition more intense. Thanks to our market leadership, our decades of experience and our extensive database, we are well positioned and were able to act on profitable business opportunities despite growing competition. In the financial year just ended, reflecting the global demographic trend, we received an increased number of specific inquiries concerning the transfer of longevity portfolios outside the United Kingdom. Our international know-how was evidenced by our closing of the first reinsurance treaty for longevity risks

Life & Health reinsurance at a glance

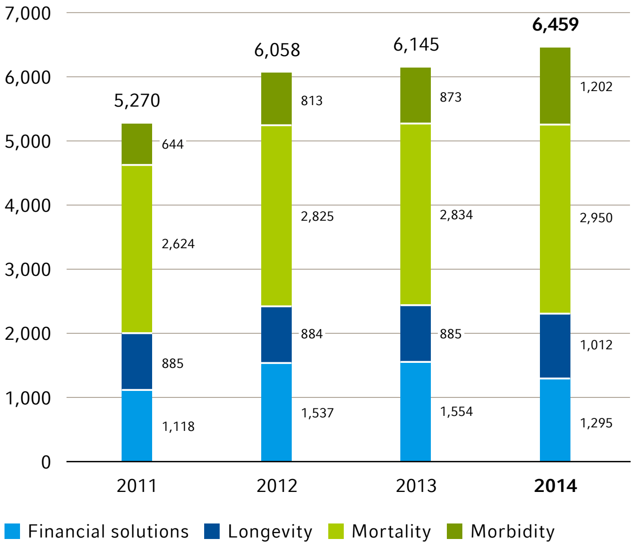
Breakdown of gross premium by markets M 21
in EUR million



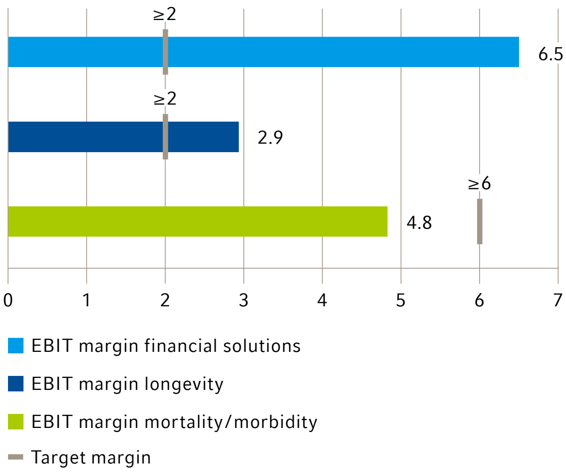
Value of New Business (VNB) growth M 22
in EUR million



Breakdown of gross written premium by reporting categories M 23
in EUR million



EBIT-margin per reporting category vs. target margins 2014 M 24
in %



in France. Under this transaction we assumed pension liabilities in the order of EUR 750 million from a leading French insurer. In the European market Solvency II-oriented covers are a particular focus of interest. In the US market new, far more conservative assumptions relating to mortality improvement have been published, adding impetus to the local longevity market. Notwithstanding the general demand for longevity products in various regions of the world, we have observed increased demand for reinsurance solutions in which the cash flows are geared to the performance of a contractually defined index. In view of this broad range of favourable developments, we were able to boost our gross premium for international longevity business to a pleasing EUR 1,012.0 million (EUR 884.7 million). This increase was carried over in a corresponding profit contribution (EBIT) of EUR 23.7 million (-EUR 17.2 million).

Mortality and morbidity

In the following section we present a consolidated account of the mortality and morbidity reporting categories. In view of the fact that in the international (re)insurance markets these two risk types are frequently covered as part of the same business relationship or even under the same reinsurance treaty, it makes sense to consider them together.

Mortality

The mortality reporting category encompasses our mortality-exposed business, which traditionally constitutes the core business of life and health reinsurance and accounts for the largest share of our total life and health reinsurance portfolio. The risk that we assume as a reinsurer is that the actually observed mortality may diverge negatively from the expected mortality. The US mortality market ranks as one of our most important markets. We are present here with our subsidiary and have been an established and sought-after business partner for more than 30 years.

Our new business in the US developed broadly as we had anticipated. The positive performance of large parts of our existing business was cancelled out by elevated risk experiences in the in-force portfolio covering policies from before 2005. On balance, this business fell somewhat short of our expectations.

In the European market the appeal of traditional, fixed-income risk-oriented products such as life insurance has further diminished owing to the low interest rate environment. Particularly for the German reinsurance market, growth in the area of mortality-exposed risk solutions remains limited. The development in Southern Europe, where mortality business has remained on a consistently high level despite the generally strained economic situation, should therefore be viewed in a correspondingly favourable light. The high quality of bancassurance and credit life business in Italy goes hand in hand with the prudent approach to lending adopted by banks since the outbreak of the financial crisis. Sharia-compliant retakaful reinsurance, an area in which we have further expanded our portfolio and our market leadership, also continued to fare well. Similarly, in Eastern Europe and Asia we achieved a pleasing enlargement of our mortality business in the reporting period just ended. Particularly in certain Latin American countries, the basic conditions for writing reinsurance business have become more challenging due to the exertion of political influence. Nevertheless, we succeeded in boosting our business to a gratifying extent and maintained our leading position in most countries. We were thus able to increase the gross premium for our worldwide mortality business to EUR 2,949.5 million (EUR 2,833.5 million). At 45.7%, the mortality portfolio consequently contributes the lion's share of our total gross premium income from life and health reinsurance (EUR 6.5 billion).

Morbidity

Morbidity business refers to the risk of deterioration in a person's state of health due to disease, injury or infirmity. This reporting category is notable for extensive product diversity, ranging from strict (any occupation) disability and occupational disability to long-term care insurance.

On the whole, morbidity business normalised in 2014 after the adverse impacts of Australian disability risks in the previous year. The intensive efforts undertaken market-wide to counteract the elevated risk experiences brought about the first positive movements: it will, however, likely taken further time before the underlying treaties deliver consistently profitable results. It is nevertheless gratifying to note the reversal of the unfavourable trend, which suggests the onset of an encouraging upswing in results going forward. Other regions of the world, for the most part, are meanwhile playing a positive part in the growth of morbidity business. In the Netherlands, for example, we have assumed appreciable premium volumes under disability risk coverage. Demand for disability policies was similarly strong in Asian markets. In Korea we recorded poorer than anticipated risk experiences for our assumed morbidity business. The general rise in demand for long-term rate guarantees for such risks therefore necessitates a more selective underwriting policy. In the Indian market the growth of microinsurance business in the health insurance sector was very pleasing. These developments are reflected in highly gratifying premium growth of 37.7%. Gross premium income in the financial year surged sharply to EUR 1,202.1 million (EUR 872.9 million).

Taken together, we generated significant growth in the operating result for the reporting categories of mortality and morbidity: EBIT rose to EUR 165.5 million (EUR 39.2 million).

Quite aside from the development of business in the various reporting categories of our Life & Health reinsurance business group, there were further pleasing developments to note: the service component – as in many other sectors too – is taking on ever greater importance. We are actively responding to this trend and successfully supported our customers in the year under review with, among other things, our expertise in the field of automated underwriting. When it comes to medical underwriting, our newly launched newsletter "ReCent" puts the spotlight on current and relevant topics in health and medicine. In addition, our customers are benefiting from a revision of our underwriting manual, which assists primary insurers with risk assessment. We have also made promising progress in the development of alternative, Web-based sales channels in life insurance, the first positive effects of which on our business should be felt in the next few years. Issues such as "big data", the use of information and technological advances continue to be of growing interest to the (re)insurance industry.

Investments

- Return on investment somewhat better than forecast at 3.3%
- Ordinary income slightly higher despite low interest rates
- Sharp rise in valuation reserves

Ordinary investment income excluding interest on funds withheld and contract deposits showed a pleasing development to reach EUR 1,068.4 million (previous year: EUR 1,041.3 million) despite the continued low level of interest rates. Interest on funds withheld and contract deposits improved slightly on the previous year to EUR 376.1 million (EUR 357.3 million). Net realised gains on disposals were considerably higher than in the previous year at EUR 182.5 million (EUR 144.2 million). This was due in part to the change in reporting currency at our Bermuda subsidiaries, the redemption of our bond issued in 2004 and regrouping moves as part of regular portfolio management, although we also acted on opportunities in the real estate sector.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the year under review gave rise to negative fair value changes recognised in income of EUR 6.8 million, as against positive fair value changes recognised in income of EUR 7.4 million in the previous year. The inflation swaps taken out to hedge part of the inflation risks associated with the loss reserves in our technical account produced negative fair value changes of EUR 28.8 million (-EUR 41.0 million) over the course of the year. These fair value changes are recognised in income as a derivative pursuant to IAS 39. We assume an economically neutral development for these two items, and hence the volatility that can occur in specific reporting periods has no bearing on the actual business performance. Altogether, the negative changes in the fair values of our financial assets recognised at fair value through profit or loss amounted to EUR 33.3 million (EUR 27.1 million).

Investment income M 25

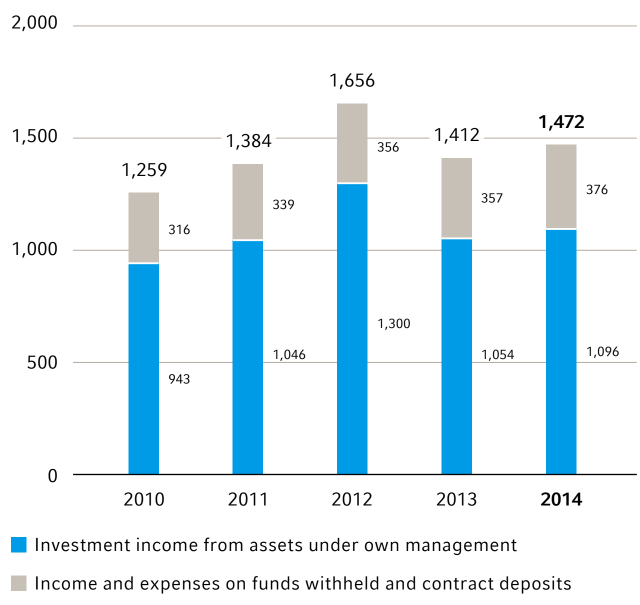
in EUR million	2014	+/– previous year	2013	2012	2011	2010
Ordinary investment income [1]	1,068.4	+2.6%	1,041.3	1,088.4	966.2	880.5
Result from participations in associated companies	1.0	-91.7%	12.5	10.4	3.1	3.9
Realised gains/losses	182.5	+26.6%	144.2	227.5	179.6	162.0
Appreciation	0.1	-60.8%	0.3	2.7	36.8	27.2
Depreciation, amortisation, impairments [2]	27.7	+42.6%	19.4	21.7	31.0	23.8
Change in fair value of financial instruments [3]	(33.3)		(27.1)	89.3	(38.8)	(39.9)
Investment expenses	95.3	-2.1%	97.3	96.4	70.3	67.4
Net investment income from assets under own management	1,095.8	+3.9%	1,054.5	1,300.2	1,045.5	942.5
Net investment income from funds withheld	376.1	+5.2%	357.3	355.5	338.5	316.4
Total investment income	**1,471.8**	**+4.3%**	**1,411.8**	**1,655.7**	**1,384.0**	**1,258.9**

1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

Impairments and depreciation totalling just EUR 27.7 million (EUR 19.4 million) were taken. Scheduled depreciation on directly held real estate amounted to EUR 18.5 million (EUR 14.0 million), a reflection of how we have stepped up our involvement in this sector. The vast bulk of impairments – totalling EUR 5.8 million – were attributable to alternative investments (EUR 3.5 million). These write-downs contrasted with write-ups of altogether EUR 0.1 million (EUR 0.3 million).

Our investment income (including interest on funds withheld and contract deposits) came in at EUR 1,471.8 million, a slightly higher level than in the previous year (EUR 1,411.8 million). This can be attributed principally to the stable ordinary income combined with higher realised gains. Of this amount, income from assets under own management accounted for EUR 1,095.8 million (EUR 1,054.5 million). This produces an average return (excluding effects from inflation swaps and ModCo derivatives) of 3.3%; that this figure is somewhat higher than our forecast of 3.2% reflects among other things increased realised gains on fixed-income securities as well as the fact that we acted on opportunities to realise gains in the real estate sector. Parallel to the rising investment income, the valuation reserves in the investment portfolio for our available-for-sale asset holdings rose by EUR 971.2 million to EUR 1,724.0 million.

Investment income M26
in EUR million



Financial position and net assets

- Risk-appropriate investment policy
- High-quality diversified investment portfolio to be maintained
- Broadly stable asset allocation
- Shareholders' equity sharply higher thanks to excellent Group net income, interest rate reductions and exchange rate effects

Investment policy

Hannover Re's investment policy continues to be guided by the following core principles:

- generation of stable and risk-commensurate returns while at the same time maintaining the high quality standard of the portfolio;
- ensuring the liquidity and solvency of Hannover Re at all times;
- high diversification of risks;
- limitation of currency exposures and maturity risks through matching currencies and maturities.

With these goals in mind we engage in active risk management based on balanced risk/return analyses. In this context we are guided by centrally implemented investment guidelines and the insights of dynamic financial analysis. In light of the current market situation and requirements on the liabilities side investment ranges are defined on this basis, within which operational portfolio management is carried out. These measures are intended to safeguard the generation of an appropriate level of return. In so doing, we pay strict attention to compliance with our clearly defined risk appetite, which is reflected in the risk capital allocated to the investments and establishes the foun-

Investment portfolio M 27

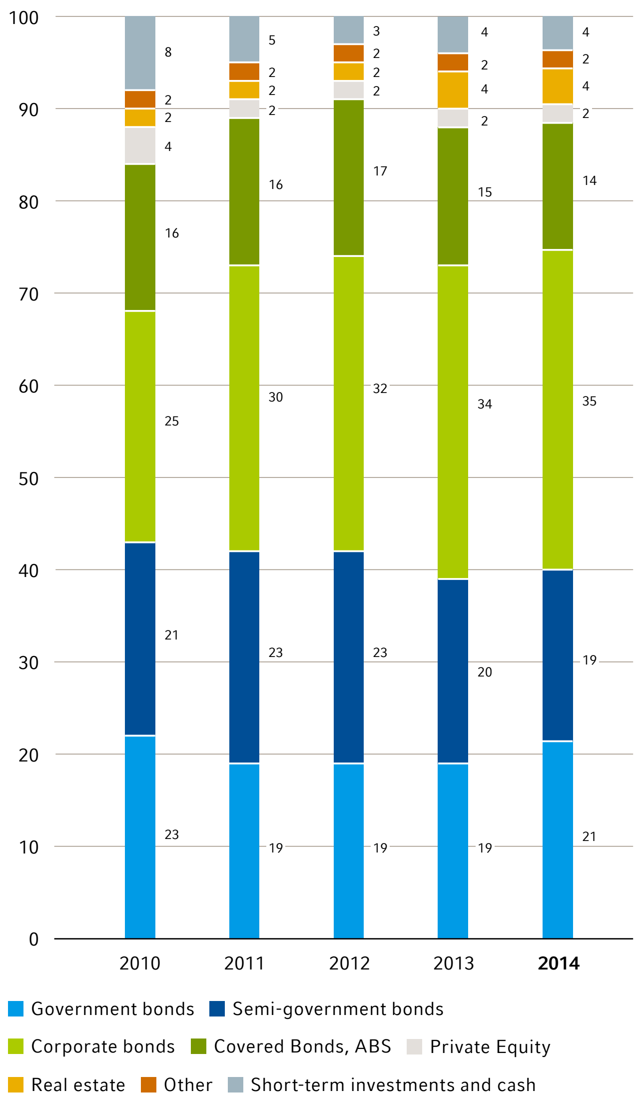
in EUR million	2014	2013	2012	2011	2010
Investments under own management	36,228	31,875	31,874	28,341	25,411
Funds withheld	15,919	14,343	14,751	13,342	12,636
Total	**52,147**	**46,219**	**46,625**	**41,683**	**38,047**

dation for the asset allocation of the entire Hannover Re Group and the individual portfolios. In addition, we ensure that we are able to meet our payment obligations at all times. Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio is geared largely to the technical liabilities.

By adjusting the maturity pattern of our fixed-income securities to the expected payment patterns of our liabilities we reduce the economic exposure to the interest rate risk. In the current reporting period we slightly increased the modified duration of our fixed-income portfolio, as a result of which it stood at 4.6 (previous year: 4.4) as at 31 December 2014. Furthermore, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have only a limited effect on our result.

At year-end 2014 we held 36.9% (40.7%) of our investments in euro, 41.4% (38.0%) in US dollars, 8.5% (8.3%) in pound sterling and 5.2% (4.9%) in Australian dollars.

Breakdown of investments under own management M 28
in %



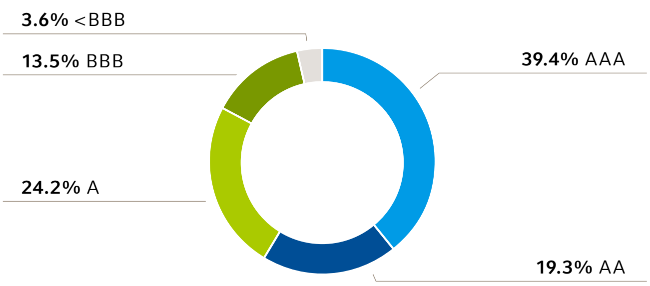
Investments

Our portfolio of assets under own management grew considerably more strongly than expected in the course of 2014; it closed significantly higher than the previous year's level at EUR 36.2 billion (EUR 31.9 billion). This was based in part on a rise in the valuation reserves against the backdrop of the observed yield declines on government bonds in our main currency areas. Above all, though, the weakness of the euro against the major investment currencies substantially accentuated this effect; the cash flow was once again gratifyingly positive.

Compared to the previous year, we kept the allocation of our assets to the individual classes of securities largely unchanged. We merely moved to further slightly increase the share attributable to real estate as part of the strategic expansion of this asset category and scaled back the proportion of covered bonds in favour of corporate bonds. In all other classes we made only minimal changes in the context of regular portfolio maintenance.

The portfolio of fixed-income securities excluding short-term assets rose to EUR 32.0 billion (EUR 28.3 billion). Hidden reserves for available-for-sale fixed-income securities recognised in shareholders' equity totalled EUR 1,246.4 million (EUR 426.4 million). This reflects the yield decreases observed in the course of the reporting period, especially in the area of government bonds in our main currency areas. As to the quality of the bonds – measured in terms of rating categories –, the proportion of securities rated "A" or better remained on a consistently high level as at year-end at 82.9% (83.0%).

Rating of fixed-income securities M 29



Holdings of alternative investment funds increased slightly. As at 31 December 2014 an amount of EUR 684.9 million (EUR 574.3 million) was invested in private equity funds, a further EUR 551.5 million (EUR 402.9 million) predominantly in high-yield bonds and loans; in addition, altogether EUR 373.7 million (EUR 252.1 million) was invested in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 716.3 million (EUR 598.5 million).

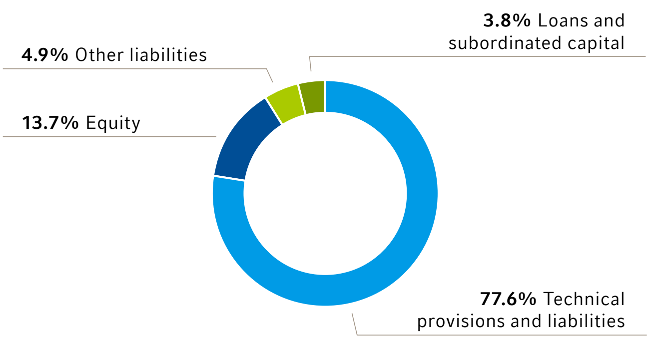
We were again able to increase our real estate allocation somewhat in the course of the year. Various properties in Germany and Central/Eastern Europe were acquired for this purpose; further projects are under review, and the real estate allocation will therefore keep rising steadily as planned. Despite selective sales in the course of the reporting period, it currently stands at 3.9% (3.6%).

At the end of the year under review we held a total amount of EUR 1.3 billion (EUR 1.2 billion) in short-term investments and cash. Funds withheld amounted to EUR 15.9 billion (EUR 14.3 billion).

Analysis of the capital structure

The capital structure and the composition of the liabilities of Hannover Re are shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base and optimise our cost of capital. The following chart shows our capital structure as at 31 December 2014, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.

Capital structure as at 31 December 2014 M 30



The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 77.6% (78.4%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including non-controlling interests at 13.7% (12.1%) of the balance sheet total as well as the loans and – especially – subordinated capital at altogether 3.8% (4.6%) of the balance sheet total represent our most important sources of funds.

We ensure that our business is sufficiently capitalised at all times through continuous monitoring and by taking appropriate steering actions as necessary. For further information please see the following section "Management of policyholders' surplus".

Management of policyholders' surplus

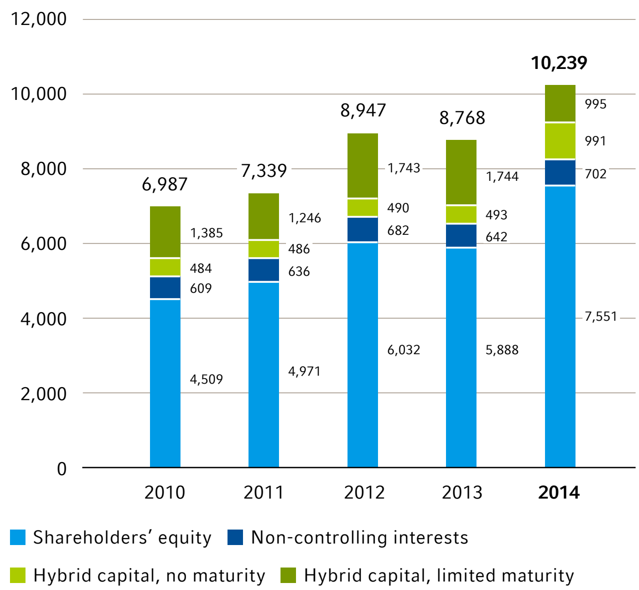
The preservation of its capital is a key strategic objective for Hannover Re. In the 2014 financial year and in recent years hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is a key management ratio in the context of Hannover Re's comprehensive capital management. The policyholders' surplus is defined as follows:

- shareholders' equity excluding non-controlling interests, composed of the common shares, additional paid-in capital, other comprehensive income and retained earnings,
- non-controlling interests and
- hybrid capital used as an equity substitute, which encompasses our subordinated debt.

The policyholders' surplus totalled EUR 10,239.5 million (EUR 8,767.9 million) as at the balance sheet date, an increase of 16.8% in the year under review due to changes in cumulative other comprehensive income and the rise in retained earnings.

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. With the aid of this tool we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 21 et seq. of this report.

Development of policyholders' surplus M 31
in EUR million



Hannover Re is guided in its capital management by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. The Group companies are also subject to national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model, which is described in greater detail on page 75 et seq. of the opportunity and risk report.

Amortised cost of our subordinated bonds M 32

in EUR million	Issue date	Coupon in %	2014	2013
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 750 million; 2004/2024	26.2.2004	5.75	–	749.6
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	1.6.2005	5.00	497.7	493.3
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	14.9.2010	5.75	498.4	498.2
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2012/2043	20.11.2012	5.00	496.9	496.7
Hannover Rück SE, subordinated debt, EUR 500 million; 2014/undated	15.9.2014	3.375	493.5	–
Total			**1,986.5**	**2,237.8**

Group shareholders' equity

In view of the very favourable result, the development of the shareholders' equity of the Hannover Re Group was highly pleasing. Compared to the position as at 31 December 2013, it surged by an appreciable EUR 1,722.9 million – or 26.4% – in the year under review to EUR 8,253.0 million. After adjustment for non-controlling interests, it rose by EUR 1,662.3 million to EUR 7,550.8 million. The book value per share increased accordingly by 28.2% to EUR 62.61. The changes in shareholders' equity were shaped chiefly by the following developments:

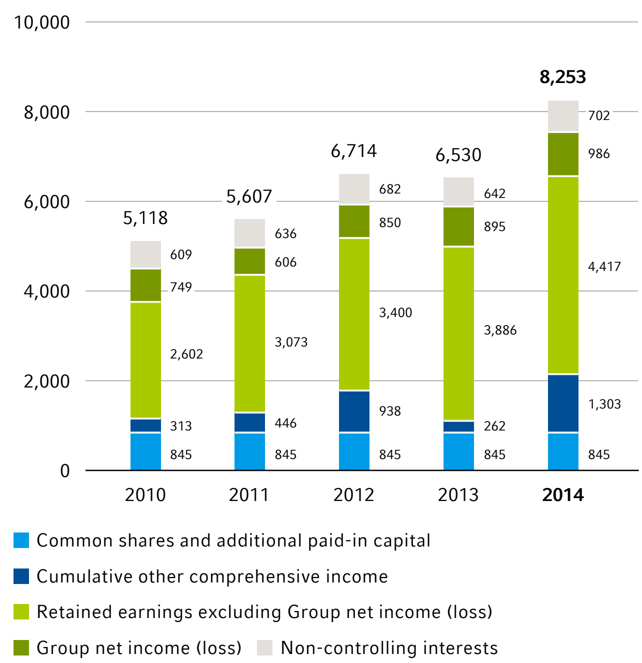
Net unrealised gains on investments stood at EUR 1,169.3 million, a sharp rise of EUR 635.5 million compared to the beginning of the year under review. This increase was mainly due to gains realised on corporate and government bonds as a consequence of the reduced interest rate level.

The reserve for currency translation adjustment climbed significantly by EUR 436.7 million from -EUR 246.3 million to EUR 190.5 million as a consequence of exchange rate movements of foreign currencies against the euro in the financial year. The rise in the reserve for currency translation adjustment resulted principally from the marked depreciation of the euro against the US dollar.

Non-controlling interests in shareholders' equity increased by EUR 60.6 million to EUR 702.2 million as at 31 December 2014. This rise was attributable primarily to the non-controlling interests in E+S Rückversicherung AG in an amount of EUR 50.3 million.

The Group net income for 2014 attributable to the shareholders of the Hannover Re Group climbed to EUR 985.6 million (EUR 895.5 million). The non-controlling interest in the profit generated in the year under review totalled EUR 79.5 million (EUR 43.8 million).

Development of Group shareholders' equity M 33
in EUR million



Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a key component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base – in part also in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 2,270.3 million (EUR 2,465.0 million) as at the balance sheet date.

Our subordinated bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. In the year under review we cancelled and repaid at the first scheduled call date the subordinated debt of EUR 750.0 million issued in 2004 by Hannover Finance (Luxembourg) S.A. In addition, we issued new perpetual subordinated debt with a nominal volume of EUR 500.0 million on the European capital market through Hannover Rück SE. As at the balance sheet date altogether four subordinated bonds had been placed on the European capital market through Hannover Rück SE and Hannover Finance (Luxembourg) S.A.

The table on the previous page presents an overview of the amortised cost of our subordinated bonds.

Several Group companies have also taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 283.9 million (EUR 227.1 million).

For further explanatory information please see our remarks in the notes to this report, Section 6.12 "Debt and subordinated capital", page 210 et seq., and Section 6.13 "Shareholders' equity and treasury shares", page 214.

Letters of credit have been furnished by various financial institutions as collateral for our technical liabilities. Both bilateral agreements and an unsecured syndicated guarantee facility existed as at the balance sheet date with a number of financial institutions for this purpose. We report in detail on existing contingent liabilities in the notes, Section 6.12 "Debt and subordinated capital" in our remarks on other financial facilities, page 213, and Section 8.7 "Contingent liabilities and commitments", page 234 et seq.

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 144 et seq.

Hannover Re does not conduct any automated internal cash pooling within the Group. Liquidity surpluses are managed and created by the Group companies. Various loan relationships exist within the Hannover Re Group for the optimal structuring and flexible management of the short- or long-term allocation of liquidity and capital.

Consolidated cash flow statement M 34

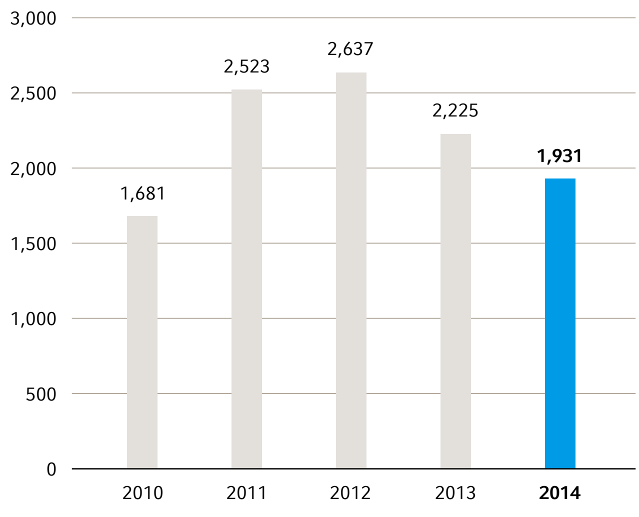
in EUR million	2014	2013
Cash flow from operating activities	1,930.9	2,225.5
Cash flow from investing activities	(1,195.3)	(1,761.5)
Cash flow from financing activities	(647.6)	(347.7)
Exchange rate differences on cash	46.0	(41.7)
Change in cash and cash equivalents	**134.0**	**74.6**
Cash and cash equivalents at the beginning of the period	642.9	572.2
Change in cash and cash equivalents according to cash flow statement	134.0	74.6
Changes in the consolidated group [1]	(4.0)	(3.8)
Cash and cash equivalents at the end of the period	**772.9**	**642.9**

[1] Cf. the explanatory remarks in the "Consolidation" section of the notes

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 1,930.9 million in the year under review as opposed to EUR 2,225.5 million in the previous year. The decrease of EUR 294.6 million in the net inflow year-on-year – despite the modest rise in net premium – was attributable mainly to increased losses paid for hailstorm Andreas as well as for US mortality and senior health insurance business.

Cash flow from operating activities M 35
in EUR million



Cash flow from investing activities

Making allowance for dividend payments and financing measures, the high cash flow from operating activities recorded in the year under review – as in the previous year – was for the most part invested in an amount of EUR 1,195.3 million (EUR 1,761.5 million) in additional investments while at the same time preserving the asset structure. The area of fixed-income securities saw particularly elevated activity compared to the previous year, attributable in part to the regrouping of the investment portfolio from EUR into USD at our subsidiaries in Bermuda and partly also to our repurchase and issuance of new subordinated debt.

Regarding the development of the investment portfolio please see also our remarks at the beginning of this section.

Cash flow from financing activities

With dividend payments remaining roughly unchanged at EUR 403.4 million (EUR 410.3 million), the cash flow from financing activities decreased from -EUR 347.7 million to -EUR 647.6 million. The change was due to subordinated debt of EUR 493.5 million placed in the year under review as well repayment of the EUR 750 million subordinated debt issued by Hannover Finanz (Luxemburg) S.A. at the first scheduled redemption date. The taking up of long-term debt by HR GLL Central Europe GmbH & Co. KG, Munich, in an amount of EUR 77.3 million in the previous year resulted in a further change of -EUR 53.8 million in the cash inflow.

Overall, allowing for the changes in the consolidated group, the cash and cash equivalents therefore increased year-on-year by EUR 130.0 million to EUR 772.9 million.

For further information on our liquidity management please see 97 of the risk report.

Financial strength ratings

A.M. Best and Standard & Poor's, the rating agencies of particular relevance to the insurance industry, assess the financial strength of Hannover Re on the basis of an interactive rating process and have awarded it very good ratings. The rating agencies highlight in particular the strength of the Hannover Re Group's competitive position, its capitalisation and its risk management.

Financial strength ratings of the Hannover Re Group **M36**

	Standard & Poor's	A.M. Best
Rating	AA- (Very Strong)	A+ (Superior)
Outlook	stable	stable

Financial strength ratings of subsidiaries **M37**

	Standard & Poor's	A.M. Best
E+S Rückversicherung AG	AA–	A+
Hannover Life Reassurance Africa Ltd.	BBB+	–
Hannover Life Reassurance Bermuda Ltd.	AA–	A+
Hannover Life Reassurance Company of America	AA–	A+
Hannover Life Re of Australasia Ltd.	AA–	–
Hannover Reinsurance Africa Ltd.	BBB+	–
Hannover Re (Ireland) Ltd.	AA–	A+
Hannover Re (Bermuda) Ltd.	AA–	A+
Hannover ReTakaful B.S.C. (c)	A+	–
International Insurance Company of Hannover SE	AA–	A+

Issue ratings of issued debt

As part of the process of rating Hannover Re the rating agencies also assess the debt issued by the Hannover Re Group.

Issue ratings of issued debt **M38**

	Standard & Poor's	A.M. Best
Hannover Rück SE, subordinated debt, EUR 500 million; 2014/undated	A	a
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2012/2043	A	a+
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2010/2040	A	a+
Hannover Finance (Luxembourg) S.A., subordinated debt, EUR 500 million; 2005/undated	A	a

Information pursuant to § 315 Para. 4 German Commercial Code (HGB)

The common shares (share capital) of Hannover Rück SE amount to EUR 120,597,134.00. They are divided into 120,597,134 registered no-par shares.

The Executive Board of the company is not aware of any restrictions relating to voting rights or the transfer of shares, including cases where these may arise out of agreements between shareholders.

The following companies hold direct or indirect capital participations that exceed 10% of the voting rights:

Talanx AG, Riethorst 2, 30659 Hannover, holds altogether 50.2% (rounded) of the company's voting rights, with 12.0% (rounded) thereof held indirectly. HDI-Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Riethorst 2, 30659 Hannover, which holds a stake of 79.0% in Talanx AG, therefore indirectly holds 39.7% (rounded) of the voting rights in the company.

There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

The appointment and recall of members of the Executive Board are determined by §§ 84 et seq. Stock Corporation Act. Amendment of the Articles of Association is governed by §§ 179 et seq. Stock Corporation Act in conjunction with § 18 Para. 2 of the Articles of Association of Hannover Rück SE.

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in the Articles of Association of Hannover Rück SE as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 Number 8 Stock Corporation Act to acquire treasury shares on certain conditions for a period of five years, ending on 3 May 2015.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects. The letter of credit lines extended to Hannover Rück SE contain standard market change-of-control clauses that entitle the banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25% participation or if a third party acquires the majority interest in Hannover Rück SE. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 6.12 "Debt and subordinated capital", page 213.

In addition, retrocession covers in property & casualty and life & health business contain standard market change-of-control clauses which in each case grant the other contracting party a right of termination if a significant change occurs in the ownership structure and participation ratios of the affected contracting party.

The company has not concluded any compensation agreements with the members of the Executive Board or with employees in the event of a takeover bid being made.

Information on Hannover Rück SE

(condensed version in accordance with the Commercial Code (HGB))

In the 2013 reporting year Hannover Re for the first time availed itself of the option to present a combined Group and company management report pursuant to § 315 Para. 3 of the Commercial Code (HGB) in conjunction with § 298 Para. 3 of the Commercial Code (HGB). Supplementary to the reporting on the Hannover Re Group, we discuss below the development of Hannover Rück SE.

The annual financial statement of Hannover Rück SE is drawn up in accordance with German accounting principles (HGB). The consolidated financial statement, on the other hand, conforms to International Financial Reporting Standards (IFRS). This gives rise to various divergences in accounting policies affecting, above all, intangible assets, investments, technical assets and liabilities, financial instruments and deferred taxes.

The annual financial statement of Hannover Rück SE – from which the balance sheet and profit and loss account in particular are reproduced here in condensed form – has been submitted to the operator of the electronic Federal Gazette and can be accessed via the webpage of the Companies Register. This annual financial statement may be requested from Hannover Rück SE, Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

Hannover Rück SE transacts reinsurance business in the business groups of Property & Casualty and Life & Health reinsurance. Through its global presence and activities in all lines of reinsurance the company achieves optimal risk diversification.

Since 1 January 1997 Hannover Rück SE has written active reinsurance for the Group – with few exceptions – solely in foreign markets. Responsibility within the Hannover Re Group for German business rests with the subsidiary E+S Rückversicherung AG.

Results of operations

The 2014 financial year was a very pleasing one for Hannover Rück SE. The gross premium of Hannover Rück SE in total business contracted by a modest 1.7% to EUR 10.9 billion (previous year: EUR 11.1 billion). The level of retained premium increased from 75.2% to 79.3%. Net premium earned grew by 3.3% to EUR 8.5 billion (EUR 8.2 billion).

The underwriting result for total business (before changes in the equalisation reserve) declined in the year under review from -EUR 4.7 million to -EUR 15.0 million. An amount of EUR 277.6 million (EUR 267.7 million) was allocated to the equalisation reserve and similar provisions.

Condensed profit and loss account of Hannover Rück SE M 39

in EUR thousand	2014	2013
Earned premiums, net of retrocession	8,481,296	8,209,507
Allocated investment return transferred from the non-technical account, net of retrocession	442,194	194,599
Other technical income, net of retrocession	23	425
Claims incurred, net of retrocession	6,801,306	6,254,293
Changes in other technical provisions, net of retrocession	166,116	21,669
Bonuses and rebates, net of retrocession	48	1,963
Operating expenses, net of retrocession	2,301,759	2,171,507
Other technical charges, net of retrocession	1,533	3,121
Subtotal	**(15,017)**	**(4,684)**
Change in the equalisation reserve and similar provisions	(277,646)	(267,717)
Net technical result	**(292,663)**	**(272,401)**
Investment income	1,739,563	1,385,550
Investment charges	158,722	268,993
Allocated investment return transferred to the technical account	(567,810)	(247,895)
Other income	161,566	109,866
Other charges	284,151	325,993
Profit or loss on ordinary activities before tax	**597,783**	**380,134**
Taxes on profit and income and other taxes	176,546	12,973
Profit for the financial year	**421,237**	**367,161**
Profit brought forward from previous year	94,208	89,209
Withdrawals from other retained earnings	–	–
Allocations to other retained earnings	445	370
Disposable profit	**515,000**	**456,000**

Major loss expenditure in the year under review was lower than in 2013. Although the hurricane season once again passed off unremarkably, a number of natural catastrophe events were recorded. In Western Europe, for example, the low pressure area Ela caused extensive damage. The resulting net strain for Hannover Re's account was EUR 15.9 million. For the aviation line the year under review was a particularly costly one. The largest single loss derived from attacks on Tripoli airport, for which we have set aside net reserves of EUR 47.9 million. The total net expenditure incurred by Hannover Rück SE from major losses was EUR 257.0 million (EUR 283.2 million).

Ordinary investment income including deposit interest comfortably exceeded the previous year's level to reach EUR 1,589.6 million (EUR 1,304.8 million). This was due principally to increased income from the similarly enlarged volume of deposits with ceding companies and higher distributions from our investment holding companies. Net gains of EUR 104.0 million (EUR 43.5 million) were realised on disposals. Write-downs of EUR 92.9 million (EUR 186.7 million) were taken on investments. The decrease is for the most part attributable to extraordinary income booked in the previous year on shares in affiliated companies and fixed-income securities. The write-downs contrasted with write-ups of EUR 30.5 million (EUR 14.4 million) that were made on assets written down in previous periods in order to reflect increased fair values. Provisions for contingent losses of EUR 19.9 million (EUR 21.7 million) were established due to lower fair values of some of our inflation swaps. They were opposed by reversals of provisions for contingent losses constituted for technical derivatives in an amount of EUR 1.9 million (EUR 6.1 million).

All in all, our net investment result improved to EUR 1,580.8 million (EUR 1,116.6 million).

The profit on ordinary activities increased to EUR 597.8 million (EUR 380.1 million). The year under review closed with a profit for the year of EUR 421.2 million (EUR 367.2 million).

Development of the individual lines of business

The following section describes the development of the various lines of business. We would like to point out that with effect from the beginning of the year under review the exchange of business under joint underwriting arrangements between Hannover Rück SE and E+S Rückversicherung AG was discontinued. In property and casualty reinsurance, however, a retrocession from Hannover Rück SE to E+S Rückversicherung AG has been maintained. The proportion of Hannover Rück SE's gross written premium attributable to business accepted from E+S Rückversicherung AG stood at -0.1% (3.7%) in the year under review and relates to the run-off of the 2013 and prior underwriting years.

Fire

Total gross premium income for the fire line contracted by 5.6% in the 2014 financial year to EUR 1,298.2 million (EUR 1,375.7 million). The net loss ratio improved in the year under review from 64.0% to 61.4%. The underwriting profit climbed to EUR 140.3 million (EUR 105.3 million). An amount of EUR 186.6 million (EUR 148.4 million) was allocated to the equalisation reserve and similar provisions.

Fire M 40

in EUR million	2014	2013
Gross written premium	1,298.2	1,375.7
Loss ratio (%)	61.4	64.0
Underwriting result (net)	140.3	105.3

Casualty

Gross premium in casualty business fell by 4.3% to EUR 1,174.7 million (EUR 1,228.0 million). The loss ratio increased from 96.6% to 104.5%. The underwriting result consequently slipped back to -EUR 276.0 million (-EUR 209.8 million). An amount of EUR 88.7 million was withdrawn from the equalisation reserve and similar provisions in the year under review; the withdrawal in the previous year had totalled EUR 34.2 million.

Casualty M 41

in EUR million	2014	2013
Gross written premium	1,174.7	1,228.0
Loss ratio (%)	104.5	96.6
Underwriting result (net)	(276.0)	(209.8)

Accident

Gross premium decreased by 12.8% to EUR 316.0 million (EUR 362.2 million). Profitability was gratifying: the very good loss ratio of 52.8% in the previous year was maintained fairly stable in the year under review at 57.4%. The underwriting result came in at a very pleasing EUR 32.2 million, after EUR 31.9 million in the previous year. An amount of EUR 2.9 million was allocated to the equalisation reserve and similar provisions, following an allocation of EUR 2.5 million in the previous year.

Accident M 42

in EUR million	2014	2013
Gross written premium	316.0	362.2
Loss ratio (%)	57.4	52.8
Underwriting result (net)	32.2	31.9

Motor

The gross premium volume for the motor line climbed by a very substantial 44.0%% to EUR 941.7 million (EUR 653.8 million) following the assumption of a large motor quota share arrangement in China. The loss ratio improved to 39.1% (78.9%). The underwriting result consequently increased sharply year-on-year to EUR 138.2 million (-EUR 21.2 million). An amount of EUR 69.3 million was allocated to the equalisation reserve and similar provisions in the year under review, after a withdrawal of EUR 37.2 million in the previous year.

Motor M 43

in EUR million	2014	2013
Gross written premium	941.7	653.8
Loss ratio (%)	39.1	78.9
Underwriting result (net)	138.2	(21.2)

Aviation

Gross premium volume contracted by 10.6% in 2014 from EUR 384.5 million to EUR 343.6 million. Losses incurred in the year under review – in contrast to previous years – were exceptionally heavy. Against this backdrop the loss ratio deteriorated from 50.9% to 102.1%. The underwriting result came in at -EUR 60.7 million (EUR 66.1 million). Following an allocation of EUR 34.0 million in the previous year, an amount of EUR 34.4 million was withdrawn from the equalisation reserve and similar provisions in the year under review.

Aviation M 44

in EUR million	2014	2013
Gross written premium	343.6	384.5
Loss ratio (%)	102.1	50.9
Underwriting result (net)	(60.7)	66.1

Marine

Gross written premium climbed by 4.7% to EUR 433.8 million (EUR 414.4 million). The net loss ratio deteriorated from 49.4% to 62.2%. The underwriting result consequently retreated from EUR 75.5 million to EUR 39.4 million. Among the key factors here the most notable was the increased market loss associated with the wreck of the "Costa Concordia" owing to the costly salvage operation. With this in mind we set aside additional reserves. The originally estimated loss expenditure in connection with a wrecked container vessel had also risen. An amount of EUR 91.3 million (EUR 123.3 million) was allocated to the equalisation reserve and similar provisions.

Marine M 45

in EUR million	2014	2013
Gross written premium	433.8	414.4
Loss ratio (%)	62.2	49.4
Underwriting result (net)	39.4	75.5

Life

Gross premium income in the life line grew by 4.8% in the financial year just ended to EUR 4.1 billion (EUR 3.9 billion). The business climate in the largely saturated insurance markets of Western Europe was highly challenging. The steady premium erosion observed in particular in connection with a number of large treaties was therefore sustained in the year under review. In Asian markets, on the other hand, the premium development was pleasing and played a correspondingly positive part in the increased gross premium volume.

The underwriting result improved appreciably on the previous year's figure of -EUR 53.6 million to reach -EUR 19.5 million. Most strikingly, the steps that we have taken to stabilise results in Australian disability business clearly bore fruit in the year under review. In general terms, our portfolio developed very much in line with our expectations, with longevity business performing even better than anticipated.

Irrespective of the business development, the gross premium volume and the underwriting result were also influenced by, among other things, the discontinuation of the reciprocal exchange of business between Hannover Rück SE and E+S Rückversicherung AG effective 1 January 2014.

Life M 46

in EUR million	2014	2013
Gross written premium	4,082.0	3,893.5
Underwriting result (net)	(19.5)	(53.6)

Other lines

The lines of health, credit and surety, other indemnity insurance and other property insurance are reported together under other lines. Other property insurance consists of the extended coverage, comprehensive householder's (contents), comprehensive householder's (buildings), burglary and robbery, water damage, plate glass, engineering, loss of profits, hail, livestock and windstorm lines. Other indemnity insurance encompasses legal protection, fidelity as well as other pure financial losses and property damage.

The total premium volume in the other lines fell by 16.8% to EUR 2.3 billion (EUR 2.7 billion). The loss ratio improved slightly to 74.1% (76.0%). The underwriting result closed at -EUR 8.9 million, after EUR 1.0 million in the previous year. An amount of EUR 50.6 million (EUR 31.0 million) was allocated to the equalisation reserve and similar provisions.

Other lines M 47

in EUR million	2014	2013
Gross written premium	2,274.9	2,735.8
Loss ratio (%)	74.1	76.0
Underwriting result (net)	(8.9)	1.0

Assets and financial position

Balance sheet structure of Hannover Rück SE M 48

in EUR thousand	2014	2013
Assets		
Intangible assets	75,731	73,438
Investments	41,912,302	33,203,262
Receivables	2,405,397	2,029,910
Other assets	362,095	386,231
Prepayments and accrued income	200,717	200,150
Total assets	44,956,242	35,892,991
Liabilities		
Subscribed capital	120,597	120,597
Capital reserve	880,608	880,608
Retained earnings	380,511	380,511
Disposable profit	515,000	456,000
Capital and reserves	**1,896,716**	**1,837,716**
Subordinated liabilities	1,500,000	1,800,000
Technical provisions	32,524,999	27,684,284
Provisions for other risks and charges	452,714	319,702
Deposits received from retrocessionaires	7,308,422	3,219,018
Other liabilities	1,273,391	1,032,271
Total liabilities	44,956,242	35,892,991

Our portfolio of assets under own management grew in the year under review to EUR 23.0 billion (EUR 20.8 billion). This corresponds to an increase of 10.6% and can be attributed above all to the very positive operating cash flow and the appreciation of key foreign currencies against the euro, although the increase in the fair values of fixed-income securities in connection with the observed yield declines on government bonds in our main currency areas also played a role. The balance of unrealised gains on fixed-income securities and bond funds increased to EUR 891.3 million (EUR 414.7 million).

Deposits with ceding companies, which are shown under the investments, totalled EUR 18.9 billion (EUR 12.4 billion) in the year under review.

Our capital and reserves – excluding the disposable profit – stood at EUR 1,381.7 million (EUR 1,381.7 million). The total capital, reserves and technical provisions – comprised of the capital and reserves excluding disposable profit, the subordinated liabilities, the equalisation reserve and similar provisions as well as the net technical provisions – grew during the year under review to EUR 35,406.7 million (EUR 30,866.0 million). Based on the increase in the total capital, reserves and technical provisions, the balance sheet total of Hannover Rück SE grew to EUR 45.0 billion (EUR 35.9 billion).

A dividend of EUR 3.00 per share, equivalent to 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 plus 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.

Risks and opportunities

The business development of Hannover Rück SE is essentially subject to the same risks and opportunities as that of the Hannover Re Group. As a general principle, Hannover Rück SE shares in the risks of participating interests and subsidiaries according to the amount of its respective holding. The risks are set out in the risk report. The relations with participating interests of Hannover Rück SE may also give rise to losses from legal or contractual contingent liabilities (particularly novation clauses and guarantees). Please see our explanatory remarks in the notes to this report.

Other information

We received an adequate consideration for all transactions with affiliated companies according to the circumstances of which we were aware at the time when the transactions were effected. We incurred no losses requiring compensation as defined by § 311 Para. 1 Stock Corporation Act (AktG).

Hannover Rück SE maintains branches in Australia, Bahrain, Canada, China, France, Korea, Malaysia, Sweden and the United Kingdom.

Outlook

In view of the interrelations between the parent company and the Group companies and the former's large share of business within the Group, we would refer here to our remarks contained in the section entitled "Outlook for 2015" on page 136, which also reflect in particular the expectations for Hannover Rück SE. In terms of the dividend for the current financial year, we envisage a payout ratio in the range of 35% to 40% of the IFRS Group net income. This ratio may increase in light of capital management considerations if the present comfortable level of capitalisation remains unchanged.

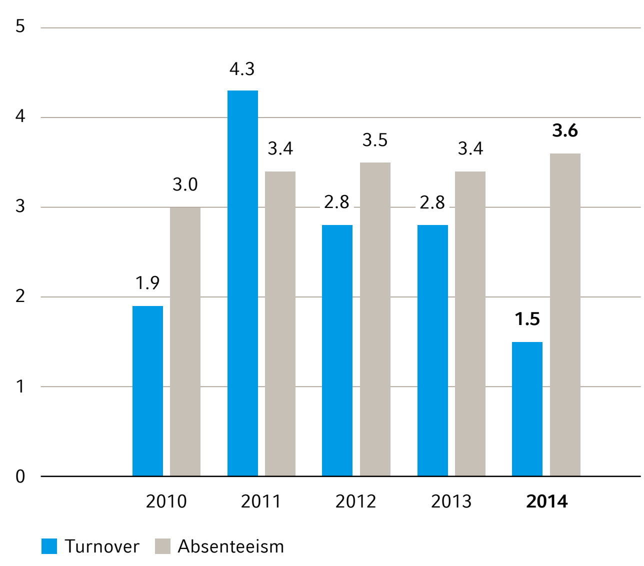
Other success factors

Our staff

Key personnel ratios

The Hannover Re Group employed 2,534 staff as at 31 December 2014 (previous year: 2,419). The turnover ratio at Home Office in Hannover of 1.5% (2.8%) was well below the level of the previous year. The rate of absenteeism – at 3.6% – was slightly higher than in the previous year (3.4%). The turnover ratio and rate of absenteeism continue to be below the average expected across the industry as a whole.

Staff turnover/absenteeism Hannover Home Office M 49
in %



Further steps taken to support the advancement of women

In the year under review, as in prior years, we continued to step up our activities in relation to diversity management and especially the advancement of women. In the period from March 2013 to March 2014 we held a mentoring programme for women as part of a pilot scheme. Five mentee/mentor tandems worked on specific issues facing each of the mentees at regular meetings. Following its conclusion we evaluated the programme and its results. It was pleasing to see the thoroughly positive evaluation both as regards the scheme's implementation and in relation to the cooperation between mentee and mentor; the clearly evident personal growth of the mentees was similarly highly gratifying. This mentoring programme was also perceived – as had been intended – as a special sign of appreciation and an intensive personnel development measure in the context of the advancement of women. The Executive Board therefore decided to continue with this programme. Preparations were made for the next round in September 2014 with two company-wide information events aimed at the target group. The application and selection phase took place in the fourth quarter of 2014, and another five mentee/mentor tandems are set to enter the mentoring programme at the beginning of 2015.

In January 2014 the advancement of women was also a topical focus of our regularly held Executive Meeting. The centrepiece here was a keynote presentation, supported by outside speakers, on the themes of "glass ceilings" and "gender-specific communication". These topics, and the resulting implications for the advancement of women, were explored in practical terms for our senior managers. We tapped into this momentum by launching our new in-house executive training session on the subject of "gender-specific communication". The aim of these two days of training, which are highly practically oriented, is to make our senior managers more aware of the differences in communication behaviour between women and men. The two seminar events held in the year under review were well received and it is envisaged that they will again form part of our internal training programme in 2015.

The advancement of women was also the subject of a number of decentralised events. For example, various parts of the company used their retreats to explore the opportunities, consequences and limits of this topic by way of presentations and discussions.

In conclusion, it can be stated that the general perception of the advancement of women within the company has changed for the better.

Improvements to our blended learning processes launched

Since 2012 we have offered a state-of-the-art form of in-house specialist skills enhancement for Home Office and for our colleagues around the world with our blended learning programmes – i. e. the combination of electronic learning methods with tutorial support. With a view to satisfying the increasingly demanding requirements that will be placed on our internal training going forward as well as on the reliable controlling of instructional activities, we launched a project in the year under review aimed at rolling out our own learning management system. The goal is to give our employees worldwide a readily available overview of training opportunities, facilitate rapid access to the existing tuition programmes and training documents and enhance administrative processes by means of appropriate workflows. The first step during the initial phase of the project, which was carried out in 2014, was to record and revise our internal training processes. Building on this foundation, we selected a learning management system that met our requirements and ensured – by way of an elaborate proof of concept – that it was tailored to our needs. Following successful completion of this project phase, the selected programme is now being launched.

Personnel development measures systematically expanded

As part of the systematic expansion of our personnel development measures, we also made the further training of our professionally seasoned staff a particular point of emphasis. In this respect, the most recent employee survey had highlighted specific requirements to which we responded with the newly designed seminars "Primary insurance know-how for reinsurers" and "Confident decision-making in complex situations". These targeted learning incentives put our experts in an even stronger position as they strive to keep pace with changing (market) requirements and continue to act with assurance in the face of growing complexity. Not only that, by means of these offerings we foster the important inclination towards lifelong learning.

The effects of shifting demographics are making themselves felt in our company, just as they are in the wider world. For this reason another focus of our attention when it comes to updating our training programme is on aspects of health and performance capability as well as on supporting our staff in the later phase of their working life. To this end, we introduced a seminar to share knowledge about health impacts on business performance and raise awareness of resilience factors. Participants get to know their own personal resources that can sustain them in a healthy lifestyle and help them to preserve their long-lasting performance potential. Another newly launched seminar is aimed specially at members of staff who will be retiring in the next few years. Entitled "Purposefully shaping the transition to retirement", it helps these employees to tackle their final years with the company proactively and prepare for retirement. On the one hand, then, this seminar leverages sources of potential for the company, while at the same time expressing the considerable esteem in which we hold such members of staff for their many years of dedication.

We have been heartened by the favourable response to all these measures and feel strengthened in our desire to continue along this path.

Breakdown of employees by country M50

	2014	2013
Germany	1,289	1,219
USA	285	280
United Kingdom	200	208
South Africa	164	164
Australia	100	85
Sweden	89	89
China	70	56
Malaysia	53	43
France	52	50
Ireland	48	50
Bahrain	45	42
Bermuda	43	43
Colombia	26	25
Italy	11	12
Canada	11	5
Korea	10	9
Japan	9	10
India	8	8
Spain	7	7
Mexico	6	6
Taiwan	4	4
Brazil	4	4
Total	**2,534**	**2,419**

Word of thanks to our staff

The Executive Board would like to thank all employees for their dedication in the past year. At all times the workforce identified with the company's objectives and pursued them with motivation. We would also like to express our appreciation to the representatives of staff and senior management who participated in our co-determination bodies for their critical yet always constructive cooperation.

Sustainability at Hannover Re

The sustainability strategy of the Hannover Re Group

As a leading player in the reinsurance industry, the commercial success of Hannover Re is crucially dependent on the correct assessment of present and emerging risks. In the process of evaluating risks we are faced today with growing complexity as a consequence of the increasing importance attached to various aspects of sustainability. In some instances these also have direct strategic and operational relevance to our reinsurance products and our investments. Our goal, therefore, is to achieve economic success on the basis of a profit-oriented business model – while at the same time acting in accordance with the needs of our staff and the company and giving due consideration to conservation of the environment and natural resources.

With this in mind, in 2011 we drew up a Sustainability Strategy for Hannover Re in which we explicitly committed to our strategic objective of sustainable value creation. This Sustainability Strategy is based on the implementation of all compliance requirements and fleshes out in more concrete terms the higher-level corporate strategy of the Hannover Re Group. We systematically adhered to this Sustainability Strategy in the 2014 financial year. The inclusion of Hannover Re in the internationally recognised sustainability index FTSE4Good in the fourth quarter of 2014 is a testament to our achievements.

Sustainable action is not, however, something which is static; rather, it must take place dynamically and in accordance with changing environmental circumstances. In conformity with the Group Strategy, therefore, our sustainability considerations are regularly reviewed every three years and revised as necessary. Going forward, our refined Sustainability Strategy for the years 2015 to 2017 defines the following four action fields as well as specific goals and measures:

- Governance and dialogue
- Product responsibility
- Successful employees
- Environmental protection and social commitment

For details of Hannover Re's new Sustainability Strategy please see www.hannover-re.com/sustainability/index.html.

Governance and dialogue

As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with relevant laws and regulations, but also applies to its relationship with staff, shareholders, the public at large and the cultures within which the company operates. In this respect, the Group Strategy, our Corporate Governance principles and the defined Code of Conduct form the basis of our enterprise management. As a European company (SE) based in Germany, the formal framework that shapes our corporate governance is determined by national (German) law. Consequently, the company's management structure is composed of three bodies: the Executive Board, the Supervisory Board and the General Meeting. Their interaction is regulated by law and by the company's articles of association.

In addition to our continuous engagement with the changing legal framework conditions, since 2003 we have provided an annual Declaration of Conformity with the German Corporate Governance Code (DCKG); this is published on our corporate website and can also be found on page 101 et seq. of the present Annual Report. The Corporate Governance principles of

Hannover Rück SE are also subject to regular review and fulfil the recommendations of the currently valid version of the German Corporate Governance Code. Furthermore, given that the trust of our stakeholder groups and an immaculate reputation are vital to the success of our company, we make every effort to cultivate an active dialogue with representatives of the capital market and society as a whole as well as with our clients and staff.

In 2014 Hannover Re's sustainability performance was again evaluated by the rating agency Oekom Research; our company was awarded "Prime" status in recognition of its above-average fulfilment of industry-specific requirements. In addition, Hannover Re was added to the worldwide FTSE4Good Index Series in the financial year just ended by the FTSE4Good Advisory Committee. The company's inclusion was based on its sustainability rating according to ESG (environmental, social and governance) criteria for 2014. We have thus achieved another major objective of our Sustainability Strategy.

In the year just ended we again reported on our achievements as a responsible enterprise in the form of a stand-alone Sustainability Report. In this regard we follow the currently applicable and internationally recognised guidelines of the Global Reporting Initiative (GRI); we fulfil Application Level B – the intermediate level of transparency – as defined by the GRI.

Our detailed Sustainability Report can be accessed at www.hannover-re.com/sustainability/index.html

Product responsibility

As one of the world's leading reinsurers, we essentially bear responsibility for two specialist areas when it comes to our core business: in the first place for our reinsurance business, and secondly for the management of our investments.

Our range of reinsurance products and services is geared to the needs of the market and our clients. Hannover Re is active in virtually all lines of reinsurance business. Our products range from traditional reinsurance to complex individual solutions for risk transfer and the optimisation of our clients' capital requirements. In response to changing social challenges, new economic, social and ecological risks – known as emerging risks – are increasingly reflected in our risk assessment. Examples of emerging risks include demographic change, the formation of megacities, shortages of resources, climate change and its impacts on global development (natural disasters, environmental damage) as well as pandemics and risks associated with technological progress (such as cyber-risks). We use all internally and externally acquired insights in order to be able to offer better or innovative (re)insurance solutions.

When it comes to the management of our investment portfolio, we aim to generate a commensurate market return in the interests of our clients and shareholders. This is done in accordance with our Sustainability Strategy by incorporating ESG (environmental, social and governance) criteria into our investment policy. Specifically, since 2012 we have been guided by the ten principles of the United Nations Global Compact and thus also recognise the aspects of human rights, working conditions, the environment and anti-corruption. Since 2013 our investments have been reviewed half-yearly to verify compliance with these ESG standards. If a failure to comply is identified, we part with the instrument in question and exclude it from our investment universe. As we develop and continuously review our investment strategy, we work together with an established service provider that specialises in sustainability.

Successful employees

Given that our employees are absolutely crucial to the success of our company, we have defined strategic principles for our human resources management. In order to ensure that we are always perceived as an attractive employer by our existing staff and potential new junior recruits, we pay special attention to their skills and further growth. The health and well-being of our staff are also vital to the sustainable development of our business. The focus of our efforts is therefore on the prevention of disease, e.g. through medical check-ups by the company physician, workplace inspections, advice and treatment relating to matters of general medicine as well as a range of sporting opportunities designed to promote a healthy lifestyle.

We also stress the importance of enabling our employees to strike the right balance between their career and private life. Consequently, we offer individually customisable part-time and telecommuting models as well as flexitime working arrangements with no core hours. By offering such flexibility we want to help our employees organise their daily routine in various stages of life such as starting a family or preparing for retirement. One of the cornerstones of our successful business activities, along with skills and commitment, is the high degree of diversity in our workforce – since this is vital to safeguarding our high global quality standard.

Environmental protection and social commitment

Hannover Re makes every effort to keep negative environmental impacts of its business operations as low as possible. With this in mind, we focus in particular on reducing carbon dioxide (CO_2) emissions from our electricity consumption and the heating of our premises as well as those caused by business travel. Our goal is to operate on a climate-neutral basis at Hannover Home Office by the year 2015. In addition, we are committed to the economical and environmentally friendly use of (raw) materials such as paper and water in our offices. Major steps taken towards achieving this goal were the changeover to power generated from purely renewable sources, the installation of a photovoltaic system on the roof of our main office building in Hannover and the implementation of an environmental management system. Shortly after its launch in 2012 this was successfully certified according to DIN EN ISO 14001; its conformity was recertified in the context of the 2014 maintenance audit.

Hannover Re's carbon dioxide emissions at its German location in 2014 amounted to 7,798 (previous year: 7,203) tonnes, some 8.3% more than in the previous year. This is equivalent to per capita CO_2 emissions of 6.0 tonnes (+2.4% compared to the previous year).

In 2014, as in previous years, we compensated for our unavoidable CO_2 emissions of 7,514 (6,859) tonnes caused by airline travel by making voluntary offsetting payments to the international organisation "atmosfair" and thereby supported selected climate protection projects in developing and emerging countries. No offsetting payments had to be made in the financial year just ended for emissions resulting from rail travel because Hannover Re participates in Deutsche Bahn's corporate customer programme under which every kilometre of train travel within Germany is powered by 100% green energy.

In the financial year just ended, as in prior years, we reported on our climate strategy and our measures to reduce carbon dioxide emissions as part of the international initiative overseen by the Carbon Disclosure Project (CDP).

The table below breaks down Hannover Re's consumption and emissions over the past five years.

Resources consumed at Hannover Home Office M 51

	2014[3]	2013[3]	2012[3]	2011[2]	2010[1]
Number of staff	1,289	1,219	1,164	1,110	1,089
Electricity (in kWh)	8,969,975	9,114,482	8,802,262	8,214,917	8,055,429
Heat (in kWh)	2,748,014	3,359,694	2,319,854	1,859,119	2,383,918
Water (in l)	15,176,000	15,778,000	14,961,000	14,464,500	14,722,000
Paper (in sheets)	7,551,200	8,502,060	8,766,000	9,172,180	9,074,300
Waste (in kg)	193,760	214,250	205,790	257,400	297,000
Business trips (in km)	20,447,867	18,185,062	16,654,504	17,658,598	16,018,500
CO_2 emissions[4] (in kg)	7,798,000	7,203,000	4,984,000	8,123,000	7,685,000

1 Karl-Wiechert-Allee 50, Roderbruchstrasse 26 and infant daycare centre, Hannover
2 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Hannover
3 Karl-Wiechert-Allee 50, Roderbruchstrasse 21 and 26 as well as infant daycare centre, Karl-Wiechert-Allee 57 (pro rata), Hannover
4 Radiative Forcing Index: 2.7

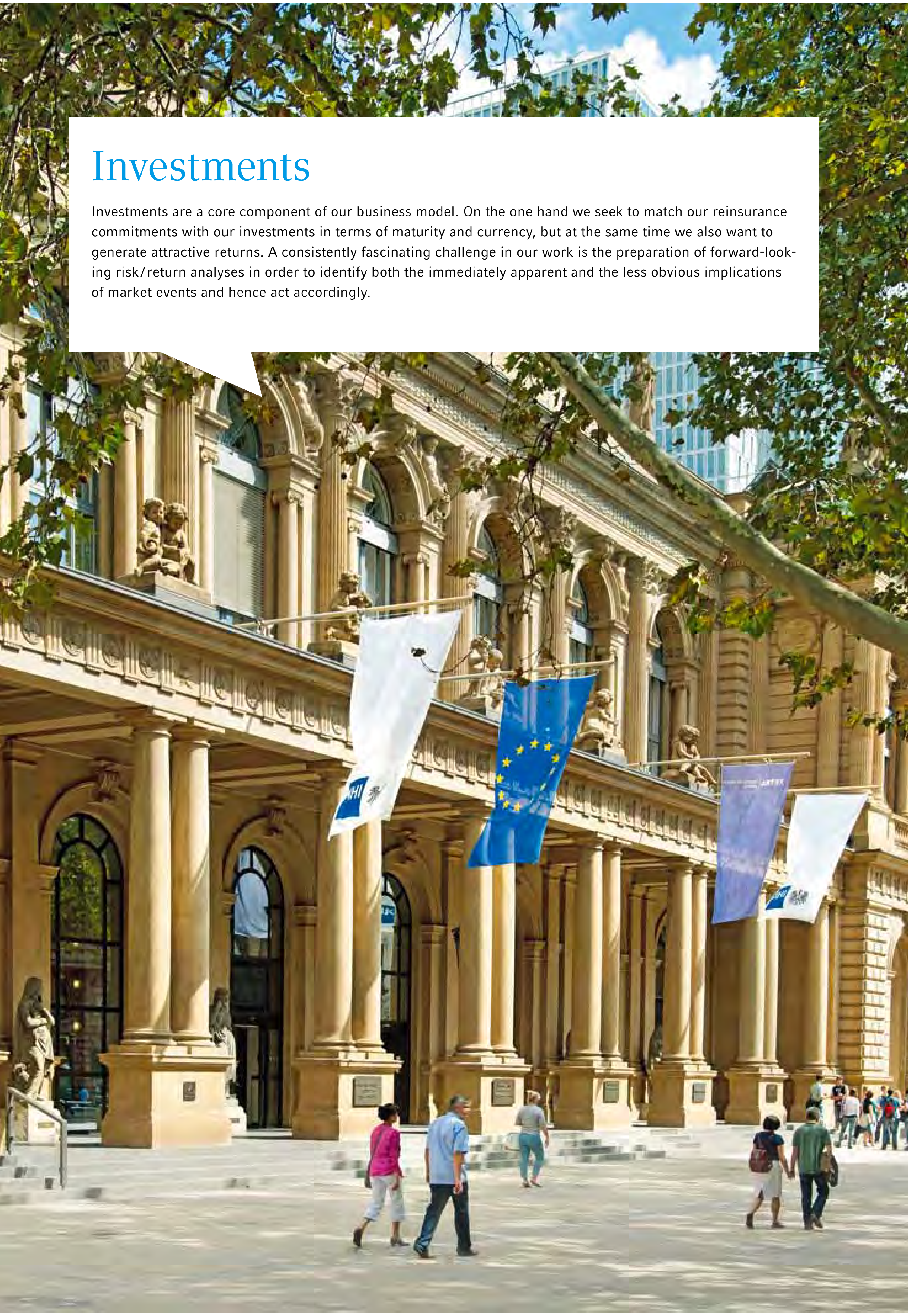
Hannover Re's commitment to society has a long tradition. The company has been active as a sponsor of culture and social projects since its founding in 1966. Today, we concentrate our non-profit activities on the areas of art and music as well as research and learning. We also support the voluntary social engagement of our members of staff. Our involvement encompasses not only projects in Germany but also activities at our international locations.

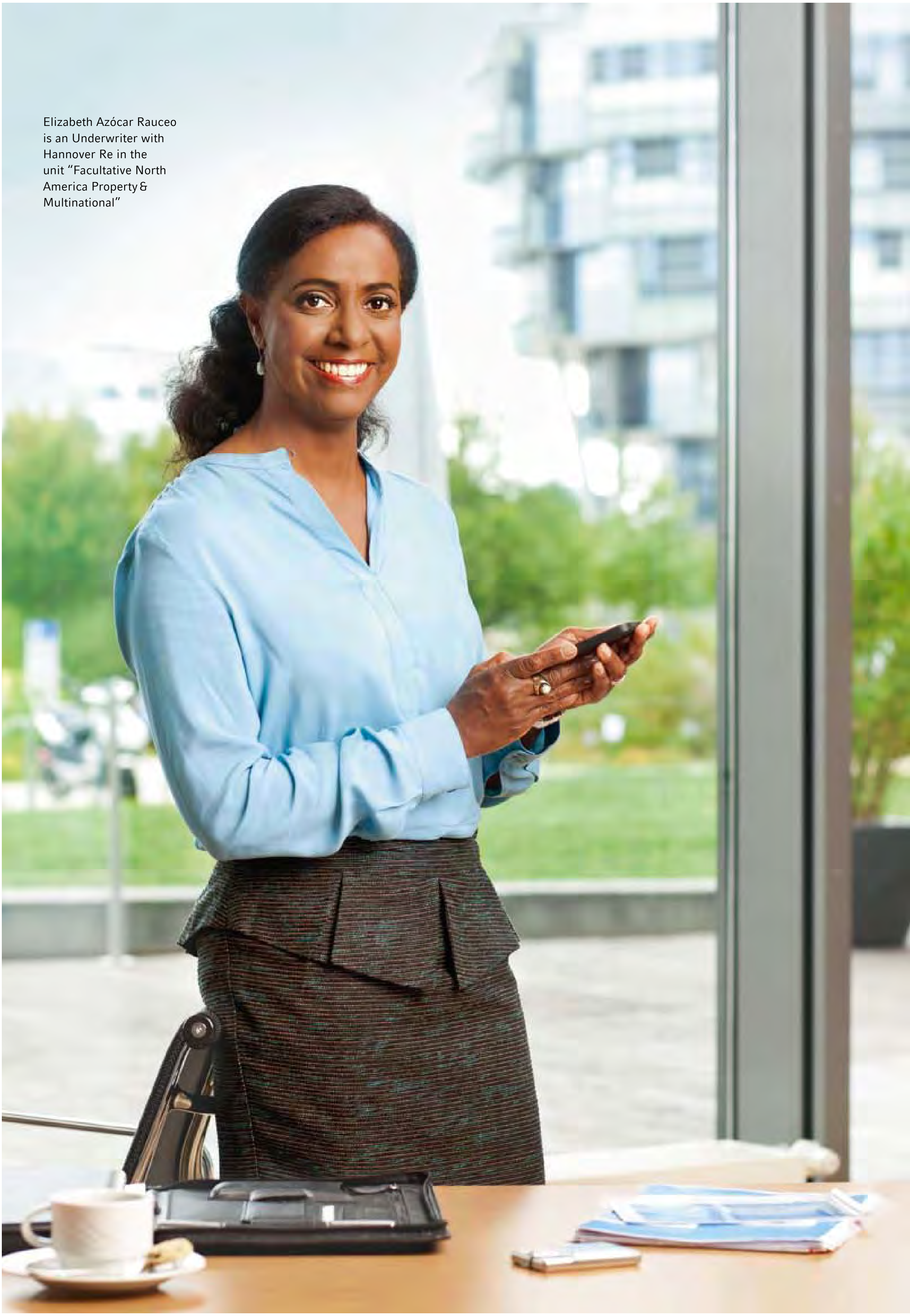
More detailed information on our social commitment can be found at www.hannover-re.com/sustainability/index.html

Gerald Segler is the Director in charge of "Investment and Collateral Management" at Hannover Re

Investments

Investments are a core component of our business model. On the one hand we seek to match our reinsurance commitments with our investments in terms of maturity and currency, but at the same time we also want to generate attractive returns. A consistently fascinating challenge in our work is the preparation of forward-looking risk/return analyses in order to identify both the immediately apparent and the less obvious implications of market events and hence act accordingly.





Elizabeth Azócar Rauceo is an Underwriter with Hannover Re in the unit "Facultative North America Property & Multinational"

Facultative business – North America

Facultative reinsurance refers to the coverage of significant individual risks outside of obligatory reinsurance. In particular, insurers tend to reinsure complex risks of large undertakings with sizeable operating facilities spanning several countries or extensive production processes on an individual risk basis so as to spread the risk exposure worldwide. Our clients, for example, reinsure insurance risks associated with financial groups, real estate companies, undertakings in the food industry, rail operators, municipalities, semiconductor and IT manufacturers, carmakers or airline companies on a facultative basis.

A key element of the risk analysis focuses on the existing assets, usually in the form of property. These may be endangered by human or technical failure or by natural events; insurers reinsure them on an individual risk basis in order to spread the risk exposure globally. Extensive in-depth know-how, especially in the natural sciences and risk modelling, is needed in order to provide facultative reinsurance. Hannover Re has vigorously expanded its facultative business and can offer customers a more comprehensive service combined with growing reinsurance capacity.

Opportunity and risk report

Risk report

- We are well capitalised, and our available capital comfortably exceeds the required capital
- We are convinced that our Group-wide risk management system gives us a transparent overview of the current risk situation at all times and that we are optimally prepared for Solvency II

Strategy implementation

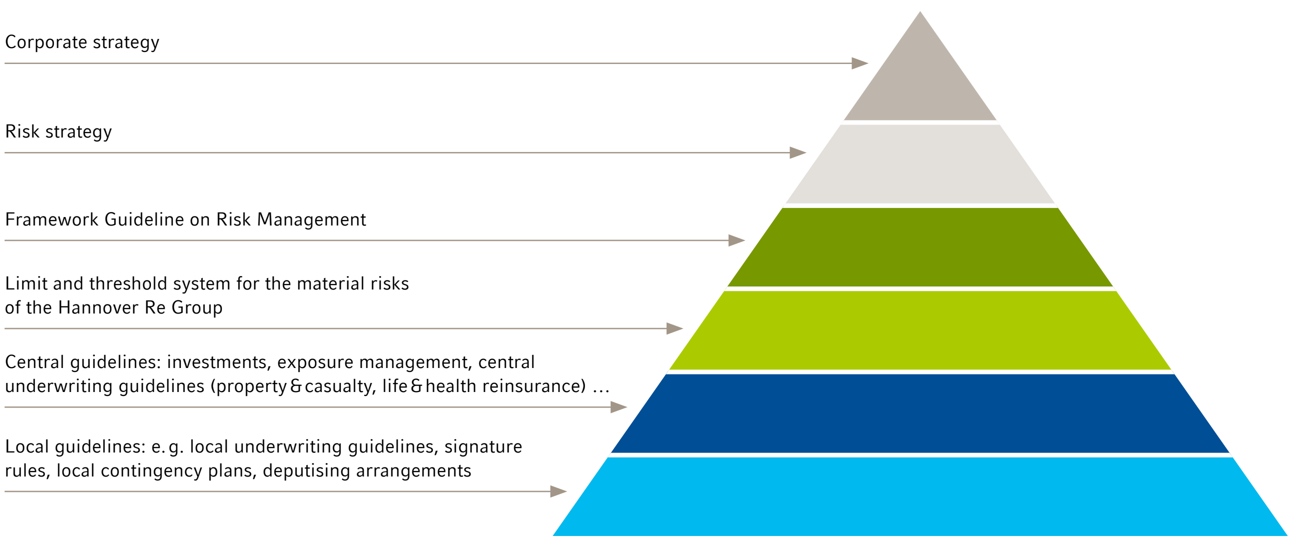
In the course of the last financial year we revised our corporate strategy. It encompasses ten fundamental strategic principles which safeguard the realisation of our vision "Long-term success in a competitive business" across the various divisions. For further information on the corporate strategy and the strategic principles in detail please see the section entitled "Our strategy" on page 12 et seq. The following principles of the corporate strategy constitute the key strategic points of departure for our Group-wide risk management:

- We manage risks actively.
- We maintain an adequate level of capitalisation.
- We are committed to sustainability, integrity and compliance.

The risk strategy is derived from our corporate strategy. It forms the core element in our handling of opportunities and risks. The risk strategy specifies more closely the goals of risk management and documents our understanding of risk. We have defined ten overriding principles within our risk strategy:

1. We adhere to the risk appetite set by the Executive Board.
2. We integrate risk management into value-based management.
3. We promote an open risk culture and the transparency of our risk management system.
4. We strive for the highest ERM rating and the approval of our internal model.
5. We determine a materiality threshold for our risks.
6. We make use of appropriate quantitative methods.
7. We apply well-suited qualitative methods.
8. We allocate our capital risk-based.
9. We ensure the necessary separation of functions through our organisational structure.
10. We assess the risk contribution from new business areas and new products.

Implementation of strategy M 52



The risk strategy is similarly specified with an increasing degree of detail on the various levels of the company.

The risk strategy and the major guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are reviewed at least once a year. In this way we ensure that our risk management system is kept up-to-date.

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

Strategic targets for the risk position M 53

	Limit	2014
Probability of positive Group net income	>90%	95.4%
Probability of complete loss of shareholders' equity	<0.03%	0.01%
Probability of complete loss of economic capital	<0.03%	<0.01%

Major external factors influencing risk management in the financial year just ended

Regulatory developments: Solvency II is a reform of insurance supervision law in Europe, the implementation of which on 1 January 2016 poses enormous challenges for the entire (re) insurance industry. Along with redefining capital requirements, Solvency II places additional demands on companies' internal management systems and on the information to be disclosed by undertakings to the regulator and the public at large. Further more specific aspects of Solvency II were defined in 2014, and among other things there is a new draft of the delegated act. Hannover Re has been progressively implementing the new requirements in recent years. Our internal target capitalisation with a confindence level of 99.97% comfortably exceeds the target level of 99.5% under Solvency II. The core functions of Solvency II – the risk management function, the actuarial function, the compliance function and the internal audit function – have been implemented along existing processes and organisational structures at Hannover Re. Additional staff had to be taken on and extra systems deployed as part of the launch phase, first and foremost in order to be able to meet internal and external reporting requirements.

Parallel to the regulatory developments in Europe, we are seeing adjustments worldwide to the regulation of (re)insurance undertakings. It is often the case that various local supervisory authorities take their lead from the principles of Solvency II or the requirements set out by the International Association of Insurance Supervisors (IAIS).

Above and beyond this, further capital requirements for large, internationally operating (re)insurance groups are to be anticipated in the future. These requirements are under development by the IAIS and the Financial Stability Board (FSB).

Solvency II

Pillar 1	Pillar 2	Pillar 3
Quantitative requirements • Capital requirements (SCR / MCR *) • Own funds (solvency balance sheet) • Standard model and internal model	**Qualitative requirements** • Internal controls, risk management and key functions • Internal risk assessment • Supervisory review procedure	**Disclosure requirements** • to the regulator and the public • with the goal of market transparency and market discipline

Hannover Re

Hannover Re will seek approval of a partial internal model. Internal and external risk quantification is therefore largely consistent.	Hannover Re has long had in place an internal control system, the necessary key functions and extensive risk management. Additional requirements arising out of Solvency II have been implemented progressively in recent years.	We support our clients in their preparations for Solvency II through the flexible design of our products and by sharing experiences.

* SCR = Solvency Capital Requirement; MCR = Minimum Capital Requirement

Capital market environment: Another major external influencing factor is the protracted low level of interest rates, especially with an eye to the return on our investments. For further information please see the “Investments” section of the management report on page 52 et seq.

Risk capital

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of the Hannover Re Group is a stochastic enterprise model. It covers all subsidiaries and business groups of the Hannover Re Group. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the own funds under Solvency II. Hannover Re’s internal capital model reflects all risks that influence the development of the economic capital. They are split into underwriting risks, market risks, counterparty default risks and operational risks. For each of these risk classes we have identified a number of risk factors for which we define probability distributions. These risk factors include, for example, economic indicators such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators such as the mortality of a particular age group within our portfolio of insureds in a particular country or the number of natural catastrophes in a certain region and the insured loss amount per catastrophe. The specification of the probability distributions for the risk factors draws upon historical and publically available data as well as on the internal data resources of the Hannover Re Group. The process is further supplemented by the know-how of internal and external experts. The fit of the probability distributions is regularly checked by our specialist departments, although more importantly it is also verified in the context of the regular, company-wide use of the capital model when assessing risks and allocating the cost of capital. Hannover Re calculates the required risk capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation of the Hannover Re Group is therefore significantly higher than the confidence level of 99.5% which will be required in future under Solvency II. It goes without saying that Hannover Rück SE also meets the current capital requirements set by regulators. The capital adequacy ratio of Hannover Rück SE under Solvency I stood at 136% as at 31 December 2014. Since the corresponding calculation is neither market-consistent nor risk-based a relevant comparison with the coverage ratio under the internal capital model is not possible.

The Hannover Re Group is seeking approval of its internal model for the determination of regulatory capital under Solvency II. If approval is given and depending on the final measurement rules of Solvency II, the capitalisation with a confidence level of 99.5% constitutes an indication of the fulfilment of future regulatory requirements. Our excess capital coverage at the target confidence level of 99.97% is currently very comfortable. Hannover Re is well capitalised and our available capital comfortably exceeds the currently required capital:

Available capital and required risk capital M 55

in EUR million	2014		2013	
Available economic capital	12,443.9		11,143.9	
Confidence level	**99.97%**	**99.5%**	**99.97%**	**99.5%**
Required risk capital	7,786.6	4,353.1	6,896.9	3,375.2
Excess capital	4,657.3	8,090.8	4,247.0	7,768.6
Capital adequacy ratio	159.8%	285.9%	161.6%	330.2%

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

Hannover Re is well capitalised and our available capital significantly exceeds the current capital requirement, as is also reflected in the following management ratios.

Capitalisation ratios M56

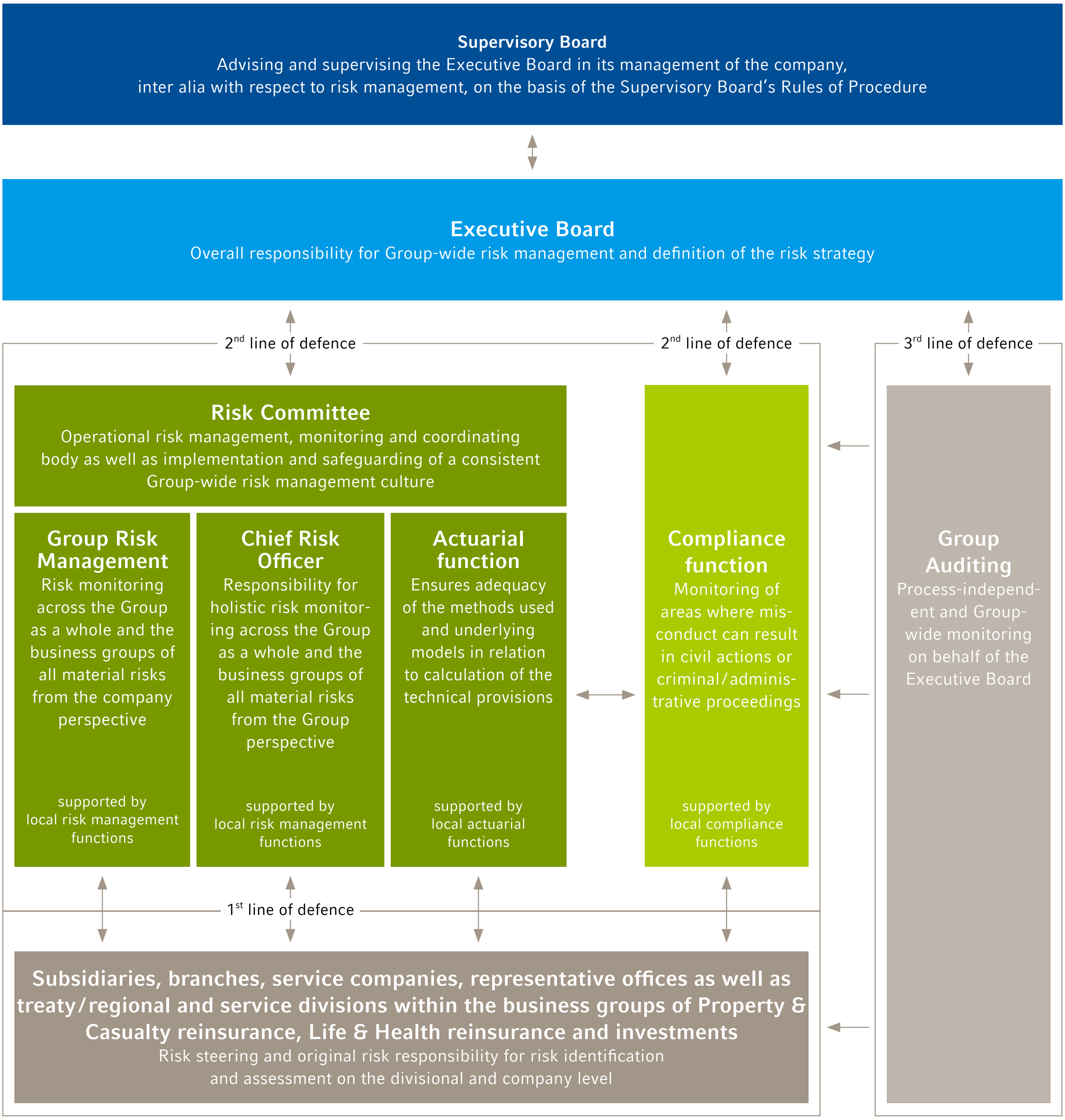
Management ratios	2014	2013	2012	2011	2010
Solvency margin [1]	82.4%	71.7%	72.9%	68.3%	69.5%
Debt leverage [2]	24.1%	34.3%	33.3%	30.9%	36.5%
Interest coverage [3]	15.3x	9.7x	13.3x	8.5x	13.8x
Reserves/premium [4]	295.7%	270.6%	268.4%	292.7%	275.1%

[1] (Shareholders' equity + hybrid capital)/net premium earned
[2] Hybrid capital/shareholders' equity
[3] EBIT/interest on hybrid capital
[4] Net reserves/net premium earned

Organisation and processes of risk management

Hannover Re has set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The organisation and interplay of the individual functions in risk management are crucial to our internal risk steering and control system. The central functions of risk management are closely interlinked in our system and the roles, tasks and reporting channels are clearly defined and documented in terms of the so-called "3 lines of defence". The first line of defence consists of risk steering and the original risk responsibility on the divisional or company level. The second line of defence consists of the core functions of risk management, the actuarial function and the compliance function. These units are responsible for monitoring and control. The third line of defence is the process-independent monitoring performed by the internal audit function. The following chart provides an overview of the central functions and bodies within the overall system as well as of their major tasks and powers.

Central functions of risk monitoring and steering M 57



The risk management functions meet regularly, e.g. in the context of the Group Risk Management Meeting (GRiMM), in order to support Group-wide risk communication and establish an open risk culture.

Key elements of our risk management system

Our risk strategy, the Framework Guideline on Risk Management and the system of limits and thresholds for material risks of the Hannover Re Group describe the central elements of our risk management system. The risk management system is subject to a constant cycle of planning, action, control and improvement. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are especially crucial to the effectiveness of the system as a whole.

The Framework Guideline on Risk Management describes, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The rules, which are derived from the corporate strategy and the risk strategy, additionally take account of the regulatory minimum requirements for risk management as well as international standards and developments relating to appropriate enterprise management.

Risk-bearing capacity concept

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

Risk identification

A key source of information for monitoring risks is the risk identification carried out on a rotating basis. All identified risks are documented in the central register containing all material risks. Risk identification takes the form of, for example, structured assessments, interviews or scenario analyses. External insights such as recognised industry know-how from relevant bodies or working groups are incorporated into the process. Risk identification is important for ensuring that our risk management consistently remains up-to-date.

Risk analysis and assessment

In principle, every risk that is identified and considered material is quantitatively assessed. Only risk types for which quantitative risk measurement is currently impossible or difficult are qualitatively assessed (e. g. strategic risks or reputational risks). Qualitative assessment takes the form of inter alia expert evaluations. Quantitative assessment of material risks and the overall risk position is performed by Group Risk Management using the Hannover Re risk model. The model makes allowance as far as possible for risk accumulations and concentrations.

Risk steering

The steering of all material risks is the task of the operational business units on the divisional and company level. In this context, the identified and analysed risks are either consciously accepted, avoided or minimised. The risk / reward ratio and the required capital are factored into the division's decision. Risk steering is assisted by, among other things, the parameters of the central and local underwriting guidelines and by defined limits and thresholds.

Risk monitoring

The monitoring of all identified material risks is a core task of Group Risk Management. This includes, inter alia, monitoring execution of the risk strategy as well as adherence to the defined limits and thresholds and to risk-related methods and processes. A further major task of risk monitoring is the ascertainment of whether risk steering measures were carried out and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

Risk management is firmly integrated into our operational processes. It is assisted by transparent risk communication and the open handling of risks as part of our risk culture. Risk communication takes the form, for example, of internal and external risk reports, information on current risk complexes in the intranet and training opportunities for staff. The regular sharing of information between risk-steering and risk-monitoring units is also fundamental to the proper functioning of risk management.

Risk reporting

Our risk reporting provides systematic and timely information about all material risks and their potential implications. The central risk reporting system consists primarily of regular risk reports, e.g. on the overall risk situation, adherence to the parameters defined in the risk strategy or on the capacity utilisation of natural catastrophe scenarios. Complementary to the regular risk reporting, immediate internal reporting on material risks that emerge at short notice takes place as necessary. The already existing range of risk reports will be supplemented in the context of Solvency II implementation by further reports, including for example the "Regular Supervisory Report" (RSR) and the "Solvency and Financial Condition Report" (SFCR).

Process-integrated/-independent monitoring and quality assurance

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

Internal control system

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

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

The proper functioning of the ICS necessitates the involvement of management, executive staff and employees on all levels. The financial reporting of the parent company and the Group must satisfy international and national financial reporting standards as well as regulatory requirements. This is safeguarded in the area of accounting and financial reporting by processes with integrated controls which ensure the completeness and accuracy of the annual and consolidated financial statements. A structure made up of differentiated criteria, control points and materiality thresholds assures our ability to identify and minimise the risk of material errors in the annual and consolidated financial statements at an early stage.

We use a central IT solution with standardised accounting and consolidation processes, posting rules and interfaces for data delivery in order to draw up the consolidated financial statement. Access rights for the reporting systems are assigned through an approval process. All components of the accounting-related internal control system, the processes for the organisation and implementation of consolidation tasks and for the preparation of the consolidated financial statement as well as the accompanying controls are consistently documented. In order to safeguard and continuously improve the adequacy of the control system it is subject to regular review and evaluation. In this regard, the internal audit function ensures that the quality of the control system is constantly monitored. All relevant accounting principles are collated in a Group Accounting Manual that sets out uniform Group-wide rules for the recognition, measurement and reporting of items in the consolidated financial statement. The process for updating and, if necessary, adjusting these rules is clearly regulated with respect to information channels, responsibilities and period of validity. Not only that, we provide prompt Group-wide notification of significant developments and modified requirements in Group financial reporting.

Within the scope of our control system the Group companies are responsible for Group-wide adherence to the accounting policies and the internal control guidelines. The managing directors and chief financial officers of the Group companies defined as material in our control system affirm to the Executive Board of Hannover Rück SE at each closing date the completeness, correctness and reliability of the financial data that they pass on to Group Accounting. Data for the preparation of the consolidated financial statement is delivered using a Web-based IT application. The relevant data for Group financial reporting is collected in a database and processed via automatic interfaces in a consolidation system. As part of the financial reporting process we perform preventive and detective checks on the reported figures in order to minimise the probability and reduce the impacts of a potentially incorrect disclosure. Depending upon the results of our checks, these figures can be corrected if necessary. Given that our Group financial reporting is heavily dependent on IT systems, these systems also need to be subject to controls. Authorisation concepts regulate system access and for each step content-based as well as system-side checks have been implemented, by means of which errors are analysed and promptly eliminated.

Internal risk assessment

In the following section we compare the available economic capital with the required risk capital. Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. The corresponding measurement principles also largely apply to the Intrinsic Value Creation (IVC) (see the section "Management system" on page 24 et seq.). While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as underwriting risks. We use risk-free interest rates derived from yields on the highest-quality government bonds for discounting of our future cash flows. Market prices for options and guarantees embedded in insurance contracts are determined or approximated using option valuation models from the field of financial mathematics. The methods used are the same as those adopted in the calculation of our Market Consistent Embedded Value (MCEV) (for further remarks on the Market Consistent Embedded Value please see our comments in the section "Underwriting risks in life and health reinsurance" on page 89 et seq.). The significance of these options and guarantees in our portfolio is, however, minimal. The valuation reserves for investments shown in the following table indicate the difference between fair value and book value of those investments recognised under IFRS at book values. Other valuation adjustments encompass above all deferred tax assets and liabilities that arise in connection with valuation adjustments. The available economic capital, which is available as liable capital for policyholders, is composed of the economic equity and the hybrid capital.

The available economic capital increased in the period under review from EUR 11,143.9 million to EUR 12,443.9 million. This was due principally to the successful business result in 2014, positive effects from the weakening of the euro against our major currencies and a rise in the valuation reserves for investments, principally owing to yield declines on government bonds in our main currency areas and also in some cases to reduced credit spreads. As a consequence of a decrease in the discounting effect for the loss reserves, the low interest rate environment gave rise to opposing effects in the valuation adjustments for property and casualty reinsurance. A further factor was an increase in the risk premium, which reflects the higher capital requirements in this business group. Positive effects derived from a higher assessment of the valuation reserve for the loss reserves. The valuation adjustments for life and health reinsurance increased due to the favourable development of new business and positive effects from economic changes associated with interest rates and exchange rates. This is opposed by a higher risk premium – above all for the increased longevity risks – as well as negative effects from revised assumptions and model adjustments. The item "Valuation adjustments due to tax effects and other" decreased primarily owing to higher tax effects from valuation adjustment. The available capital from subordinated bonds was reduced in the period under review owing to redemption of a hybrid bond, which was only partially replaced with a new issue.

Reconciliation (economic capital/shareholders' equity) M 58

in EUR million	2014	2013
Shareholders' equity	8,253.0	6,530.0
Value adjustments for property and casualty reinsurance	1,138.6	1,627.8
Value adjustments for life and health reinsurance	1,540.7	1,116.5
Value adjustments for assets under own management	555.5	357.6
Value adjustments due to tax effects and other	(1,030.4)	(725.8)
Economic equity	**10,457.4**	**8,906.1**
Hybrid capital	1,986.5	2,237.8
Available economic capital	**12,443.9**	**11,143.9**

The required risk capital of the Hannover Re Group at the target confidence level of 99.97% rose in the year under review from EUR 6,896.9 million to EUR 7,786.6 million. The bulk of the increase resulted from a model- and volume-driven rise in market risks. The market risks rose due to the strengthening of several model parameters in the credit and spread model as well as of the dependency parameters between risk factors in conjunction with substantially higher investment volumes due to exchange rate movements and positive cash flows.

The underwriting risks in property and casualty reinsurance increased on account of the larger volume of reserves. In addition, parameters in the reserve risk model were strengthened for risks at the end of run-off. The premium risk (incl. catastrophe risk) has scarcely changed. The increase in the underwriting risks in life and health reinsurance, particularly in the area of longevity risks, was primarily due to the larger business volume. The operational risks also increased in step with the underlying business volumes.

Default risks decreased owing to the improved average credit status of our counterparties and a reduced volume of receivables due from retrocessionaires. To some extent the reduction was cancelled out by model adjustments. Due to the rise in the required capital for almost all risk categories, the diversification effect also increased.

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

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

Required risk capital M 59

	2014		2013	
in EUR million	Confidence level 99.97%	Confidence level 99.5%	Confidence level 99.97%	Confidence level 99.5%
Underwriting risk in property and casualty reinsurance	5,023.1	3,101.1	4,459.9	2,738.6
Underwriting risk in life and health reinsurance	3,327.2	1,906.9	2,607.3	1,434.3
Market risk	5,141.9	3,521.6	3,609.5	2,032.9
Counterparty default risk	756.3	254.7	739.5	324.0
Operational risk	595.4	382.7	510.7	296.8
Diversification	(5,687.1)	(3,299.6)	(3,905.2)	(2,187.7)
Tax effects	(1,370.2)	(1,514.3)	(1,124.8)	(1,263.7)
Required risk capital of the Hannover Re Group	**7,786.6**	**4,353.1**	**6,896.9**	**3,375.2**

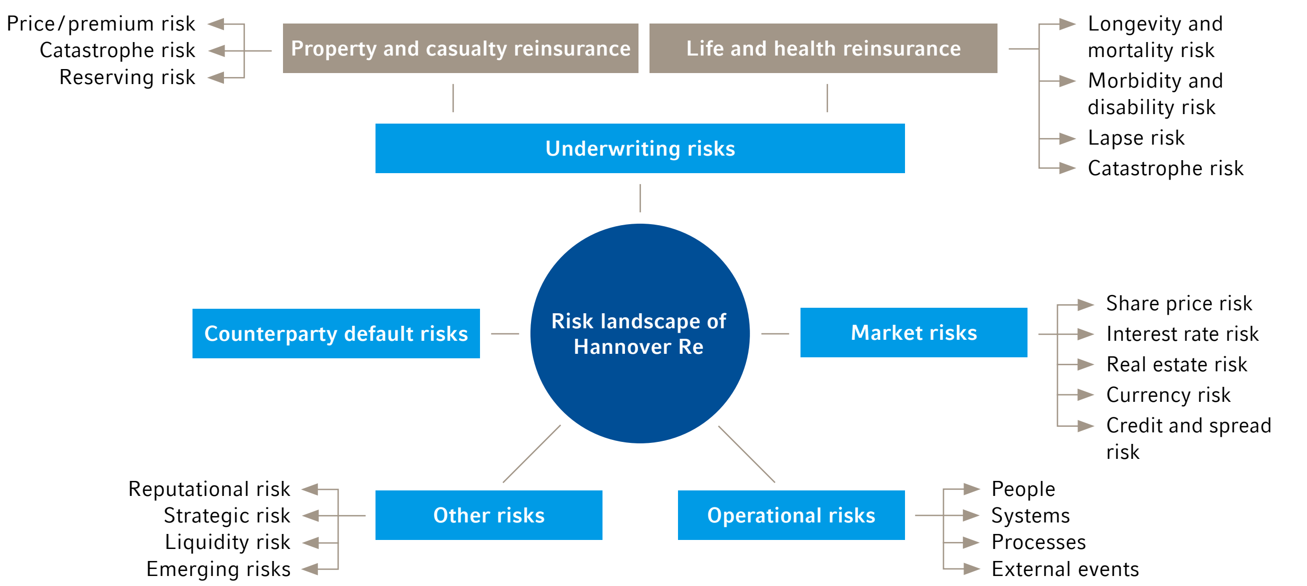
Risk landscape of Hannover Re

In the context of its business operations the Hannover Re Group enters into a broad variety of risks. These risks are deliberately accepted, steered and monitored in order to be able to act on the associated opportunities. The parameters and decisions of the Executive Board with respect to the risk appetite of the Hannover Re Group, which are based on the calculations of risk-bearing capacity, are fundamental to the acceptance of risks. Through our business operations on all continents and the diversification between our Property & Casualty and Life & Health reinsurance business groups we are able to effectively allocate our capital in light of opportunity and risk considerations and generate a higher-than-average return on equity. Along with our principal business operations as a reinsurer of property & casualty and life & health business, we also transact primary insurance in selected niche markets as a complement to our core reinsurance business. With this approach we are well positioned for further profitable growth. In this context crucial importance attaches to our risk management in order to ensure that, among other things, risks to the reinsurance portfolio remain calculable and also exceptional major losses do not have an unduly adverse impact on the result.

The risk landscape of Hannover Re encompasses:

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

Risk landscape of Hannover Re M 60



At the present time our most significant risks are the credit and spread risks within the market risks, the reserving and catastrophe risks within the underwriting risks of property and casualty reinsurance and the risk of changes in mortality within the underwriting risks of life and health reinsurance. With regard to mortality risks, as a general principle annuity portfolios are impacted by improvements in mortality while death benefit portfolios are adversely affected by deteriorations in mortality. The specific risk characteristics and the principal monitoring and steering mechanisms are described in the following sections.

Underwriting risks in property and casualty reinsurance

Risk management in property and casualty reinsurance has defined various overall guidelines for efficient risk steering. These include, among other things, the limited use of retrocessions to reduce volatility and conserve capital. It is also crucially important to consistently maximise the available risk capacities on the basis of the risk management parameters of the Hannover Re Group and to steer the acceptance of risks systematically through the existing central and local underwriting guidelines. Our conservative reserving level is a crucial factor in our risk management. We make a fundamental distinction between risks that result from business operations of past years (reserve risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk.

Diversification within the Property & Casualty reinsurance business group is actively managed through allocation of the cost of capital according to the contribution made to diversification. A high diversification effect arises out of the underwriting of business in different lines and different regions with different business partners. In addition, the active limitation of individual risks – such as natural catastrophes – enhances the diversification effect. The risk capital with a confidence level of 99.5% for underwriting risks in property and casualty reinsurance breaks down as follows:

Required risk capital[1] for underwriting risks in property and casualty reinsurance — M 61

in EUR million	2014	2013
Premium risk (incl. catastrophe risk)	2,079.4	2,015.3
Reserve risk	1,907.0	1,528.4
Diversification	(885.3)	(805.1)
Underwriting risk in property and casualty reinsurance	**3,101.1**	**2,738.6**

[1] Required risk capital with a confidence level of 99.5%

The reserve risk, i. e. the risk of under-reserving losses and the resulting strain on the underwriting result, is the overriding priority in our risk management. We attach the utmost importance to a conservative reserving level and therefore traditionally have a high confidence level (> 50%). In order to counter the risk of under-reserving we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on the segment reserve. The segment reserve is calculated on a differentiated basis according to risk categories and regions. The segment reserve established by the Hannover Re Group amounted to EUR 6,107.4 million in the year under review.

The statistical run-off triangles are another monitoring tool used by our company. They show the changes in the reserve over time as a consequence of paid claims and in the recalculation of the reserves to be established as at each balance sheet date. Their adequacy is monitored using actuarial methods.

Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of actuaries and auditors. For further remarks on the reserve risk please see our comments in the section "Technical provisions" on page 200 et seq.

In the case of asbestos- and pollution-related claims it is difficult to reliably estimate future loss payments. The adequacy of these reserves can be estimated using the so-called "survival ratio". This ratio expresses how many years the reserves would cover if the average level of paid claims over the past three years were to continue.

In order to partially hedge inflation risks Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) and invested in inflation-linked instruments that protect parts of the loss reserves against inflation risks. An inflation risk exists particularly inasmuch as the liabilities (e. g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation. Inflation protection was purchased for the first time in the second quarter of 2010 with terms of 4 and 5 years; it was increased in the first quarter of 2011 (term of 8 years). Since 2012 we have also increasingly obtained parts of the inflation protection for our loss reserves by purchasing bonds with inflation-linked coupons and redemption amounts.

Survival ratio in years and reserves for asbestas-related claims and pollution damage **M 62**

in EUR million	2014			2013		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/pollution damage	33.8	189.3	28.2	28.8	170.8	32.1

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios.

Stress tests for natural catastrophes after retrocessions **M 63**

in EUR million	2014	2013
	Effect on forecast net income	
Windstorm Europe		
100-year loss	(251.0)	(227.8)
250-year loss	(440.0)	(415.2)
Windstorm United States		
100-year loss	(541.7)	(393.1)
250-year loss	(778.1)	(630.6)
Windstorm Japan		
100-year loss	(172.2)	(241.1)
250-year loss	(250.1)	(292.0)
Earthquake Japan		
100-year loss	(254.3)	(263.4)
250-year loss	(520.8)	(490.8)
Earthquake California		
100-year loss	(303.5)	(271.9)
250-year loss	(503.1)	(461.1)
Earthquake Australia		
100-year loss	(172.7)	(166.5)
250-year loss	(449.7)	(369.1)

Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action.

For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and Non-Life Executive Committee are kept regularly updated on the degree of capacity utilisation. The limits and thresholds for the 200-year aggregate loss as well as the utilisation thereof are set out in the following table:

Limit and threshold for the 200-year aggregate annual loss as well as utilisation thereof **M 64**

in EUR million	Limit 2014	Threshold 2014	Actual utilisation (July 2014)
All natural catastrophe risks1 [1]			
200-year aggregate annual loss	1,480	1,332	1,147

[1] Loss relative to the underwriting result

Net expenditure on major losses in the year under review amounted to EUR 425.7 million (EUR 577.6 million). Our company incurred the following catastrophe losses and major claims in the 2014 financial year:

Catastrophe losses and major claims[1] in 2014 **M 65**

in EUR million	Date	gross	net
3 aviation claims		179.8	119.6
6 fire claims		112.8	101.7
Storm Ela in Europe	7–10 June 2014	67.4	49.1
2 snowstorms in Japan	February 2014	38.2	21.1
Flooding in India and Pakistan	1–5 September 2014	35.8	35.8
2 severe weather events in the United States	May and June 2014	28.6	20.0
Hail and windstorm in Australia	27 and 28 November 2014	27.4	18.9
Windstorm and hail in Canada	7 August 2014	21.1	12.9
Hurricane Odile in Mexico	14 September 2014	20.0	18.8
Cyclone Hudhud in India	12 and 13 October 2014	17.5	17.5
Typhoon Rammasun in the Philippines and China	14 July 2014	10.3	10.3
Total		**558.9**	**425.7**

[1] Natural catastrophes and other major claims in excess of EUR 10 million gross

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. We have put in place a multi-step quotation process to ensure the quality of our portfolios:

Ensuring the quality of our portfolios **M 66**

Step 1

Calculation of the loss expectancy
- Historical loss and exposure analysis
- Future inflation
- Changes in the quality of underlying risks
- Changes in the quantity of underlying risks
- Discounting of future cash flows

Step 2

Cost estimation
- Commissions
- Broker fees
- Internal administration

Step 3

Calculation of the cost of capital
- Level of capital allocation determined by volatility of the business covered and contribution to diversification
- Expected return on equity
- Capital structure

In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The development of the combined ratio in property and casualty reinsurance in 2014 and prior years is shown in the table below:

Combined and catastrophe loss ratio **M 67**

in %	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005 [1]
Combined ratio (property and casualty reinsurance)	94.7	94.9	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8
Thereof catastrophe losses [2]	6.1	8.4	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3

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

For further information on the run-off of the loss reserves please see our explanatory remarks in the section "Run-off of the net loss reserve in the property and casualty reinsurance segment" on page 201 et seq.

Underwriting risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks. They include in particular the miscalculation of mortality, life expectancy, morbidity and occupational disability. Biometric risks are the material risks for our company in the area of life and health reinsurance. Our goal is to strike a balance between biometric risks. Counterparty and lapse risks are also material since we additionally prefinance our cedants' new business acquisition costs. Furthermore, we are exposed to catastrophe risks, especially catastrophes involving a high number of fatalities in our insurance portfolio.

The reserves are determined on the basis of secure biometric actuarial bases in light of the information provided by our clients. The biometric actuarial bases used and the lapse assumptions are continuously reviewed with an eye to their adequacy and if necessary adjusted. This is done using the company's own empirical data as well as market-specific insights. Our current risk profile in life and health reinsurance is dominated by mortality and longevity risks. This is due to the fact that under some of our contracts we pay death benefits, while under others we pay survival benefits. The volume of our annuity portfolio has continued to grow and contributes to diversification within life and health reinsurance. We calculate the diversification effect between mortality and longevity risks prudently in view of the fact that the contracts are normally taken out for different regions, age groups and individuals. The required risk capital with a confidence level of 99.5% for underwriting risks in life and health reinsurance breaks down as follows:

Required risk capital [1] for underwriting risks in life and health reinsurance **M 68**

in EUR million	2014	2013
Mortality risk	1,448.0	1,216.6
Longevity risk	1,121.2	693.7
Morbidity and disability risk	351.0	293.3
Lapse risk	736.4	485.9
Diversification	(1,749.7)	(1,255.2)
Underwriting risk in life and health reinsurance	**1,906.9**	**1,434.3**

[1] Required risk capital with a confidence level of 99.5%

Diversification is a central management tool for our company. We seek to spread risks as far as possible across different risk classes and different regions. In our pricing of reinsurance treaties we provide incentives to further increase diversification.

Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or of deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the design of our reinsurance treaties. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent Group-wide approach in order to obtain an overall view of the risks in life and health reinsurance. Our global underwriting guidelines provide underwriters with an appropriate framework for this purpose. Another major element of risk management in life and health reinsurance is the Market Consistent Embedded Value (MCEV). The MCEV is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The MCEV is established on the basis of the principles of the CFO Forum published in October 2009 (the CFO Forum is an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises). For detailed information please see the MCEV report for 2013 published on our website. The MCEV report for the 2014 financial year will be published on our website close to publication of this report.

Market risks

Faced with a challenging capital market climate, particularly high importance attaches to preserving the value of assets under own management and the stability of the return. Hannover Re's portfolio is therefore guided by the principles of a balanced risk/return profile and broad diversification. Based on a risk-averse asset mix, the investments reflect both the currencies and durations of our liabilities. Market price risks include equity risks, interest rate risks, currency risks, real estate risks, spread risks and credit risks. Our portfolio currently consists in large part of fixed-income securities, and hence credit and spread risks account for the bulk of the market risk. We minimise interest rate and currency risks through the greatest possible matching of payments from fixed-income securities with the projected future payment obligations from our insurance contracts. Market risks derive from the investments managed by Hannover Re itself and from investment risks of ceding companies that we assume in connection with insurance contracts. The following table shows the risk capital with a confidence level of 99.5% for the market risks from investments under own and third-party management.

Required risk capital[1] for market risks M 69

in EUR million	2014	2013
Credit and spread risk	2,639.0	1,408.1
Interest rate risk	851.9	812.9
Currency risk	930.6	816.0
Equity risk[2]	804.3	531.0
Real estate risk	404.4	287.7
Diversification	(2,108.6)	(1,822.8)
Market risk	**3,521.6**	**2,032.9**

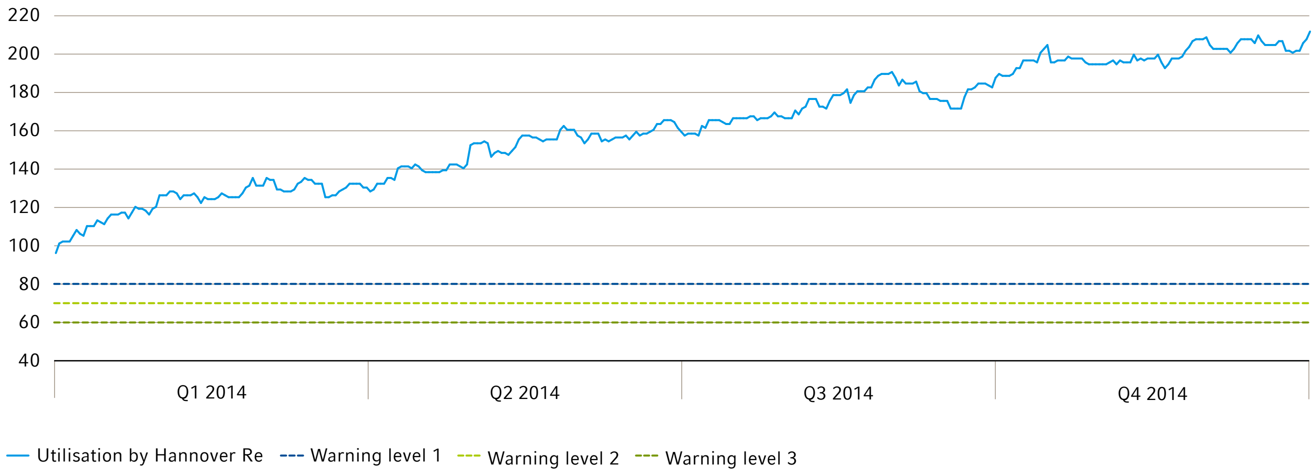
[1] Required risk capital with a confidence level of 99.5%
[2] Including private equity

The sharp rise in the credit and spread risk is attributable to the strengthening of various model parameters, the increased investment volume and an interaction between the two effects.

With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system defines clear thresholds and escalation channels for the cumulative fluctuations in fair value and realised gains/losses on investments since the beginning of the year. These are unambiguously defined in conformity with our risk appetite and trigger specified information and escalation channels if a corresponding fair value development is overstepped. Despite the conservative orientation of our investment portfolio, it profited substantially from movements in interest rates and spreads over the course of the year and consistently boosted its fair value reserves. The escalation levels of the trigger mechanism were not activated at any point in time.

Utilisation of the trigger system
in %

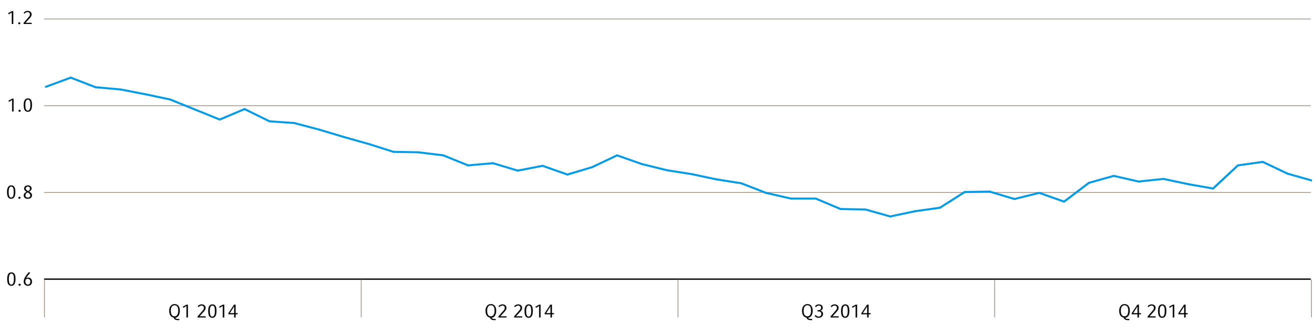
M 70



The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e. g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e. g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. The model takes into account interest rate risks, credit and spread risks, systematic and specific equity risks, commodity risks and option-specific risks. Against the backdrop of what was still a difficult capital market environment, the volatilities of fixed-income assets, in particular, and hence the market price risks increased in the year under review relative to the previous year. Based on continued broad risk diversification and the orientation of our investment portfolio, our Value at Risk was nevertheless clearly below the Value at Risk upper limit defined in our investment guidelines. It amounted to 0.8% (1.1%) as at the end of the reporting period.

Value at Risk[1] for the investment portfolio of the Hannover Re Group
in %

M 71



[1] VaR upper limit according to Hannover Re's investment guidelines: 2.5%

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

Scenarios for changes in the fair value of material asset classes M 72

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities and private equity	Share prices -10%	-71.9	-71.9
	Share prices -20%	-143.9	-143.9
	Share prices +10%	+71.9	+71.9
	Share prices +20%	+143.9	+143.9
Fixed-income securities	Yield increase +50 basis points	-762.5	-648.2
	Yield increase +100 basis points	-1,489.1	-1,265.6
	Yield decrease -50 basis points	+787.0	+667.6
	Yield decrease -100 basis points	+1,608.0	+1,364.0
Real estate	Real estate market values -10%	-135.8	-91.5
	Real estate market values +10%	+130.0	+34.1

Further significant risk management tools – along with the various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity. Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in the section of the notes entitled "Investments under own management" on page 178 et seq.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives in our portfolio. We hold such assets only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. Please see our comments in the section of the notes entitled "Investments under own management" on page 178 et seq.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio. The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond with the same maturity. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of various collateral conditions such as different accounting requirements by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling. A detailed presentation of the currency spread of our investments is provided in the section entitled "Investments under own management" on page 186 et seq.

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

We use derivative financial instruments only to the extent needed to hedge risks. The primary purpose of such financial instruments is to hedge against potentially adverse developments on capital markets. In the year under review we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. Some of these inflation swaps reached their maturity date during the year and were not renewed. In addition, as in the previous year, a modest portion of our cash flows from the insurance business as well as currency risks were hedged using forward exchange transactions because currency matching could not be efficiently achieved. Hannover Re holds further derivative financial instruments to hedge interest rate risks from loans taken out to finance real estate. In addition, Hannover Re has taken out hedges in the form of equity swaps to hedge price risks in connection with the stock appreciation rights granted in the first quarter of 2014 under the Share Award Plan. These are intended to neutralise changes in the fair values of the awarded stock appreciation rights. Contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines. Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case.

We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level. In order to limit the risk of counterparty default we set various limits on the issuer and issue level as well as in the form of dedicated rating quotas. A comprehensive system of risk reporting ensures timely reporting to the functions entrusted with risk management.

Rating structure of our fixed-income securities[1] **M 73**

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	69.5	5,468.0	59.6	3,909.0	1.6	208.0	61.4	3,014.6
AA	15.2	1,195.0	35.9	2,359.5	15.5	1,964.8	13.6	670.1
A	10.3	811.1	2.9	191.3	47.1	5,970.2	15.9	779.3
BBB	4.1	319.3	1.2	79.3	28.8	3,646.4	5.3	262.1
>BBB	0.9	68.0	0.4	28.8	7.0	880.7	3.8	184.2
Total	**100.0**	**7,861.5**	**100.0**	**6,567.9**	**100.0**	**12,670.1**	**100.0**	**4,910.4**

1 Securities held through investment funds are recognised pro rata with their corresponding individual ratings.
2 Including government-guaranteed corporate bonds

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 245.9 million on a fair value basis. This corresponds to a proportion of 0.7%. The individual countries account for the following shares: Spain EUR 118.0 million, Italy EUR 72.1 million, Ireland EUR 30.2 million and Portugal EUR 25.6 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers.

On a fair value basis EUR 4,266.9 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 3,574.0 million was attributable to banks. The vast majority of these bank bonds (76.5%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Counterparty default risks

The counterparty default risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment.

Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the credit risk is also material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, among other things, by reviewing all broker relationships once a year with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A.M. Best but also internal and external expert assessments (e. g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e. g. following a major loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. The following table shows how the proportion of assumed risks that we do not retrocede (i. e. that we run in our retention) has changed in recent years:

Gross written premium retained M 74

in %	2014	2013	2012	2011	2010
Hannover Re Group	87.6	89.0	89.8	91.2	90.1
Property and casualty reinsurance	90.6	89.9	90.2	91.3	88.9
Life and health reinsurance	83.9	87.7	89.3	91.0	91.7

Alongside traditional retrocessions in property and casualty reinsurance we also transfer risks to the capital market.

Counterparty default risks are also relevant to our investments and in life and health reinsurance because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

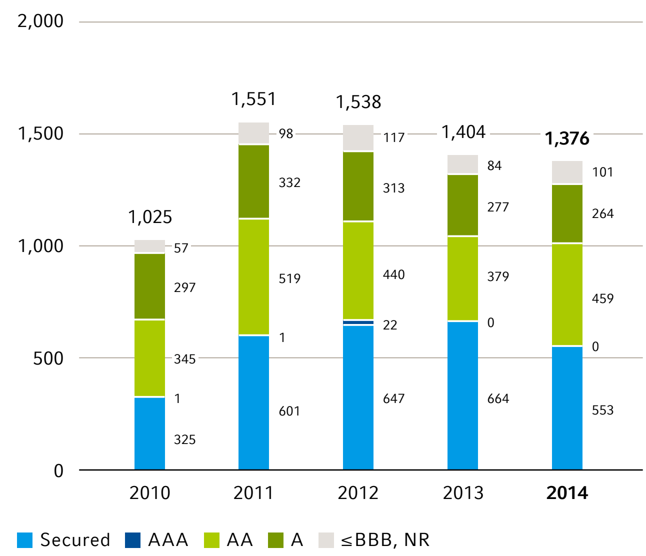
The key ratios for managing the credit risk are as follows:

- 88.6% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").
- 87.8% are rated "A" or better.
- 40.1% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 219.1 million (7.0%) of our accounts receivable from reinsurance business totalling EUR 3,114.0 million were older than 90 days as at the balance sheet date.
- The average default rate over the past four years was 0.3%.

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,376.4 million (EUR 1,403.8 million) as at the balance sheet date.

The following chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires.

Reinsurance recoverables as at the balance sheet date **M 75**
in EUR million



Further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review are provided in Section 6.4 "Technical assets" on page 194 et seq., Section 6.6 "Other assets" on page 197 et seq. and Section 7.2 "Investment result" on page 217 et seq.

Operational risks

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

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

With the aid of the Self-Assessment for Operational Risks we determine the maturity level of our operational risk management system and define action fields for improvements. The assessment is carried out, for example, by assessing the maturity level of the respective risk management function or of the risk monitoring and reporting. The system enables us, among other things, to prioritise operational risks and is used inter alia to calculate the capital commitment in our internal model.

Required risk capital[1] for operational risks **M 76**

in EUR million	2014	2013
Operational risk	382.7	296.8

[1] Required risk capital at a confidence level of 99.5%

The change in risk capital in the 2014 financial year can be attributed primarily to the increased business volume and the resulting higher exposure for operational risks.

Within the overall framework of operational risks we consider, in particular, business process risks, compliance risks, risks associated with sales channels and outsourcing of functions, fraud risks, personnel risks, information technology risks / information security risks and business interruption risks.

Business process risks are associated with the risk of deficient or flawed internal processes, which can arise as a consequence of an inadequate process organisation. We have defined criteria to evaluate the maturity level of the material processes, e. g. for the reserving process. This enables us to ensure that process risks are monitored. In cooperation with the process participants, the process owner evaluates the risks of the meta-process and develops measures for known, existing risks. Data quality is also a highly critical success factor, especially in risk management, because – among other things – the validity of the results delivered by the internal model depends primarily on the data provided. The overriding goal of our data quality management is the sustainable improvement and safeguarding of data quality within the Hannover Re Group.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group. Regulatory compliance, compliance with the company's Code of Conduct, data privacy and compliance with anti-trust and competition laws have been defined as issues of particular relevance to compliance. The compliance risk also extends to tax and legal risks. Responsibilities within the compliance organisation are regulated and documented Group-wide and interfaces with risk management have been put in place. The set of tools is rounded off with regular compliance training programmes. For further information on compliance-related topics, including for example lawsuits, contingent liabilities and commitments, please see Section 8.6 "Lawsuits" and Section 8.7 "Contingent liabilities and commitments" on page 234 et seq.

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

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

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

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

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

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the key framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests. In the 2014 financial year, for example, we compiled a leaflet on correct behaviour in the event of a business interruption; this condenses in compact form the key information that all employees need to know (e. g. information channels in a crisis situation). Regular risk reporting to the Risk Committee and the Executive Board has also been put in place.

Other risks

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

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used Group-wide in order to pinpoint any necessary measures (e. g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks arising out of aspects of climate change (e. g. questions of liability) are analysed by this working group. These problematic issues may also have implications for our treaty portfolio – in the form not only of risks but also opportunities, e. g. through increased demand for reinsurance products.

Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. The Group Strategy was reviewed in the year under review and the revised corporate strategy was unveiled to investors at the Investors' Day held in London on 23 October. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks. In addition, the process for the management of strategic risks is assessed annually as part of the monitoring of business process risks. Further details on the topic of strategy are provided in the section entitled "Our strategy" on page 12 et seq.

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

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i. e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. In reinsurance business, however, significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress such as the 2008 financial crisis. Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under review were larger than possible disbursements for assumed extreme events, which means that our liquidity is assured even in the unlikely case of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at EUR 3.9 billion as at the balance sheet date. In addition, we manage the liquidity of the portfolio by checking on each trading day the liquidity of the instruments contained therein; their underlying parameters are verified on a regular and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Opportunity report

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

Key elements in Hannover Re's opportunity management include its various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups (see the Forecast on page 132 et seq.). What is more, innovative and creative ideas are generated by our employees. If they can be successfully translated into additional profitable premium volume, such ideas are financially rewarded. Further elements are the working group on "Emerging Risks and Scientific Affairs" and the "Future Radar" initiative. Not only that, Hannover Re has set up a stand-alone organisational unit for "Opportunity Management". This service unit deals exclusively and systematically with ideas and opportunities and it concentrates its activities on generating additional premium volume with profit potential. To this end, ideas are translated into business opportunities and business models with the backing of project teams, and these are then acted upon in cooperation with primary insurance partners. Such business approaches are subsequently evaluated and fleshed out more concretely by the "Opportunity Management" service unit. This unit also supports selected projects from the conceptual design of holistic business models right through to operational implementation or handover to line responsibility. The goal is to generate new business and thereby sustainably promote Hannover Re's profitable growth. Several initiatives and projects have grown out of some 100 ideas contributed by the global network since the unit was set up. As part of an attractive employee incentive scheme, a number of projects have been financially rewarded – including the opportunity management projects "Weather" and "Energy Savings Protect":

Opportunity management project "Weather"

The goal was to offer a heavily weather-dependent clientele industry-specific solutions to protect against fluctuations in the weather. The interest shown by businesses in this product has grown sharply of late on account of greater variability in weather conditions and the higher profile of the product. It has taken on special relevance for wind farms due to the turnaround in German energy policy.

Opportunity management project "Energy Savings Protect"

This project was tasked with developing covers for so-called energy-savings warranties in Germany. This insurance solution enables providers of energy efficiency solutions to take out protection in the event that the promised energy savings fail to materialise. In this case the company in question receives a compensatory payment from the primary insurer. For its part, Hannover Re covers the energy saving warranties of its primary insurance clients. By building trust, the greater planning reliability created by the product makes it possible for many activities needed as part of Germany's turnaround in energy policy to be undertaken in the first place. Based on its considerable success, reflected not only in the rewarding of those behind the product but also in its singling out for an innovation award, this product is now available Europe-wide and is being modified for other fields of application.

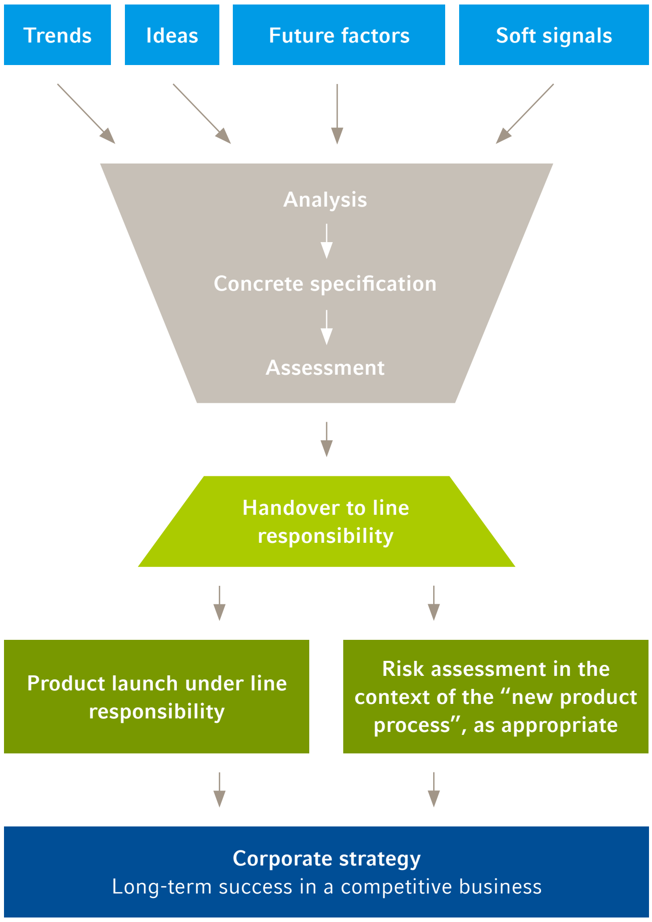
Since as long ago as 2010 the stand-alone service unit "Opportunity Management" has been assigned to the Chief Executive Officer's area of responsibility. This is a clear reflection of the considerable importance that Hannover Re attaches to opportunity management. The monitoring and active networking carried out by the innovative minds involved give rise to close links with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities (see page 97 "Other risks"). The working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks analysed but also any available business opportunities. In the year under review, for example, issues such as general environmental pollution, climate change and associated questions of liability, e-cigarettes and the risks of lithium-ion batteries as well as cyber-risks were explored by the working group.

Cyber-risks

Cyber-attacks on critical systems are becoming increasingly common. They can cause considerable financial losses and also damage corporate reputations. Not only that, they can severely hamper private and public life, especially if critical infrastructures are impacted – such as the health, transportation/traffic and energy sectors. In such instances supply bottlenecks with lasting effects as well as major disruptions to public safety may ensue. In a networked world the repercussions of cyber-attacks are intensifying because the volume of data stored around the world is constantly growing – and in this context it is not only one's own technical infrastructure that needs to be secured. On the contrary, the trend towards cloud computing is increasingly shifting the focus to third-party infrastructures and the associated network connection. As part of our holistic risk and opportunity management activities, we are also tackling the question of what new insurance products can be developed in order to protect against the relevant threats. We have been present in this market since 2007 and have already developed corresponding products.

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

Opportunity management process M 77



Overall assessment by the Executive Board

Based on our currently available insights arrived from a holistic analysis of the opportunities and risks, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of the Hannover Re Group in the short or medium term or have a material and lasting effect on its assets, financial position or net income. We are convinced that:

- our established system of risk management affords us a transparent overview of the current risk situation at all times
- our overall risk profile is appropriate, and
- our opportunity management plays an important part in Hannover Re's profitable growth.

As an internationally operating reinsurance group, we move in a highly complex environment. Nevertheless, thanks to our business activities in all lines of reinsurance we are able to achieve optimal risk spreading through geographical and risk-specific diversification while at the same time maintaining a balanced opportunity/risk profile. We consider the risks described in the above sections to be manageable, particularly because our steering and monitoring measures are effectively and closely interlinked. Despite these diverse mechanisms, individual and especially accumulation risks can decisively affect our assets, financial position and net income. In accordance with our understanding of risk, however, we consider not only risks but also at the same time opportunities. We therefore only enter into those risks that go hand-in-hand with opportunities. Our steering and monitoring tools as well as our organisational and operational structure ensure that we identify risks at an early stage and are able to act on our opportunities. Our central monitoring tool is the system of risk management that we have installed Group-wide, which brings together both qualitative and quantitative information for the purpose of effective risk monitoring. Most notably, the interplay between domestic and foreign risk management functions affords us a holistic and Group-wide overview.

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Key monitoring indicators, reporting limits and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity. Since 2010 we have been able to increase our total policyholders' surplus (hybrid capital, non-controlling interests and shareholders' equity) by 150%. In this context, the necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital cushion to be able both to absorb risks and act on business opportunities that may arise. Similarly, our very good ratings (see page 59) also testify to our financial stability. The quality of our Enterprise Risk Management (ERM) is evaluated separately by Standard & Poor's. In the year under review Standard & Poor's gave our risk management its highest possible grade of "very strong". Most notably, our established risk culture promotes the development of appropriate risk monitoring systems and strategic risk management. The evaluation encompasses above all the areas of risk culture, risk controls, the management of emerging risks, risk models and strategic risk management. This external appraisal confirms the quality of our holistic approach to risk management.

We would also refer to the explanatory remarks on the financial strength ratings of our subsidiaries in the "Financial position" section of the management report on page 59. In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor. The Group-wide risk management system is also a regular part of the audits conducted by the internal audit function. For additional information on the opportunities and risks associated with our business please see the Forecast on page 130 et seq.

Enterprise management

Declaration on Corporate Governance pursuant to § 289 a Commercial Code (HGB)

The objective of Hannover Rück SE continues to be to consolidate and further expand its position as one of the leading, globally operating reinsurance groups of above-average profitability. In aspiring towards this goal, it is particularly important to observe and fulfil the principles of good and sustainable enterprise management. In so doing, we not only comply with the German Corporate Governance Code (DCGK, hereinafter also referred to as the Code), but have also developed our own model for responsible enterprise management which we consistently pursue and adjust to the latest requirements in accordance with our best practice standards.

The Executive Board and Supervisory Board of Hannover Rück SE expressly support the suggestions and recommendations of the German Corporate Governance Code that are practicable for the reinsurance industry and recognise their central importance in guiding our activities. The principles of responsible and good enterprise management therefore constitute the core of our internal Corporate Governance principles (www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). We cultivate integrity at all times in our dealings with business partners, staff, shareholders and other stakeholder groups and support the principles of value-based and transparent enterprise management and supervision defined in the German Corporate Governance Code. The Supervisory Board, Executive Board and employees of Hannover Rück SE identify with these principles, which thus form part of our corporate self-image. The Executive Board ensures that the principles are observed Group-wide.

Hannover Rück SE hereby provides insight into its enterprise management practices as part of the Declaration on Corporate Governance pursuant to § 289 a Commercial Code (HGB):

Corporate Governance

As an instrument of self-regulation for the business world, the German Corporate Governance Code – the latest version of which dates from 24 June 2014 – sets out recommendations and suggestions that are intended to maintain and foster the trust of investors, customers, employees and the general public in the management and supervision of German companies. Although the Code does not have binding legal force, the enterprises addressed by the Code are nevertheless required by § 161 Stock Corporation Act (AktG) to provide an annual declaration as to whether or not the recommendations of the Code were and are complied with in the reality of the company's business activities. If recommendations were not acted upon, this is to be explained and disclosed as part of the Declaration of Conformity.

The positive attitude of Hannover Rück SE towards the Code is not contradicted by the fact that in the year under review we again did not comply with certain Code recommendations, since a well justified deviation from the recommendations of the Code may – as in the present cases – be very much in the interests of good corporate governance tailored to a particular company, i. e. by reflecting enterprise- and industry-specific features (cf. Foreword to the German Corporate Governance Code). Based on what is still a high degree of fulfilment of the recommendations and suggestions of the Code, Hannover Re continues to rank very highly among the companies listed on the DAX and MDAX.

Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG)

The Executive Board and Supervisory Board of Hannover Rück SE declare pursuant to § 161 Stock Corporation Act (AktG) that – with the following divergences – the company was and continues to be in conformity with the recommendations made by the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice on 24 June 2014 in the official section of the Federal Gazette:

Code Item 4.2.3 Para. 2; Caps on the amount of variable compensation elements in management board contracts

Item 4.2.3 Para. 2 Sentence 6 of the Code recommends that there should be a maximum limit on the amount of variable compensation paid to members of the management board.

The variable compensation of the members of the Executive Board is granted in part in the form of Hannover Re share awards. The maximum number of share awards granted at the time of allocation depends upon the total amount of variable compensation, which is subject to an upper limit (cap), i. e. the allocation of share awards is limited by the cap. The share awards have a vesting period of four years. During this period the members of the Executive Board therefore participate in positive and negative developments at the company, as reflected in the share price. The equivalent value of the share awards is paid out to the members of the Executive Board after the end of the vesting period. The amount paid out is determined according to the share price of the Hannover Re share applicable at the payment date plus an amount equivalent to the total dividends per share distributed during the vesting period. The share awards consequently follow the economic fortunes of the Hannover Re share.

The amount of variable compensation deriving from the granting of share awards is thus capped at the time when the share awards are allocated, but it is not capped again at the time of payment. Bearing in mind the harmonisation of the interests of shareholders and of the members of the Executive Board of Hannover Rück SE that is sought through the share awards, the company does not consider further limitation of the amount of variable remuneration resulting from the granting of share awards at the time of payment to be expedient. From the company's perspective, the use of Hannover Re share awards as a method of payment constitutes – in economic terms – a compulsory investment in Hannover Re shares with a four-year holding period.

For formal purposes and as a highly precautionary measure, Hannover Rück SE is therefore declaring a divergence from Code Item 4.2.3 Para. 2.

Code Item 4.2.3 Para. 4; Caps on severance payments in management board contracts

Pursuant to Item 4.2.3 Para. 4 of the Code, when management board contracts are concluded care should be taken to ensure that payments made to a member of the management board upon premature termination of his or her contract of service do not exceed a certain amount.

Premature termination of a service contract may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing an Executive Board contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Executive Board. In addition, the scope for negotiation over a member leaving the Executive Board would be restricted if a severance cap were agreed, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Code Item 5.2 Para. 2; Chair of the Audit Committee

Pursuant to Code Item 5.2 Para. 2, the Chair of the Supervisory Board shall not chair the Audit Committee.

The current Chairman of the Supervisory Board of Hannover Rück SE served as the company's Chief Financial Officer in the period from 1994 to 2002. During this time he acquired superb knowledge of the company and he is equipped with extensive professional expertise in the topics that fall within the scope of responsibility of the Finance and Audit Committee. With this in mind, the serving Chairman of the Supervisory Board is optimally suited to chairing the Audit Committee. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Code Item 5.3.2; Independence of the Chair of the Audit Committee

Item 5.3.2 Sentence 3 of the Code recommends that the Chair of the Audit Committee should be independent.

The current Chairman of the Finance and Audit Committee is at the same time also the Chairman of the Board of Management of the controlling shareholder and hence cannot, in the company's legal assessment, be considered independent. As already explained in advance in the justification for divergence from Code Section 5.2 Para. 2, the current Chairman of the Supervisory Board is, however, optimally suited to chairing the Finance and Audit Committee. This assessment is also not cast into question by the fact that the Committee Chairman cannot therefore be considered independent within the meaning of the German Corporate Governance Code. Furthermore, since his service as Chief Financial Officer of Hannover Rück SE dates back to a period more than ten years ago, it is also the case that the reviews and checks performed by the Finance and Audit Committee no longer relate to any timeframe within which he himself was still a member of the Executive Board or decisions initiated by him as a member of the Executive Board were still being realised. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation.

Hannover, 4 November 2014

Executive Board   Supervisory Board

Further enterprise management principles of Hannover Re

In addition to the Corporate Governance principles, Hannover Rück SE has adopted a more extensive Code of Conduct (www.hannover-re.com/resources/cc/generic/codeofconduct-e.pdf). Complementing our corporate strategy and the Corporate Governance principles, it establishes rules governing integrity in the behaviour of all employees of Hannover Rück SE and is intended to help members of staff cope with the ethical and legal challenges that they face as part of day-to-day work. The rules defined in the Code of Conduct reflect the high ethical and legal standards that guide our actions worldwide. It is our belief that integrity in dealings with our stakeholders constitutes the foundation of a successful enterprise. In both our strategic planning and our day-to-day business activities, we therefore aspire to consistently apply the highest ethical and legal standards; for our actions and the way in which every single one of us presents and conducts himself or herself are crucial in shaping the image of Hannover Rück SE.

Sustainability of enterprise management

Considerable time was once again devoted to the issue of sustainability. The strategic orientation of Hannover Rück SE towards sustainability constitutes an increasingly important element of the enterprise strategy. The aim here is to achieve commercial success on the basis of a solid business model in accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future. In 2011 we defined for the first time a concrete Sustainability Strategy setting out our primary objectives in this field. Not only that, in the year under review we again presented our Sustainability Report in the form of a so-called "GRI Report" (Global Reporting Initiative). Further information on the topic of sustainability is provided on our website (www.hannover-re.com/sustainability/index.html).

The goal defined in the Rules of Procedure to have at least two women sitting on the Supervisory Board was again surpassed in the year under review with three female members of the Supervisory Board. In addition, one of the members of the Supervisory Board's Nomination Committee is a woman. Once again, the Executive Board and Supervisory Board considered the programme for the advancement of women that had been implemented within the workforce in 2012 and discussed the progress that had been made. The primary objective of this programme is to foster promising young female professionals through a variety of targeted measures and to enlarge the proportion of women in management positions.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Rück SE work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 6 et seq. and 243 respectively of the present Annual Report.

The Rules of Procedure of the Executive Board are intended to ensure that a consistent business policy is elaborated and implemented for the company in accordance with its strategic objectives. Within the framework of a consistent business policy, the principle of "delegation of responsibility" enjoys special status. In the interests of shareholders, importance is expressly attached to an organisation that facilitates cost-effective, quick and unbureaucratic decision processes. Open and trusting cooperation geared to the interest of the whole is the foundation of success. In this context, the members of the Executive Board bear joint responsibility for the overall management of business. Irrespective of their overall responsibility, each member of the Executive Board leads their own area of competence at their individual responsibility within the bounds of the resolutions adopted by the Executive Board. Only persons under the age of 65 may be appointed to the Executive Board. The term of appointment shall be determined such that it expires no later than the end of the month in which the member of the Executive Board turns 65. The Supervisory Board takes account of diversity considerations in the composition of the Executive Board.

The Rules of Procedure of the Supervisory Board provide inter alia that each member of the Supervisory Board must have the knowledge, skills and professional experience required for orderly performance of their tasks and that the Supervisory Board must have a sufficient number of independent members. Currently, four of the six shareholder representatives are independent as defined by Item 5.4.2 of the German Corporate Governance Code. At least one independent member shall have technical expertise in the fields of accounting and the auditing of financial statements. Persons suggested to the Annual General Meeting as candidates for election to the Supervisory Board may not be older than 72 at the time of their election. Nominations shall take account of the company's international activities as well as diversity. For their part, each member of the Supervisory Board shall ensure that they have sufficient time to discharge their mandate. The Supervisory Board meets at least twice each calendar half-year. If a member of the Supervisory Board participates in less than half of the meetings of the Supervisory Board in a financial year, this shall be noted in the Supervisory Board's report. No more than two former members of the company's Executive Board may belong to the Supervisory Board.

In the year under review the Supervisory Board also carried out another audit of the efficiency of its work. Experiences gathered in connection with the electronic distribution of documents to the members of the Supervisory Board were evaluated as part of this efficiency audit.

Working practice of the committees of the Supervisory Board

In order to efficiently perform its tasks the Supervisory Board has formed a number of committees: the Finance and Audit Committee, the Standing Committee and the Nomination Committee. The Supervisory Board committees are each comprised of three members and prepare matters within their scope of competence for discussion and adoption of a resolution by the full Supervisory Board. In addition, the committees are also assigned their own authority to adopt resolutions.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the interim reports as well as the semi-annual reports prior to their publication. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. In addition, the committee prepares the Supervisory Board's decision on the commissioning of the independent auditor for the financial statements. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement. The minutes of the meetings of the Finance and Audit Committee are also made available to the members of the Supervisory Board who do not sit on the committee.

The Standing Committee prepares personnel decisions for the Supervisory Board. It bears responsibility for granting loans to the group of persons specified in §§ 89 Para. 1, 115 Stock Corporation Act and those considered equivalent pursuant to § 89 Para. 3 Stock Corporation Act as well as for approving contracts with Supervisory Board members in accordance with § 114 Stock Corporation Act. It exercises the powers arising out of § 112 Stock Corporation Act in lieu of the Supervisory Board and – in cooperation with the Executive Board – ensures that long-term succession planning is in place.

The Nomination Committee is tasked with proposing to the Supervisory Board appropriate candidates for the nominations that it puts forward to the Annual General Meeting for election to the Supervisory Board.

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 240 to 242.

Compliance

Hannover Rück SE considers a properly functioning compliance structure to be an essential tool for ensuring compliance with external rules and regulations as well as requirements imposed internally by the company. Our compliance structure, which consists of compliance modules precisely tailored to the specific features of our Property & Casualty and Life & Health reinsurance business groups, facilitates optimal application. The compliance committees are comprised of members from the respective business groups as well as from the areas of Legal, Finance, Accounting and Investments. The chairs report directly to the Executive Board. This structure safeguards adherence to the standards that have been set.

The compliance report for the 2014 calendar year will be submitted to the Finance and Audit Committee in March 2015. The reporting sets out the structure and diverse range of activities of Hannover Re in this regard. The findings of the separate data privacy reporting for the 2014 calendar year are also included in the compliance report. After in-depth examination of topics such as directors' dealings, ad hoc and other disclosure requirements, the insider register, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that only a few circumstances have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that in the future Hannover Re is in full conformity with the internal and external requirements governing its business activities.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the corporate strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in this Annual Report on page 74 et seq.

Information regarding the following items is provided in the remuneration report:

- Remuneration report for the Executive Board and disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.6 of the German Corporate Governance Code,
- Securities transactions pursuant to Item 6.3 of the German Corporate Governance Code,
- Shareholdings pursuant to Item 6.3 of the German Corporate Governance Code.

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in Section 8.3 of the notes "Share-based payment", page 229 et seq., and in the remuneration report with respect to the members of the Executive Board.

In addition to the present Declaration on Corporate Governance, the Corporate Governance Report and the reports of the last 10 years are published on our website pursuant to Item 3.10 of the German Corporate Governance Code (www.hannover-re.com/about/corporate/declaration/index.html).

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Rück SE and explains the structure, composition and amount of the components of the remuneration received by the Executive Board in the 2014 financial year on the basis of the work performed by the Board members for Hannover Rück SE and companies belonging to the Group.

In addition, the amount of remuneration paid to the Supervisory Board on the basis of its work for Hannover Rück SE and companies belonging to the Group as well as the principles according to which this remuneration is determined are described; we also explain the principles on which the remuneration for managers below the level of Executive Board is based.

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2014 consolidated financial statement as required by IAS 24 "Related Party Disclosures". 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 this remuneration report and presented in summary form in the notes.

The provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and of the Insurance Supervision Act (VAG) in conjunction with the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) have been observed. In addition, we took into account the more specific provisions of DRS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies".

Remuneration of the Executive Board

Responsibility

In order to efficiently perform its tasks the Supervisory Board has formed various committees. The Standing Committee prepares remuneration-related matters of content relating to the Executive Board for discussion and adoption of a resolution by a full meeting of the Supervisory Board.

Objective, structure and system of Executive Board remuneration

The total remuneration of the Executive Board and its split into fixed and variable components conform to regulatory requirements – especially the provisions of the Act on the Adequacy of Management Board Remuneration (VorstAG) and the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV).

The amount and structure of the remuneration of the Executive Board are geared to the size and activities of the company, its economic and financial position, its success and future prospects as well as the customariness of the remuneration, making reference to the benchmark environment (horizontal) and the remuneration structure otherwise applicable at the company (vertical). The remuneration is also guided by the tasks of the specific member of the Executive Board, his or her individual performance and the performance of the full Executive Board.

With an eye to these objectives, the remuneration system has two components: fixed salary / non-cash compensation and variable remuneration. The variable remuneration is designed to take account of both positive and negative developments. Overall, the remuneration is to be measured in such a way that it reflects the company's sustainable development and is fair and competitive by market standards. In the event of 100% goal attainment the remuneration model provides for a split into roughly 40% fixed remuneration and roughly 60% variable remuneration.

Fixed remuneration (approx. 40% of total remuneration upon 100% goal attainment)

Measurement basis and payment procedures for fixed remuneration M 78

Components	Measurement basis/ parameters	Condition of payment	Paid out
Basic remuneration; Non-cash compensation, fringe benefits: Accident, liability and luggage insurance, company car for business and personal use (tax on the non-cash benefit payable by the Board member), reimbursement of travel expenses and other expenditures incurred in the interest of the company	Function, responsibility, length of service on the Executive Board Remuneration reviewed by the Supervisory Board normally at two-year intervals. Since 2014 gradual conversion of Executive Board contracts: review of annual fixed salary during the contract period no longer applies.	Contractual stipulations	12 equal monthly instalments

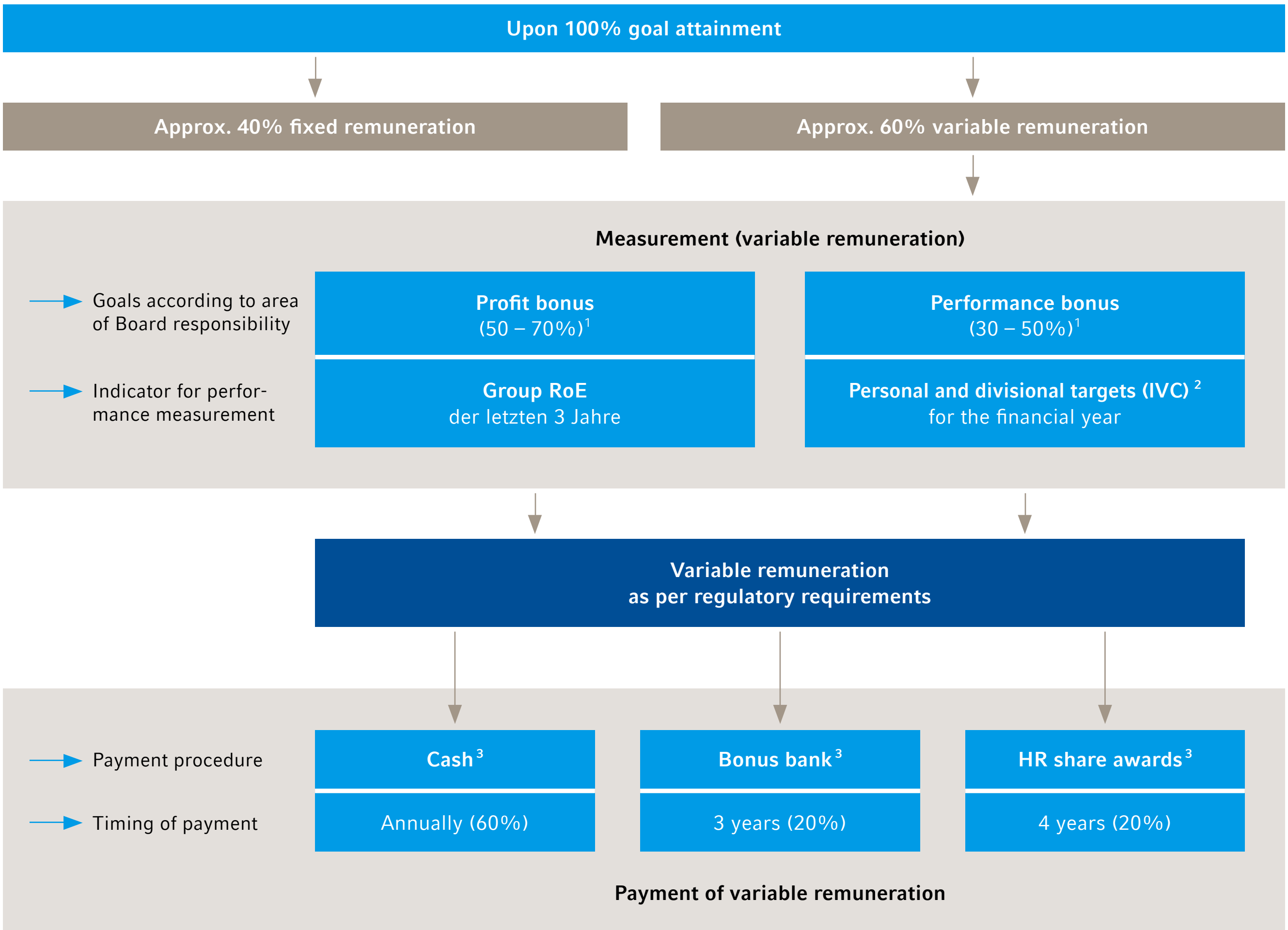
Variable remuneration (approx. 60% of total remuneration upon 100% goal attainment)

The profit- and performance-based remuneration (variable remuneration) is contingent on certain defined results and the attainment of certain set targets. The set targets vary according to the function of the Board member in question. The variable remuneration consists of a profit bonus and a performance bonus.

The variable remuneration is defined at the Supervisory Board meeting that approves the consolidated financial statement for the financial year just ended.

The following chart summarises the make-up of the variable remuneration components. For details of measurement and payment procedures please see the two tables following the chart.

Overview of the composition of variable remuneration M 79



1 Chief Executive Officer/Chief Financial Officer 70% profit bonus, 30% performance bonus (personal targets); Board members with divisional responsibility: 50% profit bonus, 50% performance bonus (25% personal targets/25% divisional targets)

2 An instrument of value-based management used to measure the attainment of long-term goals on the level of the Group, business groups and operational units

3 Split defined by legal minimum requirements

Measurement bases/conditions of payment for variable remuneration **M 80**

Component	Measurement basis/parameters	Condition of payment
Profit bonus		
Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 70%; Board member with divisional responsibility: 50%	The profit bonus is dependent on the risk-free interest rate and the average Group return on equity (RoE) of the past three financial years. An individually determined and contractually defined basic amount is paid for each 0.1 percentage point by which the RoE of the past three financial years exceeds the risk-free interest rate of 1.8%. Goal attainment of 100% corresponds to an RoE of 10.6%. Goal attainment can amount to a maximum of 200% and a minimum of -100%. The IFRS Group net income (excluding non-controlling interests) and the arithmetic mean of the IFRS Group shareholders' equity (excluding non-controlling interests) at the beginning and end of the financial year are used to calculate the RoE. The risk-free interest rate is the average market rate for 10-year German government bonds over the past 5 years and is set at an agreed level of 2.8%. The arrangements governing the profit bonus may be adjusted if the risk-free interest rate of 2.8% changes to such an extent that an (absolute) deviation of at least one percentage point arises.	Contractual stipulations Attainment of three-year targets Decision of the Supervisory Board In view of the market interest rate the Supervisory Board has set the risk-free interest rate at 1.8%.

Component	Measurement basis/parameters	Condition of payment
Performance bonus The performance bonus for the Chief Executive Officer and the Chief Financial Officer is arrived at from individual qualitative and, as appropriate, quantitative targets defined annually by the Supervisory Board that are to be accomplished in the subsequent year. For members of the Executive Board with responsibility for a certain division, the performance bonus consists in equal parts of the divisional bonus and the individual bonus.		
Divisional bonus Proportion of variable remuneration: Board member with divisional responsibility: 25%	The basis for the divisional bonus is the return generated on the capital allocated to the division in the respective 3-year period just ended (= RoCA (Return on Capital Allocated)). An individually determined amount specified in the service contract is calculated for each 0.1 percentage point by which the average 3-year RoCA exceeds the level of 0%. Goal attainment of 100% is achieved in property and casualty reinsurance with a RoCA of 9.1% and in life and health reinsurance with a RoCA of 10.1%. These RoCA values are above the cost of capital and thus generate positive intrinsic value creation (IVC[1]). Goal attainment can amount to a maximum of 200% and from 2015 onwards a minimum of -100%. The method used to calculate the IVC as a basis for determining the divisional performance is checked by independent experts. The divisional bonus is determined by the Supervisory Board according to its best judgement. The determination also takes into account, in particular, the contribution made by the business under the responsibility of the Board member concerned to the achieved divisional performance and the relative change in the average IVC in the remuneration year. The Supervisory Board may make additions to or deductions from the arithmetically calculated values at any time in the event of over- or underfulfilment of the criteria. Special arrangements for 2013 and 2014: the basis for the average RoCA is the divisional performance from 2013 onwards; the minimum divisional bonus is EUR 0.	Attainment of three-year targets (basis for 2013 and 2014: divisional performance from 2013 onwards) Contractual agreement Decision of the Supervisory Board according to its best judgement
Individual bonus Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 30%; Board member with divisional responsibility: 25%	Personal qualitative, quantitative targets; individual contribution to the overall result, leadership skills, innovative skills, entrepreneurial skills, specific features of area of responsibility. The individual bonus for goal attainment of 100% is contractually stipulated. Over- and underfulfilment result in additions/deductions. The minimum individual bonus amounts to EUR 0 and the maximum is double the bonus payable upon complete goal attainment.	Attainment of annual targets Decision by the Supervisory Board according to its best judgement.

[1] An instrument of value-based management used to measure the attainment of long-term goals on the level of the Group, business groups and operational units (see also p. 24).

Payment procedures for the total variable remuneration

Of the total amount of defined variable remuneration, a partial amount of 60% is paid out in the month following the Supervisory Board meeting that approves the consolidated financial statement. The remaining amount of 40% is initially withheld as explained below with a view to encouraging long-term value creation:

Payment procedures for the total variable remuneration M81

Short-term	Medium-term	Long-term
60% of the variable remuneration with the next monthly salary payment following the Supervisory Board resolution	**20% of the variable remuneration in the bonus bank;** withheld for three years; the positive amount contributed three years prior to the payment date is available for payment, provided this does not exceed the balance of the bonus bank in light of credits/debits up to and including those for the financial year just ended; an impending payment not covered by a positive balance in the bonus bank is omitted; a positive balance in the bonus bank is carried forward to the following year after deduction of any payment made; a negative balance is not carried forward to the following year; loss of claims due from the bonus bank in special cases: resignation from office without a compelling reason; contract extension on the same conditions is rejected; no interest is paid on credit balances.	Automatic granting of **virtual Hannover Re share awards (HR-SAs)** with a value equivalent to **20%** of the variable remuneration; payment of the value calculated at the payment date after a **vesting period of four years**; value of the share on awarding/payment: unweighted arithmetic mean of the Xetra closing prices five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement; additional payment of the sum total of all dividends per share paid out during the vesting period; changes in a cumulative amount of 10% or more in the value of the HR-SAs caused by structural measures trigger an adjustment; the Board member has no entitlement to the delivery of shares.
Negative variable total bonus = payment of EUR 0 variable remuneration. **Any minus value of the variable total bonus for a financial year is transferred in full to the bonus bank (see "Medium-term" column).**		

Handling of payment of variable remuneration components in special cases

In the event of voluntary resignation or termination/dismissal by the company for a compelling reason or if an offered contract extension on the same conditions (exception: the member of the Executive Board has reached the age of 60 and has served as a member of the Executive Board for two terms of office) is declined, all rights to payment of the balances from the bonus bank and from the HR-SAs are forfeited.

If the contractual relationship ends normally prior to the end of the vesting period for the bonus bank or HR-SAs, and if a contract extension is not offered, the member of the Executive Board retains his entitlements to payment from the bonus bank – making reference to a defined forward projection of the bonus bank – and for already awarded HR-SAs.

All claims to the allocation of amounts to the bonus bank and/or awarding of HR-SAs after leaving the company are excluded. In cases where an individual leaves the company because of non-reappointment, retirement or death this shall not apply with respect to claims to variable remuneration acquired (pro rata) in the final year of the Board member's work for the company.

Variable remuneration under the old remuneration structure (until 2011)

The virtual stock option plan with stock appreciation rights existing under the old remuneration structure remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2014 financial year no further stock appreciation rights were granted to active Board members. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 0.5 million (EUR 1.4 million) in 2014.

As at 31 December 2014 active members of the Executive Board had at their disposal a total of 228,957 (288,797) granted, but not yet exercised stock appreciation rights with a fair value of EUR 2.1 million (EUR 2.4 million).

Continued payment in case of disability

In the event of temporary incapacity for work the fixed annual salary shall continue to be paid in the same amount, at most until termination of the service contract.

If a member of the Executive Board is permanently incapacitated for work during the period of the service contract, the service contract shall terminate at the end of the sixth month after which the permanent incapacity for work is established – although no later than at the end of the service contract.

Other information

The contracts of the Board members do not include a commitment to benefits in the event of a premature termination of employment on the Executive Board owing to a change of control. Only the conditions for the granting of share-based remuneration in the form of stock appreciation rights provide for special exercise options in the event of the merger, spin-off or demerger of Hannover Re into another legal entity.

With regard to Item 4.2.3. Para. 2 "Caps on the amount of variable compensation elements in management board contracts" and Item 4.2.3 Para. 4 "Caps on severance payments in management board contracts" of the German Corporate Governance Code, we would refer the reader to our remarks in the 2014 Declaration of Conformity contained in the section "Statement of enterprise management practices" on page 101 et seq. of this Group Annual Report.

If the company insists on a non-competition clause with Mr. Wallin for two years after the termination of his service contract, he shall be recompensed in a monthly amount of 50% of his most recent fixed remuneration. Income earned through the application of his working capacity elsewhere shall be counted towards this compensation insofar as such income in combination with the compensation exceeds 100% of the most recently received fixed remuneration. The non-competition clause shall not apply if the contract ends prior to the age of 65 because the company does not extend it or because Mr. Wallin declines an extension offered to him on what are for him inferior terms, or if the premature termination or non-extension is due to a compelling reason for which the company is responsible.

Amount of remuneration received by the Executive Board

The total remuneration received by the Executive Board of Hannover Rück SE on the basis of its work for Hannover Rück SE and the companies belonging to the Group is calculated from the sum of all the components set out in the following table pursuant to DRS 17 (amended 2010).

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.2 million (EUR 0.4 million).

Total remuneration of the active members of the Executive Board pursuant to DRS 17 (amended 2010) M 82

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration[1]	
		Basic salary	Non-cash compensation / fringe benefits[2]	Short-term	
				Variable remuneration payable	
in EUR thousand				60%[3]	Netted remuneration from seats with Group bodies
Ulrich Wallin	**2014**	**569.7**	**16.2**	**678.4**	
	2013	520.0	15.3	563.8	
Sven Althoff[7]	**2014**	**199.0**	**7.2**	**183.1**	
André Arrago[8]	**2014**	**228.3**	**6.4**	**246.2**	
	2013	320.0	9.5	340.4	
Claude Chèvre	**2014**	**348.7**	**13.2**	**416.9**	
	2013	320.0	13.3	329.6	
Jürgen Gräber	**2014**	**428.0**	**16.0**	**456.4**	
	2013	400.0	14.3	473.2	
Dr. Klaus Miller	**2014**	**342.4**	**13.9**	**404.5**	
	2013	320.0	13.8	329.6	
Dr. Michael Pickel	**2014**	**342.4**	**22.5**	**368.7**	
	2013	320.0	17.2	347.6	
Roland Vogel	**2014**	**406.6**	**15.4**	**398.9**	**49.5**
	2013	380.0	15.7	347.0	35.3
Total	**2014**	**2,865.1**	**110.8**	**3,153.1**	**49.5**
Total	2013	2,580.0	99.1	2,731.2	35.3

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2014. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.

2 The non-cash compensation has been carried in the amounts established for tax purposes.

3 In 2014 altogether EUR 107,300 more in variable remuneration was paid out to Board members for 2013 than had been reserved.

4 The nominal amount is stated; full or partial repayment in 2018, depending on the development until such time of the balance in the bonus bank. In 2014 altogether EUR 35,900 more than had been originally reserved was allocated to the bonus bank for 2013.

5 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid in 2019 at the prevailing share price of Hannover Re. In 2014 nominal amounts of EUR 35,900 more than had been originally reserved were used as a basis for allocation of the 2013 share awards.

6 In order to calculate the number of share awards for 2014 reference was made to the Xetra closing price of the Hannover Re share on 30 December 2014 (EUR 74.97). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2015. The applicable market price of the Hannover Re share had decreased from EUR 62.38 (30 December 2013) to EUR 60.53 by the allocation date (10 March 2014) of the share awards for 2013; the share awards actually allocated for 2013 are shown here, not those estimated in the 2013 Annual Report.

7 Mr. Althoff was appointed to the Executive Board on 1 August 2014. The amounts stated include his remuneration as a senior executive of Hannover Re for the period from 1 January to 31 July 2014.

8 The appointment of Mr. Arrago ended on age grounds on 31 August 2014.

	Performance-based remuneration [1]		Total	Number of share awards [6]
	Medium-term	Long-term		2013 = Actual 2014 = Estimate
	Bonus bank	Share awards		
	20% (allocation) [4]	20% (allocation) [5]		
in EUR thousand				
	226.1	**226.1**	**1,716.5**	**2,842**
	187.9	187.9	1,474.9	3,321
	43.4	**78.6**	**511.3**	**1,049**
	82.1	**82.1**	**645.1**	**1,058**
	113.4	113.4	896.7	1,960
	139.0	**139.0**	**1,056.8**	**1,805**
	109.8	109.8	882.5	1,875
	152.2	**152.2**	**1,204.8**	**1,984**
	157.7	157.7	1,202.9	2,450
	134.9	**134.9**	**1,030.6**	**1,750**
	109.8	109.8	883.0	1,875
	122.9	**122.9**	**979.4**	**1,587**
	115.8	115.8	916.4	1,980
	133.0	**133.0**	**1,086.9**	**1,705**
	115.6	115.6	973.9	1,996
	1,033.6	**1,068.8**	**8,231.4**	**13,780**
	910.0	910.0	7,230.3	15,457

The following table shows the expense for share-based remuneration of the Executive Board in the financial year.

The table is to be viewed independently of the presentation of the total remuneration received by active members of the Executive Board pursuant to DRS 17.

Total expense for share-based remuneration of the Executive Board M 83

Name in EUR thousand	Year	Stock appreciation rights exercised	Change in reserve in 2014 for stock appreciation rights	Change in reserve for share awards from previous years [1]	Expense for share awards allocated in current financial year [2]	Total
Ulrich Wallin	**2014**	**72.7**	**84.7**	**277.0**	**58.0**	**492.4**
	2013	114.0	58.6	61.6	40.3	274.5
Sven Althoff [3]	**2014**	**14.6**	**24.5**	**86.1**	**10.9**	**136.1**
André Arrago [4]	**2014**	**49.5**	**35.2**	**217.1**	**79.3**	**381.1**
	2013	535.2	(439.2)	109.9	69.5	275.4
Claude Chèvre	**2014**	**–**	**–**	**90.6**	**26.0**	**116.6**
	2013	–	–	20.7	22.0	42.7
Jürgen Gräber	**2014**	**87.6**	**54.8**	**201.3**	**40.4**	**384.1**
	2013	164.2	(1.5)	108.2	31.0	301.9
Dr. Klaus Miller	**2014**	**–**	**20.5**	**148.6**	**28.0**	**197.1**
	2013	–	19.5	(28.7)	22.0	12.8
Dr. Michael Pickel	**2014**	**78.8**	**49.3**	**152.3**	**29.7**	**310.1**
	2013	149.5	(3.1)	79.5	23.2	249.1
Roland Vogel	**2014**	**30.9**	**37.4**	**175.9**	**39.3**	**283.5**
	2013	44.3	30.4	91.4	27.2	193.3
Total	**2014**	**334.1**	**306.4**	**1,348.9**	**311.6**	**2,301.0**
Total	2013	1,007.2	(335.3)	442.6	235.2	1,349.7

1 The change in the reserve for share awards from previous years derives from the increased market price of the Hannover Re share, the dividend approved for 2013 and the spreading of the expense for share awards across the remaining period of the individual service contracts.
2 The expense for share awards is spread across the remaining period of the individual service contracts. This gives rise to a difference relative to the nominal amount shown in the table of total remuneration.
3 Mr. Althoff was appointed to the Executive Board on 1 August 2014. The exercised stock appreciation rights, the share awards from previous years and a portion of the expense for share awards in the current financial year relate to his prior work as a senior executive at Hannover Re.
4 The appointment of Mr. Arrago ended on age grounds on 31 August 2014.

The following two tables show the remuneration of the Executive Board in the 2014 financial year in accordance with the recommendations of the German Corporate Governance Code:

German Corporate Governance Code, Item 4.2.5 Para. 3 – Table 1 (target/minimum/maximum remuneration as nominal amounts) M84

Benefits granted	**Ulrich Wallin** Chief Executive Officer				**Sven Althoff**[1] Board member with divisional responsibility Date joined: 1 August 2014		
in EUR thousand	2013	2014	2014 (Min)	2014 (Max)	2014	2014 (Min)	2014 (Max)
Fixed remuneration	520.0	569.7	569.7	569.7	280.0	280.0	280.0
Fringe benefits	15.3	16.2	16.2	16.2	7.2	7.2	7.2
Total	**535.3**	**585.9**	**585.9**	**585.9**	**287.2**	**287.2**	**287.2**
One-year variable remuneration	468.0	480.0	0.0	960.0	252.0	0.0	504.0
Multi-year variable remuneration	338.6	356.6	(523.4)	676.6	174.2	6.2	342.2
Bonus bank 2014 (2018[2])	156.0	160.0	(560.0)	320.0	84.0	0.0	168.0
Share awards 2014 (2019[2])[3]	156.0	160.0	0.0	320.0	84.0	0.0	168.0
Dividend on share awards for 2012	26.6	0.0	0.0	0.0	0.0	0.0	0.0
Dividend on share awards for 2013[4]	0.0	36.6	36.6	36.6	6.2	6.2	6.2
Total	**1,341.9**	**1,422.5**	**62.5**	**2,222.5**	**713.4**	**293.4**	**1,133.4**
Service cost	120.8	114.3	114.3	114.3	13.9	13.9	13.9
Total remuneration	**1,462.7**	**1,536.8**	**176.8**	**2,336.8**	**727.3**	**307.3**	**1,147.3**

Benefits granted	**Jürgen Gräber** Board member with divisional responsibility Coordinator of worldwide property & casualty reinsurance				**Dr. Klaus Miller** Board member with divisional responsibility			
in EUR thousand	2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
Fixed remuneration	400.0	428.0	428.0	428.0	320.0	342.4	342.4	342.4
Fringe benefits	14.3	16.0	16.0	16.0	13.8	13.9	13.9	13.9
Total	**414.3**	**444.0**	**444.0**	**444.0**	**333.8**	**356.3**	**356.3**	**356.3**
One-year variable remuneration	360.0	360.0	0.0	720.0	288.0	288.0	0.0	576.0
Multi-year variable remuneration	259.4	266.8	(273.2)	506.8	206.7	212.3	(219.7)	404.3
Bonus bank 2014 (2018[2])	120.0	120.0	(300.0)	240.0	96.0	96.0	(240.0)	192.0
Share awards 2014 (2019[2])[3]	120.0	120.0	0.0	240.0	96.0	96.0	0.0	192.0
Dividend on share awards for 2012	19.4	0.0	0.0	0.0	14.7	0.0	0.0	0.0
Dividend on share awards for 2013[4]	0.0	26.8	26.8	26.8	0.0	20.3	20.3	20.3
Total	**1,033.7**	**1,070.8**	**170.8**	**1,670.8**	**828.5**	**856.6**	**136.6**	**1,336.6**
Service cost	97.9	90.2	90.2	90.2	80.0	82.8	82.8	82.8
Total remuneration	**1,119.5**	**1,161.0**	**261.0**	**1,761.0**	**908.5**	**939.4**	**219.4**	**1,419.4**

1 The remuneration of Mr. Althoff and Mr. Arrago is shown as annual remuneration (not pro rata).
2 Year of payment.
3 Maximum value when awarded, amount paid out dependent upon the share price in the year of payment and the dividends paid until such time (see also our Declaration of Conformity on page 99 et seq.).
4 In the case of Mr. Althoff the dividend for 2013 refers to share awards from his work as a senior executive at Hannover Re.

André Arrago[1] Board member with divisional responsibility Date left: 31 August 2014				Claude Chévre Board member with divisional responsibility			
2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
320.0	342.4	342.4	342.4	320.0	348.7	348.7	348.7
9.5	6.4	6.4	6.4	13.3	13.2	13.2	13.2
329.5	**348.8**	**348.8**	**348.8**	**333.3**	**361.9**	**361.9**	**361.9**
288.0	288.0	0.0	576.0	288.0	297.0	0.0	594.0
206.0	211.9	(220.1)	403.9	199.3	210.9	(234.6)	408.9
96.0	96.0	(240.0)	192.0	96.0	99.0	(247.5)	198.0
96.0	96.0	0.0	192.0	96.0	99.0	0.0	198.0
14.0	0.0	0.0	0.0	7.3	0.0	0.0	0.0
0.0	19.9	19.9	19.9	0.0	12.9	12.9	12.9
823.5	**848.7**	**128.7**	**1,328.7**	**820.6**	**869.8**	**127.3**	**1,364.8**
85.8	86.8	86.8	86.8	80.0	91.7	91.7	91.7
909.3	**935.5**	**215.5**	**1,415.5**	**900.6**	**961.5**	**219.0**	**1,456.5**

Dr. Michael Pickel Board member with divisional responsibility				Roland Vogel Chief Financial Officer			
2013	2014	2014 (Min)	2014 (Max)	2013	2014	2014 (Min)	2014 (Max)
320.0	342.4	342.4	342.4	380.0	406.6	406.6	406.6
17.2	22.5	22.5	22.5	15.7	15.4	15.4	15.4
337.2	**364.9**	**364.9**	**364.9**	**395.7**	**422.0**	**422.0**	**422.0**
288.0	288.0	0.0	576.0	288.0	288.0	0.0	576.0
206.6	212.6	(219.4)	404.6	208.8	214.8	(313.2)	406.8
96.0	96.0	(240.0)	192.0	96.0	96.0	(336.0)	192.0
96.0	96.0	0.0	192.0	96.0	96.0	0.0	192.0
14.6	0.0	0.0	0.0	16.8	0.0	0.0	0.0
0.0	20.6	20.6	20.6	0.0	22.8	22.8	22.8
831.8	**865.5**	**145.5**	**1,345.5**	**892.5**	**924.8**	**108.8**	**1,404.8**
101.2	89.9	89.9	89.9	38.1	33.0	33.0	33.0
917.6	**955.4**	**235.4**	**1,435.4**	**930.6**	**957.8**	**141.8**	**1,437.8**

German Corporate Governance Code, Item 4.2.5 Para. 3 – Table 2 (cash allocations in 2013 and 2014) M 85

Allocation	**Ulrich Wallin** Chief Executive Officer		**Sven Althoff**[1] Board member with divisional responsibility Date joined: 1 August 2014
in EUR thousand	2013	2014	2014
Fixed remuneration	520.0	569.7	199.0
Fringe benefits	15.3	16.2	7.2
Total	**535.3**	**585.9**	**206.2**
One-year variable remuneration[2]	614.5	603.0	98.0
Multi-year variable remuneration	113.9	72.7	14.6
Stock appreciation rights 2006 (2009–2016[3])	0.0	0.0	0.0
Stock appreciation rights 2007 (2010–2017[4])	41.2	0.0	0.0
Stock appreciation rights 2009 (2013–2019[5])	72.7	72.7	14.6
Total	**1,263.7**	**1,261.6**	**318.8**
Service cost[6]	120.8	114.3	13.9
Total remuneration	**1,384.5**	**1,375.9**	**332.7**

Allocation	**Jürgen Gräber** Board member with divisional responsibility Coordinator of worldwide property & casualty reinsurance		**Dr. Klaus Miller** Board member with divisional responsibility	
in EUR thousand	2013	2014	2013	2014
Fixed remuneration	400.0	428.0	320.0	342.4
Fringe benefits	14.3	16.0	13.8	13.9
Total	**414.3**	**444.0**	**333.8**	**356.3**
One-year variable remuneration[2]	478.5	444.8	351.8	340.5
Multi-year variable remuneration	164.2	87.6	0.0	0.0
Stock appreciation rights 2006 (2009–2016[3])	0.0	0.0	–	–
Stock appreciation rights 2007 (2010–2017[4])	76.6	0.0	–	–
Stock appreciation rights 2009 (2013–2019[5])	87.6	87.6	–	–
Total	**1,057.0**	**976.4**	**685.6**	**696.8**
Service cost[6]	97.9	90.2	80.0	82.8
Total remuneration	**1,142.8**	**1,066.6**	**765.6**	**779.6**

1 The stated values include the remuneration of Mr. Althoff as a senior executive of Hannover Re for the period from 1 January to 31 July 2014.
2 This refers in each case to payment of the variable remuneration for the previous year. Remuneration for seats with Group bodies that is counted towards the variable remuneration accrues in the year of occurrence. The company's Supervisory Board does not decide on the final amount paid out for the 2014 financial year until after the preparation of the remuneration report.
3 Stock appreciation rights were awarded in 2006, exercise option at the discretion of the Executive Board until 31 December 2016 in the following tranches: 40% from 2009, 60% from 2010, 80% from 2011, 100% from 2012 onwards.
4 Stock appreciation rights were awarded in 2007, exercise option at the discretion of the Executive Board until 31 December 2017 in the following tranches: 40% from 2010, 60% from 2011, 80% from 2012, 100% from 2013 onwards.
5 Stock appreciation rights were awarded in 2009, exercise option at the discretion of the Executive Board until 31 December 2019 in the following tranches: 40% from 2012, 60% from 2013, 80% from 2014, 100% from 2015 onwards.
6 For details of the service cost see the tables "Defined benefit commitments" and "Defined contribution commitments" on page 121.

André Arrago Board member with divisional responsibility Date left: 31 August 2014		Claude Chévre Board member with divisional responsibility	
2013	2014	2013	2014
320.0	228.3	320.0	348.7
9.5	6.4	13.3	13.2
329.5	**234.7**	**333.3**	**361.9**
344.6	355.8	351.8	340.5
535.2	49.5	0.0	0.0
180.5	0.0	–	–
206.2	0.0	–	–
148.5	49.5	–	–
1,209.3	**640.0**	**685.1**	**702.4**
85.8	86.8	80.0	91.7
1,295.1	726.8	765.1	794.1

Dr. Michael Pickel Board member with divisional responsibility		Roland Vogel Chief Financial Officer	
2013	2014	2013	2014
320.0	342.4	380.0	406.6
17.2	22.5	15.7	15.4
337.2	**364.9**	**395.7**	**422.0**
351.8	359.4	388.3	376.6
149.5	78.8	44.3	30.9
0.0	0.0	0.0	0.0
70.7	0.0	13.4	0.0
78.8	78.8	30.9	30.9
838.5	**803.1**	**828.3**	**829.5**
101.2	89.9	38.1	33.0
924.3	893.0	866.4	862.5

Sideline activities of the members of the Executive Board

The members of the Executive Board require the approval of the Supervisory Board to take on sideline activities. This ensures that neither the remuneration granted nor the time required for this activity can create a conflict with their responsibilities on the Executive Board. If the sideline activities involve seats on supervisory boards or comparable control boards, these are listed and published in the Annual Report of Hannover Rück SE. The remuneration received for such seats at Group companies and other board functions is deducted when calculating the variable bonus and shown separately in the table of total remuneration.

Retirement provision

Final-salary pension commitment (appointment before 2009)

The contracts of members of the Executive Board first appointed prior to 2009 contain commitments to an annual retirement pension calculated as a percentage of the pensionable fixed annual remuneration (defined benefit). The target pension is at most 50% of the monthly fixed salary payable on reaching the age of 65. A non-pensionable fixed remuneration component was introduced in conjunction with the remuneration structure applicable from 2011 onwards.

Contribution-based pension commitment (appointment from 2009 onwards)

The commitments given to members of the Executive Board from 2009 onwards are based on a defined contribution scheme.

A Board member who has reached the age of 65 and left the company's employment receives a life-long retirement pension. The amount of the monthly retirement pension is calculated according to the reference date age (year of the reference date less year of birth) and the funding contribution on the reference date. The annual funding contribution for these contracts is paid by the company in the amount of a contractually specified percentage of the pensionable income (fixed annual remuneration as at the contractually specified reference date).

In both contract variants (i. e. defined benefit and defined contribution) other income received while drawing the retirement pension is taken into account pro rata or in its entirety under certain circumstances (e. g. in the event of incapacity for work or termination of the service contract before reaching the age of 65).

Provision for surviving dependants

If the Board member dies during the period of the service contract, the surviving spouse – or alternatively the eligible children – shall be entitled to continued payment of the fixed monthly salary for the month in which the Board member dies and the six months thereafter, at most until termination of the service contract. If the member of the Executive Board dies after pension payments begin, the surviving spouse and alternatively the dependent children shall receive continued payment of the retirement pension for the month of death and the following six months. The widow's pension amounts to 60% of the retirement pay that the Board member received or would have received if he had been incapacitated for work at the time of his death.

An orphan's pension shall be granted in the amount of 15% – in the case of full orphans 25% (final-salary pension commitment) or 30% (contribution-based pension commitment) – of the retirement pay that the Board member received or would have received on the day of his death if the pensionable event had occurred owing to a permanent incapacity for work.

Adjustments

The following parameters are used for adjustments to retirement, widow's and orphan's benefits: the price index for the cost of living of all private households in Germany (contracts from 2001 onwards) or the price index for the cost of living of four-person households of civil servants and higher-income salaried employees (contracts from 1997 to 2000).

Current pensions based on the commitments given from 2009 onwards (defined contribution commitment) are increased annually by at least 1% of their most recent (gross) amount.

Pension payments to former members of the Executive Board

The pension payments to former 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. The projected benefit obligation of the pension commitments to former members of the Executive Board amounted to altogether EUR 28.8 million (EUR 21.4 million).

Defined benefit commitments

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Name in EUR thousand	Financial year	Attainable annual pension (age 65)	DBO 31.12.	Personnel expense
Ulrich Wallin	**2014**	**229.1**	**5,159.5**	**114.3**
	2013	220.0	3,284.1	120.8
Sven Althoff [1, 2]	**2014**	**30.3**	**370.8**	**13.9**
Jürgen Gräber	**2014**	**158.5**	**3,493.9**	**90.2**
	2013	158.5	2,133.3	97.9
Dr. Michael Pickel	**2014**	**125.6**	**2,124.2**	**89.9**
	2013	120.0	1,163.5	101.2
Roland Vogel [1, 3]	**2014**	**91.7**	**1,652.3**	**33.0**
	2013	80.4	786.8	38.1
Total	**2014**	**635.2**	**12,800.7**	**341.3**
Total	2013	578.9	7,367.7	358.0

1 Mr. Althoff and Mr. Vogel were first granted a pension commitment prior to 2001 on the basis of their service to the company prior to their appointment to the Executive Board; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry]/[attainable service years from entry to exit age]) of the final benefit. Measurement under IFRS consequently uses the defined benefit method.

2 An annual premium of EUR 13,600 was paid for Mr. Althoff for 2014. The first increased contribution based on his appointment to the Executive Board is due on 1 July 2015. The guaranteed interest rate of his commitment is 3.25%. The values shown refer to his entitlements based on the remuneration prior to appointment to the Executive Board (1 August 2014).

3 An annual premium of EUR 98,300 (25% of the pensionable income) was paid for Mr. Vogel for 2014. The guaranteed interest rate of his commitment is 3.25%. The values shown include his entitlements prior to appointment to the Executive Board (1 April 2009), which in accordance with a resolution of the company's Supervisory Board (May 2014) shall remain unaffected by his pension commitment as a member of the Executive Board.

Defined contribution commitments

M 87

Name in EUR thousand	Financial year	Annual funding contribution [1]	Attainable annual pension (age 65)	Premium
Claude Chèvre [2]	**2014**	**25% to October 2014 39.5% from November 2014**	**117.8**	**91.7**
	2013	25%	68.4	80.0
Dr. Klaus Miller [2]	**2014**	**25%**	**51.4**	**82.8**
	2013	25%	48.7	80.0
Total	**2014**		**169.2**	**174.5**
Total	2013		117.1	160.0

1 Percentage of pensionable income (fixed annual remuneration as at the contractually specified reference date)

2 Guaranteed interest rate 2.25%

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Hannover Rück SE and regulated by the Articles of Association.

In accordance with § 14 of the Articles of Association as amended on 18 July 2013 and the resolution of the Annual General Meeting on 7 May 2013, the members of the Supervisory Board receive fixed annual remuneration of EUR 30,000 per member in addition to reimbursement of their expenses. Furthermore, each member of the Supervisory Board receives variable remuneration measured according to the average earnings per share (EPS) of the company over the past three financial years preceding the Annual General Meeting at which the actions of the Supervisory Board for the last of these three years are ratified. The variable remuneration amounts to EUR 330 for each EUR 0.10 average earnings per share (EPS) of the company. The measurement of this performance-based remuneration component according to the average earnings per share of the last three financial years ensures that the variable remuneration is geared to sustainable corporate development. The variable remuneration is limited to an annual maximum of EUR 30,000. The Chairman of the Supervisory Board receives twice the aforementioned remuneration amounts and the Deputy Chairman of the Supervisory Board receives one-and-a-half times the said amounts.

In addition, the members of the Finance and Audit Committee formed by the Supervisory Board receive remuneration of EUR 15,000 for their committee work and the members of the Standing Committee formed by the Supervisory Board receive remuneration of EUR 7,500. In this case, too, the Chairman of the Committee receives twice and the Deputy Chairman one-and-a-half times the stated amounts. No remuneration is envisaged for the Nomination Committee.

Members who have only belonged to the Supervisory Board or one of its Committees for part of the financial year receive the remuneration pro rata temporis.

All the members of the Supervisory Board receive an attendance allowance of EUR 1,000 for their participation in each meeting of the Supervisory Board and the Committees in addition to the aforementioned remuneration. If a meeting of the Supervisory Board and one or more committee meetings fall on the same day, the attendance allowance for this day is only paid once in total.

Individual remuneration received by the members of the Supervisory Board M 88

Name in EUR thousand[1]	Function	Type of remuneration	2014	2013
Herbert K. Haas[2]	Chairman of the • Supervisory Board Member of the • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	100.0	100.0
		Variable remuneration	84.9	76.4
		Remuneration for committee work	85.0	85.1
		Attendance allowances	11.0	15.0
			280.9	**276.5**
Dr. Klaus Sturany	Deputy Chairman of the Supervisory Board Member of the Standing Committee	Fixed remuneration	45.0	45.0
		Variable remuneration	40.1	32.4
		Remuneration for committee work	7.5	7.5
		Attendance allowances	5.0	6.0
			97.6	**90.9**
Wolf-Dieter Baumgartl[2]	Member of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	50.0	50.0
		Variable remuneration	42.3	38.3
		Remuneration for committee work	22.5	22.5
		Attendance allowances	11.0	12.0
			125.8	**122.7**
Frauke Heitmüller[3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	26.6	21.3
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.6	**55.3**
Uwe Kramp[4]	Member of the Supervisory Board (until 3 May 2012)	Fixed remuneration	–	–
		Variable remuneration	–	0.3
		Remuneration for committee work	–	–
		Attendance allowances	–	–
			–	**0.3**
Otto Müller[3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	26.6	21.6
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.6	**55.6**
Dr. Andrea Pollak	Member of the • Supervisory Board • Nomination Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	26.6	21.6
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			60.6	**55.6**

Dr. Immo Querner[2]	Member of the Supervisory Board	Fixed remuneration	50.0	50.0
		Variable remuneration	41.7	38.2
		Remuneration for committee work	10.0	10.0
		Attendance allowances	7.0	7.0
			108.7	**105.2**
Dr. Erhard Schipporeit	Member of the • Supervisory Board • Finance and Audit Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	27.1	21.6
		Remuneration for committee work	15.0	15.0
		Attendance allowances	6.0	8.0
			78.1	**74.6**
Maike Sielaff[3]	Member of the Supervisory Board	Fixed remuneration	30.0	24.6
		Variable remuneration	24.0	17.0
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			58.0	45.6
Gert Wächtler[4]	Member of the Supervisory Board (until 19 March 2013)	Fixed remuneration	–	5.5
		Variable remuneration	2.5	4.6
		Remuneration for committee work	–	–
		Attendance allowances	–	1.0
			2.5	**11.1**
Total			**933.4**	**893.5**

1 Amounts excluding reimbursed VAT
2 Including supervisory board remuneration and remuneration for committee work as well as advisory board remuneration received from entities affiliated with the company
3 Employee representatives
4 Former employee representative

The individualised presentation of the remuneration shows the expense charged to the financial year in question. Since the remuneration for a financial year becomes due at the end of the Annual General Meeting that ratifies the acts of the Supervisory Board for the financial year, the relevant reserve allocations for the variable remuneration are recognised allowing for any fractional amounts. Value-added tax payable upon the remuneration is reimbursed by the company.

In the year under review no payments or benefits were granted to members of the Supervisory Board in return for services provided individually outside the committee work described above, including for example consulting or mediation services, with the exception of the remuneration paid to employee representatives on the basis of their employment contracts.

Loans to members of the management boards and contingent liabilities

In order to avoid potential conflicts of interest, Hannover Rück SE or its subsidiaries may only grant loans to members of the Executive Board or Supervisory Board or their dependants with the approval of the Supervisory Board.

In 2014 no loan relationships existed with members of the Executive Board or Supervisory Board of Hannover Rück SE, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rück SE effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). The reportable transactions listed in the following table took place in the 2014 financial year.

Securities transactions **M 89**

Name	Type of transaction	Type of security	ISIN	Transaction date	Number of shares	Price in EUR	Total volume in EUR
André Arrago	Purchase	Share	DE0008402215	11 March 2014	1,600	61.00[1]	97,599.04

[1] Rounded; average price = EUR 60.994

Members of the Supervisory Board and Executive Board of Hannover Rück SE as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2014 amounted to 0.004% (0.056%) of the issued shares, i. e. 4,549 (67,103) shares.

Remuneration of staff and senior executives

Structure and system

The remuneration scheme for senior executives below the Executive Board (management levels 2 and 3) consists of a fixed annual salary and a system of variable remuneration. This is comprised of a short-term variable remuneration component, the annual cash bonus, and a long-term share-based remuneration component, the Share Award Plan. This variable remuneration has been uniformly applied worldwide since 1 January 2012 to all Group senior executives (i. e. Managing Directors, Directors and General Managers). It satisfies the requirements of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV), which entered into force on 13 October 2010, inasmuch as – in its basic principles and parameters – it meets the special requirements of § 4 VersVergV and is appropriately realised according to the various management levels. As part of the reorientation of the remuneration system for senior executives the Share Award Plan of the Executive Board was consciously extended to include management levels 2 and 3. Given that at the same time the stock appreciation rights plan for senior executives was cancelled with effect from the 2012 allocation year, this means that a uniform share-based remuneration component has been maintained for the Executive Board and senior executives alike.

Members of staff on the levels of Chief Manager, Senior Manager and Manager are also able to participate in a variable remuneration system through the Group Performance Bonus (GPB). The Group Performance Bonus (GPB) is a remuneration model launched in 2004 that is linked to the success of the company. This tool is geared to the minimum return on equity of 750 basis points above the risk-free interest rate and the return on equity actually generated. For those participating in the GPB 14.15 monthly salary payments are guaranteed; a maximum of 16.7 salary payments is attainable. Since its launch the maximum amount of the GPB was paid out in 2006, 2007, 2009, 2010, 2012 and 2013.

The group of participants and the total number of eligible participants in the variable remuneration systems of Hannover Re are set out in the table on the following page.

Measurement of variable remuneration for senior executives

The measurement of the variable remuneration is based on three elements: Group net income, divisional targets and individual targets. The weighting of the elements is dependent upon whether responsibility is carried in a treaty/regional department or in a service department. In the treaty/regional departments the Group net income is weighted at 20%, the divisional targets at 40% and the individual targets also at 40%. In the service departments the Group net income carries a 40% weighting, while the individual targets account for 60%. Agreements on divisional targets and individual targets as well as on their degree of goal attainment are arrived at as part of the Management by Objectives (MbO) process.

The Group net income is measured by the three-year average return on equity (ROE) of the Hannover Re Group above the risk-free interest rate. Goal attainment is calculated as follows: for each individual financial year of the last three financial years it is calculated by how many percentage points the RoE of the Hannover Re Group exceeds the risk-free interest rate. The average of these three differences determines the three-year average RoE above the risk-free interest rate. The risk-free interest rate is the average market interest rate over the past five years for 10-year German government bonds.

If the three-year average RoE above the risk-free interest rate reaches the expected minimum return on equity of 750 basis points, goal attainment stands at 85%. Goal attainment of 100% is recorded at 882 basis points. The maximum possible goal attainment is 200%. A lower limit is placed on goal attainment of -50% (penalty) for management level 2 (Managing Director) and 0% for management level 3 (Director and General Manager).

The measurement of the divisional targets – which in the case of the treaty/regional departments account for 40% of overall goal attainment – is geared to the actual value created. The Intrinsic Value Creation (IVC) of the division encompassing the relevant area of responsibility is therefore used as a one-year measurement basis. Negative performance contributions are excluded here – the minimum possible goal attainment is 0%. The maximum possible goal attainment is limited to 150%.

Group of participants and total number of eligible participants in variable remuneration systems **M 90**
Valid: 31 December 2014

Participants		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director Director General Manager	Management level 2 Management level 3	Cash bonus and Share Award Plan	**Hannover Re Group** All 160 Group senior executives worldwide receive a cash bonus upon corresponding goal attainment. 159 of them participate in the Share Award Plan.
Chief Manager Senior Manager Manager		Group Performance Bonus (GPB)	**Home Office Hannover** 623 staff (excl. seconded employees) out of the altogether 1,269 at Hannover Home Office (incl. 94 senior executives) are GPB-eligible.

Attainment of the agreed IVC results in goal attainment of 100%. Outperformance of the divisional targets, i. e. a degree of goal attainment in excess of 100%, requires at least the agreement and attainment of a positive IVC. Furthermore, a degree of goal attainment in excess of 100% should be geared to a real comparison of planned IVC with actual IVC. A maximum degree of goal attainment of 150% is conditional upon attainment of an excellent positive IVC and implies that the actual IVC of the division is significantly in excess of the planned IVC.

Individual targets are agreed and measured for a period of one year. The degree of goal attainment is between 0% and 100%.

Amount and payment of variable remuneration for senior executives

The overall degree of goal attainment determines the amount of variable remuneration including share awards. On management level 2 (Managing Director) 60% of the variable remuneration is paid out annually in cash and 40% is granted in the form of share awards. On management level 3 (Director and General Manager) the variable remuneration is split into 65% cash payment and 35% granted as share awards.

On management level 3 (Director and General Manager) the minimum variable remuneration amounts to EUR 0 on the premise that the degree of attainment for all goals is 0%. For management level 2 (Managing Director) in treaty / regional departments the minimum limit for the variable remuneration is set at -10% if the degree of goal attainment for Group net income is -50% while at the same time goal attainment of 0% is determined for the divisional targets and individual targets. For management level 2 (Managing Director) in service departments -20% of the variable remuneration is possible as the lower limit, if the degree of goal attainment for Group net income is -50% and at the same time goal attainment of 0% is determined for the individual targets.

In view of the fact that outperformance of up to 200% is possible for Group net income and up to 150% for divisional targets, a maximum total degree of goal attainment of 140% can be attained in both treaty / regional departments and service departments. Given outperformance of all targets, a maximum of 140% of the variable remuneration can therefore be attained on management levels 2 and 3.

Allocation and payment of share awards to senior executives

The total number of share awards allocated is determined according to the value per share of Hannover Re. This value is arrived at from the average of the closing prices of the shares in a period extending from 20 trading days before to 10 trading days after the meeting of the Supervisory Board at which the consolidated financial statement is approved. The number of share awards is established by dividing the specified portion of the total bonus (40% or 35%) by the value per share, rounded up to the next full share.

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. The value of the Hannover Re share is again determined from the average of the closing prices of the shares in a period from 20 trading days before to 10 trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. In addition, a sum in the amount of the dividend is paid out for each share award, insofar as dividends were distributed to shareholders. The level of the dividend payment is the sum total of all dividends per share paid out during the period of the share awards multiplied by the number of share awards.

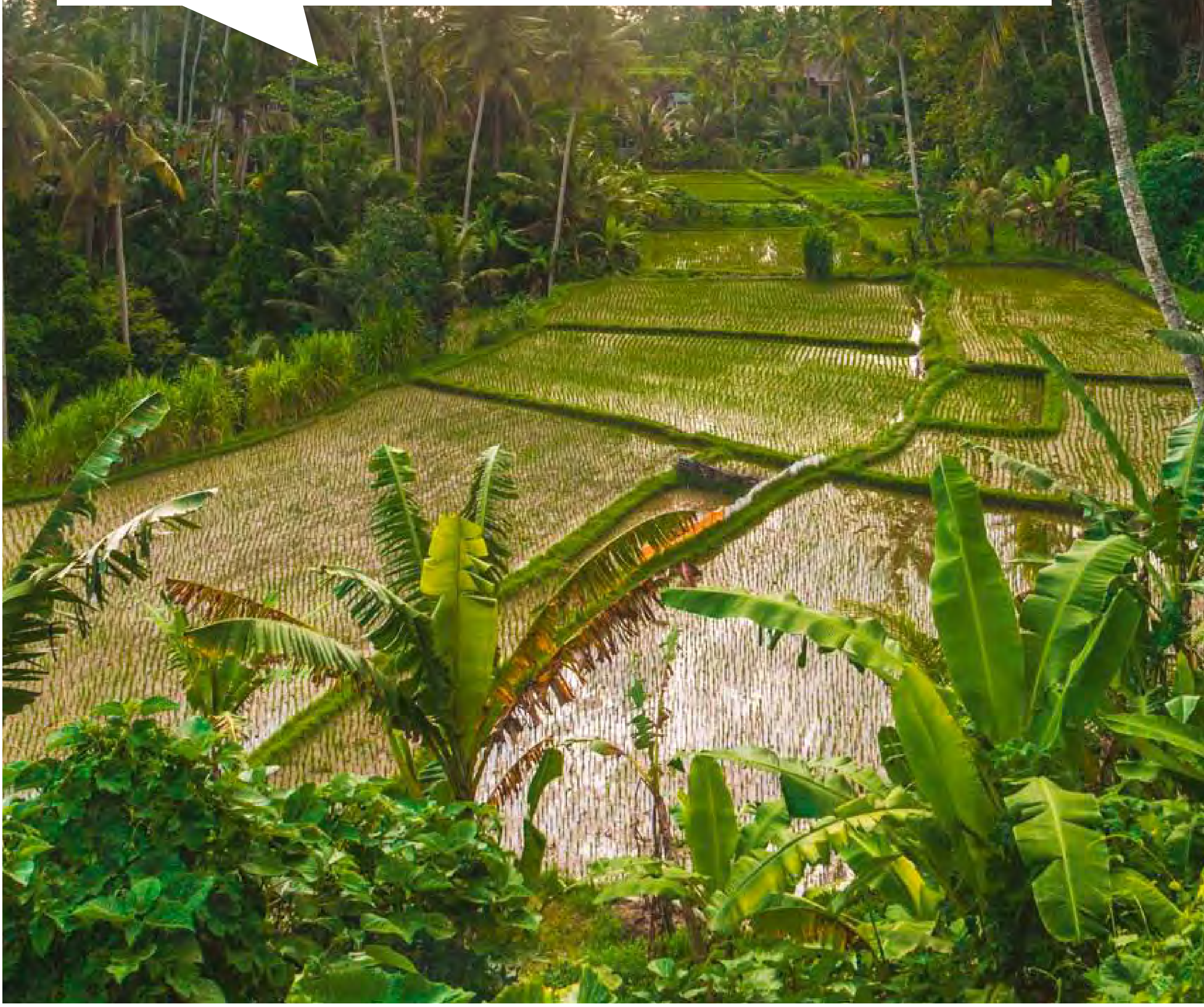
In the case of the allocation and payment of share awards to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the average share price is the average of the relevant exchange rate in a period from 20 trading days before to 10 trading days after the meeting of the Supervisory Board that approves the consolidated financial statement. For payment of the dividend to participants in the Share Award Plan who are located abroad, the rate of exchange used to convert the dividend per share is the average of the relevant exchange rate in a period from 20 trading days before to 10 trading days after the Annual General Meeting that approves the dividend payment for the financial year just ended.

The cash bonus for the 2013 financial year was paid out in June 2014. The share awards for the 2013 financial year were also allocated in June 2014; they will be paid out in the spring of 2018 including dividends paid for the 2013, 2014, 2015 and 2016 financial years.

Agricultural crop and livestock insurance

Demand is constantly growing for foodstuffs and agricultural commodities, while the arable land around the world is limited. This encourages investment in agriculture, which coverage requirements are rising in light of the expected increase in extreme weather events due to climatic change. In this context, agricultural crop and livestock insurance is taking on added significance, not only in industrial nations but also in emerging markets where governments are increasingly supporting farmers with premium subsidies. We therefore expect demand in this business segment to continue growing.

The principal lines of business in crop farming are Multi-Peril Crop Insurance (MPCI) or covers for single perils such as hail. Extended coverage is available for forestry and greenhouses. In the case of bloodstock and livestock, insurance can be taken out for the mortality, disease and transit risks in addition to general natural perils. In the aquaculture sector risks such as algal bloom can also be covered. Furthermore, our involvement in index-based insurance products opens up a variety of new business opportunities when it comes to insuring agricultural risks.



Dr. Dina Dziuba
works as a Manager
at Hannover Re
in the area of
"Agricultural Risks"

Financial solutions in China

Our products serve as efficient and flexible tools of business financing and solvency management for life insurers. In addition to more traditional cash financing, we offer our customers solutions designed to ease the strain of reserving and provide solvency relief. They are based on reinsurance transactions with an appropriate transfer of underwriting risks in accordance with the regulatory requirements applicable locally and elsewhere. We have an extensive network and considerable international experience when it comes to rapidly implementing efficient financial solutions models. In the context of China's adoption of a new solvency regime (C-ROSS), the capital requirements placed on life insurers will change and demand for innovative financial solutions models is set to grow. This is a challenge that we believe we are well equipped to meet.

Dieter Kroll is a General Manager with Hannover Re. Working out of the company's Home Office in Hannover, he is responsible for Asian life and health business including financial solutions

Outlook

Forecast

- New challenges due to worldwide regulatory changes
- Solid prospects for 2015 despite soft market conditions in property and casualty reinsurance
- Profitability set to continue growing in life and health reinsurance
- Return on investment of 3.0% for assets under own management
- Group net income in the order of EUR 875 million expected

Economic development

Global economy

The framework conditions for the global economy improved to such an extent in the second half of 2014 that the forecasting institutes anticipate a gradual pick-up in economic impetus for 2015. The Kiel Institute for the World Economy expects the global economy to post slightly higher growth year-on-year of 3.7% by the close of 2015.

Monetary policy, which for the most part continued to be highly expansionary, and the positive stimuli from the current low price of oil are supporting progressive deleveraging processes in the private sector and boosting business activity. This will likely lead to stronger growth rates, especially in the mature national economies. As a further factor, the restraining effects of fiscal policy will probably diminish overall. Emerging economies should profit from rising demand in industrial nations, although structural problems will hamper a rapid return to the heady growth rates of past years.

The susceptibility of the economy to distortions that has been witnessed in recent years will continue. Emerging upheavals on financial markets, the exacerbation of geopolitical tensions or changes of government in Europe's crisis-ridden nations could at times severely undermine the expansion of the world economy.

Growth in gross domestic product (GDP) **M 91**

in %	2014 (forecast from previous year)	2014 (provisional calculation)	2015 (forecast)
Economic areas			
World economy	3.7	3.4	3.7
Eurozone	0.9	0.8	1.2
Selected countries			
United States	2.3	2.2	3.2
China	7.5	7.4	7.0
India	5.0	5.9	6.5
Japan	1.5	0.2	0.8
Germany	1.7	1.5	1.7

Source: Kiel Institute for the World Economy

United States

The growth in output in the United States will probably rise by one percentage point in the year ahead to 3.2%. The main engine of growth is the continued improvement of the labour market; this will progressively stimulate consumer spending and accelerate wage growth. With sales prospects brightening at home and abroad, investment activity will also pick up. It will be boosted by the continued favourable financing environment.

Europe

Developments in the Eurozone are still overshadowed by structural problems affecting parts of the currency area, and hence growth will only gather pace gradually. In 2015 it is expected to come in slightly higher than in the previous year at around 1.2%. Not least owing to the very low price of oil, consumer prices will probably rise by just 0.3%. Fears of deflation consequently persist. Even if this should happen, however, the economy will probably not suffer because such a scenario would be driven essentially by energy prices and would not therefore be accompanied by lower household and corporate earnings. Unemployment is expected to shrink further to 11.2%. The United Kingdom should generate roughly the same growth – at 2.9% – as in the previous year.

Germany

Economic activity looks to be trending higher again in Germany after a period of stagnation: the experts at the Kiel Institute for the World Economy anticipate a growth rate of 1.7% and a medium-term positive tendency. In the early months of the current year the economy will be driven primarily by private consumption. Subsequently, cyclical upward forces will increasingly kick in, and output should therefore surge sharply in the second half of the year. The favourable financing climate should serve to consistently stimulate investment activity. As the global economy revives, export impetus should also rise.

The economic upturn will not be felt on the labour market until the middle of the year because the first six months will still be under the sluggish influence of the previous year. Overall, the number of persons in gainful employment will likely continue to grow and the jobless rate should fall slightly to 6.6%.

China, India, Japan

The room for manoeuvre in fiscal policy has contracted in many emerging markets because their monetary policy was geared more towards stabilising the exchange rate than stimulating the economy. Although the upturn in economic activity in these countries will therefore again be more vigorous, it will be on a lower level. Growth of 7.0% is anticipated for China in 2015, with an ongoing slowing tendency. In India, where the economy last year came in slightly ahead of expectations, the previous year's growth rate of 6.5% will probably be repeated. Japan is forecast to deliver growth of around 0.8%.

Capital markets

The decision of the European Central Bank to stand by its low interest rate policy and purchase government bonds is intended to protect the Eurozone against the threat of deflation. The US Federal Reserve, by contrast, set in motion the trend reversal in its interest rate policy. This should be reflected in a continued strong US dollar. International bond markets will again be shaped by below-average and increasingly divergent interest rate levels in 2015. In the relevant currency areas for our company we anticipate at most unchanged yield curves and moderate interest rate rises. With respect to Treasury bonds issued by the countries of the European Monetary Union with higher risk premiums, which have been the focus of so much attention of late, stabilisation may continue despite the current deflation risk. Generally speaking, the very low volatility seen on the capital market is not expected to be sustained. The effects of currency and oil price movements should therefore be all the more pronounced, although on balance the opportunities for the world economy will outweigh the risks. As a further factor, the elections in a number of European countries have the potential to unsettle the strategy of taking incremental steps to resolve the Euro debt crisis. The necessary consolidation of public finances in the industrial nations will therefore continue to preoccupy the economic environment; it may, however, be overcompensated by resurgent private consumption and investment demand. In view of the existing uncertainties, broad diversification within the investment portfolio will therefore continue to be of considerable importance in the current financial year.

Insurance industry

The international insurance industry will likely find itself operating in a largely unchanged environment in 2015. Even though experts believe that low interest rates will continue, the insurance sector should remain on a stable course in the current year.

Preparations for implementation of the European Solvency II Framework Directive are progressing apace. To this end, the European Commission has recently set in motion further decisions ("delegated acts"), as has the federal government on the German level. The new stipulations provide companies with a guiding framework for the application of Solvency II from 2016 onwards.

In China, too, the regulatory requirements have grown enormously in recent years. The local regulator, the China Insurance Regulatory Commission (CIRC), already requires submission of regular reports both in writing and orally. Adoption of the new regulatory regime C-ROSS (China Risk Oriented Solvency System) is envisaged for 2015; this will require even more detailed reporting and it will thus increase the workload on companies. In terms of content, C-ROSS is geared towards the European Solvency II guidelines, thereby further increasing international comparability.

Generating growth in a highly competitive environment is likely to prove a challenging task in 2015. Industry experts estimate that premium volume will be stable overall. What is more, if the current year should also pass off with another very light burden of major losses, the market will respond with a further decline in prices – especially for natural catastrophe covers.

Property & Casualty reinsurance

Overview

After three consecutive years of low major losses and good results, property and casualty reinsurance is once again seeing intense competition in the current financial year. The healthy capitalisation of ceding companies due to the absence of major losses has resulted in fewer risks being ceded to reinsurers. Furthermore, the inflow of capital from the market for catastrophe bonds (ILS) continues to create a surplus of capacity.

These factors also shaped the treaty renewals as at 1 January 2015, the date when some 65% of our property and casualty reinsurance portfolio (excluding facultative business and structured reinsurance) was renegotiated. Despite sometimes appreciable price erosion and deteriorations in conditions in certain areas, we were broadly satisfied with the outcome of the renewals – even though the rate quality of the renewed portfolio was somewhat lower than in the previous year. Rate increases were obtained under programmes that had suffered losses in 2014. This was especially true of our German business. The significant losses incurred in the aviation line, on the other hand, did little to boost prices.

The latest round of renewals showed that financially robust reinsurers such as Hannover Re are more highly sought-after by cedants. Based on our excellent ratings, our long-standing customer relationships and our profit-oriented underwriting policy, we are in a good position to adapt to the soft market conditions. Hannover Re continues to practise its systematic cycle management combined with rigorous underwriting discipline and trusts in a broadly diversified portfolio of high-quality existing business, complemented by opportunities that may arise in niche and specialty lines.

Property & Casualty reinsurance: Forecast development for 2015 — M 92

	Volume[1]	Profitability[2]
Target markets		
North America[3]	↗	+
Continental Europe[3]	→	+/–
Specialty lines worldwide		
Marine	↘	+
Aviation	↘	+/–
Credit, surety and political risks	→	+
UK, Ireland, London market and direct business	↗	+/–
Facultative reinsurance	→	+
Global reinsurance		
Worldwide treaty reinsurance	→	+
Catastrophe XL (Cat XL)	→	+/–
Structured reinsurance and insurance-linked securities	↗	+/–

1 In EUR
2 ++ = significantly above the cost of capital;
+ = above the cost of capital;
+/– = on a par with the cost of capital;
– = below the cost of capital
3 All lines with the exception of those reported separately

Expectations for the development of our property and casualty reinsurance business are described in greater detail below.

Target markets

North America

In tandem with the existing surplus capacities, the trend towards greater consolidation of reinsurance programmes at large clients continued in North America, hence keeping up the pressure on rates. On the reinsurance side this was true of both the property and casualty lines, where the situation is expected to bottom out in the medium term. We are adhering to our strategy of a margin-oriented underwriting policy, even if this compels us to relinquish volume growth. Nevertheless, in view of our long-standing and robust customer relationships, we expect to maintain our presence even in the soft market. Overall, then, we were satisfied with the outcome of the renewals as at 1 January 2015. In part through targeted new business acquisition, we were able to grow the premium volume in North America by around 5%. In this context we expanded our niche business in the professional indemnity line, where rates proved to be firmer. It remains the case that we do not participate in multi-line liability quota share reinsurance arrangements. Slight rate increases were recorded in Canadian property business owing to the losses incurred in 2013 and 2014. Looking ahead to the treaty renewals on 1 June and 1 July 2015 – the time of year when catastrophe XL covers, in particular, are renegotiated – we currently anticipate further intense competition in this segment.

All in all, our North American portfolio is expected to show modest growth in the current financial year.

Continental Europe

In **Germany**, the largest single market within our Continental Europe segment, Hannover Re was again able to expand its already excellent position. Here, too, competition nevertheless remained keen and the trend towards primary insurers carrying higher retentions was sustained. While the loss situation of past years enabled us to catch up on rate increases or hold prices stable in some lines, such as motor own damage and homeowners comprehensive, the move observed in previous years towards exposure-based rate increases ground to a halt. Particularly in non-proportional motor liability business, the premium increases needed on account of continuously rising long-term care costs in relation to bodily injury claims proved to be unattainable. The strained situation in industrial fire insurance also remained unchanged. Fierce competition and a large number of basic losses put adequate results in this segment out of reach. With this in mind, we wrote our business here selectively. Our total portfolio in the domestic German market closed with a premium gain due to a number of new customer relationships.

In the **other markets of Continental Europe** the picture was a mixed one: the expansion of existing customer accounts in France enabled us to offset the pressure on prices in loss-free programmes and the effect of discontinued treaties. In Northern European countries we maintained our market-leading position. The markets of Southern and Eastern Europe became considerably more competitive. Broadly speaking, though, we consider reinsurance prices here to be commensurate with the risks. Demand for non-proportional treaties surged sharply with an eye to Solvency II requirements.

All in all, we achieved moderate growth of 1% in the treaty renewals for Continental European markets.

Specialty lines worldwide

Marine

In marine reinsurance we expect to see further softening of insurance and reinsurance rates for the 2015 financial year. The deterioration in reserves for removal of the wrecks of the “Costa Concordia” and “Rena” have nevertheless prevented a substantial price decline. Given the absence of major losses, rates for the reinsurance of offshore energy risks are moving slightly lower despite higher sums insured in the original market. Overall, the trend towards reduced reinsurance cessions driven by large insurance groups is likely to be sustained. This may be offset, at least to some extent, by ceding companies that make the most of the soft market to buy more reinsurance capacity. When it comes to our own portfolio, we anticipate a slightly reduced premium volume in 2015.

Aviation

The significant major losses incurred in aviation reinsurance in 2014 have had only a qualified positive effect on rates. It remains the case that insurance capacities are widely available, and it is therefore our expectation that premiums in conventional aviation reinsurance will tend to stabilise on the existing level. Although we anticipate price increases for war covers, these have not so far been as appreciable as originally anticipated. Based on our long-standing expertise in all lines of aviation reinsurance, we nevertheless see attractive business opportunities in the current financial year. All in all, though, the premium volume is set to contract.

Credit, surety and political risks

The premium volume in the area of credit, surety and political risks is expected to remain stable in 2015. We again slightly boosted the share of our total portfolio deriving from political risks in the context of the 1 January 2015 treaty renewals. In view of the good results posted by insurers, the modest pressure on conditions is likely to be sustained in the current financial year and primary insurers can be expected to further increase their premium retained for own account.

United Kingdom, London market and direct business

In the face of more intense competition we expect to see declining rates for our reinsurance business in the United Kingdom this year. We were essentially able to preserve our portfolio in the renewals as at 1 January 2015 thanks to our established customer relationships. In addition, we succeeded in expanding our short-tail business. On the back of the solid rate increases booked in non-proportional motor business over the past three years, prices again moved slightly higher or remained unchanged. In direct business our subsidiary Inter Hannover continues to focus on risk selection in order to further enhance the quality of its portfolio.

Facultative reinsurance

The soft market phase prevailing in facultative reinsurance is likely to continue and hence rates will remain stubbornly low. Nevertheless, by taking a selective approach we also see attractive business opportunities. For example, we anticipate stronger demand in areas such as covers for renewables and cyber-risks. Thanks to our very good rating, we should also be able to profit from the pooling of reinsurance cessions at large primary insurance groups. Our portfolio of facultative risks is expected to deliver a stable premium volume in the current financial year.

Global reinsurance

Worldwide treaty reinsurance

Premium income is expected to increase again for the **Asia-Pacific markets**. Along with sustained rising demand for insurance products in the expanding middle class of many emerging markets, regulatory changes – above all in China and India – are also having favourable implications for Hannover Re's positioning. We expect our Chinese reinsurance portfolio to post another appreciable surge in premium volume. Nevertheless, tendencies towards a contraction in the outflow of reinsurance premiums into foreign markets can be anticipated in certain Asian markets.

In Japan there will likely be a consolidation in demand for reinsurance covers: rates for natural catastrophe risks and in other lines will probably come under further pressure in the April round of renewals. Overall, we expect to book slightly lower premium in the original currency for our portfolio in Japan. The region of South and Southeast Asia should again prove to be the engine of growth in the current year. Consequently, our portfolio here should show a further rise in premium volume due to special initiatives that have already been launched. Rates for most markets in South and Southeast Asia are expected to be broadly adequate.

Turning to Australia and New Zealand, thanks to our strong local presence and established customer relationships we expect to be able to preserve our portfolio in these markets on a stable level. Particularly attractive opportunities for growth may open up in niche markets.

The outcome of the treaty renewals as at 1 January 2015 in the **Caribbean and Latin America** were satisfactory on the whole for our company. We were very successful in defending our market position in the region despite soft conditions and fierce competition over placements. The reinsurance market is notable for an oversupply of capacity, as a consequence of which a reinsurer's financial strength continues to be crucially important – a state of affairs from which Hannover Re profited. As expected, the renewals on 1 January 2015 for Latin America – the main renewal season here is not until 1 July – provided to be competitive, but prices were still commensurate with the risks. In Brazil we were able to write new treaties and enlarge existing relationships. Despite the difficult state of the market we succeeded in holding our portfolio stable thanks to our focus on Latin America as a whole. Premium income from Venezuela and Ecuador may be curtailed in future by restrictive regulatory regimes as well as inflation and negative exchange rate effects. Nevertheless, even as we continue to adhere to our selective underwriting policy we remain confident of generating further profitable growth for our portfolio from Latin American markets in the current financial year.

In **Spain and Portugal** conditions for proportional treaties were mostly unchanged at the main renewal date – i. e. 1 January 2015 –, while they deteriorated somewhat for non-proportional programmes. Broadly speaking, we are satisfied with the development of our business despite the ongoing economic challenges faced by both countries. We improved our market share in Spain and booked modest premium growth in Portugal.

In **South Africa** we expect to record slightly higher premium income and an improved result for 2015 in our reinsurance portfolio and specialty business.

Hannover Re expects demand to continue rising in the area of **agricultural risks**. This can be attributed to the increased demand for food and a greater need to protect against extreme weather events. Not only that, we also see further growth potential for index-linked microinsurance products in emerging markets, not least bearing in mind that the G8 nations have defined agricultural insurance as a tool for fighting poverty. Hannover Re expects its premium to come in higher for the current financial year.

We expect to write further profitable business for our **retakaful** portfolio in the current financial year. Rising prices are anticipated above all under loss-impacted programmes.

Catastrophe XL (Cat XL)

An oversupply of reinsurance capacity continues to be the hallmark of natural catastrophe markets. In the first place the influence of ILS markets is still rising, while at the same time primary insurers have more capital at their disposal, as a consequence of which fewer risks are being passed on to reinsurers. As a further factor, the absence of major losses in 2014 prompted additional rate reductions in the 1 January 2015 renewals, including for example in US property catastrophe business. Despite this, price increases were also attainable in a variety of regions and segments. In Europe, and especially in Germany, higher prices were obtained under programmes that had been impacted by various hail and windstorm events. Further developments in catastrophe business will depend on the loss situation going forward, particularly in the US market. Given the prevailing market climate the strategy pursued by our subsidiary in Bermuda is to further expand in specialty lines.

Structured reinsurance and insurance-linked securities

Further healthy demand is anticipated for our Advanced Solutions business and **structured reinsurance** in the current financial year. The key driver here is the growing integration of reinsurance into companies' risk management. This development has been prompted by the increasingly exacting capital requirements placed on insurers: with a growing number of countries adopting risk-based solvency systems and the implementation of Solvency II soon to become a reality, demand for products that deliver capital relief is likely to remain brisk in 2015.

In the area of **insurance-linked securities (ILS)** it is our expectation that demand will continue to grow. Along with protecting our own peak exposures, we make use of the broad range of opportunities available here, particularly in collateralised reinsurance business. Over the coming years we expect to see a positive and steadily rising profit contribution. We succeeded in renewing our "K cession", a collateralised modelled quota share cession of non-proportional reinsurance treaties that we have placed on the ILS market for many years – with an increased capacity of USD 400 million for 2015.

Life & Health reinsurance

As a globally operating reinsurer, our focus in the prevailing highly competitive climate is on sustainable success. In the current financial year our business will be influenced above all by developments on capital markets and the complex regulatory requirements in individual regions.

Life & Health reinsurance: Forecast development for 2015 **M 93**

	Volume [1]	Profitability [2]
Financial solutions	→	++
Risk solutions		
Longevity	↗	+/−
Mortality	→	+
Morbidity	↗	+/−

1 In EUR
2 ++ = significantly above the cost of capital;
+ = above the cost of capital;
+/− = on a par with the cost of capital;
− = below the cost of capital

In Germany it is our expectation that the low level of interest rates will be sustained in 2015 and that the pressure on returns facing primary insurers will remain correspondingly high.

These anticipated developments will therefore also affect our business. Particularly in the case of traditional life insurance policies, for example, the reduction of the guaranteed interest rate from 1.75% to 1.25% as at 1 January 2015 will likely mean a further contraction in the business volume. The order of the day for both insurers and reinsurers alike is to explore alternatives and attractive provision products that can generate demand.

Preparations for the impending implementation of the Solvency II Framework Directive are also playing a major role. The new reporting and disclosure requirements enter into effect on 1 January 2016. In the course of the current year we shall step up our efforts to ensure that all requirements are satisfied as early as possible. As far as our business is concerned, we shall cooperate even more closely with our customers in 2015 in order to offer attractive reinsurance solutions for solvency and capital relief under the new Solvency II regime.

Changes in regulatory provisions will affect us not only in Germany but also globally in the year ahead. China, for example, plans to implement new solvency directives with effect from 2015: the new China Risk Oriented Solvency System (C-ROSS) puts the focus on risk-based capital requirements and imposes more detailed reporting. The adoption of C-ROSS will significantly improve comparability with Solvency II – which in principle must be viewed favourably with an eye to progressive globalisation. We are monitoring the implications of C-ROSS implementation particularly closely in order to be able to respond flexibly and appropriately to the requirements. The South African insurance industry is similarly seeing moves to roll out risk-based capital requirements. This will serve to close the gap and improve comparability both with Europe's Solvency II regulatory regime and with other international risk-oriented systems of prudential regulation.

Turning to longevity business, the announcement in the United Kingdom of new arrangements relaxing the rules on compulsory retirement already led to a decline in annuity business in the year under review. With effect from 1 April 2015 pensioners will enjoy considerably greater flexibility in accessing and using their pension lump sums on reaching retirement age. At the same time the one-year transitional period will also come to an end. It is to be anticipated that this will continue to affect the UK annuity market in 2015. Nevertheless, it is our assumption that the influence on the market volume of enhanced annuities will, if anything, be rather slight, and hence the general outlook for our enhanced annuity business is bright. Going forward, therefore, we continue to expect substantial business volumes for our UK longevity portfolio. Working in concert with our customers in the interest of policyholders, we are confident that we can offer solutions tailored to the new situation and thereby tap into new business opportunities.

In Continental European and international longevity markets we expect to see further growth in demand. Against the backdrop of progressively shifting demographics this will increasingly extend also to emerging markets, including China and Hong Kong, thereby generating additional business potential.

Investments

Bearing in mind the as yet unresolved European debt crisis and the associated uncertainties, we shall maintain the conservative orientation of significant parts of our investment portfolio. Nevertheless, irrespective of the sovereign debt issue, the improved economic outlook will be reflected in selective risk-taking. Our emphasis on broad diversification will be retained unchanged. By way of a neutral modified duration we shall continue to ensure that the interest rate risk is tightly managed.

The enlargement of the asset portfolio is expected to have a positive effect on investment income, although the average return will decline owing to sustained low interest rates. In view of the low returns on more secure investments, we shall continue to invest in products offering attractive credit spreads and selectively expand our portfolio in the areas of alternative investments and real estate.

Given the high capital requirements and potentially increased volatility on equity markets – which are in part driven by liquidity –, our cautious stance on investments in listed equities at current valuation levels remains unchanged.

Outlook for the full 2015 financial year

In the current year, despite a challenging environment on the capital market and in reinsurance business, we anticipate a good overall result for the Hannover Re Group. Bearing in mind developments both in property and casualty and in life and health reinsurance, we expect to book stable or slightly higher gross premium volume – based on constant exchange rates – for our total portfolio in the current financial year.

The premium volume in property and casualty reinsurance is expected to remain stable for 2015 based on constant exchange rates. We shall continue to practise our systematic underwriting discipline, writing only business that satisfies our margin requirements. We expect the treaty renewals during the year to pass off favourably thanks to our good rating and long-standing stable customer relationships. Despite softer market conditions overall in property and casualty reinsurance, the underwriting result should come in on the level of 2014 – provided the major loss incidence remains within the bounds of expectations. In terms of the targeted combined ratio, we are aiming for a figure under 96%. The EBIT margin for property and casualty reinsurance should amount to at least 10%.

In life and health reinsurance we shall continue to concentrate on enlarging our range of services in the current year so as to offer our customers an optimal combination of traditional risk transfer and comprehensive reinsurance service. Adjusted for exchange rate effects, we expect to book slightly higher gross premium overall and an increased profit. The Value of New Business (VNB) for 2015 should again be in excess of EUR 180 million. We continue to aim for EBIT margins of 2% for financial solutions and longevity business and 6% for mortality and morbidity business.

With regard to the IVC targets that we use to map economic value creation, we anticipate a minimum 2% xRoCA for property and casualty reinsurance and at least 3% xRoCA for life and health reinsurance.

The expected positive cash flow that we generate from the technical account and our investments should – based on stable exchange rates – lead to further growth in our asset portfolio. We anticipate a return on investment of 3.0%.

For 2015 we anticipate Group net income in the order of EUR 875 million. This is subject to the proviso that the burden of major losses does not significantly exceed the budgeted level of EUR 690 million and that there are no exceptionally adverse developments on capital markets.

In terms of the dividend for the current financial year, Hannover Re envisages a payout ratio in the range of 35% to 40% of its IFRS Group net income. This ratio may increase in light of capital management considerations if the present comfortable level of capitalisation remains unchanged.

Our strategic objective is to generate a minimum return on equity within the Group that is 900 basis points above the risk-free interest rate. We also seek to increase the earnings per share by 6.5% and the book value per share (including dividends paid) by at least 7.5% annually.

Events after the reporting date

No matters of special significance occured after the closing date for the consolidated financial statements.