Notes to the consolidated financial statements 2013

1. Company information

With the entry in the commercial register of Hannover County Court the transformation of Hannover Rückversicherung AG to the legal form of a European Company, Societas Europaea (SE), came into effect on 19 March 2013. The company thus bears the name Hannover Rück SE and its registered office is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany. The designation Hannover Rück SE is used consistently in the present Group annual financial report, including when discussing facts and circumstances that materialised in the period prior to transformation. Hannover Rück SE ("Hannover Rück SE") and its subsidiaries (collectively referred to as the "Hannover Re Group" or "Hannover Re") transact all lines of non-life and life and health reinsurance and maintain business relations with more than 5,000 insurance companies on every continent. With gross premium of approximately EUR 14.0 billion, Hannover Re is one of the largest reinsurance groups in the world. The company's network consists of more than 100 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,400. The Group's German business is conducted by the subsidiary E+S Rückversicherung AG ("E+S Rück AG").

An interest of 50.2% in Hannover Rück SE is held by Talanx AG, which in turn is majority-owned (with a stake of 79.0%) by HDI Haftpflichtverband der Deutschen Industrie V.a.G. (HDI).

2. Accounting principles

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

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

The consolidated financial statement reflects all IFRS in force as at 31 December 2013 as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), application of which was mandatory for the 2013 financial year. IFRS 4 "Insurance Contracts" requires disclosures on the nature and extent of risks stemming from reinsurance contracts, while IFRS 7 "Financial Instruments: Disclosures" requires similar information on risks from financial instruments. Additionally, § 315 Para. 2 Number 2 German Commercial Code (HGB) also contains requirements for insurance undertakings with regard to information on the management of technical and financial risks that is to be provided in the management report. The disclosures resulting from these requirements are included in the risk report. We have dispensed with an additional presentation of the same content in the notes. In order to obtain a comprehensive overview of the risks to which Hannover Re is exposed it is therefore necessary to consider both the risk report and the relevant information in the notes. We refer the reader accordingly to the corresponding remarks in the risk report and the notes.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as "International Financial Reporting Standards (IFRS)"; the standards dating from earlier years still bear the name "International Accounting Standards (IAS)". Standards are cited in our notes accordingly; in cases where the notes do not make explicit reference to a particular standard, the term IFRS is used. In view of the fact that reinsurance contracts, in conformity with IFRS 4 "Insurance Contracts", are recognised according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP) as applicable on the date of initial application of IFRS 4 on 1 January 2005, we cite individual insurance-specific standards of US GAAP using the designation "Statement of Financial Accounting Standard (SFAS)" that was valid at that time.

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

The annual financial statements included in the consolidated financial statement were for the most part drawn up as at 31 December. Pursuant to IAS 27 "Consolidated and Separate Financial Statements" there is no requirement to compile interim accounts for Group companies with diverging reporting dates because their closing dates were no earlier than three months prior to the closing date for the consolidated financial statement. Allowance has been made for the effects of significant transactions between the diverging reporting dates and the closing date for the consolidated financial statement.

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

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

The present consolidated financial statement was prepared by the Executive Board on 24 February 2014 and hence authorised for issue.

New accounting standards or accounting standards applied for the first time

IFRS 13 "Fair Value Measurement", a standard published in May 2011, must be applied prospectively to financial years beginning on or after 1 January 2013. The standard establishes uniform and consistent requirements for the measurement of fair value, which had hitherto been contained in various standards. In this context, the fair value is defined as the exit price, the calculation of which shall be based as far as possible on relevant observable inputs. In addition, extensive explanatory and qualitative disclosures are required; these are intended, in particular, to describe the quality of the calculation of fair value. Hannover Re applied IFRS 13 for the first time with effect from 1 January 2013. Initial application did not result in any significant change in the carrying values in the consolidated financial statement. With regard to the new disclosures we would refer overall to our remarks in the subsection "Information on fair values and fair value hierarchy" at the end of Section 6.1 "Investments under own management".

In December 2011 the IASB issued "Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)". The amendments were adopted by the EU in December 2012 and have a mandatory effective date for annual periods beginning on or after 1 January 2013. The amendments require disclosures on all recognised financial instruments that are offset in accordance with IAS 32. The amendments also require disclosures to be provided on all recognised financial instruments that are subject to an enforceable master netting or similar agreement, even if they are not offset in accordance with IAS 32. As at the balance sheet date such constellations existed in the form of derivative transactions that were effected on the basis of standardised master agreements and contain master netting agreements. For the corresponding disclosures please see our explanatory remarks in Section 8.1 "Derivative financial instruments and financial guarantees".

In May 2013 the IASB issued "Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36 "Impairment of Assets")" and thereby modified disclosure requirements potentially resulting from IFRS 13 "Fair Value Measurement" that could have been broader than originally intended. It was thus clarified that disclosure of the recoverable amount is required only for impaired assets, including goodwill. The amendments were adopted by the EU in December 2013 and have a mandatory effective date for annual periods beginning on or after 1 January 2014. Hannover Re is applying the amendments early on a voluntary basis as at the balance sheet date. Initial application did not give rise to any changes in accounting methods or to changes in the carrying values in the consolidated financial statement.

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

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

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

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

In June 2013 the IASB issued "Novation of Derivatives and Continuation of Hedge Accounting" (Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"). These amendments allow a novation of an OTC derivative designated as a hedging instrument to be deemed to be a continuation of the existing hedging relationship. The amendments, which have still to be endorsed by the EU, have a mandatory effective date for annual periods beginning on or after 1 January 2014. Hannover Re does not expect these amendments to have significant implications.

In May 2013 the IASB published IFRIC 21 "Levies". IFRIC 21 provides guidance on the accounting of outflows imposed on entities by governments that do not constitute outflows within the scope of IAS 12 "Income Taxes". IFRIC 21 is effective for annual periods beginning on or after 1 January 2014, but it has still to be endorsed by the EU. Hannover Re is currently reviewing the implications of these amendments.

In December 2011 the IASB issued "Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)". While the offsetting rules for financial instruments remain unchanged, the application guidance of the standard clarifies the meaning of "currently has a legally enforceable right to set-off" and "simultaneous". The amendments have a mandatory effective date for annual periods beginning on or after 1 January 2014 and were endorsed by the EU in December 2012.

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

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

The major new feature of IFRS 10 is that it identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically.

In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

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

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

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

In June 2012 the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12". These amendments clarify that the effective date of IFRS 10 is 1 January 2013, if the financial year coincides with the calendar year. The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12. These amendments were endorsed by the EU in April 2013.

In October 2012 the IASB issued "Investment Entities (Changes to IFRS 10, IFRS 12 and IAS 27)". Insofar as the parent company meets the definition of an investment entity, an exception is provided in relation to the consolidation of subsidiaries required under IFRS 10. Rather than consolidate them, such parent companies are required to measure their investments in particular subsidiaries at fair value through profit or loss in accordance with IFRS 9 "Financial Instruments" or IAS 39 "Financial Instruments: Recognition and Measurement". These amendments were endorsed by the EU in November 2013.

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 are to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012 that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date of 1 January 2014. The new IFRS 10, 11, 12 and the revised IAS 27 and 28 as well as the changes published in the previous year have now been endorsed in their entirety by the EU. Hannover Re does not expect initial application of the new and revised standards on consolidation to have any significant implications for its scope of consolidation.

In November 2009 the IASB issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments. IFRS 9 is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard. IFRS 9 introduces new requirements for classifying and measuring financial assets. The provisions of IFRS 9 were expanded in October 2010 with an eye to financial liabilities for which the fair value option is chosen. In December 2011 the IASB issued "Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)", delaying the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015. In addition, it modified the relief from restating comparable periods and the associated disclosures in IFRS 7. In November 2013, as part of further amendments to IFRS 9, the IASB published "Amendments to IFRS 9: Mandatory Effective Dates and Transition Disclosures; Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39". The purpose of these amendments is to include the new general hedge accounting model and allow early adoption of the requirement to present fair value changes due to own credit risk on liabilities designated at fair value through profit or loss in other comprehensive income. In addition, the mandatory effective date of 1 January 2015 was removed and deferred indefinitely, at the earliest until 1 January 2017. Neither IFRS 9 nor the specified subsequent amendments have yet been endorsed by the EU.

3. Accounting principles

3.1 Changes in accounting policies

The estimation of the share of the equalisation reserve probably attributable to permanent establishments abroad, in respect of which the so-called exemption method is to be applied for the purposes of the pertinent double taxation agreement, was modified at Hannover Rück SE. Given that an equalisation reserve pursuant to § 341h Commercial Code (HGB) and § 29 Regulation on the Presentation of Insurance Company Accounts (RechVersV) is not carried for tax purposes under local provisions in these countries, this results in a decrease in the deferred tax liabilities recognised in the consolidated financial statement of Hannover Re. This adjustment represents a change in an accounting estimate, which pursuant to IAS 8.32 et seq. is to be recognised in profit or loss prospectively and in the current period. Altogether, deferred tax liabilities of EUR 89 million were reversed in profit or loss. The allocation of the equalisation reserve to the permanent establishments abroad for future financial years and hence the effect of this adjustment on subsequent accounting periods is carried out according to a premium code for each line of business reported in the financial statement and cannot reasonably be estimated.

With effect from the third quarter of 2013 Hannover Re adjusted the calculation logic for the amortisation of inflation-linked government bonds with the aim of smoothing seasonal fluctuations in the underlying inflation indices. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is to be performed prospectively in the period under review without restatement of the comparative figures for previous years. As at the balance sheet date and as at the respective year-ends in future there will be no differences in the amortisation amounts, because the adjustment of the parameters merely has a smoothing effect within the year that is reflected only at the end of the various quarters.

In June 2011 the IASB published amendments to IAS 1 "Presentation of Financial Statements". The revised IAS 1 requires entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, i. e. those that might be reclassified and those that will not be reclassified. Subtotals are to be shown accordingly for the two groups. Tax associated with items presented before tax is to be shown separately for each of the groups of OCI items. The amendments were adopted by the EU in June 2012 and are applicable retrospectively to annual periods beginning on or after 1 July 2012. Hannover Re applied the amended IAS 1 for the first time with effect from 1 January 2013, restructured the consolidated statement of comprehensive income and restated accordingly the disclosure for the comparable period in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The changes did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

As of 1 January 2013 Hannover Re applied for the first time the revised IAS 19 “Employee Benefits” (IAS 19R), which was issued by the IASB in June 2011. The standard has a mandatory effective date for annual periods beginning on or after 1 January 2013. The change was endorsed in European law by the EU in June 2012. In accordance with the transitional requirements the standard was applied retrospectively in conformity with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. The previous application of the corridor approach in the accounting of defined benefit pension plans resulted in actuarial gains and losses only being recognised to the extent that they exceeded certain size criteria. In addition, the portion to be recognised was spread over several years. An off-balance-sheet recognition of partial amounts of the pension commitment also arose out of the previously applicable rules governing retrospective plan changes, which resulted in an increase in the existing commitment and hence in a past service cost. This past service cost was to be recognised immediately only to the extent that the additional benefits had already vested. Amounts above and beyond this were recognised pro rata until the resulting benefits vested. In accordance with the revised IAS 19R all actuarial gains and losses (“remeasurements“) are to be recognised immediately and entirely in OCI and past service costs in profit or loss for the period. In addition, the expected return on plan assets must in future be determined by applying the discount rate used to measure the defined benefit obligation. Given that pension commitments in the Hannover Re Group are funded only to a small extent through plan assets, there are no significant implications for Group net income. Furthermore, application of the revised IAS 19 resulted in a minimal adjustment of the accounting in connection with German partial retirement pension commitments.

With regard to the new disclosures in the notes resulting from the revised standard, please see Section 6.10 “Provisions for pension and other post-employment benefit obligations”.

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

The effects of the retrospective application of the aforementioned changes to the opening balance sheet as at 1 January 2012 and to the consolidated balance sheet as at 31 December 2012 as well as to the comparable period of the previous 2012 financial year are as follows:

Consolidated balance sheet as at 1 January 2012

in EUR thousand	1.1.2012 as stated	Application of IAS 19R	Recognition of change in loss reserve	1.1.2012
Assets				
Deferred tax assets	682,888	306	–	683,194
Liabilities				
Provisions for pensions	88,299	6,951	–	95,250
Deferred tax liabilities	1,723,265	(1,304)	–	1,721,961
Other liabilities	443,671	(1,846)	–	441,825
Total liabilities	44,260,297	3,801	–	44,264,098
Cumulative other comprehensive income	(18,553)	(4,159)	18,553	(4,159)
Total OCI	446,121	(4,159)	18,553	460,515
Retained earnings	3,679,351	1,046	(18,553)	3,661,844
Equity attributable to shareholders of Hannover Rück SE	4,970,631	(3,113)	–	4,967,518
Non-controlling interests	636,024	(382)	–	635,642
Total shareholders' equity	5,606,655	(3,495)	–	5,603,160

Consolidated balance sheet as at 31 December 2012

in EUR thousand	31.12.2012 as stated	Application of IAS 19R	Recognition of change in loss reserve	31.12.2012
Assets				
Deferred tax assets	620,493	(37)	–	620,456
Liabilities				
Provisions for pensions	86,464	39,692	–	126,156
Deferred tax liabilities	1,972,373	(12,300)	–	1,960,073
Other liabilities	494,604	(1,293)	–	493,311
Total liabilities	48,071,433	26,099	–	48,097,532
Cumulative foreign currency translation adjustment	(16,216)	(9)	106	(16,119)
Cumulative other comprehensive income	(27,211)	(24,417)	27,211	(24,417)
Total OCI	935,036	(24,426)	27,317	937,927
Retained earnings	4,275,613	1,090	(27,317)	4,249,386
Equity attributable to shareholders of Hannover Rück SE	6,055,808	(23,336)	–	6,032,472
Non-controlling interests	684,472	(2,800)	–	681,672
Total shareholders' equity	6,740,280	(26,136)	–	6,714,144

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

Consolidated statement of income 2012

in EUR thousand	1.1.–31.12.2012 as stated	Application of IAS 19R	Recognition of change in loss reserve	1.1.–31.12.2012
Claims and claims expenses	8,853,346	–	12,582	8,865,928
Other income and expenses	(164,844)	24	–	(164,820)
Operating profit/loss (EBIT)	1,406,463	24	(12,582)	1,393,905
Net income before taxes	1,301,952	24	(12,582)	1,289,394
Taxes	368,229	(6)	(3,818)	364,405
Net income	933,723	30	(8,764)	924,989
Thereof				
Non-controlling interest in profit and loss	75,411	(14)	–	75,397
Group net income	**858,312**	**44**	**(8,764)**	**849,592**
Earnings per share (in EUR)				
Basic earnings per share	7.12	–	(0.08)	7.04
Diluted earnings per share	7.12	–	(0.08)	7.04

Consolidated statement of comprehensive income 2012

in EUR thousand	1.1.–31.12.2012 as stated	Application of IAS 19R	Recognition of change in loss reserve	31.12.2012
Net income	**933,723**	**30**	**(8,764)**	**924,989**
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	–	(33,315)	–	(33,315)
Tax income (expense)	–	10,660	–	10,660
	–	**(22,655)**	**–**	**(22,655)**
Income and expense recognised directly in equity that cannot be classified				
Gains (losses) recognised directly in equity	–	(33,315)	–	(33,315)
Tax income (expense)	–	10,660	–	10,660
	–	**(22,655)**	**–**	**(22,655)**
Reclassifiable to the consolidated statement of income				
Curreny translations				
Gains (losses) recognised directly in equity	(32,428)	(16)	106	(32,338)
Transferred to the consolidated statement of income	–	–	–	–
Tax income (expense)	2,807	–	–	2,807
	(29,621)	**(16)**	**106**	**(29,531)**
Other changes (net)				
Gains (losses) recognised directly in equity	(12,429)	–	12,429	–
Tax income (expense)	3,771	–	(3,771)	–
	(8,658)	**–**	**8,658**	**–**
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	890,923	(16)	12,535	903,442
Transferred to the consolidated statement of income	(156,920)	–	–	(156,920)
Tax income (expense)	(207,317)	–	(3,771)	(211,088)
	526,686	**(16)**	**8,764**	**535,434**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	890,923	(33,331)	12,535	870,127
Transferred to the consolidated statement of income	(156,920)	–	–	(156,920)
Tax income (expense)	(207,317)	10,660	(3,771)	(200,428)
	526,686	**(22,671)**	**8,764**	**512,779**
Total recognised income and expense	**1,460,409**	**(22,641)**	**–**	**1,437,768**
thereof:				
Attributable to non-controlling interests	107,280	(2,418)	–	104,862
Attributable to shareholders of Hannover Rück SE	1,353,129	(20,223)	–	1,332,906

3.2 Summary of major accounting policies

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

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

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

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

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

Valuation models

Financial instrument	Parameter	Pricing model
Fixed-income securities		
Unlisted plain vanilla bonds, interest rate swaps	Interest rate curve	Present value method
Unlisted structured bonds	Interest rate curve, volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted ABS/MBS, CDO/CLO	Risk premiums, default rates, prepayment speed and recovery rates	Present value method
Other invested assets		
Unlisted equities and equity investments	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Capitalised earnings method, discounted cash flow method, multiple-based approaches
Other invested assets		
Private equity funds, private equity real estate funds	Audited net asset values (NAV)	Net asset value method
Unlisted bond, equity and real estate funds	Audited net asset values (NAV)	Net asset value method
Other financial assets – at fair value through profit or loss		
Currency forwards	Interest rate curves, spot and forward rates	Interest parity model
Inflation swaps	Inflation swap rates (Consumer Price Index), historical index fixings, interest rate curve	Present value method with seasonality adjustment
OTC stock options, OTC stock index options	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Fair values, actuarial parameters, interest rate curve	Present value method

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

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

Establishment of the fair value of financial instruments carried as assets or liabilities: we establish the fair value of financial instruments carried as assets or liabilities using the methods and models described below. The fair value of a financial instrument corresponds to the amount that Hannover Re would receive or pay if it were to sell or settle the said financial instrument on the balance sheet date. Insofar as market prices are listed on markets for financial assets, their bid price is used; financial liabilities are valued at ask price. In other cases the fair values are established on the basis of the market conditions prevailing on the balance sheet date for financial assets with similar credit rating, duration and return characteristics or using recognised models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the table above. Financial assets for which no publicly available prices or observable market data can be used as inputs (financial instruments belonging to fair value hierarchy level 3) are for the most part measured on the basis of proven valuations drawn up by knowledgeable, independent experts, e.g. audited net asset value, the plausibility of which has previously been subjected to systematic review. For further information please see our explanatory remarks on the fair value hierarchy in Section 6.1 "Investments under own management".

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

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

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

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

Investments in associated companies are valued at equity on the basis of the proportionate shareholders' equity attributable to the Group. Under IAS 28 "Investments in Associates", which requires the application of the equity method based on the investor's share of the results of operations of the investee, the goodwill apportionable to the associated companies must be recognised together with the investments in associated companies. The year-end result of an associated company relating to the Group's share is included in the net investment income and shown separately. The shareholders' equity and net income are taken from the associated company's latest available financial statement.

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

Cash is carried at face value.

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

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

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

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

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

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

The other intangible assets largely consist of purchased and self-developed software. This is recognised at acquisition cost less scheduled depreciation. Intangible assets are regularly tested for impairment and impairment is taken where necessary. The other intangible assets also include the expected profits from acquired life reinsurance portfolios. These are carried at the present value of future profits (PVFP) at time of acquisition, which is calculated as the present value of profits expected from the acquired blocks of business disregarding new business and tax effects. Scheduled amortisation is taken according to the periods of the underlying acquired contracts. The PVFP is regularly tested for impairment using a liability adequacy test and impairments are taken if necessary. In this regard please see Section 3.3 "Major discretionary decisions and estimates".

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

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

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

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

Other assets are accounted for at amortised cost.

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

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

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

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

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

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

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

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

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

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

Long-term liabilities principally consist of subordinated debts that can only be satisfied after the claims of other creditors in the event of liquidation or bankruptcy. They are measured at amortised cost. Liabilities to holders of minority shares in partnerships arising out of long-term capital commitments are measured at the fair value of the redemption amount as at the balance sheet date.

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

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

Non-controlling interests are shares in the equity of affiliated companies not held by companies belonging to the Group. IAS 1 "Presentation of Financial Statements" requires that non-controlling interests be recognised separately within Group shareholders' equity. The non-controlling interest in profit or loss is shown separately following the net income. This item refers mainly to non-controlling interests in E+S Rück AG.

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

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

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

Key exchange rates

1 EUR corresponds to:	31.12.2013	31.12.2012	2013	2012
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.5513	1.2690	1.3842	1.2465
BHD	0.5190	0.4970	0.5012	0.4875
CAD	1.4751	1.3119	1.3726	1.2921
CNY	8.3445	8.2148	8.1738	8.1475
GBP	0.8357	0.8180	0.8480	0.8136
HKD	10.6752	10.2186	10.3112	10.0306
KRW	1,452.2507	1,407.2395	1,452.1050	1,451.8625
MYR	4.5351	4.0364	4.2069	3.9864
SEK	8.9114	8.5742	8.6671	8.6973
USD	1.3766	1.3182	1.3293	1.2932
ZAR	14.4390	11.2069	12.8556	10.5674

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

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

The individual companies' statements of income prepared in the local currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date. In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates" differences from the currency translation of financial statements of foreign Group companies must be recognised in the consolidated financial statement as a separate item in shareholders' equity. Currency translation differences resulting from long-term loans or lendings without specified maturity between Group companies are similarly recognised outside the statement of income in a separate item of shareholders' equity.

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

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

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

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

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

3.3 Major discretionary decisions and estimates

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

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

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

For further details, for example concerning the modelling of natural catastrophe scenarios and the assumptions relating to asbestos and pollution risks, the reader is referred to our comments in the risk report on page 80 et seq. We would further refer to our explanatory remarks on the technical reserves in Section 3.2 "Summary of major accounting policies" and Section 6.7 "Technical provisions".

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

The projections, which cover various model scenarios ("conservative assumptions" versus "best estimate"), constitute the starting point for numerous areas of application encompassing quotation, the determination of carrying values and embedded values as well as contract-specific analyses, e.g. regarding the appropriateness of the recognised reinsurance liabilities ("liability adequacy test"). In this context we would refer the reader to our comments on technical assets and provisions in Section 3.2 "Summary of major accounting policies" and on the liability adequacy tests in Section 6.7 "Technical provisions".

In determining the carrying values for certain financial assets it is sometimes necessary to make assumptions in order to calculate fair values. In this regard we would refer the reader to our remarks in Section 3.2 "Summary of major accounting policies" concerning financial assets at fair value through profit or loss and securities held as available for sale. Assumptions concerning the appropriate applicability criteria are necessary when determining the need for impairments on non-monetary financial assets held as available for sale. In this regard we would again refer the reader to our explanatory remarks in Section 3.2 "Summary of major accounting policies".

4. Consolidation

4.1 Consolidation principles

Capital consolidation

The capital consolidation complies with the requirements of IAS 27 "Consolidated and Separate Financial Statements". Subsidiaries are consolidated as soon as Hannover Re acquires a majority voting interest or de facto controlling influence. The same is true of special purpose entities, the consolidation of which is discussed separately below.

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

Companies over which Hannover Re is able to exercise a significant influence are normally consolidated at equity as associated companies with the proportion of the shareholders' equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Only subsidiaries which are of minor importance – both individually and in their entirety – for the net assets, financial position and results of operations of the Hannover Re Group are exempted from consolidation. Hannover Re assesses whether a subsidiary is of minor importance on the basis of the company's total assets and net income relative to the corresponding values for the Group as a whole on average over the last three years. For this reason 15 (16) companies at home and abroad were not consolidated in the year under review. A further 13 (16) companies were not included at equity in the consolidated financial statement for the same reason. The business object of these altogether 28 (32) companies is for the most part the rendering of services for reinsurance companies within the Group.

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof" note, amounted to EUR 43.8 million (EUR 75.4 million) in the year under review.

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

Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement were offset against each other. Profits and expenses from business transactions within the Group were also eliminated. Transactions between a disposal group and the continuing operations of the Group were similarly eliminated in accordance with IAS 27 "Consolidated and Separate Financial Statements".

4.2 Consolidated companies and complete list of shareholdings

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

Scope of consolidation

Number of companies	2013	2012
Consolidated companies		
Germany	17	17
Abroad	60	55
Total	**77**	**72**
Consolidated special purpose entities and special funds		
Abroad	3	3
Total	**80**	**75**
Companies included at equity		
Germany	3	3
Abroad	7	6
Total	**10**	**9**

The following list of shareholdings is provided in full in the present Group annual financial report in accordance with § 313 German Commercial Code (HGB) as amended by the Act on the Modernisation of Accounting Law (BilMoG).

In conformity with Item 7.1.4 of the recommendations of the German Corporate Governance Code as amended on 13 May 2013, the following table also lists the percentage share in capital, the capital and reserves and the result for the last financial year for major participations in unconsolidated third companies.

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

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

List of shareholdings

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Domestic companies				
Affiliated consolidated companies				
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover/Germany [1, 2]	100.00	EUR	2,071,855	–
Hannover Life Re AG, Hannover/Germany [1, 2]	100.00	EUR	1,705,385	–
HILSP Komplementär GmbH, Hannover/Germany [3]	100.00	EUR	25	(1)
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover/Germany [3]	100.00	EUR	5,935	2,924
FUNIS GmbH & Co. KG, Hannover/Germany [3]	100.00	EUR	25,955	1,603
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover/Germany [1]	95.28	EUR	193,624	23,068
HAPEP II Holding GmbH, Hannover/Germany [1]	95.28	EUR	13,834	4,373
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover/Germany [1]	90.92	EUR	134,474	2,909
Hannover Re Euro RE Holdings GmbH, Hannover/Germany [1]	81.84	EUR	633,815	6,170
HAPEP II Komplementär GmbH, Hannover/Germany [1]	81.84	EUR	28	3
HR GLL Central Europe GmbH & Co. KG, Munich/Germany [1]	81.83	EUR	175,644	538
Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne/Germany [1]	67.08	EUR	37,688	2,790
HEPEP III Holding GmbH, Cologne/Germany [1]	67.08	EUR	7,672	579
E+S Rückversicherung AG, Hannover/Germany [1]	63.69	EUR	645,413	72,000
Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne/Germany [1]	60.17	EUR	58,021	2,945
Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne/Germany [1]	57.50	EUR	7,809	4,510
HEPEP II Holding GmbH, Cologne/Germany [1]	57.50	EUR	3,605	526
Affiliated non-consolidated companies				
International Hannover Holding AG, Hannover/Germany [1, 4]	100.00	EUR	42	(3)
Associated companies				
Oval Office Grundstücks GmbH, Hannover/Germany [1]	50.00	EUR	59,411	1,554
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover/Germany [5]	32.74	EUR	76,483	10,358
HANNOVER Finanz GmbH, Hannover/Germany [5]	27.78	EUR	69,697	6,281
Other participations				
WetterProtect GmbH, Hildesheim/Germany [5]	41.86	EUR	–	(45)
Foreign companies				
Affiliated consolidated companies				
Hannover Finance (Luxembourg) S.A., Luxembourg/Luxembourg [1]	100.00	EUR	25,524	(4,891)

Konzernabschluss

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Continuation: Foreign companies/Affiliated consolidated companies				
Hannover Finance (UK) Limited, Virginia Water/United Kingdom [1]	100.00	GBP	110,825	(15)
Hannover Life Reassurance Bermuda Ltd., Hamilton/Bermuda [1]	100.00	EUR	283,004	35,439
Hannover Life Reassurance Company of America, Orlando/USA [1]	100.00	USD	196,874	23,228
Hannover Re (Ireland) Limited, Dublin/Ireland [1, 6]	100.00	EUR	1,361,245	67,638
Hannover Life Re of Australasia Ltd, Sydney/Australia [1]	100.00	AUD	451,097	37,827
Hannover Re (Bermuda) Ltd., Hamilton/Bermuda [1]	100.00	EUR	1,029,006	170,196
Hannover ReTakaful B.S.C. (c), Manama/Kingdom of Bahrain [1]	100.00	BHD	45,880	4,810
Hannover Services (UK) Limited, Virginia Water/United Kingdom [1]	100.00	GBP	603	(63)
International Insurance Company of Hannover Plc, London/United Kingdom [1]	100.00	GBP	143,427	(6,005)
Inter Hannover (No.1) Limited, London/United Kingdom [5]	100.00	GBP	(29)	(26)
Leine Investment General Partner S.à r.l., Luxembourg/Luxembourg [1, 7]	100.00	EUR	38	17
Leine Investment SICAV-SIF, Luxembourg/Luxembourg [1, 7]	100.00	USD	15,547	847
Hannover Re (Guernsey) PCC Limited, St Peter Port/Guernsey [1]	100.00	EUR	181	(37)
Fracom FCP, Paris/France [8]	100.00	EUR	1,039,751	26,314
Hannover Finance, Inc., Wilmington/USA [7]	100.00	USD	506,686	9,104
Atlantic Capital Corporation, Wilmington/USA [7, 9, 10]	100.00	USD	(111,867)	–
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	209,906	129,888
Hannover Life Reassurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	530,616	203,310
Hannover Reinsurance Africa Limited, Johannesburg/South Africa	100.00	ZAR	752,920	96,423
Compass Insurance Company Limited, Johannesburg/South Africa	100.00	ZAR	125,761	(33,816)
Micawber 185 (Pty) Ltd., Johannesburg/South Africa	100.00	ZAR	20,955	2,979
Peachtree (Pty) Ltd., Johannesburg/South Africa [9]	100.00	ZAR	–	–
Hannover Reinsurance Mauritius Ltd., Port Louis/Mauritius	100.00	MUR	48,048	(2,130)
Glencar Underwriting Managers, Inc., Chicago/USA [5]	95.30	USD	3,013	1,224
Hannover Re Real Estate Holdings, Inc., Orlando/USA [1, 7]	95.10	USD	426,139	18,920
5115 Sedge Corporation, Chicago/USA [7, 9]	95.10	USD	723	1,108
GLL HRE CORE PROPERTIES, LP, Wilmington/USA [7]	95.00	USD	221,729	22,920

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Continuation: Foreign companies/Affiliated consolidated companies				
11 Stanwix, LLC, Pittsburgh/USA [7]	95.00	USD	35,616	2,976
One Winthrop Square, LLC, Wilmington/USA [7, 9]	95.00	USD	(1,280)	11,979
402 Santa Monica Blvd, LLC, Wilmington/USA [7]	95.00	USD	29,353	(5)
300 South Orange Avenue, LLC, Orlando/USA [7]	95.00	USD	55,550	646
Nashville (Tennessee) West, LLC, Wilmington/USA [7]	95.00	USD	32,558	3,446
1225 West Washington, LLC, Tempe/USA [7]	95.00	USD	23,430	1,268
975 Carroll Square, LLC, Washington D.C./USA [7]	95.00	USD	58,424	1,904
Broadway 101, LLC, Wilmington/USA [7]	95.00	USD	28,777	506
River Terrace Parking, LLC, Wilmington/USA [7]	95.00	USD	23,118	94
HR GLL Central Europe Holding GmbH, Munich/Germany [1]	81.83	EUR	61,950	(75)
HR GLL Roosevelt Kft, Budapest/Hungary [1]	81.83	HUF	547,772	547,222
HR GLL Liberty Corner Sp. z o.o., Warsaw/Poland [1]	81.83	PLN	51,946	214
HR GLL Griffin House Sp. z o.o., Warsaw/Poland [1]	81.83	PLN	43,289	(293)
Akvamarín Beta s.r.o., Prague/Czech Republic [1]	81.83	CZK	80,092	(28,786)
HR GLL Europe Holding S.à r.l., Luxembourg/Luxembourg [1]	81.83	EUR	38,877	(3)
HR GLL CDG Plaza S.r.l., Bucharest/Romania [1]	81.83	RON	171,895	(3,605)
Kaith Re Ltd., Hamilton/Bermuda [1]	88.00	USD	739	(356)
Integra Insurance Solutions Limited, Bradford/United Kingdom [5]	74.99	GBP	1,984	975
Svedea AB, Stockholm/Sweden [5]	53.00	SEK	4,639	(44,881)
Lireas Holdings (Pty) Ltd., Johannesburg/South Africa	51.00	ZAR	176,476	18,990
MUA Insurance Company Ltd., Cape Town/South Africa	51.00	ZAR	7,043	(3,289)
GLL Terry Francois Blvd, LLC, Wilmington/USA [7, 9]	48.40	USD	–	–
Transit Underwriting Managers (Pty) Ltd., Cape Town/South Africa	45.90	ZAR	880	(111)
MUA Insurance Acceptances (Pty) Ltd., Cape Town/South Africa	40.80	ZAR	10,142	11,934
Cargo Transit Insurance (Pty) Ltd., Helderkruin/South Africa	40.80	ZAR	(4,499)	–
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein/South Africa	38.51	ZAR	1,096	(1,450)
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	1,534	1,860

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Continuation: Foreign companies/Affiliated consolidated companies				
SUM Holdings (Pty) Ltd., Johannesburg/South Africa	36.82	ZAR	16,377	3,484
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg/South Africa	35.70	ZAR	1,468	1,689
Thatch Risk Acceptances (Pty) Ltd., Cape Town/South Africa	33.14	ZAR	1,082	815
Gem & Jewel Acceptances (Pty) Ltd., Johannesburg/South Africa	30.60	ZAR	914	(60)
Construction Guarantee (Pty) Ltd., Johannesburg/South Africa [9]	30.60	ZAR	–	–
Envirosure Underwriting Managers (Pty) Ltd., Durban/South Africa	30.60	ZAR	40	455
Woodworking Risk Acceptances (Pty) Ltd., Pietermaritzburg/South Africa	30.60	ZAR	1,790	2,249
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg/South Africa	26.01	ZAR	(1,992)	(548)
Affiliated non-consolidated companies				
International Mining Industry Underwriters Limited, London/United Kingdom [1]	100.00	GBP	552	63
HR Hannover Re, Correduría de Reaseguros, S.A., Madrid/Spain [1]	100.00	EUR	301	35
LRA Superannuation Plan Pty Ltd., Sydney/Australia [4]	100.00	AUD	–	–
Mediterranean Reinsurance Services Ltd., Hong Kong/People's Republic of China [9, 10]	100.00	USD	125	–
Hannover Re Services Japan, Tokyo/Japan [1]	100.00	JPY	96,577	2,231
Hannover Re Consulting Services India Private Limited, Bombay/India [12]	100.00	INR	68,929	10,309
Hannover Life Re Consultants, Inc., Orlando/USA [1]	100.00	USD	205	–
Hannover Services (México) S.A. de C.V., Mexico City/Mexico [5]	100.00	MXN	9,321	(1,456)
Hannover Re Services USA, Inc., Itasca/USA	100.00	USD	898	24
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro/Brazil [5]	100.00	BRL	1,234	260
L&E Holdings Limited, London/United Kingdom [5]	100.00	GBP	5	82
London & European Title Insurance Services Limited, London/United Kingdom [5]	100.00	GBP	79	(248)
Hannover Re Risk Management Services India Private Limited, New Delhi/India [13]	100.00	INR	–	–
Hannover Re Services Italy S.R.L., Milan/Italy	99.64	EUR	651	133
Associated companies				
ITAS Vita S.p.A., Trent/Italy [5]	34.88	EUR	80,468	4,114
ASPECTA Assurance International AG, Vaduz/Liechtenstein [5]	30.00	CHF	17,594	7,177
Firedart & Construction Guarantee Underwriting Managers (Pty) Ltd., Johannesburg/South Africa [1]	25.45	ZAR	9,403	3,082

Name and registered office of the company in currency units of 1,000	Participation in %	Currency	Capital and reserves	Result for the last financial year
Continuation: Associated companies				
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg/South Africa [1]	20.40	ZAR	3,894	14,934
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg/South Africa [1]	16.66	ZAR	16,593	27,567
Camargue Underwriting Managers (Pty) Ltd., Johannesburg/South Africa [1]	13.26	ZAR	11,026	7,615
Synergy Targeted Risk Solutions (Pty) Ltd, Johannesburg/South Africa [1]	10.20	ZAR	941	(165)
Other participations				
Energi, Inc., Peabody/USA [5]	28.50	USD	6,773	(205)
Energi Insurance Services, Inc., Peabody/USA [5]	28.50	USD	983	245
Energi of Canada Ltd., Toronto/Canada [5, 14]	28.50	CAD	(36)	(36)
Energi Re, LLC, Dover/USA [5]	28.50	USD	2,864	1,778
Hurst Holme Insurance Company Limited – account 2006-03 SCC, Hamilton/Bermuda [5, 9]	28.50	USD	82	(736)
Hurst Holme Insurance Company Limited – account 2009-01 SCC, Hamilton/Bermuda [5, 9]	28.50	USD	609	(1,968)
XS Direct Holdings Limited, Dublin/Ireland [5]	25.00	EUR	2,398	657
SimShare Limited, Dublin/Ireland [5]	25.00	EUR	647	2
XS Direct Insurance Brokers Limited, Dublin/Ireland [5]	25.00	EUR	299	263
New PF Limited, Dublin/Ireland [5, 9, 15]	25.00	EUR	(6)	–
Secquaero Re Vinyard IC Ltd., St Peter Port/Guernsey [1]	21.04	USD	35,116	3,612
Secquaero ILS Fund Ltd., Georgetown, Grand Cayman/Cayman Islands [5, 7]	21.04	USD	73,651	2,884
Iconica Business Services Limited, Bradford/United Kingdom [16]	18.75	GBP	(1)	(2)
Clarenfin (Pty) Ltd., Johannesburg/South Africa [4]	16.66	ZAR	–	–
Acte Vie S.A. Compagnie d' Assurances sur la Vie et de Capitalisation, Strasbourg/France [5]	9.38	EUR	8,482	168

1 Provisional (unaudited) figures
2 Year-end result after profit transfer
3 Financial year as at 30 September 2013
4 Company is inactive
5 Figures as at 31 December 2012
6 Formerly Hannover Life Reassurance (Ireland) PLC, merged with Hannover Reinsurance (Ireland) PLC
7 IFRS figures
8 Financial year as at 31 October 2013
9 Company is in liquidation
10 Certain equity items are not counted under IFRS, as a consequence of which the amount of capital and reserves can be negative here. According to the local accounting practice relevant for supervisory purposes, the company is adequately capitalised.
11 Last annual financial statement compiled as at 31 December 1997
12 Financial year as at 31 March 2013
13 Company was newly established in 2013; an annual financial statement is not yet available
14 Company was newly established in 2011; business operations have not commenced to date
15 Formerly Indemnity Guarantee Company Limited
16 Financial year as at 30 September 2012

Consolidation of special purpose entities

Business relations with special purpose entities are to be examined in accordance with SIC-12 "Consolidation – Special Purpose Entities" with an eye to their implications for consolidation. In cases where IFRS do not currently contain any specific standards, Hannover Re's analysis – in application of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – also falls back on the relevant standards of US GAAP.

Retrocessions and Insurance-Linked Securities (ILS)

As part of its extended Insurance-Linked Securities (ILS) activities, Hannover Re writes a number of so-called collateralised fronting arrangements under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Re with respect to these structures.

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

Securitisation of reinsurance risks

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

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

By way of its "K" transactions Hannover Re has raised underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation was equivalent to EUR 238.9 million (EUR 268.0 million) as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is used as a transformer for part of the transaction.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC–12 Kaith Re Ltd. is included in the consolidated financial statement.

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment are effected with the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks. The transactions serve the purpose, for example, of transferring extreme mortality risks above a contractually defined retention or transferring longevity risks. Since Hannover Re does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and cannot exercise a controlling influence over them, there is no consolidation requirement for Hannover Re.

Depending upon the classification of the contracts pursuant to IFRS 4 or IAS 39, the transactions are recognised either in the technical account or as derivative financial instruments or as financial guarantees. Please see also our remarks in Section 8.1 "Derivative financial instruments and financial guarantees".

Investments

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

Hannover Re participates through the Luxembourg-based company Leine Investment SICAV-SIF, which was established in September 2012, in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Leine Investment General Partner S.à.r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. Since Hannover Re cannot exercise a controlling influence in any of these transactions either there is no requirement to consolidate the relevant special purposes entities. The portfolio of catastrophe bonds held by Hannover Insurance-Linked Securities GmbH & Co. KG (HILS), which had been used for such transactions until the previous year, was entirely eliminated in the year under review through sale or repayment.

4.3 Major acquisitions and new formations

In August 2013 Hannover Rück SE reached agreement with another investor on a financial participation in a company, the business object of which is the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg. Regulatory approval for the acquisition of Heidelberger Leben from a seller belonging to Lloyds Banking Group, London, has been received by Hannover Rück SE as the indirect acquirer, but has not yet been given to the other investor.

In the year under review the structure of Hannover Re Euro RE Holdings GmbH, Hannover, and of Hannover Re Real Estate Holdings, Inc., Orlando, USA, was appropriately expanded in order to hold individual properties ("special purpose companies") or satisfy requirements of company law ("holding companies"). In this connection an amount of altogether EUR 123.5 million was invested for the acquisition of corresponding companies. No contingent liabilities, conditional payments or separate transactions as defined by IFRS 3 were identified.

This included in the third quarter of 2013 the acquisition of all shares in the company HR GLL Europe Holding S. à. r. l. (company name after renaming in the context of acquisition) by HR GLL Central Europe GmbH & KG. The company was included in the consolidated financial statement for the first time with effect from 30 September 2013.

HR GLL Central Europe Holding GmbH was established in the first quarter of 2013 and included in the consolidated financial statement for the first time with effect from 30 September 2013. All shares in the company are held by HR GLL Central Europe GmbH & KG. Both holding companies commenced their investment activities in special purpose property companies. Consequently, the special purpose companies HR GLL Roosevelt Kft, HR GLL CDG Plaza S.r.l., HR GLL Liberty Corner Sp. z.o.o. and HR GLL Griffin House Sp. z.o.o. were established in the year under review. Lastly, the special purpose company Akvamarine Beta s.r.o. was acquired.

Within the US subgroup Hannover Re Real Estate Holdings, Inc., which is 95.1% owned, all shares in the special purpose companies Broadway 101 LLC and River Terrace Parking LLC were acquired through the subsidiary GLL HRE Core Properties, LP.

With effect from 1 January 2013 Glencar Underwriting Managers, Inc., based in Chicago, United States (Glencar), was consolidated for the first time in view of the expansion recorded in the business volume. The business object of the company is to write specialty lines as well as property and casualty program business in the US market with a focus on small to mid-sized programs. In the second quarter of 2011 Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Rück SE, participated in Glencar with a capital contribution of USD 98,000 (corresponding to 49.0% of the share capital). Preference shares in an amount of roughly USD 2.3 million were purchased in the course of the third quarter of 2011; of these, preference shares amounting to USD 1.6 million constitute voting, puttable equity instruments and were therefore recognised as debt pursuant to IAS 32. The remaining preference shares in an amount of roughly USD 0.7 million have the features of non-voting, non-puttable equity instruments and are classified as equity pursuant to IAS 32. Given that Hannover Re holds a majority of the voting rights in Glencar, it has the possibility of exercising control over the company. For reasons of materiality Glencar was carried as a participating interest until the fourth quarter of 2012. At the time of initial consolidation and as at the balance sheet date, Funis held an interest of 49.0% in the share capital. The liabilities-side difference arising out of initial consolidation in an amount of EUR 0.2 million was recognised in income.

4.4 Major disposals and retirements

With effect from 16 December 2013 Clarendon Insurance Group, Inc., Wilmington/USA (CIGI), which was wholly owned through the intermediate holding company Hannover Finance, Inc., Wilmington, was liquidated. The net assets of CIGI were transferred to Hannover Finance, Inc., by way of a so-called Section 332 liquidation; a capital reduction was also implemented at CIGI. As reported, the operational companies of CIGI had already been sold in 2011. The transaction had no implications for the consolidated financial statement.

Within the US subgroup Hannover Re Real Estate Holdings, Inc., the special purpose property companies 5115 Sedge Boulevard Associates, L.P., Chicago and 465 Broadway, LLC, Wilmington were liquidated in November 2013 and October 2013 respectively after the relevant properties had been sold.

By way of the contractually agreed transfer of its management share in Secquaero ILS Fund Ltd., Georgetown, Grand Cayman back to the investment manager outside the Group, Hannover Re relinquished control over the company and its participations with effect from 1 January 2013. Since that date the company has therefore no longer been included in the consolidated financial statement, but is instead carried as a participating interest at net asset value and recognised under other invested assets. Income of EUR 1.2 million was carried under other income and expenses from derecognition of the assets and liabilities as well as initial recognition of the participating interest at net asset value. In addition, cumulative other comprehensive income of EUR 5.5 million was realised from currency translation.

4.5 Other corporate changes

With effect from 5 December 2013 the Malaysian regulator Labuan Financial Services Authority granted Hannover Re Takaful B.S.C. (c), Manama, licences to operate two branches. The branches commenced business operations in January 2014.

Hannover Re transferred all the business of its subsidiary Hannover Life Reassurance (UK) Ltd., Virginia Water, to a newly established branch of Hannover Rück SE with the same registered office effective 1 January 2013 by way of a so-called "Part VII transfer". The branch trades as Hannover Re UK Life Branch and was registered on 3 December 2012 under the Companies Act 2006. Hannover Life Reassurance (UK) Ltd. was deleted from the Commercial Register on 8 January 2013 and liquidated with effect in the first quarter of 2013. Since this internal restructuring within the Group involves a transaction between companies under common control, the transaction does not give rise to goodwill nor does it have any implications for Group net income.

5. Segment reporting

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

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

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

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

With the exception of Clarendon Insurance Group, Inc., Wilmington (CIGI), all the companies that were consolidated for the first time or no longer included in the consolidated financial statement in the year under review are allocable to the non-life reinsurance segment. Since the sale of its operational companies in 2011 CIGI, which was deconsolidated in December 2013, had been allocated to the financing companies recognised in the "Consolidation" column.

Consolidated segment report as at 31 December 2013

Segmentation of assets	Non-life reinsurance	
in EUR thousand	31.12.2013	31.12.2012[1]
Assets		
Fixed-income securities – held to maturity	2,351,409	3,213,397
Fixed-income securities – loans and receivables	3,111,351	3,313,608
Fixed-income securities – available for sale	16,227,978	15,542,788
Equity securities – available for sale	28,980	29,246
Financial assets at fair value through profit or loss	18,157	113,030
Other invested assets	2,155,774	1,679,251
Short-term investments	267,682	325,302
Cash	430,552	407,336
Total investments and cash under own management	**24,591,883**	**24,623,958**
Funds withheld	888,118	925,312
Contract deposits	1,717	25,803
Total investments	**25,481,718**	**25,575,073**
Reinsurance recoverables on unpaid claims	1,168,791	1,288,664
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	137,670	135,999
Reinsurance recoverables on other reserves	439	1,103
Deferred acquisition costs	491,354	476,592
Accounts receivable	1,702,357	1,691,435
Other assets in the segment	1,508,210	1,288,719
Assets held for sale	11,226	6,333
Total assets	**30,501,765**	**30,463,918**

Segmentation of liabilities
in EUR thousand

Liabilities		
Loss and loss adjustment expense reserve	18,847,749	18,595,088
Benefit reserve	–	–
Unearned premium reserve	2,297,054	2,253,544
Provisions for contingent commissions	129,343	141,114
Funds withheld	429,168	432,884
Contract deposits	11,098	84,523
Reinsurance payable	674,469	702,224
Long-term liabilities	227,130	167,774
Other liabilities in the segment	1,822,435	1,868,048
Total liabilities	**24,438,446**	**24,245,199**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

Life and health reinsurance		Consolidation		Total	
31.12.2013	31.12.2012[1]	**31.12.2013**	31.12.2012	**31.12.2013**	31.12.2012[1]
197,857	199,319	117,521	193,240	2,666,787	3,605,956
71,714	75,424	26,035	26,155	3,209,100	3,415,187
5,768,474	5,805,682	413,440	433,602	22,409,892	21,782,072
–	–	–	–	28,980	29,246
68,706	75,731	19,280	19,487	106,143	208,248
105,232	75,055	1,260	(2,530)	2,262,266	1,751,776
190,898	183,866	90,558	550	549,138	509,718
208,641	161,258	3,743	3,594	642,936	572,188
6,611,522	**6,576,335**	**671,837**	**674,098**	**31,875,242**	**31,874,391**
13,379,713	13,702,535	–	–	14,267,831	14,627,847
73,824	97,455	–	–	75,541	123,258
20,065,059	**20,376,325**	**671,837**	**674,098**	**46,218,614**	**46,625,496**
236,532	251,161	(1,519)	(1,610)	1,403,804	1,538,215
344,154	507,257	–	–	344,154	507,257
1,434	2,620	(65)	(246)	139,039	138,373
6,454	1,508	–	–	6,893	2,611
1,181,040	1,364,675	4	12	1,672,398	1,841,279
1,243,469	1,375,992	(141)	(1,763)	2,945,685	3,065,664
551,240	503,325	(885,719)	(705,596)	1,173,731	1,086,448
–	–	–	–	11,226	6,333
23,629,382	**24,382,863**	**(215,603)**	**(35,105)**	**53,915,544**	**54,811,677**

2,820,702	3,017,220	(1,519)	(1,610)	21,666,932	21,610,698
10,631,512	10,974,804	(61)	(234)	10,631,451	10,974,570
108,443	86,265	–	–	2,405,497	2,339,809
140,228	73,105	–	–	269,571	214,219
218,858	388,176	–	–	648,026	821,060
5,558,834	5,713,361	–	–	5,569,932	5,797,884
397,326	421,214	(141)	(2,029)	1,071,654	1,121,409
–	4,552	2,237,830	2,228,465	2,464,960	2,400,791
1,690,822	1,626,756	(855,763)	(677,712)	2,657,494	2,817,092
21,566,725	**22,305,453**	**1,380,346**	**1,546,880**	**47,385,517**	**48,097,532**

Consolidated segment report as at 31 December 2013

Segment statement of income	Non-life reinsurance	
in EUR thousand	1.1.–31.12.2013	1.1.–31.12.2012[1]
Gross written premium	7,817,866	7,717,490
thereof:		
From insurance business with other segments	–	264
From insurance business with external third parties	7,817,866	7,717,226
Net premium earned	6,866,317	6,854,040
Net investment income	781,192	944,537
thereof:		
Change in fair value of financial instruments	(38,432)	32,363
Total depreciation, impairments and appreciation of investments	18,937	16,257
Income/expense on funds withheld and contract deposits	14,947	13,754
Claims and claims expenses	4,821,804	4,842,487
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,532,749	1,573,976
Administrative expenses	176,250	165,330
Other income and expenses	(55,665)	(125,431)
Operating profit/loss (EBIT)	**1,061,041**	**1,091,353**
Interest on hybrid capital	–	–
Net income before taxes	**1,061,041**	**1,091,353**
Taxes	206,721	334,894
Net income	**854,320**	**756,459**
thereof:		
Non-controlling interest in profit or loss	46,587	70,890
Group net income	**807,733**	**685,569**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

Life and health reinsurance		Consolidation		Total	
1.1.–31.12.2013	1.1.–31.12.2012 [1]	1.1.–31.12.2013	1.1.–31.12.2012	1.1.–31.12.2013	1.1.–31.12.2012 [1]
6,145,370	6,057,876	173	(1,122)	13,963,409	13,774,244
(173)	858	173	(1,122)	–	–
6,145,543	6,057,018	–	–	13,963,409	13,774,244
5,359,847	5,425,620	500	(418)	12,226,664	12,279,242
611,516	685,147	19,102	25,966	1,411,810	1,655,650
11,394	53,274	(98)	3,631	(27,136)	89,268
161	2,810	–	–	19,098	19,067
342,401	341,732	–	–	357,348	355,486
4,305,742	4,023,459	–	(18)	9,127,546	8,865,928
146,518	529,434	173	(151)	146,691	529,283
1,168,993	1,098,037	6	(1,847)	2,701,748	2,670,166
156,667	144,127	757	1,333	333,674	310,790
(42,913)	(36,684)	(1,175)	(2,705)	(99,753)	(164,820)
150,530	**279,026**	**17,491**	**23,526**	**1,229,062**	**1,393,905**
–	–	126,670	104,511	126,670	104,511
150,530	**279,026**	**(109,179)**	**(80,985)**	**1,102,392**	**1,289,394**
(10,857)	52,029	(32,721)	(22,518)	163,143	364,405
161,387	**226,997**	**(76,458)**	**(58,467)**	**939,249**	**924,989**
(2,805)	4,507	–	–	43,782	75,397
164,192	222,490	(76,458)	(58,467)	895,467	849,592

Annual financial statements

6. Notes on the individual items of the balance sheet

6.1 Investments under own management

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

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

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

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

Investments

in EUR thousand	2013	2012
Regional origin		
Germany	6,125,564	6,779,027
United Kingdom	2,396,053	2,955,807
France	1,644,587	1,819,918
Other	7,377,339	6,348,984
Europe	**17,543,543**	**17,903,736**
USA	8,478,865	8,065,355
Other	1,300,371	1,162,038
North America	**9,779,236**	**9,227,393**
Asia	1,275,917	1,301,702
Australia	2,081,609	2,245,320
Australasia	**3,357,526**	**3,547,022**
Africa	321,665	417,557
Other	873,272	778,683
Total	**31,875,242**	**31,874,391**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	2013		2012	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	587,925	594,854	908,601	916,267
due after one through two years	1,062,548	1,114,378	606,525	629,138
due after two through three years	513,930	546,127	1,089,354	1,171,603
due after three through four years	140,576	148,806	532,996	577,930
due after four through five years	95,480	98,983	150,735	162,378
due after five through ten years	264,473	286,236	315,208	350,218
due after more than ten years	1,855	2,255	2,537	3,198
Total	**2,666,787**	**2,791,639**	**3,605,956**	**3,810,732**
Loans and receivables				
due in one year	237,228	240,952	177,130	179,430
due after one through two years	220,144	228,825	408,386	423,503
due after two through three years	376,062	399,698	311,764	330,670
due after three through four years	280,019	298,656	382,075	417,721
due after four through five years	141,240	149,437	285,438	312,267
due after five through ten years	1,106,317	1,184,496	1,033,273	1,156,510
due after more than ten years	848,090	923,723	817,121	960,339
Total	**3,209,100**	**3,425,787**	**3,415,187**	**3,780,440**
Available for sale				
due in one year[2]	3,095,796	3,103,923	2,379,998	2,387,173
due after one through two years	2,789,025	2,838,390	2,758,881	2,797,560
due after two through three years	1,848,794	1,899,960	2,525,881	2,616,092
due after three through four years	2,318,986	2,384,389	1,775,135	1,862,419
due after four through five years	2,700,046	2,728,465	2,436,644	2,549,947
due after five through ten years	7,765,540	7,896,895	7,132,799	7,617,225
due after more than ten years	2,657,402	2,749,944	2,709,969	3,033,562
Total	**23,175,589**	**23,601,966**	**21,719,307**	**22,863,978**
Financial assets at fair value through profit or loss				
due in one year	8,339	8,339	69,544	69,544
due after one through two years	4,337	4,337	15,626	15,626
due after two through three years	2,182	2,182	17,619	17,619
due after three through four years	5,991	5,991	14,823	14,823
due after four through five years	–	–	4,936	4,936
due after five through ten years	–	–	7,276	7,276
due after more than ten years	15,212	15,212	17,589	17,589
Total	**36,061**	**36,061**	**147,413**	**147,413**

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

The maturities stated for loans and receivables of the previous year were corrected. Originally recognised amortised costs of EUR 30.7 million and fair values of EUR 37.5 million were reclassified for certain securities from the category “due in one year” to “due after more than ten years”.

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

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

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

in EUR thousand	2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	389,642	16,775	–	7,078	413,495
US treasury notes	497,681	12,436	–	3,622	513,739
Other foreign government debt securities	48,922	406	–	142	49,470
Debt securities issued by semi-governmental entities	518,178	23,185	–	8,015	549,378
Corporate securities	229,775	10,142	1,653	3,142	241,406
Covered bonds/asset-backed securities	941,355	63,561	–	19,235	1,024,151
Total	2,625,553	126,505	1,653	41,234	2,791,639

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

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	393,836	28,425	–	7,097	429,358
US treasury notes	819,013	27,592	–	6,208	852,813
Other foreign government debt securities	56,054	611	42	160	56,783
Debt securities issued by semi-governmental entities	650,493	39,766	–	9,744	700,003
Corporate securities	449,024	18,863	872	9,172	476,187
Covered bonds/asset-backed securities	1,181,346	90,836	403	23,809	1,295,588
Total	3,549,766	206,093	1,317	56,190	3,810,732

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

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

in EUR thousand	2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,822,223	145,725	4,554	29,970	1,993,364
Corporate securities	373,987	14,667	5,492	5,501	388,663
Covered bonds/asset-backed securities	962,407	71,141	4,800	15,012	1,043,760
Total	**3,158,617**	**231,533**	**14,846**	**50,483**	**3,425,787**

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

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Government debt securities of EU member states	10,271	590	–	204	11,065
Debt securities issued by semi-governmental entities	2,005,258	238,045	58	30,095	2,273,340
Corporate securities	330,248	23,476	15	4,981	358,690
Covered bonds/asset-backed securities	1,018,651	103,215	–	15,479	1,137,345
Total	**3,364,428**	**365,326**	**73**	**50,759**	**3,780,440**

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

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

in EUR thousand	2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,888,024	40,708	19,518	18,075	1,927,289
US treasury notes	1,707,269	15,141	20,175	5,397	1,707,632
Other foreign government debt securities	1,521,815	5,776	34,698	10,484	1,503,377
Debt securities issued by semi-governmental entities	3,803,818	117,838	24,549	45,377	3,942,484
Corporate securities	10,042,461	295,414	112,472	136,357	10,361,760
Covered bonds/asset-backed securities	2,695,036	167,867	18,132	35,628	2,880,399
Investment funds	73,774	14,114	937	–	86,951
	21,732,197	**656,858**	**230,481**	**251,318**	**22,409,892**
Equity securities					
Shares	12,588	4,682	1	–	17,269
Investment funds	8,452	3,259	–	–	11,711
	21,040	**7,941**	**1**	**–**	**28,980**
Short-term investments	546,999	–	–	2,139	549,138
Total	**22,300,236**	**664,799**	**230,482**	**253,457**	**22,988,010**

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

in EUR thousand	2012				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,837,251	80,205	2,625	17,715	1,932,546
US treasury notes	1,220,030	41,560	2,463	4,164	1,263,291
Other foreign government debt securities	1,634,844	22,801	1,933	16,842	1,672,554
Debt securities issued by semi-governmental entities	4,199,653	245,014	2,779	53,405	4,495,293
Corporate securities	8,568,646	559,256	11,301	133,424	9,250,025
Covered bonds / asset-backed securities	2,733,081	197,507	9,499	35,536	2,956,625
Investment funds	182,864	28,874	–	–	211,738
	20,376,369	**1,175,217**	**30,600**	**261,086**	**21,782,072**
Equity securities					
Shares	12,206	3,945	1	–	16,150
Investment funds	10,931	2,165	–	–	13,096
	23,137	**6,110**	**1**	**–**	**29,246**
Short-term investments	505,151	54	–	4,513	509,718
Total	**20,904,657**	**1,181,381**	**30,601**	**265,599**	**22,321,036**

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

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

in EUR thousand	2013	2012	2013	2012	2013	2012
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	23,863	54,474	596	13,305	24,459	67,779
Covered bonds / asset-backed securities	11,547	79,634	55	–	11,602	79,634
	35,410	**134,108**	**651**	**13,305**	**36,061**	**147,413**
Other financial assets						
Derivatives	70,082	60,835	–	–	70,082	60,835
	70,082	**60,835**	**–**	**–**	**70,082**	**60,835**
Total	**105,492**	**194,943**	**651**	**13,305**	**106,143**	**208,248**

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

Hannover Re recognised in this category as at the balance sheet date derivative financial instruments in an amount of EUR 70.1 million (EUR 60.8 million) that are originally allocable to this item as well as fixed-income securities amounting to EUR 36.1 million (EUR 147.4 million) designated in this category.

Analysis of the fair value changes in the portfolio of fixed-income securities at fair value through profit or loss indicated that in no case were fair value changes of the instruments due to changes in ratings. In the previous year changes in the ratings of these instruments resulted in a fair value increase of EUR 1.1 million.

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

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

Carrying amounts before impairment

in EUR thousand	2013		2012	
	Carrying amount before impairment	Impairment	Carrying amount before impairment	Impairment
Fixed-income securities – held to maturity	2,666,787	–	3,605,956	–
Fixed-income securities – loans and receivables	3,209,100	–	3,415,222	35
Fixed-income securities – available for sale	22,410,663	771	21,782,650	578
Short-term investments	549,138	–	509,979	261
Equity securities – available for sale	28,983	3	31,471	2,225
Participating interests and other invested assets, real estate funds	1,274,691	4,077	1,134,257	7,157
Total	**30,139,362**	**4,851**	**30,479,535**	**10,256**

For further explanatory remarks on the impairment criteria please see Section 3.2 "Summary of major accounting policies".

Rating structure of fixed-income securities

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

Rating structure of fixed-income securities

in EUR thousand	2012								
	AAA	AA	A	BBB	BB	B	C	Other	Total
Fixed-income securities – held-to-maturity	1,168,278	1,645,096	664,632	127,950	–	–	–	–	3,605,956
Fixed-income securities – loans and receivables	1,515,276	1,531,861	159,992	121,593	47,829	4,391	–	34,245	3,415,187
Fixed-income securities – available-for-sale	6,944,659	5,264,820	5,465,979	3,342,703	578,716	84,977	9,780	90,438	21,782,072
Fixed-income securities – at fair value through profit or loss	–	2,632	11,691	45,171	46,326	31,231	547	9,815	147,413
Total fixed-income securities	**9,628,213**	**8,444,409**	**6,302,294**	**3,637,417**	**672,871**	**120,599**	**10,327**	**134,498**	**28,950,628**

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

Breakdown of investments by currencies

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

Breakdown of investments by currencies

in EUR thousand	2012								
	AUD	CAD	EUR	GBP	JPY	USD	ZAR	Other	Total
Fixed-income securities – held to maturity	–	140,753	1,894,495	148,900	–	1,421,808	–	–	3,605,956
Fixed-income securities – loans and receivables	–	6,990	2,478,119	43,136	–	781,591	–	105,351	3,415,187
Fixed-income securities – available-for-sale	1,683,262	545,211	7,596,047	2,345,927	205,838	8,050,511	294,132	1,061,144	21,782,072
Fixed-income securities – at fair value through profit or loss	–	–	23,720	–	–	95,454	28,239	–	147,413
Equity securities – available-for-sale	–	–	16,138	–	–	13,108	–	–	29,246
Other financial assets – at fair value through profit or loss	–	–	18,732	223	–	41,880	–	–	60,835
Other invested assets	–	–	645,233	3,612	–	1,098,876	4,055	–	1,751,776
Short-term investments, cash	96,792	18,530	199,472	79,849	7,830	328,821	61,208	289,404	1,081,906
Total investments and cash	**1,780,054**	**711,484**	**12,871,956**	**2,621,647**	**213,668**	**11,832,049**	**387,634**	**1,455,899**	**31,874,391**

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

Associated companies

Investments in associated companies

in EUR thousand	2013	2012
Net book value at 31 December of the previous year	**133,017**	**127,554**
Currency translation at 1 January	(906)	(107)
Net book value after currency translation	**132,111**	**127,447**
Additions	1,848	4,025
Disposals	–	56
Profit or loss on shares in associated companies	12,536	10,415
Dividend payments	3,763	13,469
Change recognised outside income	1,712	4,806
Currency translation at 31 December	45	(151)
Net book value at 31 December of the year under review	**144,489**	**133,017**

Public price listings are not available for companies valued at equity. The net book value of associated companies includes goodwill in the amount of EUR 17.9 million (EUR 18.3 million). For further details of our major participating interests please see Section 4 “Consolidation”.

Real estate

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

Own-use real estate is recognised under other assets.

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

Development of investment property

in EUR thousand	2013	2012
Gross book value at 31 December of the previous year	505,727	436,874
Currency translation at 1 January	(13,366)	(5,106)
Gross book value after currency translation	**492,361**	**431,768**
Additions	395,930	244,846
Disposals	1,725	138,219
Reclassification	–	(22,613)
Reclassification to assets held for sale	(11,968)	(9,361)
Currency translation at 31 December	(1,693)	(694)
Gross book value at 31 December of the year under review	**872,905**	**505,727**
Cumulative depreciation at 31 December of the previous year	14,067	39,837
Currency translation at 1 January	(394)	(344)
Cumulative depreciation after currency translation	**13,673**	**39,493**
Disposals	1,454	13,673
Depreciation	13,970	10,370
Impairments	597	1,121
Appreciation	59	26
Reclassification	–	(18,060)
Reclassification to assets held for sale	(756)	(5,343)
Currency translation at 31 December	(230)	185
Cumulative depreciation at 31 December of the year under review	**25,741**	**14,067**
Net book value at 31 December of the previous year	**491,660**	**397,037**
Net book value at 1 January of the year under review	**478,688**	**392,275**
Net book value at 31 December of the year under review	**847,164**	**491,660**

The fair value of investment property amounted to EUR 875.3 million (EUR 511.3 million) as at the balance sheet date.

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

The additions to this item are due to the sharply increased investment activities of the real estate companies belonging to the Hannover Re Group. For the most part, they are attributable in an amount of EUR 344.9 million (EUR 63.2 million) to investments in Europe and in an amount of EUR 49.2 million (EUR 182.6 million) to investments in the United States.

In addition, we held indirect real estate investments measured at fair values in an amount of EUR 247.4 million (EUR 156.3 million) in the year under review, the amortised costs of which amounted to EUR 204.9 million (EUR 126.2 million). The differences between the carrying amounts and amortised costs were recognised as unrealised gains of EUR 43.7 million (EUR 31.7 million) and unrealised losses of EUR 1.2 million (EUR 1.6 million) under cumulative other comprehensive income.

Real estate which is held for sale as defined by IFRS 5 is recognised separately in the consolidated balance sheet. Intentions to sell are substantiated by individual real estate market conditions and specific property circumstances, taking into consideration current and future opportunity/risk profiles. In the year under review one property was reclassified to assets held for sale, while the two properties classified as held for sale in the previous year were sold. At the time of reclassification and at the end of the reporting period the net book value of the assets shown under this balance sheet item amounted to EUR 11.2 million (EUR 6.3 million). The measurement of real estate as long-term assets held for sale in the context of reclassification did not give rise to any impairment.

Other invested assets

The other invested assets consisted largely of participating interests in partnerships measured at fair value in an amount of EUR 898.6 million (EUR 881.4 million), the amortised cost of which amounted to EUR 622.7 million (EUR 619.5 million). The differences between the carrying amounts and the amortised costs were recognised as unrealised gains of EUR 282.1 million (EUR 267.8 million) and unrealised losses of EUR 6.2 million (EUR 5.9 million) under cumulative other comprehensive income.

In addition, acquired life insurance policies measured at fair value through profit or loss were recognised under the other invested assets in an amount of EUR 90.2 million (EUR 62.5 million).

Short-term investments

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

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13 "Fair Value Measurement", it is necessary to assign to a three-level fair value hierarchy not only the financial assets and liabilities recognised at fair value but also those assets and liabilities that are recognised at amortised cost but for which disclosure of fair value is envisaged in the context of the annual reporting. As a consequence of the prospective application of IFRS 13 the additional information required in comparison with IFRS 7 "Financial Instruments: Disclosures" is provided without corresponding figures for the previous year.

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

- Level 1: Assets or liabilities measured at (unadjusted) prices quoted directly in active and liquid markets.
- Level 2: Assets or liabilities which are measured using observable market data and are not allocable to level 1. Measurement is based, in particular, on prices for comparable assets and liabilities that are traded on active markets, prices on markets that are not considered active as well as inputs derived from such prices or market data.
- Level 3: Assets or liabilities that cannot be measured or can only be partially measured using observable market inputs. The measurement of such instruments draws principally on valuation models and methods.

If input factors from different levels are used to measure a financial instrument, the level of the lowest input factor material to measurement is determinative.

The operational units responsible for coordinating and documenting measurement are organisationally separate from the operational units that enter into investment risks. All relevant valuation processes and valuation methods are documented. Decisions on fundamental valuation issues are taken by a valuation committee that meets monthly.

In the year under review fixed-income securities, for the most part OTC bonds, with a fair value of EUR 7,603.4 million were no longer allocable to level 1 but rather to level 2. These financial assets are measured using average prices from price service agencies. Reallocation resulted exclusively from the position on accounting practice "IDW RS HFA 47 Einzelfragen zur Ermittlung des Fair Value nach IFRS 13" adopted by the Main Technical Committee of the Institute of Public Auditors in Germany (IDW) on 6 December 2013, according to which the aforementioned average prices constitute level 2 inputs if the underlying data on which these average prices are based are firm bid prices or observable transaction-based prices. We therefore reclassified across the board to level 2 with effect from 1 January 2013 all fixed-income securities measured using such average prices that had previously been allocated to level 1. Reclassification is based neither on changed liquidity characteristics of these instruments nor on a modified investment strategy. This change in presentation had no implications for the carrying amounts in the present consolidated financial statement. Given that the criteria for level allocation were only specified and standardised with IFRS 13 and bearing in mind that the standard is to be applied prospectively to financial years beginning on or after 1 January 2013, the previous year's figures shown for comparative purposes have not been restated accordingly. In view of the short period between adoption of IDW RS HFA 47 and preparation of the consolidated financial statement a detailed portfolio analysis will only be carried out in the following months. The results of this analysis may give rise to corrections of the amounts recognised in the fair value hierarchy as at 31 December 2013.

Other than the above, no further reclassifications between level 1 and level 2 were to be made in the year under review as a consequence of changes in the liquidity of the instruments. In the previous year financial assets with a fair value of EUR 84.4 million were no longer allocable to level 1, but rather to level 2 on account of their reduced liquidity. Furthermore, in the previous year financial assets with a fair value of EUR 473.6 million were reclassified from level 2 to level 1 due to their improved liquidity. The reclassifications of the previous year affected mainly fixed-income securities held as available for sale. The specified amounts reclassified refer in each case to the book value of the investments recognised at the beginning of the period.

The following table shows the breakdown of financial assets and liabilities recognised at fair value into the three-level fair value hierarchy.

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

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

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

in EUR thousand	2012			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,629,587	14,272,569	27,329	21,929,485
Equity securities	29,238	–	8	29,246
Other financial assets – at fair value through profit or loss	36,641	24,194	–	60,835
Other invested assets	687	47,311	1,061,953	1,109,951
Short-term investments	495,412	14,306	–	509,718
Total financial assets	**8,191,565**	**14,358,380**	**1,089,290**	**23,639,235**
Other liabilities	–	60,012	54,812	114,824
Total financial liabilities	**–**	**60,012**	**54,812**	**114,824**

The following table provides a reconciliation of the fair values of financial assets and liabilities included in level 3 at the beginning of the financial year with the fair values as at 31 December of the financial year.

Movements in level 3 financial assets and liabilities

in EUR thousand	2013			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**27,329**	**8**	**1,061,953**	54,812
Currency translation at 1 January	(850)	–	(28,469)	–
Net book value after currency translation	**26,479**	**8**	**1,033,484**	54,812
Changes in the consolidated group	(7,276)	–	(8,973)	–
Income and expenses				
recognised in the statement of income	1,090	–	(4,135)	(987)
recognised directly in shareholders' equity	–	–	41,000	–
Purchases	567	–	285,326	18,653
Sales	242	–	142,660	1,335
Settlements	16,280	–	–	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 December of the year under review	841	–	(4,191)	(2,316)
Closing balance at 31 December of the year under review	**5,179**	**8**	**1,199,851**	**68,827**

Movements in level 3 financial assets and liabilities

in EUR thousand	2012			
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**38,190**	**8**	**875,401**	–
Currency translation at 1 January	(484)	–	(10,878)	–
Net book value after currency translation	**37,706**	**8**	**864,523**	–
Income and expenses				
recognised in the statement of income	4,186	–	(3,477)	–
recognised directly in shareholders' equity	1,201	–	51,687	–
Purchases	–	–	254,871	54,812
Sales/settlements	15,937	–	103,271	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 December of the year under review	173	–	(2,380)	–
Closing balance at 31 December of the year under review	**27,329**	**8**	**1,061,953**	**54,812**

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

Income and expenses from level 3 financial assets and liabilities

in EUR thousand	2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	1,090	(97)	987
Total depreciation, impairments and appreciation of investments	–	(4,038)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Change in fair value of financial instruments	1,090	(97)	987
Total depreciation, impairments and appreciation of investments	–	(3,544)	–

Income and expenses from level 3 financial assets and liabilities

in EUR thousand	2012		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Ordinary investment income	3	–	–
Change in fair value of financial instruments	4,183	2,838	–
Total depreciation, impairments and appreciation of investments	–	(6,315)	–
Thereof attributable to financial instruments included in the portfolio at 31 December of the year under review			
Ordinary investment income	3	–	–
Change in fair value of financial instruments	4,183	2,838	–
Total depreciation, impairments and appreciation of investments	–	(6,315)	–

If models are used to measure financial assets and liabilities included in level 3 under which the adoption of alternative inputs leads to a material change in fair value, IFRS 13 requires disclosure of the effects of these alternative assumptions. Of the financial assets included in level 3 with fair values of altogether EUR 1,205.0 million (EUR 1,089.3 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,109.7 million (EUR 990.4 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. The remaining financial assets included in level 3 with a volume of EUR 95.3 million (EUR 98.9 million) relate in very large part to acquired life insurance policies, the valuation of which is based on technical parameters. Derivative financial instruments in connection with the reinsurance business were recognised under the other liabilities included in level 3 in the year under review. Their performance is dependent upon the risk experience of an underlying group of primary insurance contracts with statutory reserving requirements. The application of alternative inputs and assumptions has no material effect on the consolidated financial statement.

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

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

6.2 Funds withheld (assets)

The funds withheld totalling EUR 14,267.8 million (EUR 14,627.8 million) represent the cash and securities deposits furnished by our company to our cedants that do not trigger any cash flows and cannot be realised by cedants without our consent. The maturities of these deposits are matched to the corresponding provisions. In the event of default on such a deposit our reinsurance commitment is reduced to the same extent. The decrease in funds withheld was attributable principally to exchange rate effects.

6.3 Contract deposits (assets)

The contract deposits on the assets side decreased by EUR 47.8 million in the year under review from EUR 123.3 million to EUR 75.5 million.

6.4 Technical assets

The retrocessionaires' portions of the technical provisions are based on the contractual agreements of the underlying reinsurance treaties. For further details please refer to our comments on the technical provisions in Section 6.7 "Technical provisions" on page 189 et seq. as well as the remarks in the risk report on page 79 et seq.

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

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

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

In non-life reinsurance acquisition costs directly connected with the acquisition or renewal of contracts are deferred for the unearned portion of the premium.

Development of deferred acquisition costs

in EUR thousand	2013	2012
Net book value at 31 December of the previous year	1,841,279	1,926,570
Currency translation at 1 January	(98,288)	(3,863)
Net book value after currency translation	**1,742,991**	**1,922,707**
Additions	279,480	428,889
Amortisations	346,911	508,694
Currency translation at 31 December	(3,162)	(1,623)
Net book value at 31 December of the year under review	**1,672,398**	**1,841,279**

For further explanatory remarks please see Section 3.2 "Summary of major accounting policies".

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

Age structure of overdue accounts receivable

in EUR thousand	2013		2012	
	Three months to one year	More than one year	Three months to one year	More than one year
Accounts receivable	170,564	123,549	149,586	114,479

Within the scope of our management of receivables we expect to receive payment of accounts receivable within three months of the date of creation of the debit entry – a period for which we also make allowance in our risk analysis. Please see our comments on the credit risk within the risk report on page 87 et seq.

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

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

Value adjustments on accounts receivable

in EUR thousand	2013	2012
Cumulative value adjustments at 31 December of the previous year	40,703	35,665
Currency translation at 1 January of the year under review	1,572	40
Cumulative value adjustments after currency translation	**42,275**	**35,705**
Value adjustments	7,331	16,253
Reversal	13,616	11,255
Cumulative value adjustments at 31 December of the year under review	**35,990**	**40,703**
Gross book value of accounts receivable at 31 December of the year under review	2,981,675	3,106,367
Cumulative value adjustments at 31 December of the year under review	35,990	40,703
Net book value of accounts receivable at 31 December of the year under review	**2,945,685**	**3,065,664**

In addition, we took specific value adjustments on reinsurance recoverables on unpaid claims in the year under review. We would refer the reader to the corresponding remarks on the loss and loss adjustment expense reserve in Section 6.7 "Technical provisions".

With regard to the credit risks resulting from technical assets we would also refer the reader to our comments in the risk report on page 87 et seq.

6.5 Goodwill

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

Development of goodwill

in EUR thousand	2013	2012
Net book value at 31 December of the previous year	59,099	59,289
Currency translation at 1 January	(2,029)	(190)
Net book value at 31 December of the year under review	**57,070**	**59,099**

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

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

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

	Capitalisation rate	Growth rate
E+S Rückversicherung AG	8.15%	1.00%
Integra Insurance Solutions Limited	9.00%	1.00%

Sensitivity analyses were performed in which the capitalisation rates as well as material and value-influencing items of the relevant planning calculations (such as premium volumes, investment income or loss ratios) were varied. In this context it was established that in the event of changes in parameters within ranges that could reasonably occur, the values in use were in each case higher than the corresponding book values. Please see also our basic remarks in Section 3.2 “Summary of major accounting policies”.

6.6 Other assets

Other assets

in EUR thousand	2013	2012
Present value of future profits on acquired life reinsurance portfolios	85,270	92,100
Other intangible assets	30,843	32,136
Insurance for pension commitments	71,622	64,631
Own-use real estate	70,396	67,843
Tax refund claims	181,326	30,580
Fixtures, fittings and equipment	30,220	24,011
Other receivables	8,921	3,397
Other	125,029	87,957
Total	**603,627**	**402,655**

Of this, other assets of EUR 4.2 million (EUR 4.0 million) are attributable to affiliated companies.

With regard to the rise in tax refund claims please see our remarks in Section 7.5 "Taxes on income".

The item "Other" includes receivables of EUR 73.6 million (EUR 54.8 million) which correspond to the present value of future premium payments in connection with derivative financial instruments arising from transactions in the life and health reinsurance business group. For further explanation please see Section 8.1 "Derivative financial instruments and financial guarantees".

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

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

in EUR thousand	2013	2012
Net book value at 31 December of the previous year	92,100	94,985
Currency translation at 1 January	233	178
Net book value after currency translation	**92,333**	**95,163**
Amortisation	3,420	3,119
Disposals	3,761	–
Currency translation at 31 December	118	56
Net book value at 31 December of the year under review	**85,270**	**92,100**

This item consists of the present value of future cash flows recognised on business acquired in 2009 in the context of the acquisition of the ING life reinsurance portfolio. This intangible asset is amortised over the term of the underlying reinsurance contracts in proportion to the future premium income. The period of amortisation amounts to altogether 30 years.

Insurance for pension commitments

Effective 1 July 2003 Hannover Rück SE took out insurance for pension commitments. The commitments involve deferred annuities with regular premium payment under a group insurance policy. In accordance with IAS 19 "Employee Benefits" they were carried as a separate asset at fair value as at the balance sheet date in an amount of EUR 71.6 million (EUR 64.6 million).

Due to renegotiation of part of the portfolio a partial amount of EUR 3.8 million was derecognised through profit or loss. For further information please refer to our explanatory notes on intangible assets in Section 3.2 "Summary of major accounting policies".

Fixtures, fittings and equipment

Fixtures, fittings and equipment

in EUR thousand	2013	2012
Gross book value at 31 December of the previous year	121,815	113,487
Currency translation at 1 January	(2,584)	(318)
Gross book value after currency translation	**119,231**	**113,169**
Additions	17,272	9,620
Disposals	6,272	908
Reclassification	–	18
Changes in consolidated group	69	–
Currency translation at 31 December	(472)	(84)
Gross book value at 31 December of the year under review	**129,828**	**121,815**
Cumulative depreciation at 31 December of the previous year	97,804	86,966
Currency translation at 1 January	(1,906)	(239)
Cumulative depreciation after currency translation	**95,898**	**86,727**
Disposals	6,071	901
Depreciation	9,880	12,072
Reclassification	–	2
Changes in consolidated group	18	–
Currency translation at 31 December	(117)	(96)
Cumulative depreciation at 31 December of the year under review	**99,608**	**97,804**
Net book value at 31 December of the previous year	**24,011**	**26,521**
Net book value at 31 December of the year under review	**30,220**	**24,011**

With regard to the measurement of fixtures, fittings and equipment, the reader is referred to our explanatory notes on the other assets in Section 3.2 "Summary of major accounting policies".

The changes in the consolidated group refer to the first-time inclusion of Glencar Underwriting Managers, Inc.; please see our explanatory remarks in Section 4.3 "Major acquisitions and new formations".

Other intangible assets

Development of other intangible assets

in EUR thousand	2013	2012
Gross book value at 31 December of the previous year	184,725	175,867
Currency translation at 1 January	(847)	191
Gross book value after currency translation	**183,878**	**176,058**
Changes in the consolidated group	(8)	–
Additions	13,243	10,194
Disposals	405	1,473
Currency translation at 31 December	(19)	(54)
Gross book value at 31 December of the year under review	**196,689**	**184,725**
Cumulative depreciation at 31 December of the previous year	152,589	140,195
Currency translation at 1 January	(544)	126
Cumulative depreciation after currency translation	**152,045**	**140,321**
Disposals	308	551
Appreciation	25	10
Depreciation	14,130	12,848
Currency translation at 31 December	4	(19)
Cumulative depreciation at 31 December of the year under review	**165,846**	**152,589**
Net book value at 31 December of the previous year	**32,136**	**35,672**
Net book value at 31 December of the year under review	**30,843**	**32,136**

The item includes EUR 3.2 million (EUR 4.5 million) for self-created software and EUR 19.1 million (EUR 25.2 million) for purchased software as at the balance sheet date. Scheduled depreciation is taken over useful lives of three to ten years. The additions can be broken down into EUR 5.0 million (EUR 7.9 million) for purchased software and EUR 0.9 million (EUR 0.9 million) for capitalised development costs for self-created software.

As in the previous year, the other receivables do not include any items that were overdue but unadjusted as at the balance sheet date. Value adjustments were taken on other receivables in an amount of EUR 0.3 million in the year under review (previous year: minimal amount) on the basis of specific impairment analyses.

Credit risks may result from other financial assets that were not overdue or adjusted as at the balance sheet date. In this regard, the reader is referred in general to our comments on the credit risk contained in the risk report on page 87 et seq.

6.7 Technical provisions

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

Technical provisions

in EUR thousand	2013			2012		
	gross	retro	net	gross	retro	net
Loss and loss adjustment expense reserve	21,666,932	1,403,804	20,263,128	21,610,698	1,538,215	20,072,483
Benefit reserve	10,631,451	344,154	10,287,297	10,974,570	507,257	10,467,313
Unearned premium reserve	2,405,497	139,039	2,266,458	2,339,809	138,373	2,201,436
Other technical provisions	269,571	6,893	262,678	214,219	2,611	211,608
Total	**34,973,451**	**1,893,890**	**33,079,561**	**35,139,296**	**2,186,456**	**32,952,840**

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

Loss and loss adjustment expense reserve

in EUR thousand	2013			2012		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	21,610,698	1,538,215	20,072,483	20,767,317	1,550,587	19,216,730
Currency translation at 1 January	(975,601)	(77,759)	(897,842)	(116,674)	(21,443)	(95,231)
Net book value after currency translation	**20,635,097**	**1,460,456**	**19,174,641**	**20,650,643**	**1,529,144**	**19,121,499**
Incurred claims and claims expenses (net) [1]						
Year under review	7,728,660	815,189	6,913,471	7,150,177	723,377	6,426,800
Previous years	2,443,788	229,713	2,214,075	2,621,961	182,856	2,439,105
	10,172,448	**1,044,902**	**9,127,546**	**9,772,138**	**906,233**	**8,865,905**
Less:						
Claims and claims expenses paid (net)						
Year under review	(2,767,574)	(449,729)	(2,317,845)	(2,642,339)	(397,326)	(2,245,013)
Previous years	(6,390,642)	(637,437)	(5,753,205)	(6,144,123)	(505,006)	(5,639,117)
	(9,158,216)	**(1,087,166)**	**(8,071,050)**	**(8,786,462)**	**(902,332)**	**(7,884,130)**
Specific value adjustment for retrocessions	–	–	–	–	427	(427)
Reversal of impairments	–	451	(451)	–	3,012	(3,012)
Portfolio entries/exits	61,660	–	61,660	(3,164)	5,831	(8,995)
Currency translation at 31 December	(44,057)	(14,839)	(29,218)	(22,457)	(3,246)	(19,211)
Net book value at 31 December of the year under review	**21,666,932**	**1,403,804**	**20,263,128**	**21,610,698**	**1,538,215**	**20,072,483**

[1] Including expenses recognised directly in shareholders' equity

In the year under review no specific value adjustments (previous year: EUR 0.4 million) were established on retrocessions, i. e. on the reinsurance recoverables on unpaid claims, while they were reversed in the amount of EUR 0.5 million (EUR 3.0 million). On balance, therefore, cumulative specific value adjustments of EUR 0.5 million (EUR 0.9 million) were recognised in these reinsurance recoverables as at the balance sheet date.

The total amount of the net reserve before specific value adjustments, to which the following remarks apply, was EUR 20,262.7 million (EUR 20,071.6 million) as at the balance sheet date.

Run-off of the net loss reserve in the non-life reinsurance segment

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

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

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

The following table shows the net loss reserve for the non-life reinsurance business group in the years 2003 to 2013 as well as the run-off of the reserve (so-called run-off triangle). The figures reported for the 2003 balance sheet year also include the amounts for previous years that are no longer shown separately in the run-off triangle. The run-off results shown reflect the changes in the ultimate loss arising in the 2013 financial year for the individual run-off years.

Net loss reserve and its run-off in the non-life reinsurance segment

in EUR million	31.12. 2003	31.12. 2004	31.12. 2005	31.12. 2006	31.12. 2007	31.12. 2008	31.12. 2009	31.12. 2010	31.12. 2011	31.12. 2012	**31.12. 2013**
Loss and loss adjustment expense reserve (from balance sheet)											
	13,081.5	**12,541.8**	**13,192.4**	**16,276.4**	**12,657.0**	**13,509.9**	**13,840.6**	**15,077.8**	**16,463.9**	**17,072.7**	**17,680.5**
Cumulative payments for the year in question and previous years											
One year later	3,360.4	4,149.5	1,594.6	2,536.2	2,481.2	2,942.9	2,765.0	2,444.2	3,105.1	2,909.9	
Two years later	6,862.7	5,314.3	3,590.7	4,266.4	4,268.4	4,575.8	3,995.0	4,074.0	4,827.9		
Three years later	7,599.0	6,280.3	4,728.5	5,583.0	5,382.5	5,336.9	4,816.3	5,066.7			
Four years later	8,327.8	7,051.5	5,838.4	6,382.3	5,935.1	5,924.6	5,464.1				
Five years later	8,914.8	7,837.1	6,462.9	6,780.8	6,371.4	6,407.6					
Six years later	9,550.9	8,293.7	6,781.3	7,121.3	6,736.3						
Seven years later	9,896.9	8,565.3	7,049.8	7,395.4							
Eight years later	10,116.8	8,771.8	7,279.0								
Nine years later	10,293.3	8,954.5									
Ten years later	10,442.3										
Loss and loss adjustment expense reserve (net) for the year in question and previous years plus payments made to date on the original reserve											
End of year	**13,081.5**	**12,541.8**	**13,192.4**	**16,276.4**	**12,657.0**	**13,509.9**	**13,840.6**	**15,077.8**	**16,463.9**	**17,072.7**	**17,680.5**
One year later	13,504.1	14,895.0	14,828.0	12,512.4	12,948.6	14,618.6	13,352.3	14,526.9	16,149.6	16,649.1	
Two years later	14,747.8	15,787.5	11,258.7	12,077.3	12,874.2	13,348.3	12,684.2	13,938.9	15,800.9		
Three years later	15,482.9	12,985.0	10,716.3	11,987.5	12,383.9	12,569.6	12,110.5	13,504.5			
Four years later	13,278.6	12,524.1	10,706.8	11,557.9	11,612.5	12,074.2	11,683.1				
Five years later	13,009.2	12,550.0	10,338.0	10,858.7	11,262.2	11,734.9					
Six years later	13,103.6	12,246.0	9,700.4	10,586.3	10,959.5						
Seven years later	12,834.7	11,717.2	9,501.3	10,311.1							
Eight years later	12,371.2	11,588.4	9,289.5								
Nine years later	12,282.9	11,435.1									
Ten years later	12,145.7										
Change relative to previous year											
Net run-off result	137.1	16.1	58.5	63.4	27.6	36.6	88.1	7.0	(85.7)	74.9	
As percentage of original loss reserve	1.0	0.1	0.4	0.4	0.2	0.3	0.6	0.0	(0.5)	0.4	

The run-off profit of altogether EUR 423.6 million in the 2013 financial year derives, as in the previous year, above all from positive run-offs of reserves in the areas of marine / aviation and short-tail property business.

Maturities of the technical reserves

IFRS 4 "Insurance Contracts" requires information which helps to clarify the amount and timing of cash flows expected from reinsurance contracts. In the following tables we have shown the future maturities of the technical provisions broken down by the expected remaining times to maturity. As part of our maturity analysis we have directly deducted the deposits put up as collateral for these reserves, since the cash inflows and outflows from these deposits are to be allocated directly to the ceding companies. For further explanation of the recognition and measurement of the reserves please see Section 3.2 "Summary of major accounting policies".

Maturities of the technical reserves

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

Maturities of the technical reserves

in EUR thousand	2012					
	Loss and loss adjustment expense reserves			Benefit reserve		
	gross	retro	net	gross	retro	net
Due in one year	6,235,411	426,631	5,808,780	657,514	101,659	555,855
Due after one through five years	8,355,362	590,629	7,764,733	432,281	36,429	395,852
Due after five through ten years	3,084,720	190,742	2,893,978	634,063	51,381	582,682
Due after ten through twenty years	2,076,465	119,868	1,956,597	794,098	40,280	753,818
Due after twenty years	1,076,778	64,067	1,012,711	719,028	20,899	698,129
	20,828,736	**1,391,937**	**19,436,799**	**3,236,984**	**250,648**	**2,986,336**
Deposits	781,962	147,201	634,761	7,737,586	256,609	7,480,977
Total	**21,610,698**	**1,539,138**	**20,071,560**	**10,974,570**	**507,257**	**10,467,313**

The average maturity of the loss and loss adjustment expense reserves was 5.2 years (5.1 years), or 5.2 years (5.1 years) after allowance for the corresponding retrocession shares. The benefit reserve had an average maturity of 12.6 years (12.0 years) – or 13.1 years (12.4 years) on a net basis.

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

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

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

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

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

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

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

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

Development of the benefit reserve

in EUR thousand	2013			2012		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	10,974,570	507,257	10,467,313	10,309,066	380,714	9,928,352
Currency translation at 1 January	(269,269)	(7,819)	(261,450)	49,603	(124)	49,727
Net book value after currency translation	**10,705,301**	**499,438**	**10,205,863**	**10,358,669**	**380,590**	**9,978,079**
Changes	178,894	32,203	146,691	545,318	16,035	529,283
Portfolio entries/exits	(257,122)	(186,136)	(70,986)	76,266	113,211	(36,945)
Reclassification	–	–	–	(103)	–	(103)
Currency translation at 31 December	4,378	(1,351)	5,729	(5,580)	(2,579)	(3,001)
Net book value at 31 December of the year under review	**10,631,451**	**344,154**	**10,287,297**	**10,974,570**	**507,257**	**10,467,313**

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

Development of the unearned premium reserve

in EUR thousand	2013			2012		
	gross	retro	net	gross	retro	net
Net book value at 31 December of the previous year	2,339,809	138,373	2,201,436	2,215,864	91,823	2,124,041
Currency translation at 1 January	(120,960)	(7,852)	(113,108)	(8,542)	(986)	(7,556)
Net book value after currency translation	**2,218,849**	**130,521**	**2,088,328**	**2,207,322**	**90,837**	**2,116,485**
Changes	203,238	9,414	193,824	146,108	58,957	87,151
Portfolio entries/exits	–	–	–	31	(98)	129
Currency translation at 31 December	(16,590)	(896)	(15,694)	(13,652)	(11,323)	(2,329)
Net book value at 31 December of the year under review	**2,405,497**	**139,039**	**2,266,458**	**2,339,809**	**138,373**	**2,201,436**

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

6.8 Funds withheld (liabilities)

The funds withheld under reinsurance treaties totalling EUR 648.0 million (EUR 821.1 million) represent the cash and securities deposits furnished to our company by our retrocessionaires that do not trigger any cash flows and cannot be realised without the consent of our retrocessionaires. The maturities of these deposits are matched to the corresponding shares of the reinsurers in the technical provisions. If such a share no longer exists the corresponding funds withheld are reduced to the same extent.

6.9 Contract deposits (liabilities)

The contract deposits on the liabilities side decreased by EUR 228.0 million in the year under review from EUR 5,797.9 million to EUR 5,569.9 million. The contract deposits item on the liabilities side essentially encompasses balances deriving from non-traditional life insurance contracts that are to be carried as liabilities. The decrease was due principally to exchange rate effects.

6.10 Provisions for pensions and other post-employment benefit obligations

In the context of initial application of the revised IAS 19 “Employee Benefits” in the year under review, the disclosures regarding provisions for pensions and other post-employment benefit obligations were restructured overall and the figures for the previous year were restated pursuant to IAS 8. Please see also our remarks in Section 3.1 “Changes in accounting policies” and in Section 3.2 “Summary of major accounting policies”.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Measurement assumptions

in %	2013		2012	
	Germany	Australia	Germany	Australia
Discount rate	3.63	3.94	3.20	3.50
Rate of compensation increase	2.75	3.50	2.75	3.50
Pension indexation	2.06	3.00	2.06	3.00

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

Movements in net liability from defined benefit pension plans

in EUR thousand	2013	2012	2013	2012	2013	2012
	Defined benefit obligation		Fair value of plan assets		Impact of minimum funding requirement/asset ceiling	
Position at 1 January of the financial year	141,105	106,618	14,979	11,525	30	135
Recognised in profit or loss						
Current service costs	3,337	2,875	–	–	–	–
Past service cost and plan curtailments	–	(2,250)	–	–	–	–
Gain on settlements	–	(11)	–	–	–	–
Net interest component	4,417	4,908	545	475	2	5
	7,754	**5,522**	**545**	**475**	**2**	**5**
Recognised in cumulative other comprehensive income						
Actuarial gain (–)/loss (+) from change in biometric assumptions	(352)	–	–	–	–	–
Actuarial gain (–)/loss (+) from change in financial assumptions	(11,705)	31,683	–	–	–	–
Experience gains (–)/losses (+)	(885)	1,870	–	–	–	–
Return on plan assets, excluding amounts included in interest income	–	–	207	128	–	–
Change in asset ceiling	–	–	–	–	43	(110)
Exchange differences	(2,701)	41	(2,652)	(29)		
	(15,643)	**33,594**	**(2,445)**	**99**	**43**	**(110)**
Other changes						
Employer contributions	–	–	439	2,899	–	–
Employee contributions and deferred compensation	–	175	–	–	–	–
Benefit payments	(3,608)	(4,804)	(3)	(3)	–	–
Additions and disposals	(6)	–	(5)	–	–	–
Effects of plan settlements	–	–	–	(16)	–	–
	(3,614)	**(4,629)**	**431**	**2,880**	**–**	**–**
Position at 31 December of the financial year	**129,602**	**141,105**	**13,510**	**14,979**	**75**	**30**

The expected long-term return on plan assets was derived from the anticipated long-term yields of the individual asset classes and weighted pro rata. The plan assets consist exclusively of qualifying insurance policies as defined by IAS 19.

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

Provisions for pensions

in EUR thousand	2013	2012
Projected benefit obligations at 31 December of the financial year	129,602	141,105
Fair value of plan assets at 31 December of the financial year	13,510	14,979
Impact of minimum funding requirement/asset ceiling at 31 December of the financial year	75	30
Recognised pension obligations at 31 December of the financial year	**116,167**	**126,156**
thereof: Capitalised assets	245	–
Provisions for pensions	116,412	126,156

In the current financial year Hannover Re anticipates contribution payments of EUR 1.9 million under the plans set out above. The weighted average duration of the defined benefit obligation is 15.9 years.

Sensitivity analysis

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

Effect on the defined benefit obligation

in EUR thousand		Parameter increase	Parameter decrease
Discount rate	(+/-0.5%)	-9,002	10,207
Rate of compensation increase	(+/-0.25%)	457	-450
Pension indexation	(+/-0.25%)	3,442	-3,292

Furthermore, a change is possible with respect to the assumed mortality rates and lifespans. The underlying mortality tables were adjusted by reducing the mortalities by 10% in order to determine the longevity risk. Extending the lifespans in this way would have produced a EUR 3.5 million higher pension commitment at the end of the financial year.

Defined contribution plans

In addition to the defined benefit plans, some Group companies have defined contribution plans that are based on length of service and the employee's income or level of contributions. The expense recognised for these obligations in the 2013 financial year in accordance with IAS 19 "Employee Benefits" was EUR 13.5 million (EUR 12.8 million), of which EUR 1.1 million (EUR 1.1 million) was due to obligations to members of staff in key positions and EUR 6.0 million (EUR 5.8 million) to contributions to the statutory pension insurance scheme in Germany.

6.11 Other liabilities

Other liabilities

in EUR thousand	2013	2012[1]
Liabilities from derivatives	118,984	86,585
Interest	73,096	65,824
Deferred income	31,315	28,240
Direct minority interests in partnerships	30,993	35,353
Sundry non-technical provisions	134,303	123,952
Sundry liabilities	217,204	153,357
Total	**605,895**	**493,311**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

Of this, other liabilities of EUR 11.1 million (EUR 7.8 million) are attributable to affiliated companies.

With regard to the liabilities from derivatives in an amount of EUR 119.0 million (EUR 86.6 million), please see our explanatory remarks on derivative financial instruments in Section 8.1 "Derivative financial instruments and financial guarantees".

The sundry liabilities include, most notably, distributions within the year of EUR 72.0 million (EUR 53.0 million) from interests in private equity funds that had still to be recognised in income as at the balance sheet date.

Development of sundry non-technical provisions

in EUR thousand	Balance at 31 December 2012	Currency translation at 1 January	Balance at 1 January of the year under review	Changes in consolidated group
Provisions for				
Audits and costs of publishing the annual financial statements	5,646	(134)	5,512	–
Consultancy fees	2,069	(123)	1,946	–
Suppliers' invoices	4,573	(362)	4,211	(588)
Partial retirement arrangements and early retirement obligations[1]	3,929	(30)	3,899	–
Holiday entitlements and overtime	7,675	(597)	7,078	–
Anniversary bonuses	3,214	–	3,214	–
Management bonuses	26,029	(928)	25,101	–
Restructuring	–	–	–	
Other	70,817	(1,107)	69,710	
Total	**123,952**	**(3,281)**	**120,671**	**(588)**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

The provision for restructuring was constituted for measures relating to the administrative reorganisation of an affiliated company in the United Kingdom.

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

Additions	Utilisation	Release	Currency translation at 31 December	Balance at 31 December 2013
5,311	4,765	136	(23)	5,899
2,364	1,518	165	(3)	2,624
6,731	2,999	330	(8)	7,017
14	195	–	5	3,723
2,670	3,403	–	33	6,378
343	682	–	(9)	2,866
19,730	15,794	8	(78)	28,951
3,639	–	–	54	3,693
23,740	16,106	4,091	(101)	73,152
64,542	45,462	4,730	(130)	134,303

Maturities of the sundry non-technical provisions

in EUR thousand	2013	2012
Due in one year	67,236	65,980
Due after one through five years	62,115	47,738
Due after five years	4,952	5,794
No maturity	–	4,440
Total	**134,303**	**123,952**

6.12 Debt and subordinated capital

In order to safeguard the sustained financial strength of the Hannover Re Group, a Group company has issued subordinated debt by way of a number of callable bonds which are guaranteed by Hannover Rück SE.

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

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

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

On 26 February 2004 subordinated debt in the amount of EUR 750.0 million was placed through Hannover Finance (Luxembourg) S.A. on the European capital markets. The bond has a final maturity of 20 years and for the first ten years carries a fixed coupon of 5.75%. With regard to the redemption of this bond please see our remarks in Section 8.11 “Events after the balance sheet date”.

Altogether four (previous year: four) subordinated bonds were recognised as at the balance sheet date with an amortised cost of EUR 2,237.8 million (EUR 2,233.0 million).

Debt and subordinated capital

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

Debt and subordinated capital

in EUR thousand				2012			
Subordinated loans	Coupon	Maturity	Currency	Amortised cost	Fair value measurement	Accrued interest	Fair value
Hannover Finance (Luxembourg) S.A., 2012	5.00	2043	EUR	496,643	49,572	2,808	549,023
Hannover Finance (Luxembourg) S.A., 2010	5.75	2040	EUR	498,033	77,287	8,507	583,827
Hannover Finance (Luxembourg) S.A., 2005	5.00	n/a	EUR	489,550	22,016	14,589	526,155
Hannover Finance (Luxembourg) S.A., 2004	5.75	2024	EUR	748,791	32,146	36,409	817,346
				2,233,017	**181,021**	**62,313**	**2,476,351**
Debt				167,758	–	690	168,448
Other long-term liabilities				16	–	–	16
Total				**2,400,791**	**181,021**	**63,003**	**2,644,815**

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

Maturities of financial liabilities

in EUR thousand	2013						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities [1]	82,362	237,012	1,443	798	–	–	–
Debt	13	–	195,574	31,528	–	–	–
Subordinated loans	–	–	–	–	749,593	994,900	493,337
Other long-term liabilities	–	–	15	–	–	–	–
Total	**82,375**	**237,012**	**197,032**	**32,326**	**749,593**	**949,900**	**493,337**

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

Maturities of financial liabilities

in EUR thousand	2012						
	Less than three months	Three months to one year	One to five years	Five to ten years	Ten to twenty years	More than twenty years	No maturity
Other financial liabilities [1]	155,168	92,247	2	4	–	–	–
Debt	–	–	134,886	32,872	–	–	–
Subordinated loans	–	–	–	–	748,791	994,677	489,549
Other long-term liabilities	–	–	16	–	–	–	–
Total	**155,168**	**92,247**	**134,904**	**32,876**	**748,791**	**994,677**	**489,549**

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

Net gains and losses from debt and subordinated capital

in EUR thousand	2013	2012	2013	2012	2013	2012
	Ordinary income/expenses		Amortisation		Net result	
Debt	(9,281)	(10,564)	613	(847)	(8,668)	(11,411)
Subordinated loans	(121,857)	(99,765)	(4,813)	(4,746)	(126,670)	(104,511)
Total	**(131,138)**	**(110,329)**	**(4,200)**	**(5,593)**	**(135,338)**	**(115,922)**

The ordinary expenses principally include interest expenses of nominally EUR 121.9 million (EUR 99.8 million) resulting from the subordinated debt placed through Hannover Finance (Luxembourg) S.A.

Other financial facilities

Letter of credit (LoC) facilities exist with a number of financial institutions. With respect to the syndicated facility taken out in 2011 with a volume equivalent to EUR 726.4 million (758.6 million), the second renewal option was utilised and the maturity extended from the beginning of 2018 to the beginning of 2019. In addition, several bilateral loan agreements were taken out and existing agreements were expanded.

Unsecured letter of credit facilities with various terms (maturing at the latest in 2022) and a total volume equivalent to EUR 2,488.0 million (EUR 2,621.2 million) exist on a bilateral basis with financial institutions; in addition, a long-term unsecured line of credit intended specifically for US life business taken out in December 2009 has a total volume equivalent to EUR 363.2 million (EUR 379.3 million).

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

A number of LOC facilities include standard market clauses that allow the banks rights of cancellation in the event of material changes in our shareholding structure or trigger a requirement on the part of Hannover Re to furnish collateral upon materialisation of major events, for example if our rating is significantly downgraded. Please see our explanatory remarks in the “Financial position and net assets” section of the management report, page 57 et seq., on the information pursuant to § 315 Para. 4 German Commercial Code (HGB).

6.13 Shareholders' equity, non-controlling interests and treasury shares

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

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

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 641.6 million (EUR 681.7 million) as at the balance sheet date. They were principally attributable to non-controlling interests in the shareholders' equity of E+S Rück AG in an amount of EUR 620.3 million (EUR 648.2 million).

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

Treasury shares

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. As part of this year's employee share option plan Hannover Rück SE acquired altogether 18,750 (23,160) treasury shares during the second quarter of 2013 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2017. This transaction resulted in an expense of EUR 0.4 million, which was recognised under personnel expenditure, as well as a negligible increase in retained earnings recognised in equity. The company was no longer in possession of treasury shares as at the balance sheet date.

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

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

The Annual General Meeting of Hannover Rück SE resolved on 7 May 2013 that a dividend of EUR 2.60 and a bonus of EUR 0.40 per share should be paid for the 2012 financial year. This corresponds to a total distribution of EUR 361.8 million (EUR 253.3 million).

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

For the disclosures arising out of IAS 1 "Presentation of Financial Statements" with regard to the management of capital, the reader is referred to page 54 et seq. of the "Financial position and net assets" section of the management report.

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

7.1 Gross written premium

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

Gross written premium

in EUR thousand	2013	2012
Regional origin		
Germany	1,264,120	1,151,510
United Kingdom	2,619,728	2,765,958
France	565,698	563,459
Other	1,726,952	1,798,392
Europe	**6,176,498**	**6,279,319**
USA	3,364,082	3,204,558
Other	679,595	642,148
North America	**4,043,676**	**3,846,706**
Asia	1,637,028	1,545,192
Australia	776,991	791,760
Australasia	**2,414,019**	**2,336,952**
Africa	476,183	498,647
Other	853,033	812,620
Total	**13,963,409**	**13,774,244**

7.2 Investment income

Investment income

in EUR thousand	2013	2012
Income from real estate	72,029	47,433
Dividends	3,085	3,622
Interest income	969,644	1,030,153
Other income	(3,440)	7,201
Ordinary investment income	**1,041,318**	**1,088,409**
Profit or loss on shares in associated companies	12,536	10,415
Appreciation	319	2,680
Realised gains on investments	177,032	269,952
Realised losses on investments	32,881	42,444
Change in fair value of financial instruments	(27,136)	89,268
Impairments on real estate	15,060	12,574
Impairments on equity securities	3	2,225
Impairments on fixed-income securities	771	613
Impairments on participating interests and other financial assets	3,583	6,335
Other investment expenses	97,309	96,369
Net income from assets under own management	**1,054,462**	**1,300,164**
Interest income on funds withheld and contract deposits	479,887	470,380
Interest expense on funds withheld and contract deposits	122,539	114,894
Total investment income	**1,411,810**	**1,655,650**

The impairments totalling EUR 5.4 million (EUR 11.4 million) in the reporting period were attributable in an amount of EUR 3.5 million (EUR 5.8 million) to the area of alternative investments – specifically, exclusively to private equity investments. No impairments (EUR 2.2 million) were recognised on equities or equity funds in the year under review, because their fair values did not fall significantly – i. e. by at least 20% – or for a prolonged period – i. e. for at least nine months – below acquisition cost. In the area of fixed-income securities impairments were recognised solely on structured fixed-income securities in an amount of EUR 0.8 million (EUR 0.6 million). An impairment of EUR 1.1 million (EUR 2.2 million) was taken on investments in real estate.

These impairments contrasted with appreciation of EUR 0.3 million (EUR 2.7 million) on investments written down in previous periods. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments

in EUR thousand	2013	2012
Fixed-income securities – held to maturity	110,058	144,151
Fixed-income securities – loans and receivables	120,461	125,868
Fixed-income securities – available for sale	720,753	731,487
Financial assets – at fair value through profit or loss	958	2,895
Other	17,414	25,752
Total	**969,644**	**1,030,153**

The net gains and losses on investments held to maturity, loans and receivables and the available-for-sale portfolio shown in the following table are composed of interest income, realised gains and losses as well as impairments and appreciation. In the case of the fixed-income securities at fair value through profit or loss designated in this category and the other financial assets, which include the technical derivatives, income and expenses from changes in fair value are also recognised.

Making allowance for the other investment expenses of EUR 97.3 million (EUR 96.4 million), net income from assets under own management of altogether EUR 1,054.5 million (EUR 1,300.2 million) was recognised in the year under review.

Net gains and losses on investments

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

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

Net gains and losses on investments

in EUR thousand	2012				
	Ordinary investment income[1]	Realised gains and losses	Impairments/ appreciation	Change in fair value	Net income from assets under own management[2]
Held to maturity					
Fixed-income securities	136,155	(2,606)	–	–	133,549
Loans and receivables					
Fixed-income securities	124,658	13,991	35	–	138,614
Available for sale					
Fixed-income securities	677,772	149,358	(1,465)	–	828,595
Equity securities	1,362	1,340	2,225	–	477
Other invested assets	58,072	16,657	6,546	–	68,183
Short-term investments	18,787	32	261	–	18,558
At fair value through profit or loss					
Fixed-income securities	8,924	(2,991)	–	14,134	20,067
Other financial assets	1,206	560	–	38,485	40,251
Other invested assets	–	1,014	–	2,838	3,852
Other	71,888	50,153	11,465	33,811	144,387
Total	**1,098,824**	**227,508**	**19,067**	**89,268**	**1,396,533**

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

7.3 Reinsurance result

Reinsurance result

in EUR thousand	2013	2012[1]
Gross written premium	13,963,409	13,774,244
Ceded written premium	1,542,921	1,407,851
Change in unearned premium	(203,238)	(146,108)
Change in ceded unearned premium	9,414	58,957
Net premium earned	**12,226,664**	**12,279,242**
Other technical income	1,907	1,455
Total net technical income	**12,228,571**	**12,280,697**
Claims and claims expenses paid	8,071,050	7,884,130
Change in loss and loss adjustment expense reserve	1,056,496	981,798
Claims and claims expenses	**9,127,546**	**8,865,928**
Change in benefit reserve	146,691	529,283
Net change in benefit reserve	**146,691**	**529,283**
Commissions	2,528,741	2,560,420
Change in deferred acquisition costs	(91,357)	(73,888)
Change in provision for contingent commissions	70,075	15,385
Other acquisition costs	5,608	17,353
Other technical expenses	7,874	4,575
Administrative expenses	333,674	310,790
Net technical result	**(82,995)**	**(96,525)**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

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

The administrative expenses amounted to altogether 2.7% (2.5%) of net premium earned.

Other technical income

in EUR thousand	2013	2012
Other technical income (gross)	3,506	2,357
Reinsurance recoverables	1,599	902
Other technical income (net)	**1,907**	**1,455**

Commissions and brokerage, change in deferred acquisition costs

in EUR thousand	2013	2012
Commissions paid (gross)	2,761,122	2,736,643
Reinsurance recoverables	232,381	176,223
Change in deferred acquisition costs (gross)	(67,095)	(56,628)
Reinsurance recoverables	24,262	17,260
Change in provision for contingent commissions (gross)	74,717	10,231
Reinsurance recoverables	4,642	(5,154)
Commissions and brokerage, change in deferred acquisition costs (net)	**2,690,173**	**2,649,693**

Other technical expenses

in EUR thousand	2013	2012
Other technical expenses (gross)	9,430	4,575
Reinsurance recoverables	1,556	–
Other technical expenses (net)	**7,874**	**4,575**

7.4 Other income and expenses

Other income/expenses

in EUR thousand	2013	2012[1]
Other income		
Exchange gains	189,122	84,764
Reversals of impairments on receivables	8,007	8,511
Income from contracts recognised in accordance with the deposit accounting method	68,184	58,683
Income from services	10,806	4,132
Deconsolidation of Secquaero	6,661	–
Other interest income	21,483	4,249
Sundry income	14,595	20,620
	318,858	**180,959**
Other expenses		
Other interest expenses	77,028	75,850
Exchange losses	179,254	109,095
Expenses from contracts recognised in accordance with the deposit accounting method	14,521	11,369
Separate value adjustments on receivables	7,971	27,308
Expenses for the company as a whole	54,080	50,207
Depreciation, amortisation, impairments	11,814	12,666
Expenses for services	7,524	5,210
Sundry expenses	66,419	54,074
	418,611	**345,779**
Total	**(99,753)**	**(164,820)**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

The increase in the other interest income derived inter alia from the interest portion of the income tax refund for previous years.

The separate value adjustments were attributable to accounts receivable in an amount of EUR 7.7 million (EUR 26.9 million) and to other receivables in an amount of EUR 0.3 million (previous year: minimal amount).

7.5 Taxes on income

Domestic taxes on income, comparable taxes on income at foreign subsidiaries as well as deferred taxes in accordance with IAS 12 "Income Taxes" and deferred tax assets and liabilities are recognised under this item.

The reader is referred to Section 3.2 "Summary of major accounting policies" regarding the basic approach to the recognition and measurement of deferred taxes.

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

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

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

Breakdown of taxes on income

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

Income tax

in EUR thousand	2013	2012[1]
Actual tax for the year under review	131,873	255,566
Actual tax for other periods	(39,069)	5,262
Deferred taxes due to temporary differences	82,053	95,846
Deferred taxes from loss carry-forwards	(29,051)	10,139
Change in deferred taxes due to changes in tax rates	(6,739)	(2,969)
Value adjustments on deferred taxes	24,076	561
Total	**163,143**	**364,405**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

Domestic/foreign breakdown of recognised tax expenditure/income

in EUR thousand	2013	2012[1]
Current taxes		
Germany	9,015	164,362
Outside Germany	83,790	96,466
Deferred taxes		
Germany	91,174	90,807
Outside Germany	(20,836)	12,770
Total	**163,143**	**364,405**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

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

Deferred tax assets and deferred tax liabilities of all Group companies

in EUR thousand	2013	2012[1]
Deferred tax assets		
Tax loss carry-forwards	90,467	68,393
Loss and loss adjustment expense reserves	200,328	285,396
Benefit reserve	43,071	76,508
Other technical/non-technical provisions	341,699	174,057
Funds withheld	948,054	513,357
Deferred acquisition costs	30,547	22,671
Accounts receivable/reinsurance payable	15,472	3,809
Valuation differences relating to investments	13,740	22,857
Contract deposits	19	8,876
Other valuation differences	33,926	51,447
Value adjustments[2]	(64,600)	(43,228)
Total	**1,652,723**	**1,184,143**
Deferred tax liabilities		
Loss and loss adjustment expense reserves	27,711	24,797
Benefit reserve	880,026	526,348
Other technical/non-technical provisions	86,101	52,805
Equalisation reserve	1,046,733	1,040,561
Funds withheld	183,751	27,961
Deferred acquisition costs	319,989	342,640
Accounts receivable/reinsurance payable	86,681	79,811
Valuation differences relating to investments	199,532	381,555
Present value of future profits on acquired life reinsurance portfolios (PVFP)	10,659	11,513
Other valuation differences	15,091	35,769
Total	**2,856,274**	**2,523,760**
Deferred tax liabilities	1,203,551	1,339,617

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)
[2] Thereof on tax loss carry-forwards: -EUR 45,551 thousand (-EUR 43,228 thousand)

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

Netting of deferred tax assets and deferred tax liabilities

in EUR thousand	2013	2012[1]
Deferred tax assets	508,841	620,456
Deferred tax liabilities	1,712,392	1,960,073
Net deferred tax liabilities	**1,203,551**	**1,339,617**

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

In view of the unrealised losses from investments and currency translation recognised directly in equity in the financial year, actual and deferred tax income – including amounts attributable to non-controlling interests – of EUR 217.8 million (previous year: tax expense of EUR 200.5 million) was also recognised directly in equity.

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

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

in EUR thousand	2013	2012 [1]
Profit before taxes on income	1,102,392	1,289,394
Group tax rate	32%	32%
Expected expense for income taxes	352,765	412,606
Change in tax rates	(6,739)	(2,969)
Differences in tax rates affecting subsidiaries	(85,929)	(85,469)
Non-deductible expenses	20,402	67,002
Tax-exempt income	(152,066)	(26,747)
Tax expense/income not attributable to the reporting period	5,233	3,788
Value adjustments on deferred taxes / loss carry-forwards	24,077	560
Other	5,400	(4,366)
Actual expense for income taxes	163,143	364,405

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

The expense for income taxes in the financial year fell sharply year-on-year by EUR 201.3 million to EUR 163.1 million (EUR 364.4 million). The decrease is due in large measure to a lower pre-tax profit in the year under review as well as to the prospective adjustment of deferred taxes on the portion of the equalisation reserve attributable to permanent establishments of Hannover Rück SE that are tax-exempt under double taxation agreements (cf. here Section 3.1 "Changes in accounting policies"). In addition, the larger volume of internal retrocessions within the Group of certain portfolios in life and health reinsurance, which results in tax-exempt income in the country of origin but gives rise to expenses that are allowable for tax purposes in Germany, contributed to a reduction in the tax burden. The tax ratio amounted to 14.8% (28.3%).

Availability of non-capitalised loss carry-forwards

Unused tax loss carry-forwards and tax credits of EUR 321.8 million (EUR 233.7 million) existed as at the balance sheet date. Making allowance for local tax rates, EUR 172.5 million (EUR 152.4 million) thereof was not capitalised since realisation is not sufficiently certain.

No deferred taxes were established on assets-side taxable temporary differences amounting to EUR 108.4 million (EUR 107.5 million) and liabilities-side temporary differences of EUR 36.6 million (EUR 70.7) million in connection with interests in Group companies because the Hannover Re Group can control their reversal and will not reverse them in the foreseeable future.

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

Expiry of non-capitalised loss carry-forwards

in EUR thousand	One to five years	Six to ten years	More than ten years	Unlimited	Total
Loss carry-forwards	–	1,057	–	158,729	159,786
Tax credits	–	–	–	12,750	12,750
Total	–	1,057	–	171,479	172,536

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8. Other notes

8.1 Derivative financial instruments and financial guarantees

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

The fair values of the derivative financial instruments were determined on the basis of the market information available at the balance sheet date. Please see Section 3.2 "Summary of major accounting policies" with regard to the measurement models used.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 1.4 million (EUR 3.9 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge currency risks. These transactions gave rise to recognition of other liabilities in an amount of EUR 5.5 million (EUR 16.8 million) and other financial assets at fair value through profit or loss in an amount of EUR 16.7 million (previous year: none).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other liabilities amounting to EUR 34.1 million (EUR 4.9 million) and other financial assets at fair value through profit or loss in an amount of EUR 1.4 million (EUR 13.1 million).

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

Maturity structure of derivative financial instruments 2013

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

Maturity structure of derivative financial instruments 2012

in EUR thousand	2012				
	Less than three months	Three months to one year	One to five years	Five to ten years	Total
Interest rate hedges					
Fair values	–	–	(3,597)	(330)	(3,927)
Notional values	–	–	82,668	33,378	116,046
Currency hedges					
Fair values	(935)	(2,585)	(10,696)	(2,586)	(16,802)
Notional values	12,237	77,969	36,395	11,038	137,639
Inflation hedges					
Fair values	–	–	9,094	(877)	8,217
Notional values	–	–	2,544,433	304,822	2,849,255
Total hedging instruments					
Fair values	(935)	(2,585)	(5,199)	(3,793)	(12,512)
Notional values	12,237	77,969	2,663,496	349,238	3,102,940

The net changes in the fair value of these instruments resulted in a charge of EUR 33.1 million to the result of the financial year (improvement of EUR 27.4 million in the result).

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

Netting agreements 2013

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

Netting agreements 2012

in EUR thousand	2012				
	Fair value	Netting agreement	Cash collateral received/ furnished	Other collateral received/ furnished	Net amount
Derivative receivables	13,114	3,714	4,064	3,485	1,851
Derivative liabilities	21,618	3,714	–	1,184	16,720

Derivative financial instruments in connection with reinsurance

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

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

Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a positive value of EUR 45.3 million (EUR 39.8 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss.

In the course of the year the change in the fair value of the derivative gave rise to a positive profit contribution of EUR 7.4 million before tax (EUR 51.8 million).

A number of transactions concluded in the life and health reinsurance business group in the previous year, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition because receivables recognised under other assets were to be carried in the same amount. Please see Section 6.6 "Other assets". The fair value of these instruments on the balance sheet date was EUR 68.8 million (EUR 54.8 million), which was recognised under other liabilities. The change in value in subsequent periods is dependent upon the risk experience and led to an improvement of EUR 1.0 million in investment income in the 2013 financial year.

The derivative components of another group of contracts in the area of life and health reinsurance were measured on the basis of stochastic considerations. The measurement produced a positive derivative value of EUR 6.5 million (EUR 7.5 million) on the balance sheet date. The derivative was recognised under other financial assets at fair value through profit or loss. The valuation resulted in a charge against investment income of EUR 1.1 million (EUR 0.7 million) as at 31 December 2013.

All in all, application of the standards governing the carrying of derivatives in connection with the technical account led to recognition of assets totalling EUR 52.1 million (EUR 47.7 million) as well as recognition of liabilities in an amount of EUR 78.0 million (EUR 60.9 million) from the derivatives resulting from technical items as at the balance sheet date. Increases in investment income amounting to EUR 8.5 million (EUR 52.0 million) as well as charges to income of EUR 4.4 million (EUR 7.1 million) were recognised in the year under review from all separately measured derivatives in connection with the technical account.

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 1,372.2 million (EUR 1,137.9 million); an amount equivalent to EUR 892.1 million (EUR 848.1 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by the Hannover Re Group cover their payment obligations. Under some of the transactions the payments resulting from the swaps in the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

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

8.2 Related party disclosures

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

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

With effect from the 1997 financial year onwards all new business and renewals written on the German market have been the responsibility of E+S Rück AG, while Hannover Rück SE has handled foreign markets. Internal retrocession arrangements ensure that the percentage breakdown of the business applicable to the previously existing underwriting partnership is largely preserved between these companies. In November 2013 the responsible bodies of Hannover Rück SE and E+S Rück AG decided to reorganise the business relationship between the two companies with effect from 1 January 2014.

Within the contractually agreed framework Talanx Asset Management GmbH performs investment and asset management services for Hannover Rück SE and some of its subsidiaries. In the year under review changes were made to the billing method and fee arrangements for real estate and asset management of own-use property, including such own-use property with a leased portion. Assets in special funds are managed by Ampega Investment GmbH. Talanx Immobilien Management GmbH performs services for Hannover Re under a number of management contracts.

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

The Hannover Re Group provides reinsurance protection for the HDI Group. To this extent, numerous underwriting business relations exist with related parties in Germany and abroad which are not included in Hannover Re's consolidation. This includes business both assumed and ceded at usual market conditions.

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

Business assumed and ceded in Germany and abroad

in EUR thousand	2013		2012	
	Premium	Underwriting result	Premium	Underwriting Result
Business assumed				
Non-life reinsurance	508,628	33,646	443,469	39,727
Life and health reinsurance	184,373	26,079	209,342	17,083
	693,001	59,725	652,811	56,810
Business ceded				
Non-life reinsurance	(15,830)	(6,950)	(13,894)	558
Life and health reinsurance	(53,127)	(8,579)	(51,869)	(9,023)
	(68,957)	(15,529)	(65,763)	(8,465)
Total	**624,044**	**44,196**	**587,048**	**48,345**

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

The Group companies E+S Rück AG, Hannover Finance (Luxembourg) S.A., Hannover Re (Ireland) Plc and Hannover Re (Bermuda) Ltd. invested in a nominal amount of altogether EUR 150.0 million in a bearer debenture of Talanx AG with a term until 8 July 2013 and a coupon of 5.43%. Talanx AG redeemed this bearer debenture in the first quarter of 2013. The redemption gave rise to realised gains on investments of EUR 2.8 million before tax for the Hannover Re Group. In the context of a new bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rück AG invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 48.3 million including accrued interest of EUR 1.3 million.

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2013 to Talanx Service AG, Hannover, which also entered into the existing lease agreements. In addition, lease agreements exist with Talanx Service AG for use of a portion of the space in our data-processing computer centre.

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

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

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

In October 2013 Hannover Rück SE concluded a service contract with Talanx Service AG in the area of flight services as well as a contract regarding the reciprocal provision of business continuity management services.

Remuneration and shareholdings of the management boards of the parent company

The remuneration of the Executive Board of Hannover Re amounted to altogether EUR 7.2 million (EUR 7.3 million). The total remuneration (excluding pension payments) of former members of the Executive Board and their surviving dependants stood at EUR 0.4 million (EUR 2.4 million). The pension payments to previous members of the Executive Board and their surviving dependants, for whom 14 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.4 million) in the year under review; altogether, a provision of EUR 21.4 million (EUR 22.5 million) has been set aside for these commitments.

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

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

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

All other information on the remuneration of the governing bodies, directors' dealings and shareholdings as well as the structure of the remuneration system for the Executive Board is contained in the remuneration report from page 99 onwards. This remuneration report is based on the recommendations of the German Corporate Governance Code and contains information which also forms part of the notes to the 2013 consolidated financial statement as required by IAS 24 "Related Party Disclosures". In addition, we took into account the more specific provisions of DRS 17 "Reporting on the Remuneration of Members of Governing Bodies". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in the remuneration report. Consequently, we have not provided any further explanation in the notes.

8.3 Share-based payment

In the 2013 financial year the following share-based payment plans with cash settlement existed within the Hannover Re Group:

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

Stock Appreciation Rights Plan

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

The Conditions for the Granting of Stock Appreciation Rights were cancelled for the 2011 financial year by a resolution of the Supervisory Board dated 8 November 2010, insofar as the members of the company's Executive Board could be granted stock appreciation rights on the basis of these Conditions (partial cancellation). The Conditions for the Granting of Stock Appreciation Rights were also cancelled for the other eligible recipients for the previous year by a resolution of the Executive Board dated 14 March 2011. Awarded stock appreciation rights continue to be exercisable until the end of their period of validity.

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

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

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

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

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

The allocations for the years 2006, 2007 and 2009 to 2011 gave rise to commitments in the 2013 financial year shown in the following table. No allocations were made for 2005 or 2008.

Stock appreciation rights of Hannover Rück SE

	Allocation year					
	2011	2010	2009	2007	2006	2004
Award date	15.3.2012	8.3.2011	15.3.2010	28.3.2008	13.3.2007	24.3.2005
Period	10 years	10 years	10 years	10 years	10 years	10 years
Waiting period	4 years	4 years	2 years	2 years	2 years	2 years
Basic price (in EUR)	40.87	33.05	22.70	34.97	30.89	27.49
Participants in year of issue	143	129	137	110	106	109
Number of rights granted	263,515	1,681,205	1,569,855	926,565	817,788	211,171
Fair value at 31 December 2013 (in EUR)	19.62	8.38	8.76	10.79	10.32	24.62
Maximum value (in EUR)	32.21	8.92	8.76	10.79	10.32	24.62
Weighted exercise price	–	–	8.76	10.79	10.32	24.62
Number of rights existing at 31 December 2013	259,005	1,640,070	639,295	48,340	8,269	–
Provisions at 31 December 2013 (in EUR million)	2.12	7.81	5.02	0.52	0.85	–
Amounts paid out in the 2013 financial year (in EUR million)	–	–	2.50	2.08	0.19	0.08
Expense in the 2013 financial year (in EUR million)	1.18	2.73	1.32	–	–	–

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

The calculations were based on the price of the Hannover Re share of EUR 58.97 as at the reference date of 13 December 2013, expected volatility of 31.33% (historical volatility on a five-year basis), an expected dividend yield of 4.49% and risk-free interest rates of 0.39% for the 2006 allocation year, 0.60% for the 2007 allocation year, 1.08% for the 2009 allocation year, 1.32% for the 2010 allocation year and 1.55% for the 2011 allocation year.

In the 2013 financial year the waiting period expired for 100% of the stock appreciation rights awarded in 2003, 2004, 2006 and 2007 and for 60% of those awarded in 2009.

3,354 stock appreciation rights from the 2004 allocation year, 18,222 stock appreciation rights from the 2006 allocation year, 192,512 stock appreciation rights from the 2007 allocation year and 293,077 stock appreciation rights from the 2009 allocation year were exercised. The total amount paid out stood at EUR 4.85 million.

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 16.3 million for the 2013 financial year (EUR 15.2 million). The expense totalled altogether EUR 5.2 million (EUR 11.8 million).

Share Award Plan

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

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

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

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

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

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

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

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

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

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

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

Share awards of Hannover Rück SE

	Allocation year				
	2013	2012		2011	
	Probable allocation	Final allocation in 2013 for 2012	Probable allocation	Final allocation in 2012 for 2011	Probable allocation
Valuation date	**30.12.2013**	21.3.2013	28.12.2012	21.3.2012	30.12.2011
Value per share award in EUR	62.38	59.86	58.96	42.09	38.33
Number of allocated share awards in the allocation year					
Executive Board	14,418	15,554	16,053	22,232	24,390
Managers	91,660	103,798	100,531	–	–
Other adjustments	–	(1,000)	–	–	–
Total	**106,078**	**118,352**	**116,584**	**22,232**	**24,390**
Personnel expense in EUR thousand [1]	1,379	1,543	1,839	285	269
Thereof: Recognised dividend in EUR thousand [2]	–	46.7	–	66.7	–
Provision in EUR thousand	**1,379**	**3,325**	**1,839**	**982**	**269**

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

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

On this basis the aggregate provisions – included in the sundry non-technical provisions – amounted to EUR 5.7 million for the 2013 financial year (EUR 2.5 million). The expense totalled altogether EUR 3.2 million (EUR 2.2 million).

8.4 Staff and expenditures on personnel

Staff

The average number of staff at the companies included in the consolidated financial statement of the Hannover Re Group during the reporting period was 2,376 (2,263). As at the balance sheet date altogether 2,419 (2,312) staff were employed by the Hannover Re Group, with 1,219 (1,164) employed in Germany and 1,200 (1,148) working for the consolidated Group companies abroad.

Personnel information

	2013					2012	
	31.3.	30.6.	30.9.	31.12.	Average	31.12.	Average
Number of employees (excluding Board members)	2,359	2,383	2,406	2,419	2,376	2,312	2,263

Nationality of employees 2013

	German	USA	UK	South African	Swedish	Australian	Irish	Other	Total
Number of employees	1,128	285	227	155	90	81	45	408	2,419

Expenditures on personnel

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

Personnel expenditures

in EUR thousand	2013	2012
a) Wages and salaries	203,056	197,664
	203,056	**197,664**
b) Social security contributions and expenditure on provisions and assistance		
ba) Social security contributions	18,481	18,295
bb) Expenditures for pension provision	22,748	20,369
bc) Expenditures for assistance	3,711	3,840
	44,940	**42,504**
Total	**247,996**	**240,168**

8.5 Earnings per share and dividend proposal

Calculation of the earnings per share

	2013	2012 [1]
Group net income in EUR thousand	895,467	849,592
Weighted average of issued shares	120,596,978	120,596,619
Basic earnings per share in EUR	7.43	7.04
Diluted earnings per share in EUR	7.43	7.04

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1)

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

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

The weighted average of the issued shares was, as in the previous year, slightly lower than the value of the shares in circulation on the balance sheet date. In the context of the employee share option plan Hannover Re acquires treasury shares and sells them at a later date to eligible employees. The weighted average number of shares does not include 18,750 (23,160) treasury shares pro rata temporis for the period from 13 to 15 May 2013. For further details please see our comments in Section 6.13 “Shareholders’ equity, non-controlling interests and treasury shares”.

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

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

Dividend per share

A dividend of EUR 361.8 million (previous year: EUR 253.3 million) was paid in the year under review for the 2012 financial year.

It will be proposed to the Annual General Meeting on 7 May 2014 that a dividend of EUR 3.00 per share should be paid for the 2013 financial year. This corresponds to a total distribution of EUR 361.8 million. The dividend proposal does not form part of this consolidated financial statement.

8.6 Lawsuits

With the exception of the aforementioned proceedings, no significant court cases were pending during the year under review or as at the balance sheet date – with the exception of proceedings within the scope of ordinary insurance and reinsurance business activities.

8.7 Contingent liabilities and commitments

Hannover Re has placed four subordinated debts on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. Hannover Rück SE has secured by subordinated guarantee both the debt issued in 2004, the volume of which amounts to EUR 750.0 million, and the debts from the 2005, 2010 and 2012 financial years in amounts of EUR 500.0 million each.

The guarantees given by Hannover Rück SE for the subordinated debts attach if the issuer fails to render payments due under the bonds. The guarantees cover the relevant bond volumes as well as interest due until the repayment dates. Given the fact that interest on the bonds is partly dependent on the capital market rates applicable at the interest payment dates (floating rates), the maximum undiscounted amounts that can be called cannot be estimated with sufficient accuracy. Hannover Rück SE does not have any rights of recourse outside the Group with respect to the guarantee payments.

As security for technical liabilities to our US clients, we have established two trust accounts (master trust and supplemental trust) in the United States. They amounted to EUR 2,748.1 million (EUR 2,855.7 million) and EUR 21.5 million (EUR 11.9 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 565.6 million (EUR 549.3 million) in the form of so-called "single trust funds".

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 2,514.4 million (EUR 2,314.4 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments. As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,895.1 million (EUR 3,343.0 million). The standard market contractual clauses contained in some of the underlying letter of credit facilities regarding compliance with stipulated conditions are explained in greater detail in the "Financial position and net assets" section of the management report, page 57 et seq., on the information pursuant to § 315 Para. 4 German Commercial Code (HGB) as well as in Section 6.12 "Debt and subordinated capital" on other financial facilities.

In addition, we keep own investments with a book value of EUR 53.8 million (EUR 67.3 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 18.6 million (EUR 9.5 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions the usual collateral under such transactions has been furnished to various banks, the amount of which totalled EUR 459.9 million (EUR 288.3 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 598.5 million (EUR 575.9 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

The application of tax regulations may not have been resolved at the time when tax items are brought to account. The calculation of tax refund claims and tax liabilities is based on what we consider to be the regulations most likely to be applied in each case. The revenue authorities may, however, take a differing view, as a consequence of which additional tax liabilities could arise in the future.

Hannover Re enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which Hannover Rück SE guarantees the liabilities of the subsidiary in question or enters into the rights and obligations of the subsidiary under the treaties if particular constellations materialise.

8.8 Long-term commitments

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

8.9 Rents and leasing

Leased property

Future leasing commitments

in EUR thousand	Payments
2014	8,717
2015	7,692
2016	6,750
2017	4,278
2018	4,012
Subsequent years	7,292

Operating leasing contracts produced expenditures of EUR 8.5 million (EUR 6.0 million) in the year under review.

Rented property

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

Rental income

in EUR thousand	Payments to be received
2014	42,872
2015	42,374
2016	41,168
2017	37,274
2018	31,579
Subsequent years	87,774

Rental income totalled EUR 58.7 million (EUR 47.3 million) in the year under review. The rental income resulted principally from the renting out of properties by the Group's real estate companies.

8.10 Fee paid to the auditor

An expense of altogether EUR 3.5 million (EUR 3.2 million) was incurred in the year under review for the fee paid to the appointed auditor of the consolidated financial statement as defined by § 318 German Commercial Code (HGB). Of this total amount, EUR 1.3 million (EUR 1.5 million) was attributable to the fee for auditing services in relation to the financial statement, EUR 0.6 million (EUR 0.5 million) to other assurance services, EUR 0.2 million (EUR 0.1 million) to tax consultancy services and EUR 1.4 million (EUR 1.1 million) to other services.

8.11 Events after the balance sheet date

The subordinated debt in the amount of EUR 750.0 million placed through Hannover Finance (Luxembourg) S.A. on 26 February 2004 was redeemed in the full nominal amount by the issuer on 17 January 2014 at the first scheduled call date. The repayment date was 26 February 2014.

Hannover, 6 March 2014

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel

Auditors' report

We have audited the consolidated financial statements prepared by Hannover Rück SE, Hannover – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements – as well as the combined management report of the company and the Group for the business year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the combined management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Para. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the combined management report based on our audit.

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

Our audit has not led to any reservations.

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

Hannover, 7 March 2014

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Responsibility statement

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

Hannover, 6 March 2014

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel