somewhat different

13

Annual Report

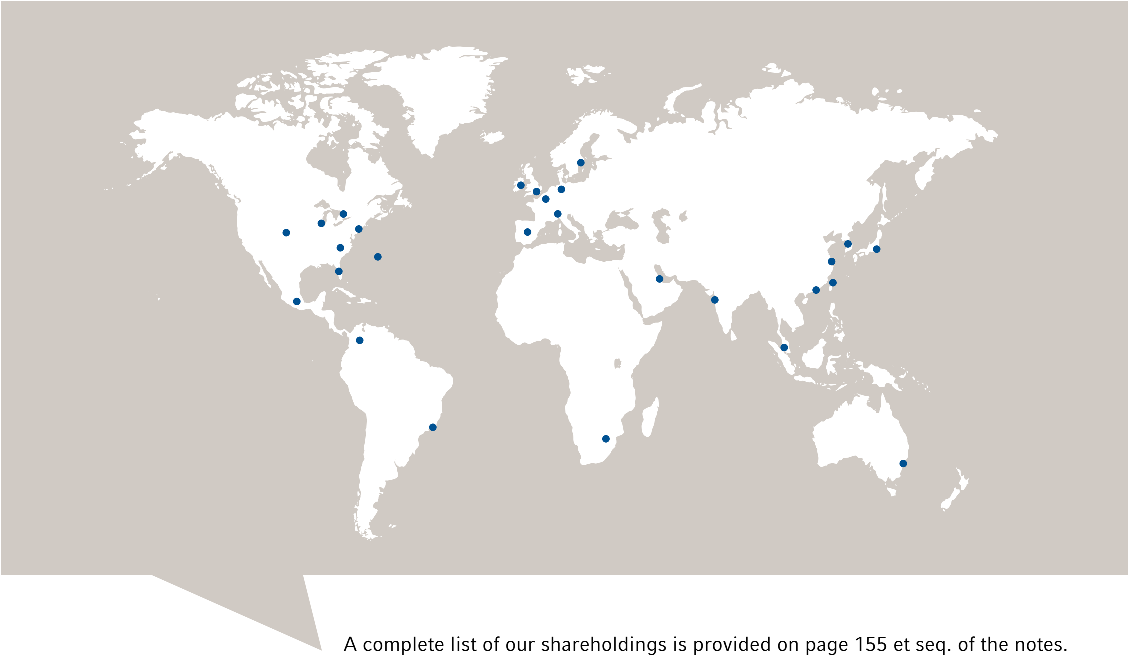
hannover re®

Key figures

Figures in EUR million	2013	+/− previous year	2012 [1]	2011	2010	2009
Results						
Gross written premium	13,963.4	+1.4%	13,774.2	12,096.1	11,428.7	10,274.8
Net premium earned	12,226.7	-0.4%	12,279.2	10,751.5	10,047.0	9,307.2
Net underwriting result	(83.0)		(96.9)	(535.8)	(185.1)	(100.4)
Net investment income	1,411.8	-14.7%	1,655.7	1,384.0	1,258.9	1,120.4
Operating profit (EBIT)	1,229.1	-11.8%	1,393.9	841.4	1,177.9	1,142.5
Group net income	895.5	+5.4%	849.6	606.0	748.9	733.7
Balance sheet						
Policyholders´ surplus	8,767.9	-2.0%	8,947.2	7,338.2	6,987.0	5,621.6
Equity attributable to shareholders of Hannover Rück SE	5,888.4	-2.4%	6,032.5	4,970.6	4,509.0	3,714.4
Non-controlling interests	641.6	-5.9%	681.7	636.0	608.9	542.1
Hybrid capital	2,237.8	+0.2%	2,233.0	1,731.6	1,869.1	1,365.1
Investments (excl. funds withheld by ceding companies)	31,875.2	0.0%	31,874.4	28,341.2	25,411.1	22,507.0
Total assets	53,915.5	-1.6%	54,811.7	49,867.0	46,725.3	40,837.6
Share						
Earnings per share (basic and diluted) in EUR	7.43	+5.4%	7.04	5.02	6.21	6.08
Book value per share in EUR	48.83	-2.4%	50.02	41.22	37.39	30.80
Dividend	361.8 [2]		361.8	253.3	277.4	253.3
Dividend per share in EUR	3.00 [2]		2.60+0.40 [3]	2.10	2.30	2.10
Share price at year-end in EUR	62.38	+5.8%	58.96	38.325	40.135	32.71
Market capitalisation at year-end	7,522.8	+5.8%	7,110.4	4,621.9	4,840.2	3,944.7
Ratios						
Combined ratio (non-life reinsurance) [4]	94.9%		95.8%	104.3%	98.2%	96.6%
Large losses as percentage of net premium earned (non-life reinsurance) [5]	8.4%		7.0%	16.5%	12.3%	4.6%
Retention	89.0%		89.8%	91.2%	90.1%	92.6%
Return on investment (excl. funds withheld by ceding companies)	3.3%		4.3%	3.9%	3.9%	4.0%
EBIT margin [6]	10.1%		11.4%	7.8%	11.7%	12.3%
Return on equity (after tax)	15.0%		15.4%	12.8%	18.2%	22.4%

1 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)
2 Proposed dividend
3 Dividend of EUR 2.60 plus EUR 0.40 bonus
4 Including funds withheld
5 Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned (until 31 December 2011: in excess of EUR 5 million gross)
6 Operating result (EBIT)/net premium earned

The Group worldwide



A complete list of our shareholdings is provided on page 155 et seq. of the notes. The addresses of the Hannover Re Group's branch offices and subsidiaries abroad are to be found in the section "Further information" on page 234 et seq.

Strategic business groups

Hannover Re Group

Non-life reinsurance

Target markets
- Germany
- North America

Specialty lines
- Marine
- Aviation
- Credit and surety
- Structured reinsurance
- Insurance-linked securities
- United Kingdom, London market and direct business

Global reinsurance
- Treaty reinsurance worldwide
- Facultative reinsurance
- Global catastrophe business

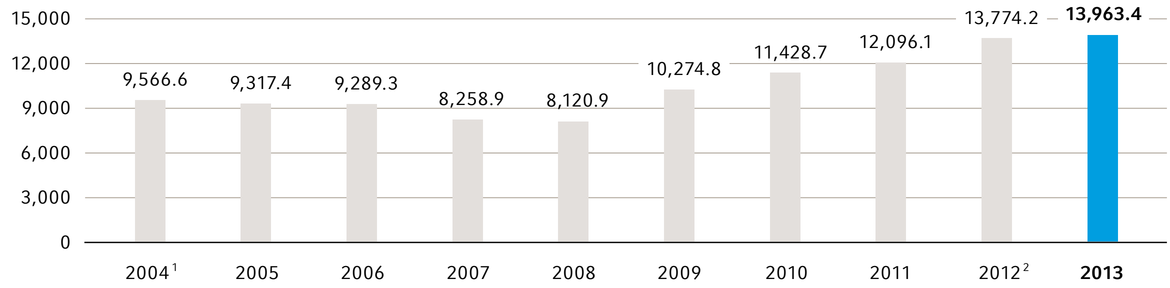
Life and health reinsurance

Financial solutions

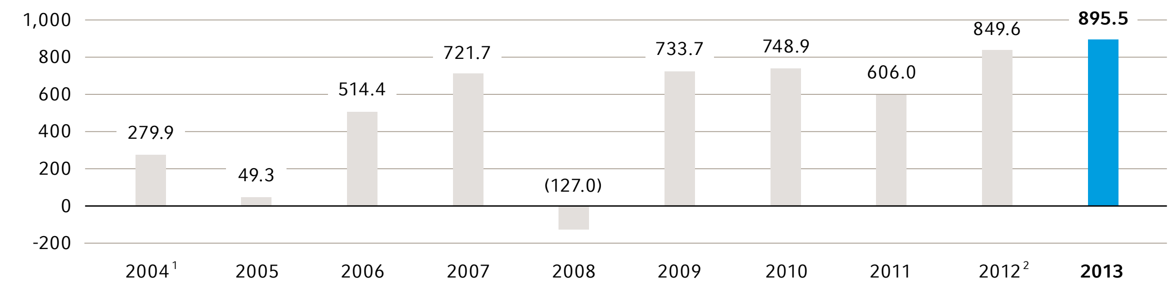
Risk solutions
- Longevity
- Mortality
- Morbidity

An overview

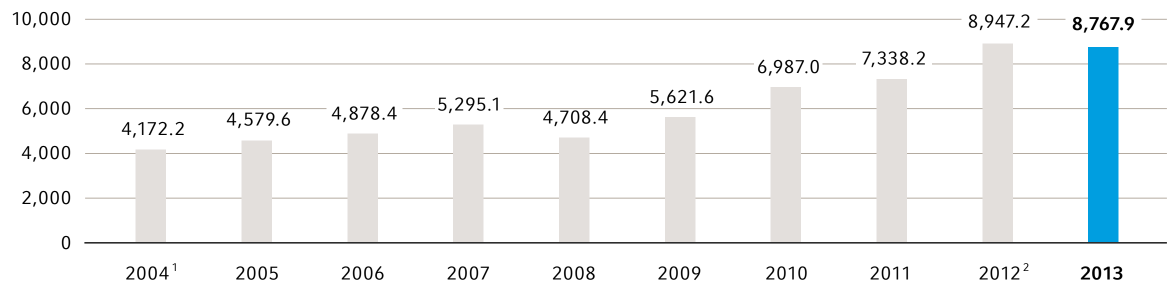
Gross premium
in EUR million



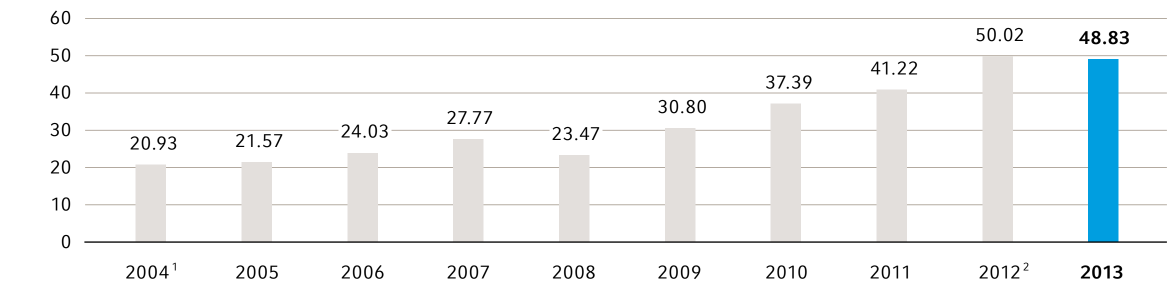
Group net income (loss)
in EUR million



Policyholders' surplus
in EUR million



Book value per share
in EUR



1 Based on US GAAP
2 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)

About us

Hannover Re, with a gross premium of around EUR 14 billion, is the third-largest reinsurer in the world.

We transact all lines of non-life and life and health reinsurance and are present on all continents with around 2,400 staff. The German business of the Hannover Re Group is transacted by our subsidiary E+S Rück.

The rating agencies most relevant to the insurance industry have awarded both Hannover Re and E+S Rück very good financial strength ratings: Standard & Poor's "AA-" (Very Strong); A.M. Best "A+" (Superior).

Contents

For our investors **2**

Letter from the Chairman of the Executive Board 2
Executive Board of Hannover Rück SE 6
The Hannover Re share 10
Our strategy 16

Combined management report **22**

Annual financial statements **125**

Notes **135**

Supervisory Board **230**

Report by the Supervisory Board 230
Supervisory Board of Hannover Rück SE 233

Further information **234**

Branch offices and subsidiaries of the Hannover Re Group abroad 234
Glossary 237
Financial calendar 242
Contact information / Imprint 243

Ulrich Wallin
Chairman of the
Executive Board

Dear Shareholders,
Ladies and Gentlemen,

In the previous year I was able to report here on a record result for 2012. It is now my pleasure to inform you that in the year under review we were again able to very comfortably surpass that performance. Group net income for 2013 reached EUR 895 million, roughly 5 percent higher than the previous best result in the company's history. This was driven by a very good underwriting profit in non-life reinsurance, which improved by a further EUR 63 million on the good level of the previous year. Not only that, net income in both non-life and life and health reinsurance was supported by positive tax effects, which caused the tax expenditure under IFRS accounting to decrease by around 15 percent. The most significant effect here relates to a reduction of the provisions for deferred taxes in connection with the equalisation reserves established under German Commercial Code (HGB) accounting. These two positive components of our net income in the year under review enabled us to very clearly offset the result in life and health reinsurance, which fell short of expectations. Investment income, on the other hand, came in thoroughly reliably within the bounds of our expectations.

Shareholders' equity and the book value per share showed a largely stable development in the year under review. The good result virtually made up for the erosion in the valuation reserves. The return on equity, which at 15.0 percent continues to be well above our minimum target, was also especially pleasing.

After having generated average premium growth in the double-digit percentages since 2009, the pace slowed appreciably in the year under review. Gross written premium increased by just 1.4 percent in our reporting currency (euro) to EUR 14 billion. Adjusted for exchange rate effects, too, the growth of 4 percent fell somewhat short of our expectations. It is pleasing to note, however, that this is not because we have fewer opportunities to write new business, but rather is a reflection solely of our profit-oriented underwriting policy. This is based on our conviction that over the long term a prudent underwriting policy will help to strengthen your company's competitiveness. This is all the more the case in a market environment that is notable for increasingly fierce levels of competition, particularly in non-life reinsurance.

In view of the gratifying development of Hannover Re's business I am delighted to inform you, our valued shareholders, that we intend to distribute another attractive dividend. The Supervisory Board and Executive Board will propose to the Annual General Meeting that you should be paid a dividend of EUR 3.00 per share.

I would now like to explore in greater detail developments in our business groups of non-life and life and health insurance as well as on the investments side.

In non-life reinsurance we were able to maintain the operating profit (EBIT) virtually unchanged on a level in excess of EUR 1 billion, despite a 17 percent decline in investment income. This was made possible above all by the fact that the increase in the underwriting profit comfortably outweighed the contraction in ordinary investment income. The appreciable deterioration in extraordinary investment income, which in the year under review reached a level in line with normalised expectations, was to some extent offset by an improvement in other income. Net income in the non-life reinsurance business group climbed by 18 percent to EUR 808 million, thereby benefiting from the positive tax effect already described above in connection with provisions for deferred taxes.

Increasingly fierce competition was a hallmark of the market environment in non-life reinsurance in the year under review. Most notably, the cash inflow from capital markets for the underwriting of reinsurance risks prompted sometimes considerable rate reductions from the middle of the year under review onwards. Against this backdrop, it was especially important for us to maintain a disciplined focus only on business that could be precisely evaluated and that satisfied our margin requirements. Premium growth consequently contracted markedly relative to the previous year. With a currency-adjusted increase of 3 percent, it nevertheless remained within the bounds of our expectations.

Turning to the major loss situation in the year under review, it should be noted that our domestic German market was disproportionately impacted by the natural catastrophe losses recorded globally. Special reference should be made here to hailstorm "Andreas", the most costly event worldwide for the insurance industry in 2013, as well as to the flood damage in the middle of the year, with Germany the hardest-hit country in Europe. Given that we have a substantially larger market share in our domestic German market than we do worldwide, this resulted in our net burden of major losses rising by EUR 100 million year-on-year to EUR 578 million. At the same time, though, this figure remained below our expectation of EUR 625 million and was therefore comfortably outweighed by the portfolio as a whole. The combined ratio consequently decreased from 95.8 percent in the previous year to the current level of 94.9 percent. It should be borne in mind here that we have retained our highly conservative reserving policy, which means that the confidence level of our loss reserves is likely to have increased further.

Results in our second business group, life and health reinsurance, fell short of expectations in relation to both the operating profit (EBIT) and Group net income. The major reason here is substantial strengthening of the reserves set aside for our Australian disability business. This involves individual disability covers in respect of which the risk experience has deteriorated considerably not just for our company but industry-wide. Although we stopped writing this type of business back in 2009 owing to conditions which continue to be unfavourable for reinsurers, the aforementioned strengthening of our reserves led to an EBIT loss in the order of EUR 100 million in the year under review. Due to the special tax treatment of this business in Australia, this deficit also resulted in us having to show tax income under IFRS. As a further factor, the fair values of our financial assets measured at fair value through profit or loss recorded a negative change of around EUR 40 million compared to the previous year because the performance of the ModCo derivatives normalised at a virtually neutral level.

Aside from these negative effects, our life and health reinsurance portfolio continued to develop well on the whole. Most notably, we made significant advances with an eye to the current and future profitability of the risk-oriented life portfolio acquired from Scottish Re in 2009. On the one hand, we were able to commute by mutual agreement contracts with ceding companies that in the past had been a considerable drag on profitability. What is more, we were also able to sharply reduce the collateral costs for the loss reserves to the benefit of our US subsidiary. Our growing book of business from South America, Scandinavia, Asia and South Africa continued to deliver very positive profit contributions.

The pace of our growth temporarily slowed somewhat in 2013 on account of the complete or partial discontinuation of a number of large-volume treaties in UK longevity business and in US health reinsurance. Despite this, the currency-adjusted growth of 5 percent was in the region of our expectations.

In the face of a market environment that was not without its challenges, we are satisfied with the development of our investments. The portfolio of assets under own management remained on a par with the previous year at around EUR 32 billion. The decreases in the valuation reserves – due to higher interest rates on good-quality government bonds as well as a resurgent euro – and the dividend payment were thus entirely offset by the very positive operating cash flow. It is pleasing to note that the latter is still clearly in excess of EUR 2 billion. Ordinary investment income contracted slightly as expected owing to the protracted low interest rate environment. The reduction of almost EUR 200 million in extraordinary investment income can be attributed chiefly to a normalisation of this item. Not including the ModCo derivatives and inflation swaps, the net return on investments stood at 3.4 percent and thus reached the planned level. Investment income including interest on funds withheld and contact deposits came in at a pleasing EUR 1.4 billion.

The transformation of Hannover Rück AG into a European Company, Societas Europaea (SE), was completed as planned in the year under review. With the entry in the commercial register of Hannover County Court the conversion to the new legal form took effect on 19 March 2013. As already reported, this step reflects the increasingly international dimension of your company and our workforce. It will not give rise to any changes for you.

Permit me, if I may, to conclude by taking a brief look at the current financial year. The basic environment remains challenging in view of stubbornly low interest rates and increasingly intense competition, especially in non-life reinsurance. Yet even in this climate your company is well placed to succeed. Particularly key factors here are our tried and tested business model, which has proven itself over decades, and our recognised very good financial strength. Not only that, we also enjoy a tangible competitive edge through our lower cost of capital and administrative expenses.

In non-life reinsurance we put great emphasis on a disciplined treaty-based underwriting policy. With margins in overall business becoming ever tighter, we can show increasingly scant tolerance for poorly performing treaties. This was already evident in the treaty renewals as at 1 January 2014, when our premium volume contracted by a modest 2 percent.

We expect to see a significantly better result for life and health reinsurance than in the 2013 financial year, which was overshadowed in particular by losses from Australian disability business. Further profitable growth is anticipated above all from Asia, the Arab world and Central and Eastern Europe. We are also looking at growth contributions from Australia, where in some areas we can benefit from sharply improving market conditions, and from the United States as well as from longevity reinsurance, principally in the United Kingdom. All in all, we should be able to move forward on our growth track in life and health reinsurance.

In view of the sustained low interest rate environment the net return on investments under own management is likely to retreat slightly to 3.2 percent. The further stepping up of our investments in real estate should have particularly positive implications for investment income.

For our total business we anticipate a stable to slightly higher gross premium volume in 2014. Group net income for 2014 is expected to be in the region of EUR 850 million. As always, this is conditional upon major losses staying within the expected bounds and assumes that capital markets are spared any distortions.

I would like to thank you, our valued shareholders, most sincerely for your trust – also on behalf of my colleagues on the Executive Board. I would also like to express my appreciation to our employees for their very good work in the year under review. Going forward, as in the past, we shall do everything in our power to continue to successfully grow Hannover Re's business in the years ahead. It is and will remain our goal to increase the value of your company on a sustainable basis.

Ulrich Wallin
Chairman of the Executive Board

Executive Board of Hannover Rück SE

Ulrich Wallin
Chairman
Business Opportunity Management
Compliance
Controlling
Corporate Development
Corporate Communications
Human Resources Management
Internal Auditing
Risk Management

André Arrago
Non-Life Reinsurance
- Treaty Reinsurance worldwide
- Global Catastrophe Business
- Facultative Reinsurance

Claude Chèvre
Life and Health Reinsurance
- Africa
- Asia
- Australia and New Zealand
- Latin America
- Western and Southern Europe

Jürgen Gräber
Coordination of worldwide Non-Life Reinsurance
Quotations Non-Life Reinsurance
Retrocessions
Specialty Lines worldwide
- Marine incl. Offshore Energy
- Aviation and Space
- Credit, Surety and Political Risks
- Structured Reinsurance Products incl. Insurance-Linked Securities
- UK & Ireland and London Market, Direct Business

Dr. Klaus Miller
Life and Health Reinsurance
- North America
- Northern, Eastern and Central Europe
- United Kingdom and Ireland
- Longevity Solutions

Dr. Michael Pickel
Group Legal Services
Run-Off Solutions
Target Markets in Non-Life Reinsurance
- Germany, Italy, Austria, Switzerland
- North America

Roland Vogel
Asset Management
Facility Management
Finance and Accounting
Information Technology

From left to right:
André Arrago, Claude Chèvre,
Dr. Michael Pickel, Ulrich Wallin,
Roland Vogel, Dr. Klaus Miller,
Jürgen Gräber

New vessel sizes and value concentrations in the marine market necessitate precise evaluation of the risk.

Volume of world trade (Cargo)
in USD billion

6.1	14.0	19.1
2001	2007	2013 (expected)

Source: IUMI 2013 London – Cargo Fact Sheet

Navigating risks with foresight

Marine reinsurance is attractive business for Hannover Re. Global trade has increased continuously in recent decades and we expect this growth to be sustained in the years ahead. Taken in conjunction with rising original values and value concentrations, what this trend means for us is a market environment in which our reinsurance solutions constitute desirable products for our clients. In part owing to the major loss expenditures of recent years, our focus is on the risk-appropriate pricing and structuring of our reinsurance business in a highly competitive market. As one of the leading reinsurance providers, we believe that the key to generating profitable results lies in risk selection as well as fair and partnership-based relations with our clients.

The Hannover Re share

- Share price reaches new all-time high of EUR 64.34
- Attractive dividend proposal of EUR 3.00 per share
- Increased need for information owing to rising competition

Global equity markets scale record highs

In 2013 the effects of the Euro debt crisis on capital markets could still be clearly felt. Against the backdrop of a continued expansionary monetary policy on the part of central banks, the stock markets most relevant to our company soared in some cases to all-time highs. The German DAX share index started 2013 at 7,612 points and – aside from taking a few minor breathers – climbed steadily higher. It closed the year with a gain of 25.5% at 9,552 points. The MDAX performed even more strongly, rallying from 11,914 points at the beginning of the year to 16,574 points after twelve months – a gain of 39.1%. Driven by good economic data, the Dow Jones also closed 2013 at a record level of 16,504, equivalent to an increase of 27.6%. The strongest gains, however, were delivered by the Japanese Nikkei, which put on 56.7% to reach 16,291 points – its highest level in six years.

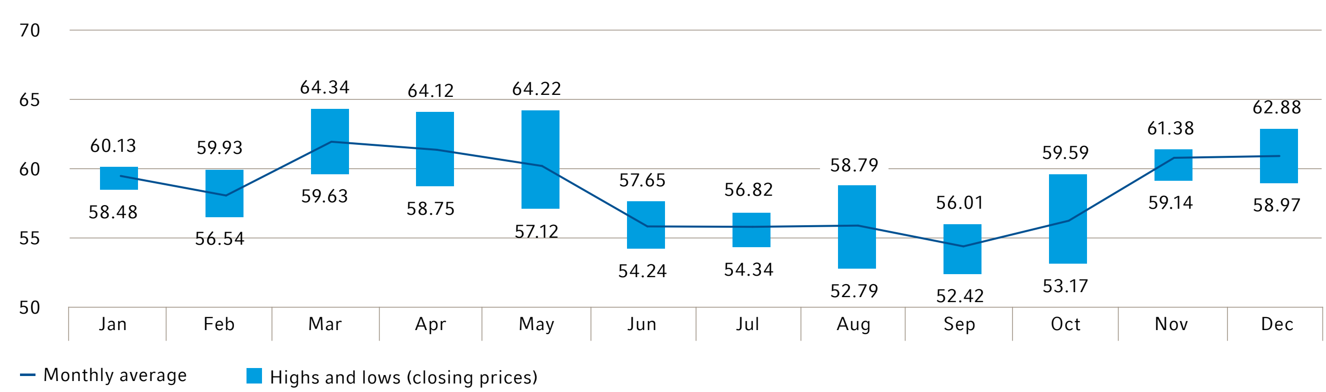
Hannover Re share generates annual return of 11%

The Hannover Re share opened 2013 at EUR 58.96, having significantly outperformed its sector in the prior year with a price gain of 53.8%. Assisted by expectations of another very good result for the financial year, the share fared well in the first quarter to reach its highest point of the year – and at the same time a new record high – of EUR 64.34 on 14 March. The information that came out of the treaty renewals in non-life reinsurance during the year gave indications of growing competitive pressure, especially for coverage of US natural catastrophe risks. These insights prompted uncertainty among investors as to the implications for reinsurers' growth and earnings prospects going forward. Furthermore, heavy overall losses were caused by weather events in Hannover Re's domestic German market towards the middle of the year, while at the same time discussions were ongoing in relation to the effects of the low interest rate environment on the investment return generated by insurers and reinsurers. Against this backdrop the share ultimately sank to its lowest point of the year of EUR 52.42 on 6 September. The price recovery that subsequently set in was driven inter alia by a loss experience that remained within expectations overall as well as by a more intensive dialogue initiated with investors in view of the concerns mentioned above. At the end of the financial year the Hannover Re share was listed 5.8% higher at EUR 62.38, thereby delivering a performance of 11.1% including reinvested dividends.

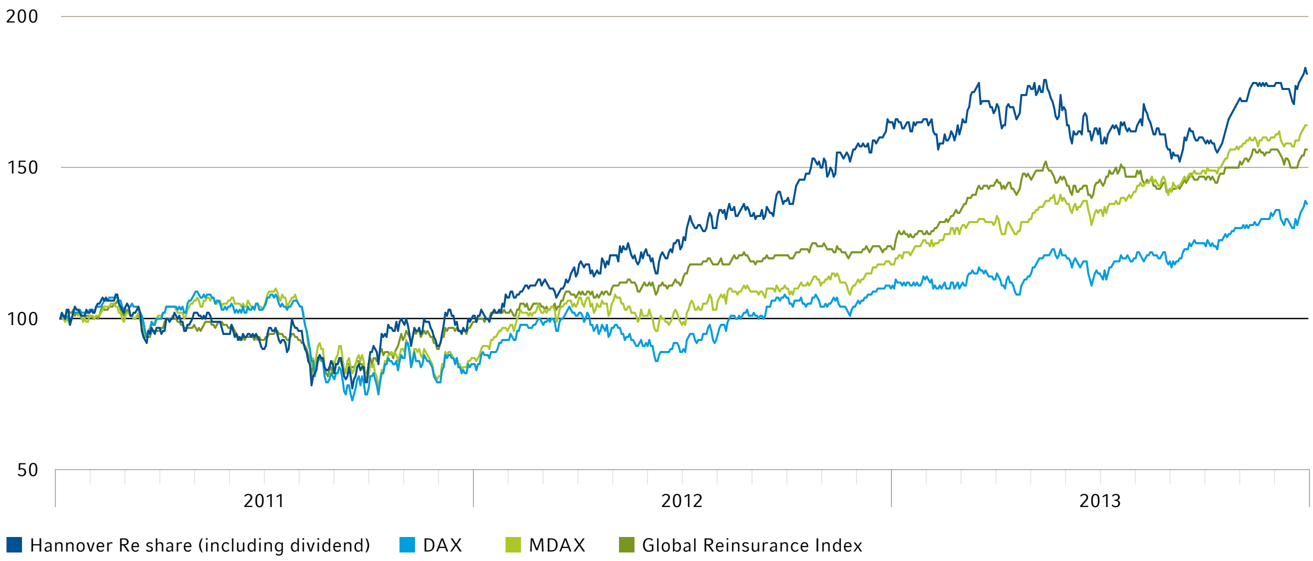
Following on the heels of a stellar performance in the previous year, the share thus fared considerably more poorly over the year than its benchmark indices – the DAX (+25.5%), MDAX (+39.1%) and Global Reinsurance Index (+26.4%).

In a three-year comparison (see chart on the following page) the Hannover Re share delivered a performance (including reinvested dividends) of 81.3%, thereby again clearly beating the DAX (38.2%), MDAX (64.6%) and Global Reinsurance Index (55.7%).

Highs and lows of the Hannover Re share
in EUR



Relative performance of the Hannover Re share
in %



Based on the year-end closing price of EUR 62.38, the market capitalisation of the Hannover Re Group totalled EUR 7.5 billion at the end of the 2013 financial year, an increase of EUR 0.4 billion or 5.8% compared to the previous year's figure of EUR 7.1 billion. According to the rankings drawn up by Deutsche Börse AG, the company placed eighth in the MDAX at the end of December with a free float market capitalisation of EUR 3,659.4 million. Measured by trading volume over the past twelve months, the share came in at number 9 in the MDAX with a volume of EUR 3,039.9 million. The Hannover Re Group thus continues to rank among the 40 largest listed companies in Germany.

With a book value per share of EUR 48.83 the Hannover Re share showed a price-to-book (P/B) ratio of 1.3 at the end of the year under review; compared to the average MDAX P/B ratio of 2.4 as at year-end the share thus continues to be very moderately valued.

Proposed dividend again on a high level

The Executive Board and Supervisory Board intend to propose to the Annual General Meeting on 7 May 2014 that a dividend of EUR 3.00 per share be distributed. The proposed distribution is thus at the upper end of the strategically planned payout ratio of 35% to 40% of Group net income after tax. Based on the year-end closing price of EUR 62.38, this produces a dividend yield of 4.8%.

Annual General Meeting looks back on a successful financial year

The Annual General Meeting of Hannover Rück SE was held on 7 May 2013 in Hannover. Some 600 shareholders, shareholder and bank representatives as well as guests took up the invitation of the Executive Board and Supervisory Board to attend the meeting in the HCC (Hannover Congress Centrum). Altogether, a good 65% of the share capital was represented. In his address to the meeting Chief Executive Officer Ulrich Wallin took the opportunity to look back once more on the financial year just ended, which had passed off exceptionally successfully for Hannover Re. Despite the losses from hurricane "Sandy" the company had generated a new record result. Against this backdrop, the Annual General Meeting unanimously approved, among other things, the proposal of the Executive Board and Supervisory Board regarding distribution of a record dividend in the amount of EUR 2.60 plus a bonus of EUR 0.40.

All voting results and the attendance were published on the company's website following the Annual General Meeting.

Investor relations activities stepped up in response to greater need for information

Given the increasingly competitive market environment in non-life reinsurance Hannover Re noted a greater need for information on the part of investors, especially from the early summer of 2013 onwards. Our travel activities undertaken in response to this demand took us to altogether 14 capital market conferences (previous year: 14) and 18 roadshows (15). Our concentration was once again on the financial centres of Frankfurt and London, which we visited at least once a quarter. Other destinations included Brussels, Geneva, Helsinki, Copenhagen, Lugano, Milan, Paris, Stockholm and Zurich. North America was another special focus of our travels in 2013, which gave us an opportunity to meet interested investors not only in New York and Boston but also in San Francisco, Los Angeles, Montreal and Toronto. Not only that, we profiled ourselves for the first time to Asian investors at a capital market conference in Hong Kong.

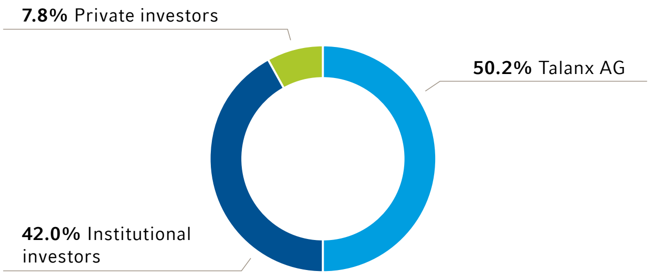
Our 16th Investors' Day was held on 23 October 2013 in Frankfurt/Main. Around 35 analysts and institutional investors took up our invitation to engage in an intensive exchange of views with the Executive Board on the opportunities and risks offered by non-life reinsurance in the current market climate. The discussions focused on, among other things, the inflow of alternative capital into the reinsurance market for US natural catastrophe risks and the resulting intensification of competitive pressure as well as the medium-term strategic challenges facing the company in light of the protracted low interest rate environment.

In addition, in the year just ended we again provided information about our achievements as a responsible enterprise in the form of a stand-alone sustainability report drawn up in accordance with the internationally recognised reporting standards of the Global Reporting Initiative (GRI). Based on this structured reporting format, which was presented for the second year in succession, Hannover Re's sustainability performance was also assessed on a rotating basis at the beginning of the year by the rating agency oekom research. Not only was our fulfilment of the minimum industry-specific requirements confirmed, we were also included in the oekom research Prime Standard. From the standpoint of its sustainability initiatives, Hannover Re is thus ranked as one of the leading companies in the insurance sector.

Stable and well diversified shareholding structure

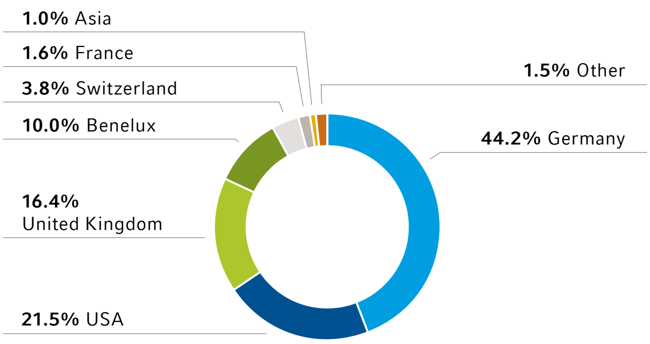
The shareholding structure of Hannover Re was stable in the year under review. The interest held by Talanx AG remained unchanged at 50.2%. The stake held by private investors grew by 0.9 percentage points to 7.8%, while the proportion in the hands of institutional investors decreased to 42.0%.

Shareholding structure as at 31 December 2013



In the course of the year under review there were significant shifts within our free float away from the Benelux countries in favour of Germany and the United States. The proportionate holdings in the Benelux countries thus fell by 7.9 percentage points to 10.0%, while the holdings in Germany and the United States expanded by 5.3 percentage points and 2.1 percentage points respectively, rising from 38.9% to 44.2% and from 19.4% to 21.5%. While the percentage shares attributable to Switzerland and France showed slight increases at 3.8% and 1.6% respectively, the proportionate holding in the United Kingdom decreased to 16.4%. The total shareholding in Asia remained stable year-on-year at around 1%.

Shareholding structure by countries/regions as at 31 December 2013 (free float)[1]



[1] shares outstanding less Talanx holding

Higher analyst expectations despite challenging market environment

In total, around 280 analyst recommendations were published for Hannover Re and the insurance sector in the 2013 financial year. By the end of the year 34 analysts had handed down opinions on Hannover Re: 11 (7) analysts recommended the Hannover Re share as "buy" or "overweight"; altogether 20 (18) opinions were a "hold", making this the most common, while "underweight" or "sell" recommendations were issued a total of 3 (8) times. The analysts' average price target climbed steadily in the course of the year from EUR 56.01 at the outset to EUR 63.18 at year-end.

Basic information

Securities identification number	840 221
International Securities Identification Number (ISIN)	DE 000 840 221 5
Ticker symbols	
Bloomberg	HNR1
Thomson Reuters	HNRGn
ADR	HVRRY
Exchange listings	
Germany	Xetra, Frankfurt, Munich, Stuttgart, Hamburg, Berlin, Düsseldorf, Hannover (official trading: Xetra, Frankfurt and Hannover)
USA	American Depositary Receipts (Level 1 ADR program; 2 ADR = 1 share)
Market segment	Prime Standard
Index inclusion	MDAX
First listed	30 November 1994
Number of issued shares (as at 31 December 2013)	120,597,134
Common shares (as at 31 December 2013)	EUR 120,597,134.00
Share class	No-par-value registered shares

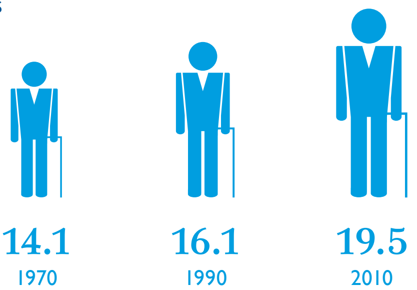
Key figures

in EUR	2013	2012 [1]	2011	2010	2009
Number of shares in million	120.6	120.6	120.6	120.6	120.6
Annual low [2]	52.42	37.355	29.31	30.61	20.64
Annual high [2]	64.34	59.81	43.29	41.38	34.65
Year-opening price [2]	58.96	38.325	40.135	32.71	22.50
Year-ending price [2]	62.38	58.96	38.325	40.135	32.71
Market capitalisation at year-end in EUR million	7,522.8	7,110.4	4,621.9	4,840.2	3,944.7
Equity attributable to shareholders of Hannover Rück SE in EUR million	5,888.4	6,032.5	4,970.6	4,509.0	3,714.4
Book value per share	48.83	50.02	41.22	37.39	30.80
Earnings per share (basic and diluted)	7.43	7.04	5.02	6.21	6.08
Dividend per share	3.00 [3]	2.60+0.40 [4]	2.10	2.30	2.10
Cash flow per share	18.45	21.87	20.92	13.94	14.53
Return on equity (after tax) [5]	15.0%	15.4%	12.8%	18.2%	22.4%
Dividend yield (after tax) [6]	4.8%	5.1%	5.5%	5.7%	6.4%
Price-to-book (P/B) ratio [7]	1.3	1.2	0.9	1.1	1.1
Price/earnings (P/E) ratio [8]	8.4	8.4	7.6	6.5	5.4
Price-to-cash flow (P/CF) ratio [9]	3.4	2.7	1.8	2.9	2.3

1 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)
2 Xetra daily closing prices from Bloomberg
3 Proposed dividend
4 Dividend of EUR 2.60 plus EUR 0.40 bonus
5 Earnings per share/average of book value per share at start and end of year
6 Dividend per share/year-end closing price
7 Year-end closing price/book value per share
8 Year-end closing price/earnings per share
9 Year-end closing price/cash flow (from operating activities) per share

The right provision for retirement is more important than ever now owing to the continuous rise in life expectancy.

Trend for the remaining life expectancy of 65-year-olds in the UK
in years



Sources: Figures based on own calculations. The underlying data comes from the UK Office for National Statistics (ONS) and the HMD (Human Mortality Database).

A long life

Since the Second World War the average life expectancy in the Western world has risen almost continuously for all age groups. The steady increase over recent decades in the average remaining life expectancy – especially among pensioners – has been due in particular to the decline in smoking and advances in treating cardiovascular disorders. This trend, to which there is still no end in sight, is further supported inter alia by improvements in cancer screening and treatment as well as a progressively better understanding of chronic ailments. Going forward, then, we expect the increase in life expectancy to be sustained.

Our strategy

We seek to strengthen and further expand our position as a leading, globally operating reinsurance group, delivering profitability that is above the average for the sector.

We are passionate about reinsurance and chart our own course.

Quick, flexible and independent, we strive for excellence in our actions.

We aspire to be the best option for our business partners when it comes to choosing a reinsurance provider.

Our mission: Growing Hannover Re profitably.

01

Our business model

- Optimise risk diversification across all lines and countries
- Generate an exceptionally high return on equity by reducing the required capital
- Expand primary insurance business in selected niche markets as a complement to our reinsurance activities
- E+S Rück: Rank among the top 2 reinsurers in Germany
- E+S Rück: Maintain or enlarge the number of minority shareholders and cultivate trusting cooperation
- E+S Rück: Expand lead mandates in Life and Non-Life

02

We have ambitious profit and growth targets

- Achieve triple-10 target
- Grow premium volume (by more than the market average)
- Generate profit clearly in excess of the cost of capital
- Generate an IFRS return on equity of at least 750 basis points above the risk-free interest rate
- Outperform Global Reinsurance Index over a three-year period
- Consistently pay an attractive dividend

03

We manage risks actively

- Ensure protection of capital through quantitative and qualitative risk management
- Maximise risk-adjusted profits

04

We are a preferred business partner

- Enhance our clients' commercial success through our services
- Respond undogmatically, flexibly and quickly to the needs of our clients
- Offer standard products as well as specially tailored customer solutions that add value for both contracting parties
- Foster customer relationships to both parties' mutual benefit irrespective of the size of the account
- Safeguard our financial capability
- Systematically seek and explore new business opportunities
- Cooperate across business groups
- Generate additional business opportunities on the basis of Solvency II

For many years now we have reviewed our corporate strategy in a three-year cycle. The present strategy is the product of the review conducted in 2011.

05

We aim for successful employees

- Promote and require a goal-oriented working approach among our staff
- Foster the qualifications, experience and commitment of our staff
- Ensure the greatest possible delegation of tasks, responsibilities and authority
- Offer attractive workplaces
- Manage staff according to our management principles

06

We maintain an adequate level of capitalisation

- Ensure that requirements for equity resources (economic capital model, solvency regulations, etc.) are met
- Optimise composition of the available capital

Our employees contributed to the strategy revision. The high degree of familiarity and insight thereby created is a guarantor of successful execution.

07

We strive for stable investment income

- Take into account the maturities of our liabilities and the liquidity requirements of our business
- Ensure currency matching
- Ensure stability of the return to be generated
- Achieve target return – risk-free interest rate plus the cost of capital

08

We ensure a lean organisation

- Ensure a lower administrative expense ratio than our competitors
- Information and communication systems assure optimal support for business processes in light of cost / benefit considerations
- Achieve efficient processes through excellent process management
- Maintain lean structure and organisation

09

We are committed to sustained compliance

- Ensure conformity with all legal requirements
- Encourage sustainable actions with respect to all stakeholder groups
- Support considered and pragmatic principles of corporate governance and recognise their central role in guiding our activities

10

We strive for Performance Excellence

- Ensure rigorous derivation of strategic objectives across all areas of the company

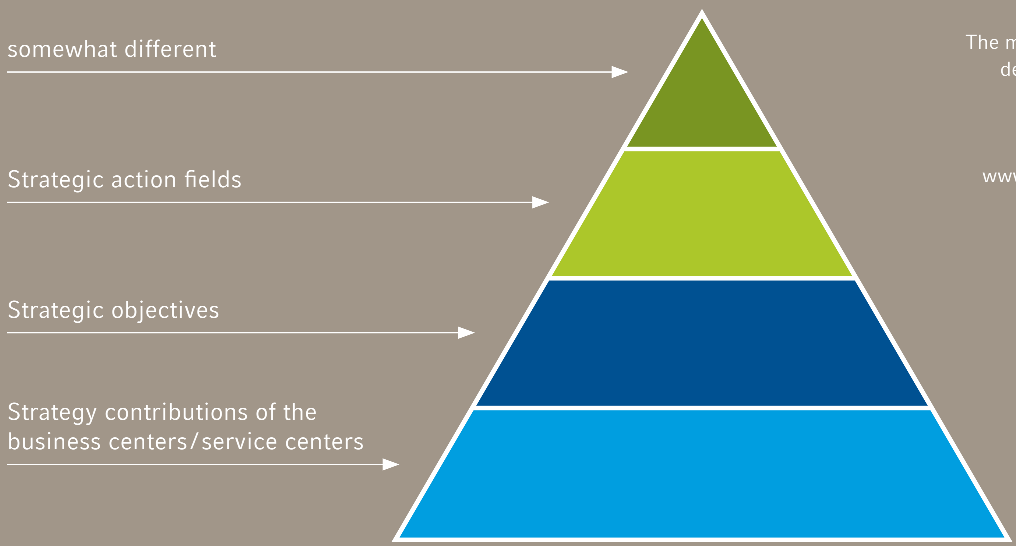
Our strategy in practice

Our strategy encompasses ten strategic principles for ensuring the accomplishment of our mission "Growing Hannover Re profitably" across business units. The orientation of the business groups is guided by these principles, hence enabling them to contribute directly to attainment of the overarching objectives. Implementation takes the form of each organisational unit defining its contribution to goal attainment and aligning its activities and measures accordingly.

This systematic approach is of crucial importance to the execution of our strategy in daily actions. In the context of our holistic management system Performance Excellence 2.0 we align all our activities such that they advance our strategic objectives with a view to successfully implementing our strategy. All organisational units determine substantial strategy contributions to the strategic objectives of the Hannover Re Group. This also includes defining performance criteria and indicators that can be used to establish fulfilment of the relevant strategy contributions.

We have developed a Strategy Cockpit for implementation of the strategy and systematic steering of the target contributions. This Web-based management portal assists managers with the development and implementation of strategy-related measures. We thereby ensure a high degree of transparency within the organisation with an eye to execution of the strategy.

Strategy cascade of Hannover Re



The model enables us to ensure rigorous derivation of the strategic objectives.

For more details of our strategy see our website at: www.hannover-re.com/about/strategy

Passenger kilometres flown worldwide
in billions

2010	2011	2012
4,754	5,150	5,402

Source: ICAO (International Civil Aviation Organization)

Cloudy with sunny periods

The prevailing growth trend in passenger and cargo business is likely to be sustained on the global aviation market. Similarly, the insurance and reinsurance capacities available on the market have also increased. This development, combined with the absence of significant major losses, is putting the premium level under considerable strain. Our long-standing experience, careful risk selection and partnership-based client relationships enable us to maintain our good position even in this market environment.

The increase in passenger volume is boosting demand for aircraft. Over the coming 20 years the worldwide airline fleet is expected to double in size.
Source: Boeing Current Market Outlook 2013–2032

Combined management report

Foundations of the Group	**23**
Business model	23
Management system	24
Research and development	27
Report on economic position	**29**
Macroeconomic climate and industry-specific environment	29
Business development	31
Overall assessment of the business position	33
Results of operations	34
Non-life reinsurance	34
Life and health reinsurance	46
Investments	50
Financial position and net assets	51
Information on Hannover Rück SE	58
Other success factors	**63**
Our staff	63
Sustainability at Hannover Re	65
Opportunity and risk report	**70**
Risk report	70
Opportunity report	92
Enterprise management	**95**
Declaration on Corporate Governance	95
Remuneration report	99
Outlook	**118**
Forecast	118
Events after the reporting date	124

The Group management report was compiled for the first time in accordance with the new German Accounting Standard No. 20 (DRS 20).

Foundations of the Group

Business model

- As the third-largest reinsurer in the world, we transact all lines of non-life and life and health reinsurance with the goal of achieving the most balanced possible regional and product-specific diversification
- Through our global presence and infrastructure we are able to optimally respond to the needs of our clients
- Centralised risk management and risk steering ensure consistent underwriting decisions
- Effective capital management through the efficient use of hybrid capital, securitisations and retrocessions
- Lean structures enable us to maintain one of the lowest administrative expense ratios in our industry

With a gross premium volume of around EUR 14.0 billion, Hannover Re is the third-largest reinsurer in the world. We transact reinsurance in our business groups of non-life and life and health reinsurance. Through our worldwide presence (see section "Branch offices and subsidiaries of the Hannover Re Group abroad", page 234 et seq.) and our activities in all lines of reinsurance we achieve optimal risk diversification while maintaining a balanced opportunity/risk profile. Most significantly, diversification into both the non-life and life and health reinsurance business groups enables us to effectively deploy our capital and is thus crucial to our ability to achieve an exceptionally high return on equity.

Our lean structures enable us to maintain one of the lowest administrative expense ratios in the reinsurance industry.

As a reinsurance specialist, we transact primary insurance business as a complement to our reinsurance activities in selected niche markets. In this context, we work together with partners from the primary sector, just as we do in our reinsurance business.

Our subsidiary E+S Rückversicherung AG, as the "dedicated reinsurer for the German market", offers a range of products and services focused on the peculiarities of the German market – especially for those mutual insurers with whom we have established a particularly trusting cooperation that is underscored through their participation in E+S Rück.

The business models in both non-life and life and health reinsurance support our higher-level Group mission of "Growing Hannover Re profitably". This includes, among other things, our aspiration to be the best option for our business partners when they come to choose their reinsurance partner. It is for this reason that our clients and their concerns form the focus of our activities.

In the non-life reinsurance business group we consider ourselves to be an undogmatic, flexible and innovative market player that ranks amongst the best in any given market.

Thanks to our worldwide presence and infrastructure, our organisational approach is optimally geared to customer and market requirements; working together with our client, it enables us to act on specific business opportunities. With our three pillars of target markets, specialty lines and global reinsurance, we are in a position to successfully meet individual client and market needs.

Central risk steering in combination with local talent is the key to our success. In markets where an on-the-spot presence opens up additional profit opportunities we write business through local branches and subsidiaries. Risk management functions are, however, always exercised centrally. These include, for example, capital allocation, resource planning, retrocessions and the use of capital market instruments. These centrally exercised risk steering functions serve the goals of maintaining consistent underwriting decisions, facilitating the maximum allocation of capacity and efficiently deploying resources, underwriting know-how and capital.

In the life and health reinsurance business group Hannover Re has established itself as one of the major professional, globally operating reinsurers that combines sophisticated solution models with a long-term, partnership-based approach.

At the core of our activities is a customer orientation that stresses the cultivation of mutually beneficial profit and growth opportunities. This includes the provision of reinsurance solutions for risk management as well as those featuring financing and/or capital management components together with the associated services – by which we mean, inter alia, the optimisation of processes, access to global expertise and the acceleration of new business growth, always individually tailored to the needs of our customers.

In life and health business we are represented on every continent by 23 units in 19 countries around the world and we offer reinsurance protection in all lines of life and health reinsurance. Our portfolio covers all traditional risks such as mortality, morbidity and longevity. Within the business group we strive for a balance between these risks so as to ensure diversification among them.

Our potential clients include not only life and health insurers but also banks, sales companies and pension funds. Thanks to our decentralised approach our customers enjoy the benefits of advice and support provided on the spot in their own language.

This local approach furthers our aspiration to be the preferred business partner for our customers. In view of the long duration of contracts, we consider close and trusting cooperation with our clients to be a fundamental element of a successful business relationship.

Management system

Value-based management

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

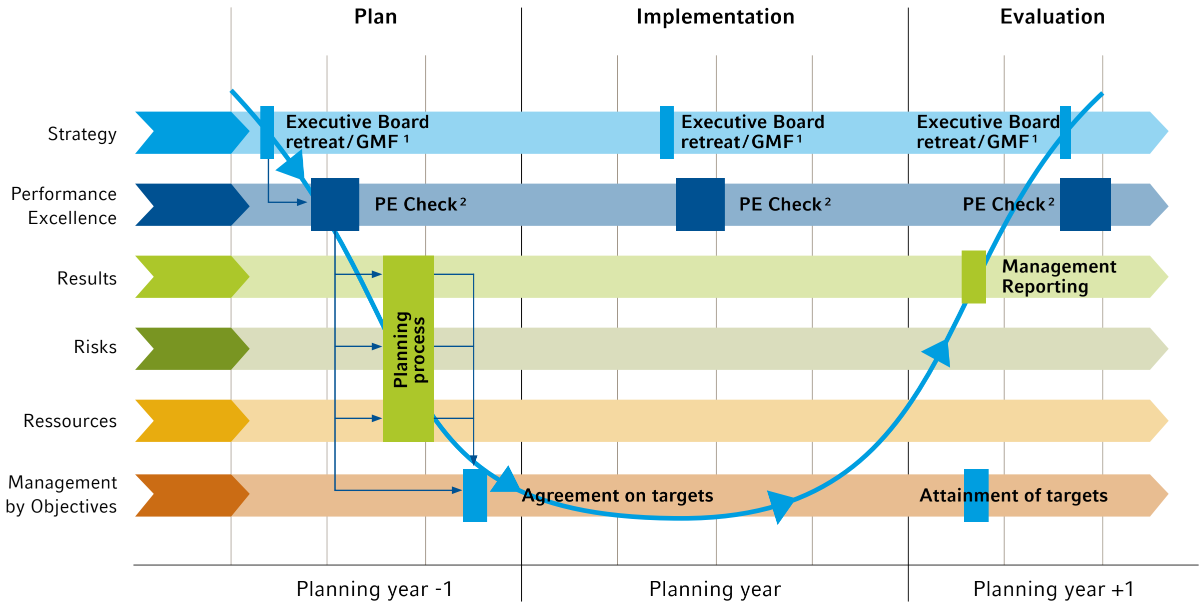
Target attainment

Business group	Key data	Targets for 2013	Target attainment			
			2013	2012 [1]	2011	Ø 2011–2013 [2]
Group	Investment return [3]	≥ 3.4%	3.4%	4.1%	4.1%	3.9%
	Return on equity	≥ 9.8% [4]	15.0%	15.4%	12.8%	13.9%
	Growth in earnings per share (year-on-year comparison)	≥ 10%	5.4%	41.6%	-19.1%	6.2%
	Value creation per share [5]	≥ 10%	3.6%	19.4%	12.0%	11.1%
Non-life reinsurance	Gross premium growth [6]	3–5%	3.5%	9.3%	9.4%	7.3%
	Combined ratio	≤ 96% [7]	94.9%	95.8%	104.3%	98.1%
	EBIT margin [8]	≥ 10%	15.5%	15.9%	10.1%	14.0%
	xRoCA [9]	≥ 2%	5.4%	6.0%	3.0%	4.9%
Life and health reinsurance	Gross premium growth [10]	5–7%	5.1%	9.8%	5.2%	6.7%
	Value of New Business (VNB) growth	≥ 10%	-1.6%	30.3%	61.2%	27.4%
	EBIT margin [8, 11] Financial Solutions/Longevity	≥ 2%	5.2%	5.0%	5.5%	5.2%
	EBIT margin [8, 11] Mortality/Morbidity	≥ 6%	1.2%	5.2%	3.9%	3.4%
	xRoCA [9]	≥ 3%	8.3%	-1.3%	0.9%	2.9%

1 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)
2 Average annual growth, otherwise weighted averages
3 Excluding inflation swaps and ModCo derivatives
4 750 basis points above the 5-year average return on 10-year German government bonds after tax
5 Growth in book value per share including dividends paid
6 Average over the reinsurance cycle at constant exchange rates
7 Including major loss budget of EUR 625 million
8 EBIT/net premium earned
9 Excess return on allocated economic capital
10 Organic growth only; annual average growth (5 years); at constant exchange rates
11 Reclassification of treaties

With a view to allocating our profit and growth targets for the Group and its business groups to the individual business activities and profit centres on a basis that adequately reflects the risks and in order to be able to measure target attainment, we have for many years now used various value-based management tools that are integrated into our corporate processes.

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



1 All managers of the Hannover Re Group worldwide come together once a year at the Global Management Forum (GMF) to define strategic orientations. The parameters developed here serve as the basis for the subsequent planning process

2 Verification and elaboration of contributions to the Group strategy

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

Planning process

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

Management by Objectives

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

Management Reporting

The annual Management Reporting presents in detail the degree of target attainment for each individual operational unit and for the Group as a whole. On this basis appropriate performance controlling is carried out, potential scope for improvement and refinement is identified and performance-oriented remuneration components defined in the context of Management by Objectives are established.

Capital allocation

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

IVC – the decisive management ratio

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

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

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

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

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

Intrinsic Value Creation and excess return on capital allocated

in EUR million	2013		2012			
	IVC	xRoCA	Reported IVC	Adjustment[1]	Final IVC	xRoCA
Non-life reinsurance	295.5	+5.4%	251.8	40.5	292.2	+6.0%
Life and health reinsurance	226.6	+8.3%	58.6	(89.4)	(30.8)	-1.3%
Investments[2]	108.6	+6.2%	790.7	(29.3)	761.4	+49.4%
Group	617.1	+5.9%	1,088.8	(78.0)	1,010.8	+10.8%

1 Adjustment based on amended allocation of economic effects (non-life reinsurance/investments) and final MCEV calculation (life and health reinsurance)
2 Income above risk-free after deduction of risk-appropriate cost of capital

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

In calculating the cost of capital, our assumption – based on a Capital Asset Pricing Model (CAPM) approach – is that the investor's opportunity costs are 450 basis points above the risk-free interest rate, meaning that value is created above this threshold. Our strategic return on equity target of 750 basis points above risk-free thus already contains a not insignificant target value creation. We allocate equity sparingly and use equity substitutes to optimise our average cost of capital. At 6.4%, our average cost of capital is comparatively low.

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

Operational management system

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

Research and development

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

When it comes to research into natural perils, Hannover Re sponsors a number of different initiatives. Particularly noteworthy here is the OECD's "Global Earthquake Model" (GEM) initiative. Since 2009 we have been a sponsor and active supporter of the GEM Foundation (www.globalquakemodel.org), which works to develop models for earthquake risks around the world. The goal of this public/private partnership is to develop freely accessible worldwide earthquake risk models that will help to raise risk awareness and motivate preventive actions, e.g. by improving the earthquake safety of buildings. For Hannover Re, participation in this work not only facilitates expansion of the available risk assessment models but also opens up direct contacts with the scientific community.

Reinsurance business is founded on the comprehensive understanding and active management of risks. Our specialists therefore continuously analyse known risks with an eye to changes in their structure and probability of occurrence, while at the same time focusing on the early detection of newly emerging risks and working to provide our clients with appropriate solutions tailored to their needs (cf. here also the Opportunity report on page 92 et seq.).

In 2013 Hannover Re developed, inter alia, innovative concepts for coverage of weather-related risks and renewable energies with its partner WetterProtect and subsequently launched them on the market in cooperation with primary insurance partners. In the former case, solutions targeting specific sectors were designed for a clientele heavily dependent on weather conditions. These products protect customers against the vagaries of nature and hence give them greater certainty for planning purposes. In addition, an insurance product was developed to protect providers of energy-efficient measures against a failure to deliver the promised level of energy savings. This solution can play a decisive part in promoting greater investment in energy-efficiency and hence make a meaningful contribution to reducing energy consumption.

After several delays the implementation of Solvency II, the new prudential regime for insurance undertakings, is now imminent and continues to preoccupy clients of Hannover Re with regard to the possible implications for their capital requirements. Within its structured reinsurance line (Advanced Solutions) Hannover Re designs bespoke solutions that are tailored to the individual needs of its clients. A simplified QIS 5 tool was developed, for example, to facilitate analysis of the effect of reinsurance solutions on the Solvency II capital requirements of insurers according to the standard formula.

"Development work" on the life and health reinsurance side has many facets. Given that the assessment of biometric risks is of fundamental and essential importance to our company, Hannover Re invests continuously in expanding the specialist expertise that produces new and enhanced reinsurance solutions. We have, for example, concentrated and refined our know-how in the area of longevity risks. We are able to offer novel derivative solutions for this type of risk that bring considerable capital relief to ceding clients and companies. Furthermore, we are currently working on a new version of our IT-based underwriting tool. We shall then make this improved software, which has undergone thorough conceptual reworking, available to our customers for their automated underwriting processes. The advantages of the new system are efficiency gains and expanded underwriting know-how. Our goal is to develop sustainable solutions for our clients that take adequate account of the latest trends. The focus of our development efforts is not only on innovative products, such as so-called lifestyle products; we also seek opportunities to assist our customers with the cultivation of new markets or sales channels.

Report on economic position

Macroeconomic climate and industry-specific environment

- Economic activity still muted despite increased stability on capital markets
- Protracted low interest rate environment a challenge for life (re)insurers
- Progress in the implementation of Solvency II framework directive
- Unusually heavy losses from weather-related disasters in Europe

Macroeconomic climate

While the global economic recovery continued in 2013 with growth of 2.9% (previous year: 3.1%), it remained muted and varied from region to region. For the first time in four years advanced economies were the driving force. Assisted by an expansionary monetary policy, the United States and United Kingdom saw further debt reduction in the private sector. Europe also benefited from a more open fiscal policy. The uncertainty surrounding the continued existence of the single currency area receded slightly. In Japan, too, the economy began to gather momentum again.

In emerging markets, on the other hand, economic growth was more restrained, although the pace of growth in China picked up again after a slow start to the year. Major emerging economies such as Brazil, India, Indonesia, South Africa and Turkey experienced a softer phase in 2013. Along with structural difficulties, they were faced with an increased exodus of foreign capital. This caused refinancing conditions to deteriorate by the middle of the year, putting currencies in these countries under pressure.

USA

The US economy continued to fare well despite application of the fiscal brake and the temporary government shutdown: according to figures from the Kiel Institute for the World Economy (IfW), gross domestic product (GDP) rose by 1.6% in 2013 (2.8%). Although the automatic spending cuts that took effect in March curtailed growth in the year just ended, consumer demand nevertheless remained relatively robust as gradual improvement in the financial position of private households supported investment in residential construction and private consumption. This trend was fostered by favourable financial framework conditions. Private-sector capital investments rose and exports also grew. The expansionary fiscal policy pursued by individual states and municipalities more than offset the lower spending on the federal level. Even though consumer confidence indicators retreated in the final quarter and the business climate was softer in some areas, the trend at the end of 2013 was clearly towards growth.

Europe

By the middle of the year the Eurozone economy was able to move out of the protracted recession that had lasted more than twelve months. This development was encouraged by the easing of fiscal policy and implementation of the OMT (Outright Monetary Transactions) programme by the European Central Bank (ECB). Since October 2012 this scheme has served to safeguard at no expense sovereign bonds issued by crisis-ridden countries, thereby easing their cost of borrowing and helping them to raise new debt.

Yet the single-currency economy remains in a poor state: the situation continues to vary greatly among the individual Member States. High levels of private and public debt have left many national economies vulnerable to upheavals of crisis-like dimensions. Greece, Italy, Portugal and Spain, above all, have still failed to regain their competitiveness, even though the risk situation here with respect to troubled loans has improved appreciably. According to IfW calculations, GDP in the Eurozone contracted by 0.4% in 2013 (-0.7%).

Germany

In Germany the expansion in total economic output – which had been temporarily interrupted by the heightened Eurozone debt crisis – continued. Yet the anticipated economic upswing failed to materialise. Growth for 2013 was put at 0.4% (0.7%) by the IfW. The forces at work here are, however, changing: while momentum in the recovery phase after the financial and economic crisis predominantly came from exports, the spotlight moved to the domestic economy in the year just ended. Low unemployment, higher earnings and a low interest rate level encouraged private consumption and drove home construction.

Foreign trade, on the other hand, was weaker in 2013: owing to comparatively soft demand from the Eurozone, growth in German exports was slower than the pace seen in world trade. With a working population of 41.78 million (+0.6%), the number of people in Germany with a job reached a new record high for the seventh year in succession.

Asia

Economic growth in Asia's emerging markets was again muted. Aside from the lack of demand stimuli from the more advanced economies, domestic economic difficulties increasingly made themselves felt. In China the tendency towards more moderate economic expansion continued. After a weaker first six months the economy picked up momentum over the rest of the year, as reflected in the IfW's growth figure of 7.5% for the full year (7.8%). This rally was, however, crucially driven by a stimulus programme launched at short notice. Faced with the ever-greater challenge of maintaining its high pace of growth, China unveiled an economic reform project in November that recognises the more significant role played in the economy by market forces and the non-public sector. The Indian economy, currently languishing in a period of weakness, boosted its growth to 4.0% thanks to a vigorous spurt at year-end and hence climbed back to the level seen in 2012 (3.7%).

In Japan the economy regained momentum in 2013. Thanks to powerful stimuli provided by monetary and fiscal policy as well as the markedly improved price competitiveness of Japanese producers on the back of massive currency devaluation, GDP moved sharply higher in the first half of the year. It did, however, soften again towards year-end – as had been the case in the previous year too.

Capital markets

The effects of the Euro debt crisis on capital markets could still be clearly felt in 2013 and central banks continued to pursue an expansionary monetary policy in our main currency areas. The ECB, for example, cut its main rate for the Eurozone twice during the year from a starting point of 0.75% to the current 0.25%; the US Federal Reserve left key interest rates unchanged in the low range of zero to 0.25%, the level on which rates have been since 2008. Over the full year US, German and UK government bonds recorded sometimes marked yield increases in virtually all maturity segments. The yield on ten-year German government bonds, for example, climbed from 1.3% to 1.9% in the course of the year; ten-year US treasury bonds saw an even sharper rise from 1.7% to 3.0%. These increases were supported not only by market expectations concerning the Fed's gradual pullback from its active market interventions but also by improved or at least stabilised macroeconomic prospects for the US and Europe. As regards those European countries with higher risk premiums which had become the focus of so much attention, the picture was almost uniformly one of recovery. On the other hand, credit spreads on corporate bonds in our main currency areas decreased somewhat as the year progressed, although greater volatility could be observed here in the spring of 2013 as discussions got underway about Federal Reserve policy going forward. The yield increases that ultimately ensued were, in the final analysis, fed primarily by the interest rate component.

Major stock markets soared in some cases to historic highs and recorded substantial price gains over the year. This, too, was a reflection of the continued expansionary monetary policy practised by central banks as well as of the quest by investors for high-yield investments. Such price movements can, however, be only partially explained by isolated indications beginning to emerge from the real economy. Global economic developments nevertheless continue to be subject to a variety of uncertainties and risks.

Despite fluctuations during the year the euro ultimately closed slightly higher against the US dollar and pound sterling year-on-year. The gains against the Australian and Canadian dollars, on the other hand, were significant.

For detailed remarks on the development of Hannover Re's investments please see the "Investments" section on page 50 et seq.

Industry-specific environment

The continuing tense economic climate and the accompanying measures on the economic policy side again determined conditions for the international insurance industry in 2013: given that the state of capital markets remains challenging, particularly high importance attaches to preserving the value of investments and the stability of returns. Sales of traditional life insurance policies were also impacted by the low interest rate environment; at the same time, though, growing demand is emerging for products geared towards this market environment. In 2013 this could be discerned, inter alia, in the increasing demand for products designed to deliver capital relief and improve solvency.

The interest rate situation was also reflected overall in the technical pricing of premiums on the primary and reinsurance markets. Considerable discipline was needed in order to be able to offset further declines in investment income. In this regard new (re)insurance capacity has also entered the insurance-linked securities (ILS) market, with the result that additional alternative capital met with unchanged demand. The pressure on prices and conditions, especially in natural catastrophe business, consequently intensified further.

Implementation of the Solvency II framework directive was again a central preoccupation in the year just ended. Although the financial market and a prolonged low interest rate environment made the introduction of this system of insurance regulation difficult in its originally envisaged form, another major step forward was taken in 2013. In order to overcome the obstacles the European Parliament, European Council and European Commission reached a compromise in November 2013. The amendments that were negotiated are to be adopted in the spring of 2014 by way of the Omnibus II directive and then implemented in national law by March 2015. Especially with respect to the widely discussed assessment of long-term guarantees, which are a vital component for the life insurance sector, key details were elaborated that, most notably, give companies greater security in their planning.

Europe suffered exceptionally heavy damage from weather events in 2013. The June flooding was the most expensive natural disaster for the (re)insurance industry measured in terms of total economic losses. The most costly insurance loss worldwide in 2013 – and at the same time the most expensive ever hail event in German history – was the series of hailstorms that impacted some areas of northern and south-western Germany at the end of July. While the hurricane season in North America once again passed off very quietly, typhoon Haiyan triggered a major humanitarian catastrophe in the Philippines. The losses for the insurance industry in this case were, however, relatively slight owing to the very low insurance density.

Business development

- New record profit of EUR 895.5 million generated
- Performance assisted by additional positive tax effects
- Best result ever posted in non-life reinsurance
- Major loss incidence slightly below the expected level
- Capital base remains robust
- Return on equity 15.0%

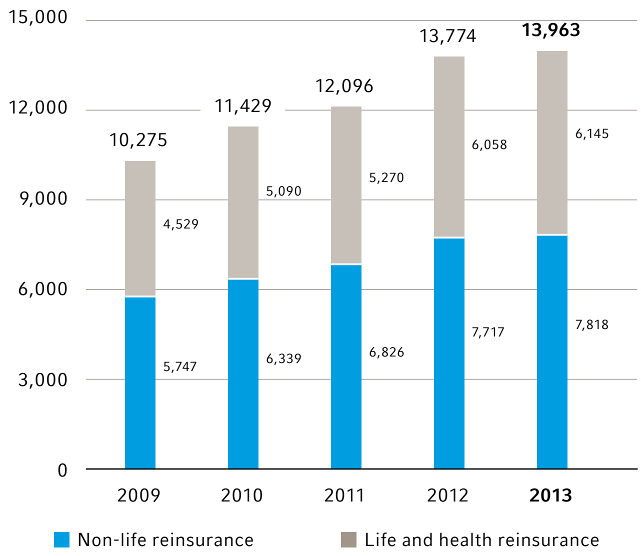
For Hannover Re the 2013 financial year was a pleasing one despite challenging market conditions. At EUR 895.5 million we generated the highest Group net income to date in the history of Hannover Re. Although this figure was assisted by positive tax effects from the recognition of deferred taxes, we would have surpassed our guidance of around EUR 800 million even without this effect. Please find below a brief summary of the development of our business groups – non-life and life and health reinsurance – and of our investments. More detailed information is to be found on pages 34 to 51.

Non-life reinsurance

We were highly satisfied with the development of our business in non-life reinsurance, even though competition continued to intensify relative to the previous year. Despite our selective underwriting policy we were able to further enlarge our premium volume. Gross premium increased by 1.3% as at 31 December 2013 to EUR 7.8 billion (previous year: EUR 7.7 billion). At constant exchange rates growth would have amounted to 3.5%. We thus came in within our forecast target of 3% to 5% for the full financial year.

Investment income from assets under own management for non-life reinsurance contracted by 17.7% year-on-year to EUR 766.2 million (EUR 930.8 million). This was due in part to the low interest rate level and also to the elimination of positive special effects, which in 2012 had resulted from higher realised gains and the gratifying fair value development of the inflation swaps. The operating profit (EBIT) of EUR 1,061.0 million fell only slightly short of the previous year's result (EUR 1,091.4 million). The underwriting result was thoroughly pleasing. The combined ratio improved on the previous year's good level of 95.8% to reach 94.9%. The EBIT margin of 15.5% came in comfortably above our strategic target of 10% and reflects the outstanding result in non-life reinsurance. Group net income increased by 17.8% to EUR 807.7 million (EUR 685.6 million) and is thus the best performance to date in non-life reinsurance in Hannover Re's history.

Gross premium by business group
in EUR million



Life and health reinsurance

Despite the generally tense state of the life (re)insurance market, business developed moderately in life and health reinsurance in the year under review. Gross premium volume increased by 1.4% to EUR 6.1 billion (EUR 6.1 billion). Adjusted for exchange rate effects, growth amounted to 5.1%; it thus came in within the forecast target corridor for 2013 of 5% to 7%.

Investment income in life and health reinsurance totalled EUR 611.5 million (EUR 685.1 million) in the year under review. Of this, EUR 269.1 million (EUR 343.4 million) was attributable to assets under own management and EUR 342.4 million (EUR 341.7 million) to securities deposited with ceding companies. The decline of 10.7% in investment income reflects the stubbornly low interest rate level and the difficult investment climate on capital markets. As a further factor, the performance of the Modified Coinsurance (ModCo) derivatives reverted to normal after the very positive result posted in the previous year.

The operating profit (EBIT) of EUR 150.5 million (EUR 279.0 million) lagged well behind the level of the previous year. It should be borne in mind here that the previous year's result had been influenced by positive special effects that were not repeated in the year under review. In addition, we strengthened reserves for our Australian disability business in the reporting period. The fact that we nevertheless delivered a solid performance for 2013 shows that even in challenging conditions our written portfolio generates profitable results.

Our Financial Solutions and Longevity business fared exceptionally well, generating an EBIT margin of 5.2% and thus comfortably beating the 2% target. The EBIT margin for Mortality and Morbidity business fell well short of the targeted 6% mark at 1.2%. This was influenced by the unfavourable performance of Morbidity business; considered separately, Mortality business would have actually surpassed the target. The elevated risk experiences market-wide in Australian disability business and the deterioration in their run-off were the key factors in the unsatisfactory development of the EBIT margin. The Australian market has since initiated intensive efforts to positively counteract this trend.

These to some extent opposing developments resulted in reduced Group net income of EUR 164.2 million (EUR 222.5 million) for life and health reinsurance. Earnings per share amounted to EUR 1.36 (EUR 1.84).

Investments

We are satisfied with the development of our total investments. Thanks to what was still a highly positive operating cash flow, the portfolio of investments under own management amounted to EUR 31.9 billion and thus remained on a par with the previous year (EUR 31.9 billion) despite the decrease in valuation reserves. Bearing in mind the continued low level of interest rates, it is very pleasing to note that ordinary investment income excluding income from funds withheld and contract deposits remained virtually unchanged at EUR 1,041.3 million (EUR 1,088.4 million).

Overall, our income from assets under own management contracted year-on-year as expected: it totalled EUR 1,054.5 million (EUR 1,300.2 million) as at 31 December 2013. The resulting annual return (excluding ModCo derivatives and inflation swaps) amounted to 3.4% (4.1%). The decrease relative to the previous year can be attributed in part to the net realised gains, which at EUR 144.2 million (EUR 227.5 million) were considerably lower than in the previous year – when we had acted to a greater extent on opportunities in the real estate sector. On the other hand, in the previous year we had recorded exceptionally high positive fair value changes of EUR 89.3 million in our financial assets measured at fair value through profit or loss; these contrasted with a negative fair value change of EUR 27.1 million as at 31 December 2013, which was attributable primarily to the performance of the inflation swaps. This was only partially offset by the marginally positive result of the ModCo derivatives.

Write-downs were again taken in only a minimal volume in the year under review, the bulk of them being due to scheduled depreciation on real estate. Income from funds withheld and contract deposits remained stable at EUR 357.3 million (EUR 355.5 million).

Total result

The gross premium in our total business increased by 1.4% as at 31 December 2013 to EUR 14.0 billion (EUR 13.8 billion). At constant exchange rates the increase would have been 4.2%. The growth rate in a fiercely competitive environment was thus somewhat below our forecast, which had anticipated around 5%. The level of retained premium decreased slightly to 89.0% (89.8%). This resulted principally from increased reinsurance cessions for fronting business written for third parties. Net premium earned remained almost unchanged at EUR 12.2 billion (EUR 12.3 billion). At constant exchange rates growth would have come in at 2.3%.

We are exceptionally satisfied with the development of our results. Although the operating profit (EBIT) retreated by 11.8% following the elimination of positive effects from fair value changes in the ModCo derivatives and inflation swaps, it still reached a very good level at EUR 1,229.1 million (EUR 1,393.9 million). Despite a generally challenging environment in the reinsurance sector and faced with stubbornly low interest rates, we generated the highest Group net income in the history of Hannover Re at EUR 895.5 million. The crucial factors here were a thoroughly pleasing result in non-life reinsurance and the aforementioned special tax effects. Earnings per share amounted to EUR 7.43 (EUR 7.04).

The equity attributable to shareholders of Hannover Re also developed favourably in the year under review: while erosion of the valuation reserves due to rises in yields – especially on high-quality government bonds – and payment of an increased dividend in the second quarter led to a slight reduction in shareholders' equity, the return on equity of 15.0% (15.4%) nevertheless comfortably surpassed our minimum target of 9.8% (750 basis points above the risk-free interest rate). The shareholders' equity as at 31 December 2013 amounted to EUR 5.9 billion (EUR 6.0 billion). The book value per share was also positive at EUR 48.83 (EUR 50.02). The total policyholders' surplus, consisting of shareholders equity, non-controlling interests and hybrid capital, amounted to EUR 8.8 billion (EUR 8.9 billion).

Business development in the year under review

	Forecast 2013	Target attainment 2013
Gross premium growth (Group)	≈ +5% [1]	+4.2% at constant exchange rates +1.4% not adjusted for currency effects
Gross premium growth for non-life reinsurance	≈ +3–5% [1]	+3.5% at constant exchange rates +1.3% not adjusted for currency effects
Gross premium growth for life and health reinsurance	≈ +5–7% [1,2]	+5.1% at constant exchange rates +1.4% not adjusted for currency effects
Return on investment [3]	≈ 3.4%	3.4%
Group net income	≈ EUR 800 million [4]	EUR 895.5 million

1 At constant exchange rates
2 Organic growth only
3 Excluding inflation swaps and ModCo derivatives
4 Assuming stable capital markets and/or major loss expenditure in 2013 that does not exceed EUR 625 million

Overall assessment of the business position

The Executive Board of the Hannover Re Group is satisfied with the development of business in 2013. The company surpassed its goals, such as those for Group net income, return on equity and combined ratio. Although investment income declined owing to the sustained low level of interest rates, it is pleasing to note that the targeted return on investment was achieved in the reporting period. Indeed, Group net income actually came in significantly higher than planned. This performance is particularly gratifying in view of the challenging business environment. Despite sharply lower valuation reserves in the investment portfolio and the distribution of an attractive dividend including a bonus, Hannover Re's shareholders' equity remains robust. At the time of preparing the management report, the company's business position and its financial strength continue to be very good.

Results of operations

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

Non-life reinsurance

- Highest-ever Group net income of EUR 807.7 million
- Major losses slightly below expectations at EUR 577.6 million
- Pleasing combined ratio of 94.9%
- Currency-adjusted premium growth of +3.5% according to plan

Accounting for 56% of our premium volume, non-life reinsurance is Hannover Re's largest business group. We continue to pursue unchanged our strategy of active cycle management: we expand our business only in areas where the rate situation is favourable. If prices fail to meet our profitability requirements, we systematically reduce our shares.

We were broadly satisfied with the market development in non-life reinsurance in the year under review, although competition was considerably more intense than in 2012. The primary reason here was the availability of sufficient capacity in the market overall, as a consequence of which the supply of reinsurance protection exceeded demand. A further contributory factor was the increased business carried by our clients in their retention.

The treaty renewals in non-life reinsurance as at 1 January 2013 – the date on which almost two-thirds of our treaties in traditional reinsurance were renegotiated – got off to a thoroughly promising start. The heavy losses incurred by the (re) insurance industry from hurricane "Sandy" had exerted a stabilising effect on rates. Over the year, however, the rate level softened more appreciably than had been initially expected. This was especially true of US natural catastrophe business. Substantial price erosion was observed here, driven in part by additional capacities from alternative markets (catastrophe bonds, collateralised reinsurance). Given that Hannover Re's exposure to US natural catastrophe business is disproportionately small relative to its market share, the repercussions were nevertheless limited.

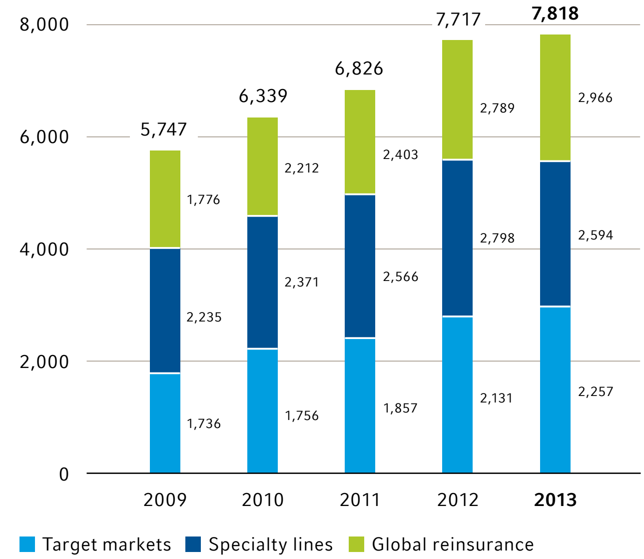
Yet in regions or lines that had seen significant losses in 2012, such as marine reinsurance, it was possible to push through sometimes appreciable price increases. In view of the record high loss expenditure associated with the wreck and salvage of the "Costa Concordia" cruise ship as well as with hurricane "Sandy", rates here climbed sharply; under loss-impacted programmes the increases ranged from 25% to 40%. We were again able to obtain considerable premium increases for non-proportional motor liability covers in the United Kingdom. In markets or lines that had posted good underwriting results in the comparable period owing to minimal losses – for example aviation business – rates declined, but the business was still adequately priced. We were also satisfied with the development of the rest of our property and casualty portfolio in North America. As expected, appreciable growth was booked from the markets of Asia and the Middle East.

Thanks to our selective underwriting approach we were able to achieve a price level in the non-life reinsurance that was at least equivalent in quality to the good 2012 financial year. Against this backdrop, we slightly enlarged our portfolio.

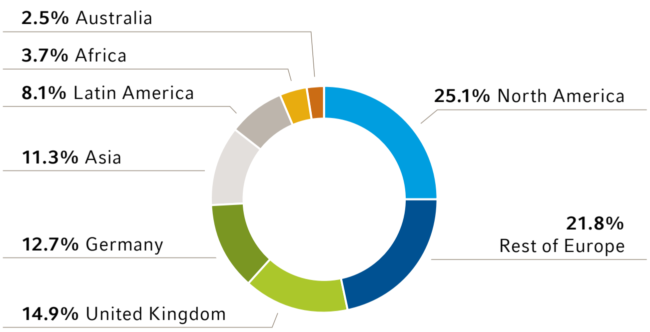
The gross premium volume for our non-life reinsurance business group climbed by 1.3% in the year under review to EUR 7.8 billion (previous year: EUR 7.7 billion). At constant exchange rates, growth would have come in at 3.5%. This means that the growth in our currency-adjusted gross premium was within the expected range of 3% to 5%. The retention decreased slightly to 89.9% (90.2%) on account of an increased volume of fronting business. Net premium earned consequently nudged only slightly higher by 0.2% to EUR 6.9 billion (EUR 6.9 billion). Growth would have been 2.3% at constant exchange rates.

Non-life reinsurance at a glance

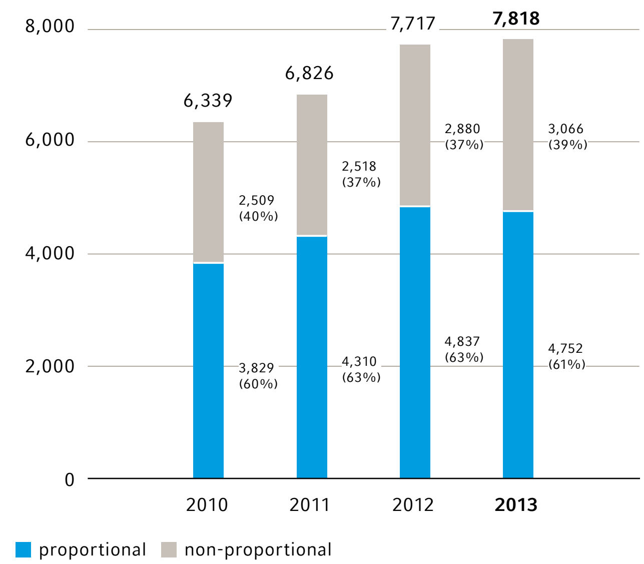
Gross written premium in non-life reinsurance
in EUR million



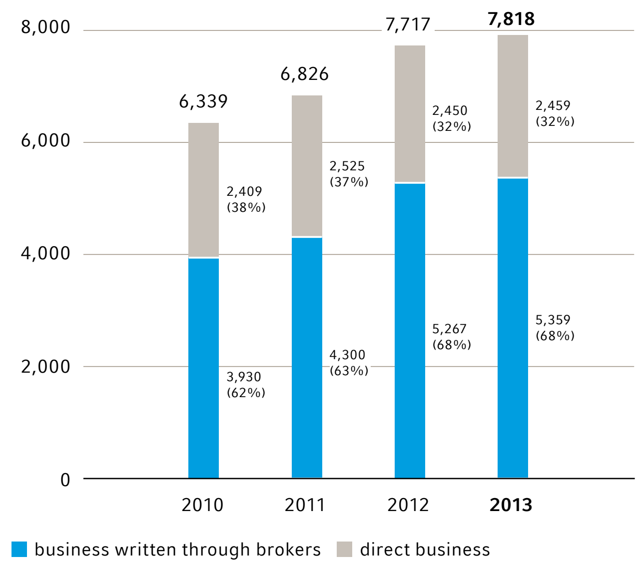
Geographical breakdown of gross written premium in 2013



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



Breakdown into business written through brokers and direct business
in EUR million



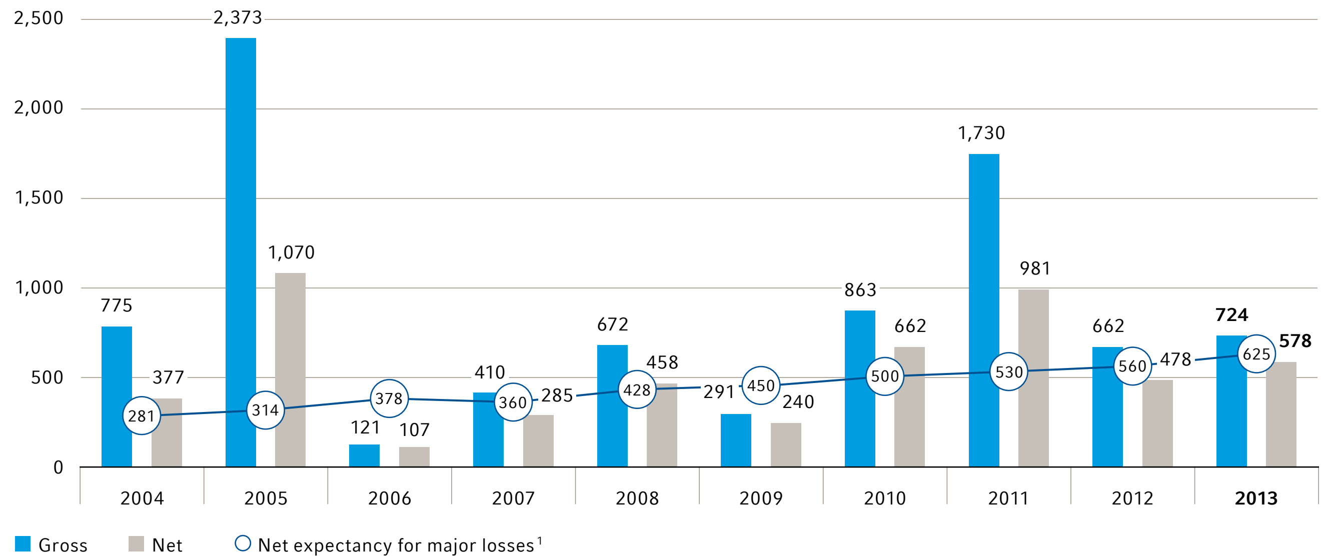
Non-life reinsurance: Key figures for individual markets and lines in 2013

	Gross premium in EUR million	Change in gross premium relative to previous year	EBIT in EUR million	Combined ratio	Maximum tolerable combined ratio (MtCR)
Target markets	**2,257.6**	**+5.9%**	**204.9**	**101.8%**	**96.1%**
Germany	1,080.8	+7.4%	(30.6)	111.2%	97.1%
North America	1,176.8	+4.7%	235.5	92.9%	95.3%
Specialty lines	**2,594.2**	**-7.3%**	**299.7**	**94.0%**	**97.3%**
Marine	290.8	-5.8%	71.5	76.2%	94.4%
Aviation	402.5	-3.2%	103.6	78.4%	97.5%
Credit/surety	630.5	+2.2%	70.0	94.2%	96.2%
Structured reinsurance incl. ILS	612.6	-15.9%	55.4	97.5%	99.6%
UK, London market & direct business	657.7	-9.7%	(0.8)	107.7%	96.7%
Global reinsurance	**2,966.1**	**+6.4%**	**556.5**	**90.4%**	**95.1%**
Worldwide treaty reinsurance	1,691.6	+7.4%	268.2	94.3%	97.6%
Global catastrophe business	433.1	+6.5%	156.3	65.1%	75.7%
Facultative reinsurance	841.5	+4.2%	131.9	91.6%	96.0%

After a very tranquil first quarter we were faced with numerous major losses in the course of 2013. Germany and Canada were impacted especially heavily by losses from natural disasters. The hurricane season in North America and the Caribbean, on the other hand, again passed off unremarkably. For the first time since 1968 no storm exceeded category 1, the weakest of the five categories.

The largest individual losses incurred by Hannover Re in the year under review were the hail event "Andreas" in Germany – with net expenditure of EUR 99.3 million – and the flooding in Germany and other European countries, at a cost of EUR 92.5 million. These and other major losses combined to produce net expenditure for 2013 of altogether EUR 577.6 million (EUR 477.8 million). Although this figure was higher than in the previous year, the burden of major losses nevertheless came in below our expected level of EUR 625 million. At 94.9% (95.8%), our combined ratio again improved on the previous year and remained below our target mark of 96%. Key factors in this pleasing development were the merely partial utilisation of our major loss budget as well as run-off profits. The latter still remained in line with expectations thanks to the

Non-life reinsurance: Major loss trend[1]
in EUR million



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

Key figures for non-life reinsurance

in EUR million	2013	+/– previous year	2012[1]	2011	2010	2009
Gross written premium	7,817.9	+1.3%	7,717.5	6,825.5	6,339.3	5,746.6
Net premium earned	6,866.3	+0.2%	6,854.0	5,960.8	5,393.9	5,229.5
Underwriting result	335.5	+23.2%	272.2	(268.7)	82.4	143.5
Net investment income	781.2	-17.3%	944.5	845.4	721.2	563.2
Operating result (EBIT)	1,061.0	-2.8%	1,091.4	599.3	879.6	731.4
Group net income	807.7	+17.8%	685.6	455.6	581.0	472.6
Earnings per share in EUR	6.70	+17.8%	5.68	3.78	4.82	3.92
EBIT margin[2]	15.5%		15.9%	10.1%	16.3%	14.0%
Retention	89.9%		90.2%	91.3%	88.9%	94.1%
Combined ratio[3]	94.9%		95.8%	104.3%	98.2%	96.6%

1 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)
2 Operating result (EBIT)/net premium earned
3 Including expenses on funds withheld and contract deposits

conservative initial reserves constituted for recent underwriting years. The confidence level of the loss reserves was nevertheless further increased. The underwriting result improved again markedly to EUR 335.5 million (EUR 272.2 million).

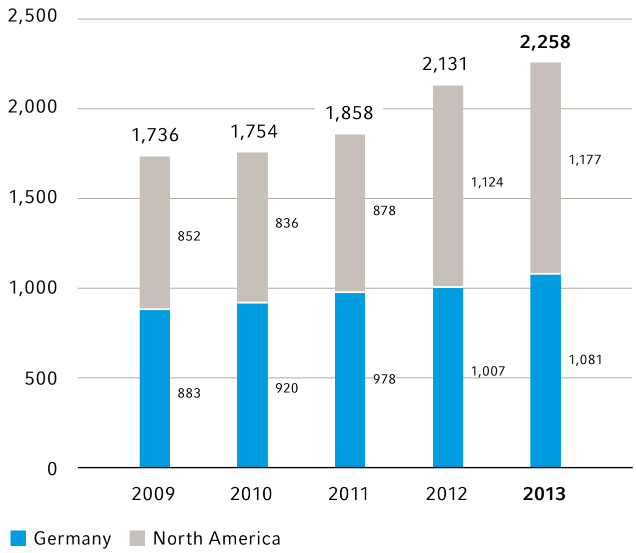
Investment income in the non-life reinsurance business group contracted by 17.3% in the year under review to EUR 781.2 million (EUR 944.5 million). Key drivers here were lower realised gains as well as the elimination of positive effects from the inflation swaps taken out by Hannover Re to partially hedge its loss reserves. These factors were in large measure offset by the very good underwriting result. The operating profit (EBIT) of EUR 1,061.0 million – a decrease of 2.8% – fell only very slightly short of last year's record level of EUR 1,091.4 million. Assisted by the positive tax effect, Group net income for the non-life reinsurance business group increased by a substantial 17.8% to EUR 807.7 million (EUR 685.6 million). Earnings per share for non-life reinsurance amounted to EUR 6.70 (EUR 5.68).

On the following pages we report in detail on developments in the individual markets and lines of our non-life reinsurance business group, which is split into three segments according to the areas of responsibility on the Executive Board: target markets, specialty lines and global reinsurance.

Target markets

We classify Germany and North America as target markets. The premium volume grew by 5.9% to EUR 2,257.6 million (EUR 2,131.1 million) and was thus within our planned range for 2013. The combined ratio inched slightly higher to 101.8% (101.3%). The operating profit (EBIT) in the year under review amounted to EUR 204.9 million (EUR 270.4 million).

Non-life reinsurance: Breakdown of gross written premium in target markets
in EUR million

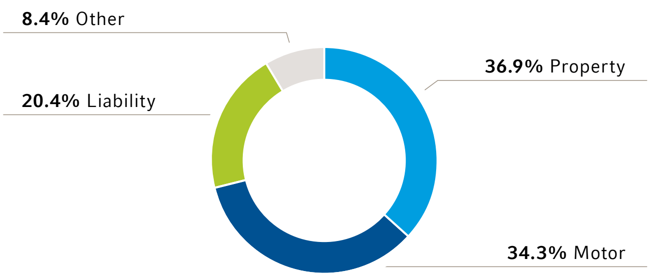


Germany

Within the Hannover Re Group the German market – the second-largest in the world for non-life reinsurance – is served by our subsidiary E+S Rück. As the "dedicated reinsurer for Germany", the company is a sought-after partner thanks to its good rating and the continuity of its business relations. E+S Rück is superbly positioned in its domestic German market and one of the market leaders in non-life reinsurance.

The German insurance market recorded further growth in property/casualty business in the year under review. This was driven principally by motor insurance, which enjoyed another year of premium growth in all lines in 2013. Nevertheless, the retail property insurance lines also posted gains. The insurance density in the area of extended coverage for natural perils increased as a consequence of greater risk awareness with respect to natural catastrophe events.

Non-life reinsurance: Breakdown of gross written premium in Germany by line of business



The loss experience in our domestic market was particularly elevated in the year under review owing to extreme weather events. Following extensive flooding in June with insured losses in the order of EUR 2 billion, (re)insurers found themselves facing further losses of around EUR 3 billion within just a few weeks as a consequence of severe hail events. The enormous scale of damage was caused by the exceptionally large hailstones and the storm track across densely populated areas. Property insurance and motor own damage insurance were especially hard hit by these events. The net losses for the Hannover Re Group from the hail events "Manni" and "Andreas" totalled EUR 137 million. Germany suffered additional heavy losses from windstorms "Christian" and "Xaver".

In homeowners insurance, which was heavily impacted by these natural catastrophe events, further action was still needed after the unsatisfactory results of prior years and the latest red figures. Industrial property insurance lines remained fiercely competitive; there were no indications of a broad-based improvement in premium levels.

Long-tail liability lines (general liability, motor liability) are sensitive to interest rates; as anticipated, improved rates could be obtained here – especially for motor XL covers. The stubbornly low level of interest rates nevertheless necessitates further technical rate adjustments.

Personal accident business once again fared very well for our company. Along with reinsurance covers, we offer our clients in this line a broad range of services. In the year under review, for example, we completed the project that we had undertaken with other partners to overhaul a product that provides functional disability insurance for adults. A comparable product for children is scheduled to be ready by the beginning of 2014.

Hannover Re also supports covers for sources of renewable energy. Our exposure in this new segment is, however, still modest in view of the continued difficulty of assessing risks and the intense competition.

Although we had anticipated a modest reduction, our premium volume for German business increased by 7.4% to EUR 1,080.8 million (EUR 1,006.7 million). Reflecting the high loss intensity in the year under review, the combined ratio climbed sharply to 111.2% (99.9%). The operating result (EBIT) consequently fell short of expectations at -EUR 30.6 million.

North America

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

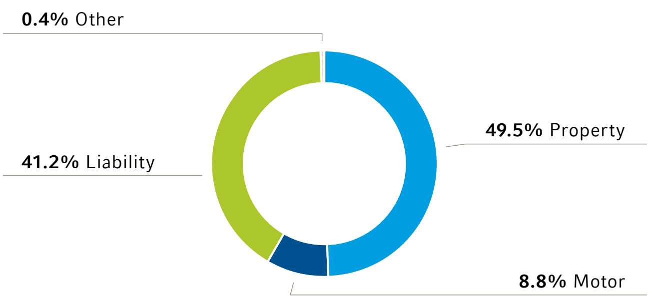
The economic climate picked up slightly in the year under review, and with economic growth insured values also rose – hence further boosting the premium volume in the original market. The reinsurance volume also continued to increase in 2013. Given that the US was largely spared significant natural catastrophe losses, the combined ratio for the reinsurance market was considerably better than it was for the primary market. Against this backdrop, our business in the United States developed favourably. Only in our Canadian business were results adversely impacted by record one-off losses due to two major flood events in Calgary and Toronto.

Rate movements on the North American primary insurance market gave grounds for satisfaction. With the exception of a few minor lines such as medical malpractice, rate increases of 5% to 10% were achieved. Overall, the pressure on the rate level was sustained on account of reduced investment income. Hardly any new players entered the US market in 2013, and the reinsurance market – despite a slight increase in equity resources – can therefore still be described as disciplined. However, rates in the catastrophe XL market – which accounts for less than 10% of our total portfolio – came under pressure due to the inflow of capital from alternative markets (ILS).

Thanks to our excellent rating and financial standing we are a valued partner for our clients, especially when it comes to long-tail liability placements. Access to the entire market spectrum enables us to optimally diversify our portfolio. Our business is made up of more than 2,000 treaties spread across almost 600 clients.

Casualty business continued to grow in appeal. Almost all lines saw further rate increases combined with a reduced loss incidence. On the property side, as expected, rates improved on the back of the losses from hurricane "Sandy", although in the third and fourth quarters a slight softening – especially in industrial lines – could be observed. Given that the overall level was nevertheless highly satisfactory, we continued to expand our property portfolio.

Non-life reinsurance: Breakdown of gross written premium in North America by line of business



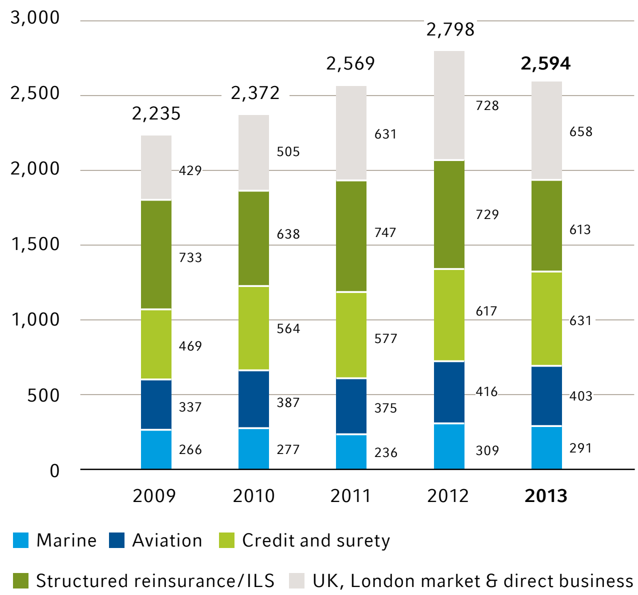
The major loss situation in North America was crucially shaped in the year under review by the flood events in Canada. While Alberta, in particular, suffered flooding as a consequence of heavy rainfall, the US was affected by a series of tornadoes. On the other hand, hurricane events with implications for the reinsurance industry were once again absent in 2013. For further information on losses from natural disasters please see the section entitled "Global catastrophe business" on page 45.

We continued to expand our portfolio in the year under review thanks to an improved pricing environment. The premium volume for our business in North America grew as expected by 4.7% to EUR 1,176.8 million, an outcome which we consider satisfactory. The combined ratio for our North American business stood at 92.9% in the year under review after 102.5 % in 2012. The operating profit (EBIT) increased to EUR 235.5 million (EUR 150.8 million).

Specialty lines

The development of our specialty lines was satisfactory. We include in this segment marine and aviation, credit and surety, structured reinsurance products, insurance-linked securities (ILS), the London market and direct business.

Non-life reinsurance: Breakdown of gross written premium in specialty lines
in EUR million



The premium volume contracted from EUR 2,797.7 million to EUR 2,594.2 million in the year under review. The combined ratio improved from 96.5% to 94.0%. The operating profit (EBIT) for specialty lines met our target at EUR 299.7 million (EUR 314.3 million).

Marine

Our marine business fared very well in the year under review. Hannover Re ranks among the market leaders here in a number of regions. The strategy guiding our underwriting policy continues to be geared towards further selective diversification of the portfolio. Thus, for example, we gained additional market shares in Asia, most notably in India and China, as well as in Brazil. In some European countries, on the other hand, we scaled back our involvement in the face of a more pronounced competitive environment. We continue to take a restrictive approach to writing offshore risks in the Gulf of Mexico owing to the considerable potential for natural hazards exposure.

Gross premium for our marine portfolio decreased by 5.8% to EUR 290.8 million (EUR 308.6 million).

In view of the heavy losses incurred by reinsurers from shipping accidents – especially the incident involving the "Costa Concordia" cruise ship in 2012 –, it was possible to secure appreciable price changes for P&I (Protection & Indemnity) reinsurance arrangements under loss-impacted programmes in the renewals at the beginning of 2013. Even in areas that saw increased exposures for primary insurers, such as offshore business, rising prices and structural adjustments were obtained on the reinsurance side. Additional capacities from the ILS market played no significant role in marine reinsurance because, among other things, there are no means of modelling the risks.

In the year under review we incurred a major loss for which we set aside reserves of EUR 20.7 million. The claims situation in marine business was, however, also notable for a deterioration in the run-off of losses from prior years. In particular, the doubling of the salvage costs for the "Costa Concordia" left a mark. This state of affairs had no substantial effect on our net loss expenditure, however, owing to corresponding protection covers that we had purchased.

The underwriting result for our marine business was considerably better than in the previous year of heavy losses. The combined ratio was very good at 76.2% (114.8%). The operating profit (EBIT) climbed appreciably to EUR 71.5 million (EUR 2.5 million).

Aviation

In international aviation reinsurance, too, Hannover Re is one of the market leaders.

In airline fleet business the (re)insurance industry benefited from both the rising insured values of aircraft and higher passenger numbers. General aviation business, on the other hand, was flat in many regions with fewer private aircraft being purchased as economic uncertainties persist.

The loss experience in the aviation market remains very favourable relative to the multi-year historical average. This trend can be attributed above all to technical advances in aviation safety systems.

Although the burden of major losses continued to be below average, the year under review saw a higher frequency of hull losses. This development did not, however, have any significant implications for reinsurers because for the most part the claims remained within the retention carried by primary insurers. Given a moderate loss situation overall and the existing surplus capacities, rates in aviation business continued to soften.

In a market that is not without its challenges on the whole, our goal is to preserve our portfolio and further consolidate it where necessary. We successfully achieved this aim in the year under review. The premium volume for our total aviation portfolio contracted slightly, as forecast, to EUR 402.5 million (EUR 415.7 million).

The largest single loss in 2013 was the crash landing of a passenger plane at San Francisco airport. The resulting net loss for Hannover Re amounted to EUR 20.3 million. We are thoroughly satisfied with the underwriting result. The combined ratio stood at 78.4% (81.8%), a testament to the strong profitability of our aviation portfolio. The operating profit (EBIT) retreated slightly to EUR 103.6 million (EUR 112.6 million).

Credit and surety

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

With the global economy showing tepid growth and in the face of generally difficult economic conditions, the number of insolvencies remained high. Nevertheless, credit insurance largely resisted this trend thanks to a disciplined underwriting policy. Expenditure on basic losses therefore remained on a moderate level; only in terms of the absolute loss amounts was a slight increase recorded. Rates in credit reinsurance remained broadly stable.

An increased number of mid-sized basic losses was observed in surety insurance in 2013. This development was due to the fact that the repercussions of the crisis in the construction industry only made themselves felt after a time delay. Improvements in conditions were possible in some markets in response to the increased claims expenditure. From an overall perspective, surety markets remained stable.

Despite greater risk awareness, the claims burden in the area of political risks remained low. Prices in this line consequently showed a moderate decrease.

In view of a prevailing capacity surplus and the diminishing appeal of treaty conditions in credit and surety reinsurance, further expansion of our market share was not a priority for us. Only in cases where our required margins were met did we undertake measured expansion of our portfolio. This was especially true of business with political risks in the year under review.

Gross premium income increased by 2.2% in 2013 to EUR 630.5 million (EUR 616.7 million). On the whole, we are satisfied with the development of our credit and surety business in the year under review. The increased frequency of mid-sized losses was largely offset by a positive run-off of prior underwriting years. The combined ratio amounted to 94.2% (90.4%). The operating profit (EBIT) came in at EUR 70.0 million (EUR 107.8 million).

Structured reinsurance

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

As forecast, demand for bespoke alternative reinsurance solutions continued to grow in the year under review. This trend also includes aggregate excess of loss covers, which protect the net retention of our clients against significant loss scenarios with a low probability of occurrence.

Growth impetus for structured reinsurance is deriving in particular from preparations for the adoption of Solvency II in the European Union as well as from the implementation of risk-based capital requirements in various countries.

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

The premium volume for structured reinsurance contracted in the year under review. Results fell slightly short of our expectations owing to an increased loss frequency and the strengthening of reserves for a medical malpractice programme.

Insurance-Linked Securities (ILS)

Demand for ILS products not only on the capital market but also among investors from the traditional reinsurance and primary insurance market showed no signs of easing. Thus, for example, we were able to renew our "K" quota share – a modelled quota share cession consisting of non-proportional reinsurance treaties in the property, catastrophe, aviation and marine (including offshore) lines that we have placed inter alia on the ILS market for almost 20 years – on a virtually unchanged level of around USD 320 million for 2013.

In addition to using the capital market to protect our own property catastrophe risks, we transfer risks to it in a structured and packaged form on behalf of our cedants. We also take the role of investor ourselves by investing in catastrophe bonds.

The year under review, just like the previous year, brought another strong inflow of cash into the ILS market. On the one hand, investors value the low correlation with other financial assets and the associated diversification, while at the same time they also find the market for insurance risks relatively appealing in comparison with other investments. As a result, catastrophe bonds have enjoyed lively demand among the investor community. Prices for these bonds have consequently fallen considerably. Yet the issuance of catastrophe bonds has also become a more attractive proposition. The volume of new issues in the market was once again higher.

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

Hannover Re's product range encompasses the entire spectrum of activities typically associated with the ILS market. We thereby offer investors optimised and customised access to the capital market. In the year under review we further expanded our cooperation with selected managers of investor funds in the area of collateralised reinsurance business and were able to generate attractive margins. When it comes to investing in catastrophe bonds, on the other hand, we showed restraint on account of the sharp decline in prices.

United Kingdom, London market and direct business

Traditional reinsurance

We are satisfied with the reinsurance business that we write in the United Kingdom and on the London market. The rate level remained stable overall. Building on the very favourable market conditions in non-proportional motor reinsurance in 2012, we secured further appreciable rate increases in the year under review. Against this backdrop we doubled our premium volume in this area. As anticipated, we were able to expand our UK portfolio in 2013.

Direct business

We write our direct business through two subsidiaries, International Insurance Company of Hannover Plc (Inter Hannover) in the United Kingdom and the South African company Compass Insurance Company Limited, a subsidiary of Hannover Reinsurance Africa Limited. This essentially involves tightly defined portfolios of niche or other non-standard business that complements our principal commercial activity as a reinsurer.

The state of the UK economy showed no significant improvement compared to 2012. Fierce competition continued to prevail among the insurers and reinsurers writing business in this market. In many lines this was inevitably reflected in a deteriorating rate level. In contrast to the non-proportional reinsurance sector, rates in motor primary business retreated after short-lived rallies. Private homeowners insurance as well as covers for small and mid-sized businesses were also impacted by rate erosion. We responded by significantly scaling back our exposures in these areas from agency acceptances.

Inter Hannover's business written in Sweden continued to perform highly satisfactorily. The focus there is on the marine and aviation lines. The development of business at the branches in Australia and Canada – markets which are highly competitive – was in line with expectations.

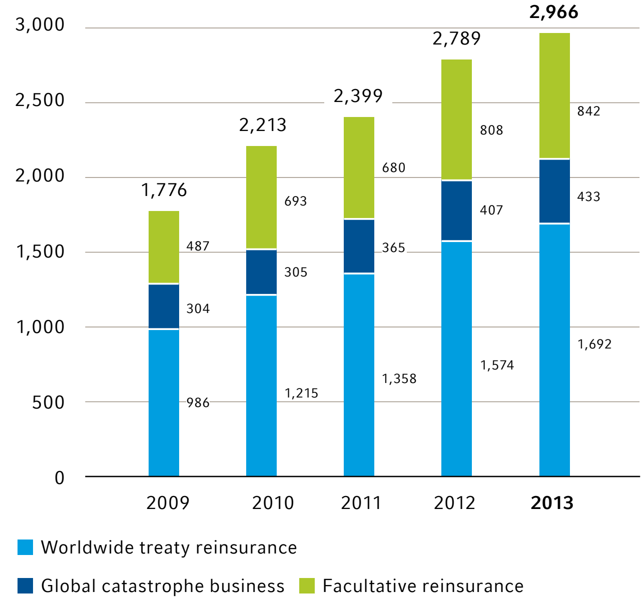
The South African non-life reinsurance market reached the lowest point of the soft market in 2013. In common with most insurers in South Africa, Compass Insurance Company Limited, our second company writing specialty lines, failed to achieve its profit targets on account of heavy losses. The market losses did, however, put a stop to rate reductions and virtually all market players have announced or in some cases already implemented significant increases for 2014. Compass Insurance Company Limited and the local partner underwriting managers belonging to the Hannover Re Group are ideally placed to profit from these rate improvements.

Global reinsurance

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

The premium volume grew by 6.4% in the year under review to EUR 2,966.1 million (EUR 2,788.7 million). This is in line with our forecast of stable growth. The combined ratio decreased from 90.9% to 90.4%. The operating profit (EBIT) improved from EUR 507.1 million to EUR 556.5 million.

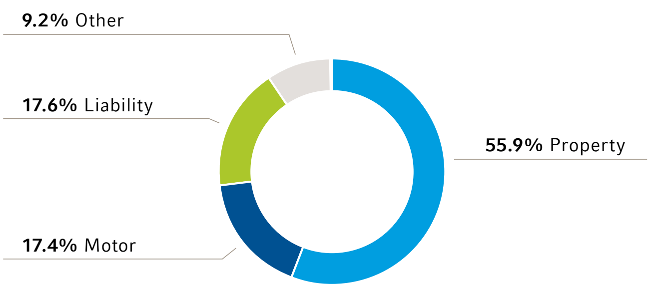
Non-life reinsurance: Breakdown of gross written premium in global reinsurance
in EUR million



Worldwide treaty reinsurance

We were satisfied with the development of our worldwide treaty reinsurance portfolio. The gross premium volume grew by 7.4% to EUR 1,691.6 million and was thus in line with our expectations. The combined ratio improved from 96.3% to 94.3%. The operating profit (EBIT) came in as planned, rising to EUR 268.2 million.

Non-life reinsurance: Breakdown of gross written premium in worldwide treaty reinsurance



Europe

European markets continue to be fiercely competitive; this is true both of countries in Central and Eastern Europe and of mature markets such as France. On the whole, market conditions here are still very soft. As anticipated, prices retreated slightly in most lines of business. In builder's risk insurance the challenging economic circumstances led to sharply lower premiums. No significant loss events occurred in France in 2013. The premium volume for Hannover Re remained stable in the year under review.

Despite very tight margins, we were able to enlarge our market share in Spain and Portugal thanks to regrouping of the portfolio. While industrial fire business recorded further losses, the situation in Spain was dominated by the devastating accident near Santiago de Compostela involving a high-speed passenger train, which caused numerous fatalities. This incident did not result in a major loss for Hannover Re.

The markets of Northern Europe are served by our branch in Stockholm. Although large industrial programmes continued to be highly competitive, the situation in retail insurance lines was considerably more relaxed. Rates in general remained broadly stable. No major loss events were recorded.

Compared with the primary insurance markets of Western Europe, growth rates in the countries of Central and Eastern Europe continue to be above average. As a result, competition remains intense and original rates in most countries are under pressure. On the reinsurance side, by contrast, prices and conditions in the year under review were again broadly commensurate with the risks, thereby enabling us to boost our premium volume as forecast. We have defined the markets of Central and Eastern Europe as strategic growth markets and it remains our assumption – based on a selective underwriting policy – that we can generate further strong profitability going forward. In terms of losses, various Central and Eastern European countries were impacted by severe flooding in the summer of 2013; we also incurred a number of basic losses. Despite this, we were thoroughly satisfied with the development of our business in the markets of Central and Eastern Europe.

Latin America

Hannover Re is well positioned in Latin America and a market leader in some countries. The most important markets for our company are Brazil – where a survey found us to be one of the three most highly regarded reinsurers –, Mexico, Argentina, Colombia and Ecuador.

Latin American markets have enjoyed very vigorous growth in recent years. In Brazil further programmes were launched to stimulate the economy. The country is investing heavily in infrastructure and power generation as it prepares for two major sporting events, the FIFA World Cup in 2014 and the 2016 Olympic Games. These growth incentives continued to foster rising demand for (re)insurance covers in the year under review.

In Brazil, a market in which we operate as an "admitted reinsurer", we ensure close business ties with our clients through a representative office. Although competition here is intensifying, we are very well positioned in the market and a valued partner thanks to our excellent financial standing.

In view of the competitive climate, rising loss ratios and major losses in property business, we wrote our business highly selectively. We increased our shares in areas where we considered business to be attractive, for example by further enlarging our casualty and motor portfolio in the year under review.

In Argentina we succeeded in slightly expanding our portfolio despite the restrictions placed on foreign reinsurers. In Chile, Peru and Panama we boosted our market share while staying firmly focused on the profitability of the business written. Losses were incurred from several hurricanes in Mexico, although these did not result in a major loss for Hannover Re. These events did, however, have a favourable effect on reinsurance prices. Double-digit percentage increases in rates were pushed through for treaties that had been impacted by losses.

Asia-Pacific region

The Asia-Pacific countries are considered a growth region by Hannover Re. In the year under review we again extended our position here. Developments in the individual markets – in common with the markets themselves – were very mixed. On the whole, the region was shaped by intense competition coupled with heavy losses in previous years as well as by losses in the year under review.

In Japan, a key market for our company, we were able to slightly expand our premium volume as planned. After the heavy losses incurred in 2011 conditions remained stable on a good level. Our broadly diversified product range and proven long-standing loyalty to our Japanese cedants enabled us to successfully set ourselves apart from our competitors. At the same time, though, the market consolidation and associated synergistic effects at our clients as well as adverse movements in the exchange rate presented a challenge.

Catastrophe covers, an important area of business in Japan, did not suffer any notable loss events in the year under review. Nor were there any appreciable losses in property, casualty and accident insurance – lines in which we often take the role of lead reinsurer –, as a consequence of which we were highly satisfied with the results of our Japanese portfolio.

While the Chinese insurance market failed to expand quite as vigorously in the year under review as it had in prior years, the growth was nevertheless considerably stronger than in mature insurance markets. Having scaled back our portfolio at the outset of 2013 in the face of soft conditions and hence insufficient profit expectations, we successfully intensified our business relations with selected clients as the year progressed. All in all, the market remained fiercely competitive, as was evident not only in original business but also in conditions for reinsurance treaties. With this in mind, we wrote our portfolio extremely selectively. Despite this, we were able to slightly enlarge the premium volume. Our underwriting result was adversely impacted in the year under review by a major loss at a semiconductor memory fabrication plant and two typhoons.

The aforementioned semiconductor fire also had repercussions on the Korean market, since the operator of the Chinese factory was a Korean company. In what is in any case a highly competitive market – we write exclusively non-proportional covers in the property and casualty insurance segment – this led to a sharply poorer result.

In South and Southeast Asia we were again able to substantially improve our market position. Driven first and foremost by rising insurance densities, almost all insurance markets in this region posted disproportionately strong growth. Yet the tragic effects of typhoon "Haiyan", which devastated parts of the Philippines and claimed thousands of lives, showed just how far many countries in this region still are from an area-wide and sustainable insurance density. Against this backdrop, the losses for the insurance industry were rather moderate; the cost of this event for our company, at EUR 18.5 million, was also comparatively slight.

In many parts of this region our portfolio consists predominantly of property and motor business. We reduced the proportion of catastrophe-exposed business in the year under review because we did not consider conditions to be commensurate with the risks.

In India we established a service company that concentrates exclusively on the growing segment of microinsurance. Provincial governments and local insurers are advised on products that can provide insurance protection for low-income individuals.

We are thoroughly satisfied with the development of our business and our results in South and Southeast Asian markets. Our premium volume surged more strongly in the financial year than had been forecast. Growth was driven inter alia by niche lines. The burden of major losses in 2013 came in below expectations.

Unlike in the previous years, the loss situation in Australia and New Zealand was relatively untroubled in terms of natural disasters. Adverse effects on our portfolio were therefore minimal. Even the bushfires close to Sydney failed to reach the scale that had been feared. Taken in conjunction with very low claims activity in the other lines, this prompted initial concessions over terms and conditions.

Thanks to our strong market position we benefited from an increased need for capacity driven by the more exacting capital requirements imposed by local insurance regulators.

On the whole, the development of our portfolio in Australia and New Zealand was satisfactory. As expected, our premium volume increased slightly in the year under review.

Retakaful business

We write retakaful business – that is to say, reinsurance transacted in accordance with Islamic law – both on the Arabian Peninsula and in Southeast Asia. We maintain a dedicated subsidiary for this business in Bahrain (Hannover ReTakaful) as well as a branch that bears responsibility for writing traditional reinsurance in the Arab world.

The economy in this region continues to develop satisfactorily. Growth is driven in particular by government spending on infrastructure as well as oil and gas projects. The primary insurance market remains highly competitive, thereby adding to the pressure on rates. On the reinsurance side new providers with additional capacities forced their way into the markets.

Hannover Re is strongly placed in retakaful business. Our largest single market continues to be Saudi Arabia, followed by Malaysia. Our strategy is geared to further profitable growth. We maintained the lead position in our most important markets without neglecting our profitability requirements.

The premium volume increased by around 10% in the year under review. Retakaful business can be expected to show further dynamic growth over the coming years.

The largest loss events were fires at a sugar factory in Saudi Arabia and at a Dubai airport building under construction in the United Arab Emirates. The resulting strains for our account were each in the mid-single-digit million euro range.

Agricultural risks

Demand for the insurance of agricultural land and livestock continued to grow, driven by a steadily rising need for food and increasing extremes of weather as a consequence of climate change. This was especially true of developing countries.

In view of the growing premium volume written by primary insurers, the volume for reinsurance covers also increased worldwide. Hannover Re, one of the largest reinsurers of agricultural risks, expanded its portfolio as planned in the year under review.

We successfully pursued our strategy of diversifying our portfolio both in terms of its geographical spread and the breakdown by lines of business; a larger share of livestock covers, for example, played a part here.

After the heavy losses incurred in 2012 the loss situation in the year under review was moderate. Argentina recorded an elevated intensity and frequency of hail events, the expenditures on which have already had positive implications for rates. Hannover Re did not incur any major losses from agricultural risks in the year under review.

Global catastrophe business

We write the bulk of our catastrophe business out of Bermuda, which has established itself as the worldwide centre of competence for this line. In the year under review our subsidiary Hannover Re (Bermuda) Ltd. also began to write some of the specialty lines with a view to diversifying the portfolio.

The environment was more competitive in 2013, especially in US catastrophe business. Although hurricane "Sandy" had served to stabilise rates in the renewals as at 1 January 2013, appreciable rate erosion was observed over the course of the year. The additional capacities from the market for catastrophe bonds (ILS) was a particularly important factor here. However, the reduced margins in US catastrophe business have merely limited implications for Hannover Re because this only accounts for a small part of our portfolio.

After an uneventful first three months, the subsequent quarters of 2013 – especially in Europe – witnessed a series of natural disasters. These did not, however, usher in a more favourable rate trend for the catastrophe covers market as a whole. The sometimes substantial losses merely prompted rate adjustments on a regional basis. Germany was especially heavily impacted by natural disasters in the year under review. Along with severe flooding, the German (re)insurance industry also had to absorb losses from several hailstorms. In addition, further windstorm events caused heavy losses in other European countries, including the United Kingdom.

The hurricane season in the United States and the Caribbean, by contrast, passed off very quietly. No storm of hurricane strength reached the US mainland. Nevertheless, tornado events left a trail of devastation in the United States with corresponding insured losses. In Canada two flood events resulted in unprecedented losses, with a combined net cost for Hannover Re of EUR 60.9 million.

The development of our catastrophe-exposed business in the Asia-Pacific region was satisfactory: the price level in Japan remained comparatively high owing to major losses from previous years. This was also true of the Australian and New Zealand markets. We did not incur any major losses here.

The gross premium volume in our global catastrophe business increased by 6.5% in the year under review to EUR 433.1 million (EUR 406.7 million). The combined ratio deteriorated slightly year-on-year as we had anticipated to stand at 65.1% (50.9%). The operating profit (EBIT) moved modestly lower to EUR 156.3 million (EUR 167.1 million).

Facultative reinsurance

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

Building on strong growth in the United States in 2012 our premium volume continued to expand in the year under review, albeit at a more moderate pace. We enlarged our motor liability portfolio and – as in the previous year – the share of agency business. We also extended our exposure to niche lines, such as event cancellation covers and special accident insurance solutions, e.g. for sports professionals. Our participation in the property line also grew, although the increase was moderate because our involvement in regions with natural catastrophe exposure is restricted and hence our risk appetite is limited. The flood events in Canada had no effects on our facultative portfolio.

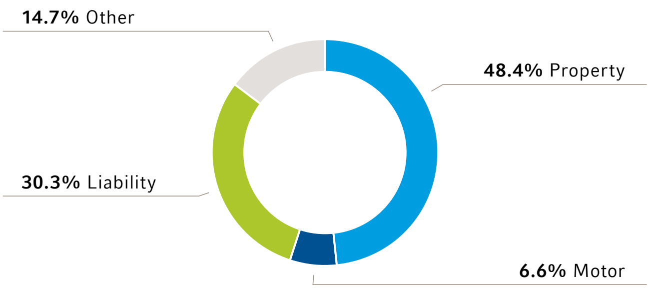
In worldwide energy business we further enlarged our market share as planned in 2013. Faced with a relatively unfavourable environment, however, our growth was limited. We stepped up our exposure to the offshore construction sector, thereby boosting our energy portfolio, while our participation in mining insurance was scaled back slightly. In Germany, too, we moved forward with our involvement in construction covers for wind farms.

In cooperation with an external partner we developed and launched on the market an energy-saving insurance solution for industrial enterprises. Not only that, we also stepped up our underwriting of construction all risk (CAR)/advance loss of profits (ALOP) business in our domestic German market.

Growth was also booked in Central Europe and in Latin America, where most notably we expanded our non-proportional property and engineering portfolio.

With attractive opportunities opening up not only in the United Kingdom but also internationally, we made the most of 2013 to stabilise the professional indemnity line.

Non-life reinsurance: Breakdown of gross written premium in facultative reinsurance



We are broadly satisfied with the development of our total facultative portfolio in the year under review: we further diversified our business and generated profitable growth, while at the same time suffering a sizeable accumulation of mid-sized losses in 2013. Our premium volume increased by 4.2% to EUR 841.5 million and thus lived up to the forecast growth. The combined ratio was slightly below the level of the previous year at 91.6%. The operating profit (EBIT) remained stable as expected at EUR 131.9 million (EUR 130.5 million).

Life and health reinsurance

- Challenging market conditions influence the business
- Currency-adjusted growth target reached with increase of 5.1% in gross premium
- Operating result falls short of expectations owing to various factors

The life and health reinsurance business group now accounts for 44% of our total premium volume. Reflecting the new reporting structure implemented in 2012, we subdivide our broadly diversified portfolio into the categories of Financial Solutions and Risk Solutions.

Total business

Market conditions for worldwide life and health reinsurance were challenging in the year under review, as a consequence of which our premium volume also grew less vigorously in 2013 than in previous years. Gross premium income increased by 1.4% to EUR 6,145.4 million (EUR 6,057.9 million). Adjusted for exchange rate fluctuations, growth would have come in at 5.1%. In the year under review we thus achieved our targeted gross premium growth in the range of 5% to 7%. The level of retained premium decreased to 87.7% (89.3%). Net premium earned was down slightly by 1.2% to EUR 5,359.8 million (EUR 5,425.6 million); adjusted for exchange rate effects, net premium increased by 2.4%.

The operating result (EBIT) of EUR 150.5 million (EUR 279.0 million) fell short of the previous year's figure owing to a number of different influencing factors, but it was still solid. The key factors in the decline were the elimination of positive non-recurring effects from 2012 as well as losses in Australian disability business. Group net income reached EUR 164.2 million (EUR 222.5 million); earnings per share amounted to EUR 1.36 (EUR 1.84).

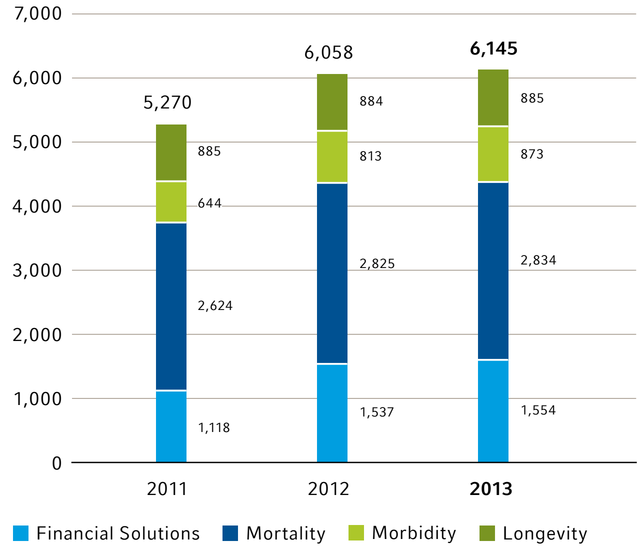
Key figures for life and health reinsurance

in EUR million	2013	+/– previous year	2012[1]	2011	2010	2009
Gross written premium	6,145.4	+1.4%	6,057.9	5,270.1	5,090.1	4,529.3
Net premium earned	5,359.8	-1.2%	5,425.6	4,788.9	4,653.9	4,078.7
Investment income	611.5	-10.7%	685.1	512.6	508.2	520.1
Claims and claims expenses	4,305.7	+7.0%	4,023.5	3,328.6	3,135.8	2,743.0
Change in benefit reserve	146.5		529.4	619.7	653.5	563.7
Commissions	1,169.0	+6.5%	1,098.0	985.8	1,022.8	926.2
Own administrative expenses	156.7	+8.7%	144.1	130.6	118.7	98.3
Other income/expenses	(42.9)	+17.0%	(36.7)	(19.2)	53.0	107.1
Operating result (EBIT)	150.5	-46.1%	279.0	217.6	284.4	374.7
Net income after tax	164.2	-26.2%	222.5	182.3	219.6	298.1
Earnings per share in EUR	1.36	-26.2%	1.84	1.51	1.82	2.47
Retention	87.7%		89.3%	91.0%	91.7%	90.7%
EBIT margin[2]	2.8%		5.1%	4.5%	6.1%	9.2%

[1] Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)
[2] Operating result (EBIT)/net premium earned

In the following section we discuss in detail developments in our reporting categories in the year under review.

Life and health reinsurance: Breakdown of gross premium by reporting categories
in EUR million

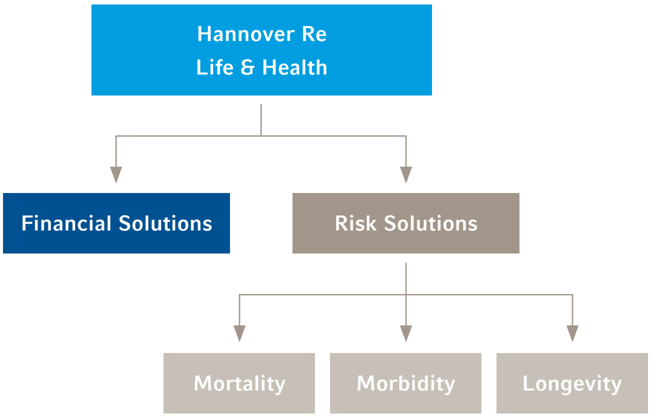


Financial Solutions

Financial Solutions business encompasses those reinsurance transactions that – along with the transfer of biometric risks – can optimise the financial position of our ceding companies. Reinsurance solutions of this type offer clients an alternative means of raising capital as well as the resulting optimisation of their equity and debt position. Gross premium income for this reporting category amounted to EUR 1,554.3 million (EUR 1,536.6 million) in the year under review, accounting for 25.3% of the total premium volume. The major driver of growth here in 2013 was our US subsidiary. Thanks to solutions designed to provide relief for capital and reserves so as to optimise the balance sheet structure of our clients, we were able to build on the successful development of the previous year in the United States. This type of reinsurance is heavily influenced by regulatory requirements, such as those arising out of the planned Solvency II standards and to some extent also indirectly from the Basel III framework. At this early point in time it still remains to be seen whether these effects will have positive or negative implications for insurance demand; this will only become clear in the future, once Solvency II and other prudential regimes have been adopted on a mandatory basis. Increasing regulation was also evident in emerging markets, especially in Asia. Although competition continues to intensify on account of the business potential in these regions, we booked double-digit percentage growth rates for our premium in both China and Hong Kong. Despite a challenging market climate, we thus asserted our leading position in Financial Solutions business.

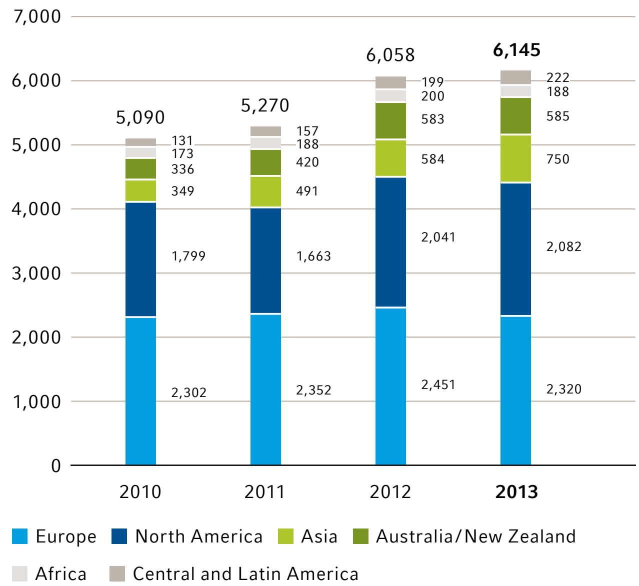
Life and health reinsurance at a glance

Reporting structure



Breakdown of gross premium by continents

in EUR million



Present at 23 locations in 19 countries

International network in life and health reinsurance

Africa

South Africa
Johannesburg

America

Bermuda
Hamilton

Mexico
Mexico City

USA
Charlotte
Denver
New York
Orlando

Asia

Bahrain
Manama

China
Hong Kong
Shanghai

India
Mumbay

Japan
Tokyo

Malaysia
Kuala Lumpur

South Korea
Seoul

Taiwan
Taipei

Australia

Australia
Sydney

Europe

Germany
Hannover

France
Paris

United Kingdom
London

Ireland
Dublin

Italy
Milan

Sweden
Stockholm

Spain
Madrid

Risk Solutions

In our reporting category of Risk Solutions we further differentiate between Mortality, Morbidity and Longevity.

The **Mortality** sector encompasses our business with exposure to the mortality risk. For our company, as a reinsurer, the main danger is that the actual mortality in a portfolio may diverge negatively from our expectations. Mortality business is traditionally a core component of life and health reinsurance. This is reflected in the gross premium volume of EUR 2,833.5 million (EUR 2,824.6 million) generated in 2013. At 46.1%, it contributes the lion's share of total premium income. In the US risk-oriented life reinsurance market we further expanded our share to more than 10%. This is all the more gratifying given that the market itself contracted again – as it had already in 2012. Irrespective of this, our focus was on further optimising our portfolio management, which we shall continue to do in the coming years.

In Europe the business climate on the reinsurance market was again challenging in 2013 and the market for traditional risk-oriented products proved to be largely saturated, leaving only limited scope for growth. Against this backdrop, a number of primary insurers in the German market came up with plans to modify traditional products – such as term life insurance – and limit the long-term guarantees under savings products in order to preserve the competitiveness of such offerings in the future. It is all the more pleasing to report that, among other things, we were able to retain our leading position in Italian credit life business.

Developments and trends in society around the world are exerting a growing influence on the insurance sector. In 2013, for example, we observed a sharp increase in lifestyle products – an area where traditional insurance is often combined with perks for sports and leisure activities. The idea is to motivate insureds to lead a more health-conscious lifestyle and hence also positively influence the policy experience.

The **Morbidity** risk is generally considered to be the risk of deterioration in a person's state of health due to disease, injury or infirmity. Typical products are strict (any occupation) disability, occupational disability and long-term care insurance. Gross premium in this reporting category increased to EUR 872.9 million (EUR 813.0 million). Growth was generated principally in South America and Asia.

The less favourable developments in morbidity business are connected to the elevated risk experiences and reserve increases in Australian disability business, the adverse repercussions of which left their mark throughout the entire industry on insurers and reinsurers alike. Intensive efforts have been made on the Australian market to counteract this development and thereby improve results.

The US health market is facing considerable changes as the healthcare reform programme popularly known as "Obamacare" begins to take effect in 2014. One of the core elements of the new reform is curbing price increases in the medical sector. The health insurance market is also taking active steps to counter this effect, hence opening up new insurance opportunities which we seek to cover with the broadest possible range of reinsurance solutions. As a further factor, the so-called dual demonstration programme was launched in the United States: previously operated independently of one another, the federally backed Medicare programme was coordinated with Medicaid, responsibility for which rests with the individual states. The dual demonstration programme is aimed at insureds who are theoretically entitled to participate in both schemes. For health insurance companies participating in the new programme this created fresh business potential, hence also leading to new opportunities on the reinsurance side. As anticipated, developments in the Middle East region were also positive, consequently giving rise to attractive profitable growth in group business.

The **Longevity** reporting category encompasses annuity and pension insurance products as well as all reinsurance solutions connected with the longevity risk. This business frequently involves the transfer of sizeable portfolios, for which we – in our role as reinsurer – take over the annuity payments that will actually be incurred in the future. The greatest risk is associated with the longevity of the insureds in the portfolios and the resulting potentially incorrect estimations of the duration of recurring pension payments. In the year under review we wrote a gross premium volume of EUR 884.7 million (EUR 883.6 million). The worldwide demographic trend has led to consistent growth in the elderly proportion of the population, hence bringing a significant increase in longevity exposure and boosting demand for such products. We already enjoyed concrete benefits from this trend in the year under review in the form of a rise in inquiries regarding the assumption of longevity portfolios. The United Kingdom continues to be the largest market, where we supported life insurers with – among other things – the risk assessment of annuity insurance policies in the financial year just ended. Yet we also received our first specific inquiries from other European countries too and submitted quotations. This expanding market is, however, also encouraging an ever-increasing number of new providers to move into the business, causing competition to intensify sharply. As an established business partner with a decades-long track record, we were able to renew existing contracts and reinsure our first longevity portfolios outside the United Kingdom despite the more competitive climate.

Irrespective of the various reporting categories, we are seeing a clearly emerging trend towards automated underwriting. We offer our customers this additional service in the form of point-of-sale systems. These are designed to relieve the strain on underwriters associated with the application process while at the same time enhancing underwriting efficiency. Furthermore, particularly as a consequence of the challenging low interest rate environment, run-off business began to take on greater significance in 2013 and became a central concern for primary insurers. Activities in this area are focused on the professional run-off of closed blocks of business.

This trend towards the growing importance attached to additional services that go above and beyond pure reinsurance protection was again sustained in 2013. In the markets of Eastern Europe, in particular, insurers are seeking to tap into new growth segments, e.g. for disability products and private health insurance covers. The level of service expected here – not only from insurers but also reinsurers – is rising. Thanks to our customer-oriented solutions and innovative product ideas in this area, we were able to consolidate existing customer relationships and win over new clients.

Investments

- Return on investment at 3.4% as forecast
- Ordinary investment income relatively stable despite low interest rate level
- Strains from derivatives and lower realised gains than in the previous year

In view of the sustained low level of interest rates, ordinary investment income excluding income from funds withheld and contract deposits developed in line with our expectations at EUR 1,041.3 million (previous year: EUR 1,088.4 million). Income from funds withheld and contract deposits, on the other hand, came in slightly higher than in the previous year at EUR 357.3 million (EUR 355.5 million). The net realised gains on disposals amounted to a very pleasing EUR 144.2 million (EUR 227.5 million) and derived principally from regrouping moves as part of regular portfolio management as well as from the change in reporting currency at our subsidiary in Bermuda. This figure was, however, lower than in the previous year, when we had acted to a greater extent on opportunities in the real estate sector.

We also recorded exceptionally positive changes in the fair values of our financial assets recognised at fair value through profit or loss (EUR 89.3 million), contrasting with a negative fair value change of EUR 27.1 million as at 31 December 2013. This can be attributed primarily to the performance of the ModCo derivatives and the inflation swaps. We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to positive fair value changes recognised in income of EUR 7.4 million (EUR 51.8 million). The inflation swaps taken out in 2010 and 2011 to hedge part of the inflation risks associated with the loss reserves in our technical account produced negative fair value changes of EUR 41.0 million, as against a positive contribution of EUR 28.0 million in the previous year. The changes in the fair values of the inflation swaps are recognised in income as a derivative pursuant

Investment income

in EUR million	2013	+/– previous year	2012	2011	2010	2009
Ordinary investment income [1]	1,041.3	-4.3%	1,088.4	966.2	880.5	810.5
Result from participations in associated companies	12.5	+20.4%	10.4	3.1	3.9	(5.0)
Realised gains/losses	144.2	-36.6%	227.5	179.6	162.0	113.0
Appreciation	0.3	-88.1%	2.7	36.8	27.2	20.1
Depreciation, amortisation, impairments [2]	19.4	-10.7%	21.7	31.0	23.8	142.5
Change in fair value of financial instruments [3]	(27.1)	-130.4%	89.3	(38.8)	(39.9)	100.6
Investment expenses	97.3	+1.0%	96.4	70.3	67.4	53.1
Net investment income from assets under own management	1,054.5	-18.9%	1,300.2	1,045.5	942.5	843.6
Net investment income from funds withheld	357.3	+0.5%	355.5	338.5	316.4	276.8
Total investment income	**1,411.8**	**-14.7%**	**1,655.7**	**1,384.0**	**1,258.9**	**1,120.4**

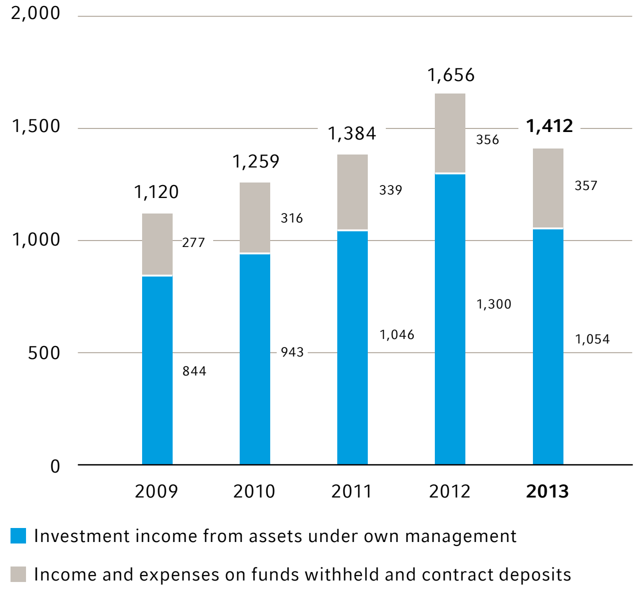
1 Excluding expenses on funds withheld and contract deposits
2 Including depreciation/impairments on real estate
3 Portfolio at fair value through profit or loss and trading

to IAS 39. Over the entire term we assume for the most part an economically neutral development for these two items for Hannover Re, and hence the volatility that can occur in specific periods has no bearing on the actual business performance.

Impairments and depreciation totalling just EUR 19.4 million (EUR 21.7 million) were taken. By far the bulk of the impairments – amounting to EUR 3.5 million – were attributable to alternative investments (EUR 5.8 million). Scheduled depreciation taken on directly held real estate amounted to EUR 14.0 million (EUR 10.4 million), a reflection of our greater involvement in this area. These write-downs contrasted with write-ups of EUR 0.3 million (EUR 2.7 million).

Principally due to reduced realised gains and a lower result from investments measured at fair value through profit or loss, our investment income fell short of the previous year's level. It stood at EUR 1,411.8 million (EUR 1,655.7 million) in the reporting period, of which EUR 1,054.5 million (EUR 1,300.2 million) was attributable to assets under own management. This produces an average return (excluding effects from inflation swaps and ModCo derivatives) of 3.4%, a figure in line with our forecast.

Investment income
in EUR million



Financial position and net assets

- Risk-appropriate investment policy
- High-quality diversified investment portfolio to be maintained
- Expansion in the area of corporate bonds and in the real estate sector
- Shareholders' equity stable thanks to excellent Group net income in spite of challenging interest rate and currency environment

Investment policy

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

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

With these goals in mind we engage in active risk management based on balanced risk/return analyses. In this context we are guided by centrally implemented investment guidelines and the insights of dynamic financial analysis. In light of the current market situation and requirements on the liabilities side investment ranges are defined on this basis, within which operational portfolio management is carried out. These measures are intended to safeguard the generation of an appropriate level of return. In so doing, we pay strict attention to compliance with our clearly defined risk appetite, which is reflected in the risk capital allocated to the investments and establishes the foundation for the asset allocation of the entire Hannover Re Group to the individual portfolios. In addition, we ensure that we are able to meet our payment obligations at all times. Within the scope of our asset/liability management (ALM) the allocation of investments by currencies and maturities is determined by the technical liabilities. The modified duration of our bond portfolio is geared largely to the technical liabilities.

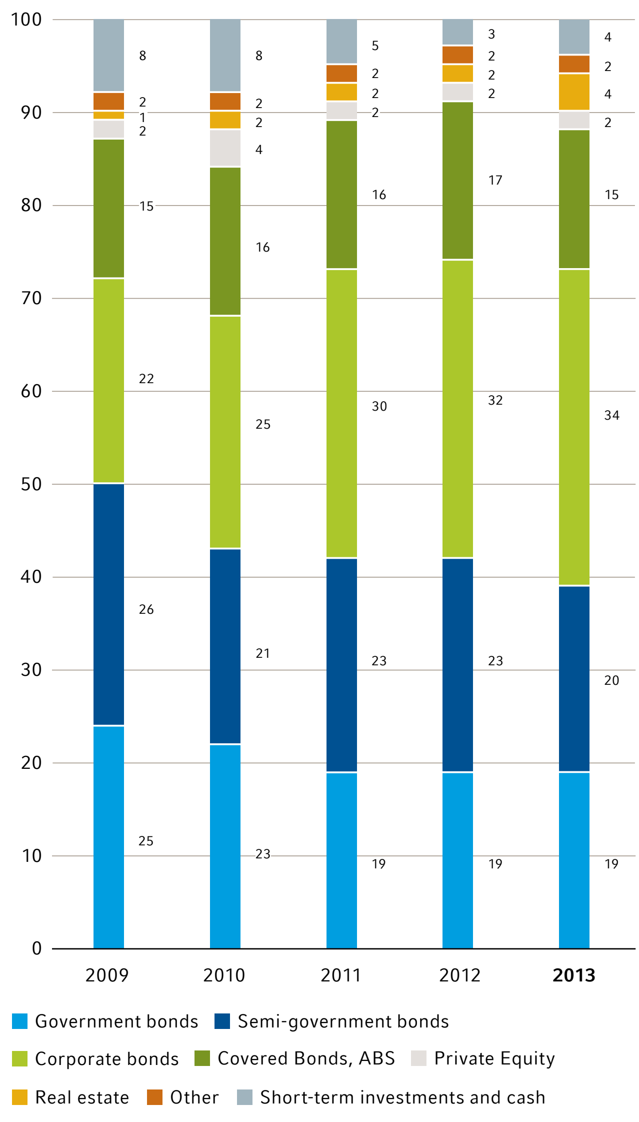
Investment portfolio

in EUR million	2013	2012	2011	2010	2009
Funds withheld	14,343	14,751	13,342	12,636	10,786
Investments under own management	31,875	31,874	28,341	25,411	22,507
Total	**46,219**	**46,625**	**41,683**	**38,047**	**33,293**

By adjusting the maturity pattern of our fixed-income securities to the expected payment patterns of our liabilities we reduce the economic exposure to the interest rate risk. In the current reporting period we slightly reduced the modified duration of our fixed-income portfolio, as a result of which it stood at 4.4 years (previous year: 4.5 years) as at 31 December 2013. Furthermore, through active and regular management of the currency spread in our fixed-income portfolio we bring about extensive matching of currencies on the assets and liabilities sides of the balance sheet, as a consequence of which fluctuations in exchange rates have only a limited effect on our result.

At year-end 2013 we held 40.7% (40.4%) of our investments in euro, 38.0% (37.1%) in US dollars, 8.3% (8.2%) in pound sterling and 4.9% (5.6%) in Australian dollars.

Breakdown of investments under own management
in %



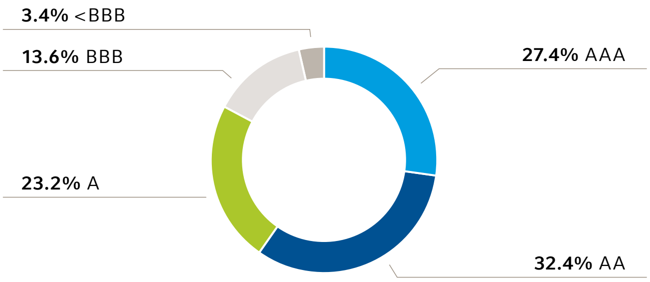
Investments

Although our portfolio of assets under own management failed to grow as expected in the course of 2013, it was still on the level of the previous year at EUR 31.9 billion (EUR 31.9 billion). This was based on a continued very pleasing cash flow from operating activities, which offset the decline in the valuation reserves connected with the yield increases observed in our main currency areas as well as depreciation in key currencies against the euro.

Compared to the previous year, we modified only slightly the allocation of our assets to the individual classes of securities: the proportions of semi-government bonds and covered bonds were both reduced somewhat, while the proportion of corporate bonds was enlarged. We also further increased the share attributable to real estate as part of the strategic expansion of this asset category. In all other classes we made only minimal changes in the context of regular portfolio maintenance.

The portfolio of fixed-income securities excluding short-term assets thus retreated slightly to EUR 28.3 billion (EUR 29.0 billion). Hidden reserves for available-for-sale fixed-income securities recognised in shareholders' equity totalled EUR 426.4 million (EUR 1,144.6 million). This reflects the yield increases observed since the end of the second quarter, especially in the area of high-quality government bonds. As to the quality of the bonds – measured in terms of rating categories –, the higher proportion of corporate bonds was marginally evident in a decrease under the "AAA" category; nevertheless, the proportion of securities rated "A" or better remained stable on a high level as at year-end at 83.0% (84.2%).

Rating of fixed-income securities



Holdings of alternative investment funds increased slightly. As at 31 December 2013 an amount of EUR 574.3 million (EUR 566.6 million) was invested in private equity funds, a further EUR 402.9 million (EUR 427.1 million) predominantly in high-return bond funds and loans; in addition, altogether EUR 252.1 million (EUR 178.8 million) was invested in structured real estate investments. The uncalled capital with respect to the aforementioned alternative investments totalled EUR 598.5 million (EUR 575.9 million).

We were again able to increase our real estate allocation somewhat in the course of the year. Various properties in Germany, the United States and Central/Eastern Europe were acquired for this purpose; further projects are under review, and the real estate allocation will therefore keep rising steadily as planned. Despite selective sales in the course of the reporting period, it currently stands at 3.6% (2.2%).

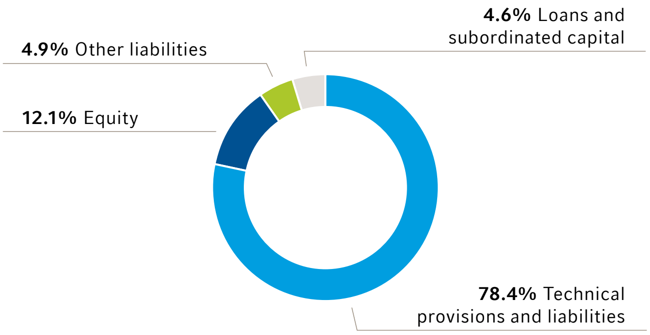
At the end of the year under review we held a total amount of EUR 1.2 billion (EUR 1.1 billion) in short-term investments and cash. Funds withheld amounted to EUR 14.3 billion (EUR 14.8 billion).

Analysis of the capital structure

The capital structure and the composition of the liabilities of Hannover Re are shaped by our activity as a reinsurer. By far the largest share is attributable to technical provisions and liabilities. Further elements are equity and equity substitutes, which help to substantially strengthen our financial base and optimise our cost of capital. The following chart shows our capital structure as at 31 December 2013, split into equity, loans and subordinated capital, technical provisions and other liabilities, in each case as a percentage of the balance sheet total.

The comparable disclosures for the previous year were adjusted pursuant to IAS 8; please see our explanatory remarks in Section 3.1 of the notes, "Changes in accounting policies", on page 139 et seq.

Capital structure as at 31 December 2013

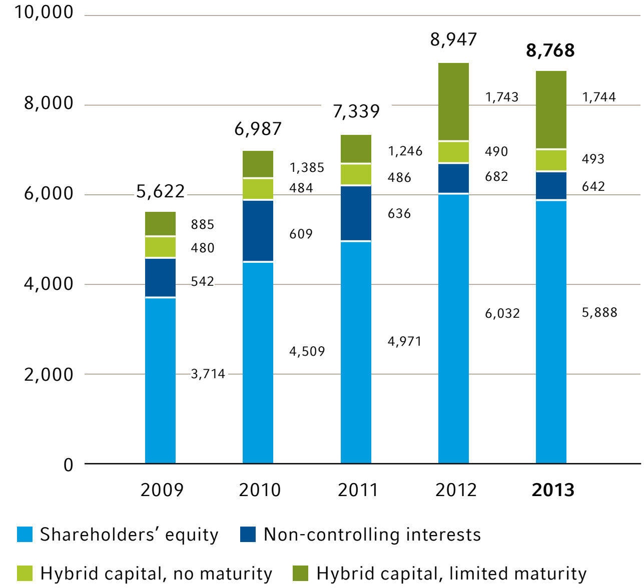


The technical provisions and liabilities shown above, which include funds withheld/contract deposits and reinsurance payable, make up 78.4% (78.2%) of the balance sheet total and are more than covered by our investments, (assets-side) funds withheld/contract deposits, accounts receivable and reinsurance recoverables.

The equity including non-controlling interests at 12.1% (12.3%) of the balance sheet total as well as the loans and – especially – subordinated capital at altogether 4.6% (4.4%) of the balance sheet total represent our most important sources of funds.

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

Development of policyholders' surplus
in EUR million



Management of policyholders' surplus

The preservation of its capital is a key strategic objective for Hannover Re. In the 2013 financial year and in recent years hybrid capital was issued as an equity substitute in order to keep the cost of capital on a low level. The policyholders' surplus is a key management ratio in the context of Hannover Re's comprehensive capital management. The policyholders' surplus is defined as follows:

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

The policyholders' surplus totalled EUR 8,767.9 million (EUR 8,947.2 million) as at the balance sheet date, a decrease of 2.0% in the year under review due to changes in cumulative other comprehensive income and in light of adjustments to the previous year pursuant to IAS 8 (cf. Section 3.1 of the notes).

Hannover Re uses "Intrinsic Value Creation" (IVC) as its central value-based management tool. With the aid of this tool we apply the principles of economic allocation of equity and efficient use of debt as an equity substitute in order to achieve the lowest possible weighted cost of capital. This concept as well as the objectives and principles in accordance with which we conduct our enterprise management and capital management are described in greater detail in our remarks on value-based management on page 24 et seq. of this report.

Hannover Re is guided in its capital management by the requirements and expectations of the rating agencies that assess the Group with an eye to its targeted rating. Furthermore, while making appropriate allowance for business policy considerations and factors that influence market presence, the allocation of capital to the Group's operational companies is based upon the economic risk content of the business group in question. The Group companies are also subject to national capital and solvency requirements. All Group companies met the applicable local minimum capital requirements in the year under review. Adherence to these capital requirements is continuously monitored by the responsible organisational units on the basis of the latest actual figures as well as the corresponding planned and forecast figures. If, despite the capital allocation mechanisms described above, a scenario occurs in which there is a danger of minimum capital requirements being undershot, suitable options are immediately discussed and measures set in motion to counteract such an eventuality. From the Group perspective we manage Hannover Re's solvency using our internal capital model, which is described in greater detail on page 78 et seq. of the opportunity and risk report.

Group shareholders' equity

In view of the favourable result, the development of the shareholders' equity of the Hannover Re Group was broadly stable despite opposing effects from currency translation and the interest rate environment. Compared to the position as at 31 December 2012, it decreased slightly by EUR 184.1 million – or 2.7% – in the year under review to EUR 6,530.0 million. After adjustment for non-controlling interests, it contracted by EUR 144.0 million to EUR 5,888.4 million. The book value

Amortised cost of our subordinated bonds

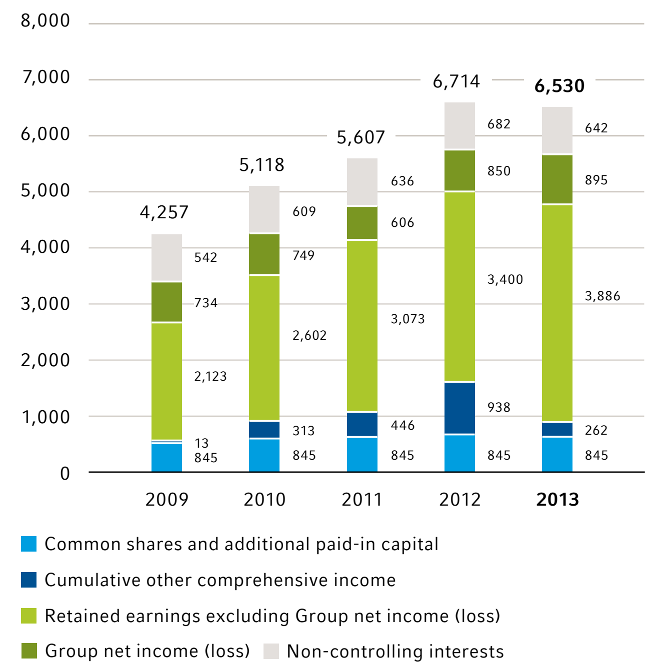
in EUR million	Issue date	Coupon in %	2013	2012
Hannover Finance (Luxembourg) S.A. subordinated debt, EUR 750 million; 2004/2024	26.2.2004	5.75	749.6	748.8
Hannover Finance (Luxembourg) S.A. subordinated debt, EUR 500 million; 2005/undated	1.6.2005	5.00	493.3	489.6
Hannover Finance (Luxembourg) S.A. subordinated debt, EUR 500 million; 2010/2040	14.9.2010	5.75	498.2	498.0
Hannover Finance (Luxembourg) S.A. subordinated debt, EUR 500 million; 2012/2043	20.11.2012	5.00	496.7	496.6
Total			**2,237.8**	**2,233.0**

per share fell accordingly by 2.4% to EUR 48.83. The changes in shareholders' equity were shaped chiefly by the following developments:

Net unrealised gains on investments recognised in the other reserves stood at EUR 533.7 million, a sharp decrease of EUR 454.2 million compared to the beginning of the year under review. This contraction was due to increased yields on high-quality government bonds as well as the appreciation of the euro.

The reserve for currency translation adjustment decreased significantly by -EUR 230.2 million from -EUR 16.2 million to -EUR 246.3 million as a consequence of exchange rate fluctuations of foreign currencies against the euro in the financial year. The fall in the reserve for currency translation adjustment resulted principally from the depreciation of the Australian dollar, South African rand and US dollar in the year under review.

Development of Group shareholders' equity
in EUR million



Non-controlling interests in shareholders' equity decreased by EUR 40.1 million to EUR 641.6 million as at 31 December 2013. This reduction was attributable primarily to the non-controlling interests in E+S Rückversicherung AG in an amount of EUR 27.9 million.

The Group net income for 2013 attributable to the shareholders of the Hannover Re Group increased to EUR 895.5 million (EUR 849.6 million). The non-controlling interest in the profit generated in the year under review totalled EUR 43.8 million (EUR 75.4 million).

Financing and Group debt

In addition to the financing effect of the changes in shareholders' equity described above, debt financing on the capital market is a key component of Hannover Re's financing. It was essentially composed of subordinated bonds issued to ensure lasting protection of our capital base – in part also in observance of rating requirements. The total volume of debt and subordinated capital stood at EUR 2,465.0 million (EUR 2,400.8 million) as at the balance sheet date.

Our subordinated bonds supplement our equity with the aim of reducing the cost of capital and also help to ensure liquidity at all times. In the previous year we issued further subordinated debt with a nominal volume of EUR 500.0 million and a maturity of approximately 30 years. As at the balance sheet date four subordinated bonds had been placed on the European capital market through Hannover Finance (Luxembourg) S.A.

The table above presents an overview of the amortised cost of our subordinated bonds.

Several Group companies have also taken up long-term debt – principally in the form of mortgage loans – amounting to EUR 227.1 million (EUR 167.8 million).

For further explanatory information please see our remarks in the notes to this report, Section 6.12 "Debt and subordinated capital", page 200 et seq., and Section 6.13 "Shareholders' equity, non-controlling interests and treasury shares", page 203.

Letters of credit have been furnished by various financial institutions as collateral for our technical liabilities. Both bilateral agreements and an unsecured syndicated guarantee facility existed as at the balance sheet date with a number of financial institutions for this purpose. We report in detail on existing contingent liabilities in the notes, Section 6.12 "Debt and subordinated capital" in our remarks on other financial facilities, page 202 et seq., and Section 8.7 "Contingent liabilities and commitments", page 222 et seq.

Analysis of the consolidated cash flow statement

Liquidity

We generate liquidity primarily from our operational reinsurance business, investments and financing measures. Regular liquidity planning and a liquid investment structure ensure that Hannover Re is able to make the necessary payments at all times. Hannover Re's cash flow is shown in the consolidated cash flow statement on page 132 et seq.

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

Consolidated cash flow statement

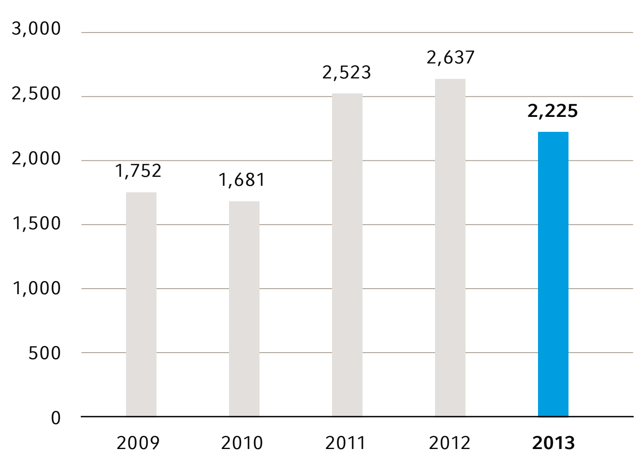
in EUR million	2013	2012
Cash flow from operating activities	2,225.5	2,637.2
Cash flow from investing activities	(1,761.5)	(2,712.9)
Cash flow from financing activities	(347.7)	148.4
Exchange rate differences on cash	(41.7)	(7.4)
Change in cash and cash equivalents	**74.6**	**65.2**
Cash and cash equivalents at the beginning of the period	572.2	507.0
Change in cash and cash equivalents according to cash flow statement	74.6	65.2
Changes in the consolidated group [1]	(3.8)	–
Cash and cash equivalents at the end of the period	642.9	572.2

[1] Cf. Section 4 "Consolidation" of the notes

Cash flow from operating activities

The cash flow from operating activities, which also includes inflows from interest received and dividend receipts, amounted to EUR 2,225.5 million in the year under review as opposed to EUR 2,637.2 million in the previous year. Along with the reduced net premium and the contraction of EUR 47.1 million in ordinary investment income, the decrease of EUR 411.7 million in the net inflow year-on-year was attributable to the higher inflow in the previous year from the retrocession of major losses, an outflow for an acquisition payment for a US portfolio and an adjustment payment for the New Zealand earthquake in the year under review.

Cash flow from operating activities
in EUR million



Cash flow from investing activities

The net cash outflows from investing activities amounted to altogether EUR 1,761.5 million in 2013 and were thus considerably lower than in the previous year. While the allocation to individual issuer classes remained broadly stable relative to the previous year, the proportion of corporate bonds was boosted and holdings of covered and semi-government bonds were reduced slightly. The further expansion of the real estate portfolio gave rise to cash outflows of EUR 507.0 million. In contrast, cash inflows from disposals in the 2013 financial year amounted to +EUR 54.6 million.

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

Cash flow from financing activities

Compared to the previous year, the cash flow from financing activities decreased by -EUR 496.1 million from EUR 148.4 million to -EUR 347.7 million. The change was influenced first and foremost by the subordinated debt 2012/2043 placed in an amount of EUR 500.0 million in the previous year. The cash outflow in the year under review was due principally to the dividend of EUR 361.8 million paid by Hannover Rück SE as well as repayment of a long-term debt in an amount of EUR 10.7 million by Hannover Re Real Estate Holdings, Inc.

Overall, allowing for the changes in the consolidated group, the cash and cash equivalents therefore increased year-on-year by EUR 70.7 million to EUR 642.9 million.

For further information on our liquidity management please see page 91 of the risk report.

Financial strength ratings

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

Financial strength ratings of the Hannover Re Group

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

Financial strength ratings of subsidiaries

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

Issue ratings of issued debt

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

All of our bonds issued by Hannover Finance (Luxembourg) S.A. are rated "a+" by A.M. Best and "A" by Standard & Poor's.

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

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

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

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

Talanx AG, Riethorst 2, 30659 Hannover, holds 50.2% (rounded) of the company's voting rights. There are no shares with special rights granting their holders powers of control, nor is there any specially structured voting control for employees who have capital participations and do not directly exercise their rights of control.

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

The powers of the Executive Board with respect to the issue and repurchase of shares are defined in the Articles of Association of Hannover Rück SE as well as in §§ 71 et seq. Stock Corporation Act. In this connection the Annual General Meeting authorised the Executive Board on 4 May 2010 pursuant to § 71 Para. 1 No. 8 Stock Corporation Act to acquire treasury shares on certain conditions for a period of five years, ending on 3 May 2015.

The following paragraphs explain major agreements concluded by the company that are subject to reservation in the event of a change of control, inter alia following a takeover bid, and describe the resulting effects. The letter of credit lines extended to Hannover Rück SE contain standard market change-of-control clauses that entitle the banks to require early repayment if Talanx AG loses its majority interest or drops below the threshold of a 25 percent participation or if a third party acquires the majority interest in Hannover Rück SE. For details of the letter of credit lines please see our explanatory remarks on other financial facilities in the notes, Section 6.12 “Debt and subordinated capital”, page 202.

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

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

Information on Hannover Rück SE

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

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

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

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

Hannover Rück SE transacts reinsurance business in the business groups of non-life and life and health reinsurance. Through its global presence and activities in all lines of reinsurance the company achieves optimal risk diversification.

Since 1 January 1997 Hannover Rück SE has written active reinsurance for the Group – with few exceptions – solely in foreign markets. Responsibility within the Hannover Re Group for German business rests with the subsidiary E+S Rückversicherung AG. Geographical risk spreading between the two companies is ensured by means of reciprocal retrocessions.

Results of operations

The 2013 financial year passed off satisfactorily for Hannover Rück SE. The gross premium of Hannover Rück SE in total business increased by 5.6% to EUR 11.1 billion (previous year: EUR 10.5 billion). The level of retained premium retreated slightly from 76.0% to 75.2%. Net premium earned grew by 5.1% to EUR 8.2 billion (EUR 7.8 billion).

The underwriting result for total business (before changes in the equalisation reserve) declined in the year under review from EUR 93.2 million to -EUR 4.7 million. An amount of EUR 267.7 million (EUR 340.7 million) was allocated to the equalisation reserve and similar provisions.

After a thoroughly untroubled first quarter we incurred numerous major losses in the course of 2013. Germany and Canada were especially heavily impacted by considerable losses from natural disasters. The hurricane season in North America and the Caribbean, on the other hand, again passed off unremarkably. The largest single losses in the year under review for Hannover Re were the hail event “Andreas” in Germany with a net loss of EUR 11.6 million and the flooding in Germany and other European countries at a cost of EUR 21.6 million. These and other major losses caused total net expenditure in 2013 of EUR 283.2 million (EUR 318.3 million).

Ordinary investment income including deposit interest clearly surpassed the previous year at EUR 1,304.8 million (EUR 1,205.9 million). This figure includes the non-recurring effect from transformation of our UK life reinsurance subsidiary into a branch in an amount of EUR 231.4 million. Net gains of EUR 43.5 million (EUR 68.9 million) were realised on disposals. Write-downs of EUR 186.7 million (EUR 25.4 million) were taken on investments. They were attributable principally

Condensed profit and loss account of Hannover Rück SE

in EUR thousand	2013	2012
Earned premiums, net of retrocession	8,209,507	7,808,183
Allocated investment return transferred from the non-technical account, net of retrocession	194,599	214,966
Other technical income, net of retrocession	425	1
Claims incurred, net of retrocession	6,254,293	5,843,453
Changes in other technical provisions, net of retrocession	21,669	(8,902)
Bonuses and rebates, net of retrocession	1,963	1
Operating expenses, net of retrocession	2,171,507	2,073,564
Other technical charges, net of retrocession	3,121	3,988
Subtotal	**(4,684)**	**93,242**
Change in the equalisation reserve and similar provisions	(267,717)	(340,657)
Net technical result	**(272,401)**	**(247,415)**
Investment income	1,385,550	1,320,197
Investment charges	268,993	86,275
Allocated investment return transferred to the technical account	(247,895)	(265,880)
Other income	109,866	77,868
Other charges	325,993	252,530
Profit or loss on ordinary activities before tax	**380,134**	**545,965**
Taxes on profit and income and other taxes	12,973	135,711
Profit for the financial year	**367,161**	**410,254**
Profit brought forward from previous year	89,209	40,746
Withdrawals from other retained earnings	–	1,021
Allocations to other retained earnings	370	1,021
Disposable profit	**456,000**	**451,000**

to shares in affiliated companies and fixed-income securities. The write-downs contrasted with write-ups of EUR 14.4 million (EUR 29.6 million) that were made on assets written down in previous periods in order to reflect increased fair values. Provisions for contingent losses of EUR 21.7 million were established in the reporting period due to lower fair values of some of our inflation swaps. These new provisions were opposed by reversals of provisions for contingent losses constituted for technical derivatives in an amount of just EUR 6.1 million.

All in all, our net investment result therefore contracted to EUR 1,116.6 million (EUR 1,233.9 million).

The profit on ordinary activities decreased to EUR 380.1 million (EUR 546.0 million). The year under review closed with a profit for the year of EUR 367.2 million (EUR 410.3 million).

Development of the individual lines of business

The following section describes the development of the various lines of business. Hannover Rück SE also participates in the German reinsurance market through intra-Group retrocessions from E+S Rückversicherung AG. The proportion of Hannover Rück SE's gross written premium attributable to business accepted from E+S Rückversicherung AG stood at 3.7% (3.8%) in the year under review.

Fire

Total gross premium for the fire line again grew by an appreciable 8.1% in the 2013 financial year to EUR 1,375.7 million (EUR 1,272.1 million). The net loss ratio deteriorated in the year under review from 59.4% to 64.0%. After an underwriting result of EUR 157.6 million in the previous year, the fire line closed with a profit of EUR 105.3 million in 2013. An amount of EUR 148.4 million (EUR 201.3 million) was allocated to the equalisation reserve and similar provisions.

Fire

in EUR million	2013	2012
Gross written premium	1,375.7	1,272.1
Loss ratio (%)	64.0	59.4
Underwriting result (net)	105.3	157.6

Casualty

Gross premium in casualty business contracted by 2.5% to EUR 1,228.0 million (EUR 1,259.5 million). The loss ratio increased slightly from 92.4% to 96.6%. The underwriting result consequently slipped back to -EUR 209.8 million (-EUR 164.8 million). An amount of EUR 34.2 million was withdrawn from the equalisation reserve and similar provisions in the year under review; the allocation in the previous year had totalled EUR 27.5 million.

Casualty

in EUR million	2013	2012
Gross written premium	1,228.0	1,259.5
Loss ratio (%)	96.6	92.4
Underwriting result (net)	(209.8)	(164.8)

Accident

Gross premium climbed sharply as anticipated by 25.9% to EUR 362.2 million (EUR 287.8 million). Profitability was gratifying: the very good loss ratio of 51.1% in the previous year was almost maintained in the year under review at 52.8%. The underwriting result came in at a very pleasing EUR 31.9 million, after EUR 41.0 million in the previous year. An amount of EUR 2.5 million was allocated to the equalisation reserve and similar provisions, following an allocation of EUR 8.1 million in the previous year.

Accident

in EUR million	2013	2012
Gross written premium	362.2	287.8
Loss ratio (%)	52.8	51.1
Underwriting result (net)	31.9	41.0

Motor

The gross premium volume for the motor line contracted by 12.7% to EUR 653.8 million (EUR 748.6 million). The loss ratio slipped back to 78.9% (74.7%). The underwriting result decreased slightly year-on-year to -EUR 21.2 million (-EUR 20.6 million). An amount of EUR 37.2 million (EUR 1.8 million) was withdrawn from the equalisation reserve and similar provisions.

Motor

in EUR million	2013	2012
Gross written premium	653.8	748.6
Loss ratio (%)	78.9	74.7
Underwriting result (net)	(21.2)	(20.6)

Aviation

The gross premium volume contracted in the year under review from EUR 405.2 million to EUR 384.5 million. The major loss experience was once again unremarkable. Against this backdrop the net loss ratio decreased to 50.9% (69.6%). The underwriting result came in at a very good EUR 66.1 million (EUR 27.5 million). Following an allocation of EUR 6.8 million in the previous year, the equalisation reserve and similar provisions were boosted by an amount of EUR 34.0 million in the year under review.

Aviation

in EUR million	2013	2012
Gross written premium	384.5	405.2
Loss ratio (%)	50.9	69.6
Underwriting result (net)	66.1	27.5

Marine

Gross written premium declined by 4.8% to EUR 414.4 million (EUR 435.2 million). The net loss ratio improved from 81.3% to a pleasing 49.4%. The underwriting result consequently climbed from -EUR 11.7 million to EUR 75.5 million. The previous year had been overshadowed by significant strains from major losses due to the wreck of the "Costa Concordia" cruise ship as well as Hurricane "Sandy". An amount of EUR 123.3 million (EUR 35.3 million) was allocated to the equalisation reserve and similar provisions.

Marine

in EUR million	2013	2012
Gross written premium	414.4	435.2
Loss ratio (%)	49.4	81.3
Underwriting result (net)	75.5	(11.7)

Life

Gross premium income in the life line remained on the level of the previous year at EUR 3.9 billion. The flat premium volume is attributable primarily to the saturated insurance market in European countries, where premium growth rates have been on the retreat for years, as well as to termination of a large treaty from the United States. Nevertheless, we succeeded in boosting our market share of new business in the United States despite a declining market overall. Furthermore, the sluggish effects were offset by a positive business development in China, France and some parts of Eastern Europe.

A strengthening of the reserves for Australian disability business, which was made necessary by elevated risk experiences market-wide, caused the underwriting result to deteriorate sharply from EUR 67.2 million to -EUR 53.6 million.

Life

in EUR million	2013	2012
Gross written premium	3,893.5	3,912.1
Underwriting result (net)	(53.6)	67.2

Other lines

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

The total premium volume in the other lines increased by 28.0% to EUR 2.7 billion (EUR 2.1 billion). The loss ratio of 76.0% was virtually unchanged from the previous year (73.1%). The underwriting result closed at EUR 1.0 million in the year under review, after -EUR 3.0 million in the previous year. An amount of EUR 31.0 million (EUR 63.4 million) was allocated to the equalisation reserve and similar provisions.

Other lines

in EUR million	2013	2012
Gross written premium	2,735.8	2,136.8
Loss ratio (%)	76.0	73.1
Underwriting result (net)	1.0	(3.0)

Assets and financial position

Balance sheet structure of Hannover Rück SE

in EUR thousand	2013	2012
Assets		
Intangible assets	73,438	23,928
Investments	33,203,262	30,452,002
Receivables	2,029,910	2,196,172
Other assets	386,231	229,067
Prepayments and accrued income	200,150	179,184
Total assets	**35,892,991**	**33,080,353**
Liabilities		
Subscribed capital	120,597	120,597
Capital reserve	880,608	880,608
Retained earnings	380,511	380,511
Disposable profit	456,000	451,000
Capital and reserves	**1,837,716**	**1,832,716**
Subordinated liabilities	1,800,000	1,800,000
Technical provisions	27,684,284	25,276,558
Provisions for other risks and charges	319,702	335,905
Deposits received from retrocessionaires	3,219,018	2,882,346
Other liabilities	1,032,271	952,828
Total liabilities	**35,892,991**	**33,080,353**

Our portfolio of assets under own management grew in the year under review to EUR 20.8 billion (EUR 19.5 billion). This corresponds to an increase of 6.3% and can be attributed above all to the very positive operating cash flow, which offset the yield increases recorded especially on high-quality government bonds as well as the softening of key foreign currencies against the euro. The balance of unrealised gains on fixed-income securities and bond funds consequently decreased to EUR 414.7 million (EUR 798.3 million).

Deposits with ceding companies, which are shown under the investments, totalled EUR 12.4 billion (EUR 10.9 billion) in the year under review.

Our capital and reserves – excluding the disposable profit – stood at EUR 1,381.7 million (EUR 1,381.7 million). The total capital, reserves and technical provisions – comprised of the capital and reserves excluding disposable profit, the subordinated liabilities, the equalisation reserve and similar provisions as well as the net technical provisions – grew during the year under review to EUR 30,866.0 million (EUR 28,458.3 million). Based on the increase in the total capital, reserves and technical provisions, the balance sheet total of Hannover Rück SE grew to EUR 35.9 billion (EUR 33.1 billion).

A dividend of EUR 2.60 and a bonus of EUR 0.40 per share, equivalent to 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.

Risks and opportunities

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

Other information

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

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

Outlook

In November 2013 the responsible bodies of Hannover Rück SE and its subsidiary E+S Rückversicherung AG decided to reorganise the business relationship between the two companies with effect from 1 January 2014. The exchange of business under the joint underwriting arrangements is to be discontinued at the beginning of 2014. In non-life reinsurance business, however, a retrocession from Hannover Rück SE to E+S Rückversicherung AG will be maintained. The exclusive responsibility borne by E+S Rückversicherung AG for German business and by Hannover Rück SE for international business remains in place.

In view of the interrelations between the parent company and the Group companies and the former's large share of business within the Group, we would refer here to our remarks contained in the section entitled "Outlook for the full 2014 financial year" on page 124, which also reflect in particular the expectations for Hannover Rück SE. For 2014, as in recent years, we are again targeting a payout ratio for the dividend in the range of 35% to 40% of Group net income.

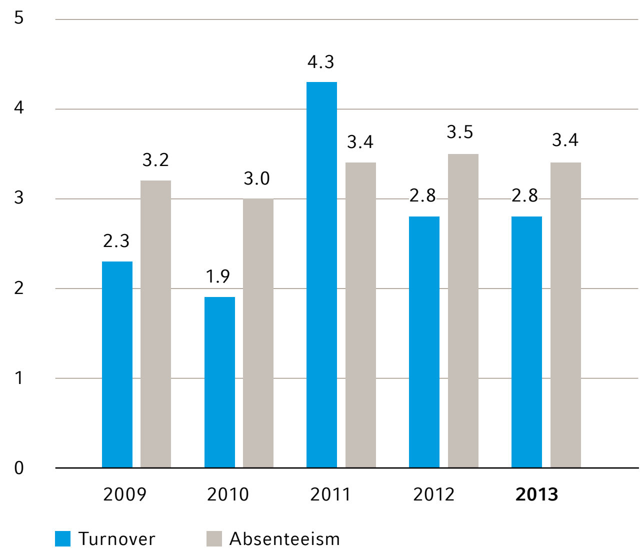
Other success factors

Our staff

Key personnel ratios

The Hannover Re Group employed 2,419 (previous year: 2,312) staff as at 31 December 2013. The turnover ratio at Home Office in Hannover of 2.8% was unchanged from the previous year (2.8%). The rate of absenteeism – at 3.4% – was slightly below the previous year (3.5%). The turnover ratio and rate of absenteeism continued to be below the average expected across the industry as a whole.

Staff turnover/absenteeism Hannover Home Office
in %



Employee survey analysed and findings translated into practice

The skills and dedication of our staff are a high-value asset for our company. It is for this reason that we conduct an internal employee survey – usually every other year – in order, among other things, to ascertain how satisfied our employees are with their tasks, their working conditions, their development and advancement as well as to explore the topics of cooperation and leadership.

Working through this survey, carried out most recently at the end of 2012, was one of the dominant themes of our work in human resources in the financial year just ended. The Executive Board also considered the survey and its findings on several occasions at its meetings.

As an overall statement, it is very pleasing to note that the vast majority of our employees are highly satisfied with their tasks and general conditions. For example, 93% of our workforce finds our company to be a particularly good place to work. The responses to questions such as whether our employees enjoy coming to work or whether they would choose to work for our company again are similarly positive. Job activities are for the most part also rated as interesting, varied and challenging for one's own individual skill set.

It goes without saying that the survey also revealed areas in need of improvement. As regards the content of human resources activities, our employees would like to see, among other things, an expanded range of opportunities for development and advancement. This would provide fresh incentives to learn, especially for staff who already have extensive professional experience and considerable expertise. Further room for improvement was identified, for example, in the expansion of opportunities for project work and in the handling of conflicts.

We have already picked up on many of these suggestions in the financial year just ended. With a view to better fostering seasoned members of staff, for example, we designed a seminar which deals with difficult decision-making situations of the type that present themselves increasingly often in our employees' everyday working lives. We also continued to hold our so-called "Client Centric Re Skills" seminar, which is aimed at experienced senior underwriters wishing to supplement their already well-proven negotiating skills with successful alternative approaches.

The individual specialist units took it upon themselves to foster opportunities for project work, devising appropriate solution approaches on a decentralised basis. On the one hand, these emphasise the need to inform staff so as to make it clear which projects are upcoming for which areas of the company. On the other hand, for example, opportunities for members of staff to apply independently for project work were improved.

With a view to strengthening our internal conflict management, we subjected our relevant personnel development tools to fresh scrutiny. In this connection we offer our managers wide-ranging support tailored to specific issues, including for example mediation, coaching, process support and specially created seminars such as our "Conflict manager".

Mentoring programme successfully up and running

Part of our diversity management intended to boost the proportion of women in our company's management ranks, our mentoring programme got off to a very successful start. Five tandems of female employees and seasoned managers met regularly for a productive exchange to discuss the individual issues faced by our mentees. On the part of the company we assist these discussions by means of process support. In addition, the mentees were given the opportunity to share their experiences with one another at an event held halfway through the year. This occasion was enriched by a practically oriented workshop on the theme of "Image as a success factor".

Breakdown of employees by country

	2013	2012
Germany	1,219	1,164
United States	280	283
United Kingdom	208	186
South Africa	164	164
Sweden	89	86
Australia	85	75
China	56	60
France	50	55
Ireland	50	45
Bermuda	43	41
Malaysia	43	36
Bahrain	42	36
Columbia	25	20
Italy	12	13
Japan	10	9
Korea	9	9
India	8	8
Spain	7	7
Mexico	6	3
Canada	5	4
Brazil	4	4
Taiwan	4	4
Total	2,419	2,312

Further tools successfully established

We devoted considerable effort in the financial year just ended to the establishment of further personnel (development) tools that we had newly created or revised in recent years. Mention should be made first and foremost here of "blended learning" and the implementation of management feedback.

Blended learning, i.e. the interlinking of electronic study programmes with tutoring support and traditional face-to-face classes, has now become established as our standard form of basic reinsurance instruction. In the financial year just ended we again carried out four modularly structured training events spanning several weeks on the basis of blended learning. Thanks to its universal structure and multilingual design our employees abroad were also able to profit from this training opportunity. With a view to making our training processes even more professional, we also initiated a project to explore the structure of a state-of-the-art learning management system tailored to meet our requirements.

Our reorganised management feedback, by means of which managers receive feedback from their employees and supervisors, also proved its worth. Geared systematically towards our Management Principles, this tool is now used successfully by all executive staff and chief/senior managers with managerial responsibility for disciplinary matters. In general terms, the high quality of our management performance was confirmed. At the close of the financial year just ended we also prepared the next implementation round for our executive staff, who will already be experiencing this new form of feedback for the second time; this will make it possible to identify developments and trends in relation to the previous survey, which will hopefully attest to a further strengthening of our management quality.

Employee participation in Hannover Rück SE

With the entry in the commercial register of Hannover Country Court the transformation of Hannover Rückversicherung AG into the legal form of a European Company, Societas Europaea (SE), came into effect on 19 March 2013. The negotiations conducted by management with the Special Negotiating Body regarding the structuring of the participation procedure and the determination of employee participation rights in the SE were an important milestone in the process of conversion into an SE. On 23 January 2013 the negotiations were successfully concluded with the signing of the Participation Agreement.

By this time it had been necessary to resolve numerous questions and issues between the parties on the basis of the Act on the Participation of Employees in a European Company (SEBG). While this legislation is intended to safeguard in an SE the rights acquired by employees to participate in company decisions, it leaves room for interpretation as to the specifics. In accordance with the SEBG negotiations with the Special Negotiating Body can take as long as six months and may be extended under certain conditions – an option which the parties to the negotiations made use of.

The negotiations centred on, among other things, matters such as the responsibilities of the SE Employee Council, the number of seats assigned to a Member State in the SE Employee Council and the allocation of seats. It was necessary to determine whether one or two annual regular meetings of the SE Employee Council should be held and establish rules governing formation, tasks, number of meetings and number of members of an Executive Committee. A further important step was to reach agreement on an information and consultation procedure to facilitate dialogue between the SE Employee Council and the Executive Board of Hannover Rück SE. Another key point of negotiation was the rules governing co-determination on the Supervisory Board.

Word of thanks to our staff

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

Sustainability at Hannover Re

The sustainability strategy of the Hannover Re Group

Profit and value creation are indispensable prerequisites for sustainable development in the interests of our clients, shareholders, staff and business partners. As a leading player in the reinsurance industry, our commercial success is crucially dependent on the correct assessment and evaluation of present and emerging risks. Sustainability therefore not only forms an important part of how we see our business in general, it also has a direct bearing on our operational activities. Our goal is to achieve economic success in conformity with legal regulations and in light of the needs of our clients, staff and the company, while also giving due consideration to conservation of the environment. In so doing, our premises of financing growth through self-generated profits and avoiding imbalances that could necessitate capital measures continue to apply unchanged. Our operations are thus guided primarily by profitability considerations and we concentrate on attractive segments of reinsurance business.

With this in mind, in September 2011 we drew up a Sustainability Strategy for Hannover Re in which we explicitly commit to our strategic objective of sustainable value creation. This Sustainability Strategy is based on good and sustainable implementation of all compliance requirements and fleshes out in more concrete terms relevant aspects of the higher-level corporate strategy of the Hannover Re Group. For us, sustainability encompasses the following five action fields:

- Governance and dialogue
- Product responsibility
- Successful employees
- Procurement and environmental protection
- Social commitment

Governance and dialogue

As an internationally operating company, Hannover Re bears responsibility in various senses. This is true of its compliance with relevant laws and regulations, but also applies to its relationship with staff, shareholders, the public at large and the cultures within which the company operates. As a company based in Germany, the formal framework that shapes our corporate governance is determined by German law. With few exceptions Hannover Re fulfils all the recommendations of the German Corporate Governance Code (DCKG), cf. page 95. What is more, our Code of Conduct serves as a further guide for our day-to-day actions.

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

Since 2009 Hannover Re's sustainability performance has been regularly evaluated by the rating agency oekom research. Since 2013, upon completion of the current rating process, we have been ranked among the leading companies in our industry and we fulfil the industry-specific minimum requirements. This is reflected in our inclusion in the oekom research Prime Standard.

Building on the active and open dialogue that we initiated with key stakeholder groups in 2010, we conducted a second stakeholder survey in the year just ended. In this context we again engaged in a dialogue with some 30 representatives of the capital market, clients, employees, non-governmental organisations and the public sector, thereby gaining not only recognition for our reporting but also valuable suggestions in relation to future topics.

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

Product responsibility

Our range of reinsurance products and services is geared to the needs of the market and our clients. In response to changing social challenges, new economic, social and ecological risks – known as emerging risks – are increasingly reflected in our risk assessment. Examples of emerging risks include demographic change, the formation of megacities, shortage of resources, climate change and its impacts on global development (natural disasters, environmental damage) as well as pandemics. We use all internally and externally acquired insights in order to be able to offer better insurance solutions. In so doing, we devote special attention to protecting against risks that result from climate change and providing insurance coverage for socially vulnerable groups. This is especially relevant in developing countries, where a constantly growing demand for food makes it important to have coverage for livestock and crop failures.

In our understanding, product responsibility also extends to the management of our investment portfolio. The goal of our investment strategy is to generate a commensurate market return in the interests of our clients, institutional investors and private investors. In this context we pay attention not only to traditional financial considerations but also to environmental, social and governance (ESG) criteria. Since 2012 our investment policy has been guided specifically by the ten principles of the United Nations Global Compact and thus also recognises the aspects of human rights, working conditions, the environment and anti-corruption. Since 2013 our investments have been reviewed half-yearly to verify compliance with these ESG standards. Exclusion from our investment universe is provided for in the event of failure to comply with the criteria. Furthermore, investments in correspondingly identified securities are also prospectively avoided. As we develop and continuously review our investment strategy, we work together with a service provider that specialises in sustainability.

Successful employees

The success of our company is directly dependent on the successful work of our staff. We therefore pay special attention to their skills, experience and commitment and we attach considerable importance to outstanding personnel development and management activities. In this context, the compatibility of career and private life for our employees is especially significant. By way of flexible working-time models and telecommuting Hannover Re promotes a balance between these two elements.

Furthermore, we attach particular importance to maintaining the physical and mental well-being of our staff. The focus is on the prevention of disease. Through medical check-ups by the company physician, workplace inspections, advice on matters of general medicine as well as an extensive range of sporting opportunities we seek to play our part in helping our employees to stay healthy.

Procurement and environmental protection

Hannover Re is committed to keeping negative environmental impacts of its business operations as low as possible. With this in mind, the focus of our efforts is on reducing carbon dioxide (CO2) emissions as we move towards climate neutrality by the year 2015. A major step towards achieving this goal was the implementation of our Environmental Management System at Hannover Home Office in 2012. Shortly after launch it was successfully certified according to DIN EN ISO 14001; its conformity was recertified in this year's maintenance audit.

We took another step towards our goal of climate neutrality with the construction of a photovoltaic system on the roof of our main office premises in Hannover at the end of 2013. From 2014 onwards all the power that it generates will be fed directly into the building's own grid. Depending on the actual number of hours of sunshine, the system can generate some 145,000 kilowatt hours of solar power per year, which is roughly equivalent to the electricity consumption of 42 two-person households. Put another way, this means that approximately 136 tonnes of harmful CO_2 emissions will be avoided each year.

Hannover Re's carbon dioxide emissions at the Hannover Home Office location amounted to 7,203 (previous year: 4,984) tonnes in 2013, some 44.5% more than in the previous year. In addition to an increased number of kilometres flown on business, the considerably higher level of carbon dioxide pollution can be attributed to a greater need for heating on account of a longer winter.

In 2013, as in previous years, we also offset our absolute CO_2 footprint of 6,859 (4,743) tonnes caused by airline and train travel by making voluntary offsetting payments to the international organisation "atmosfair" and to Deutsche Bahn AG.

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

Social commitment

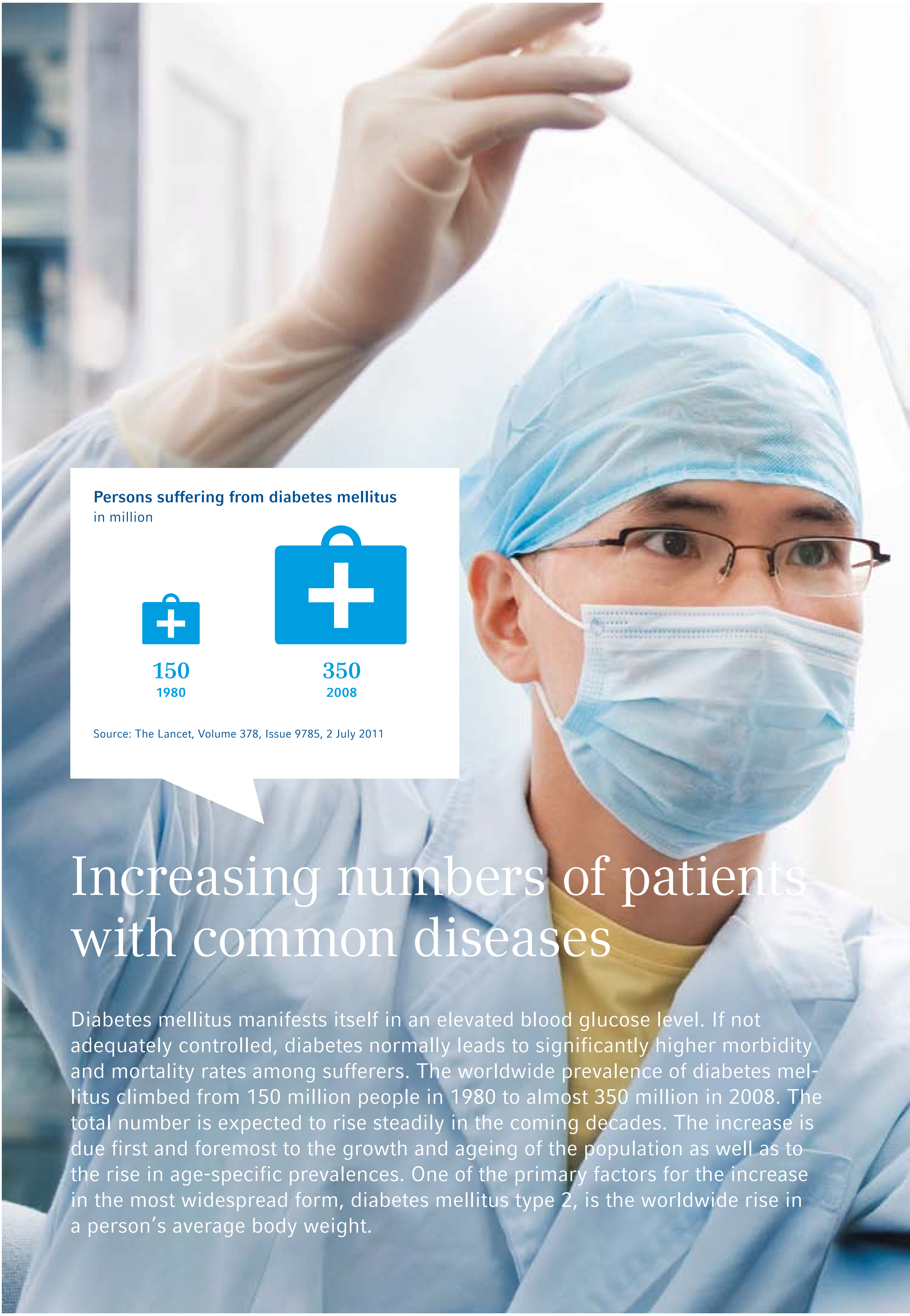
Hannover Re's commitment as a sponsor in the areas of art and culture as well as research and learning goes back to its founding in 1966. Essentially, our social involvement is subdivided into four areas: sponsorship, foundation support, donations and voluntary activities performed by our staff as well as their passing on of know-how on a local basis at our various locations worldwide.

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

Resources consumed at Hannover Home Office

	2013 [3]	2012 [3]	2011 [2]	2010 [1]	2009 [1]
Electricity (in kWh)	9,114,482	8,802,262	8,214,917	8,055,429	8,014,946
Heat (in kWh)	3,359,694	2,319,854	1,859,119	2,383,918	2,314,009
Water (in l)	15,778,000	14,961,000	14,464,500	14,722,000	12,100,000
Paper (in sheets)	8,502,060	8,766,000	9,172,180	9,074,300	8,488,368
Waste (in kg)	214,250	205,790	257,400	297,000	327,000
Business trips (in km)	18,185,062	16,654,504	17,658,598	16,018,500	15,179,745
CO_2 emissions [4] (in kg)	7,203,000	4,984,000	8,123,000	7,685,000	9,005,000

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



Persons suffering from diabetes mellitus
in million

150	350
1980	2008

Source: The Lancet, Volume 378, Issue 9785, 2 July 2011

Increasing numbers of patients with common diseases

Diabetes mellitus manifests itself in an elevated blood glucose level. If not adequately controlled, diabetes normally leads to significantly higher morbidity and mortality rates among sufferers. The worldwide prevalence of diabetes mellitus climbed from 150 million people in 1980 to almost 350 million in 2008. The total number is expected to rise steadily in the coming decades. The increase is due first and foremost to the growth and ageing of the population as well as to the rise in age-specific prevalences. One of the primary factors for the increase in the most widespread form, diabetes mellitus type 2, is the worldwide rise in a person's average body weight.

The steadily rising number of patients afflicted by common diseases poses new challenges for research and medicine as well as for society and insurance companies.

Opportunity and risk report

Risk report

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

Risk landscape of Hannover Re

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

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

At the present time our most significant risks are the reserving and catastrophe risks within the technical risks of non-life reinsurance, the credit and spread risks within the market risks and the risk of changes in mortality within the technical risks of life and health reinsurance.

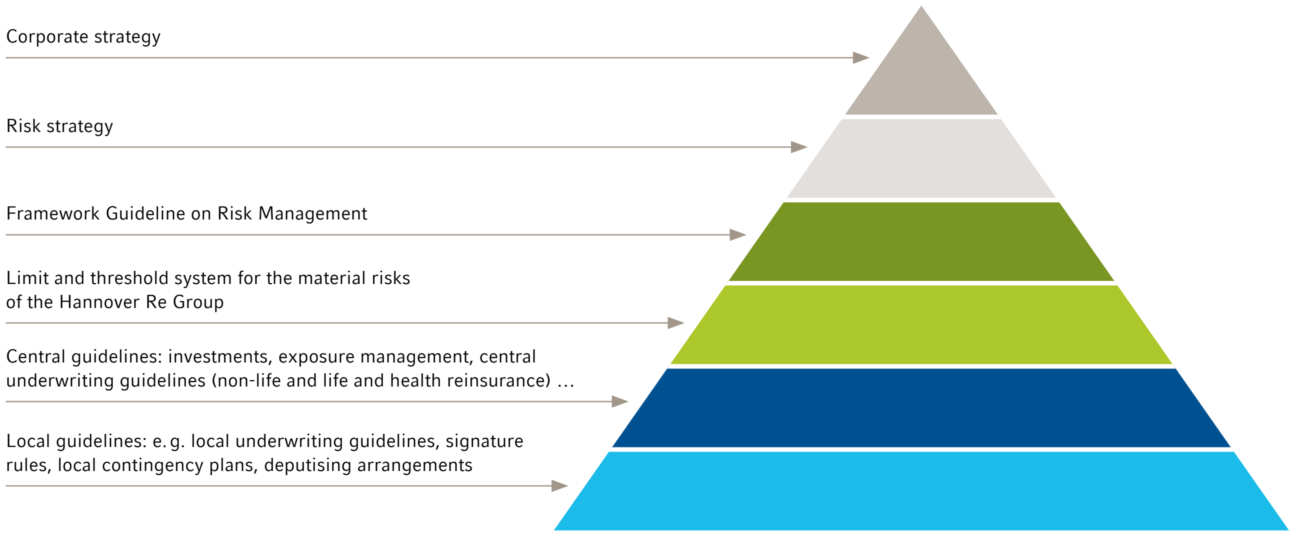
- Reserving risks can manifest themselves when the current estimates of future payment obligations from existing insurance contracts diverge from the payments that are actually to be made in the future.
- Catastrophe risks can give rise to loss payments for natural disasters, such as storms or earthquakes, and man-made disasters, such as terrorist attacks or accidents in the air or at sea, the amount of which exceeds the losses anticipated over the multi-year average.
- Credit and spread risks result from fair value changes or defaults in connection with our investments in fixed-income securities issued by companies or sovereigns or in asset-backed securities.
- Risks of changes in mortality derive from the difference between the mortality of insureds factored into the pricing and reserving and the actual mortality.

Our risk profile remained stable over the financial year just ended. The risks essentially increased in step with the growth of our business. Particularly notable aspects are described in the following sections.

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

By expanding our portfolio of life and health reinsurance we reduce the volatility of results within the Group and maintain stable dividend payments. Along with our principal business operations as a reinsurer of non-life and life and health business, we also transact primary insurance business in selected niche markets as a complement to our core reinsurance business. With this approach we are well positioned for further profitable growth. Crucial importance attaches to our risk management in order to ensure, among other things, that risks to the reinsurance portfolio remain calculable and also that exceptional major losses do not have an unduly adverse impact on the result.

Operationalisation of the risk strategy



Strategy implementation

The risk strategy derived from the corporate strategy constitutes the basis for our handling of opportunities and risks. The strategy is implemented on multiple levels.

Our corporate strategy encompasses ten basic strategic principles, which safeguard across divisions the accomplishment of our mission "Growing Hannover Re profitably". The orientations of the different business groups are guided by these principles and thus contribute directly to attainment of the overarching goals. Key strategic points of departure for our Group-wide risk management are the principles of active risk management, an adequate capital base and sustained compliance. For further information on the corporate strategy and the strategic principles in detail please see the section entitled "Our strategy" on p. 16 et seq.

The risk strategy specifies more concretely the goals derived from our corporate strategy with respect to risk management and documents our understanding of risk. With a view to achieving these goals, we have defined ten overriding principles that are set out in our risk strategy:

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

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

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

Strategic targets for the risk position

	Limit	2013
Probability of positive Group net income	>90%	94.9%
Probability of complete loss of shareholders' equity	<0.03%	0.01%
Probability of complete loss of economic capital	<0.03%	<0.01%

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

In the year under review it was first and foremost the agreement reached in November 2013 on the implementation of Solvency II effective 1 January 2016 that was of importance. The main goals of the Solvency II framework directive are to strengthen protection for insureds, put in place consistent competitive standards in the insurance sector of the European Single Market and hence ensure a broadly uniform regulatory practice in Europe. Key details must still be determined on the European and national level before the new regime can fully enter into effect on 1 January 2016. Hannover Re has been preparing intensively for Solvency II for years and is well equipped to provide the markets with tailored products. We believe that we are well placed for Solvency II because we are a solid and low-risk contracting partner with an excellent rating. We can make multiple use of the know-how that we have acquired through development of the internal capital model, and we expect the convergence of supervisory, rating and internal capital requirements to bring relief that will provide us with additional reinsurance capacity.

Further major external influencing factors are the protracted low level of interest rates and the Euro debt crisis. For further information on these topics please see the "Investments" section of the management report on page 50 et seq.

Risk capital

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool.

The internal capital model of the Hannover Re Group is a stochastic enterprise model. It covers all subsidiaries and business areas of the Hannover Re Group. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the business valuation likely to be adopted in future under Solvency II.

Hannover Re's internal capital model reflects all risks that influence the development of the economic capital. They are split into technical risks, market risks affecting investments, credit risks and operational risks. For each of these risk classes we have identified a number of risk factors for which we define probability distributions. These risk factors include, for example, economic indicators specific to each currency area, such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators such as the mortality of a particular age group within our insurance portfolio in a particular country or the number of natural catastrophes in a certain region and the insured loss amount per catastrophe. The specification of the probability distributions for the risk factors draws upon historic and publically available data as well as on the internal (re)insurance data stock of the Hannover Re Group. The process is further supplemented by the know-how of internal and external experts. The suitability of the probability distributions is regularly checked by our specialist departments, although more importantly it is also verified in the context of the regular, company-wide use of the capital model when assessing risks and allocating the cost of capital.

Hannover Re calculates the required risk capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation of the Hannover Re Group is therefore significantly higher than the confidence level of 99.5% which will be required in future under Solvency II. It goes without saying that Hannover Rück SE also meets the current capital requirements set by regulators. The capital coverage ratio under Solvency I stood at 147% as at 31 December 2013. Since the corresponding calculation is neither market-consistent nor risk-based a relevant comparison with the coverage ratio under the internal capital model is not possible.

Available capital and required risk capital[1]

in EUR million	2013		2012	
Available economic capital	11,143.9		10,693.7	
Confidence level	**99.97%**	**99.5%**	**99.97%**	**99.5%**
Required risk capital	6,896.9	3,375.2	6,292.1	3,190.5
Excess capital	4,247.0	7,768.6	4,401.5	7,503.1
Capitalisation ratio	161.6%	330.2%	170.0%	335.2%

[1] The presentation of the risks was amended in the reporting period. The required risk capital is now shown as the change relative to the expected value (rather than the initial value) and the expected result is reflected in the available capital. The previous year's figures for the required and available capital have been restated accordingly.

The Hannover Re Group is seeking approval of its internal model for the determination of regulatory capital under Solvency II. In the event of approval and depending on the final measurement rules of Solvency II, the capitalisation with a confidence level of 99.5% constitutes an indication of the fulfilment of future regulatory requirements.

Our excess capital coverage at the target confidence level of 99.97% is currently very comfortable. We hold additional capital above all to meet the requirements of the rating agencies for our target rating. In this connection we strive for a rating from the rating agencies most relevant to our industry that facilitates and secures our access to all reinsurance business worldwide.

Hannover Re is analysed by the rating agencies Standard & Poor's (S&P) and A.M. Best as part of an interactive rating process, meaning that both these rating agencies are also given access to confidential information about Hannover Re. The current financial strength ratings are assessed as "AA-" (Very Strong, stable outlook) by Standard & Poor's and "A+" (Superior, stable outlook) by A.M. Best.

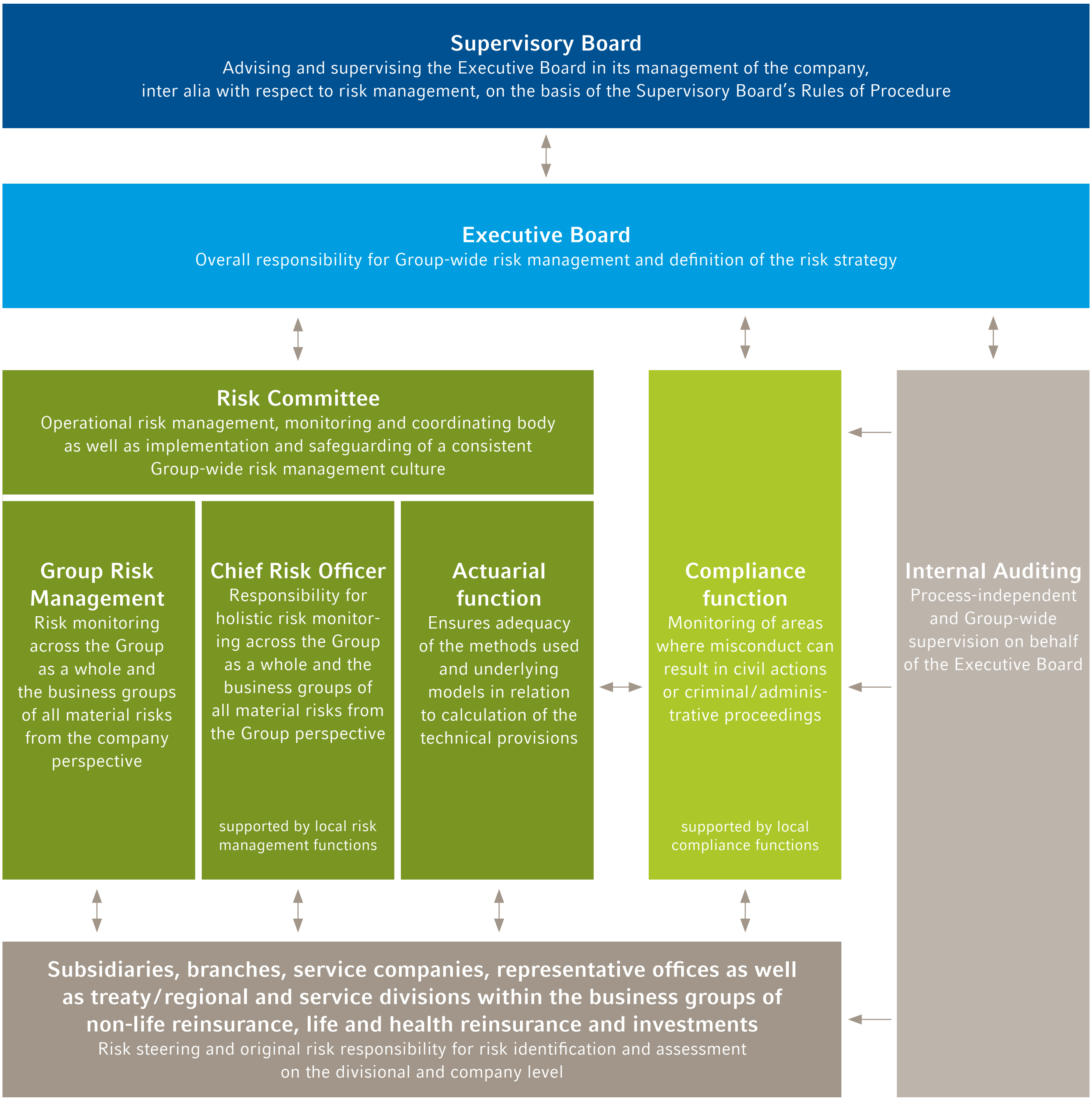
Standard & Poor's evaluates Hannover Re's risk management as "Very Strong", the best possible rating. The rating highlights, in particular, the company's very good risk management, the consistent and systematic implementation of corporate strategy by management and the excellent capital resources. Hannover Re's internal capital model is also examined as part of the rating. Based on this review, Standard & Poor's factors the results of the internal capital model of the Hannover Re Group into the determination of the target capital for the rating.

Organisation and processes of risk management

Our Group-wide risk management is geared to making a significant contribution to profitable growth and hence to implementation of our strategy through the systematic weighing up of opportunities and risks. Profit and value creation constitute the foundation of our sustainable development in the interests of our clients, shareholders, employees and business partners.

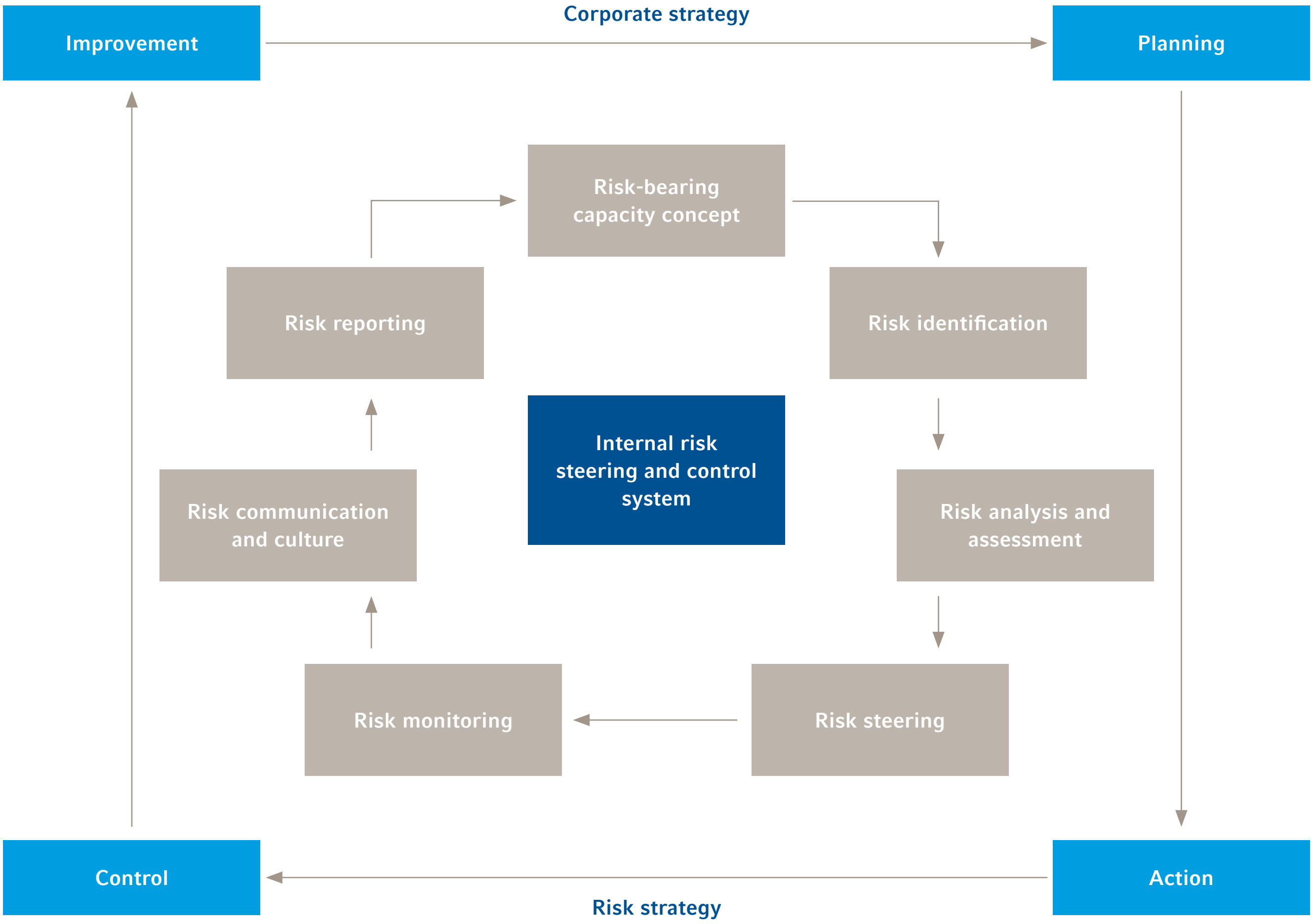
Hannover Re has set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The individual elements of risk management are closely interlinked in this system and the roles, tasks and reporting channels are clearly defined and documented in guidelines. This makes possible a shared understanding of Group-wide and holistic monitoring of all material risks. Regular meetings of the Group-wide risk management functions are held in order to promote risk communication and establish an open risk culture. The organisation and interplay of the individual risk management functions are fundamental to our internal risk management and control system. The following chart provides an overview of the central functions and bodies within the overall system as well as of their major tasks and powers.

Central functions of risk monitoring and steering



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

Internal risk steering and control system



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

Risk-bearing capacity concept

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

Risk identification

The most important source of information for monitoring risks is the risk identification carried out on a rotating basis. In order to ensure that all risks are identified in the context of risk identification an overarching categorisation containing all material risks has been established. Risk identification is carried out – adjusted to fit the particular risk – by way of, for example, structured assessments, interviews, scenario analyses, checklists or standardised questionnaires. External insights such as recognised industry know-how (e.g. from position papers of the CRO Forum; the CRO Forum is an international organisation comprised of the Chief Risk Officers (CRO) of large insurance and reinsurance companies) are incorporated into the process. Risk identification ensures that new risks identified from the current and rotating monitoring are added and known risks can be revised if necessary.

Risk analysis and assessment

Every risk that is identified and considered material is quantitatively assessed. Only risk types for which quantitative risk measurement is currently impossible or difficult are qualitatively assessed, e.g. reputational risks or emerging risks.

Evaluation is carried out using, for example, qualitative self-assessments. As part of the Hannover Re risk model Group Risk Management carries out a quantitative assessment of material risks and the overall risk position. In so doing, allowance is made as far as possible for risk accumulations and concentrations.

Risk steering

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

Risk monitoring

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

Risk communication and risk culture

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

Risk reporting

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

Process-integrated/-independent monitoring and quality assurance

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

Internal control system

We organise our business activities in such a way that they are always in conformity with all legal requirements. The internal control system (ICS) is an important subsystem that serves, among other things, to secure and protect existing assets, prevent and reveal errors and irregularities and comply with laws and regulations.

The core elements of Hannover Re's ICS are documented in a Framework Guideline that establishes a common understanding of the differentiated execution of the necessary controls. In the final analysis, it is designed to systematically steer and monitor the implementation of our corporate strategy.

The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise. This includes, among other things:

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

The proper functioning of the ICS necessitates the involvement of management, executive staff and employees on all levels. Yet even with an optimally designed ICS it is not possible to avoid all errors. The system comes up against its limits, most notably with respect to fraud risks and imprecise or incomplete rules and responsibilities.

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

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

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

Internal risk assessment

In the following section we compare the available economic capital with the required risk capital.

Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. The corresponding accounting principles also apply largely to the IVC (see the section "Management system" on page 24). While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as technical risks. In a departure from the measurement rules currently under discussion in relation to Solvency II, we use risk-free interest rates derived from the yields on high-quality government bonds for discounting of our future cash flows.

Market prices for options and guarantees embedded in insurance contracts are determined or approximated using option valuation models from the field of financial mathematics.

The methods used are the same as those adopted in the calculation of our Market Consistent Embedded Value (for further remarks on the Market Consistent Embedded Value please see our comments in the section "Technical risks in life and health reinsurance" on page 83). The significance of these options and guarantees in our portfolio is, however, minimal.

The valuation reserves for investments indicate the difference between fair value and book value of those investments recognised under IFRS at book values. Other valuation adjustments encompass above all deferred tax assets and liabilities that arise in connection with valuation adjustments.

The available economic capital increased in the period under review from EUR 10,693.7 million to EUR 11,143.9 million. This was due to the positive effects from economic value adjustments for non-life and life and health reinsurance. In view of the positive business result the shareholders' equity remained broadly stable despite opposing effects from currency translation and the interest rate environment. The higher interest rates on good-quality government bonds as well as the strengthening euro led to a reduction in the valuation reserves for investments. Conversely, the discounting effect for the loss reserves in non-life reinsurance increased owing to the higher interest rates. The higher value adjustments for life and health reinsurance are attributable above all to lower effects – in comparison with IFRS – from changes in interest rates and exchange rates. The rise in other value adjustments resulted from deferred taxes as a consequence of the higher valuation reserves.

Reconciliation[1] (economic capital/shareholders' equity)

in EUR million	2013	2012[2]
Shareholders' equity	6,530.0	6,714.1
Value adjustments for non-life reinsurance	1,627.8	775.2
Value adjustments for life and health reinsurance	1,116.5	930.5
Value adjustments for assets under own management	357.6	599.0
Value adjustments due to tax effects and other	(725.8)	(558.1)
Economic equity	**8,906.1**	**8,460.7**
Hybrid capital	2,237.8	2,233.0
Available economic capital	**11,143.9**	**10,693.7**

1 In the course of the change of the risk presentation as change relative to the expected targets (instead of intial values) the expected result is now considered within the respective value adjustment as part of the available capital. The figures for the previous year have been adjusted accordingly.
2 Adjusted pursuant to IAS 8 (cf. Section 3.1 of the notes)

The required risk capital of the Hannover Re Group relative to the target confidence level of 99.97% grew in the year under review from EUR 6,292.1 million to EUR 6,896.9 million. The increase in underwriting risks in non-life reinsurance results largely from the rise in the risk budget for natural catastrophes and from model improvements. By factoring in the increased risk budget we are taking a rather conservative view, since the committed capacities are not fully utilised at all times of the year. The increase in risk capital for market risks is attributable above all to changes in the modelling of credit and spread risks and to an enlarged volume of real estate. The underwriting risks in life and health reinsurance, the credit risks and the operational risks changed in accordance with the underlying business volumes.

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

Required risk capital[1]

in EUR million	2013		2012	
	Confidence level 99.97%	Confidence level 99.5%	Confidence level 99.97%	Confidence level 99.5%
Underwriting risk in non-life reinsurance	4,459.9	2,738.6	4,025.5	2,610.6
Underwriting risk in life and health reinsurance	2,607.3	1,434.3	2,592.8	1,336.6
Market risk	3,609.5	2,032.9	3,465.0	1,898.0
Credit risk	739.5	324.0	737.2	316.6
Operational risk	510.7	296.8	556.9	267.5
Diversification	(3,905.2)	(2,187.7)	(3,781.5)	(2,237.9)
Tax effects	(1,124.8)	(1,263.7)	(1,303.8)	(1,000.9)
Required risk capital of the Hannover Re Group	**6,896.9**	**3,375.2**	**6,292.1**	**3,190.5**

1 In the year under review the presentation of the risks was modified and the figures for the previous year were restated accordingly. In the interests of more transparent presentation of the diversification and tax effects the individual risks are now shown before allowance for tax effects and as a change relative to the expected value (instead of the initial value).

When it comes to aggregating the individual risks, we make allowance for dependencies between risk factors. Dependencies arise, for example, as a consequence of market shocks, such as the financial crisis, which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification.

Hannover Re's business model is based inter alia on building up the most balanced possible portfolio so as to achieve the greatest possible diversification effects and in order to deploy capital efficiently. Diversification exists between individual reinsurance treaties, lines, business segments and risks. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines and based on their contribution to diversification.

Technical risks in non-life reinsurance

Risk management in non-life reinsurance has defined various overall guidelines for efficient risk steering. These include, among other things, the limited use of retrocessions to reduce volatility and conserve capital. It is also crucially important to consistently maximise the available risk capacities on the basis of the risk management parameters of the Hannover Re Group and to steer the acceptance of risks systematically through the existing underwriting guidelines. Given that the establishment of inadequate reserves constitutes the greatest risk in non-life reinsurance, the conservative level of our reserves is crucial to our risk management.

We make a fundamental distinction between risks that result from business operations of past years (reserving risk) and those stemming from activities in the current or future years (price/premium risk). In the latter case, special importance attaches to the catastrophe risk. With respect to the catastrophe risk, we differentiate between natural catastrophes and man-made disasters.

Diversification within the non-life reinsurance business group is actively managed through allocation of the cost of capital according to the contribution made to diversification. A high diversification effect arises out of the underwriting of business in different lines and different regions with different business partners. In addition, the active limitation of individual risks – such as natural catastrophes – enhances the diversification effect.

Diversification effect within the non-life reinsurance business group
Risk capital[1] per line of business for the 99.5% VaR

in EUR million	2013
North America	734.9
Germany	458.3
Marine	289.7
Aviation	269.6
Credit, surety & political risks	789.1
Structured reinsurance products and ILS	146.2
UK, London market & direct business	375.9
Global treaty	508.2
Global cat. XL	562.6
Facultative business	636.6
Diversification	(2,032.5)
Total non-life reinsurance	**2,738.6**

[1] The presentation was modified analogously to the disclosure of individual risks. In the interests of more transparent presentation of the diversification effect the risks are now shown as a change relative to the expected value (instead of the initial value).

The risk capital with a confidence level of 99.5% in the non-life reinsurance business group breaks down as follows:

Required risk capital[1] for underwriting risks in non-life reinsurance

in EUR million	2013
Premium risk (incl. catastrophe risk)	2,015.3
Reserving risk	1,528.4
Diversification	(805.1)
Underwriting risks in non-life reinsurance	**2,738.6**

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

Survival ratio in years and reserves for asbestos-related claims and pollution damage

in EUR million	2013			2012		
	Individual loss reserves	IBNR reserves	Survival ratio in years	Individual loss reserves	IBNR reserves	Survival ratio in years
Asbestos-related claims/pollution damage	28.8	170.8	32.1	27.8	182.2	29.1

The reserving risk, i.e. the risk of under-reserving losses and the resulting strain on the underwriting result, is the overriding priority in our risk management. We attach the utmost importance to a conservative reserving level and therefore traditionally have a high confidence level (> 50%). In order to counter this potential risk we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us. Liability claims have a major influence on this reserve. The segment reserve is calculated on a differentiated basis according to risk categories and regions. The segment reserve established by the Hannover Re Group amounted to EUR 5,359.6 million in the year under review.

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

Our own actuarial calculations regarding the adequacy of the reserves are also subject to annual quality assurance reviews conducted by external firms of actuaries and auditors. For further remarks on the reserving risk please see our comments in Section 6.7 "Technical provisions" on page 189 et seq.

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

Hannover Re has taken out inflation swaps (USD and EUR zero coupon swaps) to partially hedge inflation risks. These serve to protect parts of the loss reserves against inflation risks. An inflation risk exists particularly inasmuch as the liabilities (e.g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation. Inflation protection was purchased for the first time in the second quarter of 2010 with terms of 4 and 5 years; it was increased in the first quarter of 2011 (term of 8 years). We also secure parts of the inflation protection for our loss reserves by purchasing bonds with inflation-linked coupon payments.

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

Stress tests for natural catastrophes after retrocessions

in EUR million	2013	2012
	Effect on forecast net income	
Windstorm Europe		
100-year loss	-227.8	-101.3
250-year loss	-415.2	-241.0
Windstorm United States		
100-year loss	-393.1	-369.1
250-year loss	-630.6	-568.0
Windstorm Japan		
100-year loss	-241.1	-289.4
250-year loss	-292.0	-363.0
Earthquake Japan [1]		
100-year loss	-263.4	-335.4
250-year loss	-490.8	-478.0
Earthquake California		
100-year loss	-271.9	-281.2
250-year loss	-461.1	-433.0
Earthquake Australia		
100-year loss	-166.5	-176.2
250-year loss	-369.1	-393.0

[1] Previous year's scenario limited to Tokyo

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

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

in EUR million	Limit 2013	Threshold 2013	Actual utilisation (July 2013)
All natural catastrophe risks [1]			
200-year aggregate annual loss	1,404	1,264	900

[1] Loss relative to the underwriting result

Our company incurred the following catastrophe losses and major claims in the 2013 financial year:

Catastrophe losses and major claims[1] in 2013

in EUR million	Date	gross	net
Hailstorm "Andreas" in Germany	27–28 July	137.9	99.3
6 property claims		117.2	115.8
Flooding in Europe	20 May–4 June	113.4	92.5
Flooding in Canada	19–21 June	66.1	45.9
Hailstorm "Manni" in Germany, Switzerland and Austria	19–20 June	51.9	37.7
Windstorm "Christian" in Germany	28 October	45.5	33.7
Windstorm "Xaver" in Germany	5 December	39.5	27.5
2 aviation claims		37.8	33.5
2 credit claims		28.7	28.7
1 marine claim		26.0	18.5
Flooding in Canada	8 and 9 July	25.9	15.0
Typhoon "Haiyan" in the Philippines	9 November	18.7	18.5
Tornadoes in the United States	19–20 May	15.5	11.0
Total		**724.1**	**577.6**

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

The price/premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components.

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

Combined and catastrophe loss ratio

in %	2013	2012	2011	2010	2009	2008	2007	2006	2005[1]	2004[1]
Combined ratio (non-life reinsurance)	94.9	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8	97.2
Thereof catastrophe losses[2]	8.4	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3	8.3

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

For further information on the run-off of the loss reserves please see our explanatory remarks in the section "Run-off of the net loss reserve in the non-life reinsurance segment" on page 190 et seq.

Technical risks in life and health reinsurance

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

Our current risk profile in life and health reinsurance is dominated by mortality risks. This is due to the fact that for the majority of our insurance contract we pay death benefits rather than survival benefits. The volume of our annuity portfolio has continued to grow, as a consequence of which the longevity risk is now our second-largest risk within the life and health reinsurance business group. We calculate the diversification effect between mortality and longevity risks prudently in view of the fact that the contracts are normally taken out for different regions, age groups and individuals.

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

in EUR million	2013
Mortality risk	1,216.6
Longevity risk	693.7
Morbidity and disability risk	293.3
Lapse risk	485.9
Diversification	(1,255.2)
Underwriting risk in life and health reinsurance	1,434.3

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

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

Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e.g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets.

By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or of deterioration in the financial status of cedants. Regular reviews and holistic analyses (e.g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the structure of our contracts. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries.

We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent approach in order to obtain an overall view of the risks in life and health reinsurance. Our global underwriting guidelines provide underwriters with an appropriate framework for this purpose.

Another major element of risk management in life and health reinsurance is the Market Consistent Embedded Value (MCEV). The Market Consistent Embedded Value (MCEV) is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. The MCEV is established on the basis of the principles of the CFO Forum published in October 2009 (the CFO Forum is an international organisation of Chief Financial Officers from major insurance and reinsurance enterprises).

For detailed information please see the MCEV report 2012 published on our website. The MCEV report for the 2013 financial year will be published on our website close to publication of this report.

Market risks

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

Our portfolio currently consists in large part of fixed-income securities, and hence interest rate, credit and spread risks account for the bulk of the market risk. We minimise interest rate and currency risks through the greatest possible matching of payments from fixed-income securities with the projected future payment obligations from our insurance contracts.

Required risk capital[1] for market risks

in EUR million	2013
Credit and spread risk	1,408.1
Interest rate risk	812.9
Currency risk	816.0
Equity risk[2]	531.0
Real estate risk	287.7
Diversification	(1,822.8)
Market risk	**2,032.9**

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

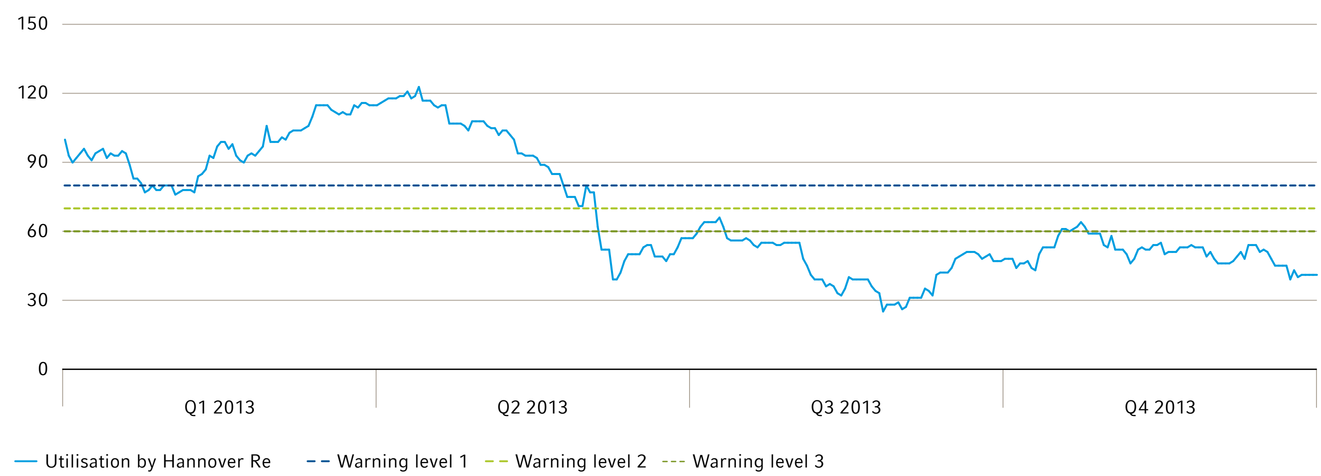
With a view to preserving the value of our assets under own management, we constantly monitor adherence to a trigger mechanism based on a clearly defined traffic light system that is applied across all portfolios. This system defines clear thresholds and escalation channels for the cumulative fluctuations in fair value and realised gains/losses on investments since the beginning of the year.

These are unambiguously defined in conformity with our risk appetite and trigger specified information and escalation channels if a corresponding fair value development is overstepped.

Our conservatively oriented investment portfolio was unable to escape the effects of increases in interest rates for government bonds triggered in particular in May and June of 2013 by the so-called tapering debate in the United States; from May 2013 onwards it consequently gave back some of the fair value gains made in previous years. The escalation levels of the trigger mechanism were activated in this context (cf. chart below). Our longer-duration fixed-income securities, which we hold to cover corresponding liabilities in accordance with our strict asset/liability management approach, were a key contributory factor in this development.

The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e.g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the

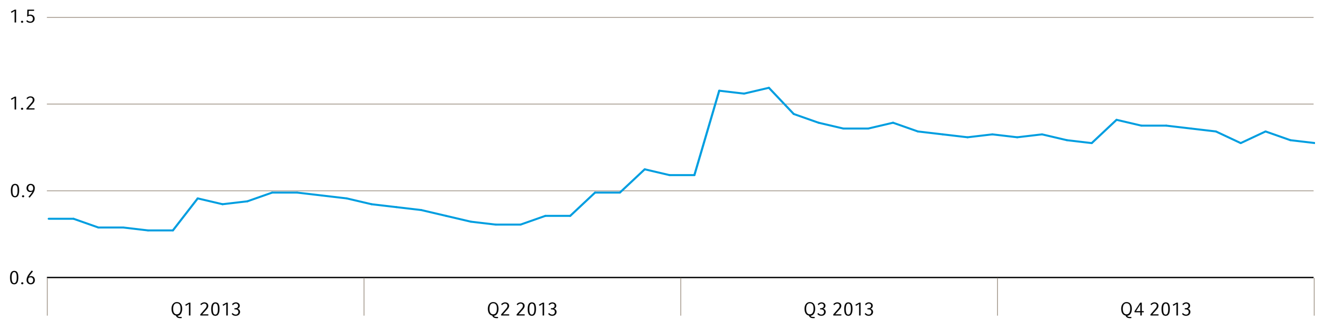
Utilisation of the trigger system
in %



fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e.g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. The model takes into account interest rate risks, credit and spread risks, systematic and specific equity risks, commodity risks and option-specific risks.

Against the backdrop of what was still a difficult capital market environment, the volatilities of fixed-income assets, in particular, and hence the market price risks increased in the year under review relative to the previous year. Based on continued broad risk diversification and the orientation of our investment portfolio, our Value at Risk in the course of the reporting period and – at 1.1% (0.8%) – as at the end of the reporting period was clearly below the Value at Risk upper limit defined in our investment guidelines.

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



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

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities	Share prices -10%	-2.9	-2.9
	Share prices -20%	-5.8	-5.8
	Share prices +10%	+2.9	+2.9
	Share prices +20%	+5.8	+5.8
Fixed-income securities	Yield increase +50 basis points	-635.1	-508.3
	Yield increase +100 basis points	-1,241.6	-993.5
	Yield decrease -50 basis points	+656.9	+524.8
	Yield decrease -100 basis points	+1,341.2	+1,071.6
Real estate	Real estate market values -10%	-115.9	-24.7
	Real estate market values +10%	+115.9	+24.7

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events. Further significant risk management tools – along with various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM).

The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Further information on the risk concentrations of our investments can be obtained from the tables on the rating structure of fixed-income securities as well as on the currencies in which investments are held. Please see our comments in Section 6.1 of the notes, "Investments under own management", page 175 et seq.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives in our portfolio. We hold such assets only on a very modest scale as part of strategic participations. The scenarios for changes in equity prices consequently have only extremely slight implications for our portfolio. Please see our comments in Section 6.1 of the notes, "Investments under own management", page 168 et seq.

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

Currency risks are especially relevant if there is a currency imbalance between the technical liabilities and the assets. Through extensive matching of currency distributions on the assets and liabilities side, we reduce this risk on the basis of the individual balance sheets within the Group. The short-term Value at Risk therefore does not include quantification of the currency risk. We regularly compare the liabilities per currency with the covering assets and optimise the currency coverage in light of various collateral conditions such as different accounting requirements by regrouping assets. Remaining currency surpluses are systematically quantified and monitored within the scope of economic modelling. A detailed presentation of the currency spread of our investments is provided in Section 6.1, "Investments under own management", page 176 et seq.

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

We use derivative financial instruments only to a very limited extent. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. In the year under review we took out inflation swaps to hedge part of the inflation risks associated with the loss reserves in our technical account. In addition, as in the previous year, a modest portion of our cash flows from the insurance business was hedged using forward exchange transactions. Hannover Re holds further derivative financial instruments to hedge interest rate risks from loans taken out to finance real estate. The contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines

Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines.

We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level.

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

Rating structure of our fixed-income securities [1]

Rating classes	Government bonds		Securities issued by semi-governmental entities [2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	21.9	1,345.0	50.4	3,188.4	1.5	169.5	63.0	3,047.9
AA	62.1	3,825.8	46.4	2,931.5	15.4	1,699.2	15.0	722.7
A	10.0	614.7	2.5	155.0	48.2	5,310.0	10.2	491.7
BBB	5.0	305.6	0.5	32.8	28.9	3,186.7	7.1	340.7
< BBB	1.0	63.1	0.2	13.3	5.9	651.3	4.7	226.9
Total	**100.0**	**6,154.2**	**100.0**	**6,320.9**	**100.0**	**11,016.8**	**100.0**	**4,830.0**

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

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 126.6 million on a fair value basis. This corresponds to a proportion of 0.4%. The individual countries account for the following shares: Spain EUR 39.3 million, Portugal EUR 20.1 million, Italy EUR 67.2 million and Ireland EUR 0.0 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek issuers.

On a fair value basis EUR 3,480.2 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 2,963.5 million was attributable to banks. The vast majority of these bank bonds (68.9%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Credit risks

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

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

Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a major loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. The following table shows how the proportion of assumed risks that we do not retrocede (i. e. that we run in our retention) has changed in recent years.

Gross written premium retained

in %	2013	2012	2011	2010	2009
Hannover Re Group	89.0	89.8	91.2	90.1	92.6
Non-life reinsurance	89.9	90.2	91.3	88.9	94.1
Life and health reinsurance	87.7	89.3	91.0	91.7	90.7

Alongside traditional retrocessions in non-life reinsurance we also transfer risks to the capital market. Yet credit risks are relevant to our investments and in life and health reinsurance, too, because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds.

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

Ratios used to monitor and manage our credit risks

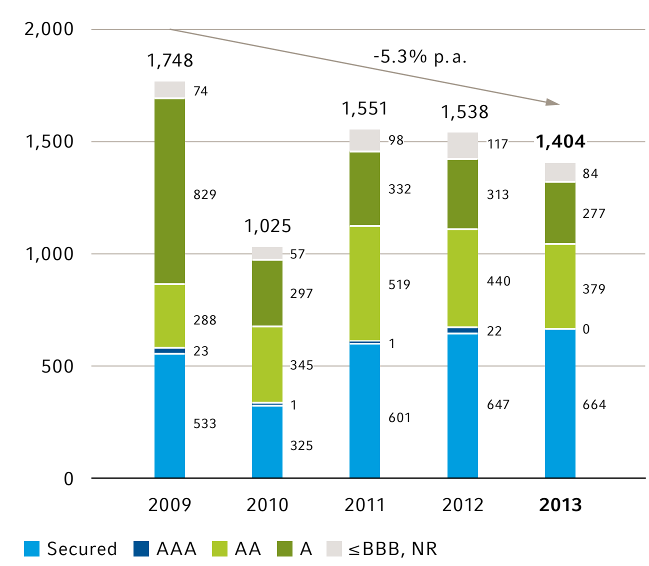
Management ratios	2013	2012[5]	2011	2010	2009
Solvency margin[1]	71.7%	72.9%	68.3%	69.5%	60.4%
Debt leverage[2]	34.3%	33.3%	30.9%	36.5%	32.1%
Interest coverage[3]	9.7x	13.3x	8.5x	13.8x	14.9x
Reserves/premium[4]	270.6%	268.4%	292.7%	275.1%	270.1%
Combined ratio (non-life reinsurance)	94.9%	95.8%	104.3%	98.2%	96.6%

1 (Shareholders' equity + hybrid capital)/net earned premium
2 Hybrid capital/shareholders' equity
3 EBIT/interest on hybrid capital
4 Net reserves/net premium earned
5 Adjusted pursuant to IAS 8 (cf. Section 3.1 in the notes)

- 89.4% of our retrocessionaires have an investment grade rating ("AAA" to "BBB").
- 88.6% are rated "A" or better.
- Since 2009 we have reduced the level of recoverables by altogether 19.7%.
- 47.3% of our recoverables from reinsurance business are secured by deposits or letters of credit. What is more, for the majority of our retrocessionaires we also function as reinsurer, meaning that in principle recoverables can potentially be set off against our own liabilities.
- In terms of the Hannover Re Group's major companies, EUR 300.9 million (10.2%) of our accounts receivable from reinsurance business totalling EUR 2,945.7 million were older than 90 days as at the balance sheet date.
- The average default rate over the past three years was 0.09%

Retrocession gives rise to claims that we hold against our retrocessionaires. These reinsurance recoverables – i.e. the reinsurance recoverables on unpaid claims – amounted to EUR 1,403.8 million (EUR 1,538.2 million) as at the balance sheet date. The following chart shows the development of our reinsurance recoverables – split by rating quality – due from our retrocessionaires. Recent years are clearly trending lower with an average reduction of 5.3% per year.

Reinsurance recoverables as at the balance sheet date
in EUR million



Further remarks on technical and other assets which were unadjusted but considered overdue as at the balance sheet date as well as on significant impairments in the year under review are provided in Section 6.4 “Technical assets”, page 183 et seq., Section 6.6 “Other assets”, page 186 et seq. and Section 7.2 “Investment income”, page 205 et seq.

Operational risks

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

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

With the aid of Self-Assessments for Operational Risks (SAOR) we determine the degree of maturity of our operational risk management and define action fields for improvements. Based on these measurements, limits and thresholds are developed in light of risk indicators and efficiency considerations. One key indicator in this regard is the SAOR-based capital commitment in our internal model. This currently stands at EUR 510.7 million.

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

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

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group. Regulatory compliance, compliance with the company's Code of Conduct, data privacy and compliance with anti-trust and competition laws have been defined as issues of particular relevance to compliance. The compliance risk also includes tax and legal risks. Responsibilities within the compliance organisation are regulated and documented Group-wide and interfaces with risk management have been put in place. The set of tools is rounded off with regular compliance training programmes. For further information on compliance-related topics, including for example lawsuits, contingent liabilities and commitments, please see Sections 8.6 and 8.7, page 222.

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

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

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

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

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

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

Other risks

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

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

Strategic risks derive from a possible imbalance between the corporate strategy of the Hannover Re Group and the constantly changing general business environment. Such an imbalance might be caused, for example, by incorrect strategic policy decisions, a failure to consistently implement the defined strategies and business plans or an incorrect allocation of resources. We therefore regularly review our corporate strategy in a multi-step procedure and adjust our processes and the resulting guidelines as and when required. We have defined performance criteria and indicators for the operational implementation of the strategic guidelines; these are authoritative when it comes to determining fulfilment of the various targets. With the "Strategy Cockpit" the Executive Board and responsible managers have at their disposal a strategy tool that assists them with the planning, elaboration and management of strategic objectives and measures and safeguards their overall perspective on the company and its strategic risks. In addition, the process for the management of strategic risks is assessed annually as part of the monitoring of business process risks. Further details on the topic of strategy are provided in the section entitled "Our strategy" on page 16 et seq.

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

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i.e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. Yet in reinsurance business significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid – even in times of financial stress such as the 2008 financial crisis.

Our holdings of unrestricted German, UK and US government bonds as well as cash during the year under review were larger than possible disbursements for assumed extreme events, which means that our liquidity is assured even in the unlikely case of financial crises coinciding with an extreme event that needs to be paid out quickly. The liquid asset reserve stood at more than EUR 2.1 billion as at the balance sheet date. In addition, we manage the liquidity of the portfolio by checking on each trading day the liquidity of the instruments contained therein; their underlying parameters are verified on a regular and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Opportunity report

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

Key elements in Hannover Re's opportunity management include its various market-specific innovations in the life and health and non-life reinsurance business groups (see page 120 et seq. of the Forecast). What is more, innovative and creative ideas are generated by our employees. If they can be successfully translated into additional profitable premium volume, such ideas are financially rewarded. Further elements are the "Future Radar" initiative and the working group on "Emerging Risks and Scientific Affairs". Not only that, Hannover Re has set up a stand-alone organisational unit for "Business Opportunity Management". This service unit deals exclusively and systematically with ideas and opportunities and it concentrates its activities on generating additional premium volume with profit potential. In this context, among other things, ideas on business opportunities are refined and optimal framework conditions for fresh commercial ideas are put in place.

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

Cybercrime

The trend analysis carried out by the "Future Radar" initiative anticipates, among other things, a sharp increase in cybercrime. Going forward, malware is expected to become much more common on smartphones and tablet PCs. There is also a risk that in future physical targets (e.g. power plants, electricity grids or communication networks in the banking and finance sector) may be targeted more heavily via the information and communication infrastructure.

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

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

Business opportunity management project "Weather"

The goal was to offer a clientele heavily dependent on the weather industry-specific solutions to protect against weather fluctuations. The interest shown by customers in this product has grown sharply of late on account of greater variability in weather conditions and the higher profile of the product.

Business opportunity management project "Energy Savings Protect"

This project was tasked with developing covers for so-called energy-savings warranties in Germany. This insurance solution enables providers of energy efficiency solutions to take out protection in the event that the promised energy savings fail to materialise. In this case the company in question receives a compensatory payment from the primary insurer. For its part, Hannover Re covers the energy saving warranties of its primary insurance clients.

Since 2010 the stand-alone service unit Business Opportunity Management has been assigned to the Chief Executive Officer's area of responsibility – a reflection of the considerable importance that Hannover Re attaches to business opportunity management.

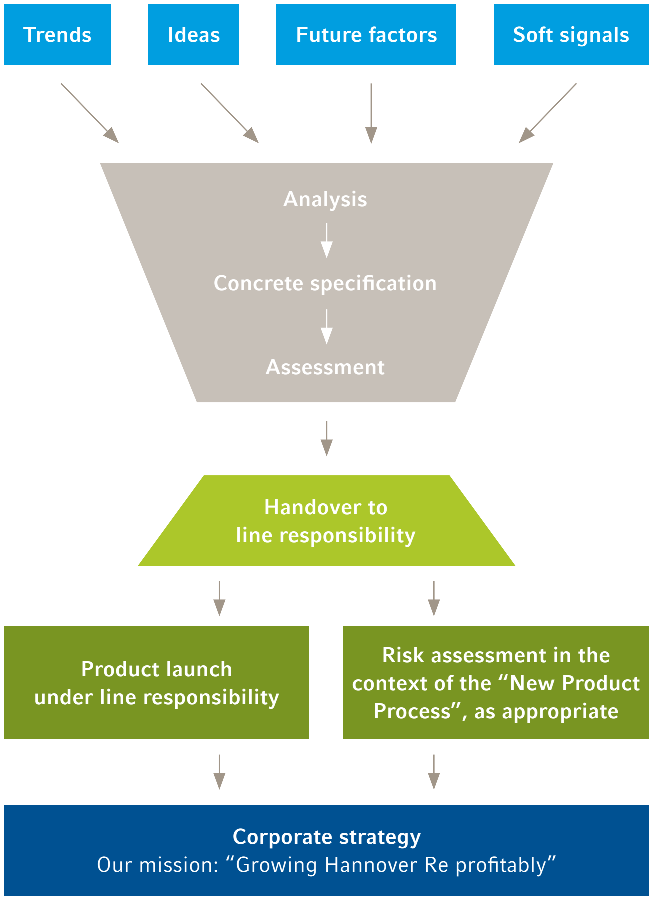
In view of the diverse range of potential future opportunities, close links exist with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities (see page 91 "Other risks"). The working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks analysed but also any available business opportunities. In the year under review, for example, issues such as fracking and the repercussions of protracted heatwaves were explored by the working group.

Protracted heatwaves

Protracted heatwaves have repercussions on many areas of daily life. While the most well-known impacts are on agriculture and health, the consequences for industry, transportation, power and water supplies and the environment – with the associated heavy financial strains – also need to be borne in mind.

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

The opportunity management process can be illustrated in simplified form as follows:



Overall assessment by the Executive Board

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

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

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

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Key monitoring indicators, reporting limits and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity. Since 2008 we have been able to increase our total policyholders' surplus (hybrid capital, non-controlling interests and shareholders' equity) by more than 86%. In this context, the necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital buffer to be able both to absorb risks and act on business opportunities that may arise.

Similarly, our very good ratings (see page 57) also testify to our financial stability. The quality of our Enterprise Risk Management (ERM) is evaluated separately by Standard & Poor's. In the year under review Standard & Poor's gave our risk management its highest possible grade of "very strong". Most notably, our established risk culture promotes the development of appropriate risk monitoring systems and strategic risk management. The evaluation encompasses above all the areas of risk culture, risk controls, the management of emerging risks, risk models and strategic risk management. This external appraisal confirms the quality of our holistic approach to risk management. We would also refer to the explanatory remarks on the financial strength ratings of our subsidiaries in the "Financial position and net assets" section of the management report. In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor. The Group-wide risk management system is also a regular part of the audits conducted by the internal audit function.

For additional information on the opportunities and risks associated with our business please see the Forecast on page 118 et seq. as well as Section 8.11 "Events after the balance sheet date" on page 224.

Enterprise management

Declaration on Corporate Governance

Declaration of the Executive Board regarding the Corporate Governance of the Company as defined by § 289a Para. 1 Commercial Code (HGB):

German Corporate Governance Code

In the previous year Hannover Re was not in compliance with three recommendations of the German Corporate Governance Code (DCGK); this year, the company's implementation of the recommendations of the Code as amended 13 May 2013 diverges from the recommendations in four respects. The recommendations in question are that a cap on severance payments should be included when concluding or renewing a management board contract (Code Item 4.2.3 Para. 4), that the Chairman of the Supervisory Board should not chair the Audit Committee (Code Item 5.2 Para. 2) and that the Chairman of the Audit Committee should be independent (Code Item 5.3.2). Purely as a precautionary measure, a divergence from the recommendation contained in Code Item 4.2.3 Para. 2 regarding caps on the amount of variable compensation elements in management board contracts has been declared. The reasons for these divergences are set out in the following Declaration of Conformity pursuant to § 161 Stock Corporation Act (AktG). The present and all previous Declarations of Conformity of the company are published on its website (http://www.hannover-re.com/about/corporate/declaration/index.html).

Declaration of Conformity

pursuant to § 161 Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code at Hannover Rück SE:

The German Corporate Governance Code sets out major statutory requirements governing the management and supervision of German listed companies. It contains both nationally and internationally recognised standards of good and responsible enterprise management. The purpose of the Code is to foster the trust of investors, clients, employees and the general public in German enterprise management. Under § 161 Stock Corporation Act (AktG) it is incumbent on the Management Board and Supervisory Board of German listed companies to provide an annual declaration of conformity with the recommendations of the "German Corporate Governance Code Government Commission" published by the Federal Ministry of Justice or to explain which recommendations of the Code were/are not applied.

The Executive Board and Supervisory Board declare pursuant to § 161 Stock Corporation Act (AktG) that in its implementation of the German Corporate Governance Code Hannover Rück SE diverges in four respects from the recommendations contained in the version of the Code dated 13 May 2013:

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

The variable compensation of the members of the Executive Board consists of a cash component and payments into a bonus bank as well as – accounting for 20% of the total variable compensation – the automatic allocation of virtual Hannover Re share awards. The number of share awards allocated is determined by dividing the amount of the 20% variable compensation by the average share price of the Hannover Re share on the five trading days before and five trading days after the Annual General Meeting for the allocation year in question.

This means that upon allocation of the share awards the expense accruing to the company on this variable compensation element is fixed (capped) at the time of allocation. In economic terms, these virtual share awards constitute a compulsory investment by the members of the Executive Board in the Hannover Re share that is geared to a holding period of four years. This compulsory investment thus appropriately takes into account both positive and negative developments at the company as reflected in the share price.

These share awards are paid out after a vesting period of four years according to the share price of the Hannover Re share applicable at the payment date plus an amount equivalent to the total dividends per share distributed during the vesting period. The virtual share awards thus follow the economic fortunes of physically awarded real shares.

Should the share price at the time of exercise be higher than the share price at the time of allocation, the resulting additional expenditure for the company can be neutralised by way of appropriate safeguards.

Insofar as the delivery of real shares for retention by the Executive Board members is granted with a resale lock-up period as part of the variable compensation, a cap is normally only provided for with respect to the granting of shares (i. e. at the time of allocation) and not at the time of exercise, which is at the discretion of the recipient once the lock-up period has expired.

The virtual share awards of Hannover Re have a cap at the time of allocation and a time of exercise set by the company after four years. Given the safeguards put in place by the company, we consider a further cap at the time of exercise – especially in light of the desired economic identity of compulsory investments in virtual and real shares – to be unnecessary. As a precaution, however, the company is declaring a divergence from Code Item 4.2.3 Para. 2.

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

Premature termination of a service contract without serious cause may only take the form of cancellation by mutual consent. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing an Executive Board contract, this does not preclude the possibility of negotiations also extending to the severance cap in the event of a member leaving the Executive Board. In addition, the scope for negotiation over a member leaving the Executive Board would be restricted if a severance cap were agreed, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of serious cause for termination. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from the recommendation contained in Code Item 4.2.3 Para. 4.

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

The current Chairman of the Supervisory Board of Hannover Rück SE served as the company's Chief Financial Officer in the period from 1994 to 2002. During this time he acquired superb knowledge of the company and he is equipped with extensive professional expertise in the topics that fall within the scope of responsibility of the Finance and Audit Committee. With this in mind, the serving Chairman of the Supervisory Board is optimally suited to chairing the Audit Committee. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from the recommendation contained in Code Item 5.2 Para. 2.

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

The current Chairman of the Audit Committee is at the same time also the Chairman of the Board of Management of the controlling shareholder and hence cannot, in the company's legal assessment, be considered independent. As already explained above in the justification for divergence from Code Item 5.2 Para. 2, the current Chairman of the Supervisory Board is, however, optimally suited to chairing the Audit Committee. This assessment is also not cast into question by the fact that the Committee Chairman cannot therefore be considered independent within the meaning of the German Corporate Governance Code. Furthermore, since his service as Chief Financial Officer of Hannover Rück SE already dates back ten years, it is also the case that the reviews and checks performed by the Finance and Audit Committee no longer relate to any period in which he himself was still a member of the Executive Board or decisions initiated by him as a member of the Executive Board were still being realised. In the opinion of Hannover Rück SE, it is therefore in the interest of the company to diverge from this recommendation contained in Code Item 5.3.2.

We are in compliance with all other recommendations of the Code.

Hannover, 4 November 2013

Executive Board Supervisory Board

Statement of enterprise management practices

Hannover Re's objective continues to be the consolidation and further expansion of its position as one of the leading, globally operating reinsurance groups of above-average profitability. Through our worldwide presence and activities in all lines of reinsurance we achieve an optimal risk diversification while maintaining a balanced risk/opportunity profile. Profit and value creation constitute the foundation of our sustainable development in the interests of our clients, shareholders, employees and business partners. Our goal is to increase the IFRS net income before and after tax as well as the value of the company – including dividends paid – by a double-digit margin every year. We consider the organic growth of our business volume, which exceeds the growth of the reinsurance market over the long term, to be a crucial success factor in this regard. This does not preclude temporary losses of market share. We offer our shareholders the prospect of a sustained above-average return on their capital. Consequently, we strive for an IFRS return on equity that is at least 750 basis points above the risk-free interest rate and a share price performance that beats the weighted Global Reinsurance Index over a rolling three-year period.

When it comes to our staff, we pay special attention to their skills, experience and motivation, which we foster through our attractive workplaces, personnel development activities and leadership practices. Based on our strategic human resources planning, we align the size and qualifications of our workforce with the current and future requirements of our global market presence. We put our trust in the greatest possible delegation of tasks, authorities and responsibility and thereby establish the conditions needed to be able to respond quickly and flexibly. We lead on the basis of Management by Objectives, we enable our employees to participate in our sustained success and we expect our managers to encourage the self-reliance of their staff (http://www.hannover-re.com/about/strategy/index.html).

Corporate Governance

We support sensible and pragmatic Corporate Governance principles and recognise their central importance in guiding our activities. The principles of responsible and good enterprise management constitute the core of our Corporate Governance principles, which were extensively revised in the year under review (http://www.hannover-re.com/resources/cc/generic/CGprinciples-e.pdf). Our efforts are intended to ensure integrity at all times in our dealings with business partners, staff, shareholders and other stakeholder groups. On this basis Hannover Re supports the principles of value-based and transparent enterprise management and supervision as defined in the German Corporate Governance Code (DCGK). The Supervisory Board, Executive Board and employees of Hannover Rück SE identify with these principles, which are aligned with the German Corporate Governance Code. The Executive Board ensures that the principles are observed Group-wide.

This is not contradicted by the fact that in the year under review we again did not comply with some recommendations of the Code, since a well justified deviation from the recommendations of the Code may – as in the present case – be in the interests of good corporate governance (cf. Foreword to the DCKG). Based on what is still a high degree of fulfilment of the recommendations and suggestions of the DCGK, Hannover Re continues to rank very highly among the companies listed on the DAX and MDAX.

In 2010 the Supervisory Board had set out in its Rules of Procedure the goal of increasing the number of women on the Supervisory Board to at least two (at the time no women were represented on the body). This goal was accomplished in 2012 and in 2013 – with three female members of the Supervisory Board – it was actually surpassed. In addition, for the first time one of the members of the Supervisory Board's Nomination Committee is a woman. The Supervisory Board again considered the concept for the advancement of women that had been implemented in 2012 and was informed of the progress that had been made. The primary objective of this concept is to foster promising young female professionals through a variety of measures and to enlarge the proportion of women in management positions. Considerable energy was once again devoted to the issue of sustainability. The aim here is to achieve commercial success on the basis of a solid business model in accordance with the needs of our staff and the company as well as with an eye to protecting the environment and conserving natural resources. We strive to reduce as far as possible the greenhouse gas emissions produced by our day-to-day business activities in order to come closer to reaching our goal of carbon neutrality. In so doing, we are demonstrably taking responsibility for a sustainable future. In 2011 we defined for the first time a concrete Sustainability Strategy setting out our primary objectives in this field. Not only that, in the year under review we again presented our Sustainability Report in the form of a so-called "GRI Report". Further information on the topic of sustainability is provided on our website (www.hannover-re.com/sustainability/index.html).

Compliance

In addition to our Corporate Governance principles, the Code of Conduct was also revised in 2013 (http://www.hannover-re.com/resources/cc/generic/codeofconduct-e.pdf). Complementing our corporate strategy and the Corporate Governance principles, it establishes rules governing integrity in the behaviour of all employees of Hannover Re and is intended to help members of staff cope with the ethical and legal challenges that they face as part of day-to-day work. The rules defined in the Code of Conduct reflect the high ethical and legal standards that guide our actions worldwide. It is our belief that integrity in dealings with our stakeholders constitutes the foundation of a successful enterprise. In both our strategic planning and our day-to-day business activities, we therefore aspire to consistently apply the highest ethical and legal standards; for our actions and the way in which every single one of us presents and conducts himself or herself are crucial in shaping the image of the Hannover Re Group.

The compliance report for the 2012 calendar year was submitted to the Finance and Audit Committee in March 2013. The report for the 2013 calendar year will be presented in March 2014. The reporting sets out the structure and diverse range of activities of Hannover Re in this regard. After in-depth examination of topics such as directors' dealings, ad hoc and other reporting requirements, the insider register, adherence to internal guidelines, consulting agreements, data protection, international sanctions and the Group-wide whistleblower system, the report concludes that only a few circumstances have been identified which point to breaches of relevant compliance standards. After detailed exploration of these incidents, the necessary safeguards were put in place to ensure that such breaches do not occur again in the future.

Risk monitoring and steering

The risk management system applicable throughout the entire Hannover Re Group is based on the risk strategy, which in turn is derived from the company strategy. A core component is the systematic and comprehensive recording of all risks that from the current standpoint could conceivably jeopardise the company's profitability and continued existence. Further details in this regard may be obtained from the risk report contained in the Annual Report on page 70 et seq.

Working practice of the Executive Board and Supervisory Board

The Executive Board and Supervisory Board of Hannover Re work together on a trusting basis to manage and monitor the company. In accordance with the Rules of Procedure of the Executive Board, matters of fundamental importance require the consent of the Supervisory Board. In addition, the Supervisory Board is kept informed on a regular and timely basis of the business development, the execution of strategic decisions, material risks and planning as well as relevant compliance issues. The Chairman of the Supervisory Board stays in regular contact with the Chairman of the Executive Board in order to discuss with him significant business occurrences. The composition of the Executive Board (including areas of responsibility) as well as of the Supervisory Board and its committees is set out on pages 6 and 233 respectively of the present Annual Report.

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

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

In 2012 the Supervisory Board carried out another regularly scheduled audit of the effectiveness of its work. An extensive questionnaire addressed, among other aspects, issues such as the organisation of the Supervisory Board and the conduct of meetings, the cooperation between the Executive Board and the Supervisory Board and the supply of information to the Supervisory Board. The findings were explained and discussed at the first Supervisory Board meeting of 2013. They resulted, among other things, in meeting documents being made available to the Supervisory Board members in an "Electronic Board Room" as part of the efficient provision of information.

The committees of the Supervisory Board prepare the decisions of the Supervisory Board within their area of competence and take decisions in lieu of the Supervisory Board within the scope of competence defined by the Rules of Procedure applicable to the committee in question.

The Finance and Audit Committee monitors the accounting process and the effectiveness of the internal control system, the risk management system and the internal auditing system. It also handles issues relating to compliance and the information system for the Supervisory Board and discusses the interim reports as well as the semi-annual reports prior to their publication. It prepares the Supervisory Board's examination of the annual financial statement, management report and proposal for the appropriation of profit as well as of the consolidated financial statement and Group management report. In this context, the Finance and Audit Committee receives detailed information on the auditor's view of the net assets, financial position and results of operations as well as explanations of the effects of any modified recognition and measurement principles on the net assets, financial position and results of operations together with available alternatives. In addition, the committee prepares the Supervisory Board's decision on the commissioning of the independent auditor for the financial statements. It considers matters associated with the necessary independence of the auditor, the awarding of the audit mandate to the independent auditor, the determination of the audit concentrations and the fee agreement.

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

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

For further details of the activities of the Supervisory Board committees please see the explanations provided in the Supervisory Board Report on pages 230 to 232.

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

- Remuneration report for the Executive Board and disclosure of the remuneration received by Supervisory Board members pursuant to Items 4.2.5 and 5.4.6 of the German Corporate Governance Code,
- Securities transactions pursuant to Item 6.6 of the German Corporate Governance Code,
- Shareholdings pursuant to Item 6.6 of the German Corporate Governance Code.

Information on share-based payment pursuant to Item 7.1.3 of the German Corporate Governance Code is provided in Section 8.3 of the notes "Share-based payment", page 217 et seq., and in the remuneration report with respect to the members of the Executive Board.

Remuneration report

The remuneration report summarises the principles used to determine the remuneration of the Executive Board of Hannover Rück SE and explains the structure, composition and amount of the components of the remuneration received by the Executive Board in the 2013 financial year on the basis of the work performed by the Board members for Hannover Rück SE and companies belonging to the Group.

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

The remuneration report is guided by the recommendations of the German Corporate Governance Code and contains information which forms part of the notes to the 2013 consolidated financial statement as required by IAS 24 "Related Party Disclosures". Under German commercial law, too, this information includes data specified as mandatory for the notes (§ 314 HGB) and the management report (§ 315 HGB). These details are discussed as a whole in this remuneration report and presented in summary form in the notes.

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

Remuneration of the Executive Board

Responsibility

The Standing Committee decides on the content, formation, modification and cancellation as well as termination of service contracts with the members of the Executive Board. A full meeting of the Supervisory Board determines all remuneration-related matters of content for the Executive Board of Hannover Rück SE and regularly reviews the remuneration structure and the adequacy of the remuneration system for the members of the Executive Board.

Objective, structure and system of Executive Board remuneration

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

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

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

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

Measurement basis and payment procedures for fixed remuneration

Components	Measurement basis/ parameters	Condition of payment	Paid out
Basic remuneration; Non-cash compensation, fringe benefits: Accident, liability and luggage insurance, company car for business and personal use (tax on the pecuniary advantage payable by the Board member), reimbursement of travel expenses and other expenditures incurred in the interest of the company	Function, responsibility, length of service on the Executive Board Remuneration reviewed by the Supervisory Board normally at two-year intervals.	Contractual stipulations	12 equal monthly instalments

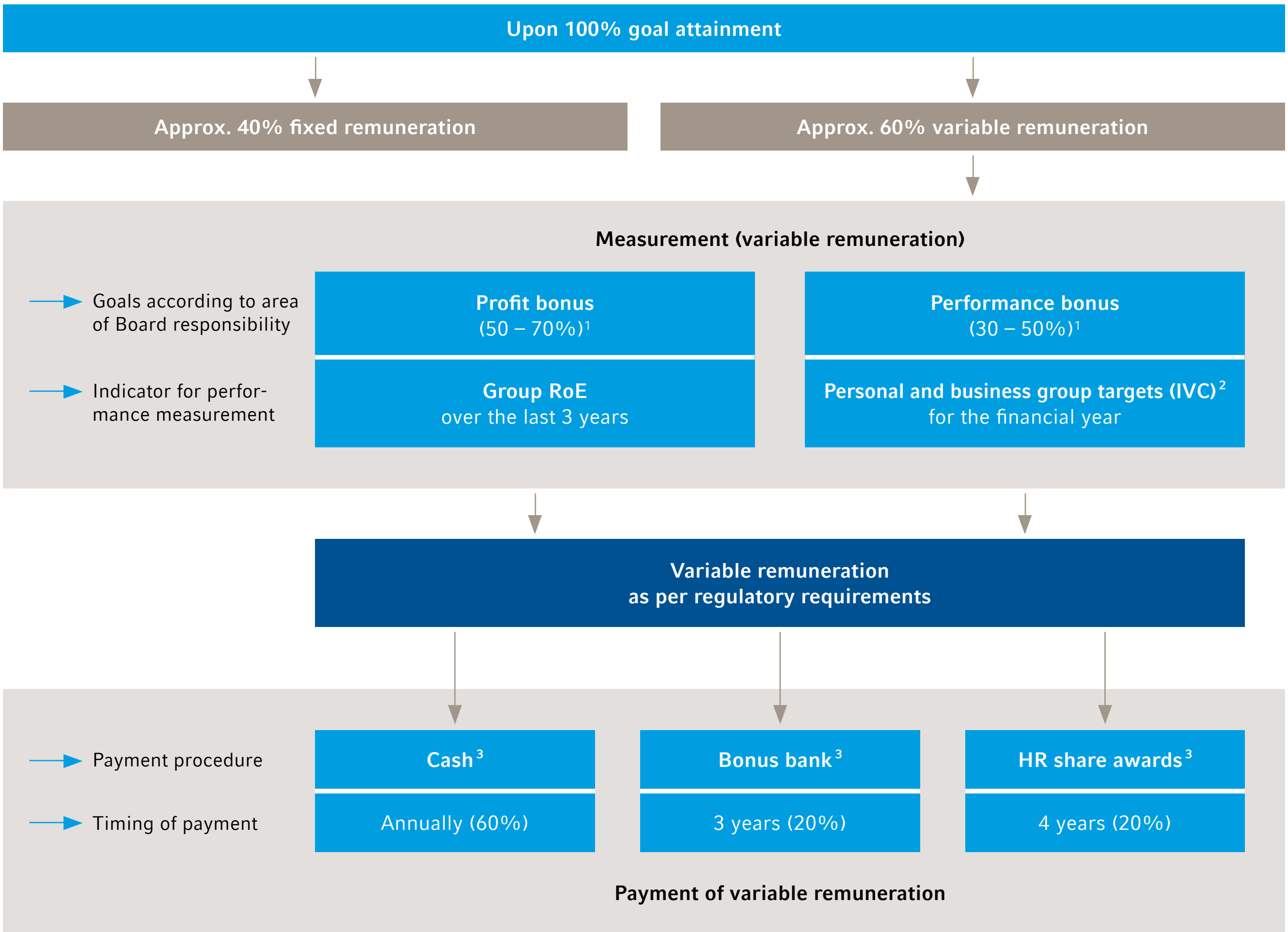
Variable remuneration (approx. 60% of total remuneration upon 100% goal attainment)

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

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

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

Overview of the composition of variable remuneration



1 Chief Executive Officer/Chief Financial Officer 70% profit bonus, 30% performance bonus (personal targets); all other Board members: 50% profit bonus, 50% performance bonus (25% personal targets/25% business group targets)

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

3 Split defined by legal minimum requirements

Measurement bases/conditions of payment for variable remuneration

Component	Measurement basis/parameters	Condition of payment
Profit bonus		
Proportion of variable remuneration: Chief Executive Officer/ Chief Financial Officer: 70%; Board members except for Chief Executive Officer/ Chief Financial Officer: 50%	The profit bonus is dependent on the risk-free interest rate and the average Group return on equity (RoE) of the past three financial years. An individually determined and contractually defined basic amount is paid for each 0.1 percentage point by which the RoE of the past three financial years exceeds the risk-free interest rate of 2.8%. Goal attainment of 100% corresponds to an RoE of 11.6%. Goal attainment can amount to a maximum of 200% and a minimum of -100%. The IFRS Group net income (excluding non-controlling interests) and the arithmetic mean of the IFRS Group shareholders' equity (excluding non-controlling interests) at the beginning and end of the financial year are used to calculate the RoE. The risk-free interest rate is the average market rate for 10-year German government bonds over the past 5 years and is set at an agreed level of 2.8%. The arrangements governing the profit bonus may be adjusted if the risk-free interest rate of 2.8% changes to such an extent that an (absolute) deviation of at least one percentage point arises.	Contractual stipulations Attainment of three-year targets Decision of the Supervisory Board

Component	Measurement basis/parameters	Condition of payment
Performance bonus The performance bonus for the Chief Executive Officer and the Chief Financial Officer is arrived at from individual qualitative and, as appropriate, quantitative targets defined annually by the Supervisory Board that are to be accomplished in the subsequent year. For members of the Executive Board with responsibility for a certain business group, the performance bonus consists in equal parts of the business group bonus and the individual bonus.		
Business group bonus Proportion of variable remuneration: Board members except for Chief Executive Officer / Chief Financial Officer: 25%	Resolution by the Supervisory Board of 6 March 2013 regarding the reorganisation of the business group bonus from the 2013 financial year onwards: The basis for the business group bonus is the return generated on the capital allocated to the business group in the respective 3-year period just ended (RoCa = Return on Capital allocated). An individually determined amount specified in the service contract is calculated for each 0.1 percentage point by which the average 3-year RoCa exceeds the level of 0%. A RoCa of 9.1% corresponds to goal attainment of 100%. Allowing for the planned cost of capital, this level corresponds to a return which is above the planned cost of capital and hence constitutes positive intrinsic value creation (IVC[1]). Goal attainment can amount to a maximum of 200% and from 2015 onwards a minimum of -100%. The method used to calculate the IVC as a basis for determining the business group performance is checked by independent experts. The business group bonus is determined by the Supervisory Board according to its best judgement. The determination also takes into account, in particular, the contribution made by the business under the responsibility of the Board member concerned to the achieved business group performance and the relative change in the average IVC in the remuneration year. The Supervisory Board may make additions to or deductions from the arithmetically calculated values at any time in the event of over- or underfulfilment of the criteria. Special arrangements for 2013 and 2014: the basis for the average RoCa is the business group performance from 2013 onwards; the minimum business group bonus is EUR 0.	Attainment of three-year targets (basis for 2013 and 2014: business group performance from 2013 onwards) Contractual agreement Decision of the Supervisory Board according to its best judgement
Individual bonus Proportion of variable remuneration: Chief Executive Officer / Chief Financial Officer: 30%; Board members except for Chief Executive Officer / Chief Financial Officer: 25%	Personal qualitative, quantitative targets; individual contribution to the overall result, leadership skills, innovative skills, entrepreneurial skills, specific features of area of responsibility; The individual bonus for goal attainment of 100% is contractually stipulated. Over- and underfulfilment result in additions/deductions. The minimum individual bonus amounts to EUR 0 and the maximum is double the bonus payable upon complete goal attainment.	Attainment of annual targets Decision by the Supervisory Board according to its best judgement.

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

Payment procedures for the total variable remuneration

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

Short-term	Medium-term	Long-term
60% of the variable remuneration with the next monthly salary payment following the Supervisory Board resolution	**20% of the variable remuneration in the bonus bank;** withheld for 3 years; the positive amount contributed 3 years prior to the payment date is available for payment, provided this does not exceed the balance of the bonus bank in light of credits/debits up to and including those for the financial year just ended; an impending payment not covered by a positive balance in the bonus bank is omitted; a positive balance in the bonus bank is carried forward to the following year after deduction of any payment made; a negative balance is not carried forward to the following year; loss of claims due from the bonus bank in special cases: resignation from office without a compelling reason; contract extension on the same conditions is rejected; no interest is paid on credit balances.	Automatic granting of **virtual Hannover Re share awards (HR-SAs)** with a value equivalent to 20% of the variable remuneration; payment of the value calculated at the payment date after a **vesting period of four years;** value of the share on awarding/payment: unweighted arithmetic mean of the Xetra closing prices five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement; additional payment of the sum total of all dividends per share paid out during the vesting period; changes in a cumulative amount of 10% or more in the value of the HR-SAs caused by structural measures trigger an adjustment; the Board member has no entitlement to the delivery of shares.
Negative variable total bonus = payment of EUR 0 variable remuneration. Any minus value of the variable total bonus for a financial year is transferred in full to the bonus bank (see "Medium-term" column).		

Handling of payment of variable remuneration components in special cases

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

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

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

Variable remuneration under the old remuneration structure (until 2011)

The virtual stock option plan with stock appreciation rights existing under the old remuneration structure remains in force for all members of the Executive Board until all stock appreciation rights have been exercised or have lapsed. In the 2013 financial year no further stock appreciation rights were granted to active Board members. Of the stock appreciation rights granted in previous years, active and former Board members exercised amounts totalling EUR 1.4 million (previous year: EUR 4.3 million) in 2013.

As at 31 December 2013 active members of the Executive Board had at their disposal a total of 288,797 (391,891) granted, but not yet exercised stock appreciation rights with a fair value of EUR 2.4 million (EUR 3.2 million).

Continued payment in case of disability

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

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

Other information

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

With regard to Item 4.2.3. Paragraph 2 "Caps on the amount of variable compensation elements in management board contracts" and Item 4.2.3 Paragraph 4 "Caps on severance payments in management board contracts" of the German Corporate Governance Code, we would refer the reader to our remarks in the Declaration of Conformity contained in the section "Statement of enterprise management practices" on page 95 of this Group Annual Report.

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

Amount of remuneration received by the Executive Board

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

The remuneration (excluding pension payments) received by former members of the Executive Board totalled EUR 0.4 million (EUR 2.4 million).

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

Name	Financial year	Non-performance-based remuneration		Performance-based remuneration [1]	
		Basic salary	Non-cash compensation / fringe benefits [2]	Short-term	
				Variable remuneration payable	
in EUR thousand				60% [3]	Netted remuneration from seats with Group bodies [4]
Ulrich Wallin	**2013**	**520.0**	**15.3**	**563.8**	
	2012	520.0	15.0	615.1	
André Arrago	**2013**	**320.0**	**9.5**	**340.4**	
	2012	320.0	6.9	352.1	
Claude Chèvre	**2013**	**320.0**	**13.3**	**329.6**	
	2012	320.0	5.1	351.9	
Jürgen Gräber	**2013**	**400.0**	**14.3**	**473.2**	
	2012	400.0	20.7	440.1	
Dr. Klaus Miller	**2013**	**320.0**	**13.8**	**329.6**	
	2012	320.0	17.9	352.1	
Dr. Michael Pickel	**2013**	**320.0**	**17.2**	**347.6**	
	2012	320.0	9.6	352.1	
Roland Vogel	**2013**	**380.0**	**15.7**	**347.0**	35.3
	2012	320.0	15.7	378.5	25.0
Total	2013	2,580.0	99.1	2,731.2	35.3
Total	2012	2,520.0	90.9	2,841.9	25.0

1 As at the balance sheet date no Board resolution was available regarding the performance-based remuneration for 2013. The variable remuneration is recognised on the basis of estimates and the provisions constituted accordingly.

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

3 In 2013 altogether EUR 32,000 more in variable remuneration was paid out to Board members for 2012 than had been reserved.

4 The nominal amount is stated; full or partial repayment in 2017, depending on the development until such time of the balance in the bonus bank. In 2013 altogether EUR 10,700 more than had been originally reserved was allocated to the bonus bank for 2012.

5 The nominal amount is stated; virtual Hannover Re share awards are automatically granted in an amount equivalent to 20% of the variable remuneration. The equivalent amount will be paid in 2018 at the prevailing share price of Hannover Re. In 2013 nominal amounts of EUR 10,700 more than had been originally reserved were used as a basis for allocation of the 2012 share awards.

6 In order to calculate the number of share awards for 2013 reference was made to the Xetra closing price of the Hannover Re share on 30 December 2013 (EUR 62.38). The number to be actually awarded is established from the arithmetic mean of the Xetra closing prices of the Hannover Re share in a period from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statement in March 2014. The applicable market price of the Hannover Re share had increased from EUR 58.96 (28 December 2012) to EUR 61.54 by the allocation date (6 March 2013) of the share awards for 2012; the share awards actually allocated for 2012 are shown here, not those estimated in the 2012 Annual Report.

	Performance-based remuneration[1]		Total	Number of share awards[6]
	Medium-term	Long-term		2012 = Actual 2013 = Estimate
	Bonus bank	Share awards		
	20% (allocation)[4]	20% (allocation)[5]		
in EUR thousand				
	187.9	**187.9**	**1,474.9**	**3,012**
	205.1	205.1	1,560.3	3,329
	113.4	**113.4**	**896.7**	**1,856**
	117.4	117.4	913.8	1,867
	109.8	**109.8**	**882.5**	**1,760**
	117.3	117.3	911.6	1,906
	157.7	**157.7**	**1,202.9**	**2,321**
	146.7	146.7	1,154.2	2,592
	109.8	**109.8**	**883.0**	**1,760**
	117.4	117.4	924.8	1,906
	115.8	**115.8**	**916.4**	**1,856**
	117.4	117.4	916.5	1,906
	115.6	**115.6**	**973.9**	**1,853**
	126.2	126.2	966.6	2,048
	910.0	**910.0**	**7,230.3**	**14,418**
	947.5	947.5	7,347.8	15,554

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

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

Total expense for share-based remuneration of the Executive Board

Name in EUR thousand	Year	Stock appreciation rights exercised	Change in reserve in 2013 for stock appreciation rights	Change in reserve for share awards from previous year [1]	Expense for share awards allocated in current financial year [2]	Total
Ulrich Wallin	**2013**	**114.0**	**58.6**	**61.6**	**40.3**	**274.5**
	2012	411.3	(108.4)	135.3	76.8	515.0
André Arrago	**2013**	**535.2**	**(439.2)**	**109.9**	**69.5**	**275.4**
	2012	88.6	196.0	68.3	44.0	396.9
Claude Chèvre	**2013**	**–**	**–**	**20.7**	**22.0**	**42.7**
	2012	–	–	11.8	41.4	53.2
Jürgen Gräber	**2013**	**164.2**	**(1.5)**	**108.2**	**31.0**	**301.9**
	2012	671.5	(273.7)	71.7	29.3	498.8
Dr. Klaus Miller	**2013**	**–**	**19.5**	**(28.7)**	**22.0**	**12.8**
	2012	–	16.9	98.3	70.4	185.6
Dr. Michael Pickel	**2013**	**149.5**	**(3.1)**	**79.5**	**23.2**	**249.1**
	2012	596.9	(238.6)	22.9	23.5	404.7
Roland Vogel	**2013**	**44.3**	**30.4**	**91.4**	**27.2**	**193.3**
	2012	146.6	(28.2)	65.4	25.2	209.0
Total	2013	1,007.2	(335.3)	442.6	235.2	1,349.7
Total	2012	1,914.9	(436.0)	473.7	310.6	2,263.2

[1] The change in the reserve for share awards from previous years derives from the increased market price of the Hannover Re share, the dividend approved for 2012, contract extensions and the spreading of the expense for share awards across the remaining period of the individual service contracts.

[2] The expense for share awards is spread across the remaining period of the individual service contracts. This gives rise to a difference relative to the nominal amount shown in the table of total remuneration.

Cash remuneration actually accruing to active members of the Executive Board

Name in EUR thousand	Year	Fixed remuneration	Variable remuneration	Stock appreciation rights exercised	Total
Ulrich Wallin	**2013**	**520.0**	**614.5**	**114.0**	**1,248.5**
	2012	520.0	698.9	411.3	1,630.2
André Arrago	**2013**	**320.0**	**344.6**	**535.2**	**1,199.8**
	2012	320.0	352.8	88.6	761.4
Claude Chèvre	**2013**	**320.0**	**351.8**	**–**	**671.8**
	2012	320.0	64.8	–	384.8
Jürgen Gräber	**2013**	**400.0**	**478.5**	**164.2**	**1,042.7**
	2012	400.0	490.5	671.5	1,562.0
Dr. Klaus Miller	**2013**	**320.0**	**351.8**	**–**	**671.8**
	2012	320.0	378.0	–	698.0
Dr. Michael Pickel	**2013**	**320.0**	**351.8**	**149.5**	**821.3**
	2012	320.0	374.4	596.9	1,291.3
Roland Vogel [1]	**2013**	**380.0**	**388.3**	**44.3**	**812.6**
	2012	320.0	453.4	146.6	920.0
Total [2]	**2013**	**2,580.0**	**2,881.3**	**1,007.2**	**6,468.5**
Total	2012	2,520.0	2,812.8	1,914.9	7,247.7

1 Remuneration for seats with Group bodies that is counted towards the variable remuneration accrues in the year of occurrence.
2 In 2013 altogether EUR 32,000 more in variable remuneration was paid to the members of the Executive Board for 2012 than had been reserved.

Sideline activities of the members of the Executive Board

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

Retirement provision

Final-salary pension commitment (appointment before 2009)

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

Contribution-based pension commitment (appointment from 2009 onwards)

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

A Board member who has reached the age of 65 and left the company's employment receives a life-long retirement pension. The amount of the monthly retirement pension is calculated according to the reference date age (year of the reference date less year of birth) and the funding contribution on the reference date. The annual funding contribution for these contracts is paid by the company in an amount of 25% of the pensionable income (fixed annual remuneration as at the reference date of 1 July of each year).

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

Provision for surviving dependants

If the Board member dies during the period of the service contract, the surviving spouse – or alternatively the eligible children – shall be entitled to continued payment of the fixed monthly salary for the month in which the Board member dies and the six months thereafter, at most until termination of the service contract. If the member of the Executive Board dies after pension payments begin, the surviving spouse and alternatively the dependent children shall receive continued payment of the retirement pension for the month of death and the following six months.

The widow's pension amounts to 60% of the retirement pay that the Board member received or would have received if he had been incapacitated for work at the time of his death.

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

Adjustments

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

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

Pension payments to former members of the Executive Board

The pension payments to former members of the Executive Board and their surviving dependants, for whom 14 (13) pension commitments existed, totalled EUR 1.4 million (EUR 1.4 million) in the year under review. The projected benefit obligation of the pension commitments to former members of the Executive Board amounted to altogether EUR 21.4 million (EUR 22.5 million).

Defined benefit commitments

Name in EUR thousand	Financial year	Attainable annual pension (age 65)	DBO 31.12.	Personnel expense
Ulrich Wallin	**2013**	**220.0**	**3,284.1**	**120.8**
	2012	220.0	3,620.2	90.5
André Arrago	**2013**	**127.0**	**2,273.0**	**85.8**
	2012	127.0	2,390.8	68.3
Jürgen Gräber	**2013**	**158.5**	**2,133.3**	**97.9**
	2012	158.5	2,381.1	69.9
Dr. Michael Pickel	**2013**	**120.0**	**1,163.5**	**101.2**
	2012	120.0	1,298.0	67.0
Roland Vogel [1]	**2013**	**80.4**	**786.8**	**38.1**
	2012	71.2	703.5	23.7
Total	**2013**	**705.9**	**9,640.7**	**443.8**
Total	2012	696.7	10,393.6	319.4

[1] Mr. Vogel was appointed as a member of the Executive Board on 1 April 2009. He was first granted a pension commitment on the basis of his service to the company prior to 2001; the earned portion of the commitment from the Unterstützungskasse is therefore established as a proportion (in the ratio [currently attained service years since entry] / [attainable service years from entry to exit age]) of the final benefit. Measurement under IFRS consequently uses the defined benefit method. An annual premium of EUR 95,000 (25% of the pensionable income) was paid for Mr. Vogel in 2013. The guaranteed interest rate of his commitment is 3.25%.

Defined contribution commitments

Name in EUR thousand	Financial year	Annual funding contribution [1]	Attainable annual pension (age 65)	Premium
Claude Chèvre [2]	**2013**	**25%**	**68.4**	**80.0**
	2012	25%	68.2	80.0
Dr. Klaus Miller [2]	**2013**	**25%**	**48.7**	**80.0**
	2012	25%	48.5	80.0
Total	**2013**		**117.1**	**160.0**
Total	2012		116.7	160.0

[1] Percentage of pensionable income (fixed annual remuneration as at the reference date of 1 July of each year)
[2] Guaranteed interest rate 2.25%

Remuneration of the Supervisory Board

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

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

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

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

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

Individual remuneration received by the members of the Supervisory Board

Name in EUR thousand [1]	Function	Type of remuneration	2013	2012
Herbert K. Haas [2]	Chairman of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	100.0	100.0
		Variable remuneration	76.4	82.4
		Remuneration for committee work	85.1	85.0
		Attendance allowances	15.0	14.0
			276.5	**281.4**
Dr. Klaus Sturany	Deputy Chairman of the • Supervisory Board Member of the • Standing Committee • Nomination Committee (until 6 March 2013)	Fixed remuneration	45.0	45.0
		Variable remuneration	32.4	30.3
		Remuneration for committee work	7.5	7.5
		Attendance allowances	6.0	5.0
			90.9	**87.8**
Wolf-Dieter Baumgartl [2]	Member of the • Supervisory Board • Standing Committee • Finance and Audit Committee • Nomination Committee	Fixed remuneration	50.0	50.0
		Variable remuneration	38.3	40.2
		Remuneration for committee work	22.5	22.5
		Attendance allowances	12.0	10.0
			122.7	**122.7**
Frauke Heitmüller [3]	Member of the Supervisory Board	Fixed remuneration	30.0	19.8
		Variable remuneration	21.3	12.9
		Remuneration for committee work	–	–
		Attendance allowances	4.0	2.0
			55.3	**34.7**
Uwe Kramp [3]	Member of the Supervisory Board (until 3 May 2012)	Fixed remuneration	–	10.3
		Variable remuneration	0.3	7.4
		Remuneration for committee work	–	–
		Attendance allowances	–	2.0
			0.3	**19.7**
Karl Heinz Midunsky	Member (until 3 May 2011) of the • Supervisory Board • Nomination Committee	Fixed remuneration	–	–
		Variable remuneration	–	0.2
		Remuneration for committee work	–	–
		Attendance allowances	–	–
			–	**0.2**
Otto Müller [3]	Member of the Supervisory Board	Fixed remuneration	30.0	30.0
		Variable remuneration	21.6	20.2
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			55.6	**54.2**
Dr. Andrea Pollak	Member of the • Supervisory Board • Nomination Committee (since 6 March 2013)	Fixed remuneration	30.0	30.0
		Variable remuneration	21.6	19.9
		Remuneration for committee work	–	–
		Attendance allowances	4.0	4.0
			55.6	**53.9**

Dr. Immo Querner [2]	Member of the Supervisory Board	Fixed remuneration	50.0	50.0
		Variable remuneration	38.2	41.2
		Remuneration for committee work	10.0	10.0
		Attendance allowances	7.0	6.0
			105.2	**107.2**
Dr. Erhard Schipporeit	Member of the • Supervisory Board • Finance and Audit Committee	Fixed remuneration	30.0	30.0
		Variable remuneration	21.6	20.2
		Remuneration for committee work	15.0	15.0
		Attendance allowances	8.0	7.0
			74.6	**72.2**
Maike Sielaff [3]	Member of the Supervisory Board (from 6 March 2013)	Fixed remuneration	24.6	–
		Variable remuneration	17.0	–
		Remuneration for committee work	–	–
		Attendance allowances	4.0	–
			45.6	**–**
Gert Wächtler [3]	Member of the Supervisory Board (until 6 March 2013)	Fixed remuneration	5.5	30.0
		Variable remuneration	4.6	20.2
		Remuneration for committee work	–	–
		Attendance allowances	1.0	3.0
			11.1	**53.2**
Total			**893.5**	**887.2**

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

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

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

Loans to members of the management boards and contingent liabilities

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

In 2013 no loan relationships existed with members of the Executive Board or Supervisory Board of Hannover Rück SE, nor did the company enter into any contingent liabilities for members of the management boards.

Securities transactions and shareholdings (directors' dealings)

Dealings in shares, options and derivatives of Hannover Rück SE effected by members of the Executive Board or Supervisory Board of Hannover Re or by other persons with managerial functions who regularly have access to insider information concerning the company and who are authorised to take major business decisions – as well as such dealings conducted by certain persons closely related to the aforementioned individuals – in excess of EUR 5,000 are to be reported pursuant to § 15a Securities Trading Act (WpHG). No such reportable transactions took place in the 2013 financial year.

Members of the Supervisory Board and Executive Board of Hannover Rück SE as well as their spouses or registered partners and first-degree relatives hold less than 1.0% of the issued shares. The total holding as at 31 December 2013 amounted to 0.056% (0.056%) of the issued shares, i. e. 67,103 (67,118) shares.

Remuneration of staff and senior executives

Structure and system

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

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

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

Measurement of variable remuneration for senior executives

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

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

Group of participants and total number of eligible participants in variable remuneration systems
Valid: 31 December 2013

Participants		Variable remuneration system	Number of eligible participants in the variable remuneration system
Managing Director	Management level 2	Cash bonus and Share Award Plan	**Hannover Re Group** All 149 Group senior executives worldwide receive a cash bonus upon corresponding goal attainment. 148 of them participate in the Share Award Plan.
Director	Management level 3		
General Manager			
Chief Manager		Group Performance Bonus (GPB)	**Home Office Hannover** 581 staff (excl. seconded employees) out of the altogether 1,201 at Hannover Home Office (incl. 90 senior executives) are GPB-eligible.
Senior Manager			
Manager			

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

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

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

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

Amount and payment of variable remuneration for senior executives

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

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

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

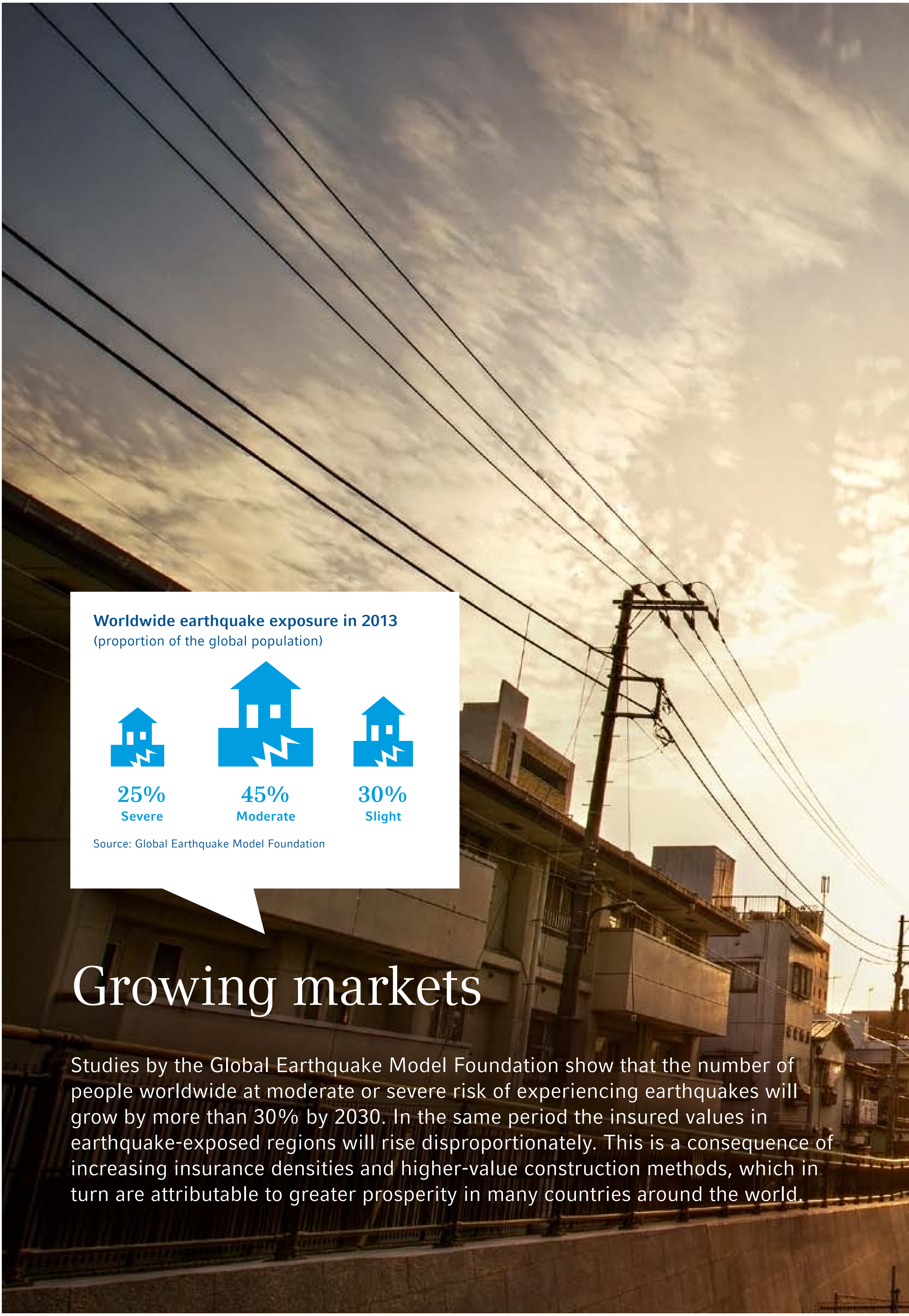
Allocation and payment of share awards to senior executives

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

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

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

The cash bonus was paid for the first time in June 2013 for the 2012 financial year. In view of the fact that the share awards were also allocated for the first time in June 2013 for the 2012 financial year, they will be paid out for the first time in the spring of 2017 including dividends paid for the 2012, 2013, 2014 and 2015 financial years.



Growing markets

Studies by the Global Earthquake Model Foundation show that the number of people worldwide at moderate or severe risk of experiencing earthquakes will grow by more than 30% by 2030. In the same period the insured values in earthquake-exposed regions will rise disproportionately. This is a consequence of increasing insurance densities and higher-value construction methods, which in turn are attributable to greater prosperity in many countries around the world.

Exposure in earthquake regions continues to increase

Outlook

Forecast

- Solid prospects for 2014 despite softer market conditions in non-life reinsurance
- Stable to modestly higher gross premium volume in total business
- Selective underwriting policy in non-life reinsurance should preserve 2013 profitability
- Significantly improved result expected in life and health reinsurance
- Return on investment of 3.2% for assets under own management
- Group net income in the order of EUR 850 million targeted

Economic development

Global economy

The outlook for the global economy continued to brighten as it put 2013 behind it and moved into 2014. Factors which had put the world's economy under appreciable strain over the past two years began to diminish in significance: in the United States the process of consolidation continued apace, while in the Eurozone confidence solidified in the survival of the single currency area. The Kiel Institute for the World Economy expects the effects of expansionary monetary policy to be felt progressively more strongly as confidence grows among households and the business community. By and large, fiscal policy will also be less restrictive than in recent years.

In its forecast for 2014, the Kiel Institute for the World Economy expects that central banks in mature national economies will stand by their expansionary monetary policy. Given these framework conditions, experts anticipate accelerated growth of 3.7% for the global economy in the coming year.

Growth in gross domestic product (GDP)

in %	2013 (forecast from previous year)	2013 (provisional calculation)	2014 (forecast)
Economic areas			
World economy	3.4%	2.9%	3.7%
Eurozone	-0.2%	-0.4%	0.9%
Selected countries			
United States	1.5%	1.6%	2.3%
China	8.0%	7.5%	7.5%
India	6.5%	4.0%	5.0%
Japan	0.5%	1.6%	1.5%
Germany	0.3%	0.4%	1.7%

Source: Kiel Institute for the World Economy

United States

The effect of monetary stimuli is likely to be felt increasingly strongly in the US in the course of the year, causing the economy to pick up further momentum. The Kiel Institute for the World Economy anticipates a growth rate of 2.3% in the year ahead. Experts believe that the real estate market will also benefit greatly from this development. Increasing debt reduction and further improvement on the labour market will boost private consumption. On the corporate side, it can be assumed that the positive framework conditions will bring greater investment confidence.

Markets are prepared for the fresh fiscal restrictions that take effect in the US budget at the beginning of 2014, as a consequence of which the restraining effect on the economy will be far slighter than in previous years. In view of the improved state of the economy, the budget deficit in the 2014 financial year will continue to shrink.

Europe

Within the Eurozone the consolidation processes in the crisis-affected countries will further curb domestic demand, with the result that economic growth will likely be comparatively weak in 2014. In addition, problems in the banking sector which hinder the transfer of monetary stimuli to the markets persist.

Despite this, economic activity in the Eurozone will gradually gather steam. The Kiel Institute for the World Economy forecasts growth of 0.9% for 2014. Unemployment has passed its peak and will slowly subside overall; the crisis-hit countries will remain exceptions here for the time being. In the United Kingdom, too, the economy is picking up; a sustained upturn with a growth rate of 2.0% for 2014 is possible here.

Germany

The economic data in Germany are pointing towards expansion. After the muted growth in the past year, economic activity is likely to gather further momentum in 2014. The Kiel Institute for the World Economy anticipates a growth rate of 1.7%. As part of this upturn the volume of replacement and expansion investments, some of which had been deferred, is likely to increase markedly. The extremely favourable financing environment will further stimulate residential construction and support the emerging real estate boom. Exports will enjoy a brisk revival in light of improved economic conditions abroad. Foreign trade will not give rise to any appreciable production effects.

Assisted by a favourable situation on the labour market, private households will significantly step up their consumer spending. Despite this positive tone on the employment front, the number of jobseekers will likely still remain just under three million.

China, India, Japan

The growth in potential output will slow in a number of emerging economies, although it should remain on a high level. The Kiel Institute for the World Economy expects China's growth rate to retreat slightly in the coming year; it will probably stand at 7.5% in 2014. Particularly in China, the figures published by the ECB suggest that the growth potential for the coming years will follow a downward trend. Given that the population of working age is shrinking in size, the gradual elimination of demand imbalances will lead to a shift in capital spending towards private consumption. For India, too, the forecast of 5% for the coming year is well short of the higher levels of prior years.

The outlook for Japan is that the current expansion will be sustained over a protracted period. The growth anticipated for 2014 is in the order of 1.5%.

Capital markets

All in all, 2014 is likely to be a solid year on the financial markets, driven by further recovery in the global economy and stabilisation in public finances. While we expect the European Central Bank to initially maintain its low interest rate policy, the US Federal Reserve should continue its progressive pullback from active market intervention, although it will likely leave interest rate policy unchanged. In 2014 international bond markets will again see unusually low interest rate levels. In the relevant currency areas for our company we expect at most moderate increases in key interest rates. With respect to treasury bonds issued by the countries of the European Monetary Union with higher risk premiums, which have been the focus of so much attention of late, the stabilisation that began to take hold in 2013 may be sustained. Last but not least, the incremental strategy for resolving the Euro debt crisis may lead to a sometimes volatile capital market environment. While the necessary consolidation of public finances in the western world will continue to preoccupy the economic environment, it may, however, overcompensate due to resurgent domestic consumption and investment demand. Overall, the risks to the world economy have not really diminished, but the opportunities are greater. Broad diversification within the investment portfolio will therefore continue to be of considerable importance in the current financial year.

Insurance industry

The situation in the international insurance industry is likely to change only marginally in 2014. Despite a challenging general environment, it is likely to remain on a broadly stable course – despite the fact that investment income will probably move lower again as a reflection of the difficult investment conditions on capital markets. In order to be able to generate adequate investment income, (re)insurers may continue to shift portfolios into other asset classes, e.g. in the infrastructure sector, or adjust products even more specifically in line with market circumstances. For the German life (re)insurance market this means having to establish further legally prescribed additional reserves for policies with guarantees; in the companies' own assessment, however, building up such a financial buffer would be feasible.

Generating growth will likely continue to be a dominant topic despite sustained competition. Industry experts anticipate stimuli for both non-life and life and health reinsurance first and foremost from growth markets: attractive business potential should be available here in view of rising population numbers and the associated urbanisation. If major losses – especially from natural disasters – are again absent in 2014, the market may soften and hence usher in further premium reductions. The market for catastrophe bonds (ILS), which gives investors with strong capital resources access to the (re)insurance market, may further exacerbate the pressure on prices. Now more than ever, therefore, the industry will likely attach importance to prices and conditions that appropriately reflect the risks. Moderate nominal premium growth is anticipated for the German insurance industry in 2014, although the overall expectation is slightly below that of the previous year.

Strengthening the risk-bearing capacity of insurers should remain a central concern in 2014. The currently ongoing adjustment of European regulations, especially with respect to Solvency II, as well as improvements in compliance and risk management systems will likely enhance the ability of insurers to withstand crises. These requirements affect not only mature markets but also increasingly growth markets around the world, where insurance reforms and solvency rules are being adopted and implemented in individual countries. The resulting challenges should at the same time open up fresh opportunities for (re)insurers.

Non-life reinsurance

Overview

Even compared to 2013, competition is intensifying appreciably in the non-life reinsurance market in the current financial year. This is being driven by a number of factors: along with the absence of market-changing major losses, ceding companies are retaining more risks for net account due to their healthy capital resources. Not only that, the inflow of capital from the ILS market – especially in the area of US natural catastrophe business – is causing marked price erosion. For Hannover Re, however, this aspect has not prompted any significant share reductions. On the whole, it may be stated that there is currently an oversupply of reinsurance capacity. This development was already becoming apparent in the course of the year under review and overshadowed the treaty renewals as at 1 January 2014. On this date we renegotiated around 65% of our treaties in non-life reinsurance (excluding facultative business and structured reinsurance).

Despite the fiercer competition, we were satisfied with the outcome of the renewals. Thanks to our selective underwriting policy we were able to generate adequate margins. We expect the profitability of the new business written to remain broadly stable relative to 2013.

Even though the rate erosion was appreciable in some areas, prices were obtained on a level commensurate with the risks. The rate reductions in non-proportional business amounted to 3.8%. Despite various efforts in the market to bring about softening, we were able to write our business at broadly unchanged conditions.

Under loss-impacted programmes it was possible to push through rate increases; this was particularly true of catastrophe covers in Germany and Canada. In marine business further increases were booked as a consequence of negative loss experiences from prior years.

Overall, Hannover Re again benefited in the treaty renewals from its durable customer relationships and its position as one of the leading and most financially robust reinsurance groups.

We see further growth potential in North America, the Asia-Pacific markets, the countries of Central and Eastern Europe, marine business and facultative reinsurance and in structured reinsurance.

Non-life reinsurance: Forecast development for 2014

	Volume [1]	Profitability [2]
Target markets		
Germany [3]	→	+/–
North America [3]	↗	+
Specialty lines		
Marine	↗	++
Aviation	↘	+/–
Credit and surety	↘	+
Structured reinsurance/ILS	↗	+/–
UK, London market & direct business	↘	+/–
Global reinsurance		
Worldwide treaty reinsurance	→	+
Global catastrophe business	↘	+
Facultative reinsurance	↗	+

[1] In EUR, development in original currency may vary
[2] ++ = significantly above the cost of capital;
+ = above the cost of capital;
+/– = on a par with the cost of capital;
– = below the cost of capital
[3] All lines with the exception of those reported separately

The development of our business is described in greater detail below.

Target markets

Our domestic market was similarly notable for marked competition in the treaty renewals. Although demand for natural catastrophe XL covers rose in **Germany** on account of heavy losses from the severe flood and hail events of 2013, not all expectations were fulfilled. In both proportional motor own damage insurance and homeowners insurance we profited from further premium increases in the original business. The rate level for covers in non-proportional motor liability was also sharply improved. The fierce competition observed in commercial and industrial business is likely to be sustained in 2014. The trend towards higher retentions – observable for some time now – principally through the reduction of proportional cessions is continuing in the current year. With this in mind, we anticipate a discernible premium decline in industrial fire business. All in all, our portfolio in our domestic market should remain stable.

The treaty renewals as at 1 January 2014 for business in **North America** passed off satisfactorily for our company; we generated premium growth of around 5%. Although rates for US property business came under pressure due to a year of relatively low losses, the rate reductions proved to be smaller than anticipated; the level is still adequate. Broadly stable rates and conditions were obtained in US casualty business, prompting us to selectively expand our portfolio here. Appreciable rate increases were booked in Canadian property business owing to heavy losses from the 2013 flood events. Rates in the casualty lines were for the most part unchanged. We expect to see further price erosion in the renewals as at 1 June and 1 July 2014 – the date when, most notably, catastrophe XL covers are renegotiated. This is not likely to be the case with loss-impacted programmes in Canada.

When it comes to the development of our premium income, we expect to see growth overall for 2014.

Specialty lines

In **marine reinsurance** we expect to see further rate increases in 2014 for Protection & Indemnity (P&I) covers owing to the deterioration of the liability claims associated with the challenging salvage of the "Costa Concordia" cruise ship. The price level for non-proportional reinsurance of business with offshore exposure should remain stable on both the property and casualty side. As far as the other lines are concerned, such as hull, cargo and marine liability, the rate environment is likely to remain broadly stable. Hannover Re anticipates more intense competition and hence pressure on prices under marine programmes that do not cover worldwide exposures. These include, in particular, the European and Asian markets.

In view of the very good underwriting results booked in **aviation reinsurance** in recent years, prices on both the primary and reinsurance markets are continuing to decline. With this in mind, our focus remains firmly on disciplined underwriting so as to preserve the profitability of our portfolio. Reflecting our selective underwriting approach in the treaty renewals as at 1 January 2014, our premium volume contracted. For the year as a whole, too, we anticipate an appreciable drop in our premium income.

With the economy slowly recovering, we are standing by our underwriting policy in **credit and surety reinsurance**. In the area of credit insurance we expect premium income to remain stable or decline slightly at constant claims rates. In surety reinsurance, on the other hand, loss expenditure is again likely to exceed the multi-year average, despite trending slightly lower. In business with political risks we enlarged our portfolio by a double-digit margin in the renewals as at 1 January 2014; we anticipate further premium growth coupled with good claims rates. For 2014 Hannover Re expects to see premium volume in its credit and surety business come in slightly lower than the previous year.

In our business with **structured reinsurance** products we anticipate further healthy demand for tailored reinsurance solutions in the current financial year. The key driver here is the increasing integration of reinsurance into companies' risk management. This trend has been fostered by the rising capital requirements imposed on providers: with ever more countries implementing risk-based solvency systems and the adoption of Solvency II taking on increasingly concrete form, 2014 is again likely to see strong demand for contracts designed to provide solvency relief.

It is our assumption that demand in the area of **insurance-linked securities** will continue to grow. In addition to protecting our own peak exposures, we make the most of the attractive opportunities available in collateralised reinsurance business. The extent to which we step up our investments in catastrophe bonds will depend on price movements. For 2014 we are looking to a rising premium volume and pleasing results. We were able to renew our "K" quota share – a collateralised modelled quota share cession of non-proportional reinsurance treaties in the property catastrophe, aviation and marine (including offshore) lines that we have placed in the ILS market for almost 20 years – with a capacity of USD 320 million for 2014.

We do not anticipate premium growth for our reinsurance business in the **United Kingdom** in the current year. Although rates in non-proportional motor reinsurance are likely to flatten out somewhat after the increases in previous years, the price level is still high. In direct business the focus of our subsidiary Inter Hannover is on risk selection with a view to further enhancing the quality of its portfolio. In South Africa we expect our reinsurance business and specialty lines to deliver modest premium growth and improved profitability in 2014.

Global reinsurance

Treaty reinsurance worldwide

The premium volume for our portfolio of worldwide treaty reinsurance is expected to remain broadly stable.

The picture on **European markets** is again a mixed one for 2014: in Central and Eastern Europe demand for high-quality reinsurance protection remains unabated. In the treaty renewals as at 1 January 2014 we achieved largely stable rates and conditions. Developments in Russia, where we enjoyed stronger demand for reinsurance protection for large infrastructure projects, were especially pleasing. We therefore enlarged our portfolio. Modest premium erosion was recorded only under programmes that had been spared losses. Thanks to our positioning and selective underwriting policy we again expect to generate profitable growth for our portfolio in the markets of Central and Eastern Europe in the current year. In France, on the other hand, the market remains soft and no trend towards higher prices can currently be discerned. With this in mind, we do not intend to expand our business. In the countries of Northern Europe the volume should remain virtually stable. We anticipate a roughly unchanged premium volume for our portfolio in Spain and Portugal.

We were highly satisfied with the outcome of the treaty renewals in **Latin America**. In both Brazil and Mexico we booked slightly higher prices. A further positive upswing is anticipated in Brazil following the October elections, and this should deliver additional growth stimuli for the region. In view of the regulatory environment for cross-border reinsurance transactions, however, we expect to see a reduction in our premium income from Argentina in the middle of the year.

For the markets of the **Asia-Pacific** region we are looking at further premium growth. In Japan we expect stable demand for reinsurance covers; rates for natural catastrophe risks are likely to retreat in the April renewals, but should still remain on a good level. Overall, it is our assumption that our portfolio in Japan will deliver modest premium growth in the original currency. The region of South and Southeast Asia should prove to be an engine of growth in the current year and beyond. Consequently, we anticipate a further rise in premium volume for our portfolio in this region. Rates in most markets of South and Southeast Asia are likely to remain broadly stable. Given that 2013 was another relatively untroubled year on the claims side in Australia and New Zealand, the pressure here on prices intensified. Nevertheless, we are looking to profitably enlarge our portfolio in these markets (adjusted for exchange rate effects) based on our local presence and long-standing client relationships. Particularly in Australia, the prudential regime newly adopted in 2014 should further drive demand for reinsurance.

Retakaful business is developing well. In this area we shall continue to concentrate on expanding profitable business and it is our expectation that the licence granted in principle in 2013 for a branch of Hannover ReTakaful in Labuan will lead to further sustained growth in Malaysia.

We also see additional growth potential in **traditional reinsurance** in the **Middle East**. Particularly crucial here are major projects such as Expo 2020 in Dubai and the FIFA Football World Cup 2022 in Qatar. All in all, gross premium volume for the current financial year should show a double-digit increase.

In the area of **agricultural covers** we anticipate undiminished demand. Key factors here are a growing demand for food and a greater need to protect against extreme weather events. In addition, the use of index-based insurance products – along with loss-based covers – is likely to increase, especially in the field of micro-insurance policies in developing countries. Hannover Re's premium volume for agricultural risks should again rise sharply in the current financial year.

Global catastrophe business

In view of the protracted low interest rate environment, further capital on the ILS market can be expected to flow into global catastrophe reinsurance. Against this backdrop, the treaty renewals as at 1 January 2014 saw further rate reductions, especially in US catastrophe business. On the other hand, in regions impacted by losses in 2013, such as Germany and Canada, we were able to secure rate improvements in some instances. The future trend in catastrophe business, particularly on the US market, will depend upon the major loss situation in the current year. For 2014 we currently anticipate a reduced premium volume.

Facultative reinsurance

In facultative reinsurance, too, the climate is becoming more competitive. The good results posted by insurers in 2013 as well as an adequate supply of capacity are keeping up the pressure on rates and conditions. Despite this, we anticipate attractive business opportunities. We are looking to book further growth in our portfolio of facultative risks in the current financial year. In addition, we set up a new department for the energy lines in order to further strengthen our position here.

Life and health reinsurance

Along with the effects of developments in the global economy, another major challenge facing the insurance industry is the constant shift in the age structure. Given that people are on average living longer, the need for corresponding insurance solutions remains consistently high. In 2014 we expect that demand for competitive and innovative insurance concepts designed to provide longevity coverage will rise around the world. Based on our long-standing expertise, it can be assumed that our customers will trust us to deliver fresh stimuli and appropriate reinsurance solutions.

Life and health reinsurance: Forecast development for 2014

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

1 In EUR, development in original currency may vary
2 ++ = significantly above the cost of capital;
+ = above the cost of capital;
+/− = on a par with the cost of capital;
− = below the cost of capital

In Europe, the market is very largely saturated when it comes to traditional life insurance products. In recent years an emerging shift in the target group could already be observed, and in 2014 too we expect the primary market to cater increasingly to the needs of seniors. There will likely be no easing in the considerable pressure to deliver competitive, cost-efficient and innovative products which focus on the needs of the over-sixties. If growth is to be generated, new products must be designed and existing product ranges expanded. In this context the primary emphasis will doubtless be on the biometric risk of morbidity, such as in long-term care insurance. Even if Germany is considered in isolation, an attractive return cannot be anticipated for traditional life insurance in the coming years.

In 2014 we shall pay close attention to the Asian market and expect demand for financially oriented reinsurance solutions to remain strong. It may be assumed that the consistently growing urban middle class will continue to take a closer interest in health coverage and retirement provision.

In the United States we anticipate further contraction in the risk-oriented life reinsurance market. We are nevertheless cautiously optimistic that we can again enlarge our market share in 2014. Furthermore, it is our expectation that effective portfolio management will be a success factor in this business segment going forward and will hence take on growing importance.

In addition to offering protection for biometric risks, we are also working on the assumption that primary insurers will have an increasing need for service offerings in 2014. In our assessment, an efficient combination of coverage for biometric risks and resource-saving processes will be reflected in stronger demand.

Investments

Against the backdrop of the European debt crisis – which has still to be overcome – and the associated uncertainties, we shall maintain the conservative orientation of significant parts of our investment portfolio. Nevertheless, irrespective of the issue of government debt, the improved economic outlook will be reflected in selective risk-taking. Our emphasis on broad diversification shall remain unchanged. By way of a neutral modified duration we shall continue to ensure that the interest rate risk is tightly managed.

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

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

Outlook for the full 2014 financial year

In the current year, despite a challenging environment both on the capital market and in reinsurance business, we anticipate a good overall result for the Hannover Re Group.

Reflecting the assumptions described for the development of non-life and life and health reinsurance, we expect to generate stable or slightly higher gross premium for the current 2014 financial year based on constant exchange rates.

In view of the relatively soft market conditions in non-life reinsurance and our correspondingly selective underwriting policy, the premium volume for the current year is expected to remain broadly stable. Going forward, too, we shall not make any concessions to our systematic underwriting discipline and we shall reduce our shares in areas where the risks are not adequately priced. In terms of the targeted combined ratio, we expect a figure under 96%. We are aiming to generate an EBIT margin of at least 10%.

For our total life and health reinsurance portfolio we are looking to book organic, currency-adjusted growth in the low to mid-single-digit percentage range for 2014. The Value of New Business (VNB) should be in excess of EUR 180 million. We continue to anticipate EBIT margins of 2% for Financial Solutions and Longevity business and 6% for Mortality and Morbidity business.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates – lead to further growth in our asset portfolio. We are targeting a return on investment of 3.2%. In both non-life and life and health reinsurance it is our assumption that we shall accomplish our minimum IVC targets of 2% xRoCA for non-life reinsurance and 3% xRoCA for life and health reinsurance.

Assuming that the burden of major losses does not significantly exceed the expected level of EUR 670 million and that there are no downturns on capital markets, Hannover Re expects to generate Group net income in the order of EUR 850 million for the 2014 financial year.

As for the dividend, we continue to aim for our payout ratio of 35% to 40% of Group net income.

Our strategic objective is to generate a minimum return on equity within the Group that is 750 basis points above the risk-free interest rate. We also seek to increase both the earnings per share and the book value per share (including dividends paid) by at least 10% annually.

Events after the reporting date

Matters of special significance arising after the closing date for the consolidated financial statements are discussed in Section 8.11 of the notes "Events after the balance sheet date" on page 224.

Consolidated financial statements

Consolidated balance sheet as at 31 December 2013	126
Consolidated statement of income 2013	128
Consolidated statement of comprehensive income 2013	129
Consolidated statement of changes in shareholders' equity 2013	130
Consolidated cash flow statement 2013	132
Notes to the consolidated financial statements 2013	135

Consolidated balance sheet as at 31 December 2013

Assets in EUR thousand	Notes	31.12.2013	31.12.2012 [1]	1.1.2012 [1]
Fixed-income securities – held to maturity	6.1	2,666,787	3,605,956	4,156,089
Fixed-income securities – loans and receivables	6.1	3,209,100	3,415,187	3,524,735
Fixed-income securities – available for sale	6.1	22,409,892	21,782,072	17,328,911
Fixed-income securities – at fair value through profit or loss	6.1	36,061	147,413	161,130
Equity securities – available for sale	6.1	28,980	29,246	40,387
Other financial assets – at fair value through profit or loss	6.1	70,082	60,835	21,026
Real estate and real estate funds	6.1	1,094,563	647,961	525,097
Investments in associated companies	6.1	144,489	133,017	127,554
Other invested assets	6.1	1,023,214	970,798	931,421
Short-term investments	6.1	549,138	509,718	1,017,886
Cash	6.1	642,936	572,188	506,963
Total investments and cash under own management		**31,875,242**	**31,874,391**	**28,341,199**
Funds withheld	6.2	14,267,831	14,627,847	13,232,054
Contract deposits	6.3	75,541	123,258	109,719
Total investments		**46,218,614**	**46,625,496**	**41,682,972**
Reinsurance recoverables on unpaid claims	6.7	1,403,804	1,538,215	1,550,587
Reinsurance recoverables on benefit reserve	6.7	344,154	507,257	380,714
Prepaid reinsurance premium	6.7	139,039	138,373	91,823
Reinsurance recoverables on other technical reserves	6.7	6,893	2,611	7,810
Deferred acquisition costs	6.4	1,672,398	1,841,279	1,926,570
Accounts receivable	6.4	2,945,685	3,065,664	3,139,327
Goodwill	6.5	57,070	59,099	59,289
Deferred tax assets	7.5	508,841	620,456	683,194
Other assets	6.6	603,627	402,655	336,650
Accrued interest and rent		4,193	4,238	5,931
Assets held for sale	6.1	11,226	6,333	2,391
Total assets		**53,915,544**	**54,811,676**	**49,867,258**

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

Liabilities in EUR thousand	Notes	31.12.2013	31.12.2012 [1]	1.1.2012 [1]
Loss and loss adjustment expense reserve	6.7	21,666,932	21,610,698	20,767,317
Benefit reserve	6.7	10,631,451	10,974,570	10,309,066
Unearned premium reserve	6.7	2,405,497	2,339,809	2,215,864
Other technical provisions	6.7	269,571	214,219	207,262
Funds withheld	6.8	648,026	821,060	644,587
Contract deposits	6.9	5,569,932	5,797,884	5,008,193
Reinsurance payable		1,071,654	1,121,409	733,348
Provisions for pensions	6.10	116,412	126,156	95,250
Taxes	7.5	222,795	237,552	185,015
Deferred tax liabilities	7.5	1,712,392	1,960,073	1,721,961
Other liabilities	6.11	605,895	493,311	441,825
Long-term debt and subordinated capital	6.12	2,464,960	2,400,791	1,934,410
Total liabilities		**47,385,517**	**48,097,532**	**44,264,098**
Shareholders' equity				
Common shares	6.13	120,597	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299	6.13			
Additional paid-in capital		724,562	724,562	724,562
Common shares and additional paid-in capital		**845,159**	**845,159**	**845,159**
Cumulative other comprehensive income				
Unrealised gains and losses on investments		533,745	987,918	453,115
Cumulative foreign currency translation adjustment		(246,279)	(16,119)	11,559
Changes from hedging instruments		(9,455)	(9,455)	–
Other changes in cumulative other comprehensive income		(16,452)	(24,417)	(4,159)
Total other comprehensive income		**261,559**	**937,927**	**460,515**
Retained earnings		4,781,718	4,249,386	3,661,844
Equity attributable to shareholders of Hannover Rück SE		**5,888,436**	**6,032,472**	**4,967,518**
Non-controlling interests	6.13	641,591	681,672	635,642
Total shareholders' equity		**6,530,027**	**6,714,144**	**5,603,160**
Total liabilities		**53,915,544**	**54,811,676**	**49,867,258**

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

Consolidated statement of income 2013

in EUR thousand	Notes	1.1.–31.12.2013	1.1.–31.12.2012[1]
Gross written premium	7.1	13,963,409	13,774,244
Ceded written premium		1,542,921	1,407,851
Change in gross unearned premium		(203,238)	(146,108)
Change in ceded unearned premium		9,414	58,957
Net premium earned		**12,226,664**	**12,279,242**
Ordinary investment income	7.2	1,041,318	1,088,409
Profit/loss from investments in associated companies	7.2	12,536	10,415
Realised gains and losses on investments	7.2	144,151	227,508
Change in fair value of financial instruments	7.2	(27,136)	89,268
Total depreciation, impairments and appreciation of investments	7.2	19,098	19,067
Other investment expenses	7.2	97,309	96,369
Net income from investments under own management		**1,054,462**	**1,300,164**
Income/expense on funds withheld and contract deposits	7.2	357,348	355,486
Net investment income		**1,411,810**	**1,655,650**
Other technical income	7.3	1,907	1,455
Total revenues		**13,640,381**	**13,936,347**
Claims and claims expenses	7.3	9,127,546	8,865,928
Change in benefit reserves	7.3	146,691	529,283
Commission and brokerage, change in deferred acquisition costs	7.3	2,690,173	2,649,693
Other acquisition costs		5,608	17,353
Other technical expenses	7.3	7,874	4,575
Administrative expenses	7.3	333,674	310,790
Total technical expenses		**12,311,566**	**12,377,622**
Other income and expenses	7.4	(99,753)	(164,820)
Operating profit/loss (EBIT)		**1,229,062**	**1,393,905**
Interest on hybrid capital	6.12	126,670	104,511
Net income before taxes		**1,102,392**	**1,289,394**
Taxes	7.5	163,143	364,405
Net income		**939,249**	**924,989**
thereof			
Non-controlling interest in profit and loss		43,782	75,397
Group net income		**895,467**	**849,592**
Earnings per share (in EUR)	**8.5**		
Basic earnings per share		7.43	7.04
Diluted earnings per share		7.43	7.04

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

Consolidated statement of comprehensive income 2013

in EUR thousand	1.1.–31.12.2013	1.1.–31.12.2012[1]
Net income	**939,249**	**924,989**
Not reclassifiable to the consolidated statement of income		
Actuarial gains and losses		
Gains (losses) recognised directly in equity	13,106	(33,315)
Tax income (expense)	(4,203)	10,660
	8,903	**(22,655)**
Income and expense recognised directly in equity that cannot be reclassified		
Gains (losses) recognised directly in equity	13,106	(33,315)
Tax income (expense)	(4,203)	10,660
	8,903	**(22,655)**
Reclassifiable to the consolidated statement of income		
Unrealised gains and losses on investments		
Gains (losses) recognised directly in equity	(536,739)	944,864
Transferred to the consolidated statement of income	(118,169)	(156,920)
Tax income (expense)	181,079	(218,330)
	(473,829)	**569,614**
Currency translation		
Gains (losses) recognised directly in equity	(269,180)	(32,338)
Transferred to the consolidated statement of income	(5,507)	–
Tax income (expense)	40,930	2,807
	(233,757)	**(29,531)**
Changes from the measurement of associated companies		
Gains (losses) recognised directly in equity	1,712	4,806
	1,712	**4,806**
Changes from hedging instruments		
Gains (losses) recognised directly in equity	–	(13,890)
Tax income (expense)	–	4,435
	–	**(9,455)**
Reclassifiable income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	(804,207)	903,442
Transferred to the consolidated statement of income	(123,676)	(156,920)
Tax income (expense)	222,009	(211,088)
	(705,874)	**535,434**
Total income and expense recognised directly in equity		
Gains (losses) recognised directly in equity	(791,101)	870,127
Transferred to the consolidated statement of income	(123,676)	(156,920)
Tax income (expense)	217,806	(200,428)
	(696,971)	**512,779**
Total recognised income and expense	**242,278**	**1,437,768**
thereof:		
Attributable to non-controlling interests	23,179	104,862
Attributable to shareholders of Hannover Rück SE	219,099	1,332,906

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

Consolidated statement of changes in shareholders' equity 2013

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2012	**120,597**	**724,562**	**453,115**	**11,559**
Adjusted on the basis of IAS 8 [1]	–	–	–	–
Balance as at 1.1.2012 (adjusted)	**120,597**	**724,562**	**453,115**	**11,559**
Changes in ownership interest with no change of control status	–	–	(150)	(35)
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity [1]	–	–	540,670	(27,643)
Other changes recognised outside income	–	–	(5,717)	–
Net income [1]	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2012	**120,597**	**724,562**	**987,918**	**(16,119)**
Balance as at 1.1.2013	**120,597**	**724,562**	**987,918**	**(16,119)**
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised in equity	–	–	(454,173)	(230,160)
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 31.12.2013	**120,597**	**724,562**	**533,745**	**(246,279)**

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

	Continuation: Other reserves (cumulative other comprehensive income)		Retained earnings	Equity attributable to shareholders of Hannover Rück SE	Non-controlling interests	Total shareholders' equity
	Hedging instruments	Other				
	–	**(18,553)**	**3,679,351**	**4,970,631**	**636,024**	**5,606,655**
	–	14,394	(17,507)	(3,113)	(382)	(3,495)
	–	**(4,159)**	**3,661,844**	**4,967,518**	**635,642**	**5,603,160**
	–	–	(1,434)	(1,619)	1,685	66
	–	–	(12,716)	(12,716)	1,026	(11,690)
	–	–	–	–	13,586	13,586
	–	–	–	–	(6,389)	(6,389)
	–	–	(363)	(363)	–	(363)
	(9,455)	(20,258)	–	483,314	29,465	512,779
	–	–	5,717	–	–	–
	–	–	849,592	849,592	75,397	924,989
	–	–	(253,254)	(253,254)	(68,740)	(321,994)
	(9,455)	(24,417)	4,249,386	6,032,472	681,672	6,714,144
	(9,455)	**(24,417)**	**4,249,386**	**6,032,472**	**681,672**	**6,714,144**
	–	–	(1,349)	(1,349)	1,426	77
	–	–	–	–	(14,265)	(14,265)
	–	–	–	–	115	115
	–	–	–	–	(2,043)	(2,043)
	–	–	5	5	–	5
	–	7,965	–	(676,368)	(20,603)	(696,971)
	–	–	895,467	895,467	43,782	939,249
	–	–	(361,791)	(361,791)	(48,493)	(410,284)
	(9,455)	(16,452)	4,781,718	5,888,436	641,591	6,530,027

Consolidated cash flow statement 2013

in EUR thousand	1.1.–31.12.2013	1.1.–31.12.2012[1]
I. Cash flow from operating activities		
Net income	939,249	924,989
Appreciation/depreciation	30,622	51,861
Net realised gains and losses on investments	(144,151)	(227,508)
Change in fair value of financial instruments	27,136	(89,268)
Realised gains and losses on deconsolidation	(6,661)	–
Income from the recognition of negative goodwill	(173)	–
Amortisation of investments	98,146	75,002
Changes in funds withheld	(70,492)	(1,184,267)
Net changes in contract deposits	(78,143)	787,965
Changes in prepaid reinsurance premium (net)	193,824	87,280
Changes in tax assets/provisions for taxes	(89,114)	157,329
Changes in benefit reserve (net)	75,705	485,498
Changes in claims reserves (net)	1,118,155	972,780
Changes in deferred acquisition costs	67,431	79,805
Changes in other technical provisions	70,075	15,385
Changes in clearing balances	(106,432)	436,653
Changes in other assets and liabilities (net)	100,319	63,658
Cash flow from operating activities	**2,225,496**	**2,637,162**

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

in EUR thousand	1.1.–31.12.2013	1.1.–31.12.2012
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	912,993	508,246
Purchases	(46,980)	–
Fixed-income securities – loans and receivables		
Maturities, sales	462,581	335,939
Purchases	(283,585)	(229,982)
Fixed-income securities – available for sale		
Maturities, sales	8,220,723	9,082,887
Purchases	(10,519,496)	(12,815,691)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	79,646	45,226
Purchases	(12,074)	(20,982)
Equity securities – available for sale		
Maturities	15,432	17,220
Sales	(12,302)	(1,996)
Other financial assets – at fair value through profit or loss		
Maturities	4,481	2,071
Sales	(92)	–
Other invested assets		
Maturities	131,650	180,259
Sales	(172,207)	(188,416)
Affiliated companies and participating interests		
Maturities	22,514	79
Sales	(3,105)	(5,883)
Real estate and real estate funds		
Maturities	55,963	232,894
Sales	(508,308)	(315,107)
Short-term investments		
Changes	(74,218)	499,466
Other changes (net)	(35,134)	(39,097)
Cash flow from investing activities	**(1,761,518)**	**(2,712,867)**

in EUR thousand	1.1.–31.12.2013	1.1.–31.12.2012
III. Cash flow from financing activities		
Contribution from capital measures	1,920	15,633
Payment on capital measures	(6,096)	(8,307)
Structural change without loss of control	77	66
Dividends paid	(410,284)	(321,994)
Proceeds from long-term debts	77,405	588,575
Repayment of long-term debts	(10,705)	(125,243)
Acquisition/disposal of treasury shares	5	(363)
Cash flow from financing activities	**(347,678)**	**148,367**
IV. Exchange rate differences on cash	**(41,719)**	**(7,437)**
Cash and cash equivalents at the beginning of the period	**572,188**	**506,963**
Change in cash and cash equivalents (I. + II. + III. + IV.)	**74,581**	**65,225**
Changes in the consolidated group	**(3,833)**	**–**
Cash and cash equivalents at the end of the period	**642,936**	**572,188**
Supplementary information on the cash flow statement [1]		
Income taxes paid (on balance)	(278,326)	(235,783)
Dividend receipts [2]	60,673	70,748
Interest received	1,457,912	1,399,204
Interest paid	(168,701)	(168,235)

[1] In the year under review the supplementary information on the cash flow statement was expanded to include dividend receipts as well as a breakdown of interest received and paid. The figures for the previous year were recalculated in this context. The income taxes as well as dividend receipts and interest received are included entirely in the cash flow from operating activities. The interest paid is attributable in an amount of EUR 120,929 thousand (EUR 122,770 thousand) to the cash flow from financing activities and in an amount of EUR 47,772 thousand (EUR 45,465 thousand) to the cash flow from operating activities.

[2] Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements 2013

1. **Company information** 136

2. **Accounting principles** 136

3. **Accounting policies** 139
   - 3.1 Changes in accounting policies 139
   - 3.2 Summary of major accounting policies 143
   - 3.3 Major discretionary decisions and estimates 151

4. **Consolidation** 153
   - 4.1 Consolidation principles 153
   - 4.2 Consolidated companies and complete list of shareholdings 154
   - 4.3 Major acquisitions and new formations 161
   - 4.4 Major disposals and retirements 162
   - 4.5 Further corporate changes 162

5. **Segment reporting** 163

6. **Notes on the individual items of the balance sheet** 168
   - 6.1 Investments under own management 168
   - 6.2 Funds withheld (assets) 183
   - 6.3 Contract deposits (assets) 183
   - 6.4 Technical assets 183
   - 6.5 Goodwill 185
   - 6.6 Other assets 186
   - 6.7 Technical provisions 189
   - 6.8 Funds withheld (liabilities) 194
   - 6.9 Contract deposits (liabilities) 194
   - 6.10 Provisions for pensions and other post-employment benefit obligations 194
   - 6.11 Other liabilities 198
   - 6.12 Debt and subordinated capital 200
   - 6.13 Shareholders' equity, non-controlling interests and treasury shares 203

7. **Notes on the individual items of the statement of income** 204
   - 7.1 Gross written premium 204
   - 7.2 Investment income 205
   - 7.3 Reinsurance result 207
   - 7.4 Other income and expenses 208
   - 7.5 Taxes on income 209

8. **Other notes** 212
   - 8.1 Derivative financial instruments and financial guarantees 212
   - 8.2 Related party disclosures 215
   - 8.3 Share-based payment 217
   - 8.4 Staff and expenditures on personnel 220
   - 8.5 Earnings per share and dividend proposal 221
   - 8.6 Lawsuits 222
   - 8.7 Contingent liabilities and commitments 222
   - 8.8 Long-term commitments 223
   - 8.9 Rents and leasing 223
   - 8.10 Fee paid to the auditor 224
   - 8.11 Events after the balance sheet date 224

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

in EUR thousand	Non-life reinsurance 31.12.2013	Non-life reinsurance 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

	Non-life reinsurance 31.12.2013	Non-life reinsurance 31.12.2012[1]
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

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.

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".

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).

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 measure-ment	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

Annual financial statements

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**

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

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch	Jungsthöfel
Wirtschaftsprüfer	Wirtschaftsprüfer

Responsibility statement

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

Hannover, 6 March 2014

Executive Board

Wallin Arrago Chèvre Gräber

Dr. Miller Dr. Pickel Vogel

Healthcare costs in Germany
in EUR billion

1992	2000	2011
158.7	212.8	293.8

Source: Federal Health Monitoring Information System, www.gbe-bund.de

Rising healthcare costs

Health is humanity's most prized asset. More and more people are living longer and longer, and thanks to medical advances these years are increasingly spent in good health. At the same time, rising life expectancy goes hand-in-hand with increasing healthcare costs. In Germany, for example, spending on the healthcare system soared by 85.2% from 1992 to 2011 to altogether EUR 293.8 billion.

New treatments for diseases at the beginning and end of a person's lifespan have been a particularly key factor in higher life expectancy.

Supervisory Board

Report of the Supervisory Board
of Hannover Rück SE

In our function as the Supervisory Board we considered at length during the 2013 financial year the position and development of the company and its major subsidiaries. We advised the Executive Board on the direction of the company and monitored the management of business on the basis of written and verbal reports from the Executive Board. The Supervisory Board of Hannover Rückversicherung AG held one regular meeting. Following transformation of the company into an SE and entry of the transformation in the commercial register on 19 March 2013 the Supervisory Board of Hannover Rück SE came together for three regular meetings, one extraordinary meeting and one constituent meeting in order to adopt the necessary resolutions after appropriate discussion. We received quarterly written reports from the Executive Board on the course of business and the position of the company and the Group. These reports describe, inter alia, the current planned and expected figures for the company and the Group as a whole and for the individual business groups. The quarterly reports with the quarterly financial statements and key figures for the Hannover Re Group constituted a further important source of information for the Supervisory Board. We received an analysis of the 2012 results in non-life and life and health reinsurance as well as a presentation from the Executive Board covering the profit expectations for the 2013 financial year and the operational planning for the 2014 financial year. In addition, the Chairman of the Supervisory Board was constantly advised by the Chairman of the Executive Board of major developments and impending decisions as well as of the risk situation within the company and the Group. All in all, we were involved in decisions taken by the Executive Board and assured ourselves of the lawfulness, regularity and efficiency of the company's management as required by our statutory responsibilities and those placed upon us by the company's Articles of Association. No audit measures pursuant to § 111 Para. 2 Sentence 1 German Stock Corporation Act were required in the 2013 financial year.

Key points of deliberation

As in every year, we were given a description of the major pending legal proceedings. We were regularly updated on the work of the Supervisory Board committees, and at several meetings we deliberated on the reorganisation of the business relationship with E+S Rück and adopted the necessary resolutions. We approved the participation of Hannover Rück SE in a consolidation platform for German life insurance companies and were informed about the opportunities and challenges in growth markets of life and health reinsurance as well as about the current retrocession structure. The medium-term outlook until 2018, the possible acquisition of a Lloyd's platform and the development and status of the Market Consistent Embedded Value in life and health reinsurance were also considered at length. Further key points of deliberation were the adoption of a resolution on the issuance of hybrid capital in a maximum amount of EUR 750 million by the end of 2015 as well as the taking out of bilateral letter of credit lines. The annual review of the investment guidelines focused on the adjustment of issuer limits, specifications with regard to forward exchange transactions and the updating of asset allocations for various capital market products. A capital increase at the subsidiary Hannover Life Re Bermuda was also approved. With an eye to § 3 Para. 1 Sentence 3 of the Regulation on the Supervisory Law Requirements for Remuneration Schemes in the Insurance Sector (VersVergV) the full Supervisory Board considered the adequacy of the remuneration system for the members of the Executive Board. The fixed remuneration of members of the Executive Board as at 1 January 2014 was also reviewed. The variable remuneration of the members of the Executive Board was defined on the basis of the findings with respect to attainment of the respective targets for the 2012 financial year and the arrangements governing the business group bonus were revised. At the constituent meeting of the Supervisory Board of Hannover Rück SE the Chairman of the Supervisory Board and his Deputy as well as the members and Chair of the Finance and Audit Committee and the members of the Standing Committee and of the Nomination Committee were elected. At an extraordinary meeting of the Supervisory Board the members of the Executive Board of Hannover Rück SE were appointed and the agenda for the first Annual General Meeting of Hannover Rück SE was set.

Committees of the Supervisory Board

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

The Finance and Audit Committee considered inter alia the consolidated annual and quarterly financial statements drawn up in accordance with IFRS and the corresponding individual financial statements of Hannover Rückversicherung AG / Hannover Rück SE drawn up in accordance with the German Commercial Code (HGB) and discussed with the independent auditors their reports on these financial statements. As in the previous year, an expert opinion on the adequacy of the loss reserves in non-life reinsurance was noted, and a review of the accumulated prefinancing volume in life reinsurance including a comparison of the expected return flows with the repayments actually made, the risk reports, the compliance report and the report on adherence to Corporate Governance principles as well as reports on the major subsidiaries were received and discussed. In addition, the Committee examined the investment structure and investment income – including the stress tests with regard to the investments and their implications for net income and the equity base – and defined the audit concentrations for the 2013 financial year. The Committee was provided with detailed reports on the current position and probable development of the subsidiary International Insurance Company of Hannover as well as on the recognition and measurement of the acquired ING portfolios. It prepared the resolutions to be adopted by the Supervisory Board on the implementation of various capital measures (including issuance of a perpetual bond). The Committee also received an explanation of the capital market risks in life and health reinsurance and was provided with a detailed report on the implications of downgrade clauses as well as a status analysis of risk management within the Group. An analysis of the results of major competitors rounded off the work of the Finance and Audit Committee in the year under review.

The Standing Committee dealt with the adequacy of the system of remuneration for the members of the Executive Board, the review of the fixed remuneration, the determination of the variable remuneration of the members of the Executive Board for the 2012 financial year on the basis of the findings with respect to attainment of the respective targets and the revised arrangements for the business group bonus. The Committee drew up corresponding recommendations for the full Supervisory Board. The Committee also recommended to the full Supervisory Board the reappointment of Mr. Claude Chèvre, Dr. Klaus Miller and Mr. Ulrich Wallin.

The Nomination Committee considered the upcoming election of new shareholder representatives to the Supervisory Board on 7 May 2014 and nominated appropriate candidates for election.

Corporate Governance

The Supervisory Board once again devoted considerable attention to the issue of Corporate Governance. The Supervisory Board considered the various new items contained in the German Corporate Governance Code (DCKG) as amended on 13 May 2013 and made the differentiations recommended pursuant to Item 4.2.2 of the Code for the vertical comparison of remuneration. The Supervisory Board again deliberated on the definition of the appropriate number of independent Supervisory Board members within the meaning of Item 5.4.2 of the Code. Furthermore, the Supervisory Board was advised by the Executive Board of the progress made in the context of the concept to promote the advancement of female employees and was provided with the compliance report and the risk report. Intensive discussion was devoted to the findings of the efficiency audit of the Supervisory Board's work and the possibilities for mailing documents electronically to the members of the Supervisory Board. Despite the high importance that the Supervisory Board attaches to the standards of good and responsible enterprise management defined in the German Corporate Governance Code, the Supervisory Board decided not to comply with the recommendations contained in Code Item 4.2.3 Para. 4 concerning a cap on severance payments in management board contracts, in Code Item 5.2 Para. 2 concerning the Chair of the Audit Committee and in Code Item 5.3.2 concerning the independence of the Chair of the Audit Committee. Purely as a precautionary measure, a divergence from Code Item 4.2.3 Para. 2 regarding caps on the amount of variable compensation elements in management board contracts was also declared. The justification in these respects is provided in the Declaration of Conformity pursuant to § 161 German Stock Corporation Act regarding compliance with the German Corporate Governance Code, which is reproduced in this Annual Report as part of the Declaration on Corporate Governance. Further information on the topic of corporate governance is available on Hannover Re's website.

Audit of the annual financial statements and consolidated financial statements

The accounting, annual financial statements, consolidated financial statements and the combined management report were audited by KPMG AG Wirtschaftsprüfungsgesellschaft. The Supervisory Board selected the auditor and the Chairman of the Supervisory Board awarded the audit mandate. The auditor's independence declaration was received. In addition to the usual tasks performed by the auditors, key points of focus in the audit of the individual and consolidated financial statements of Hannover Rück SE were the issues defined by the Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung) for the 2013 financial year as well as the currency translation in the individual financial statements drawn up according to the German Commercial Code (HGB) and in the IFRS consolidated financial statements. The mandate for the review report by the independent auditors on the interim financial report as at 30 June 2013 was also awarded again. The special challenges associated with the international aspects of the audits were met without reservation. Since the audits did not give rise to any objections KPMG AG issued unqualified audit certificates. The Finance and Audit Committee discussed the annual financial statements and the combined management report with the participation of the auditors and in light of the audit reports, and it informed the Supervisory Board of the outcome of its examination. The audit reports were distributed to all members of the Supervisory Board and scrutinised in detail – with the participation of the auditors – at the Supervisory Board meeting held to consider the annual results. The auditors will also be present at the Annual General Meeting.

The report on the company's relations with affiliated companies drawn up by the Executive Board has likewise been examined by KPMG AG and given the following unqualified audit certificate:

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

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

We have examined

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

– in each case drawn up as at 31 December 2013 – and have no objections. Nor do we have any objections to the statement reproduced in the dependent company report. The Supervisory Board thus concurred with the opinions of the auditors and approved the annual financial statements and the consolidated financial statements; the annual financial statements are thereby adopted. Our proposal regarding the appropriation of the disposable profit for 2013 is in accordance with that of the Executive Board.

Changes on the Supervisory Board and the Executive Board

The composition of the shareholder representatives on the Supervisory Board, the Finance and Audit Committee and the Standing Committee did not change in the year under review. With effect from 6 March 2013 Dr. Pollak replaced Dr. Sturany as a member of the Nomination Committee. With effect from 6 March 2013 Ms. Maike Sielaff succeeded Mr. Gerd Wächtler as an employee representative on the Supervisory Board. The Supervisory Board thanked Mr. Wächtler, who had belonged to the Supervisory Board since 3 May 2007, for his many years of valuable work on the Supervisory Board. Mr. Claude Chèvre, Dr. Klaus Miller and Mr. Ulrich Wallin, the latter being simultaneously appointed as Chairman of the Executive Board, were reappointed as members of the Executive Board.

Word of thanks to the Executive Board and members of staff

The very good result once again generated by Hannover Rück SE for the 2013 financial year was made possible by the exceptional performance of the company's Executive Board and members of staff. The Supervisory Board would like to express its special appreciation to the Executive Board and all the employees for their efforts in the year under review.

Hannover, 10 March 2014

For the Supervisory Board

Herbert K. Haas
Chairman

Supervisory Board of Hannover Rück SE

Herbert K. Haas [1,2,4]
Burgwedel
Chairman
Chairman of the Board of Management of Talanx AG
Chairman of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Klaus Sturany [1]
Ascona, Switzerland
Deputy Chairman
Former member of the Executive Board of RWE AG

Wolf-Dieter Baumgartl [1,2,4]
Berg
Former Chief Executive Officer of Talanx AG and HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Frauke Heitmüller [5]
Hannover
Employee

Otto Müller [5]
Hannover
Employee

Dr. Andrea Pollak [4]
Vienna, Austria
Independent management consultant

Dr. Immo Querner
Celle
Member of the Board of Management of Talanx AG
Member of the Board of Management of HDI Haftpflichtverband der Deutschen Industrie V.a.G.

Dr. Erhard Schipporeit [2,3]
Hannover
Former member of the Executive Board of E.ON SE

Maike Sielaff [5]
Burgwedel
(from 6 March 2013)
Employee

Gert Wächtler [5]
Burgwedel
(until 6 March 2013)
Employee

[1] Member of the Standing Committee
[2] Member of the Finance and Audit Committee
[3] Independent financial expert on the Finance and Audit Committee
[4] Member of the Nomination Committee
[5] Staff representative

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

Further information

Branch offices and subsidiaries of the Hannover Re Group abroad

Australia

Hannover Life Re of Australasia Ltd
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Tel. +61 2 9251-6911
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Managing Director:
Steve Willcock

Hannover Rueck SE Australian Branch – Agency
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Tel. +61 2 9274-3000
Fax +61 2 9274-3033
Agent:
Ross Littlewood

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Head of Facultative:
Andrew Parker
Head of Treaty:
Michael Eberhardt

Bahrain

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Managing Director:
Mahomed Akoob

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General Manager:
Mahomed Akoob

Bermuda

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Glossary

Accumulation loss: sum of several individual losses incurred by various policyholders as a result of the same loss event (e. g. windstorm, earthquake). This may lead to a higher loss for the direct insurer or reinsurer if several affected policyholders are insured by the said company.

Acquisition cost, deferred (DAC): cost of an insurance company that arises from the acquisition or the renewal of an insurance contract (e. g. commission for the closing, costs of proposal assessment and underwriting etc.). Capitalisation results in a distribution of the cost over the duration of the contract.

Aggregate excess of loss treaty: a form of excess of loss treaty reinsurance under which the reinsurer responds when a ceding insurer incurs losses on a particular line of business during a specific period (usually 12 months) in excess of a stated amount.

Alternative risk financing: use of the capacity available on the capital markets to cover insurance risks, e. g. through the securitisation of natural catastrophe risks.

American Depositary Receipt (ADR): share certificates written by US banks on foreign shares deposited there. Instead of trading the foreign shares directly, US stock exchanges trade the ADRs.

Benefit reserves: value arrived at using mathematical methods for future liabilities (present value of future liabilities minus present value of future incoming premiums), primarily in life and health insurance.

Block assumption transaction (BAT): proportional reinsurance treaty on a client's life or health insurance portfolio, by means of which it is possible, inter alia, for our clients to realise in advance the future profits so as to be able to efficiently ensure the attainment of corporate objectives, e. g. in the areas of financial or solvency policy.

Capital asset pricing model (CAPM): the CAPM is used to explain the materialisation of prices/returns on the capital market based on investor expectations regarding the future probability distribution of returns. Under this method, the opportunity cost rate for the shareholders' equity consists of three components – a risk-averse interest rate, a market-specific risk loading and an enterprise-specific risk assessment, the beta coefficient. The cost of shareholders' equity is therefore defined as follows: risk-averse interest rate + beta * enterprise-specific risk assessment.

Cash flow statement: statement on the origin and utilisation of cash and cash equivalents during the accounting period. It shows the changes in liquid funds separated into cash flows from operating, investing and financing activities.

Cedant: direct insurer or reinsurer which passes on (also: cedes) shares of its insured or reinsured risks to a reinsurer in exchange for premium.

Cession: transfer of a risk from the direct insurer to the reinsurer.

Claims and claims expenses: sum total of paid claims and provisions for loss events that occurred in the business year; this item also includes the result of the run-off of the provisions for loss events from previous years, in each case after the deduction of own reinsurance cessions.

Coinsurance Funds Withheld (CFW) Treaty: type of coinsurance contract where the ceding company retains a portion of the original premium at least equal to the ceded reserves. Similar to a ➝ Modco contract the interest payment to the reinsurer reflects the investment return on an underlying asset portfolio.

Combined ratio: sum of the loss ratio and expense ratio.

Confidence (also: probability) level: the confidence level defines the probability with which the defined amount of risk will not be exceeded.

Contribution margin accounting level 5 (DB 5): this level of contribution margin accounting constitutes the clear profit after earning the discounted claims expenditure plus all external and internal costs including the cost of capital.

Corporate Governance: serves to ensure responsible management and supervision of enterprises and is intended to foster the trust of investors, clients, employees and the general public in companies.

Critical illness coverages: cf. ➝ dread disease coverages

DB 5: cf. ➝ contribution margin accounting level 5

Deposit accounting: an accounting method originating in US accounting principles for the recognition of short-term and multi-year insurance and reinsurance contracts with no significant underwriting risk transfer. The standard includes inter alia provisions relating to the classification of corresponding contract types as well as the recognition and measurement of a deposit asset or liability upon inception of such contracts.

Deposits with ceding companies/deposits received from retrocessionaires (also: funds held by ceding companies/funds held under reinsurance treaties): collateral provided to cover insurance liabilities that a (re-)insurer retains from the liquid funds which it is to pay to a reinsurer under a reinsurance treaty. In this case, the retaining company shows a deposit received, while the company furnishing the collateral shows a deposit with a ceding company.

Derivatives, derivative financial instruments: these are financial products derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments, the price of which is determined on the basis of an underlying security or other reference asset. Notable types of derivatives include swaps, options and futures.

Direct business: business focused on narrowly defined → portfolios of niche or other non-standard risks.

Direct (also: primary) insurer: company which accepts risks in exchange for an insurance premium and which has a direct contractual relationship with the policyholder (private individual, company, organisation).

Discounting of loss reserves: determination of the present value of future profits through multiplication by the corresponding discount factor. In the case of the loss reserves this is necessary because of the new profit calculation methods for tax purposes applicable to German joint-stock corporations.

Diversification: orientation of business policy towards various revenue streams in order to minimise the effects of economic fluctuations and stabilise the result. Diversification is an instrument of growth policy and risk policy for a company.

Dread disease (also: critical illness) coverages: personal riders on the basis of which parts of the sum insured which would otherwise only become payable on occurrence of death are paid out in the event of previously defined severe illnesses.

Earnings per share, diluted: ratio calculated by dividing the consolidated net income (loss) by the weighted average number of shares outstanding. The calculation of the diluted earnings per share is based on the number of shares including subscription rights already exercised or those that can still be exercised.

Earnings retention: non-distribution of a company's profits leading to a different treatment for tax purposes than if profits were distributed.

Excess of loss treaty: cf. → non-proportional reinsurance

Excess return on capital allocated (xRoCA): describes the → IVC in relation to the allocated capital and shows the relative excess return generated above and beyond the weighted cost of capital.

Expense ratio: administrative expenses (gross or net) in relation to the (gross or net) premium earned.

Exposure: level of danger inherent in a risk or portfolio of risks; this constitutes the basis for premium calculations in reinsurance.

Facultative reinsurance: participation on the part of the reinsurer in a particular individual risk assumed by the direct insurer. This is in contrast to → obligatory (also: treaty) reinsurance.

Fair value: price at which a financial instrument would be freely traded between two parties.

Financial Solutions: refers to reinsurance transactions which – in addition to the transfer of biometric risks – also include financing components. They generally employ the future profits contained in a block of new or inforce business to enable a ceding company to achieve a desired financial objective. Such reinsurance solutions provide direct insurers with an alternative means of accessing capital in order, for example, to pursue new lines of business or increase capital reserves.

Funds held by ceding companies/funds held under reinsurance treaties: cf. → deposits with ceding companies/deposits received from retrocessionaires

Goodwill: the excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.

Gross/Retro/Net: gross items constitute the relevant sum total deriving from the acceptance of direct insurance policies or reinsurance treaties; retro items constitute the relevant sum total deriving from own reinsurance cessions. The difference is the corresponding net item (gross – retro = net, also: for own account).

Hybrid capital: debt structure which because of its subordination bears the character of both debt and equity

IBNR (Incurred but not reported) reserve: provision for claims which have already occurred but which have not yet been reported.

Impairment: extraordinary amortisation taken when the present value of the estimated future cash flow of an asset is less than its book value.

Inflation swap: derivative financial instrument to hedge inflation risks, under which a fixed cash flow is swapped for a variable cash flow dependent on the inflation trend.

International Securities Identification Number (ISIN): ten-character universal code used to identify securities internationally. It is prefixed by a country code that specifies the country where the issuer entity is legally registered or in which it has legal domicile, e. g. DE = Germany.

Intrinsic value creation (IVC): the IVC is calculated according to the following formula: real operating value creation = adjusted operating profit (EBIT) – (capital allocated x weighted cost of capital). IVC is a tool of value-based enterprise management used to measure the accomplishment of long-term targets on the level of the Group, the individual business groups and the operating units (profit centres).

Investment grade: investment grade ratings are awarded to companies and assigned to securities that have a low risk profile. They contrast with non-investment-grade ratings, which by definition include speculative elements and therefore entail a significantly higher risk.

IVC: cf. → Intrinsic Value Creation

Issuer: private enterprise or public entity that issues securities, e. g. the federal government in the case of German Treasury Bonds and a joint-stock corporation in the case of shares.

Leader: if several (re-)insurers participate in a contract, one company assumes the role of leader. The policyholder deals exclusively with this lead company. The lead (re-)insurer normally carries a higher percentage of the risk for own account.

Letter of credit (LOC): bank guarantee; at the request of the guaranteed party, the bank undertakes to render payment to the said party up to the amount specified in the LOC. This method of providing collateral in reinsurance business is typically found in the USA.

Life and health (re-)insurance: collective term for the lines of business concerned with the insurance of persons, i. e. life, pension, health and personal accident insurance.

Life business: this term is used to designate business activities in our life and health reinsurance business group.

Longevity risk: in general terms, the actuarial risk that a person receiving regular living benefits – such as annuities or pensions – lives longer than expected.

Loss, economic: total loss incurred by the affected economy as a whole following the occurrence of a loss. The economic loss must be distinguished from the insured loss.

Loss, insured: the insured loss reflects the total amount of losses covered by the insurance industry (insurers and reinsurers).

Loss ratio: proportion of loss expenditure (gross or net) relative to the (gross or net) premium earned.

Major loss: loss which has special significance for the direct insurer or reinsurer due to the amount involved; it is defined as a major loss in accordance with a fixed loss amount or other criteria (in the case of Hannover Re more than EUR 10 million gross).

Major loss budget: modelled loss expectancy for business with natural perils exposure with respect to net losses larger than EUR 10 million plus the average of the past 10 years for man-made net losses larger than EUR 10 million.

Market Consistent Embedded Value (MCEV): a refinement and closer specification of the previous principles of → European Embedded Value (EEV). In particular, the market-consistent calculation method is intended to bring about better comparability. The MCEV is established using risk-neutral assumptions in relation to the expected investment income and the discounting approach. In addition, the swap curve is adopted as a risk-neutral interest rate structure.

Mark-to-market valuation: the evaluation of financial instruments to reflect current market value or → fair value.

Matching currency cover: coverage of technical liabilities in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange-rate risks.

Modified Coinsurance- (Modco) treaty: type of reinsurance treaty where the ceding company retains the assets with respect to all the policies reinsured and also establishes and retains the total reserves on the policies, thereby creating an obligation to render payments to the reinsurer at a later date. Such payments include a proportional share of the gross premium plus a return on the assets.

Morbidity risk: in general terms, the actuarial risk that a person receiving health, disability or long-term-care benefits triggered by illness, malfunctioning of body parts, injury or frailty experiences a higher or longer than expected morbidity or disability leading to a higher payment amount, higher frequency or longer duration.

Mortality risk: in general terms, the actuarial risk that a person upon whose death a benefit is payable lives shorter than expected. From a (re)insurer's perspective, this is the risk that the observed mortality experience in an underlying portfolio deviates from what had previously been calculated on the basis of actuarial assumptions.

Net: cf. → Gross/Retro/Net

Non-life business: by way of distinction from operations in our life and health reinsurance business group, we use this umbrella term to cover our business group comprised essentially of property and casualty reinsurance, specialty lines and structured reinsurance products.

Non-proportional reinsurance: reinsurance treaty under which the reinsurer assumes the loss expenditure in excess of a particular amount (➝ priority) (e.g. under an excess of loss treaty). This is in contrast to ➝ proportional reinsurance.

Obligatory (also: treaty) reinsurance: reinsurance treaty under which the reinsurer participates in a ➝ cedant's total, precisely defined insurance portfolio. This is in contrast to facultative reinsurance.

Other securities, available-for-sale: securities that cannot be clearly allocated to the "trading" or "held-to-maturity" portfolios; these securities can be disposed of at any time and are reported at their fair value at the balance sheet date. Changes in fair value are not recognised in the statement of income.

Other securities, held-to-maturity: investments in debt securities that can and are intended to be held to maturity. They are measured at amortised cost.

Other securities, trading: securities that are held principally for short-term trading purposes. They are measured at their fair value at the balance sheet date

(Insurance) Pool: a risk-sharing partnership under civil law formed by legally and economically independent insurers and reinsurers in order to create a broader underwriting base for particularly large or unbalanced risks. The members undertake to write certain risks only within the scope of the insurance pool. They include such risks – while maintaining their commercial independence – in the insurance pool against a commission fee. Each insurer participates in the profit or loss of the insurance pool according to its proportionate interest. Reinsurance is often ceded or accepted in order to further diversify the risk. Pools can be divided into two types: coinsurance pools, in which all members take the role of primary insurers according to their interests, and reinsurance pools, in which a primary insurer writes the risks and then spreads them among the participating insurers by way of reinsurance.

Portfolio: a) all risks assumed by an insurer or reinsurer in a defined sub-segment (e.g. line of business, country) or in their entirety; b) group of investments defined according to specific criteria.

Premium: agreed remuneration for the risks accepted from an insurance company. Unlike the earned premiums, the written premiums are not deferred.

Present value of future profits (PVFP): intangible asset primarily arising from the purchase of life and health insurance companies or portfolios. The present value of expected future profits from the portfolio assumed is capitalised and amortised according to schedule.

Price earnings ratio (PER): a valuation ratio of a company's share price compared to its per-share earnings.

Primary insurer: cf. ➝ direct insurer

Priority: direct insurer's loss amount stipulated under ➝ non-proportional reinsurance treaties; if this amount is exceeded, the reinsurer becomes liable to pay. The priority may refer to an individual loss, an ➝ accumulation loss or the total of all annual losses.

Probability level: cf. ➝ confidence level

Property and casualty (re-)insurance: collective term for all lines of business which in the event of a claim reimburse only the incurred loss, not a fixed sum insured (as is the case in life and personal accident insurance, for example). This principle applies in all lines of property and casualty insurance.

Proportional reinsurance: reinsurance treaties on the basis of which shares in a risk or ➝ portfolio are reinsured under the relevant direct insurer's conditions. ➝ Premiums and losses are shared proportionately on a pro-rata basis. This is in contrast to non-proportional reinsurance.

Protection cover: protection of segments of an insurer's portfolio against major losses (per risk/per event), primarily on a non-proportional basis.

Provision: liability item as at the balance sheet date to discharge obligations which exist but whose extent and/or due date is/are not known. Technical provisions, for example, are for claims which have already occurred but which have not yet been settled, or have only been partially settled (= provision for outstanding claims, abbreviated to: claims provision).

Provision for unearned premiums (also: unearned premium reserve): premiums written in a financial year which are to be allocated to the following period on an accrual basis. This item is used to defer written premiums.

Purchase cost, amortised: the cost of acquiring an asset item including all ancillary and incidental purchasing costs; in the case of wasting assets less scheduled and/or special amortisation.

Quota share reinsurance: form of proportional reinsurance under which the reinsurer assumes a contractually set percentage share of the written risk. Since the insurer is responsible for acquisition, pricing, policy administration and claims handling, the administrative expenditure for the reinsurer is very low. The latter therefore participates in the aforementioned expenses through payment of a reinsurance commission. This commission can amount to 15% to 50% of the original premium depending upon the market and cost situation.

Rate: percentage rate (usually of the premium income) of the reinsured portfolio which is to be paid to the reinsurer as reinsurance premium under a → non-proportional reinsurance treaty.

Reinsurer: company which accepts risks or portfolio segments from a → direct insurer or another reinsurer in exchange for an agreed premium.

Reserve ratio: ratio of (gross or net) technical provisions to the (gross or net) premiums.

Retention: the part of the accepted risks which an insurer/reinsurer does not reinsure, i.e. shows as → net (retention ratio: percentage share of the retention relative to the gross written premiums).

Retrocession (also: Retro): ceding of risks or shares in risks which have been reinsured. Retrocessions are ceded to other reinsurers in exchange for a pro-rata or separately calculated premium (cf. → Gross/Retro/Net).

Risk, insured: defines the specific danger which can lead to the occurrence of a loss. The insured risk is the subject of the insurance contract.

Securitisation instruments: innovative instruments for transferring reinsurance business to the capital markets with the goal of refinancing or placing insurance risks.

Segment reporting: presentation of items in the balance sheet and income statement split according to functional criteria such as business sectors and regions.

Special purpose entity (SPE): entity with specific characteristics not bound to a particular legal form that is used to conduct closely defined activities or to hold assets and for which the traditional concept of consolidation – based on voting rights – is often inadequate for determining who exercises control over the entity.

Spread loss treaty: treaty between an insurer and a reinsurer that covers risks of a defined portfolio over a multi-year period.

Structured products: reinsurance with limited potential for profits and losses; the primary objective is to strive for risk equalisation over time and to stabilise the → cedant's balance sheet.

Surplus reinsurance: form of proportional reinsurance under which the risk is not spread between the insurer and reinsurer on the basis of a previously agreed, set quota share. Instead, the insurer determines a maximum sum insured per risk up to which it is prepared to be liable. Risks that exceed the ceding company's retention (surpluses) are borne by the reinsurer. The reinsurer's lines thus vary according to the level of the retention and the sum insured of the reinsured contract. The reinsurer's liability is generally limited to a multiple of the ceding company's retention.

Surplus relief treaty: a reinsurance contract under which a reinsurer assumes (part of) a ceding company's portfolio in order to relieve strain on the insurer's policyholders' surplus.

Survival ratio: reflects the ratio of loss reserves to paid losses under a specific contract or several contracts in a balance sheet year.

Technical result: balance of income and expenditure allocated to the insurance business and shown in the technical statement of income.

Treaty reinsurance: cf. → obligatory reinsurance

Underwriting: process of examining, accepting or rejecting (re-)insurance risks and classifying those selected in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of (re-)insureds in a manner that is equitable for the (re-)insureds and profitable for the (re-)insurer.

Unearned premium reserve: cf. → provision for unearned premiums

Value of in-force business (VIF): present value of expected future profit flows from the portfolio of in-force retained business, discounted by a currency-specific risk discount rate. It is determined in accordance with local accounting principles.

xRoCA: cf. → Excess Return on Capital Allocated

Financial calendar 2014/2015

11 March 2014
Annual Results Press Conference
Start 10:30 a.m.
Home Office building of Hannover Rück SE
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12 March 2014
DVFA Analysts' Meeting, Frankfurt
Analysts' Meeting, London

7 May 2014
Annual General Meeting
Start 11:00 a.m.
Hannover Congress Centrum
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7 May 2014
Interim Report 1/2014

6 August 2014
Interim Report 2/2014

5 November 2014
Interim Report 3/2014

4 February 2015
Conference Call:
Non-life treaty renewals

6 May 2015
Annual General Meeting
Start 11:00 a.m.
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6 May 2015
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A printed version of the Hannover Re Group's Annual Report is also available in German. The report can be downloaded online in PDF format in English and German at **www.hannover-re.com**.

This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

We would also be pleased to provide you with the individual Annual Report of Hannover Rück SE in German or English. If you wish to receive paper copies of any of these versions, please contact Corporate Communications on:

Tel. + 49 511 5604-1889
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Published by

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www.whitepark.de

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

MIX
Papier aus verantwortungsvollen Quellen
FSC® C002727

Printed carbon neutral to offset greenhouse gas emissions

carbon neutral
natureOffice.com | DE-141-717066
print production