

Quarterly consolidated accounts



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Consolidated balance sheet as at 30 September 2013

Assets in EUR thousand	30.9.2013	31.12.2012 ¹
Fixed-income securities – held to maturity	2,722,328	3,605,956
Fixed-income securities – loans and receivables	3,269,105	3,415,187
Fixed-income securities – available for sale	22,338,853	21,782,072
Fixed-income securities – at fair value through profit or loss	42,097	147,413
Equity securities – available for sale	30,501	29,246
Other financial assets – at fair value through profit or loss	66,146	60,835
Real estate and real estate funds	976,733	647,961
Investments in associated companies	140,190	133,017
Other invested assets	1,021,023	970,798
Short-term investments	629,824	509,718
Cash	587,588	572,188
Total investments and cash under own management	31,824,388	31,874,391
Funds withheld	14,652,894	14,627,847
Contract deposits	79,244	123,258
Total investments	46,556,526	46,625,496
Reinsurance recoverables on unpaid claims	1,504,167	1,538,215
Reinsurance recoverables on benefit reserve	514,412	507,257
Prepaid reinsurance premium	183,910	138,373
Reinsurance recoverables on other technical reserves	5,612	2,611
Deferred acquisition costs	1,726,618	1,841,279
Accounts receivable	3,159,494	3,065,664
Goodwill	57,410	59,099
Deferred tax assets	583,068	620,456
Other assets	558,832	402,655
Accrued interest and rent	5,064	4,238
Assets held for sale	11,226	6,333
Total assets	54,866,339	54,811,676

¹ Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Liabilities in EUR thousand	30.9.2013	31.12.2012 ¹
Loss and loss adjustment expense reserve	22,002,385	21,610,698
Benefit reserve	10,690,490	10,974,570
Unearned premium reserve	2,548,567	2,339,809
Other technical provisions	266,212	214,219
Funds withheld	859,887	821,060
Contract deposits	5,851,166	5,797,884
Reinsurance payable	1,062,739	1,121,409
Provisions for pensions	124,435	126,156
Taxes	165,446	237,552
Deferred tax liabilities	1,890,694	1,960,073
Other liabilities	559,800	493,311
Long-term debt and subordinated capital	2,451,184	2,400,791
Total liabilities	48,473,005	48,097,532
Shareholders' equity		
Common shares	120,597	120,597
Nominal value: 120,597 Conditional capital: 60,299		
Additional paid-in capital	724,562	724,562
Common shares and additional paid-in capital	845,159	845,159
Cumulative other comprehensive income		
Unrealised gains and losses on investments	588,332	987,918
Cumulative foreign currency translation adjustment	(165,373)	(16,225)
Changes from hedging instruments	(9,455)	(9,455)
Other changes in cumulative other comprehensive income	(28,918)	(51,628)
Total other comprehensive income	384,586	910,610
Retained earnings	4,526,751	4,276,703
Equity attributable to shareholders of Hannover Rück SE	5,756,496	6,032,472
Non-controlling interests	636,838	681,672
Total shareholders' equity	6,393,334	6,714,144
Total liabilities	54,866,339	54,811,676

Consolidated statement of income as at 30 September 2013

in EUR thousand	1.7.–30.9.2013	1.1.–30.9.2013	1.7.–30.9.2012 ¹	1.1.–30.9.2012 ¹
Gross written premium	3,311,242	10,537,904	3,407,522	10,295,966
Ceded written premium	448,697	1,173,087	360,552	1,064,313
Change in gross unearned premium	46,063	(299,645)	68,069	(385,037)
Change in ceded unearned premium	17,146	52,101	19,144	112,353
Net premium earned	2,925,754	9,117,273	3,134,183	8,958,969
Ordinary investment income	277,474	781,075	290,026	821,984
Profit/loss from investments in associated companies	3,572	9,812	1,866	5,315
Realised gains and losses on investments	12,915	97,413	82,552	150,546
Unrealised gains and losses on investments	18,727	(18,796)	58,085	61,030
Total depreciation, impairments and appreciation of investments	5,228	13,393	3,449	15,469
Other investment expenses	23,324	70,526	21,050	62,208
Net income from investments under own management	284,136	785,585	408,030	961,198
Income/expense on funds withheld and contract deposits	80,081	267,630	91,281	247,564
Net investment income	364,217	1,053,215	499,311	1,208,762
Other technical income	1,600	2,436	134	951
Total revenues	3,291,571	10,172,924	3,633,628	10,168,682
Claims and claims expenses	2,226,173	6,800,868	2,289,276	6,558,039
Change in benefit reserves	(6,197)	45,270	135,059	273,291
Commission and brokerage, change in deferred acquisition costs	659,568	2,050,707	676,189	1,942,220
Other acquisition costs	1,730	3,620	2,050	9,541
Other technical expenses	1,536	8,246	852	2,825
Administrative expenses	87,728	259,726	70,592	226,948
Total technical expenses	2,970,538	9,168,437	3,174,018	9,012,864
Other income and expenses	(30,060)	(42,860)	(40,026)	(139,045)
Operating profit (EBIT)	290,973	961,627	419,584	1,016,773
Interest on hybrid capital	31,947	94,988	25,556	76,159
Net income before taxes	259,026	866,639	394,028	940,614
Taxes	52,039	217,411	90,174	215,093
Net income	206,987	649,228	303,854	725,521
thereof				
Non-controlling interest in profit and loss	1,523	36,049	38,351	54,724
Group net income	205,464	613,179	265,503	670,797
Earnings per share (in EUR)				
Basic earnings per share	1.70	5.08	2.20	5.56
Diluted earnings per share	1.70	5.08	2.20	5.56

¹ Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Consolidated statement of comprehensive income as at 30 September 2013

in EUR thousand	1.7.– 30.9.2013	1.1.– 30.9.2013	1.7.– 30.9.2012 ¹	1.1.– 30.9.2012 ¹
Net income	206,987	649,228	303,854	725,521
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains/losses recognised directly in equity	3,089	5,552	(8,326)	(24,991)
Tax income/expense	(986)	(1,771)	2,661	7,986
	2,103	3,781	(5,665)	(17,005)
Income and expense recognised directly in equity that cannot be reclassified				
Gains/losses recognised directly in equity	3,089	5,552	(8,326)	(24,991)
Tax income/expense	(986)	(1,771)	2,661	7,986
	2,103	3,781	(5,665)	(17,005)
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains/losses recognised directly in equity	24,841	(489,009)	415,223	859,923
Transferred to the consolidated statement of income	(8,683)	(83,197)	(68,990)	(87,973)
Tax income/expense	(997)	156,352	(94,186)	(208,614)
	15,161	(415,854)	252,047	563,336
Currency translation				
Gains/losses recognised directly in equity	(76,767)	(170,935)	(48,477)	44,980
Transferred to the consolidated statement of income	–	(5,507)	–	–
Tax income/expense	12,139	25,083	4,760	(5,503)
	(64,628)	(151,359)	(43,717)	39,477
Changes from the measurement of associated companies				
Gains/losses recognised directly in equity	14	(13)	–	–
	14	(13)	–	–
Changes from hedging instruments				
Gains/losses recognised directly in equity	–	–	(12,656)	(13,890)
Tax income/expense	–	–	4,041	4,435
	–	–	(8,615)	(9,455)
Other changes				
Gains/losses recognised directly in equity	2,716	27,332	(4,305)	(20,173)
Tax income/expense	(774)	(8,055)	1,293	6,089
	1,942	19,277	(3,012)	(14,084)
Reclassifiable income and expense recognised directly in equity				
Gains/losses recognised directly in equity	(49,196)	(632,625)	349,785	870,840
Transferred to the consolidated statement of income	(8,683)	(88,704)	(68,990)	(87,973)
Tax income/expense	10,368	173,380	(84,092)	(203,593)
	(47,511)	(547,949)	196,703	579,274
Total income and expense recognised directly in equity				
Gains/losses recognised directly in equity	(46,107)	(627,073)	341,459	845,849
Transferred to the consolidated statement of income	(8,683)	(88,704)	(68,990)	(87,973)
Tax income/expense	9,382	171,609	(81,431)	(195,607)
	(45,408)	(544,168)	191,038	562,269
Total recognised income and expense	161,579	105,060	494,892	1,287,790
thereof:				
Attributable to non-controlling interests	517	17,905	48,020	83,458
Attributable to shareholders of Hannover Rück SE	161,062	87,155	446,872	1,204,332

¹ Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

Consolidated statement of changes in shareholders' equity as at 30 September 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
Changes in ownership interest with no change of control status	-	-	(10)	(139)
Changes in the consolidated group	-	-	-	-
Capital increases/additions	-	-	-	-
Capital repayments	-	-	-	-
Acquisition/disposal of treasury shares	-	-	-	-
Total income and expense recognised directly in equity	-	-	532,147	40,129
Net income	-	-	-	-
Dividends paid	-	-	-	-
Balance as at 30.9.2012	120,597	724,562	985,252	51,549
Balance as at 1.1.2013	120,597	724,562	987,918	(16,225)
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	-	-	(399,586)	(149,148)
Net income	-	-	-	-
Dividends paid	-	-	-	-
Balance as at 30.9.2013	120,597	724,562	588,332	(165,373)

The consolidated statement of changes in shareholders' equity for the previous year was adjusted retrospectively on the basis of IAS 8 due to effects resulting from the application of IAS 19R (cf. explanatory remarks on changes in accounting policies in Section 2 of the Notes).

Continuation: Other reserves (cumulative other comprehensive income)		Retained earnings	Equity attributable to shareholders of Hannover Rück SE	Non-controlling interests	Total shareholders' equity
Hedging instruments	Other				
-	(22,712)	3,680,397	4,967,518	635,642	5,603,160
-	-	(263)	(412)	431	19
-	-	(12,716)	(12,716)	1,026	(11,690)
-	-	-	-	1,210	1,210
-	-	-	-	(6,373)	(6,373)
-	-	(363)	(363)	-	(363)
(9,455)	(29,286)	-	533,535	28,734	562,269
-	-	670,797	670,797	54,724	725,521
-	-	(253,254)	(253,254)	(68,627)	(321,881)
(9,455)	(51,998)	4,084,598	5,905,105	646,767	6,551,872
(9,455)	(51,628)	4,276,703	6,032,472	681,672	6,714,144
-	-	(1,345)	(1,345)	1,425	80
-	-	-	-	(14,265)	(14,265)
-	-	-	-	119	119
-	-	-	-	(2,046)	(2,046)
-	-	5	5	-	5
-	22,710	-	(526,024)	(18,144)	(544,168)
-	-	613,179	613,179	36,049	649,228
-	-	(361,791)	(361,791)	(47,972)	(409,763)
(9,455)	(28,918)	4,526,751	5,756,496	636,838	6,393,334

Consolidated cash flow statement as at 30 September 2013

in EUR thousand	1.1. – 30.9.2013	1.1. – 30.9.2012 ¹
I. Cash flow from operating activities		
Net income	649,228	725,521
Depreciation/appreciation	21,701	42,654
Net realised gains and losses on investments	(97,413)	(150,546)
Net unrealised gains and losses on investments	18,796	(61,030)
Realised gains and losses on deconsolidation	(6,661)	–
Income from the recognition of negative goodwill	(176)	–
Amortisation of investments	71,857	58,091
Changes in funds withheld	(168,622)	(666,533)
Net changes in contract deposits	163,211	585,313
Changes in prepaid reinsurance premium (net)	247,264	272,869
Changes in tax assets/provisions for taxes	(6,552)	44,712
Changes in benefit reserve (net)	(98,205)	208,950
Changes in claims reserves (net)	1,041,278	1,190,300
Changes in deferred acquisition costs	42,863	27,391
Changes in other technical provisions	62,488	15,322
Changes in clearing balances	(275,908)	(139,931)
Changes in other assets and liabilities (net)	10,792	(9,109)
Cash flow from operating activities	1,675,941	2,143,974

¹ Adjusted on the basis of IAS 8 (cf. Section 2 of the Notes)

in EUR thousand	1.1.–30.9.2013	1.1.–30.9.2012
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	883,773	366,096
Purchases	(46,980)	–
Fixed-income securities – loans and receivables		
Maturities, sales	390,717	275,276
Purchases	(254,586)	(151,309)
Fixed-income securities – available for sale		
Maturities, sales	6,091,855	6,490,177
Purchases	(7,876,488)	(8,998,113)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	74,639	39,985
Purchases	(11,548)	(29,604)
Equity securities – available for sale		
Sales	9,715	1,889
Purchases	(9,247)	(3,935)
Other financial assets – at fair value through profit or loss		
Sales	44	492
Purchases	(325)	–
Other invested assets		
Sales	93,553	143,923
Purchases	(120,456)	(124,059)
Affiliated companies and participating interests		
Sales	9,178	23
Purchases	(2,787)	(3,996)
Real estate and real estate funds		
Sales	35,039	217,424
Purchases	(371,855)	(220,904)
Short-term investments		
Changes	(144,281)	345,191
Other changes (net)	(23,142)	(32,439)
Cash flow from investing activities	(1,273,182)	(1,683,883)

in EUR thousand	1.1.–30.9.2013	1.1.–30.9.2012
III. Cash flow from financing activities		
Contribution from capital measures	119	6,324
Payment on capital measures	(3,985)	(6,932)
Structural change without loss of control	80	19
Dividends paid	(409,763)	(321,881)
Proceeds from long-term debts	50,954	51,202
Repayment of long-term debts	(28)	(113,728)
Acquisition/disposal of treasury shares	5	(363)
Cash flow from financing activities	(362,618)	(385,359)
IV. Exchange rate differences on cash	(20,908)	5,601
Cash and cash equivalents at the beginning of the period	572,188	506,963
Change in cash and cash equivalents (I+II+III+IV)	19,233	80,333
Changes in the consolidated Group	(3,833)	–
Cash and cash equivalents at the end of the period	587,588	587,296
Supplementary information on the cash flow statement¹		
Income taxes paid (on balance)	(216,956)	(162,620)
Dividend receipts ²	42,413	54,509
Interest received	1,083,589	951,716
Interest paid	(151,111)	(143,312)

¹ Since the 2012 annual financial statements the supplementary information on the cash flow statement has been 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 118,878 thousand (EUR 107,942 thousand) to the cash flow from financing activities and in an amount of EUR 32,233 thousand (EUR 35,370 thousand) to the cash flow from operating activities.

² Including dividend-like profit participations from investment funds

Notes to the Interim Report 3/2013



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Notes

1. General reporting principles

With the entry in the commercial register of Hannover County Court the conversion 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 has its registered office at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

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

The consolidated financial statement of Hannover Re was drawn up in compliance with the International Financial Reporting Standards (IFRS) that are to be used within the European Union. This also applies to all figures provided in this report for previous periods. Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS; the standards dating from earlier years still bear the name “International Accounting Standards (IAS)”. Standards are

cited in our notes accordingly; insofar as the Notes do not make explicit reference to a particular standard, the designation IFRS is used.

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

The present consolidated quarterly financial statement was prepared by the Executive Board on 22 October 2013 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2013.

The consolidated quarterly financial report was compiled in accordance with IAS 34 “Interim Financial Reporting”. Consequently, the accounting policies adopted in the period under review were the same as those applied in the preceding consolidated annual financial statement; changes made in specific justified cases pursuant to IAS 8 are reported separately in the section entitled “Changes in accounting policies”. For more details of the accounting policies please see the Group annual financial report for the previous year.

All standards adopted by the IASB as at 30 September 2013 with binding effect for the period under review have been observed in the consolidated financial statement.

New accounting standards or accounting standards applied for the first time

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 5.1 “Investments under own management”.

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

In June 2013 the IASB adopted “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 adopted by the EU, have a mandatory effective date for annual periods beginning on or after 1 January 2014. Hannover Re is currently reviewing the implications of these amendments.

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“).

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. In addition, the amendments to IAS 36 require an entity to disclose information about the fair value measurement and the discount rate used in determining impairment (or reversals). The amendments, which have still to be adopted by the EU, have a mandatory effective date for annual periods beginning on or after 1 January 2014. Hannover Re is currently reviewing the implications of these amendments.

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 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 adopted by the EU in December 2012.

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.

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.

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 adopted by the EU on 4 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 have still to be adopted by the EU.

Key exchange rates

The individual companies’ statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in

^The 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 were adopted by the EU in December 2012.

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. Neither IFRS 9 nor the specified subsequent amendments have yet been ratified by the EU.

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.

Key exchange rates

1 EUR corresponds to:	30.9.2013	31.12.2012	1.1.–30.9.2013	1.1.–30.9.2012
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4489	1.2690	1.3512	1.2435
BHD	0.5089	0.4970	0.4969	0.4860
CAD	1.3919	1.3119	1.3501	1.2897
CNY	8.2628	8.2148	8.1309	8.1496
GBP	0.8365	0.8180	0.8505	0.8142
HKD	10.4665	10.2186	10.2243	10.0024
KRW	1,450.5059	1,407.2395	1,453.8469	1,464.1497
MYR	4.3977	4.0364	4.1460	3.9874
SEK	8.6562	8.5742	8.6043	8.7250
USD	1.3498	1.3182	1.3180	1.2892
ZAR	13.6178	11.2069	12.5182	10.3437

Changes in accounting policies

With effect from the third quarter of 2013 Hannover Re has 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 adjustment of the comparative figures for previous years. Retention of the parameters and methods used until 30 June 2013 would have resulted in a EUR 4.2 million lower amortisation amount in the period under review. In future, there will be no differences in the amortisation amounts as at the respective year-ends, 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 adjusted 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 adopted 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.

The effects of the retrospective application of IAS 19R 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	Adjustments	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	3,802	44,264,099
Reserve as per IAS 19R	–	(4,159)	(4,159)
Total OCI	446,121	(4,159)	441,962
Retained earnings	3,679,351	1,046	3,680,397
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	Adjustments	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)	(16,225)
Reserve as per IAS 19R	–	(24,417)	(24,417)
Total OCI	935,036	(24,426)	910,610
Retained earnings	4,275,613	1,090	4,276,703
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 adjustments were to be made in the consolidated statement of income for the comparable period of the previous year due to retrospective application of IAS 19R:

Consolidated statement of income			
in EUR thousand	1.1.–30.9.2012 as stated	Adjustments	1.1.–30.9.2012
Other income and expenses	(139,065)	20	(139,045)
Operating profit/loss (EBIT)	1,016,753	20	1,016,773
Net income before taxes	940,594	20	940,614
Taxes	215,097	(4)	215,093
Net income	725,497	24	725,521
thereof			
Non-controlling interest in profit and loss	54,735	(11)	54,724
Group net income	670,762	35	670,797
Earnings per share (in EUR)			
Basic earnings per share	5.56	–	5.56
Diluted earnings per share	5.56	–	5.56

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

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

Non-controlling interests in shareholders’ equity are reported separately within Group shareholders’ equity in accordance with IAS 1 “Presentation of Financial Statements”. The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a “thereof” note, amounted to EUR 36.0 million (EUR 54.7 million) as at 30 September 2013.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2012.

Consolidation of business transactions within the Group

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

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

Transactions between a disposal group and the continuing operations of the Group are similarly eliminated in accordance with IAS 27 “Consolidated and Separate Financial Statements”.

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 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, 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 further 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 243.7 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 being used for the securitisation.

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 necessitate 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 are used, among other things, to transfer extreme mortality risks above a contractually defined retention or to transfer 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.

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 – primarily through the companies Hannover Insurance-Linked Securities GmbH & Co. KG (HILS) and Leine Investment SICAV-SIF – in a number of special purpose entities for the securitisation of catastrophe risks

Acquisitions and new formations

In August 2013 Hannover Re reached agreement with another investor on the acquisition of a financial participation in a company targeting the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg, from a seller belonging to Lloyds Banking Group, London. Closing of the acquisition of Heidelberger Leben is still subject to regulatory approval.

In July 2013 HR GLL Central Europe GmbH & KG, Munich, acquired all shares of Investec GLL Ireland S.à.r.l., Luxembourg, from Investec GLL SGO REF Holding Alpha S.à.r.l., Luxembourg, and changed the company's name to HR GLL Europe Holding S.à.r.l., Luxembourg. The company is included in the consolidated financial statement for the first time with effect from the third quarter of 2013. The business object of the company, which at the time of purchase was an inactive shell company, is to acquire, finance, hold, exchange or sell securities of other companies. The company may issue debt securities in any form to the other companies, use its

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

by investing in “disaster bonds” (or “CAT bonds”). While HILS will continue to manage its portfolio, new business in this area is written by the Luxembourg-based Leine Investment companies, which were established in the previous year. 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 and catastrophe bonds – including for third-party investors outside the Group. Since Hannover Re does not exercise a controlling influence in any of these transactions either there is no requirement to consolidate the special purpose entities concerned.

funds for the acquisition, sale, development, management and leasing of real estate in Luxembourg or abroad and effect all other commercial, industrial and financial transactions relating to moveable and real property. No contingent liabilities, conditional payments or separate transactions as defined by IFRS 3 were identified. The Munich-based HR GLL Central Europe Holding GmbH was established in January 2013 and included in the consolidated financial statement for the first time with effect from the first quarter of 2013. All shares of the company are held by HR GLL Central Europe GmbH & KG, Munich. The business object of the company is to purchase, manage, rent, lease and sell commercial real estate or equivalent rights in Europe as well as to establish and acquire subsidiaries in the form of real estate companies that acquire and hold such properties. Both holding companies have commenced their investing activities in special purpose property companies.

Within the US subgroup Hannover Re Real Estate Holdings, Inc., which is 95.1% owned, all shares in the property companies Broadway 101 LLC, Tempe, and River Terrace Parking LLC, New York City, were acquired for a purchase price equivalent to EUR 59.3 million through the subsidiary GLL HRE Core Properties, LP, Wilmington. The business object of each company is to hold and manage one property. In connection with the acquisition no intangible assets or goodwill were capitalised. No contingent liabilities, conditional payments or separate transactions as defined by IFRS 3 were identified.

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 Re, participated

Disposals and retirements

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

Further corporate changes

Hannover Re transferred all the business of its subsidiary Hannover Life Reassurance (UK) Ltd., Virginia Water, to a newly established branch of the parent company Hannover Re with the same registered office effective 1 January 2013 by way of a so-called "Part VII transfer". The branch trades under the name Hannover Re UK Life Branch and was registered on 3 December 2012 under the Companies Act 2006. Hannover

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.

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.

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.

4. Group segment report

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2012. It follows the system used for internal reporting purposes, on the basis of which the full Executive Board regularly evaluates the performance of segments and decides on the allocation of resources to them. The “Consolidation” column includes not only the elimination of cross-segment transactions but also, more significantly, companies whose business operations cannot be unambiguously allocated to non-life reinsurance or life/health reinsurance. These are principally the service and financing companies belonging to the Group. Since the performance indicators used to steer the segments correspond to the system according to which the consolidated financial statement is prepared, a separate reconciliation of the segment results with the Group result is not provided. Both the companies that were consolidated for the first time in the first quarter of 2013 – namely Glencar Underwriting Managers, Inc., Chicago, HR GLL Europe Holding S.à.r.l., Luxembourg, and HR GLL Central Europe Holding GmbH, Munich – and Secquaero ILS Fund Ltd., which has no longer been included in the consolidated financial statement since the first quarter of 2013, are allocable to the non-life reinsurance segment. We would also refer to the relevant information in the consolidated financial statement as at 31 December 2012.

Segmentation of assets	Non-life reinsurance	
in EUR thousand	30.9.2013	31.12.2012 ¹
Assets		
Held to maturity	2,400,927	3,213,397
Loans and receivables	3,169,812	3,313,608
Available for sale	16,213,687	15,572,034
At fair value through profit or loss	25,799	113,030
Other invested assets	2,042,055	1,679,251
Short-term investments	341,159	325,302
Cash	455,867	407,336
Total investments and cash under own management	24,649,306	24,623,958
Funds withheld	844,420	925,312
Contract deposits	2,050	25,803
Total investments	25,495,776	25,575,073
Reinsurance recoverables on unpaid claims	1,239,911	1,288,664
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	182,556	135,999
Reinsurance recoverables on other reserves	405	1,103
Deferred acquisition costs	484,950	476,592
Accounts receivable	2,043,128	1,691,435
Other assets in the segment	1,413,436	1,288,719
Assets held for sale	11,226	6,333
Total assets	30,871,388	30,463,918

Segmentation of liabilities		
in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	19,088,251	18,595,088
Benefit reserve	–	–
Unearned premium reserve	2,436,225	2,253,544
Provisions for contingent commissions	139,197	141,114
Funds withheld	436,499	432,884
Contract deposits	85,317	84,523
Reinsurance payable	768,914	702,224
Long-term liabilities	214,317	167,774
Other liabilities in the segment	1,870,652	1,868,048
Total liabilities	25,039,372	24,245,199

¹ Adjusted on the basis of IAS 8

Life and health reinsurance		Consolidation		Total	
30.9.2013	31.12.2012 ¹	30.9.2013	31.12.2012	30.9.2013	31.12.2012 ¹
198,814	199,319	122,587	193,240	2,722,328	3,605,956
73,338	75,424	25,955	26,155	3,269,105	3,415,187
5,753,027	5,805,682	402,640	433,602	22,369,354	21,811,318
62,650	75,731	19,794	19,487	108,243	208,248
94,463	75,055	1,428	(2,530)	2,137,946	1,751,776
219,424	183,866	69,241	550	629,824	509,718
128,685	161,258	3,036	3,594	587,588	572,188
6,530,401	6,576,335	644,681	674,098	31,824,388	31,874,391
13,808,474	13,702,535	–	–	14,652,894	14,627,847
77,194	97,455	–	–	79,244	123,258
20,416,069	20,376,325	644,681	674,098	46,556,526	46,625,496
266,120	251,161	(1,864)	(1,610)	1,504,167	1,538,215
514,412	507,257	–	–	514,412	507,257
1,533	2,620	(179)	(246)	183,910	138,373
5,207	1,508	–	–	5,612	2,611
1,241,662	1,364,675	6	12	1,726,618	1,841,279
1,116,973	1,375,992	(607)	(1,763)	3,159,494	3,065,664
584,468	503,325	(793,530)	(705,596)	1,204,374	1,086,448
–	–	–	–	11,226	6,333
24,146,444	24,382,863	(151,493)	(35,105)	54,866,339	54,811,676
2,915,999	3,017,220	(1,865)	(1,610)	22,002,385	21,610,698
10,690,591	10,974,804	(101)	(234)	10,690,490	10,974,570
112,342	86,265	–	–	2,548,567	2,339,809
127,015	73,105	–	–	266,212	214,219
423,388	388,176	–	–	859,887	821,060
5,765,849	5,713,361	–	–	5,851,166	5,797,884
294,431	421,214	(606)	(2,029)	1,062,739	1,121,409
–	4,552	2,236,867	2,228,465	2,451,184	2,400,791
1,656,517	1,626,756	(786,794)	(677,712)	2,740,375	2,817,092
21,986,132	22,305,453	1,447,501	1,546,880	48,473,005	48,097,532

Segment statement of income	Non-life reinsurance	
in EUR thousand	1.1. – 30.9.2013	1.1. – 30.9.2012 ¹
Gross written premium	5,956,438	5,897,028
Thereof		
From insurance business with other segments	–	212
From insurance business with external third parties	5,956,438	5,896,816
Net premium earned	5,093,209	5,017,501
Net investment income	577,987	702,128
Thereof		
Unrealised gains and losses on investments	(26,128)	12,043
Total depreciation, impairments and appreciation of investments	13,340	12,660
Income/expense on funds withheld and contract deposits	10,784	8,305
Claims and claims expenses	3,540,004	3,580,989
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,166,653	1,143,813
Administrative expenses	143,120	122,958
Other income and expenses	(16,806)	(105,830)
Operating profit/loss (EBIT)	804,613	766,039
Interest on hybrid capital	–	–
Net income before taxes	804,613	766,039
Taxes	233,795	189,674
Net income	570,818	576,365
Thereof		
Non-controlling interest in profit or loss	36,423	51,614
Group net income	534,395	524,751

¹ Adjusted on the basis of IAS 8

Life and health reinsurance		Consolidation		Total	
1.1.–30.9.2013	1.1.–30.9.2012 ¹	1.1.–30.9.2013	1.1.–30.9.2012	1.1.–30.9.2013	1.1.–30.9.2012 ¹
4,581,613	4,399,287	(147)	(349)	10,537,904	10,295,966
147	137	(147)	(349)	–	–
4,581,466	4,399,150	–	–	10,537,904	10,295,966
4,023,679	3,941,470	385	(2)	9,117,273	8,958,969
460,543	487,159	14,685	19,475	1,053,215	1,208,762
6,785	46,499	547	2,488	(18,796)	61,030
53	2,809	–	–	13,393	15,469
256,846	239,259	–	–	267,630	247,564
3,260,867	2,977,576	(3)	(526)	6,800,868	6,558,039
45,137	273,294	133	(3)	45,270	273,291
893,479	817,910	5	(8,088)	2,060,137	1,953,635
116,419	105,965	187	(1,975)	259,726	226,948
(24,876)	(20,591)	(1,178)	(12,624)	(42,860)	(139,045)
143,444	233,293	13,570	17,441	961,627	1,016,773
–	–	94,988	76,159	94,988	76,159
143,444	233,293	(81,418)	(58,718)	866,639	940,614
7,841	41,617	(24,225)	(16,198)	217,411	215,093
135,603	191,676	(57,193)	(42,520)	649,228	725,521
(374)	3,110	–	–	36,049	54,724
135,977	188,566	(57,193)	(42,520)	613,179	670,797

5. Notes on the individual items of the balance sheet

5.1 Investments under own management

Investments are classified and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”. Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

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

Real estate which is held for sale as defined by IFRS 5 is recognised separately in the consolidated balance sheet. The

intention to sell is based upon individual real estate market and property-specific circumstances in light of current and future opportunity/risk profiles. The gross book values of the properties amounted to EUR 12.0 million (EUR 14.4 million) and the cumulative depreciation totalled EUR 0.8 million (EUR 8.0 million) at the time of reclassification. The measurement of real estate at fair value less cost to sell did not give rise to any impairment.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2012.

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

Investments		
in EUR thousand	30.9.2013	31.12.2012
Regional origin		
Germany	6,449,336	6,779,027
United Kingdom	2,275,563	2,955,807
France	1,679,381	1,819,918
Other	7,196,813	6,348,984
Europe	17,601,093	17,903,736
USA	8,426,057	8,065,355
Other	1,271,253	1,162,038
North America	9,697,310	9,227,393
Asia	1,324,933	1,301,702
Australia	2,021,162	2,245,320
Australasia	3,346,095	3,547,022
Africa	335,255	417,557
Other	844,635	778,683
Total	31,824,388	31,874,391

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.9.2013		31.12.2012	
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value
Held to maturity				
due in one year	455,171	460,493	908,601	916,267
due after one through two years	1,000,711	1,049,919	606,525	629,138
due after two through three years	699,886	747,628	1,089,354	1,171,603
due after three through four years	184,842	198,155	532,996	577,930
due after four through five years	70,614	72,754	150,735	162,378
due after five through ten years	308,719	333,483	315,208	350,218
due after more than ten years	2,385	2,934	2,537	3,198
Total	2,722,328	2,865,366	3,605,956	3,810,732
Loans and receivables				
due in one year	238,706	240,282	207,861	216,965
due after one through two years	258,276	267,622	408,386	423,503
due after two through three years	367,321	393,212	311,764	330,670
due after three through four years	352,761	377,082	382,075	417,721
due after four through five years	80,115	84,272	285,438	312,267
due after five through ten years	1,138,954	1,225,224	1,033,273	1,156,510
due after more than ten years	832,972	918,379	786,390	922,804
Total	3,269,105	3,506,073	3,415,187	3,780,440
Available for sale				
due in one year ²	3,320,347	3,330,846	2,379,998	2,387,173
due after one through two years	2,694,840	2,742,302	2,758,881	2,797,560
due after two through three years	2,146,663	2,226,842	2,525,881	2,616,092
due after three through four years	2,076,730	2,132,959	1,775,135	1,862,419
due after four through five years	2,579,093	2,616,983	2,436,644	2,549,947
due after five through ten years	7,494,320	7,669,169	7,132,799	7,617,225
due after more than ten years	2,712,102	2,837,164	2,709,969	3,033,562
Total	23,024,095	23,556,265	21,719,307	22,863,978
Financial assets at fair value through profit or loss				
due in one year	9,215	9,215	69,544	69,544
due after one through two years	5,801	5,801	15,626	15,626
due after two through three years	2,227	2,227	17,619	17,619
due after three through four years	5,060	5,060	14,823	14,823
due after four through five years	1,852	1,852	4,936	4,936
due after five through ten years	–	–	7,276	7,276
due after more than ten years	17,942	17,942	17,589	17,589
Total	42,097	42,097	147,413	147,413

¹ Including accrued interest

² Including short-term investments and cash

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

in EUR thousand	30.9.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	390,031	19,800	–	7,074	416,905
US treasury notes	507,985	16,380	–	4,793	529,158
Other foreign government debt securities	52,095	389	5	608	53,087
Debt securities issued by semi-governmental entities	531,337	26,548	–	7,147	565,032
Corporate securities	230,320	11,468	1,792	3,719	243,715
Covered bonds/asset-backed securities	967,793	70,250	–	19,426	1,057,469
Total	2,679,561	144,835	1,797	42,767	2,865,366

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

in EUR thousand	31.12.2012				
	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

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

in EUR thousand	30.9.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,857,246	153,050	4,188	29,014	2,035,122
Corporate securities	367,926	16,963	3,258	6,723	388,354
Covered bonds/asset-backed securities	991,672	77,474	3,073	16,524	1,082,597
Total	3,216,844	247,487	10,519	52,261	3,506,073

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

in EUR thousand	31.12.2012				
	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

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

in EUR thousand	30.9.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,777,295	43,321	14,514	17,941	1,824,043
US treasury notes	1,745,025	21,672	10,665	3,445	1,759,477
Other foreign government debt securities	1,495,461	7,965	31,593	10,786	1,482,619
Debt securities issued by semi-governmental entities	4,166,295	137,506	22,261	48,834	4,330,374
Corporate securities	9,490,216	321,501	104,709	131,591	9,838,599
Covered bonds/asset-backed securities	2,773,520	183,206	17,217	32,956	2,972,465
Investment funds	113,318	18,421	463	–	131,276
	21,561,130	733,592	201,422	245,553	22,338,853
Equity securities					
Shares	12,816	4,208	24	–	17,000
Investment funds	10,289	3,212	–	–	13,501
	23,105	7,420	24	–	30,501
Short-term investments	628,061	–	–	1,763	629,824
Total	22,212,296	741,012	201,446	247,316	22,999,178

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

in EUR thousand

31.12.2012

	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

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

in EUR thousand

30.9.2013

31.12.2012

30.9.2013

31.12.2012

30.9.2013

31.12.2012

	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	24,115	54,474	402	13,305	24,517	67,779
Covered bonds/asset-backed securities	17,527	79,634	53	–	17,580	79,634
	41,642	134,108	455	13,305	42,097	147,413
Other financial assets						
Derivatives	66,146	60,835	–	–	66,146	60,835
	66,146	60,835	–	–	66,146	60,835
Total	107,788	194,943	455	13,305	108,243	208,248

Information on fair values and fair value hierarchy

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

models of mathematical finance. Hannover Re uses a number of different valuation models for this purpose. The details are set out in the following table.

The operating units responsible for the coordination and documentation of measurement are organisationally separate from the operating units that enter into investment risks. All relevant measurement processes and measurement methods are documented. Decisions on measurement-related policy issues are taken by a Measurement Committee that meets on a monthly basis.

Valuation models			
Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds, interest rate swaps	Theoretical price	Interest rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest rate curve Volatility surfaces	Hull-White, Black-Karasinski, LIBOR market model etc.
Unlisted bond funds	Theoretical price	Audited net asset values (NAV)	Net asset value method
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash flow method, liquidation method
CDOs/CLOs Profit participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, as applicable book value	Net asset value method
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	Net asset value method
Other financial assets – at fair value through profit or loss			
Currency forwards	Theoretical price	Interest-rate curves, spot and forward rates	Interest parity model
OTC stock options, OTC stock index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
Insurance derivatives	Theoretical price	Market values, actuarial parameters, interest rate curve	Present-value method
Inflation swaps	Theoretical price	Inflation swap rates, historical index fixings, interest rate curves, seasonality effects	Present-value method

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 7 “Financial Instruments: Disclosures“, the financial instruments recognised at fair value in the balance sheet are to be assigned to a three-level fair value hierarchy. This hierarchy, which reflects characteristics of the price data and inputs used for measurement purposes, is structured as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: Inputs used for measurement that are based on

observable market data and are not included within level 1. This level includes, in particular, prices for comparable assets and liabilities, prices on markets that are not considered active as well as inputs derived from such prices or market data.

- Level 3: Inputs used for measurement that are not based on observable market data (unobservable inputs).

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

Fair value hierarchy of financial instruments recognised at fair value

in EUR thousand	30.9.2013			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	7,589,799	14,786,428	4,723	22,380,950
Equity securities	30,493	–	8	30,501
Other financial assets – at fair value through profit or loss	40,779	25,367	–	66,146
Other invested assets	28,371	36,104	1,119,315	1,183,790
Short-term investments	615,037	14,787	–	629,824
Total financial assets measured at fair value	8,304,479	14,862,686	1,124,046	24,291,211
Other liabilities	–	42,200	52,438	94,638
Total financial liabilities measured at fair value	–	42,200	52,438	94,638

The classification of financial instruments according to the fair value hierarchy is regularly reviewed. In the period under review financial instruments with a fair value of EUR 148.5 million were no longer allocable to level 1 but rather to level 2. The reclassification was necessary owing to the reduced liquidity of the instruments. Financial instruments with a fair value of EUR 82.2 million, which in the previous year were recognised as level 2 instruments, were allocated to level 1 in the current reporting period. The reclassifications affected solely fixed-income securities carried as available for sale. The reallocation amounts stated refer to the carrying value of the investments recognised at the beginning of the period.

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

Development of level 3 financial instruments

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

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

Income and expenses from level 3 financial instruments

in EUR thousand	1.1. – 30.9.2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Unrealised gains and losses	1,071	(297)	(1,079)
Total depreciation, impairments and appreciation of investments	–	(3,477)	–
Thereof attributable to financial instruments included in the portfolio at 30 September of the year under review			
Unrealised gains and losses	1,071	(297)	(1,079)
Total depreciation, impairments and appreciation of investments	–	(3,477)	–

If models are used to measure financial instruments included in level 3 under which the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 “Financial Instruments: Disclosures” requires disclosure of the effects of these alternative assumptions. Of the assets-side financial instruments included in level 3 with fair values of altogether EUR 1,124.0 million (EUR 1,089.3 million) as at the balance sheet date, Hannover Re measures financial instruments with

a volume of EUR 1,065.9 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. For the remaining financial instruments included in level 3 with a volume of EUR 58.1 million (EUR 98.9 million), the effects of alternative inputs and assumptions are immaterial.

5.2 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 the parent company) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered no-par value shares. The shares are fully paid up. 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 636.8 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 Rückversicherung AG in an amount of EUR 616.6 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, registered no-par-value shares may be issued on one or more occasions for contributions in cash or kind. Of the total amount, up to EUR 1,000 thousand may be used to issue employee shares.

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

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

The Annual General Meeting of Hannover Rück SE resolved on 7 May 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).

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 30 September 2013.

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

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

6.1 Gross written premium

Gross written premium

in EUR thousand	1.1.–30.9.2013	1.1.–30.9.2012
Regional origin		
Germany	1,016,424	920,023
United Kingdom	1,932,126	1,937,106
France	435,323	439,767
Other	1,326,571	1,424,967
Europe	4,710,444	4,721,863
USA	2,512,056	2,375,213
Other	537,546	487,866
North America	3,049,602	2,863,079
Asia	1,230,796	1,116,902
Australia	594,549	602,630
Australasia	1,825,345	1,719,532
Africa	339,428	387,554
Other	613,085	603,938
Total	10,537,904	10,295,966

6.2 Investment income

Investment income

in EUR thousand	1.1.–30.9.2013	1.1.–30.9.2012
Income from real estate	47,174	35,549
Dividends	1,936	1,779
Interest income	732,203	775,718
Other income	(238)	8,938
Ordinary investment income	781,075	821,984
Profit or loss on shares in associated companies	9,812	5,315
Appreciation	261	858
Realised gains on investments	121,462	183,959
Realised losses on investments	24,049	33,413
Unrealised gains and losses on investments	(18,796)	61,030
Impairments on real estate	10,056	7,981
Impairments on equity securities	3	2,205
Impairments on fixed-income securities	–	338
Impairments on participating interests and other financial assets	3,595	5,803
Other investment expenses	70,526	62,208
Net income from assets under own management	785,585	961,198
Interest income on funds withheld and contract deposits	350,188	326,192
Interest expense on funds withheld and contract deposits	82,558	78,628
Total investment income	1,053,215	1,208,762

The impairments totalling EUR 3.6 million (EUR 8.5 million) were attributable in the period under review in an amount of EUR 3.5 million (EUR 5.3 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 whose fair value had fallen significantly – i.e. by at least 20% – or for a prolonged period – i.e. for at least nine months – below acquisition cost. Nor were

any impairments recognised on structured fixed-income securities or other fixed-income securities (EUR 0.3 million). These write-downs contrasted with write-ups of EUR 0.3 million (EUR 0.9 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	1.1.–30.9.2013	1.1.–30.9.2012
Fixed-income securities – held to maturity	85,816	110,320
Fixed-income securities – loans and receivables	90,329	90,779
Fixed-income securities – available for sale	540,594	548,134
Financial assets – at fair value through profit or loss	736	2,678
Other	14,728	23,807
Total	732,203	775,718

7. Other notes

7.1 Derivative financial instruments and financial guarantees

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange contracts predominantly taken out to hedge cash flows from reinsurance contracts. The resulting liabilities of EUR 7.3 million (31 December 2012: EUR 16.8 million) were recognised under other liabilities.

Forward exchange contracts with positive fair values of EUR 11.9 million (31 December 2012: none) were recognised under other financial assets at fair value through profit or loss.

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 (31 December 2012: EUR 3.9 million).

Derivative financial instruments in connection with reinsurance

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

On this basis Hannover Re reported as financial assets at fair value through profit or loss technical derivatives in an amount of EUR 50.8 million as at 30 September 2013 (31 December 2012: EUR 47.7 million) that were separated from the underlying transaction and measured at fair value.

In addition, liabilities from derivatives in connection with the technical account totalling EUR 63.2 million (31 December 2012: EUR 60.9 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 52.4 million (31 December 2012: EUR 54.8 million) is attributable to a number of transactions in the life and health reinsurance business group that are to be classified as derivative financial instruments. Under these transactions Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance

Hannover Re holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 3.5 million (31 December 2012: EUR 13.1 million) as well as other liabilities in an amount of EUR 22.6 million (31 December 2012: EUR 4.9 million).

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 18.9 million to the result of the period under review (30 September 2012: EUR 8.7 million).

contracts with statutory reserving requirements. The contracts are to be classified and recognised as stand-alone credit derivatives pursuant to IAS 39. These instruments gave rise to a charge against investment income in an amount of EUR 1.1 million (30 September 2012: none).

Of the derivatives carried on the assets side, fair values of EUR 43.9 million (31 December 2012: EUR 39.8 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

Within the scope of the accounting of ModCo reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the underlying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio. Hannover Re calculates the fair value of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a "credit spread" method. Under this method the derivative is valued at zero on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities.

The result from ModCo derivatives as at 30 September 2013 amounted to EUR 5.2 million before tax (30 September 2012: EUR 45.8 million).

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 necessitate the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedant 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 1,111.3 million (EUR 1,137.9 million); an amount equivalent to EUR 843.1 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 Hannover Re cover their payment obligations. By way of compensation agreements Hannover Rück SE is reimbursed by the parent companies of the cedants for payments resulting from the swaps in the event of a claim.

7.2 Related party disclosures

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

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 Rückversicherung 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.

Within the contractually agreed framework Talanx Asset Management GmbH performs investment and asset management services for Hannover Re and some of its subsidiaries. Assets in a special fund are managed by Ampega Investment GmbH. Talanx Immobilien Management GmbH performs services for Hannover Re under a management contract.

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. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

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 collision insurance. Divisions of Talanx AG also performed services for us in the areas of taxes and general administration. All transactions were effected at usual market conditions.

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

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

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

Business assumed and ceded in Germany and abroad

in EUR thousand	30.9.2013		30.9.2012	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	378,276	49,381	332,398	24,124
Life and health reinsurance	139,535	16,739	156,945	11,673
	517,811	66,120	489,343	35,797
Business ceded				
Non-life reinsurance	(13,126)	(7,057)	(14,687)	9,037
Life and health reinsurance	(40,849)	(7,825)	(37,223)	(7,245)
	(53,975)	(14,882)	(51,910)	1,792
Total	463,836	51,238	437,433	37,589

The Group companies E+S Rückversicherung AG, Hannover Finance (Luxembourg) S.A., Hannover Re (Ireland) Plc and Hannover Re (Bermuda) Ltd. invested in previous years in a nominal amount of altogether EUR 150.0 million in a bearer debenture of Talanx AG with a maturity date of 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 Hannover Re Group. In the context of a new bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 47.9 million including accrued interest of EUR 0.9 million.

7.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group during the period under review was 2,365 (average in 2012: 2,263).

As at the balance sheet date altogether 2,406 (2,312) staff were employed by the Hannover Re Group, with 1,203 (1,164) employed in Germany and 1,203 (1,148) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1. – 30.9.2013	1.1. – 30.9.2012 ¹
Group net income in EUR thousand	613,179	670,797
Weighted average of issued shares	120,596,134	120,596,791
Basic earnings per share in EUR	5.08	5.56
Diluted earnings per share in EUR	5.08	5.56

¹ Adjusted on the basis of IAS 8

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

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

On the basis of this year's employee share option plan Hannover Rück SE acquired treasury shares in the course of the second quarter of 2013 and sold them 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 5.2 "Shareholders' equity, non-controlling interests and treasury shares".

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

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

7.5 Contingent liabilities and commitments

Hannover Rück SE has 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 fair value of the aforementioned bonds as at 30 September 2013 was EUR 2,383.5 million (31 December 2012: EUR 2,476.4 million).

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 2,821.1 million (EUR 2,855.7 million) and EUR 18.2 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 652.0 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 2,451.8 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 3,098.6 million (EUR 3,343.0 million).

In addition, we keep own investments with a book value of EUR 54.8 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 10.0 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 was furnished to various banks, the amount of which totalled EUR 483.0 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 639.0 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 Rück SE enters into contingent liabilities as part of its normal business operations. A number of reinsurance treaties concluded by Group companies with outside third parties include letters of comfort, guarantees or novation agreements under which the parent company 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.