Notes to the consolidated financial statements as at 31 March 2014

Notes

1. General reporting principles

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. Hannover Rück SE is a European Company, Societas Europaea (SE), and its registered office is located at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

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

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 28 April 2014 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 31 March 2014.

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 31 March 2014 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

In June 2013 the IASB issued "Novation of Derivatives and Continuation of Hedge Accounting" (Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"). These amendments allow a novation of an OTC derivative designated as a hedging instrument to be deemed to be a continuation of the existing hedging relationship. The amendments, which were endorsed by the EU in December 2013, have a mandatory effective date for annual periods beginning on or after 1 January 2014. The amendments did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

In December 2011 the IASB issued "Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)". While the offsetting rules for financial instruments remain unchanged, the application guidance of the standard clarifies the meaning of "currently has a legally enforceable right to set-off" and "simultaneous". The amendments have a mandatory effective date for annual periods beginning on or after 1 January 2014 and were endorsed by the EU in December 2012. The amendments did not have any implications for the carrying values in the consolidated financial statement or for Group net income.

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

In this connection IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" replaced the previous standards governing consolidated financial statements and special purpose entities (IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities") as well as the standards governing the accounting of interests in joint ventures (IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers"). The major new feature of IFRS 10 is that it identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. In accordance with IFRS 11 a proportionate inclusion of interests in joint ventures will no longer be permissible in future. Rather, interests in joint ventures must be accounted for using the equity method.

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

Further amendments were made to the standards in 2012. In June 2012 the IASB issued "Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance – Amendments to IFRS 10, IFRS 11 and IFRS 12". The requirement to provide adjusted comparative information is limited upon initial application to only the immediately preceding period; retrospective adjustments for subsidiaries sold in the comparative period are not required. Furthermore, it is not necessary to provide comparative information on unconsolidated structured entities upon initial application of IFRS 12. These amendments were endorsed by the EU in April 2013. In October 2012 the IASB issued "Investment Entities (Changes to IFRS 10, IFRS 12 and IAS 27)". Given that the parent company of the Hannover Re Group does not meet the definition of an investment entity, these amendments – which were endorsed by the EU in November 2013 – are not relevant to Hannover Re.

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

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

The requirements of IFRS 10, 11 and 12 as well as the revised IAS 27 and 28 were to be applied to financial years beginning on or after 1 January 2013. The Accounting Regulatory Committee (ARC) decided in June 2012, however, that application of the aforementioned standards within the EU shall not be mandatory until one year later, with an effective date for annual periods beginning on or after 1 January 2014. With the exception of the rules governing investment entities, the new requirements, especially with respect to disclosure requirements, were not amended in IAS 34 "Interim Financial Reporting". The new IFRS 10, 11, 12 and the revised IAS 27 and 28 as well as the changes published in 2012 have now been endorsed in their entirety by the EU. Initial application of the new and revised standards on consolidation did not give rise to any changes in Hannover Re's scope of consolidation.

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

In January 2014 the IASB issued IFRS 14 "Regulatory Deferral Accounts". The standard permits an entity which is a first-time adopter of IFRS to continue to account, with some limited changes, for "regulatory deferral account balances" in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required. IFRS 14 applies to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016, but has still to be endorsed by the EU.

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

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

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

The IASB originally issued IFRS 9 "Financial Instruments" on the classification and measurement of financial instruments in November 2009; an expanded version was published again in October 2010 and amended in November 2013. As part of a comprehensive project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement" with a new standard, the current version of IFRS 9 contains new requirements for the classification, recognition, measurement and derecognition of financial instruments as well as for general hedge accounting. Accounting for macro hedging, which considers risk management that assesses risk exposures on a continuous basis and at a portfolio level (i. e. dynamic portfolio hedging), was originally included in the project but is subsequently being treated separately from general hedge accounting by the IASB outside of IFRS 9. In March 2013 the IASB published Exposure Draft ED/2013/3 "Financial Instruments: Expected Credit Losses" containing long-awaited revised proposals for recognising impairments; once they have been finalised, the revised approach will be integrated into IFRS 9 as a separate section. Based on the current IASB work plan, we expect publication of the final and complete IFRS 9 in the second quarter of 2014. With deliberations still ongoing, the IASB tentatively decided in February 2014 to require initial application of IFRS 9 for annual periods beginning on or after 1 January 2018. Neither IFRS 9 nor the specified subsequent amendments have yet been endorsed 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 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:	31.3.2014	31.12.2013	1.1.–31.3.2014	1.1.–31.3.2013
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4943	1.5513	1.5347	1.2695
BHD	0.5198	0.5190	0.5173	0.4963
CAD	1.5230	1.4751	1.5120	1.3285
CNY	8.5585	8.3445	8.3861	8.1902
GBP	0.8285	0.8357	0.8279	0.8463
HKD	10.7002	10.6752	10.6474	10.2117
KRW	1,464.5411	1,452.2507	1,460.9588	1,431.9372
MYR	4.4877	4.5351	4.5122	4.0676
SEK	8.9484	8.9114	8.8950	8.5006
USD	1.3792	1.3766	1.3721	1.3164
ZAR	14.6370	14.4390	14.7868	11.7136

Changes in accounting policies

With effect from the third quarter of 2013 Hannover Re adjusted the calculation logic for the amortisation of inflation-linked government bonds with the aim of smoothing seasonal fluctuations in the underlying inflation indices. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" is to be performed prospectively in the period under review without restatement of the comparative figures for previous years. Retention of the parameters and methods used until 30 June 2013 would have resulted in a EUR 3.4 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 only affects the end of the respective quarters.

For certain contracts in the area of life and health reinsurance an option was exercised differently at various Group companies with respect to the accounting of the interest rate-induced portion of the change in the loss and loss adjustment expense reserve (loss reserve). In some cases this item was recognised in the statement of income, while in other cases it was recognised directly in equity. In accordance with the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", we recognised this item on a consistent Group-wide basis in the statement of income in the fourth quarter of 2013 and we restated the comparable figures accordingly pursuant to IAS 8.41.

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

Consolidated statement of income

in EUR thousand	1.1.–31.3.2013 as reported	Restatements	1.1.–31.3.2013
Claims and claims expenses	2,270,013	(14,032)	2,255,981
Operating profit (EBIT)	352,509	14,032	366,541
Net income before taxes	321,130	14,032	335,162
Taxes	82,327	4,214	86,541
Net income	238,803	9,818	248,621
thereof			
Non-controlling interest in profit and loss	17,399	–	17,399
Group net income	**221,404**	**9,818**	**231,222**
Earnings per share (in EUR)			
Basic earnings per share	1.84	0.08	1.92
Diluted earnings per share	1.84	0.08	1.92

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

Consolidated statement of comprehensive income

in EUR thousand	1.1.–31.3.2013 as reported	Restatements	1.1.–31.3.2013
Net income	238,803	9,818	248,621
Reclassifiable to the consolidated statement of income			
Currency translation			
Gains (losses) recognised directly in equity	63,023	(550)	62,473
Transferred to the consolidated statement of income	(5,507)	–	(5,507)
Tax income (expense)	(10,454)	–	(10,454)
	47,062	**(550)**	**46,512**
Other changes			
Gains (losses) recognised directly in equity	13,252	(13,252)	–
Tax income (expense)	(3,984)	3,984	–
	9,268	**(9,268)**	**–**
Reclassifiable income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	85,390	(13,802)	71,588
Transferred to the consolidated statement of income	(35,331)	–	(35,331)
Tax income (expense)	(8,628)	3,984	(4,644)
	41,431	**(9,818)**	**31,613**
Total income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	85,371	(13,802)	71,569
Transferred to the consolidated statement of income	(35,331)	–	(35,331)
Tax income (expense)	(8,623)	3,984	(4,639)
	41,417	**(9,818)**	**31,599**
Total recognised income and expense	**280,220**	**–**	**280,220**
thereof			
Attributable to non-controlling interests	19,560	–	19,560
Attributable to shareholders of Hannover Rück SE	260,660	–	260,660

3. Consolidated companies and consolidation principles

Capital consolidation

The capital consolidation is carried out according to the requirements of IFRS 10 "Consolidated Financial Statements" on the basis of a consistent consolidation model for all entities that identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. Group companies are consolidated from the point in time when Hannover Re gains control over them. Control exists if Hannover Re directly or indirectly has decision-making power over a Group company on the basis of voting rights or other rights, if it has exposure or rights to positive and negative variable returns from its involvement with the Group company and if it can use its power to influence these returns. All of these criteria must be met. Group companies are consolidated until the Hannover Re Group loses control over them. The accounting policies of Group companies are adjusted, where necessary, in order to ensure consistent application of the Hannover Re Group's accounting policies. The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs, measured at the fair value of the consideration rendered by the parent company on the acquisition date, are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 scheduled amortisation is not taken on goodwill. Instead, impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence. Costs associated with acquisition are expensed.

Companies over which Hannover Re is able to exercise a significant influence are 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. We also derive evidence of significant influence over an associated company from representation on a governing body of such company, participation in its policy-making processes – e. g. with respect to dividends or other distributions –, the existence of material inter-company transactions, the possibility of interchanging managerial personnel or the provision of key technical information for the company. 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 26.5 million (EUR 17.4 million) as at 31 March 2014.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2013.

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. Transactions between a disposal group and the continuing operations of the Group are similarly eliminated in accordance with IFRS 10.

Consolidation of structured entities

Business relations with structured entities are to be examined in accordance with IFRS 10 "Consolidated Financial Statements" with an eye to their implications for consolidation. As part of their operational activities some companies belonging to the Hannover Re Group enter into business relations with special purpose entities which are to be analysed and accounted for in accordance with these new requirements.

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 structured entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the structured entities involved, there is no consolidation requirement for Hannover Re with respect to these transactions.

In connection with the sale of the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington/USA, to Enstar Group Ltd., Hamilton/Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity with effect from 12 July 2011. The term of the retrocession arrangement runs until the underlying obligations have been finally settled. Since Hannover Re is not able to exercise control over the special purpose entity either by influencing its relevant activities or by influencing variable returns, 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 2012 Hannover Re issued a catastrophe ("CAT") bond for the purpose of transferring to the capital market peak natural catastrophe exposures deriving from European windstorm events. The term of the CAT bond, which has a volume of nominally EUR 100.0 million, runs until 31 March 2016; it was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd. Eurus III Ltd. is a special purpose entity domiciled in Hamilton/Bermuda that was registered in August 2012 as a "special purpose insurer" under the Bermuda Insurance Act 1978. The retrocessions concluded with the special purpose entity under the transaction afford Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. protection against the aforementioned catastrophe risks. Since Hannover Re does not exercise a controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

By way of its "K" transactions Hannover Re has raised underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of this securitisation was equivalent to EUR 232.2 million (EUR 238.9 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 structured entity domiciled in Bermuda, is used as a transformer for part of the transaction.

Hannover Re also uses the special purpose entity Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with IFRS 10 Kaith Re Ltd. is included in the consolidated financial statement.

Life and health reinsurance assumed

Some transactions in the life and health reinsurance segment are effected with the involvement of ceding special purpose entities as contracting parties that are established by parties outside the Group and from which member companies of the Hannover Re Group assume certain underwriting and/or financial risks. The transactions serve the purpose, for example, of transferring extreme mortality risks above a contractually defined retention or transferring longevity risks. Given that Hannover Re, on the basis of its business relations with these structured entities, cannot influence their relevant activities and has no rights or exposure to – nor is it able to affect – the majority of the positive or negative variable returns, it does not exercise a controlling influence over the structured entities. Consequently, there is no consolidation requirement for Hannover Re.

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

Investments

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

Hannover Re participates through the Luxembourg-based company Leine Investment SICAV-SIF, which was established in September 2012, in a number of special purpose entities for the securitisation of catastrophe risks by investing in "disaster bonds" (or "CAT bonds"). Leine Investment General Partner S.à.r.l. is the managing partner of the asset management company Leine Investment SICAV-SIF, the business object of which is to build, hold and manage a portfolio of insurance-linked securities (catastrophe bonds) – including for third-party investors outside the Group. Since Hannover Re cannot exercise a controlling influence in any of these transactions either there is no requirement to consolidate the relevant structured entities.

Major acquisitions and new formations

With effect from 3 March 2014 Hannover Re established the company Hannover Life Reassurance Company of America (Bermuda) Ltd. based in Hamilton, Bermuda. All shares in the company are held by Hannover Life Reassurance Company of America, Orlando. The business object of the company is to assume life insurance risks by way of reinsurance and using capital market instruments as well as to transfer them to other Group companies. The company commenced its business operations in the first quarter of 2014 and has been included in full in Hannover Re's consolidated financial statement since that date.

In August 2013 Hannover Rück SE reached agreement with another investor on a financial interest in a company, the business of which is the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg. The regulatory approvals have now been given and the acquisition was closed effective 31 March 2014.

Major disposals and retirements

Effective 24 March 2014 Funis GmbH & Co. KG ("Funis") redeemed the voting puttable preference shares that it held in Glencar Underwriting Managers Inc., Chicago, United States ("Glencar") and hence relinquished its majority voting interest in the company. In the context of this transaction a change was also made to the composition of Glencar's managing board as per the contractual agreement, since Hannover Re no longer had majority representation on this body. In view of the fact that Hannover Re is therefore no longer able to exercise control over Glencar, but continues to be able to exercise a significant influence over the company, Glencar was deconsolidated as at the end of the first quarter of 2014 and included at equity in the consolidated financial statement. The derecognition of assets and liabilities as well as recognition of the participating interest at fair value gave rise to income of EUR 2.7 million, which was carried under other income and expenses. In addition, cumulative other comprehensive income of -EUR 0.1 million was realised from currency translation.

Other corporate changes

In accordance with the purchase agreement of 3 February 2014 Hannover Rück SE assumed 15% of the shares in Hannover Re Euro RE Holdings GmbH, Hannover, previously held through E+S Rückversicherung AG. The effects of the change in the amount of holding were recognised in the consolidated financial statement as an equity transaction pursuant to IFRS 10.

Since it involves an internal transaction within the Group between companies under common control, this purchase transaction does not give rise to goodwill nor does it have any implications for Group net income.

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 2013. 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. We would also refer to the relevant information in the consolidated financial statement as at 31 December 2013. Both Hannover Life Reassurance Company of America (Bermuda) Ltd., which was consolidated for the first time in the first quarter of 2014, and the financial investment in the aforementioned acquisition company are allocable to the life and health reinsurance segment. Glencar Underwriting Managers Inc., which has been included at equity in the consolidated financial statement as an associated company since the first quarter of 2014, is allocable to the non-life reinsurance segment.

Segmentation of assets	Non-life reinsurance	
in EUR thousand	31.3.2014	31.12.2013
Assets		
Fixed-income securities – held to maturity	2,064,966	2,351,409
Fixed-income securities – loans and receivables	2,919,548	3,111,351
Fixed-income securities – available for sale	16,491,282	16,227,978
Equity securities – available for sale	31,651	28,980
Financial assets at fair value through profit or loss	19,137	18,157
Other invested assets	2,215,893	2,155,774
Short-term investments	347,995	267,682
Cash	436,991	430,552
Total investments and cash under own management	**24,527,463**	**24,591,883**
Funds withheld	869,786	888,118
Contract deposits	–	1,717
Total investments	**25,397,249**	**25,481,718**
Reinsurance recoverables on unpaid claims	1,029,289	1,168,791
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	173,015	137,670
Reinsurance recoverables on other reserves	(1,789)	439
Deferred acquisition costs	549,769	491,354
Accounts receivable	2,401,986	1,702,357
Other assets in the segment	1,413,720	1,508,210
Assets held for sale	–	11,226
Total assets	**30,963,239**	**30,501,765**

Segmentation of liabilities		
in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	19,250,613	18,847,749
Benefit reserve	–	–
Unearned premium reserve	2,620,888	2,297,054
Provisions for contingent commissions	137,588	129,343
Funds withheld	393,318	429,168
Contract deposits	7,125	11,098
Reinsurance payable	619,211	674,469
Long-term liabilities	262,602	227,130
Other liabilities in the segment	1,849,887	1,822,435
Total liabilities	**25,141,232**	**24,438,446**

Life and health reinsurance		Consolidation		Total	
31.3.2014	31.12.2013	31.3.2014	31.12.2013	31.3.2014	31.12.2013
196,353	197,857	118,376	117,521	2,379,695	2,666,787
69,854	71,714	200	26,035	2,989,602	3,209,100
5,959,127	5,768,474	272,978	413,440	22,723,387	22,409,892
–	–	–	–	31,651	28,980
67,952	68,706	13,825	19,280	100,914	106,143
113,941	105,232	1,118	1,260	2,330,952	2,262,266
203,034	190,898	18,743	90,558	569,772	549,138
170,673	208,641	4,991	3,743	612,655	642,936
6,780,934	**6,611,522**	**430,231**	**671,837**	**31,738,628**	**31,875,242**
13,354,834	13,379,713	–	–	14,224,620	14,267,831
81,641	73,824	–	–	81,641	75,541
20,217,409	**20,065,059**	**430,231**	**671,837**	**46,044,889**	**46,218,614**
271,058	236,532	(1,551)	(1,519)	1,298,796	1,403,804
374,684	344,154	–	–	374,684	344,154
1,368	1,434	(33)	(65)	174,350	139,039
2,603	6,454	–	–	814	6,893
1,172,270	1,181,040	2	4	1,722,041	1,672,398
1,171,861	1,243,469	(169)	(141)	3,573,678	2,945,685
591,914	551,240	(866,064)	(885,719)	1,139,570	1,173,731
–	–	–	–	–	11,226
23,803,167	**23,629,382**	**(437,584)**	**(215,603)**	**54,328,822**	**53,915,544**

2,968,622	2,820,702	(1,552)	(1,519)	22,217,683	21,666,932
10,728,330	10,631,512	(9)	(61)	10,728,321	10,631,451
107,553	108,443	–	–	2,728,441	2,405,497
140,782	140,228	–	–	278,370	269,571
239,698	218,858	–	–	633,016	648,026
5,393,937	5,558,834	–	–	5,401,062	5,569,932
320,600	397,326	(151)	(141)	939,660	1,071,654
–	–	1,489,472	2,237,830	1,752,074	2,464,960
1,691,359	1,690,822	(832,805)	(855,763)	2,708,441	2,657,494
21,590,881	**21,566,725**	**654,955**	**1,380,346**	**47,387,068**	**47,385,517**

Notes

Segment statement of income

in EUR thousand	Non-life reinsurance 1.1.–31.3.2014	1.1.–31.3.2013
Gross written premium	2,107,764	2,197,623
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	2,107,764	2,197,623
Net premium earned	1,631,686	1,691,927
Net investment income	204,845	186,823
thereof		
Change in fair value of financial instruments	(572)	(3,955)
Total depreciation, impairments and appreciation of investments	5,438	3,085
Income/expense on funds withheld and contract deposits	3,894	3,632
Claims and claims expenses	1,116,078	1,158,564
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	378,069	386,521
Administrative expenses	49,951	48,761
Other income and expenses	(11,978)	(26,245)
Operating profit/loss (EBIT)	**280,455**	**258,659**
Interest on hybrid capital	–	–
Net income before taxes	**280,455**	**258,659**
Taxes	65,363	66,839
Net income	**215,092**	**191,820**
thereof		
Non-controlling interest in profit or loss	17,226	16,932
Group net income	**197,866**	**174,888**

[1] Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

Life and health reinsurance		Consolidation		Total	
1.1.–31.3.2014	1.1.–31.3.2013 [1]	1.1.–31.3.2014	1.1.–31.3.2013	1.1.–31.3.2014	1.1.–31.3.2013 [1]
1,516,677	1,560,301	(2)	(49)	3,624,439	3,757,875
2	49	(2)	(49)	–	–
1,516,675	1,560,252	–	–	3,624,439	3,757,875
1,281,021	1,388,856	29	78	2,912,736	3,080,861
151,969	162,373	4,337	5,547	361,151	354,743
7,745	7,141	274	125	7,447	3,311
103	8	–	–	5,541	3,093
84,721	90,191	–	–	88,615	93,823
1,062,711	1,097,339	(3)	78	2,178,786	2,255,981
49,767	79,081	52	62	49,819	79,143
209,764	239,463	2	3	587,835	625,987
44,103	39,511	(277)	87	93,777	88,359
(1,088)	6,545	(981)	107	(14,047)	(19,593)
65,557	**102,380**	**3,611**	**5,502**	**349,623**	**366,541**
–	–	27,794	31,379	27,794	31,379
65,557	**102,380**	**(24,183)**	**(25,877)**	**321,829**	**335,162**
12,848	26,831	(15,881)	(7,129)	62,330	86,541
52,709	**75,549**	**(8,302)**	**(18,748)**	**259,499**	**248,621**
9,319	467	–	–	26,545	17,399
43,390	75,082	(8,302)	(18,748)	232,954	231,222

Notes

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. Intentions to sell are substantiated by individual real estate market conditions and specific property circumstances, taking into consideration current and future opportunity/risk profiles.

For further details we would refer to the relevant information in the consolidated financial statement as at 31 December 2013.

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

Investments

in EUR thousand	31.3.2014	31.12.2013
Regional origin		
Germany	5,639,970	6,125,564
United Kingdom	2,462,560	2,396,053
France	1,824,078	1,644,587
Other	7,024,448	7,377,339
Europe	**16,951,056**	**17,543,543**
USA	8,642,685	8,478,865
Other	1,293,270	1,300,371
North America	**9,935,955**	**9,779,236**
Asia	1,416,519	1,275,917
Australia	2,186,228	2,081,609
Australasia	**3,602,747**	**3,357,526**
Africa	325,883	321,665
Other	922,987	873,272
Total	**31,738,628**	**31,875,242**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	31.3.2014		31.12.2013	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	450,064	458,149	587,925	594,854
due after one through two years	1,152,226	1,205,010	1,062,548	1,114,378
due after two through three years	393,390	420,286	513,930	546,127
due after three through four years	49,516	52,230	140,576	148,806
due after four through five years	72,116	74,660	95,480	98,983
due after five through ten years	261,045	288,885	264,473	286,236
due after more than ten years	1,338	1,625	1,855	2,255
Total	**2,379,695**	**2,500,845**	**2,666,787**	**2,791,639**
Loans and receivables				
due in one year	199,007	201,978	237,228	240,952
due after one through two years	180,865	187,404	220,144	228,825
due after two through three years	520,502	553,314	376,062	399,698
due after three through four years	86,191	92,775	280,019	298,656
due after four through five years	153,687	163,838	141,240	149,437
due after five through ten years	1,035,066	1,130,829	1,106,317	1,184,496
due after more than ten years	814,284	917,660	848,090	923,723
Total	**2,989,602**	**3,247,798**	**3,209,100**	**3,425,787**
Available for sale				
due in one year[2]	3,040,765	3,051,134	3,095,796	3,103,923
due after one through two years	2,550,964	2,599,855	2,789,025	2,838,390
due after two through three years	2,061,733	2,113,084	1,848,794	1,899,960
due after three through four years	2,538,721	2,602,473	2,318,986	2,384,389
due after four through five years	2,697,124	2,732,169	2,700,046	2,728,465
due after five through ten years	7,602,385	7,891,503	7,765,540	7,896,895
due after more than ten years	2,745,174	2,915,596	2,657,402	2,749,944
Total	**23,236,866**	**23,905,814**	**23,175,589**	**23,601,966**
Financial assets at fair value through profit or loss				
due in one year	8,609	8,609	8,339	8,339
due after one through two years	2,159	2,159	4,337	4,337
due after two through three years	5,276	5,276	2,182	2,182
due after three through four years	1,046	1,046	5,991	5,991
due after four through five years	1,643	1,643	–	–
due after five through ten years	235	235	–	–
due after more than ten years	12,918	12,918	15,212	15,212
Total	**31,886**	**31,886**	**36,061**	**36,061**

[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	31.3.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	390,057	15,336	–	5,571	410,964
US treasury notes	354,131	9,656	–	4,242	368,029
Other foreign government debt securities	47,158	370	–	551	48,079
Debt securities issued by semi-governmental entities	462,387	21,968	–	5,762	490,117
Corporate securities	229,872	10,054	296	3,557	243,187
Covered bonds/asset-backed securities	862,550	64,062	–	13,857	940,469
Total	**2,346,155**	**121,446**	**296**	**33,540**	**2,500,845**

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	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	389,642	16,775	–	7,078	413,495
US treasury notes	497,681	12,436	–	3,622	513,739
Other foreign government debt securities	48,922	406	–	142	49,470
Debt securities issued by semi-governmental entities	518,178	23,185	–	8,015	549,378
Corporate securities	229,775	10,142	1,653	3,142	241,406
Covered bonds/asset-backed securities	941,355	63,561	–	19,235	1,024,151
Total	**2,625,553**	**126,505**	**1,653**	**41,234**	**2,791,639**

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

in EUR thousand	31.3.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,696,446	168,921	650	28,850	1,893,567
Corporate securities	366,731	15,693	2,142	7,095	387,377
Covered bonds/asset-backed securities	874,143	78,179	1,805	16,337	966,854
Total	**2,937,320**	**262,793**	**4,597**	**52,282**	**3,247,798**

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

in EUR thousand	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,822,223	145,725	4,554	29,970	1,993,364
Corporate securities	373,987	14,667	5,492	5,501	388,663
Covered bonds/asset-backed securities	962,407	71,141	4,800	15,012	1,043,760
Total	**3,158,617**	**231,533**	**14,846**	**50,483**	**3,425,787**

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

in EUR thousand	31.3.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,993,011	63,893	7,210	19,060	2,068,754
US treasury notes	1,995,044	19,311	13,582	4,329	2,005,102
Other foreign government debt securities	1,508,628	6,981	30,022	12,289	1,497,876
Debt securities issued by semi-governmental entities	3,687,260	143,262	13,054	43,048	3,860,516
Corporate securities	9,913,787	368,823	58,874	132,205	10,355,941
Covered bonds/asset-backed securities	2,646,011	183,618	9,036	25,993	2,846,586
Investment funds	73,774	15,391	553	–	88,612
	21,817,515	**801,279**	**132,331**	**236,924**	**22,723,387**
Equity securities					
Shares	12,742	7,156	40	–	19,858
Investment funds	8,452	3,341	–	–	11,793
	21,194	**10,497**	**40**	**–**	**31,651**
Short-term investments	567,526	–	–	2,246	569,772
Total	**22,406,235**	**811,776**	**132,371**	**239,170**	**23,324,810**

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	31.12.2013				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,888,024	40,708	19,518	18,075	1,927,289
US treasury notes	1,707,269	15,141	20,175	5,397	1,707,632
Other foreign government debt securities	1,521,815	5,776	34,698	10,484	1,503,377
Debt securities issued by semi-governmental entities	3,803,818	117,838	24,549	45,377	3,942,484
Corporate securities	10,042,461	295,414	112,472	136,357	10,361,760
Covered bonds/asset-backed securities	2,695,036	167,867	18,132	35,628	2,880,399
Investment funds	73,774	14,114	937	–	86,951
	21,732,197	**656,858**	**230,481**	**251,318**	**22,409,892**
Equity securities					
Shares	12,588	4,682	1	–	17,269
Investment funds	8,452	3,259	–	–	11,711
	21,040	**7,941**	**1**	**–**	**28,980**
Short-term investments	546,999	–	–	2,139	549,138
Total	22,300,236	664,799	230,482	253,457	22,988,010

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	31.3.2014	31.12.2013	31.3.2014	31.12.2013	31.3.2014	31.12.2013
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	18,386	23,863	328	596	18,714	24,459
Covered bonds/asset-backed securities	13,117	11,547	55	55	13,172	11,602
	31,503	**35,410**	**383**	**651**	**31,886**	**36,061**
Other financial assets						
Derivatives	69,028	70,082	–	–	69,028	70,082
	69,028	**70,082**	**–**	**–**	**69,028**	**70,082**
Total	100,531	105,492	383	651	100,914	106,143

Notes

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.

Valuation models

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

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13 "Fair Value Measurement", it is necessary to assign financial assets and liabilities to a three-level fair value hierarchy.

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

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

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

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

In the period under review financial assets with a fair value of EUR 26.0 million were no longer allocable to level 1, but rather to level 2 on account of their reduced liquidity. The reclassifications affected exclusively fixed-income securities held as available for sale. The specified amounts reclassified refer in each case to the book value of the investments recognised at the beginning of the period.

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

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

in EUR thousand	2014			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	–	22,750,962	4,311	22,755,273
Equity securities	31,643	–	8	31,651
Other financial assets – at fair value through profit or loss	–	69,028	–	69,028
Other invested assets	–	32,384	1,241,935	1,274,319
Short-term investments	569,772	–	–	569,772
Other assets	–	741	–	741
Total financial assets	**601,415**	**22,853,115**	**1,246,254**	**24,700,784**
Other liabilities	–	50,176	64,196	114,372
Total financial liabilities	**–**	**50,176**	**64,196**	**114,372**

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

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

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

Movements in level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–31.3.2014			
	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	**5,179**	**8**	**1,199,851**	**68,827**
Currency translation at 1 January	(4)	–	(1,314)	–
Net book value after currency translation	**5,175**	**8**	**1,198,537**	**68,827**
Income and expenses				
recognised in the statement of income	(283)	–	1,076	(4,524)
recognised directly in shareholders' equity	–	–	19,359	–
Purchases	–	–	56,949	–
Sales/Settlements	581	–	33,697	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 March of the year under review	–	–	(289)	(107)
Closing balance at 31 March of the year under review	**4,311**	**8**	**1,241,935**	**64,196**

Movements in level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–31.3.2013			
	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	803	–	19,994	–
Net book value after currency translation	**28,132**	**8**	**1,081,947**	**54,812**
Changes in the consolidated group	(7,286)	–	(8,986)	–
Income and expenses				
recognised in the statement of income	(92)	–	(82)	244
recognised directly in shareholders' equity	–	–	13,228	–
Purchases	–	–	42,931	–
Sales/Settlements	–	–	20,676	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 31 March of the year under review	(203)	–	1,357	1,610
Closing balance at 31 March of the year under review	**20,551**	**8**	**1,109,719**	**56,666**

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

Income and expenses from level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–31.3.2014		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	(283)	2,246	4,524
Total depreciation, impairments and appreciation of investments	–	(1,170)	–
Thereof attributable to financial instruments included in the portfolio at 31 March of the year under review			
Change in fair value of financial instruments	(283)	2,246	4,524
Total depreciation, impairments and appreciation of investments	–	(1,170)	–

Income and expenses from level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–31.3.2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	(92)	265	(244)
Total depreciation, impairments and appreciation of investments	–	(347)	–
Thereof attributable to financial instruments included in the portfolio at 31 March of the year under review			
Change in fair value of financial instruments	(92)	(265)	(238)
Total depreciation, impairments and appreciation of investments	–	(347)	–

If models are used to measure financial assets and liabilities included in level 3 under which the adoption of alternative inputs leads to a material change in fair value, IFRS 13 requires disclosure of the effects of these alternative assumptions. Of the financial assets included in level 3 with fair values of altogether EUR 1,246.8 million (EUR 1,205.0 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,142.9 million (EUR 1,109.7 million) using the net asset value method, in respect of which alternative inputs within the meaning of the standard cannot reasonably be established. The remaining financial assets included in level 3 with a volume of EUR 103.9 million (EUR 95.3 million) relate in very large part to acquired life insurance policies, the valuation of which is based on technical parameters. Derivative financial instruments in connection with the reinsurance business were recognised under the other liabilities included in level 3 in the year under review. Their performance is dependent upon the risk experience of an underlying group of primary insurance contracts with statutory reserving requirements. The application of alternative inputs and assumptions has no material effect on the consolidated financial statement.

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

Non-controlling interests in the shareholders' equity of the subsidiaries amounted to EUR 639.6 million (EUR 641.6 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 618.8 million (EUR 620.3 million).

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

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.

IAS 1 requires separate disclosure of treasury shares in shareholders' equity. The company was not in possession of treasury shares at any time during the period under review.

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 2.8 million (EUR 11.6 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.–31.3.2014	1.1.–31.3.2013
Regional origin		
Germany	439,217	414,493
United Kingdom	633,788	653,631
France	164,310	171,887
Other	460,639	541,420
Europe	**1,697,954**	**1,781,431**
USA	791,848	875,440
Other	148,292	151,444
North America	**940,140**	**1,026,884**
Asia	474,514	380,940
Australia	197,132	208,387
Australasia	**671,646**	**589,327**
Africa	109,311	127,330
Other	205,388	232,903
Total	**3,624,439**	**3,757,875**

6.2 Investment income

Investment income

in EUR thousand	1.1.–31.3.2014	1.1.–31.3.2013
Income from real estate	20,365	14,195
Dividends	25	513
Interest income	233,880	247,482
Other income	(12,864)	(16,083)
Ordinary investment income	**241,406**	**246,107**
Profit or loss on shares in associated companies	2,922	1,090
Appreciation	–	152
Realised gains on investments	58,301	38,614
Realised losses on investments	4,196	3,842
Change in fair value of financial instruments	7,447	3,311
Impairments on real estate	4,371	2,895
Impairments on equity securities	–	3
Impairments on participating interests and other financial assets	1,170	347
Other investment expenses	27,803	21,267
Net income from assets under own management	**272,536**	**260,920**
Interest income on funds withheld and contract deposits	128,580	122,002
Interest expense on funds withheld and contract deposits	39,965	28,179
Total investment income	**361,151**	**354,743**

The impairments totalling EUR 1.2 million (EUR 0.3 million) were attributable entirely to the area of alternative investments – specifically, exclusively to private equity investments. In the reporting period and in the comparable period of the previous year no impairments were recognised on equities or equity funds because their fair values did not fall significantly – i. e. by at least 20% – or for a prolonged period – i. e. for at least nine months – below acquisition cost. Nor was it necessary to recognise any impairments on fixed-income securities.

These write-downs were not opposed by any write-ups on investments written down in previous periods (EUR 0.2 million). 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.–31.3.2014	1.1.–31.3.2013
Fixed-income securities – held to maturity	22,600	31,086
Fixed-income securities – loans and receivables	27,418	30,273
Fixed-income securities – available for sale	179,219	179,611
Financial assets – at fair value through profit or loss	252	292
Other	4,391	6,220
Total	**233,880**	**247,482**

7. Other notes

7.1 Derivative financial instruments and financial guarantees

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 1.5 million (31 December 2013: EUR 1.4 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions predominantly taken out to hedge currency risks. These transactions gave rise to recognition of other liabilities in an amount of EUR 5.5 million (EUR 5.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 14.6 million (EUR 16.7 million).

Hannover Re also holds derivative financial instruments to hedge inflation risks associated with the loss reserves. These transactions resulted in the recognition of other liabilities amounting to EUR 34.6 million (EUR 34.1 million) and other financial assets at fair value through profit or loss in an amount of EUR 0.7 million (EUR 1.4 million).

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 1.5 million to the result of the period under review (31 March 2013: improvement in the result of EUR 0.8 million).

In order to hedge the risk of share price changes in connected with the stock appreciation rights that have been granted, Hannover Re took out hedges for the first time in the period under review in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 0.7 million (none) as at the balance sheet date and was recognised under other assets. The hedge gave rise to a change in equity from hedging instruments recognised directly in equity in an amount of EUR 0.5 million; ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

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 53.6 million as at 31 March 2014 (31 December 2013: EUR 52.1 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 72.7 million (31 December 2013: EUR 78.0 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 64.2 million (31 December 2013: EUR 68.8 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 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 an improvement in investment income of EUR 4.5 million (31 March 2013: charge against investment income of EUR 0.2 million).

Of the derivatives carried on the assets side, fair values of EUR 46.7 million (31 December 2013: EUR 45.3 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 ModCo derivatives gave rise to an improvement in investment income of EUR 1.6 million before tax as at 31 March 2014 (31 March 2013: EUR 5.6 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 necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 1,369.6 million (EUR 1,372.2 million); an amount equivalent to EUR 916.5 million (EUR 892.1 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by the Hannover Re Group cover their payment obligations. Under some of the transactions the payments resulting from the swaps in the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision.

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

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 Rück SE and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the 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.

In November 2013 the responsible bodies of Hannover Rück SE and E+S Rückversicherung AG decided to reorganise the business relationship between the two companies with effect from 1 January 2014. The exchange of business under the previously existing underwriting partnership was discontinued at the beginning of 2014. In non-life reinsurance, however, a retrocession by Hannover Rück SE to E+S Rückversicherung AG has been maintained. The exclusive responsibilities of E+S Rückversicherung AG for German business and Hannover Rück SE for international markets have been preserved.

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

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

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

Talanx Reinsurance Broker AG grants Hannover Rück SE and E+S Rückversicherung AG a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Rück SE and E+S 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	1.1.–31.3.2014		1.1.–31.3.2013	
	Premium	Underwriting result	Premium	Underwriting Result
Business assumed				
Non-life reinsurance	96,849	61,422	132,622	52,516
Life and health reinsurance	37,930	7,122	46,028	3,094
	134,779	68,544	178,650	55,610
Business ceded				
Non-life reinsurance	(2,347)	540	(2,256)	(1,946)
Life and health reinsurance	(13,734)	(213)	(13,844)	(2,311)
	(16,081)	327	(16,100)	(4,257)
Total	**118,698**	**68,871**	**162,550**	**51,353**

In the context of a new bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in the previous year 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 47.2 million (EUR 48.3 million) including accrued interest of EUR 0.2 million (EUR 1.3 million).

7.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,431 during the period under review (average in 2013: 2,376).

As at the balance sheet date altogether 2,442 (2,419) staff were employed by the Hannover Re Group, with 1,235 (1,219) employed in Germany and 1,207 (1,200) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1.–31.3.2014	1.1.–31.3.2013 [1]
Group net income in EUR thousand	232,954	231,222
Weighted average of issued shares	120,597,134	120,597,134
Basic earnings per share in EUR	1.93	1.92
Diluted earnings per share in EUR	1.93	1.92

[1] Adjusted pursuant to IAS 8 (cf. Section 2 of the notes)

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.

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 Re has placed three (four) subordinated debts on the European capital market through its subsidiary Hannover Finance (Luxembourg) S.A. as at the balance sheet date. The debt issued in 2004 with a volume of EUR 750.0 million was cancelled by the issuer in the full nominal amount at the first scheduled call date and repaid on 26 February 2014. Hannover Rück SE has secured by subordinated guarantee 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 31 March 2014 was EUR 1,699.7 million (31 December 2013: EUR 2,424.9 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 2,758.4 million (EUR 2,748.1 million) and EUR 21.5 million (EUR 21.5 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 491.8 million (EUR 565.6 million) in the form of so-called “single trust funds”.

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group’s major companies was EUR 2,481.7 million (EUR 2,514.4 million) as at the balance sheet date.

The securities held in the blocked custody accounts and trust accounts are recognised predominantly as available-for-sale investments.

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 2,762.3 million (EUR 2,895.1 million).

In addition, we keep own investments with a book value of EUR 59.5 million (EUR 53.8 million) in blocked custody accounts as collateral provided under existing derivative transactions. We received collateral with a fair value of EUR 12.4 million (EUR 18.6 million) for existing derivative transactions.

For liabilities in connection with participating interests in real estate companies and real estate transactions the usual collateral under such transactions has been furnished to various banks, the amount of which totalled EUR 539.6 million (EUR 459.9 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 623.2 million (EUR 598.5 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

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

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

7.6 Events after the end of the quarter

No significant events occurred after the balance sheet date.