Consolidated financial statements

Consolidated balance sheet as at 30 June 2014

Assets in EUR thousand	30.6.2014	31.12.2013
Fixed-income securities – held to maturity	2,287,751	2,666,787
Fixed-income securities – loans and receivables	2,999,477	3,209,100
Fixed-income securities – available for sale	23,284,846	22,409,892
Fixed-income securities – at fair value through profit or loss	50,420	36,061
Equity securities – available for sale	31,676	28,980
Other financial assets – at fair value through profit or loss	61,331	70,082
Real estate and real estate funds	1,185,163	1,094,563
Investments in associated companies	147,476	144,489
Other invested assets	1,152,255	1,023,214
Short-term investments	495,262	549,138
Cash	686,998	642,936
Total investments and cash under own management	**32,382,655**	**31,875,242**
Funds withheld	14,680,127	14,267,831
Contract deposits	78,245	75,541
Total investments	**47,141,027**	**46,218,614**
Reinsurance recoverables on unpaid claims	1,281,913	1,403,804
Reinsurance recoverables on benefit reserve	480,706	344,154
Prepaid reinsurance premium	170,364	139,039
Reinsurance recoverables on other technical reserves	3,338	6,893
Deferred acquisition costs	1,765,409	1,672,398
Accounts receivable	3,502,112	2,945,685
Goodwill	57,704	57,070
Deferred tax assets	393,291	508,841
Other assets	634,368	603,627
Accrued interest and rent	5,212	4,193
Assets held for sale	–	11,226
Total assets	**55,435,444**	**53,915,544**

Liabilities in EUR thousand	30.6.2014	31.12.2013
Loss and loss adjustment expense reserve	22,509,650	21,666,932
Benefit reserve	11,012,178	10,631,451
Unearned premium reserve	2,824,926	2,405,497
Other technical provisions	263,648	269,571
Funds withheld	677,558	648,026
Contract deposits	5,548,267	5,569,932
Reinsurance payable	1,013,174	1,071,654
Provisions for pensions	137,197	116,412
Taxes	202,127	222,795
Deferred tax liabilities	1,826,094	1,712,392
Other liabilities	570,359	605,895
Long-term debt and subordinated capital	1,777,648	2,464,960
Total liabilities	**48,362,826**	**47,385,517**
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	910,856	533,745
Cumulative foreign currency translation adjustment	(169,905)	(246,279)
Changes from hedging instruments	(9,060)	(9,455)
Other changes in cumulative other comprehensive income	(28,017)	(16,452)
Total other comprehensive income	**703,874**	**261,559**
Retained earnings	4,862,639	4,781,718
Equity attributable to shareholders of Hannover Rück SE	**6,411,672**	**5,888,436**
Non-controlling interests	660,946	641,591
Total shareholders' equity	**7,072,618**	**6,530,027**
Total liabilities	**55,435,444**	**53,915,544**

Consolidated statement of income as at 30 June 2014

in EUR thousand	1.4.–30.6.2014	1.1.–30.6.2014	1.4.–30.6.2013 [1]	1.1.–30.6.2013 [1]
Gross written premium	3,440,453	7,064,892	3,468,787	7,226,662
Ceded written premium	444,088	866,059	343,469	724,390
Change in gross unearned premium	(63,707)	(387,466)	(7,227)	(345,708)
Change in ceded unearned premium	(6,034)	27,993	(7,433)	34,955
Net premium earned	**2,926,624**	**5,839,360**	**3,110,658**	**6,191,519**
Ordinary investment income	248,737	490,143	257,494	503,601
Profit/loss from investments in associated companies	1,385	4,307	5,150	6,240
Realised gains and losses on investments	34,393	88,498	49,726	84,498
Change in fair value of financial instruments	2,550	9,997	(40,834)	(37,523)
Total depreciation, impairments and appreciation of investments	4,795	10,336	5,072	8,165
Other investment expenses	22,246	50,049	25,935	47,202
Net income from investments under own management	**260,024**	**532,560**	**240,529**	**501,449**
Income/expense on funds withheld and contract deposits	86,330	174,945	93,726	187,549
Net investment income	**346,354**	**707,505**	**334,255**	**688,998**
Other technical income	1,223	1,611	131	836
Total revenues	**3,274,201**	**6,548,476**	**3,445,044**	**6,881,353**
Claims and claims expenses	2,230,315	4,409,101	2,296,319	4,552,300
Change in benefit reserves	(35,122)	14,697	(27,676)	51,467
Commission and brokerage, change in deferred acquisition costs	626,324	1,210,300	766,662	1,391,139
Other acquisition costs	1,043	2,384	1,042	1,890
Other technical expenses	1,227	4,133	5,343	6,710
Administrative expenses	92,094	185,871	83,639	171,998
Total technical expenses	**2,915,881**	**5,826,486**	**3,125,329**	**6,175,504**
Other income and expenses	(24,257)	(38,304)	6,793	(12,800)
Operating profit (EBIT)	**334,063**	**683,686**	**326,508**	**693,049**
Interest on hybrid capital	21,053	48,847	31,662	63,041
Net income before taxes	**313,010**	**634,839**	**294,846**	**630,008**
Taxes	93,325	155,655	85,451	171,992
Net income	**219,685**	**479,184**	**209,395**	**458,016**
thereof				
Non-controlling interest in profit and loss	8,217	34,762	17,127	34,526
Group net income	**211,468**	**444,422**	**192,268**	**423,490**
Earnings per share (in EUR)				
Basic earnings per share	1.75	3.69	1.59	3.51
Diluted earnings per share	1.75	3.69	1.59	3.51

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

Consolidated statement of comprehensive income as at 30 June 2014

in EUR thousand	1.4.–30.6.2014	1.1.–30.6.2014	1.4.–30.6.2013[1]	1.1.–30.6.2013[1]
Net income	**219,685**	**479,184**	**209,395**	**458,016**
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	(6,197)	(18,950)	2,482	2,463
Tax income (expense)	1,976	6,049	(790)	(785)
	(4,221)	**(12,901)**	**1,692**	**1,678**
Income and expense recognised directly in equity that cannot be reclassified				
Gains (losses) recognised directly in equity	(6,197)	(18,950)	2,482	2,463
Tax income (expense)	1,976	6,049	(790)	(785)
	(4,221)	**(12,901)**	**1,692**	**1,678**
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	326,003	622,985	(522,965)	(513,850)
Transferred to the consolidated statement of income	(30,017)	(65,074)	(44,690)	(74,514)
Tax income (expense)	(84,108)	(155,665)	151,539	157,349
	211,878	**402,246**	**(416,116)**	**(431,015)**
Currency translation				
Gains (losses) recognised directly in equity	73,995	86,631	(155,081)	(92,608)
Transferred to the consolidated statement of income	–	50	–	(5,507)
Tax income (expense)	(8,659)	(9,829)	23,398	12,944
	65,336	**76,852**	**(131,683)**	**(85,171)**
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	9	23	(27)	(27)
	9	**23**	**(27)**	**(27)**
Changes from hedging instruments				
Gains (losses) recognised directly in equity	76	580	–	–
Tax income (expense)	(24)	(185)	–	–
	52	**395**	**–**	**–**
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	400,083	710,219	(678,073)	(606,485)
Transferred to the consolidated statement of income	(30,017)	(65,024)	(44,690)	(80,021)
Tax income (expense)	(92,791)	(165,679)	174,937	170,293
	277,275	**479,516**	**(547,826)**	**(516,213)**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	393,886	691,269	(675,591)	(604,022)
Transferred to the consolidated statement of income	(30,017)	(65,024)	(44,690)	(80,021)
Tax income (expense)	(90,815)	(159,630)	174,147	169,508
	273,054	**466,615**	**(546,134)**	**(514,535)**
Total recognised income and expense	**492,739**	**945,799**	**(336,739)**	**(56,519)**
thereof				
Attributable to non-controlling interests	21,398	60,021	(2,172)	17,388
Attributable to shareholders of Hannover Rück SE	471,341	885,778	(334,567)	(73,907)

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

Consolidated statement of changes in shareholders' equity as at 30 June 2014

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2013	**120,597**	**724,562**	**987,918**	**(16,119)**
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity [1]	–	–	(413,943)	(84,960)
Net income [1]	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.6.2013	**120,597**	**724,562**	**573,975**	**(101,079)**
Balance as at 1.1.2014	**120,597**	**724,562**	**533,745**	**(246,279)**
Changes in ownership interest with no change of control status	–	–	959	–
Changes in the consolidated group	–	–	–	–
Capital increases/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	376,152	76,374
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.6.2014	**120,597**	**724,562**	**910,856**	**(169,905)**

[1] Adjusted pursuant to IAS 8 (cf. 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				
(9,455)	**(24,417)**	**4,249,386**	**6,032,472**	**681,672**	**6,714,144**
–	–	(1,384)	(1,384)	1,433	49
–	–	–	–	(14,265)	(14,265)
–	–	–	–	101	101
–	–	–	–	(1,869)	(1,869)
–	–	5	5	–	5
–	1,506	–	(497,397)	(17,138)	(514,535)
–	–	423,490	423,490	34,526	458,016
–	–	(361,791)	(361,791)	(47,988)	(409,779)
(9,455)	**(22,911)**	**4,309,706**	**5,595,395**	**636,472**	**6,231,867**
(9,455)	**(16,452)**	**4,781,718**	**5,888,436**	**641,591**	**6,530,027**
–	–	(1,697)	(738)	738	–
–	–	–	–	(1,387)	(1,387)
–	–	–	–	–	–
–	–	–	–	–	–
–	–	(13)	(13)	–	(13)
395	(11,565)	–	441,356	25,259	466,615
–	–	444,422	444,422	34,762	479,184
–	–	(361,791)	(361,791)	(40,017)	(401,808)
(9,060)	**(28,017)**	**4,862,639**	**6,411,672**	**660,946**	**7,072,618**

Consolidated cash flow statement as at 30 June 2014

in EUR thousand	1.1.–30.6.2014	1.1.–30.6.2013[1]
I. Cash flow from operating activities		
Net income	479,184	458,016
Appreciation/depreciation	18,835	13,853
Net realised gains and losses on investments	(88,498)	(84,498)
Change in fair value of financial instruments	(9,997)	37,523
Realised gains and losses on deconsolidation	(2,602)	(6,661)
Income from the recognition of negative goodwill	–	(176)
Amortisation of investments	35,662	50,932
Changes in funds withheld	(123,085)	(330,084)
Net changes in contract deposits	(114,012)	278,183
Changes in prepaid reinsurance premium (net)	359,726	310,452
Changes in tax assets/provisions for taxes	70,703	2,359
Changes in benefit reserve (net)	13,124	19,791
Changes in claims reserves (net)	717,593	857,828
Changes in deferred acquisition costs	(63,890)	11,876
Changes in other technical provisions	(4,060)	65,429
Changes in clearing balances	(576,961)	(590,801)
Changes in other assets and liabilities (net)	(52,327)	(67,286)
Cash flow from operating activities	**659,395**	**1,026,736**

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

in EUR thousand	1.1.–30.6.2014	1.1.–30.6.2013
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	387,412	606,052
Purchases	(241)	(46,980)
Fixed-income securities – loans and receivables		
Maturities, sales	232,579	274,428
Purchases	–	(209,591)
Fixed-income securities – available for sale		
Maturities, sales	5,965,672	4,623,546
Purchases	(6,011,660)	(5,621,862)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	9,636	75,404
Purchases	(24,147)	(11,515)
Equity securities – available for sale		
Sales	9,809	7,566
Purchases	(8,397)	(7,499)
Other financial assets – at fair value through profit or loss		
Sales	19,609	–
Purchases	(6,005)	(458)
Other invested assets		
Sales	66,795	64,847
Purchases	(105,334)	(74,949)
Affiliated companies and participating interests		
Sales	–	–
Purchases	(33,759)	(58)
Real estate and real estate funds		
Sales	31,075	23,988
Purchases	(103,610)	(280,614)
Short-term investments		
Changes	64,241	(121,664)
Other changes (net)	(20,724)	(14,700)
Cash flow from investing activities	**472,951**	**(714,059)**

in EUR thousand	1.1.–30.6.2014	1.1.–30.6.2013
III. Cash flow from financing activities		
Contribution from capital measures	1,325	101
Payment on capital measures	(4,587)	(3,072)
Structural change without loss of control	–	49
Dividends paid	(401,808)	(409,779)
Proceeds from long-term debts	59,543	50,950
Repayment of long-term debts	(750,957)	(31)
Acquisition/disposal of treasury shares	(13)	5
Cash flow from financing activities	**(1,096,497)**	**(361,777)**
IV. Exchange rate differences on cash	**12,272**	**(11,720)**
Cash and cash equivalents at the beginning of the period	**642,936**	**572,188**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**48,121**	**(60,820)**
Changes in the consolidated group	**(4,059)**	**(3,833)**
Cash and cash equivalents at the end of the period	686,998	507,535
Supplementary information on the cash flow statement[1]		
Income taxes paid (on balance)	(58,259)	(169,840)
Dividend receipts[2]	9,909	16,737
Interest received	587,741	711,212
Interest paid	(93,896)	(94,648)

[1] The income taxes paid as well as the 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 21,840 thousand (EUR 21,360 thousand) to the cash flow from operating activities and in an amount of EUR 72,056 thousand (EUR 73,288 thousand) to the cash flow from financing activities.
[2] Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements as at 30 June 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 21 July 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 30 June 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 30 June 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 May 2014 the IASB issued IFRS 15 „Revenue from Contracts with Customers“. The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. IFRS 15 provides a single five-step model to be applied to all contracts with customers. Financial instruments and other contractual rights and obligations which are to be recognised under separate standards as well as (re)insurance contracts within the scope of IFRS 4 are expressly exempted from the standard's scope of application. The standard is to be applied to an annual reporting period beginning on or after 1 January 2017, but has still to be endorsed by the EU. Hannover Re does not expect the new requirements to have significant implications.

In May 2014 the IASB also amended a number of existing standards.

The „Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation“ provide additional guidance on the methods that can be used to calculate depreciation or amortisation of property, plant and equipment and intangible assets. The new guidelines are effective for annual periods beginning on or after 1 January 2016, but have still to be endorsed by the EU.

The „Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations“ clarify the accounting for acquisitions of an interest in a joint operation when the operation constitutes a business as defined in IFRS 11. These amendments are effective for annual periods beginning on or after 1 January 2016, but have still to be endorsed by the EU.

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 third 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:	30.6.2014	31.12.2013	1.1.–30.6.2014	1.1.–30.6.2013
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.4532	1.5513	1.5071	1.3019
BHD	0.5146	0.5190	0.5170	0.4944
CAD	1.4587	1.4751	1.5000	1.3358
CNY	8.4694	8.3445	8.4507	8.1166
GBP	0.8012	0.8357	0.8213	0.8489
HKD	10.5843	10.6752	10.6378	10.1750
KRW	1,380.2195	1,452.2507	1,433.9958	1,447.2435
MYR	4.3847	4.5351	4.4731	4.0580
SEK	9.1807	8.9114	8.9883	8.5597
USD	1.3656	1.3766	1.3714	1.3114
ZAR	14.4770	14.4390	14.6357	12.1184

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 2.9 million higher 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.–30.6.2013 as reported	Restatements	1.1.–30.6.2013
Claims and claims expenses	4,574,695	(22,395)	4,552,300
Operating profit (EBIT)	670,654	22,395	693,049
Net income before taxes	607,613	22,395	630,008
Taxes	165,372	6,620	171,992
Net income	442,241	15,775	458,016
thereof			
Non-controlling interest in profit and loss	34,526	–	34,526
Group net income	**407,715**	**15,775**	**423,490**
Earnings per share (in EUR)			
Basic earnings per share	3.38	0.13	3.51
Diluted earnings per share	3.38	0.13	3.51

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.–30.6.2013 as reported	Restatements	1.1.–30.6.2013
Net income	442,241	15,775	458,016
Reclassifiable to the consolidated statement of income			
Currency translation			
Gains (losses) recognised directly in equity	(94,168)	1,560	(92,608)
Transferred to the consolidated statement of income	(5,507)	–	(5,507)
Tax income (expense)	12,944	–	12,944
	(86,731)	**1,560**	**(85,171)**
Other changes			
Gains (losses) recognised directly in equity	24,616	(24,616)	–
Tax income (expense)	(7,281)	7,281	–
	17,335	**(17,335)**	**–**
Reclassifiable income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	(583,429)	(23,056)	(606,485)
Transferred to the consolidated statement of income	(80,021)	–	(80,021)
Tax income (expense)	163,012	7,281	170,293
	(500,438)	**(15,775)**	**(516,213)**
Total income and expense recognised directly in equity			
Gains (losses) recognised directly in equity	(580,966)	(23,056)	(604,022)
Transferred to the consolidated statement of income	(80,021)	–	(80,021)
Tax income (expense)	162,227	7,281	169,508
	(498,760)	**(15,775)**	**(514,535)**
Total recognised income and expense	**(56,519)**	**–**	**(56,519)**
thereof			
Attributable to non-controlling interests	17,388	–	17,388
Attributable to shareholders of Hannover Rück SE	(73,907)	–	(73,907)

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 34.8 million (EUR 34.5 million) as at 30 June 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 234.5 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 object 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. Since that date the shares in the company have been recognised as an equity investment measured at amortised cost.

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

Segmentation of assets	Non-life reinsurance	
in EUR thousand	30.6.2014	31.12.2013
Assets		
Fixed-income securities – held to maturity	1,972,757	2,351,409
Fixed-income securities – loans and receivables	2,929,813	3,111,351
Fixed-income securities – available for sale	16,909,624	16,227,978
Equity securities – available for sale	31,676	28,980
Financial assets at fair value through profit or loss	39,012	18,157
Other invested assets	2,363,605	2,155,774
Short-term investments	278,676	267,682
Cash	477,748	430,552
Total investments and cash under own management	**25,002,911**	**24,591,883**
Funds withheld	941,982	888,118
Contract deposits	–	1,717
Total investments	**25,944,893**	**25,481,718**
Reinsurance recoverables on unpaid claims	1,010,970	1,168,791
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	168,955	137,670
Reinsurance recoverables on other reserves	529	439
Deferred acquisition costs	576,757	491,354
Accounts receivable	2,267,337	1,702,357
Other assets in the segment	1,556,562	1,508,210
Assets held for sale	–	11,226
Total assets	**31,526,003**	**30,501,765**

Segmentation of liabilities		
in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	19,473,256	18,847,749
Benefit reserve	–	–
Unearned premium reserve	2,703,114	2,297,054
Provisions for contingent commissions	126,402	129,343
Funds withheld	393,076	429,168
Contract deposits	7,397	11,098
Reinsurance payable	643,753	674,469
Long-term liabilities	286,758	227,130
Other liabilities in the segment	1,897,127	1,822,435
Total liabilities	**25,530,883**	**24,438,446**

Life and health reinsurance		Consolidation		Total	
30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013
196,493	197,857	118,501	117,521	2,287,751	2,666,787
69,664	71,714	–	26,035	2,999,477	3,209,100
6,093,942	5,768,474	281,280	413,440	23,284,846	22,409,892
–	–	–	–	31,676	28,980
59,124	68,706	13,615	19,280	111,751	106,143
119,177	105,232	2,112	1,260	2,484,894	2,262,266
216,024	190,898	562	90,558	495,262	549,138
202,649	208,641	6,601	3,743	686,998	642,936
6,957,073	**6,611,522**	**422,671**	**671,837**	**32,382,655**	**31,875,242**
13,738,145	13,379,713	–	–	14,680,127	14,267,831
78,245	73,824	–	–	78,245	75,541
20,773,463	**20,065,059**	**422,671**	**671,837**	**47,141,027**	**46,218,614**
272,464	236,532	(1,521)	(1,519)	1,281,913	1,403,804
480,706	344,154	–	–	480,706	344,154
1,600	1,434	(191)	(65)	170,364	139,039
2,809	6,454	–	–	3,338	6,893
1,188,651	1,181,040	1	4	1,765,409	1,672,398
1,235,064	1,243,469	(289)	(141)	3,502,112	2,945,685
613,042	551,240	(1,079,029)	(885,719)	1,090,575	1,173,731
–	–	–	–	–	11,226
24,567,799	**23,629,382**	**(658,358)**	**(215,603)**	**55,435,444**	**53,915,544**

3,037,915	2,820,702	(1,521)	(1,519)	22,509,650	21,666,932
11,012,240	10,631,512	(62)	(61)	11,012,178	10,631,451
121,812	108,443	–	–	2,824,926	2,405,497
137,246	140,228	–	–	263,648	269,571
284,482	218,858	–	–	677,558	648,026
5,540,870	5,558,834	–	–	5,548,267	5,569,932
369,617	397,326	(196)	(141)	1,013,174	1,071,654
–	–	1,490,890	2,237,830	1,777,648	2,464,960
1,919,839	1,690,822	(1,081,189)	(855,763)	2,735,777	2,657,494
22,424,021	**21,566,725**	**407,922**	**1,380,346**	**48,362,826**	**47,385,517**

Segment statement of income

in EUR thousand	Non-life reinsurance 1.1.–30.6.2014	Non-life reinsurance 1.1.–30.6.2013
Gross written premium	4,078,141	4,097,077
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	4,078,141	4,097,077
Net premium earned	3,370,248	3,403,903
Net investment income	398,849	363,113
thereof		
Change in fair value of financial instruments	3,238	(39,120)
Total depreciation, impairments and appreciation of investments	10,226	8,150
Income/expense on funds withheld and contract deposits	9,460	7,920
Claims and claims expenses	2,332,410	2,335,942
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	782,667	790,993
Administrative expenses	96,839	93,393
Other income and expenses	(36,212)	2,411
Operating profit/loss (EBIT)	**520,969**	**549,099**
Interest on hybrid capital	–	–
Net income before taxes	**520,969**	**549,099**
Taxes	148,475	153,987
Net income	**372,494**	**395,112**
thereof		
Non-controlling interest in profit or loss	24,549	32,999
Group net income	**347,945**	**362,113**

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

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.

Life and health reinsurance		Consolidation		Total	
1.1.–30.6.2014	1.1.–30.6.2013 [1]	1.1.–30.6.2014	1.1.–30.6.2013	1.1.–30.6.2014	1.1.–30.6.2013 [1]
2,986,851	3,129,683	(100)	(98)	7,064,892	7,226,662
100	98	(100)	(98)	–	–
2,986,751	3,129,585	–	–	7,064,892	7,226,662
2,468,950	2,787,340	162	276	5,839,360	6,191,519
299,526	315,637	9,130	10,248	707,505	688,998
6,641	1,394	118	203	9,997	(37,523)
110	15	–	–	10,336	8,165
165,485	179,629	–	–	174,945	187,549
2,076,702	2,216,362	(11)	(4)	4,409,101	4,552,300
14,698	51,361	(1)	106	14,697	51,467
432,539	607,924	–	(14)	1,215,206	1,398,903
88,879	77,782	153	823	185,871	171,998
(876)	(15,736)	(1,216)	525	(38,304)	(12,800)
154,782	**133,812**	**7,935**	**10,138**	**683,686**	**693,049**
–	–	48,847	63,041	48,847	63,041
154,782	**133,812**	**(40,912)**	**(52,903)**	**634,839**	**630,008**
29,158	32,668	(21,978)	(14,663)	155,655	171,992
125,624	**101,144**	**(18,934)**	**(38,240)**	**479,184**	**458,016**
10,213	1,527	–	–	34,762	34,526
115,411	99,617	(18,934)	(38,240)	444,422	423,490

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	30.6.2014	31.12.2013
Regional origin		
Germany	5,738,597	6,125,564
United Kingdom	2,484,681	2,396,053
France	1,604,856	1,644,587
Other	7,102,561	7,377,339
Europe	**16,930,695**	**17,543,543**
USA	8,896,998	8,478,865
Other	1,395,510	1,300,371
North America	**10,292,508**	**9,779,236**
Asia	1,581,082	1,275,917
Australia	2,290,575	2,081,609
Australasia	**3,871,657**	**3,357,526**
Africa	325,516	321,665
Other	962,279	873,272
Total	**32,382,655**	**31,875,242**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.6.2014		31.12.2013	
	Amortised cost [1]	Fair value	Amortised cost [1]	Fair value
Held to maturity				
due in one year	678,313	692,948	587,925	594,854
due after one through two years	933,466	973,431	1,062,548	1,114,378
due after two through three years	296,590	319,519	513,930	546,127
due after three through four years	61,253	63,952	140,576	148,806
due after four through five years	54,394	56,792	95,480	98,983
due after five through ten years	262,528	296,058	264,473	286,236
due after more than ten years	1,207	1,470	1,855	2,255
Total	**2,287,751**	**2,404,170**	**2,666,787**	**2,791,639**
Loans and receivables				
due in one year	219,510	221,318	237,228	240,952
due after one through two years	204,158	211,553	220,144	228,825
due after two through three years	523,840	557,600	376,062	399,698
due after three through four years	49,620	53,410	280,019	298,656
due after four through five years	154,995	166,490	141,240	149,437
due after five through ten years	1,103,412	1,234,318	1,106,317	1,184,496
due after more than ten years	743,942	872,398	848,090	923,723
Total	**2,999,477**	**3,317,087**	**3,209,100**	**3,425,787**
Available for sale				
due in one year [2]	3,168,916	3,180,059	3,095,796	3,103,923
due after one through two years	2,640,743	2,689,242	2,789,025	2,838,390
due after two through three years	2,482,978	2,548,848	1,848,794	1,899,960
due after three through four years	2,565,701	2,639,347	2,318,986	2,384,389
due after four through five years	2,601,701	2,667,941	2,700,046	2,728,465
due after five through ten years	7,266,628	7,684,093	7,765,540	7,896,895
due after more than ten years	2,809,167	3,057,576	2,657,402	2,749,944
Total	**23,535,834**	**24,467,106**	**23,175,589**	**23,601,966**
Financial assets at fair value through profit or loss				
due in one year	4,764	4,764	8,339	8,339
due after one through two years	2,147	2,147	4,337	4,337
due after two through three years	11,311	11,311	2,182	2,182
due after three through four years	19,322	19,322	5,991	5,991
due after four through five years	38	38	–	–
due after five through ten years	139	139	–	–
due after more than ten years	12,699	12,699	15,212	15,212
Total	**50,420**	**50,420**	**36,061**	**36,061**

[1] Including accrued interest

[2] Including short-term investments and cash

Notes

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	30.6.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	393,133	13,422	–	7,883	414,438
US treasury notes	357,223	7,421	–	2,019	366,663
Other foreign government debt securities	28,462	305	–	90	28,857
Debt securities issued by semi-governmental entities	423,530	19,848	90	5,623	448,911
Corporate securities	230,408	10,915	226	3,941	245,038
Covered bonds/asset-backed securities	820,637	64,824	–	14,802	900,263
Total	**2,253,393**	**116,735**	**316**	**34,358**	**2,404,170**

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	30.6.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,700,464	204,793	–	27,895	1,933,152
Corporate securities	368,342	18,182	755	6,398	392,167
Covered bonds/asset-backed securities	876,377	95,390	–	20,001	991,768
Total	**2,945,183**	**318,365**	**755**	**54,294**	**3,317,087**

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	30.6.2014				
	Amortised cost	Unrealised gains	Unrealised losses	Accrued interest	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	1,747,504	87,883	2,780	19,510	1,852,117
US treasury notes	2,104,905	23,355	6,024	4,729	2,126,965
Other foreign government debt securities	1,646,225	13,211	14,719	15,118	1,659,835
Debt securities issued by semi-governmental entities	3,815,097	189,354	6,226	37,915	4,036,140
Corporate securities	10,114,646	469,786	30,705	131,765	10,685,492
Covered bonds/asset-backed securities	2,618,811	197,032	6,921	25,756	2,834,678
Investment funds	71,593	18,099	73	–	89,619
	22,118,781	**998,720**	**67,448**	**234,793**	**23,284,846**
Equity securities					
Shares	12,203	7,646	1	–	19,848
Investment funds	8,011	3,817	–	–	11,828
	20,214	**11,463**	**1**	**–**	**31,676**
Short-term investments	492,922	–	–	2,340	495,262
Total	**22,631,917**	**1,010,183**	**67,449**	**237,133**	**23,811,784**

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	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	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	14,552	23,863	123	596	14,675	24,459
Covered bonds/asset-backed securities	35,561	11,547	184	55	35,745	11,602
	50,113	**35,410**	**307**	**651**	**50,420**	**36,061**
Other financial assets						
Derivatives	61,331	70,082	–	–	61,331	70,082
	61,331	**70,082**	**–**	**–**	**61,331**	**70,082**
Total	**111,444**	**105,492**	**307**	**651**	**111,751**	**106,143**

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.

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	25,000	23,309,801	465	23,335,266
Equity securities	31,668	–	8	31,676
Other financial assets – at fair value through profit or loss	–	61,331	–	61,331
Other invested assets	–	39,981	1,311,928	1,351,909
Short-term investments	495,262	–	–	495,262
Other assets	–	866	–	866
Total financial assets	**551,930**	**23,411,979**	**1,312,401**	**25,276,310**
Other liabilities	–	47,374	76,108	123,482
Total financial liabilities	**–**	**47,374**	**76,108**	**123,482**

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.–30.6.2014			
	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	62	–	5,561	–
Net book value after currency translation	**5,241**	**8**	**1,205,412**	**68,827**
Income and expenses				
recognised in the statement of income	–	–	2,107	(1,212)
recognised directly in shareholders' equity	–	–	45,515	–
Purchases	–	–	131,520	7,910
Sales	586	–	73,576	–
Settlements	4,118	–	–	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 30 June of the year under review	(72)	–	950	583
Closing balance at 30 June of the year under review	**465**	**8**	**1,311,928**	**76,108**

Movements in level 3 financial assets and liabilities at fair value

in EUR thousand	1.1.–30.6.2013			
	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	164	–	5,504	–
Net book value after currency translation	**27,493**	**8**	**1,067,457**	**54,812**
Changes in the consolidated group	(7,276)	–	(8,973)	–
Income and expenses				
recognised in the statement of income	1,155	–	(1,930)	236
recognised directly in shareholders' equity	–	–	13,359	–
Purchases	–	–	97,190	5
Sales/Settlements	16,522	–	65,578	–
Transfers to level 3	–	–	–	–
Transfers from level 3	–	–	–	–
Currency translation at 30 June of the year under review	5	–	592	444
Closing balance at 30 June of the year under review	**4,855**	**8**	**1,102,117**	**55,497**

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.–30.6.2014		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	–	3,442	1,212
Total depreciation, impairments and appreciation of investments	–	(1,335)	–
Thereof attributable to financial instruments included in the portfolio at 30 June of the year under review			
Change in fair value of financial instruments	–	3,442	1,212
Total depreciation, impairments and appreciation of investments	–	(1,335)	–

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

in EUR thousand	1.1.–30.6.2013		
	Fixed-income securities	Other invested assets	Other liabilities
Total in the financial year			
Change in fair value of financial instruments	1,155	359	(236)
Total depreciation, impairments and appreciation of investments	–	(2,289)	–
Thereof attributable to financial instruments included in the portfolio at 30 June of the year under review			
Change in fair value of financial instruments	1,155	359	(236)
Total depreciation, impairments and appreciation of investments	–	(2,289)	–

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 1,312.4 million (EUR 1,205.0 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,207.4 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 105.0 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 660.9 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 640.8 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 Annual General Meeting of Hannover Rück SE resolved on 7 May 2014 that a dividend of EUR 3.00 per share should be paid for the 2013 financial year. This corresponds to a total distribution of EUR 361.8 million (EUR 361.8 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 21,608 (18,750) treasury shares during the second quarter of 2014 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2018. This transaction resulted in an expense of EUR 0.4 million (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 June 2014.

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 18.2 million (EUR 29.2 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.–30.6.2014	1.1.–30.6.2013
Regional origin		
Germany	757,249	759,808
United Kingdom	1,230,916	1,270,731
France	303,827	371,115
Other	830,339	921,778
Europe	**3,122,331**	**3,323,432**
USA	1,553,486	1,723,533
Other	332,908	340,843
North America	**1,886,394**	**2,064,376**
Asia	1,081,378	781,171
Australia	468,944	400,576
Australasia	**1,550,322**	**1,181,747**
Africa	134,257	242,996
Other	371,588	414,111
Total	7,064,892	7,226,662

6.2 Investment income

Investment income

in EUR thousand	1.1.–30.6.2014	1.1.–30.6.2013
Income from real estate	40,899	31,312
Dividends	1,974	1,538
Interest income	462,744	491,521
Other income	(15,474)	(20,770)
Ordinary investment income	**490,143**	**503,601**
Profit or loss on shares in associated companies	4,307	6,240
Appreciation	–	261
Realised gains on investments	99,847	95,740
Realised losses on investments	11,349	11,242
Change in fair value of financial instruments	9,997	(37,523)
Impairments on real estate	9,001	6,134
Impairments on equity securities	–	3
Impairments on participating interests and other financial assets	1,335	2,289
Other investment expenses	50,049	47,202
Net income from assets under own management	**532,560**	**501,449**
Interest income on funds withheld and contract deposits	238,385	255,391
Interest expense on funds withheld and contract deposits	63,440	67,842
Total investment income	707,505	688,998

The impairments totalling EUR 1.3 million (EUR 2.3 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 0.3 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.–30.6.2014	1.1.–30.6.2013
Fixed-income securities – held to maturity	43,862	59,515
Fixed-income securities – loans and receivables	54,083	60,304
Fixed-income securities – available for sale	357,803	360,554
Financial assets – at fair value through profit or loss	420	513
Other	6,576	10,635
Total	**462,744**	**491,521**

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 3.4 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 6.9 million (EUR 5.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 4.1 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 27.4 million (EUR 34.1 million) and other financial assets at fair value through profit or loss in an amount of EUR 0.0 million (EUR 1.4 million).

In order to hedge the risk of share price changes in connection with the stock appreciation rights granted under the share award plan, Hannover Re took out hedges in the first quarter of 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 0.9 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 0.4 million; ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

The net changes in the fair value of the aforementioned instruments resulted in an improvement of EUR 1.0 million in the result of the period under review (30 June 2013: charge to the result of EUR 34.0 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 57.0 million as at 30 June 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 85.6 million (31 December 2013: EUR 78.0 million) were recognised under other liabilities as at the balance sheet date.

Of this amount, EUR 76.1 million (31 December 2013: EUR 68.8 million) is attributable to a number of transactions in the Life & 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 1.2 million (30 June 2013: charge against investment income of EUR 0.2 million).

Of the derivatives carried on the assets side, fair values of EUR 50.2 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 4.6 million before tax as at 30 June 2014 (30 June 2013: EUR 0.8 million).

Financial guarantees

Structured transactions were entered into in the life and health reinsurance segment in order to finance statutory reserves (so-called Triple-X or AXXX reserves) associated with the US business of some of our 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 2,287,6 million (EUR 1,372.2 million); an amount equivalent to EUR 1,332.2 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.–30.6.2014		1.1.–30.6.2013	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Non-life reinsurance	254,481	40,396	283,491	51,699
Life and health reinsurance	75,717	13,186	94,481	11,557
	330,198	53,582	377,972	63,256
Business ceded				
Non-life reinsurance	(5,714)	(2,484)	(3,681)	178
Life and health reinsurance	(27,569)	(2,634)	(27,291)	(4,962)
	(33,283)	(5,118)	(30,972)	(4,784)
Total	**296,915**	**48,464**	**347,000**	**58,472**

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 47.5 million (EUR 48.3 million) including accrued interest of EUR 0.6 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 2,443 during the period under review (average in 2013: 2,376).

As at the balance sheet date altogether 2,468 (2,419) staff were employed by the Hannover Re Group, with 1,256 (1,219) employed in Germany and 1,212 (1,200) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1.–30.6.2014	1.1.–30.6.2013 [1]
Group net income in EUR thousand	444,422	423,490
Weighted average of issued shares	120,596,774	120,596,821
Basic earnings per share in EUR	3.69	3.51
Diluted earnings per share in EUR	3.69	3.51

[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.

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 2014 and sold them to eligible employees. The weighted average number of shares does not include 21,608 (18,750) treasury shares pro rata temporis for the duration of the holding period. 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 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 30 June 2014 was EUR 1,687.2 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 2,782.1 million (EUR 2,748.1 million) and EUR 21.7 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 543.9 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 2,579.0 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 2,776.9 million (EUR 2,895.1 million).

In addition, we keep own investments with a book value of EUR 49.2 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 1.6 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 580.3 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 618.0 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 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 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

On 17 July 2014 Malaysia Airlines flight MH17, a passenger plane en route from Amsterdam to Kuala Lumpur, came down near the Ukraine-Russia border to the east of the city of Donetsk, Ukraine. In addition, we anticipate further losses from armed clashes around Tripoli airport in Libya. Hannover Re expects significant major loss expenditure from these events in the third quarter, although based on the information currently available the loss amount should be comfortably covered by the unused portion of the major loss budget in the first half of the year.

In a press release dated 2 July 2014 Hannover Re reported on the completion of a new transaction effective 1 July 2014 as part of its extended insurance-linked securities (ILS) activities. Hannover Rück SE has transferred named storm risks to the capital markets via Alamo Re Ltd., a special purpose insurer domiciled in Bermuda. The assumed risks are limited to the state of Texas. The amount of capital made available by institutional investors is USD 400.0 million. This catastrophe bond matures in approximately three years.

Hannover, 6 August 2014

Executive Board

Wallin Althoff Arrago Chèvre

Gräber Dr. Miller Dr. Pickel Vogel