somewhat different

Interim Report 3/2015

hannover re®

Key figures

in EUR million	2015					2014		
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.	31.12.
Results								
Gross written premium	8,586.5	4,359.4	+19.8%	12,945.9	+20.9%	3,639.6	10,704.5	
Net premium earned	7,019.4	3,810.7	+21.9%	10,830.1	+20.8%	3,126.8	8,966.1	
Net underwriting result	(39.9)	(32.9)		(72.8)		(26.3)	(11.8)	
Net investment income	798.8	426.0	+2.9%	1,224.7	+9.2%	413.8	1,121.3	
Operating profit (EBIT)	789.4	400.9	-1.5%	1,190.3	+9.1%	407.1	1,090.8	
Group net income	531.9	254.1	+1.2%	786.0	+13.0%	251.0	695.4	
Balance sheet								
Policyholders´ surplus	9,839.5			9,917.9	-3.1%			10,239.5
Equity attributable to shareholders of Hannover Rück SE	7,672.6			7,735.9	+2.5%			7,550.8
Non-controlling interests	677.4			692.2	-1.4%			702.2
Hybrid capital	1,489.5			1,489.7	-25.0%			1,986.5
Investments (excl. funds withheld by ceding companies)	37,399.6			37,703.0	+4.1%			36,228.0
Total assets	64,962.7			63,749.8	+5.4%			60,457.6
Share								
Earnings per share (basic and diluted) in EUR	4.41	2.11	+1.2%	6.52	+13.0%	2.08	5.77	
Book value per share in EUR	63.62			64.15	+2,5%		58.01	62.61
Share price at the end of the period in EUR	86.79			91.54	+22,1%		64.02	74.97
Market capitalisation at the end of the period	10,466.6			11,039.5	+22,1%		7,720.6	9,041.2
Ratios								
Combined ratio (property and casualty reinsurance)[1]	95.4%	95.8%		95.5%		95.8%	95.3%	
Large losses as percentage of net premium earned (property and casualty reinsurance)[2]	5.1%	11.5%		7.3%		7.9%	4.7%	
Retention	88.3%	87.3%		87.9%		85.7%	87.0%	
Return on investment[3] (excl. funds withheld by ceding companies)	3.4%	3.7%		3.5%		3.8%	3.4%	
EBIT margin[4]	11.2%	10.5%		11.0%		13.0%	12.2%	
Return on equity (after tax)	14.0%	13.2%		13.7%		15.0%	14.4%	

[1] Including funds withheld
[2] Hannover Re Group´s net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned
[3] Excluding effects from ModCo derivatives and inflation swaps
[4] Operating result (EBIT) / net premium earned

Ulrich Wallin,
Chairman of the
Executive Board

Dear shareholders, ladies and gentlemen,

The headline for our strategy, as we have already stated, reads "Long-term success in a competitive business". The development of our business in the first nine months of the current year reflects this strategic motto very well. Competition in our two business groups of Property & Casualty and Life & Health reinsurance remains very intense. Furthermore, the sustained low interest rate environment continues to put pressure on our investment income. Nevertheless, we were able to boost the already very good result of the previous year's comparable period by another 13 percent to EUR 786 million. The basis of this improved performance consists in part of the remarkable growth in our gross premium income, which gained 10 percent adjusted for exchange rate effects. It is pleasing to note that both Property & Casualty and Life & Health reinsurance made positive contributions to the premium growth as well as the increased profitability. The results posted in the two business groups received substantial support from the investment income, which was again highly satisfactory. Investment income from assets under own management grew by more than 11 percent to EUR 932 million.

A particularly notable highlight in the third quarter was the Federal Financial Supervisory Authority's approval of our internal capital model for calculation of the capital requirements for underwriting and investment risks under Solvency II. Effective 1 January 2016, therefore, we are permitted to use our internal capital model to determine the solvency of the Hannover Re Group under the Solvency II regime. This is in conformity with our risk management approach, under which the company's acceptance of risks has for some years now been managed in accordance with our internal capital model.

I would like now to take a somewhat closer look at the development of our two business groups and the investment portfolio:

In Property & Casualty reinsurance we continue to see fierce competition, as a consequence of which reinsurance prices have been broadly declining for some time now. We also noted, however, that in the mid-year renewals, i. e. as at 1 June and 1 July, the rate erosion was somewhat more modest than it had been twelve months earlier. This is due in part to stronger demand for reinsurance, especially in relation to natural catastrophe risks. Although it is too soon to identify a trend reversal here, it nevertheless justifies the expectation that reinsurance prices may show further tendencies towards stabilisation in the renewals as at 1 January 2016.

The strain on reinsurance markets from natural catastrophe losses was once again very slight in the first nine months of the current year, and natural catastrophe reinsurance continues to deliver very healthy profits. There can be no doubt that this is a major driver of the protracted soft market.

On the other hand, a sizeable number of large losses not caused by natural disasters were observed in the period under review. These primarily involve fire and marine losses, with the largest single event being the devastating series of explosions at the Port of Tianjin in China. Against this backdrop, the net expenditure for major losses incurred by your company as at 30 September 2015 increased from EUR 242 million in the comparable period to EUR 436 million. This figure is, however, still comfortably within our pro-rata major loss budget for the period in question. We were therefore able to keep the combined ratio broadly stable at 95.5 percent (previous year: 95.3 percent). In view of the considerable increase in premium volume, this also meant that the underwriting profit rose by 12 percent. The other earnings indicators also fared well: the operating profit (EBIT) climbed by almost 11 percent to EUR 936 million and Group net income improved by as much as 16 percent to EUR 651 million.

Given the prevailing soft market, the currency-adjusted increase of 10 percent in the gross premium booked in property and casualty reinsurance is particularly remarkable. It can be attributed principally to the stronger demand that we are seeing from our cedants for customised reinsurance solutions. This is reflected in the fact that we have been able to write a number of large-volume new treaties in 2015. For some years now we have also focused especially closely on the reinsurance of agricultural risks, an area in which we have built a team of experts. This business has played a pleasing part in the premium growth. The same is true of our specialty department for the transfer of underwriting risks to capital markets. We were exceptionally successful here in the period under review. In our assessment, therefore, we can assert that our strong growth in property and casualty reinsurance does not run contrary to our practice of cycle management, since it is not the product of an aggressive pricing policy.

In our Life & Health reinsurance business group we increased the net result by almost 7 percent for the period under review to EUR 178 million. This reflects rather contradictory developments in the various business segments. In the area of financing solutions, for example, we achieved very pleasing results – especially in the United States. This was also true of the substantially improved profitability in Australia, where we have largely put behind us the problems associated with the disability portfolio. The performance of the US mortality portfolio, on the other hand, fell short of our expectations, particularly because a substantial block of business acquired in 2009 continues to post poor results. This effect was not entirely offset by the very favourable new business written. Results also deteriorated in the business booked by our branch in France. I am, however, pleased to report that we have successfully implemented improvement measures for those areas of life and health reinsurance that are failing to live up to our expectations. Special mention should be made here of US mortality business, where we closed a transaction in the third quarter that will substantially reduce our collateral costs from the fourth quarter onwards and also promises significantly improved profitability in the coming years.

As demonstrated by the currency-adjusted growth of 10 percent in the premium volume, we are increasingly able to successfully leverage new business opportunities. This is especially true of longevity business, but also applies to – among other things – the reinsurance of so-called lifestyle insurance products, an area in which we have already recorded considerable growth in Australia, South Africa and North America.

The performance of our investments was, as mentioned at the outset, highly satisfactory. Despite the sustained low level of interest rates, we generated an annualised average return on our assets under own management of 3.5 percent. Investment income rose by 12 percent to EUR 932 million. Pleasing increases in regular income from our growing real estate portfolio were particularly significant here. A special effect in life and health reinsurance, which as reported occurred in the first quarter, also played a part. Not least thanks to the continued gratifying positive cash flow, the portfolio of investments increased relative to the position as at 31 December 2014: it climbed from EUR 36.2 billion to EUR 37.7 billion, even though the valuation reserves showed a further decline owing to higher risk premiums on corporate bonds and despite the dividend of EUR 513 million that we paid in the second quarter. Your company's shareholders' equity increased by around 3 percent to EUR 7.7 billion as at 30 September 2015 despite the aforementioned dividend payment. The annualised return on equity stood at a pleasing 13.7 percent and is thus comfortably above our minimum target. The book value per share rose to EUR 64.15.

On announcing the results for the first half-year we had, as you doubtless recall, raised our full-year guidance for Group net income to a figure in the order of EUR 950 million. This target is robustly supported by the very good results for the first nine months. As you are aware, our forecast is always subject to the proviso that major loss expenditure does not significantly exceed the expected level of EUR 690 million and that there are no adverse developments on capital markets.

I would like to thank you – also on behalf of my colleagues on the Executive Board – most sincerely for your trust in Hannover Re. Going forward, as in the past, our paramount concern will be to lead your company responsibly and securely into a future of continued sustained profitability.

Yours sincerely,

Ulrich Wallin
Chairman of the Executive Board

Interim management report

Report on economic position

Business development

- Very good Group net income as at 30 September 2015
- Premium growth better than planned
- Pleasing investment income – well on track to generate the target return
- On course to achieve the full-year target for Group net income

We are thoroughly satisfied with the development of our business as at 30 September 2015. Although market conditions for reinsurers – especially in property and casualty reinsurance – remain challenging owing to marked competition, we generated good results thanks to our positioning. Our investments also fared well, with all business segments therefore playing a part in the pleasing Group net income reported for the first nine months.

Gross written premium for our total business surged appreciably by 20.9% as at 30 September 2015 to EUR 12.9 billion (EUR 10.7 billion); at constant exchange rates, growth would have come in at 10.0%. This figure puts us ahead of our expectations going into the financial year. The level of retained premium rose to 87.9% (87.0%). Net premium earned climbed by 20.8% to EUR 10.8 billion (EUR 9.0 billion); growth would have amounted to 10.0% at constant exchange rates.

In view of the continued low interest rate environment, we are highly satisfied with the development of our investments. Our portfolio of assets under own management is above the level of 31 December 2014 (EUR 36.2 billion) at EUR 37.7 billion. With yields largely unchanged or at most showing slight declines in the medium-term maturity range, the increase was driven primarily by effects associated with the appreciation of various currencies – and in this context especially the US dollar – against the euro. Despite the broadly sustained low interest rate environment, ordinary investment income excluding interest on deposits was sharply up on the comparable period at EUR 912.5 million (EUR 791.8 million). This includes not only increased earnings from fixed-income securities but also sharply higher income from our real estate investments and a special effect in life and health reinsurance. Interest on deposits increased to EUR 292.9 million (EUR 285.3 million).

Net realised gains on disposals were slightly lower than in the corresponding period of the previous year at EUR 124.2 million (EUR 137.4 million). They derived in large measure from disposals due to the planned changeover in the functional currency of our Irish subsidiary to the US dollar and from regrouping activities in connection with the expansion of the asset classes fixed income enhancements and emerging markets and also reflected initial moves to build an equity portfolio as well as regular portfolio maintenance. Fair value changes in our financial assets measured at fair value through profit or loss were negative on balance at EUR 9.2 million; in the comparable period the amount had similarly been negative at EUR 8.8 million. The impairments taken in the period under review were once again only very minimal.

Income from investments under own management showed pleasing growth as at 30 September 2015 to reach EUR 931.8 million (EUR 836.0 million) on the back of stronger ordinary income. The somewhat lower net realised gains and slightly higher impairment charges were thus comfortably offset. The annualised return generated on investments under own management (excluding ModCo derivatives and inflation swaps) stood at 3.5% (3.4%).

The operating profit (EBIT) as at 30 September 2015 for the Group as a whole was highly favourable at EUR 1.2 billion (EUR 1.1 billion), equivalent to growth of 9.1%. Group net income improved clearly by a further 13.0% on the already very good result of the previous year to reach EUR 786.0 million (EUR 695.4 million). Earnings per share amounted to EUR 6.52 (EUR 5.77).

The shareholders' equity of Hannover Re remained at a robust EUR 7.7 billion as at 30 September 2015 (31 December 2014: EUR 7.6 billion) despite the dividend payment of EUR 512.5 million. The book value per share amounted to EUR 64.15 (31 December 2014: EUR 62.61). The annualised return on equity for the first nine months stood at a good 13.7% (31 December 2014: 14.7%).

Results of operations, financial position and net assets

Property and casualty reinsurance

- Good growth potential in property and casualty reinsurance despite intense competition
- Major loss expenditure higher than in the comparable period, but still within budget
- Another very good underwriting result

Property and casualty reinsurance continues to be fiercely competitive, with the supply of reinsurance coverage still outstripping demand. The most important drivers here are the absence of market-changing large losses, the fact that ceding companies are retaining more risks for own account thanks to their healthy capital resources and the availability of additional capacities from the ILS market, especially in US natural catastrophe business. Taken together, these factors are putting prices and conditions under sustained pressure. A trend towards some easing of the premium erosion can nevertheless be observed in certain lines and markets.

This was also evident in the treaty renewals as at 1 June and 1 July 2015. Parts of the portfolio in North America, most agricultural risks and business from Latin America traditionally come up for renewal on these dates. Australian business is also renegotiated at this time of the year. We enjoyed considerable success here in view of the increased market share secured by our company. Yet in the other markets, too, we achieved satisfactory outcomes. In Latin America and the Caribbean, despite significant capacities in the natural catastrophe market for proportional and non-proportional covers, we were able to act on new business opportunities thanks to our extensive product range. In the highly competitive segment of agricultural risks we were similarly able to write attractive new business and expand our already good position. The rate reductions in North America were more modest than we had anticipated. This can be attributed to stronger demand driven by the improved state of the economy. Although we continued to practise our selective underwriting policy, our premium volume for North America increased as at 1 July 2015: we booked growth of altogether 8% for the portfolio renewed on 1 June / 1 July 2015.

All in all, we are highly satisfied with the premium growth in property and casualty reinsurance as at 30 September 2015. Gross premium climbed sharply by 20.8% to EUR 7.3 billion (EUR 6.1 billion). At constant exchange rates an increase of 9.8% would have been booked. The level of retained premium contracted to 88.8% (89.6%). Net premium earned rose by 16.9% to EUR 6.0 billion (EUR 5.1 billion); adjusted for exchange rate effects, growth would have amounted to 6.7%.

Although net expenditure on major losses – at EUR 436.4 million – was well within the budgeted figure of EUR 519 million for the first nine months, it was substantially higher than in the corresponding period of the previous year (EUR 242.2 million). What is striking here is an elevated frequency of smaller natural disasters and man-made losses, especially in fire and marine insurance. The third quarter, in particular, brought a number of costly loss events. The largest single loss for our company was the devastating series of explosions in the port of the Chinese city of Tianjin in August. This resulted in net expenditure of EUR 95.9 million for Hannover Re. The severe earthquake in Chile in September gave rise to a loss of EUR 43.6 million. Even against this backdrop, the combined ratio was very favourable at 95.5% (95.3%) – it is also comfortably within our target of staying below 96% for the full year. The underwriting result for property and casualty reinsurance as at 30 September 2015 closed at a very pleasing EUR 251.4 million (EUR 225.3 million).

Income from assets under own management in property and casualty reinsurance climbed to EUR 656.5 million (EUR 632.1 million). The operating profit (EBIT) for property and casualty reinsurance reached EUR 936.3 million (EUR 846.8 million) as at 30 September 2015, an increase of 10.6% relative to the figure for the comparable period. The EBIT margin of 15.7% (16.6%) thus comfortably surpassed our minimum target of 10%. Group net income grew by 16.1% to EUR 651.0 million (EUR 560.8 million). Earnings per share rose to EUR 5.40 (EUR 4.65).

Key figures for property and casualty reinsurance

in EUR million	2015					2014	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	4,972.2	2,347.1	+18.4%	7,319.4	+20.8%	1,981.9	6,060.0
Net premium earned	3,894.2	2,071.2	+19.4%	5,965.4	+16.9%	1,734.2	5,104.5
Underwriting result	170.9	80.5	+20.2%	251.4	+11.6%	66.9	225.3
Net investment income	425.2	247.7	-0.5%	672.8	+3.9%	248.8	647.6
Operating result (EBIT)	583.7	352.6	+8.2%	936.3	+10.6%	325.8	846.8
Group net income	418.4	232.6	+9.3%	651.0	+16.1%	212.9	560.8
Earnings per share in EUR	3.47	1.93	+9.3%	5.40	+16.1%	1.77	4.65
EBIT margin [1]	15.0%	17.0%		15.7%		18.8%	16.6%
Combined ratio [2]	95.4%	95.8%		95.5%		95.8%	95.3%
Retention	89.6%	87.3%		88.8%		86.6%	89.6%

[1] Operating result (EBIT)/net premium earned
[2] Including funds withheld

Interim management report

Life and health reinsurance

- Favourable development of gross premium
- Further attractive business opportunities

Overall, business in life and health reinsurance developed well as at 30 September 2015 within the bounds of our ambitious expectations.

Our business in Germany, Scandinavia and other Western European countries as well as the annuity portfolio in the United Kingdom generated pleasing profitability. By contrast, results in France and the rest of our UK business fell short of expectations. On balance, though, the result booked for these markets is on the level that we had anticipated.

Developments in US mortality business were mixed. Parts of the portfolio fared better than expected, while other lines failed to perform as we had anticipated. Consequently, our expectations in the reporting period just ended were not fully realised in this business segment. In September 2015, however, we were able to complete a restructuring of our collateral instruments, which should enable us to generate annual cost savings in the low double-digit millions over the coming years.

The performance of our "US Health and Special Risk" business was very much in line with our expectations. Results in US financial solutions business were slightly better than anticipated.

In Malaysia we cooperated with a technology partner to set up an online sales company which markets life insurance products through an Internet platform. All processes, including for example applications, underwriting and policy issue, are handled online. Using what is for this market an innovative business model, we have created a cost-effective, state-of-the-art sales channel. As the exclusive reinsurance partner we are also active as a financially robust risk carrier.

Gross written premium for life and health reinsurance as at 30 September 2015 amounted to EUR 5.6 billion (EUR 4.6 billion), equivalent to a very healthy increase of 21.1%. Growth would have totalled 10.1% at constant exchange rates. Net premium earned in the period under review surged by 26.0% to EUR 4.9 billion (EUR 3.9 billion); adjusted for exchange rates, growth of 14.3% would still have been generated. The retention rose to 86.8% (83.7%).

Investment income including interest on deposits totalled EUR 542.9 million (EUR 461.8 million) in the reporting period just ended. The performance of the ModCo derivatives, investments held for our account by US cedants, deteriorated in the reporting period relative to the corresponding period of the previous year to stand at -EUR 18.9 million (-EUR 1.6 million).

The operating profit (EBIT) in life and health reinsurance increased to EUR 246.3 million (EUR 233.9 million) as at 30 September 2015. The EBIT margin for our reporting categories of financial solutions/longevity stood at 9.4% - the target is 2% -, while for mortality/morbidity it amounted to 2.9%. In the latter case the target of 6% was not achieved. This was attributable firstly to a sizeable individual claim incurred under a life insurance policy and was also due to the fact that part of our mortality portfolio in the United States recorded poorer results that were not offset by the positive new business written. In addition, our branch in France reported profitability that fell short of expectations. Group net income for total life and health reinsurance business was boosted by 6.9%, rising to EUR 177.8 million (EUR 166.2 million). Earnings per share amounted to EUR 1.47 (EUR 1.38).

Key figures for life and health reinsurance

in EUR million	2015					2014	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Gross written premium	3,614.5	2,012.1	+21.4%	5,626.6	+21.1%	1,657.7	4,644.6
Net premium earned	3,124.8	1,739.3	+24.9%	4,864.1	+26.0%	1,392.4	3,861.4
Investment income	366.7	176.3	+8.6%	542.9	+17.6%	162.2	461.8
Operating result (EBIT)	200.0	46.2	-41.6%	246.3	+5.3%	79.1	233.9
Net income after tax	145.6	32.1	-36.7%	177.8	+6.9%	50.8	166.2
Earnings per share in EUR	1.21	0.27	-36.7%	1.47	+6.9%	0.42	1.38
Retention	86.5%	87.2%		86.8%		84.7%	83.7%
EBIT margin [1]	6.4%	2.7%		5.1%		5.7%	6.1%

[1] Operating result (EBIT)/net premium earned

Investments

- High-quality investment portfolio even more widely diversified through equity exposure
- Ordinary investment income sharply higher
- Return on investment well on track at 3.5%

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

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

The investment climate was once again challenging in the period under review and – against a backdrop of considerable volatility – was notable for a low level of interest rates overall but also in some cases increased risk premiums on corporate bonds. Modest declines in yields were again observed for German government bonds with shorter maturities. It therefore remains the case that German short- and medium-term debt is being sold at a negative return in net terms. Only in the medium-term maturity range were slight declines in yields observed for US Treasuries during the period under review. UK Gilts have remained practically unchanged over the year to date in the maturities relevant to our portfolio. Credit spreads on European and US corporate bonds showed relatively sharp increases in some instances, especially in the middle rating classes, although ultimately this also opened up buying opportunities in markets otherwise dominated by high prices. Capital markets were also driven by uncertainties surrounding a possible turnaround in US interest rates as well as diminishing confidence in the performance of the Chinese economy.

In total, the unrealised gains on our fixed-income securities decreased to EUR 1,258.5 million (EUR 1,743.6 million). Our portfolio of assets under own management reached a higher level than in the previous year at EUR 37.7 billion (31 December 2014: EUR 36.2 billion). This can be attributed primarily to effects associated with the appreciation of currencies – and especially the US dollar – against the euro, which offset lower valuation reserves due to higher risk premiums as well as cash outflows resulting from the dividend payment and a bond redemption. We further diversified the allocation of our assets to the individual classes of securities in the third quarter by starting to build an equity portfolio. In addition, we continued to expand our exposure to real estate and increased the proportion of the total portfolio attributable to high-yield bonds. The modified duration of our fixed-income portfolio changed only marginally relative to the previous year at 4.5 (4.6).

Despite the prevailing low level of interest rates, ordinary investment income excluding interest on deposits was considerably higher than in the corresponding period of the previous year at EUR 912.5 million (EUR 791.8 million). This can be attributed in part to the special income recognised from life and health reinsurance business but also to substantially higher earnings from fixed-income investments and real estate – with income booked in currencies that had appreciated against the euro an increasingly significant factor here. In addition, our exposure to high-yield investment funds played a very pleasing part. Interest on deposits also moved slightly higher to reach EUR 292.9 million (EUR 285.3 million).

Impairments of altogether just EUR 24.1 million (EUR 16.1 million) were taken. This includes impairments of EUR 2.4 million (EUR 0.0 million) on fixed-income securities and EUR 3.0 million (EUR 2.4 million) on alternative investments. An impairment loss of EUR 1.0 million (EUR 0.0 million) was taken on equities. The bulk of the write-downs were, however, due to scheduled depreciation taken on directly held real estate, which rose to EUR 16.8 million (EUR 13.7 million) – a reflection of our increasing involvement in this area. No write-ups (EUR 0.0 million) were made.

The net balance of gains realised on disposals stood at EUR 124.2 million (EUR 137.4 million) and was attributable in large measure to regrouping activities in connection with the provision of liquidity for dividend payments, the changeover in the functional currency of our Irish subsidiary to the US dollar as well as reallocations as part of the expansion of the asset classes fixed income enhancements and emerging markets.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised losses of EUR 18.9 million (-EUR 1.6 million) recognised in investment income. The inflation swaps taken out in 2010 to hedge part of the inflation risks associated with the loss reserves in our technical account no longer produced any unrealised gains or losses (-EUR 4.2 million) recognised in investment income because these contracts matured or were terminated in the course of the second quarter. In future, we shall maintain this protection solely by way of the bonds already included in the portfolio whose coupon payments are inflation-linked. Altogether, the unrealised losses on our assets recognised at fair value through profit or loss amounted to EUR 9.2 million (-EUR 8.8 million).

Our investment income including interest on deposits came in considerably higher than in the comparable period at EUR 1,224.7 million (EUR 1,121.3 million). In view of the low level of interest rates, we are highly satisfied to have been able to boost our ordinary investment income in part through increased earnings from fixed-income securities, although we also benefited from exchange rate movements. Stronger income from real estate and the special effect in life and health reinsurance were, however, further significant factors here. Slightly higher impairment charges and the somewhat lower realised gains were thus comfortably offset. Income from assets under own management totalled EUR 931.8 million (EUR 836.0 million), equivalent to an annualised average return (excluding effects from ModCo derivatives and inflation swaps) of 3.5%. Although the aforementioned special effect in life and health reinsurance is also reflected here, we are nevertheless very well on track not only to achieve but also to surpass the envisaged target of 3.0% for the full year.

Net investment income

in EUR million	2015					2014	
	1.1.–30.6.	1.7.–30.9.	+/– previous year	1.1.–30.9.	+/– previous year	1.7.–30.9.	1.1.–30.9.
Ordinary investment income [1]	598.7	313.8	+4.0%	912.5	+15.2%	301.7	791.8
Result from participations in associated companies	4.6	4.2		8.8	+61.0%	1.2	5.5
Realised gains/losses	66.6	57.5	+17.8%	124.2	-9.6%	48.9	137.4
Appreciation [2]	14.7	9.4	+61.8%	24.1	+49.3%	5.8	16.1
Change in fair value of financial instruments [3]	(1.6)	(7.6)		(9.2)		(18.8)	(8.8)
Investment expenses	52.3	28.1	+19.0%	80.4	+9.1%	23.6	73.7
Net investment income from assets under own management	601.3	330.5	+8.9%	931.8	+11.5%	303.5	836.0
Net investment income from funds withheld	197.4	95.5	-13.5%	292.9	+2.7%	110.3	285.3
Total investment income	**798.8**	**426.0**	**+2.9%**	**1,224.7**	**+9.2%**	**413.8**	**1,121.3**

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

Opportunity and risk report

Risk report

- We are well capitalised, and our available capital comfortably exceeds the required capital
- We are convinced that our risk management system gives us a transparent overview of the current risk situation at all times and that we are optimally prepared for Solvency II

Risk landscape of Hannover Re

In the context of its business operations the Hannover Re Group enters into a broad variety of risks. These risks are deliberately accepted, steered and monitored in order to be able to act on the associated opportunities. The parameters and decisions of the Executive Board with respect to the risk appetite of the Hannover Re Group, which are based on the calculations of risk-bearing capacity, are fundamental to the acceptance of risks. Through our business operations on all continents and the diversification between our Property & Casualty and Life & Health reinsurance business groups we are able to effectively allocate our capital in light of opportunity and risk considerations and generate a higher-than-average return on equity. Along with our principal business operations as a reinsurer of property & casualty and life & health business, we also transact primary insurance in selected niche markets as a complement to our core reinsurance business. With this approach we are well positioned for further profitable growth. In this context crucial importance attaches to our risk management in order to ensure that, among other things, risks to the reinsurance portfolio remain calculable and even exceptional major losses do not have an unduly adverse impact on the result. The risk landscape of Hannover Re encompasses:

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

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

Strategy implementation

We revised our corporate strategy in the previous year. It encompasses ten fundamental strategic principles which safeguard the realisation of our vision "Long-term success in a competitive business" across the various divisions. The following principles of the corporate strategy constitute the key strategic points of departure for our Group-wide risk management:

- We manage risks actively.
- We maintain an adequate level of capitalisation.
- We are committed to sustainability, integrity and compliance.

The risk strategy is derived from our corporate strategy. It forms the core element in our handling of opportunities and risks. The risk strategy specifies more closely the goals of risk management and documents our understanding of risk. We have defined ten overriding principles within our risk strategy:

1. We adhere to the risk appetite set by the Executive Board.
2. We integrate risk management into value-based management.
3. We promote an open risk culture and the transparency of our risk management system.
4. We strive for the highest ERM rating and the approval of our internal model.
5. We determine a materiality threshold for our risks.
6. We make use of appropriate quantitative methods.
7. We apply well-suited qualitative methods.
8. We allocate our capital risk-based.
9. We ensure the necessary separation of functions through our organisational structure.
10. We assess the risk contribution from new business areas and new products.

The risk strategy is similarly specified with an increasing degree of detail on the various levels of the company.

The risk strategy and the major guidelines derived from it, such as the Framework Guideline on Risk Management and the central system of limits and thresholds, are reviewed at least once a year. In this way we ensure that our risk management system is kept up-to-date.

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

Major external factors influencing risk management

Regulatory developments: Solvency II is a reform of insurance supervision law in Europe, the implementation of which on 1 January 2016 poses enormous challenges for the entire (re)insurance industry. Along with redefining capital requirements, Solvency II places additional demands on companies' internal management systems and on the information to be disclosed by undertakings to the regulator and the public at large. Further more specific aspects of Solvency II were defined in 2015 by a delegated regulation. Hannover Re has implemented the new requirements. In view of our internal target capitalisation with a confidence level of 99.97%, which comfortably exceeds the level of 99.5% envisaged for target capitalisation under Solvency II, the capital requirements of Solvency II do not present any additional hurdle for our company. The core functions of Solvency II – the risk management function, the actuarial function, the compliance function and the internal audit function – have been implemented along existing processes and organisational structures at Hannover Re. Additional staff had to be taken on and extra systems deployed as part of the launch phase, first and foremost in order to be able to meet internal and external reporting requirements.

Parallel to the regulatory developments in Europe, we are seeing adjustments worldwide to the regulation of (re)insurance undertakings. It is often the case that various local supervisory authorities take their lead from the principles of Solvency II or the requirements set out by the International Association of Insurance Supervisors (IAIS). Countries such as Switzerland have already been granted equivalence status.

Above and beyond this, further capital requirements for large, internationally operating (re)insurance groups are to be anticipated in the future. These requirements are under development by the IAIS and the Financial Stability Board (FSB).

Risk capital

In the interests of our shareholders and clients we strive to ensure that our risks remain commensurate with our capital resources. Our quantitative risk management provides a uniform framework for the evaluation and steering of all risks affecting the company as well as of our capital position. In this context, the internal capital model is our central tool. The internal capital model of the Hannover Re Group is a stochastic enterprise model. It covers all subsidiaries and business groups of the Hannover Re Group. The central variable in risk and enterprise management is the economic capital, which is calculated according to market-consistent measurement principles and in many respects corresponds to the own funds under Solvency II. Hannover Re's internal capital model reflects all risks that influence the development of the economic capital. They are split into underwriting risks, market risks, counterparty default risks and operational risks. For each of these risk classes we have identified a number of risk factors for which we define probability distributions. These risk factors include, for example, economic indicators such as interest rates, exchange rates and inflation indices, but also insurance-specific indicators such as the mortality of a particular age group within our portfolio of insureds in a particular country or the number of natural catastrophes in a certain region and the insured loss amount per catastrophe. The specification of the probability distributions for the risk factors draws upon historical and publically available data as well as on the internal data resources of the Hannover Re Group. The process is further supplemented by the know-how of internal and external experts. The fit of the probability distributions is regularly checked by our specialist departments, although more importantly it is also verified in the context of the regular, company-wide use of the capital model when assessing risks and allocating the cost of capital. Hannover Re calculates the required risk capital as the Value at Risk (VaR) of the economic change in value over a period of one year with a confidence level of 99.97%. This reflects the goal of not exceeding a one-year ruin probability of 0.03%. The internal target capitalisation of the Hannover Re Group is therefore significantly higher than the confidence level of 99.5% which will be required in future under Solvency II. It goes without saying that Hannover Rück SE also meets the current capital requirements set by regulators. The capital adequacy ratio of Hannover Rück SE under Solvency I stood at 136% as at 31 December 2014. Since the corresponding calculation is neither market-consistent nor risk-based a relevant comparison with the coverage ratio under the internal capital model is not possible.

After intensive preparations the Hannover Re Group has received approval from the Federal Financial Supervisory Authority (BaFin) to calculate its solvency requirements on the basis of its internal capital model when Solvency II is implemented. This model has already been used successfully for several years in the risk management and enterprise management of the Hannover Re Group. In contrast to a standard model, our internal capital model enables us to optimally map the risk structure of our reinsurance business and hence also to continue to efficiently fulfil our regulatory capital requirements under Solvency II. Our excess capital coverage at the target confidence level of 99.97% is currently very comfortable. Hannover Re is well capitalised and our available capital comfortably exceeds the currently required capital.

We hold additional capital above all to meet the requirements of the rating agencies for our target rating and to be able to act flexibly on business opportunities. We strive for a rating from the rating agencies most relevant to our industry that facilitates and secures our access to all reinsurance business worldwide. Hannover Re is analysed by the rating agencies Standard & Poor's (S & P) and A.M. Best as part of an interactive rating process, meaning that both these rating agencies are also given access to confidential information about Hannover Re. The current financial strength ratings are assessed as "AA-" (Very Strong, stable outlook) by Standard & Poor's and "A+" (Superior, stable outlook) by A.M. Best. Standard & Poor's evaluates Hannover Re's risk management as "Very Strong", the best possible rating. The ratings highlight, in particular, the company's very good risk management, the consistent and systematic implementation of corporate strategy by management and the excellent capital resources. Hannover Re's internal capital model is also examined as part of the rating. Based on this review, Standard & Poor's factors the results of the internal capital model of the Hannover Re Group into the determination of the target capital for the rating.

Organisation and processes of risk management

Hannover Re has set up risk management functions and bodies Group-wide to safeguard an efficient risk management system. The organisation and interplay of the individual functions in risk management are crucial to our internal risk steering and control system. The central functions of risk management are closely interlinked in our system and the roles, tasks and reporting channels are clearly defined and documented in terms of the so-called "3 lines of defence". The first line of defence consists of risk steering and the original risk responsibility on the divisional or company level. The second line of defence consists of the core functions of risk management, the actuarial function and the compliance function. These units are responsible for monitoring and control. The third line of defence is the process-independent monitoring performed by the internal audit function. The chart on the following page provides an overview of the central functions and bodies within the overall system as well as of their major tasks and powers.

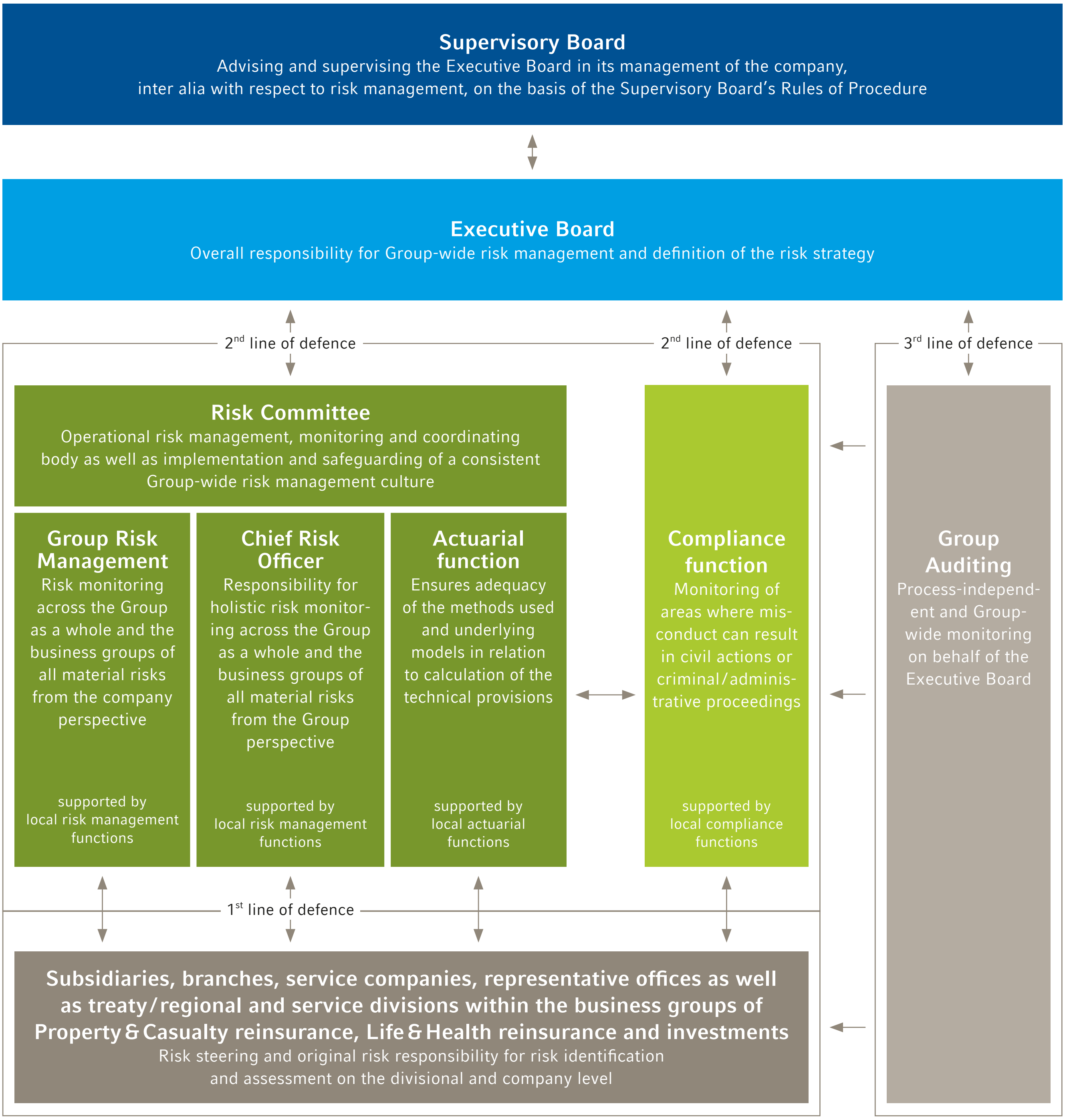
The risk management functions meet regularly, e. g. in the context of the Group Risk Management Meeting (GRiMM), in order to support Group-wide risk communication and establish an open risk culture.

Key elements of the risk management system

Our risk strategy, the Framework Guideline on Risk Management and the system of limits and thresholds for material risks of the Hannover Re Group describe the central elements of our risk management system. The risk management system is subject to a constant cycle of planning, action, control and improvement. Systematic risk identification, analysis, measurement, steering and monitoring as well as risk reporting are especially crucial to the effectiveness of the system as a whole.

The Framework Guideline on Risk Management describes, among other things, the major tasks, rights and responsibilities, the organisational framework conditions and the risk control process. The rules, which are derived from the corporate strategy and the risk strategy, additionally take account of the regulatory minimum requirements for risk management as well as international standards and developments relating to appropriate enterprise management.

Central functions of risk monitoring and steering



Risk-bearing capacity concept

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

Risk identification

A key source of information for monitoring risks is the risk identification carried out on a rotating basis. All identified risks are documented in the central register containing all material risks. Risk identification takes the form of, for example, structured assessments, interviews or scenario analyses. External insights such as recognised industry know-how from relevant bodies or working groups are incorporated into the process. Risk identification is important for ensuring that our risk management consistently remains up-to-date.

Risk analysis and assessment

In principle, every risk that is identified and considered material is quantitatively assessed. Only risk types for which quantitative risk measurement is currently impossible or difficult are qualitatively assessed (e. g. strategic risks or reputational risks). Qualitative assessment takes the form of inter alia expert evaluations. Quantitative assessment of material risks and the overall risk position is performed by Group Risk Management using the Hannover Re risk model. The model makes allowance as far as possible for risk accumulations and concentrations.

Risk steering

The steering of all material risks is the task of the operational business units on the divisional and company level. In this context, the identified and analysed risks are either consciously accepted, avoided or minimised. The risk / reward ratio and the required capital are factored into the division's decision. Risk steering is assisted by, among other things, the parameters of the central and local underwriting guidelines and by defined limits and thresholds.

Risk monitoring

The monitoring of all identified material risks is a core task of Group Risk Management. This includes, inter alia, monitoring execution of the risk strategy as well as adherence to the defined limits and thresholds and to risk-related methods and processes. A further major task of risk monitoring is the ascertainment of whether risk steering measures were carried out and whether the planned effect of the measures is sufficient.

Risk communication and risk culture

Risk management is firmly integrated into our operational processes. It is assisted by transparent risk communication and the open handling of risks as part of our risk culture. Risk communication takes the form, for example, of internal and external risk reports, information on current risk complexes in the intranet and training opportunities for staff. The regular sharing of information between risk-steering and risk-monitoring units is also fundamental to the proper functioning of risk management. This is rounded off by clearly defined interfaces between the various areas of the company.

Risk reporting

Our risk reporting provides systematic and timely information about all material risks and their potential implications. The central risk reporting system consists primarily of regular risk reports, e. g. on the overall risk situation, adherence to the parameters defined in the risk strategy or on the capacity utilisation of natural catastrophe scenarios. This also includes the company's annual "Own Risk and Solvency Assessment" (ORSA), which constitutes a central risk report. Complementary to the regular risk reporting, immediate internal reporting on material risks that emerge at short notice takes place as necessary. The already existing range of risk reports will be supplemented in the context of Solvency II implementation by further reports, including for example the "Regular Supervisory Report" (RSR) and the "Solvency and Financial Condition Report" (SFCR). The "RSR" was generated as part of the preparatory phase and accepted by the BaFin in the third quarter of 2015.

Process-integrated / -independent monitoring and quality assurance

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

Internal control system

We organise our business activities in such a way that they are always in conformity with all legal requirements. The internal control system (ICS) is an important subsystem that serves, among other things, to secure and protect existing assets, prevent and reveal errors and irregularities and comply with laws and regulations. The core elements of Hannover Re's ICS are documented in a Framework Guideline that establishes a common understanding of the differentiated execution of the necessary controls. In the final analysis, it is designed to systematically steer and monitor the implementation of our corporate strategy. The Framework Guideline defines concepts, stipulates responsibilities and provides a guide for the description of controls. In addition, it forms the basis for the accomplishment of internal objectives and the fulfilment of external requirements imposed on Hannover Re. The ICS consists of systematically structured organisational and technical measures and controls within the enterprise.

This includes, among other things:

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

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

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

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

Internal risk assessment

Hannover Re calculates the economic equity as the difference between the market-consistent value of the assets and the market-consistent value of the liabilities. The corresponding measurement principles also largely apply to the Intrinsic Value Creation (IVC), our performance indicator used for controlling purposes. While fair values are available for most investments, the market-consistent valuation of reinsurance treaties necessitates a specific valuation model. We establish the market-consistent value of technical items as the present value of projected payments using actuarial methods. This is adjusted by a risk loading that factors in the fluctuation in future payments. Such fluctuations result from risks that cannot be hedged by means of capital market products, such as underwriting risks. We use risk-free interest rates derived from yields on the highest-quality government bonds for discounting of our future cash flows. Market prices for options and guarantees embedded in insurance contracts are determined or approximated using option valuation models from the field of financial mathematics. The methods used are the same as those adopted in the calculation of our Market Consistent Embedded Value (MCEV). The significance of these options and guarantees in our portfolio is, however, minimal.

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

When it comes to aggregating the individual risks, we make allowance for dependencies between risk factors. Dependencies arise, for example, as a consequence of market shocks, such as the financial crisis, which simultaneously impact multiple market segments. What is more, several observation periods may be interrelated on account of market phenomena such as price cycles. In dealing with these dependencies, however, it is our assumption that not all extreme events occur at the same time. The absence of complete dependency is referred to as diversification. Hannover Re's business model is based inter alia on building up the most balanced possible portfolio so as to achieve the greatest possible diversification effects and in order to deploy capital efficiently. Diversification exists between individual reinsurance treaties, lines, business segments and risks. We define the cost of capital to be generated per business unit according to the capital required by our business segments and lines and based on their contribution to diversification.

Underwriting risks in property and casualty reinsurance

Risk management in property and casualty reinsurance has defined various overall guidelines for efficient risk steering. These include, among other things, the limited use of retrocessions to reduce volatility and conserve capital. It is also crucially important to consistently maximise the available risk capacities on the basis of the risk management parameters of the Hannover Re Group and to steer the acceptance of risks systematically through the existing central and local underwriting guidelines. Our conservative reserving level is a crucial factor in our risk management. We make a fundamental distinction between risks that result from business operations of past years (reserve risk) and those stemming from activities in the current or future years (price / premium risk). In the latter case, special importance attaches to the catastrophe risk. Diversification within the Property & Casualty reinsurance business group is actively managed through allocation of the cost of capital according to the contribution made to diversification. A high diversification effect arises out of the underwriting of business in different lines and different regions with different business partners.

The reserve risk, i. e. the risk of under-reserving losses and the resulting strain on the underwriting result, is the overriding priority in our risk management. We attach the utmost importance to a conservative reserving level and therefore traditionally have a high confidence level. In order to counter the risk of under-reserving we calculate our loss reserves based on our own actuarial estimations and establish, where necessary, additional reserves supplementary to those posted by our cedants as well as the segment reserve for losses that have already occurred but have not yet been reported to us.

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

In order to partially hedge inflation risks Hannover Re has taken out bonds with inflation-linked coupon payments that protect parts of the loss reserves against inflation risks. An inflation risk exists particularly inasmuch as the liabilities (e. g. loss reserves) could develop differently than assumed at the time when the reserve was constituted because of inflation.

Licensed scientific simulation models, supplemented by the expertise of our own specialist departments, are used to assess our material catastrophe risks from natural hazards (especially earthquake, windstorm and flood). Furthermore, we establish the risk to our portfolio from various scenarios in the form of probability distributions. The monitoring of the risks resulting from natural hazards is rounded out by realistic extreme loss scenarios. Within the scope of this process, the Executive Board defines the risk appetite for natural perils once a year on the basis of the risk strategy by specifying the portion of the economic capital that is available to cover risks from natural perils. This is a key basis for our underwriting approach in this segment. As part of our holistic approach to risk management across business groups, we take into account numerous relevant scenarios and extreme scenarios, determine their effect on portfolio and performance data, evaluate them in relation to the planned figures and identify alternative courses of action. For the purposes of risk limitation, maximum amounts are also stipulated for various extreme loss scenarios and return periods in light of profitability criteria. Adherence to these limits is continuously verified by Group Risk Management. The Risk Committee, Executive Board and P&C Executive Committee are kept regularly updated on the degree of capacity utilisation.

The price / premium risk lies primarily in the possibility of a random claims realisation that diverges from the claims expectancy on which the premium calculation was based. Regular and independent reviews of the models used for treaty quotation as well as central and local underwriting guidelines are vital management components. We have put in place a multistep quotation process to ensure the quality of our portfolios. In addition, Hannover Re's regional and treaty departments prepare regular reports on the progress of their respective renewals. The reporting in this regard makes reference inter alia to significant changes in conditions, risks (such as inadequate premiums) as well as to emerging market opportunities and the strategy pursued in order to accomplish targets. The development of the combined ratio in property and casualty reinsurance is shown in the table on the following page:

Combined and catastrophe loss ratio

in %	Q1–3 2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005[1]
Combined ratio (property and casualty reinsurance)	95.5	94.7	94.9	95.8	104.3	98.2	96.6	95.4	99.7	100.8	112.8
Thereof catastrophe losses[2]	7.3	6.1	8.4	7.0	16.5	12.3	4.6	10.7	6.3	2.3	26.3

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

Underwriting risks in life and health reinsurance

All risks directly connected with the life of an insured person are referred to as biometric risks. They include in particular the miscalculation of mortality, life expectancy, morbidity and occupational disability. Biometric risks are the material risks for our company in the area of life and health reinsurance. Our goal is to strike a balance between biometric risks. Counterparty and lapse risks are also material since we additionally prefinance our cedants' new business acquisition costs. Furthermore, we are exposed to catastrophe risks, especially catastrophes involving a high number of fatalities in our insurance portfolio.

The reserves are determined on the basis of secure biometric actuarial bases in light of the information provided by our clients. The biometric actuarial bases used and the lapse assumptions are continuously reviewed with an eye to their adequacy and if necessary adjusted. This is done using the company's own empirical data as well as market-specific insights. Our current risk profile in life and health reinsurance is dominated by mortality and longevity risks. This is due to the fact that under some of our contracts we pay death benefits, while under others we pay survival benefits. The volume of our annuity portfolios has continued to grow and contributes to diversification within life and health reinsurance.

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

Through our quality assurance measures we ensure that the reserves established by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods used and assumptions made (e. g. use of mortality and morbidity tables, assumptions regarding the lapse rate). New business is written in all regions in compliance with underwriting guidelines applicable worldwide, which set out detailed rules governing the type, quality, level and origin of risks. These global guidelines are revised annually and approved by the Executive Board. Special underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these underwriting guidelines we minimise the risk of an inability to pay or of deterioration in the financial status of cedants. Regular reviews and holistic analyses (e. g. with an eye to lapse risks) are carried out with respect to new business activities and the assumption of international portfolios. The actuarial reports and documentation required by local regulators ensure that regular scrutiny also takes place on the level of the subsidiaries. The interest rate risk, which in the primary sector is important in life business owing to the guarantees that are given, is of only minimal relevance to our company thanks to the design of our reinsurance treaties. We have confidence in the entrepreneurial abilities of our underwriters and grant them the most extensive possible powers. In our decentralised organisation we manage risks where they arise using a consistent Group-wide approach in order to obtain an overall view of the risks in life and health reinsurance. Our global underwriting guidelines provide underwriters with an appropriate framework for this purpose. Another major element of risk management in life and health reinsurance is the Market Consistent Embedded Value (MCEV). The MCEV is a ratio used for the valuation of life insurance and reinsurance business; it is calculated as the present value of the future shareholders' earnings from the worldwide life and health reinsurance portfolio plus the allocated capital. The calculation makes allowance as far as possible for all risks included in this business. For detailed information please see the MCEV report for 2014 published on our website.

Market risks

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

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

The short-term loss probability measured as the "Value at Risk" (VaR) is another vital tool used for monitoring and managing market price risks. It is calculated on the basis of historical data, e. g. the volatility of the securities positions under own management and the correlation between these risks. As part of these calculations the decline in the fair value of our portfolio is simulated with a certain probability and within a certain period. The VaR of the Hannover Re Group determined in accordance with these principles specifies the decrease in the fair value of our securities portfolio under own management that with a probability of 95% will not be exceeded within ten trading days. A multi-factor model is used to calculate the VaR indicators for the Hannover Re Group. It is based on time series of selected representative market parameters (equity prices, yield curves, spread curves, exchange rates, commodity prices and macro-economic variables). All asset positions are mapped on the level of individual positions within the multi-factor model; residual risks (e. g. market price risks that are not directly explained by the multi-factor model) can be determined through back-calculation and are incorporated into the overall calculation. The model takes into account interest rate risks, credit and spread risks, systematic and specific equity risks, commodity risks and option-specific risks.

Stress tests are conducted in order to be able to map extreme scenarios as well as normal market scenarios for the purpose of calculating the Value at Risk. In this context, the loss potentials for fair values and shareholders' equity (before tax) are simulated on the basis of already occurred or notional extreme events.

Scenarios for changes in the fair value of material asset classes

in EUR million	Scenario	Portfolio change on a fair value basis	Change in equity before tax
Equity securities and private equity	Share prices -10%	-121.8	-121.8
	Share prices -20%	-243.6	-243.6
	Share prices +10%	+121.8	+121.8
	Share prices +20%	+243.6	+243.6
Fixed-income securities	Yield increase +50 basis points	-757.3	-656.6
	Yield increase +100 basis points	-1,480.0	-1,283.30
	Yield decrease -50 basis points	+777.7	+672.8
	Yield decrease -100 basis points	+1,587.10	+1,372.90

Further significant risk management tools – along with the various stress tests used to estimate the loss potential under extreme market conditions – include sensitivity and duration analyses and our asset/liability management (ALM). The internal capital model provides us with quantitative support for the investment strategy as well as a broad diversity of VaR calculations. In addition, tactical duration ranges are in place, within which the portfolio can be positioned opportunistically according to market expectations. The parameters for these ranges are directly linked to our calculated risk-bearing capacity.

Share price risks derive from the possibility of unfavourable changes in the value of equities, equity derivatives or equity index derivatives in our portfolio. In addition to such assets held hitherto on only a very modest scale as part of strategic participations, we have acted on market opportunities in the course of the year to rebuild a broadly diversified equity portfolio.

The portfolio of fixed-income securities is exposed to the interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the fair value of the fixed-income securities portfolio.

The credit spread risk should also be mentioned. The credit spread refers to the interest rate differential between a risk-entailing bond and risk-free bond with the same maturity. Changes in these risk premiums, which are observable on the market, result – analogously to changes in pure market yields – in changes in the fair values of the corresponding securities.

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

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

We use derivative financial instruments only to the extent needed to hedge risks. The primary purpose of such financial instruments is to hedge against potentially adverse situations on capital markets. Part of our cash flows from the insurance business as well as currency risks arising because currency matching cannot be efficiently achieved are partially hedged using forward exchange transactions. Hannover Re holds further derivative financial instruments to hedge interest rate risks from loans taken out to finance real estate. Contracts are concluded with reliable counterparties and for the most part collateralised on a daily basis so as to avoid credit risks associated with the use of such derivative transactions. The remaining exposures are controlled according to the restrictive parameters set out in the investment guidelines.

Our investments entail credit risks that arise out of the risk of a failure to pay (interest and/or capital repayment) or a change in the credit status (rating downgrade) of issuers of securities. We attach equally vital importance to exceptionally broad diversification as we do to credit assessment conducted on the basis of the quality criteria set out in the investment guidelines. We measure credit risks in the first place using the standard market credit risk components, especially the probability of default and the potential amount of loss – making allowance for any collateral and the ranking of the individual instruments depending on their effect in each case. We then assess the credit risk first on the level of individual securities (issues) and in subsequent steps on a combined basis on the issuer level.

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

Rating structure of our fixed-income securities[1]

Rating classes	Government bonds		Securities issued by semi-governmental entities[2]		Corporate bonds		Covered bonds/asset-backed securities	
	in %	in EUR million	in %	in EUR million	in %	in EUR million	in %	in EUR million
AAA	71.9	6,785.0	60.1	3,803.7	1.7	205.2	65.6	2,770.1
AA	14.3	1,349.1	35.1	2,218.7	15.5	1,920.0	14.4	607.1
A	8.0	753.4	3.0	187.1	41.6	5,151.9	7.5	314.5
BBB	4.9	457.3	1.3	84.5	33.8	4,191.9	7.7	323.3
< BBB	0.9	84.2	0.5	29.0	7.4	920.0	4.8	200.3
Total	**100.0**	**9,429.0**	**100.0**	**6,323.0**	**100.0**	**12,389.1**	**100.0**	**4,215.2**

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

The measurement and monitoring mechanisms that have been put in place safeguard a prudent, broadly diversified investment strategy. This is reflected inter alia in the fact that within our portfolio of assets under own management the exposures to government bonds or instruments backed by sovereign guarantees issued by the so-called GIIPS states (Greece, Ireland, Italy, Portugal, Spain) amount to altogether just EUR 211.4 million on a fair value basis. This corresponds to a proportion of 0.6%. The individual countries account for the following shares: Spain EUR 119.2 million, Italy EUR 65.2 million and Portugal EUR 27.0 million. No impairments had to be taken on these holdings. Our portfolio does not contain any bonds of Greek or Irish issuers. On a fair value basis EUR 4,020.4 million of the corporate bonds held by our company were issued by entities in the financial sector. Of this amount, EUR 3,305.1 million was attributable to banks. The vast majority of these bank bonds (76.4%) are rated "A" or better. Our investment portfolio under own management does not contain any written or issued credit default swaps.

Counterparty default risks

The counterparty default risk consists primarily of the risk of complete or partial failure of the counterparty and the associated default on payment. Since the business that we accept is not always fully retained, but instead portions are retroceded as necessary, the counterparty default risk is material for our company in reinsurance transactions. Our retrocession partners are carefully selected and monitored in light of credit considerations in order to keep the risk as small as possible. This is also true of our broker relationships, which entail a risk inter alia through the potential loss of the premium paid by the cedant to the broker. We minimise these risks, among other things, by reviewing all broker relationships with an eye to criteria such as the existence of professional indemnity insurance, payment performance and proper contract implementation. The credit status of retrocessionaires is continuously monitored. On the basis of this ongoing monitoring a Security Committee decides on measures where necessary to secure receivables that appear to be at risk of default. This process is supported by a Web-based risk management application, which specifies cession limits for the individual retrocessionaires participating in protection cover programmes and determines the capacities still available for short-, medium- and long-term business. Depending on the type and expected run-off duration of the reinsured business, the selection of reinsurers takes into account not only the minimum ratings of the rating agencies Standard & Poor's and A.M. Best but also internal and external expert assessments (e.g. market information from brokers). Overall, retrocessions conserve our capital, stabilise and optimise our results and enable us to act on opportunities across a broader front, e.g. following a major loss event. Regular visits to our retrocessionaires give us a reliable overview of the market and put us in a position to respond quickly to capacity changes. Alongside traditional retrocessions in property and casualty reinsurance we also transfer risks to the capital market.

Counterparty default risks are also relevant to our investments and in life and health reinsurance because we prefinance acquisition costs for our ceding companies. Our clients, retrocessionaires and broker relationships as well as our investments are therefore carefully evaluated and limited in light of credit considerations and are constantly monitored and controlled within the scope of our system of limits and thresholds. In terms of the Hannover Re Group's major companies, EUR 325.9 million (8.4%) of our accounts receivable from reinsurance business totalling EUR 3,867.5 million were older than 90 days as at the balance sheet date. The average default rate over the past four years was 0.1%.

Operational risks

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

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

With the aid of the Self-Assessment for Operational Risks we determine the maturity level of our operational risk management system and define action fields for improvements. The assessment is carried out, for example, by assessing the maturity level of the respective risk management function or of the risk monitoring and reporting. The system enables us, among other things, to prioritise operational risks and is used inter alia to calculate the capital commitment in our internal model.

Within the overall framework of operational risks we consider, in particular, business process risks, compliance risks, risks associated with sales channels and outsourcing of functions, fraud risks, personnel risks, information technology risks/information security risks and business interruption risks.

Business process risks are associated with the risk of deficient or flawed internal processes, which can arise as a consequence of an inadequate process organisation. We have defined criteria to evaluate the maturity level of the material processes, e.g. for the reserving process. This enables us to ensure that process risks are monitored. In cooperation with the process participants, the process owner evaluates the risks of the metaprocess and develops measures for known, existing risks. Data quality is also a highly critical success factor, especially in risk management, because – among other things – the validity of the results delivered by the internal model depends primarily on the data provided. The overriding goal of our data quality management is the sustainable improvement and safeguarding of data quality within the Hannover Re Group.

Compliance risks are associated with the risk of breaches of standards and requirements, non-compliance with which may entail lawsuits or official proceedings with not inconsiderable detrimental implications for the business activities of the Hannover Re Group. Regulatory compliance, compliance with the company's Code of Conduct, data privacy and compliance with anti-trust and competition laws have been defined as issues of particular relevance to compliance. The compliance risk also extends to tax and legal risks. Responsibilities within the compliance organisation are regulated and documented Group-wide and interfaces with risk management have been put in place. The set of tools is rounded off with regular compliance training programmes.

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

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

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

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

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

When it comes to reducing business interruption risks, the paramount objective is the quickest possible return to normal operations after a crisis, for example through implementation of existing contingency plans. Guided by internationally accepted standards, we have defined the key framework conditions and – among other measures – we have assembled a crisis team to serve as a temporary body in the event of an emergency. The system is complemented by regular exercises and tests. In the previous year, for example, we compiled a leaflet on correct behaviour in the event of a business interruption; this condenses in compact form the key information that all employees need to know (e.g. information channels in a crisis situation). Regular risk reporting to the Risk Committee and the Executive Board has also been put in place.

Other risks

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

The hallmark of emerging risks is that the content of such risks cannot as yet be reliably assessed – especially on the underwriting side with respect to our treaty portfolio. Such risks evolve gradually from weak signals to unmistakable tendencies. It is therefore vital to detect these risks at an early stage and then determine their relevance. For the purpose of early detection we have developed an efficient process that spans divisions and lines of business and we have ensured its linkage to risk management. Operational implementation is handled by an expert working group assembled specially for this task. The analyses performed by this working group are used Group-wide in order to pinpoint any necessary measures (e.g. the implementation of contractual exclusions or the development of new reinsurance products). By way of example, the risks associated with possible climate change are analysed by this working group. Global warming would have implications not only for natural perils, but also for human health, the world economy, agriculture and so on. These problematic issues may also be relevant to our treaty portfolio – in the form not just of risks but also opportunities, e.g. through increased demand for reinsurance products. Other emerging risks include nanotechnology, resource scarcity and supply chain risks.

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

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

The liquidity risk refers to the risk of being unable to meet our financial obligations when they become due. The liquidity risk consists of the refinancing risk, i. e. the necessary cash cannot be obtained or can only be raised at increased costs, and the market liquidity risk, meaning that financial market transactions can only be completed at a poorer price than expected due to a lack of market liquidity. Core elements of the liquidity management of our investments are, in the first place, management of the maturity structure of our investments on the basis of the planned payment profiles arising out of our technical liabilities and, secondly, regular liquidity planning as well as the asset structure of the investments. Above and beyond the foreseeable payments, unexpected and exceptionally large payments may pose a threat to liquidity. In reinsurance business, however, significant events (major losses) are normally paid out after a lead time that can be reliably planned. As part of our liquidity management we have nevertheless defined asset holdings that have proven to be highly liquid even in times of financial stress. In addition, we manage the liquidity of the portfolio by checking on each trading day the liquidity of the instruments contained therein; their underlying parameters are verified on a regular and ad hoc basis. These measures serve to effectively reduce the liquidity risk.

Opportunity report

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

Key elements in Hannover Re's opportunity management include its various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups. What is more, innovative and creative ideas are generated by our employees. If they can be successfully translated into additional profitable premium volume, such ideas are financially rewarded. Further elements are the working group on "Emerging Risks and Scientific Affairs" and the "Future Radar" initiative. Not only that, Hannover Re has set up a stand-alone organisational unit for "Business Opportunity Management". This service unit deals exclusively and systematically with ideas and opportunities and it concentrates its activities on generating additional premium volume with profit potential. To this end, ideas are translated into business opportunities and business models with the backing of project teams, and these are then acted upon in cooperation with primary insurance partners. Such business approaches are subsequently evaluated and fleshed out more concretely by the "Opportunity Management" service unit. This unit also supports selected projects from the conceptual design of holistic business models right through to operational implementation or handover to line responsibility. The goal is to generate new business and thereby sustainably promote Hannover Re's profitable growth. Several initiatives and projects have grown out of some 100 ideas contributed by the global network since the unit was set up. As part of an attractive employee incentive scheme, a number of projects have been financially rewarded – including the opportunity management projects "Weather" and "Energy Savings Protect".

Since as long ago as 2010 the stand-alone service unit "Business Opportunity Management" has been assigned to the Chief Executive Officer's area of responsibility. This is a clear reflection of the considerable importance that Hannover Re attaches to opportunity management. The monitoring and active networking carried out by the innovative minds involved give rise to close links with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities (see page 22 "Other risks"). The working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks analysed but also any available business opportunities. In 2015, for example, issues such as "Safe food and its availability", "Drones" and "Claims from incidents of sports trauma" have been explored by the working group.

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

Overall assessment by the Executive Board

Based on our currently available insights arrived from a holistic analysis of the opportunities and risks, the Executive Board of Hannover Re cannot discern any risks that could jeopardise the continued existence of the Hannover Re Group in the short or medium term or have a material and lasting effect on its assets, financial position or net income. We are convinced that:

- our established system of risk management affords us a transparent overview of the current risk situation at all times,
- our overall risk profile is appropriate, and
- our opportunity management plays an important part in Hannover Re's profitable growth.

As an internationally operating reinsurance group, we move in a highly complex environment. Nevertheless, thanks to our business activities in all lines of reinsurance we are able to achieve optimal risk spreading through geographical and risk-specific diversification while at the same time maintaining a balanced opportunity/risk profile. We consider the risks described in the above sections to be manageable, particularly because our steering and monitoring measures are effectively and closely interlinked. Despite these diverse mechanisms, individual and especially accumulation risks can decisively affect our assets, financial position and net income. In accordance with our understanding of risk, however, we consider not only risks but also at the same time opportunities. We therefore only enter into those risks that go hand-in-hand with opportunities. Our steering and monitoring tools as well as our organisational and operational structure ensure that we identify risks at an early stage and are able to act on our opportunities. Our central monitoring tool is the system of risk management that we have installed Group-wide, which brings together both qualitative and quantitative information for the purpose of effective risk monitoring. Most notably, the interplay between domestic and foreign risk management functions affords us a holistic and Group-wide overview.

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Key monitoring indicators, reporting limits and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity. Since 2010 we have been able to increase our total policyholders' surplus (hybrid capital, non-controlling interests and shareholders' equity) by 42%. In this context, the necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital cushion to be able both to absorb risks and act on business opportunities that may arise. Similarly, our very good ratings also testify to our financial stability. The quality of our Enterprise Risk Management (ERM) is evaluated separately by Standard & Poor's and received the highest possible rating of "Very Strong". Special attention is paid here to our established risk culture, which promotes the development of appropriate risk monitoring systems and strategic risk management. The evaluation encompasses in particular the areas of risk culture, risk controls, the management of emerging risks, risk models and strategic risk management. This external appraisal confirms the quality of our holistic approach to risk management. In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor.

The Group-wide risk management system is also a regular part of the audits conducted by the internal audit function.

For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2014.

Outlook

Forecast

- Very satisfactory development in property and casualty reinsurance
- Profitability continues to improve in life and health reinsurance
- Rising premium volume expected in total business
- Return on investment target of 3.0% for assets under own management is attainable
- Guidance for Group net income confirmed at around EUR 950 million

Despite the challenging business conditions facing the international (re)insurance industry and the protracted low level of interest rates, it is Hannover Re's expectation that it can continue to operate with sustained success. Based on constant exchange rates, the company anticipates gross premium growth in the range of 5% to 10% for its total business in the current financial year.

In property and casualty reinsurance we expect to book increased premium income – adjusted for exchange rate effects – in the full 2015 financial year despite our systematically practised policy of selective underwriting. In view of our financial strength and very good positioning, we still see encouraging business potential: special mention should be made here of the Asia-Pacific markets, North and Latin America as well as business with agricultural risks. The areas of facultative and structured reinsurance also offer us good growth prospects.

For the upcoming round of treaty renewals on 1 January 2016 Hannover Re expects to see some easing in the pressure on prices and conditions. The indications of rising demand for high-quality reinsurance protection in mature markets as a consequence of the economic upturn in the United States should have favourable implications for the market development as a whole. Reinsurers with an excellent rating, in particular, should benefit from this tendency. Given the elevated frequency of man-made losses in the current financial year, reinsurance prices are likely to stabilise in some areas and room for rate increases should open up in some lines and markets.

Our targeted EBIT margin of at least 10% for our total Property & Casualty reinsurance business group remains unchanged. We are aiming for a combined ratio of less than 96%.

While business in life and health reinsurance has to some extent been volatile so far this year in certain regions, it has nevertheless fared satisfactorily overall. For the remaining fourth quarter of the year it is our expectation that this trend will continue and that the contribution made by life and health reinsurance to the company's year-end result will increase.

The sustained low level of interest rates continues to pose a challenge for primary insurers: in Germany, for example, further providers have stopped writing new business with traditional life insurance policies offering a guaranteed interest rate. More and more insurers are contemplating selling blocks of life insurance that are closed for new business to professional consolidation platforms, inter alia with a view to saving on the costs of administration. Given our experience, we see potential business opportunities here. The implementation of Solvency II and changes to prudential regimes outside Europe are similarly generating stronger demand in the financial solutions segment for reinsurance concepts tailored to provide capital relief.

In Eastern European markets it is our expectation that demand in the bancassurance sector will remain strong. When it comes to innovative products that offer traditional life coverage with an extensive range of supplementary benefits and discounts for a sensible healthy lifestyle, we see interesting market opportunities around the world – and especially in Asian markets and on the North American continent. We also anticipate consistently growing demand worldwide for coverage of longevity risks. Thanks to our long-standing expertise in this field, we are a preferred partner among our clients for the assumption of longevity portfolios of any size.

For the remainder of 2015 our expectation of organic, currency-adjusted gross premium growth in our life and health reinsurance portfolio coupled with rising profitability remains unchanged. In addition, we continue to aim for a value of new business in excess of EUR 180 million. The target EBIT margins set for our reporting categories still apply, namely at least 2% for financial solutions and longevity business and at least 6% for our mortality and morbidity business.

The expected positive cash flow that we generate from the technical account and our investments should – subject to stable exchange rates and yield levels – lead to further growth in our asset portfolio. In the area of fixed-income securities our focus remains on the high quality and diversification of our portfolio. When it comes to the allocation of new investments resulting from cash flows and maturities, we are looking to gradually increase the shares of holdings in the BBB- and lower rating segments while at the same time investing proportionately more strongly in top-quality, highly liquid government bonds. The focus here remains primarily on stability while maintaining an adequate risk/return ratio. Similarly, we review any increased exposure to real estate and equities in light of these considerations and monitor market developments with an eye to opportunities that may present themselves. We are targeting a return on investment of 3.0% for 2015.

Group net income for the full 2015 financial year is expected to be in the order of EUR 950 million. This is based on the assumption that the burden of major losses does not significantly exceed the expected level of EUR 690 million and that there are no unforeseen downturns on capital markets.

Hannover Re envisages a payout ratio in the range of 35% to 40% of its IFRS Group net income for the dividend in the current financial year. This figure could increase in light of capital management considerations if the company's comfortable level of capitalisation remains unchanged.

Events after the reporting date

Matters of special significance arising after the closing date for the quarterly consolidated financial statements are discussed in Section 7.6 of the notes "Events after the end of the quarter" on page 63.

Consolidated financial statements

Consolidated balance sheet as at 30 September 2015

Assets in EUR thousand	30.9.2015	31.12.2014
Fixed-income securities – held to maturity	1,309,285	2,139,742
Fixed-income securities – loans and receivables	2,917,547	2,988,187
Fixed-income securities – available for sale	28,034,969	26,817,523
Fixed-income securities – at fair value through profit or loss	94,496	64,494
Equity securities – available for sale	423,721	32,804
Other financial assets – at fair value through profit or loss	53,810	66,394
Real estate and real estate funds	1,498,616	1,299,258
Investments in associated companies	152,000	154,822
Other invested assets	1,489,806	1,316,604
Short-term investments	575,716	575,300
Cash and cash equivalents	1,153,051	772,882
Total investments and cash under own management	**37,703,017**	**36,228,010**
Funds withheld	16,287,975	15,826,480
Contract deposits	163,901	92,069
Total investments	**54,154,893**	**52,146,559**
Reinsurance recoverables on unpaid claims	1,428,681	1,376,432
Reinsurance recoverables on benefit reserve	921,172	676,219
Prepaid reinsurance premium	223,292	149,257
Reinsurance recoverables on other technical reserves	4,300	5,446
Deferred acquisition costs	2,082,534	1,914,598
Accounts receivable	3,867,520	3,113,978
Goodwill	60,285	58,220
Deferred tax assets	304,477	393,923
Other assets	693,736	618,280
Accrued interest and rent	8,902	4,672
Total assets	**63,749,792**	**60,457,584**

Liabilities in EUR thousand	30.9.2015	31.12.2014
Loss and loss adjustment expense reserve	26,014,303	24,112,056
Benefit reserve	12,730,400	11,757,132
Unearned premium reserve	3,467,186	2,748,594
Other technical provisions	314,765	324,240
Funds withheld	876,863	817,137
Contract deposits	6,019,738	6,072,338
Reinsurance payable	1,114,585	1,101,317
Provisions for pensions	145,452	171,501
Taxes	218,894	260,137
Deferred tax liabilities	1,819,803	1,875,591
Other liabilities	806,032	694,234
Long-term debt and subordinated capital	1,793,651	2,270,347
Total liabilities	**55,321,672**	**52,204,624**
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	867,127	1,169,255
Cumulative foreign currency translation adjustment	383,270	190,454
Changes from hedging instruments	(3,176)	(8,748)
Other changes in cumulative other comprehensive income	(31,472)	(48,288)
Total other comprehensive income	**1,215,749**	**1,302,673**
Retained earnings	5,675,012	5,402,926
Equity attributable to shareholders of Hannover Rück SE	**7,735,920**	**7,550,758**
Non-controlling interests	692,200	702,202
Total shareholders' equity	**8,428,120**	**8,252,960**
Total liabilities and shareholders´ equity	**63,749,792**	**60,457,584**

Consolidated statement of income as at 30 September 2015

in EUR thousand	1.7.–30.9.2015	1.1.–30.9.2015	1.7.–30.9.2014	1.1.–30.9.2014
Gross written premium	4,359,352	12,945,888	3,639,599	10,704,491
Ceded written premium	555,711	1,560,007	520,271	1,386,330
Change in gross unearned premium	(3,587)	(621,768)	(11,020)	(398,486)
Change in ceded unearned premium	10,693	65,990	18,445	46,438
Net premium earned	**3,810,747**	**10,830,103**	**3,126,753**	**8,966,113**
Ordinary investment income	313,810	912,488	301,655	791,798
Profit/loss from investments in associated companies	4,219	8,838	1,183	5,490
Realised gains and losses on investments	57,537	124,181	48,858	137,356
Change in fair value of financial instruments	(7,582)	(9,207)	(18,820)	(8,823)
Total depreciation, impairments and appreciation of investments	9,399	24,111	5,810	16,146
Other investment expenses	28,086	80,351	23,610	73,659
Net income from investments under own management	**330,499**	**931,838**	**303,456**	**836,016**
Income/expense on funds withheld and contract deposits	95,465	292,892	110,345	285,290
Net investment income	**425,964**	**1,224,730**	**413,801**	**1,121,306**
Other technical income	1,020	2,045	1,334	2,945
Total revenues	**4,237,731**	**12,056,878**	**3,541,888**	**10,090,364**
Claims and claims expenses	2,859,004	8,282,390	2,384,934	6,794,035
Change in benefit reserves	134,299	133,489	21,386	36,083
Commission and brokerage, change in deferred acquisition costs	749,194	2,172,004	658,237	1,868,537
Other acquisition costs	2,097	4,317	464	2,848
Other technical expenses	2,463	4,688	1,546	5,679
Administrative expenses	97,623	308,061	87,854	273,725
Total technical expenses	**3,844,680**	**10,904,949**	**3,154,421**	**8,980,907**
Other income and expenses	7,837	38,346	19,646	(18,658)
Operating profit (EBIT)	**400,888**	**1,190,275**	**407,113**	**1,090,799**
Interest on hybrid capital	17,991	66,444	21,636	70,483
Net income before taxes	**382,897**	**1,123,831**	**385,477**	**1,020,316**
Taxes	113,576	297,738	104,530	260,185
Net income	**269,321**	**826,093**	**280,947**	**760,131**
thereof				
Non-controlling interest in profit and loss	15,226	40,095	29,925	64,687
Group net income	**254,095**	**785,998**	**251,022**	**695,444**
Earnings per share (in EUR)				
Basic earnings per share	2.11	6.52	2.08	5.77
Diluted earnings per share	2.11	6.52	2.08	5.77

Consolidated statement of comprehensive income as at 30 September 2015

in EUR thousand	1.7.– 30.9.2015	1.1.– 30.9.2015	1.7.– 30.9.2014	1.1.– 30.9.2014
Net income	**269,321**	**826,093**	**280,947**	**760,131**
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	7,988	27,501	(14,730)	(33,680)
Tax income (expense)	(2,576)	(8,851)	4,702	10,751
	5,412	**18,650**	**(10,028)**	**(22,929)**
Income and expense recognised directly in equity that cannot be reclassified				
Gains (losses) recognised directly in equity	7,988	27,501	(14,730)	(33,680)
Tax income (expense)	(2,576)	(8,851)	4,702	10,751
	5,412	**18,650**	**(10,028)**	**(22,929)**
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	(29,538)	(295,858)	142,144	765,129
Transferred to the consolidated statement of income	(64,137)	(147,461)	(41,579)	(106,653)
Tax income (expense)	31,428	127,809	(16,976)	(172,641)
	(62,247)	**(315,510)**	**83,589**	**485,835**
Currency translation				
Gains (losses) recognised directly in equity	(164,298)	198,354	293,306	379,937
Transferred to the consolidated statement of income	–	–	–	50
Tax income (expense)	27,344	(399)	(21,406)	(31,235)
	(136,954)	**197,955**	**271,900**	**348,752**
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	(13)	375	24	47
Transferred to the consolidated statement of income	–	(424)	–	–
	(13)	**(49)**	**24**	**47**
Changes from hedging instruments				
Gains (losses) recognised directly in equity	4,544	6,744	(44)	536
Tax income (expense)	(241)	(1,125)	14	(171)
	4,303	**5,619**	**(30)**	**365**
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	(189,305)	(90,385)	435,430	1,145,649
Transferred to the consolidated statement of income	(64,137)	(147,885)	(41,579)	(106,603)
Tax income (expense)	58,531	126,285	(38,368)	(204,047)
	(194,911)	**(111,985)**	**355,483**	**834,999**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	(181,317)	(62,884)	420,700	1,111,969
Transferred to the consolidated statement of income	(64,137)	(147,885)	(41,579)	(106,603)
Tax income (expense)	55,955	117,434	(33,666)	(193,296)
	(189,499)	**(93,335)**	**345,455**	**812,070**
Total recognised income and expense	**79,822**	**732,758**	**626,402**	**1,572,201**
thereof				
Attributable to non-controlling interests	15,136	33,684	42,437	102,458
Attributable to shareholders of Hannover Rück SE	64,686	699,074	583,965	1,469,743

Consolidated statement of changes in shareholders' equity as at 30 September 2015

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2014	**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 increase/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	450,331	344,121
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.9.2014	**120,597**	**724,562**	**985,035**	**97,842**
Balance as at 1.1.2015	**120,597**	**724,562**	**1,169,255**	**190,454**
Changes in ownership interest with no change of control status	–	–	–	–
Changes in the consolidated group	–	–	–	–
Capital increase/additions	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	(302,128)	192,816
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.9.2015	**120,597**	**724,562**	**867,127**	**383,270**

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)	**(16,452)**	**4,781,718**	**5,888,436**	**641,591**	**6,530,027**
–	–	(1,707)	(748)	738	(10)
–	–	–	–	(1,387)	(1,387)
–	–	–	–	3	3
–	–	–	–	(64)	(64)
–	–	(13)	(13)	–	(13)
409	(20,562)	–	774,299	37,771	812,070
–	–	695,444	695,444	64,687	760,131
–	–	(361,791)	(361,791)	(40,937)	(402,728)
(9,046)	**(37,014)**	**5,113,651**	**6,995,627**	**702,402**	**7,698,029**
(8,748)	**(48,288)**	**5,402,926**	**7,550,758**	**702,202**	**8,252,960**
–	–	(1,364)	(1,364)	(1,178)	(2,542)
–	–	–	–	798	798
–	–	–	–	127	127
–	–	(10)	(10)	–	(10)
5,572	16,816	–	(86,924)	(6,411)	(93,335)
–	–	785,998	785,998	40,095	826,093
–	–	(512,538)	(512,538)	(43,433)	(555,971)
(3,176)	**(31,472)**	**5,675,012**	**7,735,920**	**692,200**	**8,428,120**

Consolidated cash flow statement as at 30 September 2015

in EUR thousand	1.1.–30.9.2015	1.1.–30.9.2014
I. Cash flow from operating activities		
Net income	826,093	760,131
Appreciation/depreciation	48,739	33,105
Net realised gains and losses on investments	(124,181)	(137,356)
Change in fair value of financial instruments (through profit or loss)	9,207	8,823
Realised gains and losses on deconsolidation	(424)	(2,602)
Amortisation of investments	74,279	58,522
Changes in funds withheld	364,136	(344,432)
Net changes in contract deposits	(450,191)	(32,913)
Changes in prepaid reinsurance premium (net)	555,301	351,545
Changes in tax assets/provisions for taxes	76,122	201,845
Changes in benefit reserve (net)	154,363	43,876
Changes in claims reserves (net)	1,065,118	935,513
Changes in deferred acquisition costs	(119,417)	(77,797)
Changes in other technical provisions	(11,775)	4,610
Changes in clearing balances	(639,551)	(223,420)
Changes in other assets and liabilities (net)	(27,716)	(202,143)
Cash flow from operating activities	**1,800,103**	**1,377,307**

in EUR thousand	1.1.–30.9.2015	1.1.–30.9.2014
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	879,650	442,833
Purchases	–	(4,582)
Fixed-income securities – loans and receivables		
Maturities, sales	248,921	348,139
Purchases	(110,001)	–
Fixed-income securities – available for sale		
Maturities, sales	8,182,552	8,193,066
Purchases	(8,859,044)	(9,318,583)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	18,828	9,636
Purchases	(44,873)	(24,556)
Equity securities – available for sale		
Sales	4,215	9,923
Purchases	(401,723)	(8,546)
Other financial assets – at fair value through profit or loss		
Sales	59,402	19,321
Purchases	(11,641)	(6,409)
Other invested assets		
Sales	136,823	114,426
Purchases	(255,517)	(191,724)
Affiliated companies and participating interests		
Sales	31,322	–
Purchases	(31,133)	(44,975)
Real estate and real estate funds		
Sales	56,157	53,364
Purchases	(242,036)	(201,107)
Short-term investments		
Changes	3,984	(948)
Other changes (net)	(21,045)	(29,367)
Cash flow from investing activities	**(355,159)**	**(640,089)**

in EUR thousand	1.1.–30.9.2015	1.1.–30.9.2014
III. Cash flow from financing activities		
Contribution from capital measures	127	2,991
Payment on capital measures	(7,009)	(2,152)
Structural change without loss of control	(2,542)	(10)
Dividends paid	(555,971)	(402,728)
Proceeds from long-term debts	25,561	554,627
Repayment of long-term debts	(517,972)	(757,608)
Other changes	(10)	(13)
Cash flow from financing activities	**(1,057,816)**	**(604,893)**
IV. Exchange rate differences on cash	**(6,959)**	**47,259**
Cash and cash equivalents at the beginning of the period	**772,882**	**642,936**
Change in cash and cash equivalents (I.+II.+III.+IV.)	**380,169**	**179,584**
Changes in the consolidated group	**–**	**(4,059)**
Cash and cash equivalents at the end of the period	**1,153,051**	**818,461**
Supplementary information on the cash flow statement [1]		
Income taxes paid (on balance)	(201,276)	(36,343)
Dividend receipts [2]	92,473	65,230
Interest received	1,154,514	966,095
Interest paid	(157,252)	(127,905)

[1] The income taxes paid, dividend receipts as well as interest received and paid are included entirely in the cash flow from operating activities.
[2] Including dividend-like profit participations from investment funds

Notes to the consolidated financial statements as at 30 September 2015

Notes

1. General reporting principles

Hannover Rück SE and its subsidiaries (collectively referred to as the "Hannover Re Group" or "Hannover Re") are 50.2% (rounded) 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 22 October 2015 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 September 2015.

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

All standards adopted by the IASB as at 30 September 2015 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 December 2013 the IASB issued "Annual Improvements to IFRSs 2011–2013 Cycle". The annual improvements involve minor amendments and clarifications relating to the following standards: IFRS 1 "First-time Adoption of International Financial Reporting Standards", IFRS 3 "Business Combinations", IFRS 13 "Fair Value Measurement" and IAS 40 "Investment Property". The improvements are effective for annual periods beginning on or after 1 July 2014 and were endorsed by the EU in December 2014. Initial application of the revised standards did not give rise to any significant implications for Hannover Re.

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:	30.9.2015	31.12.2014	1.1.–30.9.2015	1.1.–30.9.2014
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.5953	1.4879	1.4774	1.4848
BHD	0.4230	0.4583	0.4230	0.5095
CAD	1.5035	1.4131	1.4132	1.4799
CNY	7.1387	7.5533	7.0092	8.3299
GBP	0.7387	0.7825	0.7315	0.8115
HKD	8.6882	9.4289	8.6952	10.4839
KRW	1,332.4502	1,333.7220	1,259.4500	1,408.9348
MYR	4.9338	4.2580	4.2430	4.3899
SEK	9.4044	9.4845	9.3709	9.0464
USD	1.1210	1.2155	1.1216	1.3516
ZAR	15.5191	14.1409	13.8054	14.4982

Changes in accounting policies

With effect from the first quarter of 2015 Hannover Re extended its estimation methods to include an additional partial portfolio. This expansion, which relates to estimated amounts within the year from reinsurance treaties not yet brought to account as well as the deferral of such amounts, served to improve the accuracy of our estimations. This represents a change in an accounting estimate, which pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" was 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 31 December 2014 would have reduced the gross premium by EUR 103.6 million, the net premium earned by EUR 40.6 million and the operating result (EBIT) by EUR 2.3 million in the period under review. The effects that this adjustment would have in future reporting periods could only be established with disproportionate effort.

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. Other circumstances may also give rise to control, for example the existence of a principal-agent relationship. In this case a party outside the Group with decision-making powers (agent) acts for Hannover Re, but does not control the company since it merely exercises decision-making powers that have been delegated by Hannover Re (principal). In the context of their operational activities some companies belonging to the Hannover Re Group enter into business relations with structured entities that are also to be examined in accordance with IFRS 10 in conjunction with IFRS 12 with an eye to their implications for consolidation. Structured entities are entities designed in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Consolidation decisions are reviewed as necessary and at least once a year. 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 consolidated as associated companies using the equity method of accounting 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 40.1 million (EUR 64.7 million) as at 30 September 2015.

For further details we would refer to the relevant information in the Group annual financial report as at 31 December 2014.

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.

Major acquisitions and new formations

In August 2015 the Group company Hannover Life Reassurance Company of America, Orlando, United States, established Sand Lake Re, Inc., the registered office of which is located in Burlington, Vermont, United States. The business object of the company, which is wholly owned by Hannover Life Reassurance Company of America, is to transact reinsurance business and associated activities. The company was registered on 14 August 2015, but has not yet commenced its business operations.

Within the 95.1%-owned US subgroup Hannover Re Real Estate Holdings, Inc., all the shares of two special purpose property companies were acquired in the second quarter of 2015 via the subsidiary GLL HRE Core Properties, LP, Wilmington. The properties were purchased on 1 and 24 July 2015 for a purchase price equivalent to altogether EUR 134.3 million. No contingent liabilities or conditional payments as defined by IFRS 3 were identified. The business object of the companies is to hold and manage one property each.

The company Hannover Re Global Alternatives GmbH & Co KG was established in March 2015 with its registered office in Hannover, Germany, and has been included in the consolidated financial statement with effect from the first quarter of 2015. Hannover Rück SE and E+S Rückversicherung AG, both limited partners, hold interests of 85% and 15% respectively in the company. The personally liable partner is HAPEP II Komplementär GmbH, also based in Hannover. The business object of the company is to build, hold and manage a portfolio of investments.

The Group company Hannover Re (Ireland) Limited, Dublin, Ireland, established a branch in Canada in February 2015. The Toronto-based branch trades under the name Hannover Re (Ireland) Limited Canadian Life Branch and was registered on 26 February 2015. The business object of the branch is to transact life and health reinsurance business.

Within our subgroup Hannover Reinsurance Group Africa (Pty) Ltd, Johannesburg, South Africa ("HRGSA"), Compass Insurance Company Ltd, also based in Johannesburg, acquired 60% of the shares in Commercial & Industrial Acceptances (Pty) Ltd, Johannesburg ("CIA"), effective 1 January 2015 for a purchase price equivalent to EUR 4.1 million within the scope of a business combination made in stages. Previously, 40% of the shares in the company, which was included in the subgroup financial statement of HRGSA using the equity method of accounting, were already held by Lireas Holdings (Pty) Ltd, Johannesburg, 51% of which belongs to HRGSA. By means of the acquisition made in stages HRGSA acquired control over CIA, which is now consolidated in the subgroup financial statement of HRGSA. As part of the transaction the fair value of contingent considerations was recognised. For the purposes of initial consolidation and in accordance with appropriate measurement methods, the fair values of acquired assets and liabilities were to some extent established on the basis of assumptions and estimations based on forecasts of future cash flows. The initial inclusion of the operation in the subgroup financial statement on a provisional basis was therefore carried out using the best available information. IFRS 3 requires that this provisional recognition be finalised within twelve months of the date of acquisition. Resulting changes in the values of carried assets and liabilities are to be recognised in such a way as if their adjusted fair value at the time of initial consolidation had been carried from this date onwards. In the further course of the year under review the provisional carrying amounts of the assets and liabilities acquired in this transaction will be analysed and may in some cases be adjusted.

Major disposals and retirements

By means of a dividend resolution of 25 March 2015 of ASPECTA Assurance International AG, Vaduz, Liechtenstein, which had hitherto been included in the consolidated financial statement using the equity method of accounting, a purchase option on the part of the majority shareholder became exercisable. Hannover Re consequently lost its significant influence over the company, as a result of which recognition at equity ended. The company was carried under other participations until the shares were returned to the majority shareholder on 4 May 2015. Disposal of the company gave rise to an expense of EUR 4.0 million, which is recognised in investment income. In addition, cumulative other comprehensive income of EUR 0.4 million was realised from currency translation.

Other corporate changes

The registered office of the Group company International Insurance Company of Hannover SE, London ("Inter Hannover SE"), was relocated from the United Kingdom to Hannover, Germany. Inter Hannover SE has received approval to commence insurance operations in Germany and was entered in the commercial register in January 2015.

Effective 3 July 2015 Hannover Reinsurance Africa Limited, Johannesburg, South Africa, a subsidiary of our subgroup Hannover Reinsurance Group Africa (Pty) Ltd., acquired further shares in Lireas Holdings (Pty) Ltd., also based in Johannesburg, for a purchase price equivalent to EUR 2.5 million from a third party outside the Group. Through an increase of 19.0% in its shareholding with no change of control status Hannover Reinsurance Africa Limited held 70.0% of the shares in Lireas Holdings upon closing of the transaction. The effects of the change in participating interest were recognised in the consolidated financial statement as an equity transaction in accordance with IFRS 10.

4. Group segment report

Segmentation of assets

in EUR thousand	Property and casualty reinsurance 30.9.2015	31.12.2014
Assets		
Fixed-income securities – held to maturity	1,068,582	1,841,982
Fixed-income securities – loans and receivables	2,853,895	2,912,110
Fixed-income securities – available for sale	20,753,164	19,822,832
Equity securities – available for sale	423,721	32,804
Financial assets at fair value through profit or loss	95,374	63,648
Other invested assets	3,034,442	2,644,817
Short-term investments	240,621	242,463
Cash and cash equivalents	656,222	580,490
Total investments and cash under own management	**29,126,021**	**28,141,146**
Funds withheld	1,258,209	1,123,858
Contract deposits	–	–
Total investments	**30,384,230**	**29,265,004**
Reinsurance recoverables on unpaid claims	1,112,377	1,052,357
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	221,799	147,846
Reinsurance recoverables on other reserves	467	421
Deferred acquisition costs	744,838	597,299
Accounts receivable	2,187,611	1,493,908
Other assets in the segment	1,517,600	1,416,187
Total assets	**36,168,922**	**33,973,022**

Segmentation of liabilities

in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	22,384,754	20,797,820
Benefit reserve	–	–
Unearned premium reserve	3,324,741	2,626,890
Provisions for contingent commissions	130,358	158,410
Funds withheld	379,489	442,211
Contract deposits	9,448	4,285
Reinsurance payable	495,666	358,836
Long-term liabilities	303,917	283,855
Other liabilities in the segment	2,015,991	2,042,408
Total liabilities	**29,044,364**	**26,714,715**

Life and health reinsurance		Consolidation		Total	
30.9.2015	31.12.2014	30.9.2015	31.12.2014	30.9.2015	31.12.2014
171,560	179,209	69,143	118,551	1,309,285	2,139,742
63,652	76,077	–	–	2,917,547	2,988,187
7,049,469	6,639,186	232,336	355,505	28,034,969	26,817,523
–	–	–	–	423,721	32,804
52,932	54,262	–	12,978	148,306	130,888
104,416	123,922	1,564	1,945	3,140,422	2,770,684
335,095	332,262	–	575	575,716	575,300
487,489	186,224	9,340	6,168	1,153,051	772,882
8,264,613	**7,591,142**	**312,383**	**495,722**	**37,703,017**	**36,228,010**
15,029,766	14,702,622	–	–	16,287,975	15,826,480
163,901	92,069	–	–	163,901	92,069
23,458,280	**22,385,833**	**312,383**	**495,722**	**54,154,893**	**52,146,559**
316,917	325,534	(613)	(1,459)	1,428,681	1,376,432
921,172	676,219	–	–	921,172	676,219
1,760	1,470	(267)	(59)	223,292	149,257
3,833	5,025	–	–	4,300	5,446
1,337,696	1,317,295	–	4	2,082,534	1,914,598
1,680,136	1,620,237	(227)	(167)	3,867,520	3,113,978
694,662	680,215	(1,144,862)	(1,021,307)	1,067,400	1,075,095
28,414,456	**27,011,828**	**(833,586)**	**(527,266)**	**63,749,792**	**60,457,584**

3,630,147	3,315,694	(598)	(1,458)	26,014,303	24,112,056
12,730,441	11,757,188	(41)	(56)	12,730,400	11,757,132
142,445	121,704	–	–	3,467,186	2,748,594
184,407	165,830	–	–	314,765	324,240
497,374	374,926	–	–	876,863	817,137
6,010,290	6,068,053	–	–	6,019,738	6,072,338
619,240	742,649	(321)	(168)	1,114,585	1,101,317
–	–	1,489,734	1,986,492	1,793,651	2,270,347
2,128,002	1,982,821	(1,153,812)	(1,023,766)	2,990,181	3,001,463
25,942,346	**24,528,865**	**334,962**	**961,044**	**55,321,672**	**52,204,624**

Segment statement of income

in EUR thousand	Property and casualty reinsurance 1.1.–30.9.2015	1.1.–30.9.2014
Gross written premium	7,319,357	6,060,044
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	7,319,357	6,060,044
Net premium earned	5,965,363	5,104,478
Net investment income	672,844	647,628
thereof		
Change in fair value of financial instruments	(623)	(3,406)
Total depreciation, impairments and appreciation of investments	21,700	16,026
Income/expense on funds withheld and contract deposits	16,297	15,494
Claims and claims expenses	4,187,298	3,524,728
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,367,854	1,210,807
Administrative expenses	158,839	143,690
Other income and expenses	12,094	(26,125)
Operating profit/loss (EBIT)	**936,310**	**846,756**
Interest on hybrid capital	–	–
Net income before taxes	**936,310**	**846,756**
Taxes	247,392	232,901
Net income	**688,918**	**613,855**
thereof		
Non-controlling interest in profit or loss	37,889	53,006
Group net income	**651,029**	**560,849**

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2014. 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 property and casualty reinsurance or life and 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 Group annual financial report as at 31 December 2014.

Hannover Re Global Alternatives GmbH & Co. KG and the special purpose property companies within our subgroup Hannover Re Real Estate Holdings, Inc. are allocated to the property and casualty reinsurance segment. Both Sand Lake Re, Inc. – which was newly established in the third quarter – and ASPECTA Assurance International AG – which was disposed of – are allocated to the life and health reinsurance segment.

	Life and health reinsurance		Consolidation		Total	
	1.1.–30.9.2015	1.1.–30.9.2014	1.1.–30.9.2015	1.1.–30.9.2014	1.1.–30.9.2015	1.1.–30.9.2014
	5,626,585	4,644,581	(54)	(134)	12,945,888	10,704,491
	54	134	(54)	(134)	–	–
	5,626,531	4,644,447	–	–	12,945,888	10,704,491
	4,864,069	3,861,383	671	252	10,830,103	8,966,113
	542,941	461,762	8,945	11,916	1,224,730	1,121,306
	(8,584)	(5,452)	–	35	(9,207)	(8,823)
	46	120	2,365	–	24,111	16,146
	276,595	269,796	–	–	292,892	285,290
	4,095,092	3,269,325	–	(18)	8,282,390	6,794,035
	133,474	36,085	15	(2)	133,489	36,083
	811,106	663,312	4	–	2,178,964	1,874,119
	148,955	130,156	267	(121)	308,061	273,725
	27,900	9,649	(1,648)	(2,182)	38,346	(18,658)
	246,283	**233,916**	**7,682**	**10,127**	**1,190,275**	**1,090,799**
	–	–	66,444	70,483	66,444	70,483
	246,283	**233,916**	**(58,762)**	**(60,356)**	**1,123,831**	**1,020,316**
	66,324	56,020	(15,978)	(28,736)	297,738	260,185
	179,959	**177,896**	**(42,784)**	**(31,620)**	**826,093**	**760,131**
	2,206	11,681	–	–	40,095	64,687
	177,753	166,215	(42,784)	(31,620)	785,998	695,444

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 as well as cash and cash equivalents.

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 Group annual financial report as at 31 December 2014.

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

Investments

in EUR thousand	30.9.2015	31.12.2014
Regional origin		
Germany	6,709,108	6,592,773
United Kingdom	2,847,956	2,674,766
France	1,724,875	1,769,512
Other	6,742,572	7,649,712
Europe	**18,024,511**	**18,686,763**
USA	11,803,546	9,875,092
Other	1,572,450	1,468,426
North America	**13,375,996**	**11,343,518**
Asia	2,076,512	1,819,615
Australia	2,323,859	2,556,507
Australasia	**4,400,371**	**4,376,122**
Africa	362,346	352,192
Other	1,539,793	1,469,415
Total	**37,703,017**	**36,228,010**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.9.2015		31.12.2014	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	755,199	765,365	1,089,446	1,110,905
due after one through two years	177,561	184,910	539,118	561,992
due after two through three years	61,902	64,658	145,300	151,217
due after three through four years	46,444	48,828	97,896	103,592
due after four through five years	44,887	50,312	32,696	35,894
due after five through ten years	222,342	254,247	234,795	273,704
due after more than ten years	950	323	491	568
Total	**1,309,285**	**1,368,643**	**2,139,742**	**2,237,872**
Loans and receivables				
due in one year	433,856	443,194	261,575	265,156
due after one through two years	327,568	340,432	373,036	390,647
due after two through three years	99,695	104,154	268,376	283,396
due after three through four years	148,024	161,634	143,511	152,077
due after four through five years	271,443	302,931	197,584	219,375
due after five through ten years	917,501	1,056,074	979,791	1,122,393
due after more than ten years	719,460	880,187	764,314	954,282
Total	**2,917,547**	**3,288,606**	**2,988,187**	**3,387,326**
Available for sale				
due in one year[2]	3,772,097	3,784,022	3,731,723	3,747,673
due after one through two years	3,069,065	3,103,100	2,415,488	2,449,568
due after two through three years	4,152,958	4,194,781	2,908,199	2,972,420
due after three through four years	2,272,405	2,338,673	2,904,276	2,951,154
due after four through five years	3,300,401	3,387,761	2,655,178	2,741,708
due after five through ten years	9,153,166	9,458,029	9,181,834	9,760,031
due after more than ten years	3,215,587	3,497,370	3,122,626	3,543,151
Total	**28,935,679**	**29,763,736**	**26,919,324**	**28,165,705**
Financial assets at fair value through profit or loss				
due in one year	3,242	3,242	5,306	5,306
due after one through two years	16,922	16,922	2,433	2,433
due after two through three years	29,505	29,505	12,251	12,251
due after three through four years	30,319	30,319	20,590	20,590
due after four through five years	14,508	14,508	10,790	10,790
due after five through ten years	–	–	146	146
due after more than ten years	–	–	12,978	12,978
Total	**94,496**	**94,496**	**64,494**	**64,494**

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	30.9.2015				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	238,946	5,718	3,618	–	242,564
US Treasury notes	90,400	939	456	–	90,856
Other foreign government debt securities	20,567	264	110	–	20,677
Debt securities issued by semi-governmental entities	287,621	4,565	8,608	–	296,229
Corporate securities	133,863	3,233	6,781	143	140,501
Covered bonds/asset-backed securities	537,888	11,482	40,555	627	577,816
Total	**1,309,285**	**26,201**	**60,128**	**770**	**1,368,643**

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	31.12.2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Government debt securities of EU member states	391,809	7,071	10,099	–	401,908
US Treasury notes	257,279	1,395	3,067	–	260,346
Other foreign government debt securities	29,196	96	200	–	29,396
Debt securities issued by semi-governmental entities	427,611	6,444	16,019	1,463	442,167
Corporate securities	238,426	3,189	11,051	159	249,318
Covered bonds/asset-backed securities	795,421	15,527	59,316	–	854,737
Total	**2,139,742**	**33,722**	**99,752**	**1,622**	**2,237,872**

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

in EUR thousand	30.9.2015				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,608,721	24,110	253,120	–	1,861,841
Corporate securities	506,585	7,481	17,559	4,563	519,581
Covered bonds/asset-backed securities	802,241	11,723	104,985	42	907,184
Total	**2,917,547**	**43,314**	**375,664**	**4,605**	**3,288,606**

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

in EUR thousand	31.12.2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,655,060	27,559	260,622	–	1,915,682
Corporate securities	463,830	5,661	20,578	453	483,955
Covered bonds/asset-backed securities	869,297	13,495	118,402	10	987,689
Total	**2,988,187**	**46,715**	**399,602**	**463**	**3,387,326**

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

in EUR thousand	30.9.2015				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,416,652	17,691	148,756	4,045	2,561,363
US Treasury notes	4,394,922	8,735	29,362	8,517	4,415,767
Other foreign government debt securities	2,027,656	15,193	24,913	31,721	2,020,848
Debt securities issued by semi-governmental entities	4,164,230	44,134	269,386	6,913	4,426,703
Corporate securities	11,429,787	137,303	348,503	128,289	11,650,001
Covered bonds/asset-backed securities	2,698,198	24,863	167,586	10,608	2,855,176
Investment funds	75,467	–	30,622	978	105,111
	27,206,912	**247,919**	**1,019,128**	**191,071**	**28,034,969**
Equity securities					
Shares	291,365	–	10,396	9,092	292,669
Investment funds	125,399	–	6,316	663	131,052
	416,764	**–**	**16,712**	**9,755**	**423,721**
Short-term investments	575,716	1,815	–	–	575,716
Total	**28,199,392**	**249,734**	**1,035,840**	**200,826**	**29,034,406**

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	31.12.2014				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Available for sale					
Fixed-income securities					
Government debt securities of EU member states	2,411,949	18,573	169,231	1,733	2,579,447
US Treasury notes	2,684,743	7,145	36,544	4,904	2,716,383
Other foreign government debt securities	1,816,756	16,522	27,294	33,322	1,810,728
Debt securities issued by semi-governmental entities	4,183,118	42,250	305,078	2,954	4,485,242
Corporate securities	11,371,250	140,368	557,169	46,694	11,881,725
Covered bonds/asset-backed securities	3,030,708	33,214	222,538	7,547	3,245,699
Investment funds	72,618	–	25,681	–	98,299
	25,571,142	**258,072**	**1,343,535**	**97,154**	**26,817,523**
Equity securities					
Shares	12,323	–	7,215	17	19,521
Investment funds	8,011	–	5,272	–	13,283
	20,334	**–**	**12,487**	**17**	**32,804**
Short-term investments	575,300	3,886	–	–	575,300
Total	**26,166,776**	**261,958**	**1,356,022**	**97,171**	**27,425,627**

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

in EUR thousand	30.9.2015	31.12.2014	30.9.2015	31.12.2014	30.9.2015	31.12.2014
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
Corporate securities	74,608	63,795	–	699	74,608	64,494
Covered bonds/asset-backed securities	19,888	–	–	–	19,888	–
	94,496	**63,795**	**–**	**699**	**94,496**	**64,494**
Other financial assets						
Derivatives	53,810	66,394	–	–	53,810	66,394
	53,810	**66,394**	**–**	**–**	**53,810**	**66,394**
Total	**148,306**	**130,189**	**–**	**699**	**148,306**	**130,888**

Information on fair values and fair value hierarchy

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

Valuation models

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

Fair value hierarchy

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

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

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

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

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

In the current reporting period, as in the comparable period of the previous year, no financial assets or liabilities had to be reclassified to a different level of the fair value hierarchy.

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	30.9.2015			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	33,403	28,096,062	–	28,129,465
Equity securities	423,712	–	9	423,721
Other financial assets	–	53,810	–	53,810
Real estate and real estate funds	–	–	375,918	375,918
Other invested assets	–	–	1,419,974	1,419,974
Short-term investments	575,716	–	–	575,716
Other assets	–	–	–	–
Total financial assets	**1,032,831**	**28,149,872**	**1,795,901**	**30,978,604**
Other liabilities	–	37,977	149,107	187,084
Total financial liabilities	**–**	**37,977**	**149,107**	**187,084**

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

in EUR thousand	31.12.2014			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	28,752	26,852,743	522	26,882,017
Equity securities	32,796	–	8	32,804
Other financial assets	–	66,394	–	66,394
Real estate and real estate funds	–	–	320,956	320,956
Other invested assets	–	–	1,258,903	1,258,903
Short-term investments	575,300	–	–	575,300
Other assets	–	1,066	–	1,066
Total financial assets	**636,848**	**26,920,203**	**1,580,389**	**29,137,440**
Other liabilities	–	103,760	136,486	240,246
Total financial liabilities	**–**	**103,760**	**136,486**	**240,246**

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 recognised at fair value

in EUR thousand	1.1.–30.9.2015				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**522**	**8**	**320,956**	**1,258,903**	**136,486**
Currency translation at 1 January of the year under review	44	1	13,206	66,365	11,506
Net book value after currency translation	**566**	**9**	**334,162**	**1,325,268**	**147,992**
Income and expenses					
recognised in the statement of income	–	–	(922)	(10,460)	(8,771)
recognised directly in shareholders' equity	–	–	(10,059)	(819)	–
Purchases	–	–	105,392	245,116	45,659
Sales	–	–	52,649	137,298	35,773
Settlements	567				
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 30 September of the year under review	1	–	(6)	(1,833)	–
Closing balance at 30 September of the year under review	**–**	**9**	**375,918**	**1,419,974**	**149,107**

Movements in level 3 financial assets and liabilities recognised at fair value

in EUR thousand	1.1.–30.9.2014				
	Fixed-income securities	Equities, equity funds and other variable-yield securities	Real estate and real estate funds	Other invested assets	Other liabilities
Net book value at 1 January of the year under review	**5,179**	**8**	**247,400**	**952,451**	**68,827**
Currency translation at 1 January of the year under review	474	–	10,047	54,660	–
Net book value after currency translation	**5,653**	**8**	**257,447**	**1,007,111**	**68,827**
Income and expenses					
recognised in the statement of income	–	–	–	(8,222)	(3,668)
recognised directly in shareholders' equity	–	–	12,664	65,024	–
Purchases	–	–	57,542	191,080	49,493
Sales	593	–	29,049	103,636	–
Settlements	4,118	–	–	–	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 30 September of the year under review	(438)	–	1,842	8,460	9,820
Closing balance at 30 September of the year under review	**504**	**8**	**300,446**	**1,159,817**	**124,472**

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 recognised at fair value

in EUR thousand	1.1.–30.9.2015		
	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the period under review			
Realised gains and losses on investments	(79)	(12,398)	(2,806)
Change in fair value of financial instruments	–	4,964	11,577
Total depreciation, impairments and appreciation of investments	(843)	(3,026)	–
Thereof attributable to financial instruments included in the portfolio at 30 September of the year under review			
Change in fair value of financial instruments	–	4,964	11,577
Total depreciation, impairments and appreciation of investments	(843)	(3,026)	–

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

in EUR thousand	1.1.–30.9.2014		
	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the period under review			
Change in fair value of financial instruments	–	(5,819)	3,668
Total depreciation, impairments and appreciation of investments	–	(2,403)	–
Thereof attributable to financial instruments included in the portfolio at 30 September of the year under review			
Change in fair value of financial instruments	–	(5,819)	3,668
Total depreciation, impairments and appreciation of investments	–	(2,403)	–

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 1,795.9 million (EUR 1,580.4 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,716.1 million (EUR 1,474.8 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 79.8 million (EUR 105.6 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 Debt and subordinated capital

Hannover Re recognised altogether three (four) subordinated bonds with an amortised cost of EUR 1,489.7 million (EUR 1,986.5 million) as at the balance sheet date. The subordinated debts from the 2010 and 2012 financial years in amounts of EUR 500.0 million each were placed on the European capital market through Hannover Finance (Luxembourg) S.A. The fair value of the aforementioned bonds as at 30 September 2015 was EUR 1,150.9 million (EUR 1,717.1 million). A further subordinated debt from the 2014 financial year with a volume of EUR 500.0 million, the fair value of which was EUR 485.6 million (EUR 506.6 million), was issued by Hannover Rück SE and similarly placed on the European capital market.

The subordinated debt of EUR 500.0 million issued in 2005 by Hannover Finance (Luxembourg) S.A. was called by the issuer in the full nominal amount at the first scheduled redemption date and repaid on 1 June 2015.

For further information on these bonds please see the previous year's Group annual financial report.

5.3 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 692.2 million (EUR 702.2 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 656.4 million (EUR 671.9 million).

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.

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 12,922 (21,608) treasury shares during the second quarter of 2015 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2019. This transaction resulted in an expense of EUR 0.3 million (EUR 0.4 million), which was recognised under personnel expenditure, as well as a negligible change in retained earnings recognised in equity. The company was no longer in possession of treasury shares as at 30 September 2015.

The decrease in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 30.4 million (30 September 2014: increase of EUR 39.5 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

6.1 Gross written premium

Gross written premium

in EUR thousand	1.1.–30.9.2015	1.1.–30.9.2014
Regional origin		
Germany	1,096,809	999,481
United Kingdom	2,090,555	1,862,473
France	537,371	482,853
Other	1,433,124	1,236,414
Europe	**5,157,859**	**4,581,221**
USA	3,048,560	2,383,740
Other	615,683	527,545
North America	**3,664,243**	**2,911,285**
Asia	2,240,203	1,622,490
Australia	817,822	667,398
Australasia	**3,058,025**	**2,289,888**
Africa	386,438	320,501
Other	679,323	601,596
Total	12,945,888	10,704,491

6.2 Investment income

Investment income

in EUR thousand	1.1.–30.9.2015	1.1.–30.9.2014
Income from real estate	86,845	62,962
Dividends	5,075	2,380
Interest income	748,154	700,895
Other investment income	72,414	25,561
Ordinary investment income	**912,488**	**791,798**
Profit or loss on shares in associated companies	8,838	5,490
Realised gains on investments	203,253	155,876
Realised losses on investments	79,072	18,520
Change in fair value of financial instruments	(9,207)	(8,823)
Impairments on real estate	17,695	13,743
Impairments on equity securities	1,025	–
Impairments on fixed-income securities	2,365	–
Impairments on participating interests and other financial assets	3,026	2,403
Other investment expenses	80,351	73,659
Net income from assets under own management	**931,838**	**836,016**
Interest income on funds withheld and contract deposits	371,976	382,544
Interest expense on funds withheld and contract deposits	79,084	97,254
Total investment income	1,224,730	1,121,306

The impairments totalling EUR 7.3 million (EUR 2.4 million) were attributable in an amount of EUR 2.4 million (EUR 0.0 million) to the area of fixed-income securities. Impairments of EUR 3.0 million (EUR 2.4 million) were taken in the area of alternative investments. These were attributable exclusively to private equity investments. An impairment loss of EUR 0.9 million (EUR 0.0 million) was recognised on investments in real estate. Impairments of EUR 1.0 million (EUR 0.0 million) were recognised on equities or equity funds in the reporting period because their fair values fell either significantly (i. e. by at least 20%) or for a prolonged period (i. e. for at least nine months) below acquisition cost. As in the previous year, these write-downs were not opposed by any write-ups on investments that had been written down in previous periods. The portfolio did not contain any overdue, unadjusted assets as at the balance sheet date since overdue securities are written down immediately.

Interest income on investments

in EUR thousand	1.1.–30.9.2015	1.1.–30.09.2014
Fixed-income securities – held to maturity	50,510	64,866
Fixed-income securities – loans and receivables	79,922	80,950
Fixed-income securities – available for sale	600,994	544,079
Financial assets – at fair value through profit or loss	2,190	1,412
Other	14,538	9,588
Total	**748,154**	**700,895**

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 4.6 million (EUR 4.0 million) and other financial assets at fair value through profit or loss of EUR 0.0 million (EUR 0.5 million).

Hannover Re's portfolio contained derivative financial instruments as at the balance sheet date in the form of forward exchange transactions taken out to hedge currency risks. These transactions gave rise to recognition of other liabilities in an amount of EUR 29.5 million (EUR 30.6 million) and other financial assets at fair value through profit or loss in an amount of EUR 22.9 million (EUR 14.5 million). The increase in equity from hedging instruments recognised directly in equity pursuant to IAS 39 in an amount of EUR 3.2 million derived solely from the forward exchange transactions taken out to hedge currency risks from long-term investments in foreign operations. These hedging instruments resulted in the recognition of other liabilities in an amount of EUR 2.5 million. Ineffective components of the hedge were recognised in profit or loss under other investment expenses in an amount of EUR 0.7 million.

In the course of the second quarter derivative financial instruments held to hedge inflation risks within the loss reserves were disposed of in a total volume of EUR 67.9 million, allowing for a negative exchange rate effect of EUR 4.3 million. This derivative instrument was recognised under other liabilities in an amount of EUR 63.6 million as at 31 December 2014.

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 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 1.0 million as at the balance sheet date and was recognised under other liabilities (EUR 1.1 million recognised under other financial assets at fair value through profit or loss). The hedge gave rise to an increase in equity from hedging instruments recognised directly in equity in an amount of EUR 3.5 million (EUR 0.5 million); ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

By means of a dividend resolution of 25 March 2015 of ASPECTA Assurance International AG, Liechtenstein, which had previously been included in the consolidated financial statement using the equity method of accounting, a purchase option on the part of the majority shareholder became exercisable. Exercise of the option and the associated return of the shares of ASPECTA Assurance International AG, Liechtenstein, took place in full on 4 May 2015.

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 7.1 million to the result of the period under review (30 September 2014: EUR 6.9 million).

Derivative financial instruments in connection with reinsurance

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

On this basis Hannover Re recognised under financial assets at fair value through profit or loss derivatives in connection with the reinsurance business that were separated from the underlying transaction and measured at fair value in an amount of EUR 30.9 million as at the balance sheet date (EUR 51.4 million).

In addition, derivatives in connection with the reinsurance business were recognised under other liabilities in an amount of EUR 153.0 million (EUR 142.1 million) as at the balance sheet date.

Of this amount, EUR 149.1 million (EUR 136.5 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 11.6 million (30 September 2014: EUR 3.7 million).

Of the derivatives carried on the assets side, fair values of EUR 29.6 million (EUR 44.8 million) were attributable as at the balance sheet date to derivatives embedded in "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties.

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

The ModCo derivatives gave rise to a charge to investment income of EUR 18.9 million (30 September 2014: EUR 1.6 million).

Financial guarantees

Structured transactions were entered into in the Life & Health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,455.0 million (EUR 3,079.4 million); an amount equivalent to EUR 2,191.4 million (EUR 1,887.0 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.

Talanx AG holds an unchanged majority interest of 50.22% in Hannover Rück SE. For its part, HDI-Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit, Riethorst 2, 30659 Hannover (HDI) holds a stake of 79.0% in Talanx AG and therefore indirectly holds 39.7% (rounded) of the voting rights in Hannover Rück SE.

The business relationship between Hannover Rück SE and its subsidiary E+S Rückversicherung AG is based on a cooperation agreement. A retrocession by Hannover Rück SE to E+S Rückversicherung AG exists in property and casualty reinsurance. The exclusive responsibilities of E+S Rückversicherung AG for German business and of 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.

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 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.

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

Business assumed and ceded in Germany and abroad

in EUR thousand	1.1.–30.9.2015		1.1.–30.9.2014	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Property and casualty reinsurance	418,680	(15,590)	344,175	51,575
Life and health reinsurance	109,200	17,469	113,870	20,001
	527,880	**1,879**	**458,045**	**71,576**
Business ceded				
Property and casualty reinsurance	(8,215)	201	(8,468)	(5,279)
Life and health reinsurance	(49,510)	(8,688)	(43,242)	(5,188)
	(57,725)	**(8,487)**	**(51,710)**	**(10,467)**
Total	**470,155**	**(6,608)**	**406,335**	**61,109**

In the context of a bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 47.9 million (EUR 48.3 million) including accrued interest of EUR 0.9 million (EUR 1.3 million).

HDI Lebensversicherung AG, Cologne, participated in a nominal amount of EUR 50.0 million in the subordinated bond issued by Hannover Rück SE in September 2014 with a coupon of 3.375%.

7.3 Staff

The average number of staff employed at the companies included in the consolidated financial statement of the Hannover Re Group was 2,549 during the period under review (average in 2014: 2,475).

As at the balance sheet date altogether 2,564 (2,534) staff were employed by the Hannover Re Group, with 1,333 (1,289) employed in Germany and 1,231 (1,245) working for the consolidated Group companies abroad.

7.4 Earnings per share

Calculation of the earnings per share

	1.1.–30.9.2015	1.1.–30.9.2014
Group net income in EUR thousand	785,998	695,444
Weighted average of issued shares	120,596,990	120,596,894
Basic earnings per share in EUR	6.52	5.77
Diluted earnings per share in EUR	6.52	5.77

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

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

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

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 2015 and sold them to eligible employees. The weighted average number of shares does not include 12,922 (21,608) treasury shares pro rata temporis for the duration of the holding period. For further details please see our comments in Section 5.3 "Shareholders' equity, non-controlling interests and treasury shares".

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

7.5 Contingent liabilities and commitments

Hannover Rück SE has secured by subordinated guarantee the subordinated debts issued by Hannover Finance (Luxembourg) S.A. in the 2010 and 2012 financial years in amounts of EUR 500.0 million each. A subordinated debt issued in 2005 by Hannover Finance (Luxembourg) S.A. with a volume of EUR 500.0 million, which was also secured by a subordinated guarantee, was redeemed on 1 June 2015 at the first scheduled call date.

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 3,447.8 million (EUR 3,173.7 million) and EUR 26.6 million (EUR 24.4 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 1,947.2 million (EUR 979.1 million) in the form of so-called "single trust funds". This amount includes a sum equivalent to EUR 1,248.9 million (EUR 329.1 million) which was furnished by investors as security for potential reinsurance obligations from ILS transactions.

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 2,786.1 million (EUR 2,694.0 million) as at the balance sheet date.

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

As security for our technical liabilities, various financial institutions have furnished sureties for our company in the form of letters of credit. The total amount as at the balance sheet date was EUR 3,032.5 million (EUR 2,899.1 million).

In addition, we put up own investments with a book value of EUR 57.3 million (EUR 78.9 million) as collateral for existing derivative transactions. We received collateral with a fair value of EUR 23.9 million (EUR 12.9 million) for existing derivative transactions.

As collateral for commitments 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 594.0 million (EUR 574.3 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 864.2 million (EUR 665.6 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

No significant events occurred after the balance sheet date.

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