

Notes to the consolidated financial statements as at 30 June 2019



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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.

As provided for by IAS 34, in our preparation of the consolidated quarterly financial statement, consisting of the consoli-

dated 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 5 August 2019 and released for publication.

2. Accounting principles including major accounting policies

The quarterly accounts of the consolidated companies included in the consolidated financial statement were drawn up as at 30 June 2019.

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. For more details of the accounting policies please see the Group annual financial report for the previous year.

With effect from this reporting period we are entering into fully collateralised, term repurchase agreements as a supplementary liquidity management tool. In this context the Group

sells securities and at the same time commits to repurchase them at a later date for an agreed price. Given that the material risks and opportunities associated with the financial instruments remain within the Group, we continue to recognise these assets. The repurchase commitment arising out of the payment received is accounted for under “other liabilities”; any difference between the amount received for the transfer of the securities and the amount agreed for their repurchase is spread across the term of the repurchase transaction using the effective interest rate method and shown in investment income.

All standards adopted by the IASB as at 30 June 2019 with binding effect for the period under review have been observed in the consolidated financial statement.

Accounting standards applied for the first time

IFRS 16 “Leases” sets out new requirements relating principally to accounting by lessees. As a general principle, the lessee shall recognise a lease liability for all leases. At the same time it shall recognise a right to use the underlying asset. Accounting by lessors remains virtually unchanged compared to current practice, according to which the lessor classifies each lease as a finance lease or an operating lease. Hannover

Re is applying the standard using a modified retrospective approach and recognises the cumulative effect of adoption of the standard in retained earnings as at 1 January 2019. Figures for the previous year were therefore not restated. Rights of use and lease liabilities in an amount of EUR 91.3 million were recognised as at 1 January 2019. They involve almost exclusively leases in connection with real estate. After allow-

ance for deferred taxes on income, application of the standard resulted in an increase of EUR 1.8 million in retained earnings.

In addition, a number of other amendments to existing standards and interpretations were issued with no significant implications for the consolidated financial statement:

- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement,
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- IFRIC 23 Uncertainty over Income Tax Treatments

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

Hannover Re continues to meet the requirements for application of “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)”, which was published in September 2016, regarding temporary deferral of IFRS 9. The deferral approach allows for a temporary exemption from recognising financial instruments in accordance with IFRS 9 until probable entry into force of IFRS 17 “Insurance Contracts” on 1 January 2022. For further explanatory remarks on the implications of application of IFRS 9 as well as IFRS 17, we would refer to the Group annual financial report for the previous year.

In addition, a number of other amendments to existing standards are only subject to mandatory application for financial years beginning on or after 1 January 2020. Hannover Re is refraining from early application of these amendments, which are not expected to have any significant implications for the Group’s net assets, financial position or results of operations.

- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendment to IFRS 3 Business Combinations
- Amendments to References to the Conceptual Framework in IFRS Standards

Key exchange rates

The individual companies’ statements of income prepared in the respective functional currency 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

	30.6.2019	31.12.2018	1.1.–30.6.2019	1.1.–30.6.2018
1 EUR corresponds to:	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.6233	1.6208	1.6012	1.5656
BHD	0.4287	0.4316	0.4272	0.4551
CAD	1.4886	1.5591	1.5112	1.5409
CNY	7.8118	7.8768	7.6885	7.7114
GBP	0.8960	0.9028	0.8771	0.8814
HKD	8.8797	8.9680	8.8829	9.4507
INR	78.5642	80.2219	79.3505	79.2957
KRW	1,313.0200	1,277.8700	1,295.0057	1,299.4271
MYR	4.7037	4.7590	4.6721	4.7665
SEK	10.5578	10.2769	10.4807	10.1710
USD	1.1371	1.1451	1.1331	1.2061
ZAR	16.1139	16.4522	16.0611	14.9047

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 includ-

ed 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 goodwill is not amortised, but 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 31.0 million (EUR 40.9 million) as at 30 June 2019.

For further details we would refer to the relevant information in the Group annual financial report as at 31 December 2018.

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

No major acquisitions and no new formations have taken place in the current financial year.

Major disposals

With economic effect from 1 January 2019 HDI Global SE acquired 50.2% of the shares in HDI Global Specialty SE (formerly: International Insurance Company of Hannover SE) for a purchase price of EUR 107.2 million. HDI Global Specialty SE was wholly owned by Hannover Rück SE. Deconsolidation of the company gave rise to income of EUR 6.3 million in the first quarter of 2019, which was recognised in other income and expenses. The remaining interest in the company in an amount of 49.8% was included at equity in the consolidated financial statement.

In the second quarter of 2019 the Executive Board of Hannover Re decided to dispose of Svedea AB, Stockholm. The shares in Svedea AB in an amount of 53% are held by FUNIS GmbH & Co. KG, Hannover, a wholly owned subsidiary of Hannover Rück SE.

With economic effect from 1 July 2019 HDI Global Specialty SE, Hannover, acquired the shares held by Funis in Svedea AB for a purchase price of EUR 52.9 million. The company will be deconsolidated in the third quarter of 2019.

Pursuant to IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” Svedea AB was classified as at the balance sheet date as a disposal group, which is to be measured at the lower of the carrying amount and fair value less costs to sell. This measurement did not give rise to any impairment expense.

The cumulative other comprehensive income of EUR -0.4 million arising out of the currency translation of the assets and liabilities belonging to the disposal group will only be realised in the context of deconsolidation.

In compliance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” we recognise the assets and liabilities of the disposal group in corresponding balance sheet items. Transactions between the disposal group and the other consolidated companies continue to be entirely eliminated in conformity with IFRS 10 “Consolidated Financial Statements”.

The assets and liabilities are presented on a consolidated basis in the following table and broken down into their major components.

Assets and liabilities of the disposal group

in EUR thousand	30.6.2019
Assets	
Other invested assets	5
Cash and cash equivalents	17,296
Other assets	20,608
Assets held for sale	37,909
Liabilities	
Taxes	2,976
Other liabilities	30,802
Liabilities related to assets held for sale	33,778

In addition, the company ITAS Vita S.p.A., Trento/Italy, which is held for sale pursuant to a resolution of the Executive Board dated 24 June 2019 and had until this date been recognised at equity, was recognised under “Assets held for sale”. Hannover Rück SE holds 27.1% of the shares in the company. Measurement at the lower of the carrying amount and fair value less costs to sell did not give rise to an impairment expense. The carrying amount of the company at the time of reclassification and at the balance sheet date was EUR 47.1 million.

A property was reclassified to assets held for sale in the reporting period. The carrying amount of the real estate was EUR 93.5 million at the time of reclassification and at the end of the period. The measurement of the real estate in the context of classification as an asset held for sale did not result in an impairment expense.

In March 2019 all shares in the special purpose property company Mustela s.r.o., Prague, were sold through HR GLL Europe Holding S.à.r.l., Luxembourg, for a purchase price of EUR 76.6 million.

In the context of the acquisition of Generali Lebensversicherung AG by Viridium Group the shareholding structure was reorganised. In this connection Hannover Re sold its indirectly held participation in Viridium, realising income of EUR 99.5 million that was recognised in investment income. At the same time Hannover Re participated again indirectly in Viridium Group including Generali Lebensversicherung AG, with the result that it holds a participating interest of around 17%.

4. Group segment report

Segmentation of assets in EUR thousand	Property and casualty reinsurance	
	30.6.2019	31.12.2018
Assets		
Fixed-income securities – held to maturity	199,426	198,596
Fixed-income securities – loans and receivables	2,399,487	2,349,266
Fixed-income securities – available for sale	26,534,393	24,689,122
Equity securities – available for sale	30,587	28,729
Financial assets at fair value through profit or loss	91,565	94,333
Other invested assets	3,993,601	3,735,054
Short-term investments	284,581	262,068
Cash and cash equivalents	763,344	734,942
Total investments and cash under own management	34,296,984	32,092,110
Funds withheld	2,548,835	1,931,254
Contract deposits	2,242	2,180
Total investments	36,848,061	34,025,544
Reinsurance recoverables on unpaid claims	1,739,325	1,903,289
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	149,001	93,614
Reinsurance recoverables on other technical reserves	534	543
Deferred acquisition costs	1,175,188	774,751
Accounts receivable	3,671,357	2,689,084
Other assets in the segment	1,682,373	1,781,317
Assets held for sale	131,456	1,041,043
Total assets	45,397,295	42,309,185
Segmentation of liabilities in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	26,775,860	24,542,826
Benefit reserve	–	–
Unearned premium reserve	4,689,826	2,915,904
Provisions for contingent commissions	319,685	300,093
Funds withheld	346,222	389,754
Contract deposits	72,810	71,607
Reinsurance payable	801,270	772,313
Long-term debt and notes payable	329,500	323,235
Other liabilities in the segment	2,299,492	1,718,949
Liabilities related to assets held for sale	33,778	2,246,129
Total liabilities	35,668,443	33,280,810

Life and health reinsurance		Consolidation		Total	
30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018
51,060	51,347	–	–	250,486	249,943
40,203	34,635	15,496	15,049	2,455,186	2,398,950
8,698,915	8,531,051	12,043	19,512	35,245,351	33,239,685
–	–	–	–	30,587	28,729
704,049	656,176	–	–	795,614	750,509
383,846	263,917	29,401	35,686	4,406,848	4,034,657
176,754	159,867	1,695	15	463,030	421,950
397,353	333,031	38,422	4,942	1,199,119	1,072,915
10,452,180	10,030,024	97,057	75,204	44,846,221	42,197,338
8,567,360	8,760,514	–	–	11,116,195	10,691,768
199,761	170,693	–	–	202,003	172,873
19,219,301	18,961,231	97,057	75,204	56,164,419	53,061,979
192,683	181,341	–	–	1,932,008	2,084,630
748,066	909,056	–	–	748,066	909,056
1,321	64	(83)	–	150,239	93,678
12,756	6,627	–	–	13,290	7,170
1,367,276	1,381,069	–	–	2,542,464	2,155,820
1,438,982	1,287,072	(295)	(378)	5,110,044	3,975,778
538,125	565,346	(1,080,806)	(1,165,321)	1,139,692	1,181,342
47,059	–	–	(1,859)	178,515	1,039,184
23,565,569	23,291,806	(984,127)	(1,092,354)	67,978,737	64,508,637
4,482,390	4,215,749	–	–	31,258,250	28,758,575
8,835,560	9,184,356	–	–	8,835,560	9,184,356
283,702	251,060	–	–	4,973,528	3,166,964
290,832	275,903	–	–	610,517	575,996
586,089	579,507	–	–	932,311	969,261
3,518,478	3,540,047	–	–	3,591,288	3,611,654
444,591	383,918	(166)	–	1,245,695	1,156,231
–	–	2,236,897	2,235,649	2,566,397	2,558,884
2,174,975	2,192,760	(1,050,120)	(1,173,150)	3,424,347	2,738,559
–	–	–	–	33,778	2,246,129
20,616,617	20,623,300	1,186,611	1,062,499	57,471,671	54,966,609

Segment statement of income in EUR thousand	Property and casualty reinsurance	
	1.1.–30.6.2019	1.1.–30.6.2018
Gross written premium	7,847,453	6,467,100
Net premium earned	5,963,846	5,174,847
Net investment income	498,493	502,973
thereof		
Change in fair value of financial instruments	(998)	1,339
Total depreciation, impairments and appreciation of investments	37,554	21,044
Income/expense on funds withheld and contract deposits	22,932	16,278
Claims and claims expenses	4,041,082	3,346,565
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,637,332	1,510,540
Administrative expenses	112,434	113,072
Other income and expenses	(14,636)	(18,871)
Operating profit/loss (EBIT)	656,855	688,772
Financing costs	1,125	–
Net income before taxes	655,730	688,772
Taxes	194,613	213,394
Net income	461,117	475,378
thereof		
Non-controlling interest in profit or loss	29,793	40,947
Group net income	431,324	434,431

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2018. 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 2018.

Changes in the consolidated group in the current financial year affected exclusively the property and casualty reinsurance segment.

Life and health reinsurance		Consolidation		Total	
1.1.–30.6.2019	1.1.–30.6.2018	1.1.–30.6.2019	1.1.–30.6.2018	1.1.–30.6.2019	1.1.–30.6.2018
3,846,531	3,518,192	–	–	11,693,984	9,985,292
3,391,826	3,170,719	83	76	9,355,755	8,345,642
365,487	239,102	1,658	1,523	865,638	743,598
44,743	18,279	–	(57)	43,745	19,561
3,940	16	–	–	41,494	21,060
70,914	97,518	–	–	93,846	113,796
2,812,709	2,672,631	–	–	6,853,791	6,019,196
55,819	(58,803)	–	–	55,819	(58,803)
604,180	554,805	–	–	2,241,512	2,065,345
128,263	106,131	254	129	240,951	219,332
129,624	84,328	(2,176)	(2,346)	112,812	63,111
285,966	219,385	(689)	(876)	942,132	907,281
784	–	40,454	37,684	42,363	37,684
285,182	219,385	(41,143)	(38,560)	899,769	869,597
26,322	72,605	(14,629)	(12,626)	206,306	273,373
258,860	146,780	(26,514)	(25,934)	693,463	596,224
1,165	(28)	–	–	30,958	40,919
257,695	146,808	(26,514)	(25,934)	662,505	555,305

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 as well as investments held by dis-

posal groups which are intended for sale as defined by IFRS 5 are 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 2018.

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

Investments		
in EUR thousand	30.6.2019	31.12.2018
Regional origin		
Germany	8,475,034	7,781,666
United Kingdom	3,359,521	3,274,473
France	1,483,840	1,299,239
Other	5,385,846	5,479,327
Europe	18,704,241	17,834,705
USA	15,015,115	14,348,172
Other	2,093,149	1,790,371
North America	17,108,264	16,138,543
Asia	3,773,053	3,201,846
Australia	2,811,822	2,723,189
Australasia	6,584,875	5,925,035
Africa	321,594	341,005
Other	2,127,247	1,958,050
Total	44,846,221	42,197,338

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.6.2019		31.12.2018	
	Amortised cost ¹	Fair value	Amortised cost ¹	Fair value
Held to maturity				
due in one year	32,953	33,467	27,597	28,255
due after one through two years	85,584	90,610	35,210	37,680
due after two through three years	83,615	91,293	138,040	150,358
due after three through four years	47,538	53,183	–	–
due after four through five years	–	–	48,280	53,358
due after five through ten years	–	–	–	–
due after more than ten years	796	267	816	266
Total	250,486	268,820	249,943	269,917
Loans and receivables				
due in one year	223,180	226,394	178,975	182,670
due after one through two years	201,950	209,802	200,522	209,143
due after two through three years	362,999	380,623	303,603	314,716
due after three through four years	242,924	270,911	213,694	232,687
due after four through five years	113,450	128,954	228,382	252,883
due after five through ten years	857,765	1,008,909	842,190	959,706
due after more than ten years	452,918	491,246	431,584	453,879
Total	2,455,186	2,716,839	2,398,950	2,605,684
Available for sale				
due in one year ²	5,361,858	5,372,908	6,159,368	6,157,352
due after one through two years	3,451,279	3,492,511	3,217,098	3,230,856
due after two through three years	2,689,481	2,738,357	3,264,200	3,253,202
due after three through four years	3,538,740	3,619,281	2,828,576	2,831,536
due after four through five years	2,676,282	2,784,803	3,047,032	3,043,361
due after five through ten years	11,368,024	11,929,607	10,040,715	10,051,258
due after more than ten years	6,489,641	6,970,033	6,086,028	6,166,985
Total	35,575,305	36,907,500	34,643,017	34,734,550
Financial assets at fair value through profit or loss				
due in one year	353,312	353,312	427,918	427,918
due after one through two years	174,966	174,966	86,411	86,411
due after two through three years	20,216	20,216	13,075	13,075
due after three through four years	22,250	22,250	10,358	10,358
due after four through five years	–	–	17,740	17,740
due after five through ten years	10,762	10,762	4,248	4,248
due after more than ten years	–	–	–	–
Total	581,506	581,506	559,750	559,750

¹ Including accrued interest

² Including short-term investments and cash

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

in EUR thousand	30.6.2019				
	Amortised cost including accrued interest	Thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Debt securities issued by semi-governmental entities	24,350	579	1,743	–	26,093
Corporate securities	70,364	1,227	5,881	–	76,245
Covered bonds/asset-backed securities	155,772	3,557	11,239	529	166,482
Total	250,486	5,363	18,863	529	268,820

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	31.12.2018				
	Amortised cost including accrued interest	Thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Investments held to maturity					
Fixed-income securities					
Debt securities issued by semi-governmental entities	23,833	130	1,865	–	25,698
Corporate securities	70,804	1,449	5,605	–	76,409
Covered bonds/asset-backed securities	155,306	3,002	13,054	550	167,810
Total	249,943	4,581	20,524	550	269,917

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

in EUR thousand	30.6.2019				
	Amortised cost including accrued interest	Thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,437,299	23,301	158,159	–	1,595,458
Corporate securities	566,051	4,165	30,581	1,908	594,724
Covered bonds/asset-backed securities	451,836	9,449	74,821	–	526,657
Total	2,455,186	36,915	263,561	1,908	2,716,839

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

in EUR thousand	31.12.2018				
	Amortised cost including accrued interest	Thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,451,697	22,045	132,424	2,487	1,581,634
Corporate securities	482,638	2,776	16,857	2,744	496,751
Covered bonds/asset-backed securities	464,615	7,511	62,684	–	527,299
Total	2,398,950	32,332	211,965	5,231	2,605,684

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

in EUR thousand	30.6.2019				
	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	4,842,330	18,616	250,163	613	5,091,880
US Treasury notes	7,669,521	32,646	162,280	8,522	7,823,279
Other foreign government debt securities	2,132,351	16,111	79,116	2,619	2,208,848
Debt securities issued by semi-governmental entities	5,472,449	43,395	288,869	2,758	5,758,560
Corporate securities	11,153,216	121,514	483,704	11,197	11,625,723
Covered bonds/asset-backed securities	2,511,331	17,560	89,920	12,434	2,588,817
Investment funds	132,100	–	16,144	–	148,244
	33,913,298	249,842	1,370,196	38,143	35,245,351
Equity securities					
Shares	12,194	–	6,031	–	18,225
Investment funds	5,647	–	6,715	–	12,362
	17,841	–	12,746	–	30,587
Short-term investments	462,888	4,352	167	25	463,030
Total	34,394,027	254,194	1,383,109	38,168	35,738,968

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	31.12.2018				
	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	4,812,680	24,143	104,587	8,016	4,909,251
US Treasury notes	7,620,338	24,653	8,952	111,169	7,518,121
Other foreign government debt securities	2,146,289	17,987	17,738	26,084	2,137,943
Debt securities issued by semi-governmental entities	5,039,941	41,088	144,688	25,358	5,159,271
Corporate securities	11,064,028	121,084	153,661	200,049	11,017,640
Covered bonds/asset-backed securities	2,390,624	22,052	56,340	35,917	2,411,047
Investment funds	74,388	–	12,635	611	86,412
	33,148,288	251,007	498,601	407,204	33,239,685
Equity securities					
Shares	12,194	–	5,897	–	18,091
Investment funds	5,647	–	4,991	–	10,638
	17,841	–	10,888	–	28,729
Short-term investments	421,814	4,813	145	9	421,950
Total	33,587,943	255,820	509,634	407,213	33,690,364

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

	30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018
in EUR thousand	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
US Treasury notes	56,407	55,855	–	289	56,407	56,144
Other foreign government debt securities	280,987	271,933	–	–	280,987	271,933
Corporate securities	243,670	231,355	442	318	244,112	231,673
	581,064	559,143	442	607	581,506	559,750
Other financial assets						
Derivatives	213,971	190,759	137	–	214,108	190,759
	213,971	190,759	137	–	214,108	190,759
Total	795,035	749,902	579	607	795,614	750,509

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 instru-

ments, 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	30.6.2019			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	34,435	35,792,422	–	35,826,857
Equity securities	30,587	–	–	30,587
Other financial assets	–	69,697	144,411	214,108
Real estate funds	–	–	486,332	486,332
Other invested assets	–	–	1,680,897	1,680,897
Short-term investments	463,030	–	–	463,030
Other assets	–	3,546	–	3,546
Total financial assets	528,052	35,865,665	2,311,640	38,705,357
Other liabilities	–	19,667	26,994	46,661
Total financial liabilities	–	19,667	26,994	46,661

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

in EUR thousand	31.12.2018			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	28,040	33,771,395	–	33,799,435
Equity securities	28,729	–	–	28,729
Other financial assets	–	58,420	132,339	190,759
Real estate funds	–	–	433,899	433,899
Other invested assets	–	–	1,647,992	1,647,992
Short-term investments	421,950	–	–	421,950
Other assets	–	988	–	988
Total financial assets	478,719	33,830,803	2,214,230	36,523,752
Other liabilities	–	57,940	24,548	82,488
Total financial liabilities	–	57,940	24,548	82,488

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

	1.1. – 30.6.2019				
	Equities, equity funds and other variable-yield securities	Other financial assets	Real estate funds	Other invested assets	Other liabilities
in EUR thousand					
Net book value at 31 December of the previous year	–	132,339	433,899	1,647,992	24,548
Currency translation at 1 January of the year under review	–	937	23,449	7,738	174
Net book value after currency translation	–	133,276	457,348	1,655,730	24,722
Income and expenses					
recognised in the statement of income	–	17,991	(1,618)	(19,339)	(2,741)
recognised directly in shareholders' equity	–	–	(1,847)	(24,138)	–
Purchases	–	38,493	48,796	177,605	5,024
Sales	–	45,389	16,238	108,736	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 30 June of the year under review	–	40	(109)	(225)	(11)
Closing balance at 30 June of the year under review	–	144,411	486,332	1,680,897	26,994

Movements in level 3 financial assets and liabilities

in EUR thousand	1.1.–30.6.2018				
	Equities, equity funds and other variable-yield securities	Other financial assets	Real estate funds	Other invested assets	Other liabilities
Net book value at 31 December of the previous year	102	49,039	384,973	1,639,065	185,498
Currency translation at 1 January of the year under review	–	1,438	3,944	28,792	5,437
Net book value after currency translation	102	50,477	388,917	1,667,857	190,935
Income and expenses					
recognised in the statement of income	–	976	–	51,314	(15,692)
recognised directly in shareholders' equity	–	–	(4,209)	(58,147)	–
Transfers	(103)	–	–	–	–
Purchases	–	23,806	40,307	183,338	7,718
Sales	–	6,552	33,502	273,045	–
Settlements	–	–	–	4,756	–
Reclassifications pursuant to IFRS 5	–	–	(7,013)	–	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 30 June of the year under review	1	(1,692)	130	2,467	(1,159)
Closing balance at 30 June of the year under review	–	67,015	384,630	1,569,028	181,802

The breakdown of income and expenses recognised in the statement of income in the reporting 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

in EUR thousand	1.1.–30.6.2019				
	Equities, equity funds and other variable-yield securities	Other financial assets	Real estate funds	Other invested assets	Other liabilities
Total in the period under review					
Ordinary investment income	–	–	–	(14)	–
Realised gains and losses on investments	–	–	–	278	–
Change in fair value of financial instruments	–	17,991	–	(2,292)	2,741
Total depreciation, impairments and appreciation of investments	–	–	(1,618)	(17,311)	–
Thereof attributable to financial instruments included in the portfolio at 30 June					
Ordinary investment income	–	–	–	(14)	–
Change in fair value of financial instruments	–	17,991	–	240	2,741
Total depreciation, impairments and appreciation of investments	–	–	(1,618)	(17,311)	–

Income and expenses from level 3 financial assets and liabilities

in EUR thousand	1.1.–30.6.2018				
	Equities, equity funds and other variable-yield securities	Other financial assets	Real estate funds	Other invested assets	Other liabilities
Total in the period under review					
Ordinary investment income	–	–	–	63	–
Realised gains and losses on investments	–	–	–	54,793	–
Change in fair value of financial instruments	–	976	–	920	15,692
Total depreciation, impairments and appreciation of investments	–	–	–	(4,462)	–
Thereof attributable to financial instruments included in the portfolio at 30 June					
Ordinary investment income	–	–	–	63	–
Change in fair value of financial instruments	–	976	–	920	15,692
Total depreciation, impairments and appreciation of investments	–	–	–	(4,462)	–

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 2,311.6 million (EUR 2,214.2 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 2,029.4 million (EUR 1,924.9 million) using the net asset value method. These items consist principally of shares in private equity and real estate funds. Assuming that the present values of the assets and liabilities contained in the funds would be 10% lower than used for measurement as at the balance sheet date, the fair values

for these items would amount to EUR 1,826.5 million. The remaining financial assets included in level 3 with a volume of EUR 282.2 million (EUR 289.3 million) relate to financial assets, 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. Notes payable

Hannover Re recognised altogether three (three) subordinated bonds placed on the European capital market with an amortised cost of EUR 1,494.0 million (EUR 1,493.1 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 issued through Hannover Finance (Luxembourg) S.A. The fair value of the aforementioned bonds as at 30 June 2019 was EUR 1,166.7 million (EUR 1,126.1 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 552.1 million (EUR 520.6 million), was issued by Hannover Rück SE.

In April 2018 Hannover Rück SE issued a senior unsecured bond with a volume of EUR 750.0 million. The bond has a maturity of 10 years. The fair value of this bond was EUR 794.8 million (EUR 741.3 million) as at the balance sheet date.

For further information regarding the maturity and coupon of these bonds please see the Group annual financial report for the previous year.

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 ordinary shares in the form of no-par shares. The shares are paid 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 774.3 million (EUR 765.2 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 706.8 million (EUR 706.1 million).

Conditional capital of up to EUR 60,299 thousand is available. It can be used to grant shares to holders of bonds and/or profit-sharing rights with conversion rights and warrants and has a time limit of 9 May 2021.

In addition, authorised capital of up to EUR 60,299 thousand is available with a time limit of 9 May 2021.

The subscription right of shareholders may be excluded in each case with the consent of the Supervisory Board under certain conditions.

The Executive Board is authorised, with the consent of the Supervisory Board, to acquire treasury shares – including through the use of derivatives – up to an amount of 10% of the share capital. The authorisation has a time limit of 5 May 2020.

The Executive Board is additionally authorised, with the consent of the Supervisory Board, to use an amount of up to EUR 1,000 thousand of the existing authorised capital to issue employee shares.

The Annual General Meeting of Hannover Rück SE resolved on 8 May 2019 to distribute a gross dividend of EUR 5.25 per share, altogether EUR 633.1 million (EUR 603.0 million), for the 2018 financial year. The distribution is comprised of a dividend of EUR 3.75 per share and a special dividend of EUR 1.50 per share.

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 16,452 (16,530) treasury shares during the second quarter of 2019 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2023. This transaction resulted in an expense of EUR 0.4 million (EUR 0.4 million), which was recognised under personnel expenditure, as well as a negligible change in retained earnings recognised in equity. The company was no longer in possession of treasury shares as at the balance sheet date.

The increase in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 12.6 million (30 June 2018: EUR 6.0 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

6.1. Gross written premium

Gross written premium		
in EUR thousand	1.1.–30.6.2019	1.1.–30.6.2018
Regional origin		
Germany	905,326	714,979
United Kingdom	1,449,215	1,321,328
France	456,127	401,942
Other	1,421,444	1,282,995
Europe	4,232,112	3,721,244
USA	3,791,664	3,074,313
Other	426,699	391,049
North America	4,218,363	3,465,362
Asia	1,927,425	1,450,483
Australia	552,121	638,023
Australasia	2,479,546	2,088,506
Africa	267,306	264,266
Other	496,657	445,914
Total	11,693,984	9,985,292

6.2. Investment income

Investment income		
in EUR thousand	1.1.–30.6.2019	1.1.–30.6.2018
Income from real estate	87,868	82,588
Dividends	2,735	1,045
Interest income	484,965	451,450
Other investment income	118,924	97,393
Ordinary investment income	694,492	632,476
Profit or loss on shares in associated companies	7,507	1,792
Realised gains on investments	187,775	163,635
Realised losses on investments	60,306	110,255
Change in fair value of financial instruments	43,745	19,561
Impairments on real estate	20,205	16,597
Impairments on fixed-income securities	128	–
Impairments on participating interests and other financial assets	21,161	4,463
Other investment expenses	59,927	56,347
Net income from assets under own management	771,792	629,802
Interest income on funds withheld and contract deposits	115,279	164,065
Interest expense on funds withheld and contract deposits	21,433	50,269
Total investment income	865,638	743,598

The impairments totalling EUR 23.0 million (EUR 4.5 million) were attributable in an amount of EUR 17.3 million (EUR 4.5 million) to alternative investments. Impairments of EUR 1.7 million (EUR 0.0 million) were recognised on real estate and

real estate funds. The write-downs taken on fixed-income securities totalled EUR 0.1 million (EUR 0.0 million). Impairments of EUR 3.9 million (EUR 0.0 million) were taken on other invested assets.

These write-downs were not opposed by any reversals. The portfolio did not contain any overdue, unadjusted assets as at

the balance sheet date since overdue securities are written down immediately.

Interest income on investments

in EUR thousand	1.1.–30.6.2019	1.1.–30.6.2018
Fixed-income securities – held to maturity	4,857	5,767
Fixed-income securities – loans and receivables	41,230	40,908
Fixed-income securities – available for sale	419,898	388,159
Financial assets – at fair value through profit or loss	2,193	960
Other	16,787	15,656
Total	484,965	451,450

7. Other notes

7.1. Derivative financial instruments and financial guarantees

Derivatives are financial instruments, the fair value of which is derived from an underlying trading instrument such as equities, bonds, indices or currencies. We use derivative financial instruments in order to hedge parts of our portfolio against interest rate and market price risks, optimise returns or realise intentions to buy/sell. In this context we take special care to limit the risks, select first-class counterparties and adhere strictly to the standards defined by investment guidelines.

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 1.5 million (EUR 0.5 million) and other financial assets at fair value through profit or loss of EUR 0.1 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 8.9 million (EUR 6.1 million) and other financial assets at fair value through profit or loss in an amount of EUR 9.6 million (EUR 16.4 million). The increase in equity from hedging instruments recognised directly in equity pursuant to IAS 39 derived in an amount of EUR 1.4 million (EUR 2.3 million) from the forward exchange transactions

Derivative financial instruments in connection with reinsurance

A number of treaties in life and health reinsurance meet criteria which require application of the stipulations contained in IFRS 4 "Insurance Contracts" governing embedded derivatives. These accounting regulations require that certain derivatives embedded in reinsurance contracts be separated from the underlying insurance contract ("host contract"), reported separately at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and recognised under investments. Fluctuations in the fair value

taken out to hedge currency risks from long-term investments in foreign operations. These hedging instruments resulted in the recognition of other financial assets at fair value through profit or loss in an amount of EUR 0.3 million (EUR 3.8 million) and other liabilities of EUR 0.7 million (EUR 0.0 million). Ineffective components of the hedge were recognised in a negligible amount under other investment expenses (EUR 1.1 million under other investment income).

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 3.5 million (EUR 1.0 million) as at the balance sheet date and was 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 7.1 million (EUR 1.6 million); ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 1.5 million to the result of the period under review (improvement in the result of EUR 0.1 million).

of the derivative components are to be recognised through profit and loss in subsequent periods.

Within the scope of the accounting of "modified coinsurance" and "coinsurance funds withheld" (ModCo) reinsurance treaties, under which securities deposits are held by the ceding companies and payments rendered on the basis of the income from certain securities of the ceding company, the interest-rate risk elements are clearly and closely related to the under-

lying reinsurance arrangements. Embedded derivatives consequently result solely from the credit risk of the underlying securities portfolio.

Hannover Re calculates the fair values 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 has no value on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative had a positive value of EUR 23.0 million (EUR 14.0 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss. In the course of the year the change in the fair value of the derivative gave rise to income of EUR 8.9 million (charge of EUR 5.9 million) before tax.

A derivative financial instrument was also unbundled from another similarly structured transaction. This gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 19.2 million (EUR 4.8 million). The performance of this derivative has improved the result by EUR 14.7 million in the financial year to date (EUR 0.4 million).

A number of transactions concluded in the Life & Health reinsurance business group in previous years, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition. The fair value of these instruments was EUR 47.3 million (EUR 53.2 million) on the balance sheet date and was recognised under other financial assets at fair value through profit or loss. The change in value in subsequent periods is dependent upon the risk experience and has led to an improvement of EUR 18.3 million (EUR 16.0 million) in investment income in the financial year to date.

A retrocession agreement exists in the area of life and health reinsurance under which the premiums were deposited with Hannover Re and invested in a structured bond. The retrocessionaire has furnished a guarantee for its fair value. In ac-

Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the ced-

cordance with the requirements of IFRS 4 this guarantee was to be unbundled from the retrocession agreement and is carried as a derivative financial instrument at fair value. The derivative was recognised with a positive fair value of EUR 9.8 million (EUR 22.7 million) as at the balance sheet date under other financial assets at fair value through profit or loss. In the course of the year the change in the fair value of the derivative resulted in an expense of EUR 13.2 million (income of EUR 7.0 million). Conversely, the performance of the structured bond, which is also measured at fair value, gave rise to income (expense) in the same amount.

In the area of life and health reinsurance a reinsurance treaty with a financing component was also written in previous years under which the amount and timing of the return flows are dependent on lapse rates within an underlying primary insurance portfolio. This treaty and a corresponding retrocession agreement, which were classified as financial instruments pursuant to IAS 39, resulted in the recognition of other liabilities of EUR 27.0 million (EUR 24.5 million) and other financial assets at fair value through profit or loss in an amount of EUR 97.1 million (EUR 79.2 million). Altogether, these arrangements have given rise to an improvement in income of EUR 2.5 million (EUR 0.6 million) in the course of the financial year to date.

At the end of the 2017 financial year an index-linked cover was written for longevity risks. The resulting derivative was recognised as at the balance sheet date with a positive fair value of EUR 7.7 million under other financial assets at fair value through profit or loss (EUR 45.5 million recognised under other liabilities). The change in the fair value of the derivative has given rise to income of EUR 5.6 million (EUR 6.0 million) in the course of the financial year to date.

All in all, application of the standards governing the accounting for derivatives in connection with the technical account led to recognition of assets totalling EUR 204.0 million (EUR 173.9 million) as well as recognition of liabilities in an amount of EUR 35.6 million (EUR 75.9 million) from the derivatives resulting from technical items as at the balance sheet date. Improvements in investment income amounting to EUR 49.9 million (EUR 30.7 million) as well as charges to income of EUR 15.9 million (EUR 5.9 million) have been recognised in the current year under review from all separately measured derivatives in connection with the technical account.

ants 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 3,291.9 million (EUR 3,268.7 million); an amount equivalent to EUR 2,678.6 million (EUR 2,623.4 million) had

been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by companies belonging to 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

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 (HDI), Hannover, holds a stake of 79.0% in Talanx AG.

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.

Companies belonging to the Talanx Group granted the Hannover Re Group insurance protection inter alia in the areas of public liability, building, contractors all risks, group accident and business travel insurance. Divisions of Talanx AG also

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.

performed services for the Hannover Re Group in the areas of taxes and general administration. Divisions of Hannover Rück SE performed services in connection with the insurance and reinsurance business of HDI Global Specialty SE, a joint venture of Hannover Rück SE and HDI Global SE.

Talanx Reinsurance Broker GmbH 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 GmbH.

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.–30.6.2019			1.1.–30.6.2018		
	Property and casualty reinsurance	Life and health reinsurance	Total	Property and casualty reinsurance	Life and health reinsurance	Total
Material items in the statement of income						
Business assumed						
Premium	658,737	69,766	728,503	185,059	73,030	258,089
Underwriting result	(20,779)	10,487	(10,292)	(11,705)	12,150	445
Business ceded						
Premium	(1,986)	(32,804)	(34,790)	1,040	(27,610)	(26,570)
Underwriting result	(899)	(5,733)	(6,632)	(1,183)	(4,254)	(5,437)
Total						
Premium	656,751	36,962	693,713	186,099	45,420	231,519
Underwriting result	(21,678)	4,754	(16,924)	(12,888)	7,896	(4,992)

in EUR thousand	30.6.2019			31.12.2018		
	Property and casualty reinsurance	Life and health reinsurance	Total	Property and casualty reinsurance	Life and health reinsurance	Total
Material items in the balance sheet						
Assets						
Funds withheld	73,131	936,933	1,010,064	54,767	906,427	961,194
Deferred acquisition costs	198,715	21,843	220,558	32,651	33,153	65,804
Accounts receivable	340,582	9,219	349,801	35,491	16,050	51,541
Liabilities						
Loss and loss adjustment expense reserve	2,589,910	46,393	2,636,303	1,166,164	46,553	1,212,717
Benefit reserve	–	112,774	112,774	–	118,207	118,207
Unearned premium reserve	655,629	12	655,641	92,643	25	92,668
Contract deposits	–	799,893	799,893	–	770,066	770,066
Reinsurance payable	7,292	2,733	10,025	27,065	6,252	33,317

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 47.5 million (EUR 47.5 million) including accrued interest of EUR 0.5 million (EUR 0.5 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%.

Within the contractually agreed framework Ampega 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 Invest-

ment GmbH. Ampega Real Estate GmbH performs services for Hannover Re under a number of management contracts.

Hannover Rück SE has concluded agreements with Ampega Asset Management GmbH and with HDI Global Specialty SE that enable these companies to use software for checking sanctions lists.

Under long-term lease arrangements companies belonging to the Hannover Re Group rented out business premises in 2015 to HDI Service AG, Hannover. In addition, lease agreements exist with HDI Service AG for use of a portion of the space in our data centre.

Furthermore, IT and management services were performed for Talanx Reinsurance Broker AG, Hannover, under service contracts.

Actuarial opinions with respect to the pension commitments given to staff are drawn up for Hannover Rück SE and E+S Rückversicherung AG by HDI Pensionsmanagement AG and HDI Lebensversicherung AG under an actuarial service contract.

Talanx AG performs various services in the area of taxes for a number of investment vehicles of the Hannover Re Group in the asset classes of private equity and real estate. In this regard corresponding agreements have been concluded with altogether nine Hannover Re companies.

Since 2012 a service agreement has existed between Hannover Rück SE and Talanx AG regarding the receipt of servic-

7.3. Staff

As at the balance sheet date altogether 3,169 (3,317) staff were employed by the Hannover Re Group, with 1,363 (1,426)

es for operation of data acquisition software used in the preparation of the consolidated financial statement.

Hannover Rück SE has concluded a service contract with HDI Service AG in the area of flight services as well as a contract regarding the reciprocal provision of business continuity management services.

Since 2004 a service agreement has existed between Hannover Rück SE, E+S Rückversicherung AG and Talanx Reinsurance Broker GmbH regarding the receipt of market security services and access to the business partner information system of Hannover Rück SE.

employed in Germany and 1,806 (1,891) working for the consolidated Group companies abroad.

7.4. Earnings per share

Calculation of the earnings per share

	1.1.–30.6.2019	1.1.–30.6.2018
Group net income in EUR thousand	662,505	555,305
Weighted average of issued shares	120,596,861	120,596,856
Basic earnings per share in EUR	5.49	4.60
Diluted earnings per share in EUR	5.49	4.60

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.

The weighted average number of issued shares was slightly below the number of shares outstanding as at the balance sheet date. 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 2019 and sold them to eligible employees at a later date.

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.

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

The weighted average number of shares does not include 16,452 (16,530) treasury shares pro rata temporis for the duration of the holding period. For further details please see our comments in section 6.3 "Shareholders' equity, non-controlling interests and treasury shares".

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

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

(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 4,047.5 million (EUR 3,904.8 million) and EUR 136.4 million (EUR 132.3 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as availa-

ble-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 3,101.3 million (EUR 2,555.3 million) in the form of so-called “single trust funds”. This amount includes a sum equivalent to EUR 2,673.5 million (EUR 2,042.6 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 2,964.4 million (EUR 2,915.0 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 1,206.7 million (EUR 1,330.3 million).

We put up own investments with a book value of EUR 5.8 million (EUR 5.6 million) as collateral for existing derivative transactions. We received collateral with a fair value of EUR 7.4 million (EUR 15.6 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 650.0 million (EUR 647.4 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 1,416.9 million (EUR 1,326.4 million). These primarily involve as yet unfulfilled payment obligations from investment commitments given to private equity funds and venture capital firms.

Group companies are members of the association for the reinsurance of pharmaceutical risks and several atomic and nuclear pools. The failure of one of the other pool members to meet its liabilities would result in an additional call according to the quota participation.

Hannover Rück SE has put up a guarantee limited to GBP 10.0 million (EUR 11.2 million) for an indefinite period in favour of the pension scheme “The Congregational & General Insurance Plc Pension and Life Assurance Scheme” of the company Congregational & General Insurance Plc., Bradford/UK, which is in liquidation, at usual market conditions.

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 reporting period

No significant events beyond the scope of ordinary business activities have occurred since the balance sheet date.

Hannover, 5 August 2019

Executive Board



Henchoz



Althoff



Chèvre



Dr. Miller



Dr. Pickel



Sehm



Vogel

Review report by the independent auditors

To Hannover Rück SE, Hannover

We have reviewed the condensed consolidated interim financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and the notes to the consolidated financial statements – together with the interim Group management report of Hannover Rück SE, Hannover, for the period from 1 January to 30 June 2019, which are components of the half-yearly financial report pursuant to §115 of the German Securities Trading Act (WpHG). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim management report for the Group in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent company's Board of Management. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim management report for the Group based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim management report for the Group in accordance with German generally accepted standards for the review of financial statements

Hannover, 6 August 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Mathias Röcker
Wirtschaftsprüfer

ppa. Dennis Schnittger
Wirtschaftsprüfer

promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and that the interim management report for the Group has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and thus provides less assurance than an audit. Since, in accordance with our mandate, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim management report for the Group has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the interim management re-

port of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Hannover, 5 August 2019

Executive Board



Henchoz



Althoff



Chèvre



Dr. Miller



Dr. Pickel



Sehm



Vogel