Consolidated financial statements

Consolidated balance sheet as at 30 June 2018

Assets in EUR thousand	30.6.2018	31.12.2017
Fixed-income securities – held to maturity	295,659	336,182
Fixed-income securities – loans and receivables	2,478,327	2,455,164
Fixed-income securities – available for sale	32,173,850	31,281,908
Fixed-income securities – at fair value through profit or loss	560,114	212,042
Equity securities – available for sale	37,098	37,520
Other financial assets – at fair value through profit or loss	130,559	88,832
Real estate and real estate funds	2,002,102	1,968,702
Investments in associated companies	112,596	121,075
Other invested assets	1,694,039	1,761,678
Short-term investments	644,341	958,669
Cash and cash equivalents	763,062	835,706
Total investments and cash under own management	**40,891,747**	**40,057,478**
Funds withheld	11,031,921	10,735,012
Contract deposits	168,533	167,854
Total investments	**52,092,201**	**50,960,344**
Reinsurance recoverables on unpaid claims	1,489,629	1,651,335
Reinsurance recoverables on benefit reserve	971,352	959,533
Prepaid reinsurance premium	137,947	96,402
Reinsurance recoverables on other technical reserves	10,077	7,301
Deferred acquisition costs	2,315,956	2,228,246
Accounts receivable	4,394,031	3,821,124
Goodwill	94,904	91,692
Deferred tax assets	496,208	466,564
Other assets	952,518	904,253
Accrued interest and rent	11,852	10,052
Assets held for sale	983,474	–
Total assets	**63,950,149**	**61,196,846**

Liabilities in EUR thousand	30.6.2018	31.12.2017
Loss and loss adjustment expense reserve	27,601,889	28,378,545
Benefit reserve	9,037,657	8,977,946
Unearned premium reserve	3,889,243	3,541,194
Other technical provisions	461,356	394,460
Funds withheld	932,223	974,786
Contract deposits	3,941,159	3,949,207
Reinsurance payable	1,211,754	980,241
Provisions for pensions	179,166	177,786
Taxes	287,585	319,845
Deferred tax liabilities	1,811,886	1,819,867
Other liabilities	775,817	654,338
Long-term debt and notes payable	2,556,502	1,742,073
Liabilities related to assets held for sale	2,209,315	–
Total liabilities	**54,895,552**	**51,910,288**
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	472,165	818,350
Cumulative foreign currency translation adjustment	121,669	(62,548)
Changes from hedging instruments	(2,899)	(6,292)
Other changes in cumulative other comprehensive income	(51,163)	(50,598)
Total other comprehensive income	**539,772**	**698,912**
Retained earnings	6,936,733	6,984,407
Equity attributable to shareholders of Hannover Rück SE	**8,321,664**	**8,528,478**
Non-controlling interests	732,933	758,080
Total shareholders' equity	**9,054,597**	**9,286,558**
Total liabilities and shareholders´ equity	**63,950,149**	**61,196,846**

Consolidated statement of income as at 30 June 2018

in EUR thousand	1.4.–30.6.2018	1.1.–30.6.2018	1.4.–30.6.2017 [1]	1.1.–30.6.2017 [1]
Gross written premium	4,640,331	9,985,292	4,450,979	8,997,598
Ceded written premium	397,853	864,109	403,423	874,503
Change in gross unearned premium	102,130	(838,379)	(240,521)	(634,934)
Change in ceded unearned premium	1,756	62,838	(12,002)	44,964
Net premium earned	**4,346,364**	**8,345,642**	**3,795,033**	**7,533,125**
Ordinary investment income	316,674	632,476	316,018	635,107
Profit/loss from investments in associated companies	529	1,792	1,265	5,653
Realised gains and losses on investments	4,536	53,380	59,278	83,361
Change in fair value of financial instruments	13,499	19,561	(359)	10,586
Total depreciation, impairments and appreciation of investments	10,041	21,060	12,191	23,056
Other investment expenses	28,154	56,347	27,974	55,624
Net income from investments under own management	**297,043**	**629,802**	**336,037**	**656,027**
Income/expense on funds withheld and contract deposits	55,091	113,796	50,490	123,380
Net investment income	**352,134**	**743,598**	**386,527**	**779,407**
Other technical income	55	76	–	808
Total revenues	**4,698,553**	**9,089,316**	**4,181,560**	**8,313,340**
Claims and claims expenses	3,064,975	6,019,196	2,938,919	5,801,366
Change in benefit reserves	(34,610)	(58,803)	(33,839)	(70,886)
Commission and brokerage, change in deferred acquisition costs	1,135,499	2,052,933	822,114	1,649,439
Other acquisition costs	4,737	10,578	6,333	14,575
Other technical expenses	829	1,910	1,043	1,884
Administrative expenses	111,534	219,332	115,860	216,364
Total technical expenses	**4,282,964**	**8,245,146**	**3,850,430**	**7,612,742**
Other income and expenses	57,795	63,111	68,418	98,828
Operating profit (EBIT)	**473,384**	**907,281**	**399,548**	**799,426**
Financing costs	19,963	37,684	18,117	35,825
Net income before taxes	**453,421**	**869,597**	**381,431**	**763,601**
Taxes	156,568	273,373	94,000	189,785
Net income	**296,853**	**596,224**	**287,431**	**573,816**
thereof				
Non-controlling interest in profit and loss	14,958	40,919	17,218	38,802
Group net income	**281,895**	**555,305**	**270,213**	**535,014**
Earnings per share (in EUR)				
Basic earnings per share	2.34	4.60	2.24	4.44
Diluted earnings per share	2.34	4.60	2.24	4.44

[1] Restated pursuant to IAS 8

Consolidated statement of comprehensive income as at 30 June 2018

in EUR thousand	1.4.–30.6.2018	1.1.–30.6.2018	1.4.–30.6.2017	1.1.–30.6.2017
Net income	**296,853**	**596,224**	**287,431**	**573,816**
Not reclassifiable to the consolidated statement of income				
Actuarial gains and losses				
Gains (losses) recognised directly in equity	(1,149)	(928)	4,172	3,116
Tax income (expense)	372	307	(1,351)	(1,014)
	(777)	**(621)**	**2,821**	**2,102**
Income and expense recognised directly in equity that cannot be reclassified				
Gains (losses) recognised directly in equity	(1,149)	(928)	4,172	3,116
Tax income (expense)	372	307	(1,351)	(1,014)
	(777)	**(621)**	**2,821**	**2,102**
Reclassifiable to the consolidated statement of income				
Unrealised gains and losses on investments				
Gains (losses) recognised directly in equity	(62,699)	(429,188)	68,765	199,767
Transferred to the consolidated statement of income	(4,569)	(48,888)	(50,876)	(70,918)
Tax income (expense)	20,886	117,555	(7,533)	(11,251)
	(46,382)	**(360,521)**	**10,356**	**117,598**
Currency translation				
Gains (losses) recognised directly in equity	354,726	187,135	(470,811)	(525,066)
Tax income (expense)	(16,076)	(911)	32,694	32,822
	338,650	**186,224**	**(438,117)**	**(492,244)**
Changes from the measurement of associated companies				
Gains (losses) recognised directly in equity	(8)	(7)	(5)	(3)
	(8)	**(7)**	**(5)**	**(3)**
Changes from hedging instruments				
Gains (losses) recognised directly in equity	2,009	3,931	(3,837)	1,549
Tax income (expense)	(266)	(534)	795	418
	1,743	**3,397**	**(3,042)**	**1,967**
Reclassifiable income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	294,028	(238,129)	(405,888)	(323,753)
Transferred to the consolidated statement of income	(4,569)	(48,888)	(50,876)	(70,918)
Tax income (expense)	4,544	116,110	25,956	21,989
	294,003	**(170,907)**	**(430,808)**	**(372,682)**
Total income and expense recognised directly in equity				
Gains (losses) recognised directly in equity	292,879	(239,057)	(401,716)	(320,637)
Transferred to the consolidated statement of income	(4,569)	(48,888)	(50,876)	(70,918)
Tax income (expense)	4,916	116,417	24,605	20,975
	293,226	**(171,528)**	**(427,987)**	**(370,580)**
Total recognised income and expense	**590,079**	**424,696**	**(140,556)**	**203,236**
thereof				
Attributable to non-controlling interests	19,027	28,531	11,062	35,203
Attributable to shareholders of Hannover Rück SE	571,052	396,165	(151,618)	168,033

Consolidated statement of changes in shareholders' equity as at 30 June 2018

in EUR thousand	Common shares	Additional paid-in capital	Other reserves (cumulative other comprehensive income)	
			Unrealised gains/losses	Currency translation
Balance as at 1.1.2017	**120,597**	**724,562**	**904,196**	**680,082**
Capital increase/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	113,252	(485,116)
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.6.2017	**120,597**	**724,562**	**1,017,448**	**194,966**
Balance as at 1.1.2018	**120,597**	**724,562**	**818,350**	**(62,548)**
Changes in the consolidated group	–	–	–	–
Capital increase/additions	–	–	–	–
Capital repayments	–	–	–	–
Acquisition/disposal of treasury shares	–	–	–	–
Total income and expense recognised directly in equity	–	–	(346,185)	184,217
Net income	–	–	–	–
Dividends paid	–	–	–	–
Balance as at 30.6.2018	**120,597**	**724,562**	**472,165**	**121,669**

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				
(6,703)	**(53,778)**	**6,628,274**	**8,997,230**	**743,317**	**9,740,547**
–	–	–	–	54	54
–	–	–	–	(3)	(3)
–	–	(54)	(54)	–	(54)
1,968	2,915	–	(366,981)	(3,599)	(370,580)
–	–	535,014	535,014	38,802	573,816
–	–	(602,986)	(602,986)	(44,011)	(646,997)
(4,735)	**(50,863)**	**6,560,248**	**8,562,223**	**734,560**	**9,296,783**
(6,292)	**(50,598)**	**6,984,407**	**8,528,478**	**758,080**	**9,286,558**
–	–	–	–	(167)	(167)
–	–	–	–	29	29
–	–	–	–	(19)	(19)
–	–	7	7	–	7
3,393	(565)	–	(159,140)	(12,388)	(171,528)
–	–	555,305	555,305	40,919	596,224
–	–	(602,986)	(602,986)	(53,521)	(656,507)
(2,899)	**(51,163)**	**6,936,733**	**8,321,664**	**732,933**	**9,054,597**

Consolidated accounts

Consolidated cash flow statement as at 30 June 2018

in EUR thousand	1.1.–30.6.2018	1.1.–30.6.2017[1]
I. Cash flow from operating activities		
Net income	596,224	573,816
Appreciation/depreciation	31,638	15,430
Net realised gains and losses on investments	(53,380)	(83,361)
Change in fair value of financial instruments (through profit or loss)	(19,561)	(10,586)
Realised gains and losses on deconsolidation	(2,978)	–
Amortisation of investments	5,521	26,963
Changes in funds withheld	(230,649)	(471,605)
Net changes in contract deposits	(69,445)	97,801
Changes in prepaid reinsurance premium (net)	775,540	589,783
Changes in tax assets/provisions for taxes	5,748	65,818
Changes in benefit reserve (net)	(21,356)	1,009
Changes in claims reserves (net)	677,797	756,222
Changes in deferred acquisition costs	(201,089)	(124,738)
Changes in other technical provisions	67,573	15,941
Changes in clearing balances	(741,473)	(536,419)
Changes in other assets and liabilities (net)	197,124	(8,235)
Cash flow from operating activities	**1,017,234**	**907,839**

[1] Restated pursuant to IAS 8

in EUR thousand	1.1.–30.6.2018	1.1.–30.6.2017
II. Cash flow from investing activities		
Fixed-income securities – held to maturity		
Maturities	40,725	123,402
Fixed-income securities – loans and receivables		
Maturities, sales	32,303	180,196
Purchases	(64,452)	(96,303)
Fixed-income securities – available for sale		
Maturities, sales	9,141,221	4,783,413
Purchases	(10,321,085)	(4,997,319)
Fixed-income securities – at fair value through profit or loss		
Maturities, sales	–	3,691
Purchases	(337,070)	–
Equity securities – available for sale		
Sales	5,493	11,572
Purchases	(3,556)	(13,850)
Other financial assets – at fair value through profit or loss		
Sales	35,149	32,383
Purchases	(48,330)	(58,743)
Other invested assets		
Sales	278,909	90,130
Purchases	(184,158)	(149,798)
Affiliated companies and participating interests		
Sales	3,974	47,160
Purchases	(7,786)	(61,221)
Real estate and real estate funds		
Sales	35,354	131,199
Purchases	(71,363)	(137,987)
Short-term investments		
Changes	295,567	(49,695)
Other changes (net)	(18,502)	(1,552)
Cash flow from investing activities	**(1,187,607)**	**(163,322)**

in EUR thousand	1.1.–30.6.2018	1.1.–30.6.2017
III. Cash flow from financing activities		
Contribution from capital measures	29	54
Payment on capital measures	(19)	(4,927)
Dividends paid	(656,507)	(646,997)
Proceeds from long-term debts	809,869	127
Repayment of long-term debts	(872)	(39,786)
Other changes	7	(54)
Cash flow from financing activities	**152,507**	**(691,583)**
IV. Exchange rate differences on cash	**5,123**	**(37,894)**
Cash and cash equivalents at the beginning of the period	**835,706**	**848,667**
Change in cash and cash equivalents (I. + II. + III. + IV.)	**(12,743)**	**15,040**
Cash and cash equivalents at the end of the period	**822,963**	**863,707**
Thereof cash and cash equivalents of the disposal group	59,901	–
Cash and cash equivalents at the end of the period excluding the disposal group	**763,062**	**863,707**
Supplementary information on the cash flow statement [1]		
Income taxes paid (on balance)	(260,804)	(135,732)
Dividend receipts[2]	110,432	112,074
Interest received	835,014	803,236
Interest paid	(130,651)	(142,925)

[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 June 2018

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 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 6 August 2018 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 2018.

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

All standards adopted by the IASB as at 30 June 2018 with binding effect for the period under review have been observed in the consolidated financial statement.

Accounting standards applied for the first time

In May 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers". The standard specifies when and in what amount revenue is to be recognised and which disclosures are required for this purpose. IFRS 15 provides a single five-step model framework to be applied to all contracts with customers. In the "Clarifications to IFRS 15 Revenue from Contracts with Customers", which were published in April 2016, the IASB clarified various principles of IFRS 15 and included additional transition relief provisions. Financial instruments and other contractual rights and obligations which are to be recognised under separate standards as well as (re)insurance contracts within the scope of IFRS 4 "Insurance Contracts" are expressly exempted from the standard's scope of application. Both the standard and the clarifications were applied for the first time to the financial year beginning on 1 January 2018. Hannover Re subjected the service contracts existing as at the balance sheet date to analysis and did not identify any significant changes relative to current practice. The predominant activity of the Hannover Re Group falls within the scope of application of IFRS 4. Consequently, the services falling within the scope of application of IFRS 15 do not have any significant implications overall for the Group's net assets, financial position or results of operations. Hannover Re opted for the modified retrospective approach on initial application of IFRS 15, according to which the cumulative effect of applying the new standard is recognised in retained earnings as at 1 January 2018. This effect was considered to be not significant for the Hannover Re Group as a whole, and the retained earnings resulting from the transition to IFRS 15 were therefore not restated on grounds of materiality. In addition, the practical transition relief provided in the standard with respect to completed contracts and contract modifications is utilised.

All in all, Hannover Re recognised revenue as defined by IFRS 15 in an amount of EUR 37.4 million in the first half of 2018.

Revenue categories

in EUR thousand	30.6.2018
Brokerage commissions, performance fees and similar forms of remuneration [1]	2,713
Other insurance-related services [2]	34,684
Total	**37,397**

[1] revenue recognition over time
[2] revenue recognition predominantly over time

In addition, the IASB published amendments to IFRS 4 "Applying IFRS 9 with IFRS 4", which gives certain insurance entities the option to defer mandatory application of IFRS 9 to 2021. The Hannover Re Group meets the qualifying criteria (the proportion of the Group's activities connected with insurance is over 90%) and is therefore applying the temporary exemption. The new disclosures required as part of the deferral approach, which are intended to facilitate some comparability with entities already applying IFRS 9, will be provided for the first time in the notes to the Annual Report as at 31 December 2018.

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

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2),
- Clarifications to IFRS 15: Revenue from Contracts with Customers,
- Transfers of Investment Property: Amendments to IAS 40 "Investment Property"
- Amendments as part of the "Annual Improvements to IFRS Standards 2014–2016 Cycle" with respect to IAS 28 "Investments in Associates and Joint Ventures" and IFRS 1 "First-time Adoption of International Financial Reporting Standards"
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

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

1 EUR corresponds to:	30.6.2018	31.12.2017	1.1.–30.6.2018	1.1.–30,6.2017
	Mean rate of exchange on the balance sheet date		Average rate of exchange	
AUD	1.5782	1.5347	1.5656	1.4439
BHD	0.4410	0.4523	0.4551	0.4100
CAD	1.5434	1.5047	1.5409	1.4469
CNY	7.7155	7.8051	7.7114	7.4670
GBP	0.8861	0.8875	0.8814	0.8603
HKD	9.1439	9.3728	9.4507	8.4545
INR	79.8363	76.6076	79.2957	71.5431
KRW	1,298.7900	1,280.3000	1,299.4271	1,244.5886
MYR	4.7057	4.8552	4.7665	4.7668
SEK	10.4508	9.8387	10.1710	9.5913
USD	1.1653	1.1994	1.2061	1.0874
ZAR	16.0315	14.8140	14.9047	14.4294

3. Changes in accounting policies

In the consolidated financial statement for the 2017 financial year Hannover Re disclosed components of the deferred acquisition costs and the unearned premium reserve netted with the benefit reserve for a certain portfolio of reinsurance treaties. This inaccurate disclosure was corrected retrospectively pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and the comparative figures for previous periods were restated. The effects of this change on the individual items of the consolidated balance sheet and the consolidated statement of income are shown in the following table. There were no implications for Group net income.

Restatements pursuant to IAS 8

in EUR thousand	1.1.2017	30.6.2017
Consolidated balance sheet		
Deferred acquisition costs	65,945	66,288
Benefit reserve	24,098	35,230
Unearned premium reserve	41,847	31,058

in EUR thousand		1.1.–30.6.2017
Consolidated statement of income		
Change in gross unearned premium		10,357
Change in benefit reserves		11,867
Commission and brokerage, change in deferred acquisition costs		(1,510)
Group net income		–

4. 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 40.9 million (EUR 38.8 million) as at 30 June 2018.

For further details we would refer to the relevant information in the Group annual financial report as at 31 December 2017.

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

Within the 95.1%-owned US subgroup Hannover Re Real Estate Holdings, Inc., the special purpose property company 1600FLL LLC, Wilmington, was established via the subsidiary GLL HRE Core Properties, LP, for the purpose of real estate acquisition. An amount of roughly EUR 30.4 million was invested in this connection.

Effective 11 Januar 2018 Hannover Re acquired all the shares in The Omaha Indemnity Company, Madison, through its wholly owned subsidiary Hannover Finance, Inc., Wilmington. The company is now trading under the name Glencar Insurance Company, Orlando. The purchase price of the shares was EUR 21.2 million.

The business was included in the consolidated financial statement in the first quarter. In the context of the purchase price allocation the determination of the fair values of the acquired assets and assumed liabilities undertaken for the purpose of initial consolidation gave rise to goodwill of EUR 3.5 million.

Major disposals

On 11 May 2018 the Executive Board of Hannover Re announced the plan to sell the majority of shares in International Insurance Company of Hannover SE, Hannover (Inter Hannover), a wholly owned subsidiary of Hannover Rück SE, to HDI Global SE, Hannover.

It is envisaged that HDI Global SE will acquire 50.2% of the shares in Inter Hannover. Inter Hannover will subsequently be renamed HDI Global Specialty SE. HDI Global SE will then transfer its specialty portfolio to the new company. The remaining shares in Inter Hannover will continue to be held by Hannover Re. The transaction is expected to close in the first quarter of 2019 with the associated deconsolidation for Hannover Re.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" Inter Hannover 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 -4.0 million arising out of the currency translation of the assets and liabilities belonging to the disposal group as well as the profits and losses netted directly in equity from the measurement of available-for-sale financial assets in an amount of EUR -0.5 million will only be realised in the context of deconsolidation. In addition, actuarial gains and losses in an amount of EUR -0.5 million were netted directly in equity as at the balance sheet date.

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	30.6.2018
Assets	
Fixed-income securities – loans and receivables	22,190
Fixed-income securities – available for sale	225,583
Real estate and real estate funds	7,013
Short-term investments and other invested assets	13,521
Cash and cash equivalents	59,901
Reinsurance recoverables on unpaid claims	102,851
Prepaid reinsurance premium	25,322
Deferred acquisition costs	119,896
Accounts receivable	400,278
Other assets	6,919
Assets held for sale	**983,474**
Liabilities	
Loss and loss adjustment expense reserve	1,638,250
Unearned premium reserve	541,825
Other liabilities	29,240
Liabilities related to assets held for sale	**2,209,315**

5. Group segment report

Segmentation of assets

in EUR thousand	Property and casualty reinsurance 30.6.2018	31.12.2017
Assets		
Fixed-income securities – held to maturity	228,946	259,284
Fixed-income securities – loans and receivables	2,442,236	2,417,894
Fixed-income securities – available for sale	23,632,839	23,662,710
Equity securities – available for sale	37,098	37,520
Financial assets at fair value through profit or loss	64,848	56,652
Other invested assets	3,521,882	3,612,795
Short-term investments	339,177	342,744
Cash and cash equivalents	528,632	610,585
Total investments and cash under own management	**30,795,658**	**31,000,184**
Funds withheld	1,996,781	1,636,993
Contract deposits	2,438	(121)
Total investments	**32,794,877**	**32,637,056**
Reinsurance recoverables on unpaid claims	1,279,678	1,443,869
Reinsurance recoverables on benefit reserve	–	–
Prepaid reinsurance premium	137,841	96,383
Reinsurance recoverables on other reserves	577	1,269
Deferred acquisition costs	942,141	841,911
Accounts receivable	2,899,988	2,458,038
Other assets in the segment	2,944,492	1,351,426
Assets held for sale	984,960	–
Total assets	**41,984,554**	**38,829,952**

Segmentation of liabilities

in EUR thousand		
Liabilities		
Loss and loss adjustment expense reserve	23,290,460	24,130,443
Benefit reserve	–	–
Unearned premium reserve	3,640,901	3,332,083
Provisions for contingent commissions	236,263	162,620
Funds withheld	358,339	400,290
Contract deposits	75,704	72,056
Reinsurance payable	738,889	512,372
Long-term debt and notes payable	321,574	250,122
Other liabilities in the segment	1,897,957	1,948,148
Liabilities related to assets held for sale	2,209,315	–
Total liabilities	**32,769,402**	**30,808,134**

Life and health reinsurance		Consolidation		Total	
30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
66,713	71,898	–	5,000	295,659	336,182
36,091	37,270	–	–	2,478,327	2,455,164
8,525,622	7,617,113	15,389	2,085	32,173,850	31,281,908
–	–	–	–	37,098	37,520
625,825	244,222	–	–	690,673	300,874
244,366	189,441	42,489	49,219	3,808,737	3,851,455
280,167	615,925	24,997	–	644,341	958,669
231,739	213,065	2,691	12,056	763,062	835,706
10,010,523	**8,988,934**	**85,566**	**68,360**	**40,891,747**	**40,057,478**
9,035,140	9,098,019	–	–	11,031,921	10,735,012
166,095	167,975	–	–	168,533	167,854
19,211,758	**18,254,928**	**85,566**	**68,360**	**52,092,201**	**50,960,344**
209,951	207,660	–	(194)	1,489,629	1,651,335
971,352	959,533	–	–	971,352	959,533
184	19	(78)	–	137,947	96,402
9,500	6,032	–	–	10,077	7,301
1,373,815	1,386,335	–	–	2,315,956	2,228,246
1,494,498	1,363,610	(455)	(524)	4,394,031	3,821,124
829,742	792,297	(2,218,752)	(671,162)	1,555,482	1,472,561
–	–	(1,486)	–	983,474	–
24,100,800	22,970,414	(2,135,205)	(603,520)	63,950,149	61,196,846

4,311,623	4,248,296	(194)	(194)	27,601,889	28,378,545
9,037,657	8,977,946	–	–	9,037,657	8,977,946
248,342	209,111	–	–	3,889,243	3,541,194
225,093	231,840	–	–	461,356	394,460
573,884	574,496	–	–	932,223	974,786
3,865,455	3,877,151	–	–	3,941,159	3,949,207
472,865	467,869	–	–	1,211,754	980,241
–	–	2,234,928	1,491,951	2,556,502	1,742,073
3,356,233	1,705,864	(2,199,736)	(682,176)	3,054,454	2,971,836
–	–	–	–	2,209,315	–
22,091,152	20,292,573	34,998	809,581	54,895,552	51,910,288

Notes

Segment statement of income

in EUR thousand	Property and casualty reinsurance 1.1.–30.6.2018	Property and casualty reinsurance 1.1.–30.6.2017
Gross written premium	6,467,100	5,427,458
thereof		
From insurance business with other segments	–	–
From insurance business with external third parties	6,467,100	5,427,458
Net premium earned	5,174,847	4,312,764
Net investment income	502,973	475,501
thereof		
Change in fair value of financial instruments	1,339	1,345
Total depreciation, impairments and appreciation of investments	21,044	23,040
Income/expense on funds withheld and contract deposits	16,278	1,828
Claims and claims expenses	3,346,565	2,926,442
Change in benefit reserve	–	–
Commission and brokerage, change in deferred acquisition costs and other technical income/expenses	1,510,540	1,129,534
Administrative expenses	113,072	107,794
Other income and expenses	(18,871)	9,786
Operating profit/loss (EBIT)	**688,772**	**634,281**
Financing costs	–	–
Net income before taxes	**688,772**	**634,281**
Taxes	213,394	155,493
Net income	**475,378**	**478,788**
thereof		
Non-controlling interest in profit or loss	40,947	34,818
Group net income	**434,431**	**443,970**

[1] Restated pursuant to IAS 8

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2017. 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 2017.

The special purpose property company 1600FLL LLC, Wilmington, which was established in the first half of 2018, and Glencar Insurance Company, Orlando, which was acquired in the same period, are allocated to the property and casualty reinsurance segment.

Life and health reinsurance		Consolidation		Total	
1.1.–30.6.2018	1.1.–30.6.2017 [1]	1.1.–30.6.2018	1.1.–30.6.2017	1.1.–30.6.2018	1.1.–30.6.2017 [1]
3,518,192	3,570,140	–	–	9,985,292	8,997,598
–	–	–	–	–	–
3,518,192	3,570,140	–	–	9,985,292	8,997,598
3,170,719	3,220,278	76	83	8,345,642	7,533,125
239,102	301,717	1,523	2,189	743,598	779,407
18,279	9,336	(57)	(95)	19,561	10,586
16	16	–	–	21,060	23,056
97,518	121,552	–	–	113,796	123,380
2,672,631	2,874,924	–	–	6,019,196	5,801,366
(58,803)	(70,886)	–	–	(58,803)	(70,886)
554,805	535,556	–	–	2,065,345	1,665,090
106,131	108,554	129	16	219,332	216,364
84,328	91,373	(2,346)	(2,331)	63,111	98,828
219,385	**165,220**	**(876)**	**(75)**	**907,281**	**799,426**
–	–	37,684	35,825	37,684	35,825
219,385	**165,220**	**(38,560)**	**(35,900)**	**869,597**	**763,601**
72,605	47,030	(12,626)	(12,738)	273,373	189,785
146,780	**118,190**	**(25,934)**	**(23,162)**	**596,224**	**573,816**
(28)	3,984	–	–	40,919	38,802
146,808	114,206	(25,934)	(23,162)	555,305	535,014

6. Notes on the individual items of the balance sheet

6.1 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 disposal 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 2017.

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

Investments

in EUR thousand	30.6.2018	31.12.2017
Regional origin		
Germany	7,343,377	6,999,285
United Kingdom	3,117,863	3,286,400
France	1,344,068	1,419,423
Other	5,289,844	6,108,855
Europe	**17,095,152**	**17,813,963**
USA	14,488,977	13,380,576
Other	1,814,544	1,876,686
North America	**16,303,521**	**15,257,262**
Asia	2,823,615	2,353,786
Australia	2,618,617	2,496,589
Australasia	**5,442,232**	**4,850,375**
Africa	423,086	442,684
Other	1,627,756	1,693,194
Total	**40,891,747**	**40,057,478**

Maturities of the fixed-income and variable-yield securities

in EUR thousand	30.6.2018		31.12.2017	
	Amortised cost[1]	Fair value	Amortised cost[1]	Fair value
Held to maturity				
due in one year	44,455	44,727	85,411	86,359
due after one through two years	33,385	34,979	28,055	29,586
due after two through three years	86,073	93,977	35,145	39,097
due after three through four years	83,383	93,208	138,465	156,064
due after four through five years	47,536	53,502	–	–
due after five through ten years	–	–	48,278	54,789
due after more than ten years	827	264	828	263
Total	**295,659**	**320,657**	**336,182**	**366,158**
Loans and receivables				
due in one year	135,804	136,914	129,159	130,841
due after one through two years	224,570	234,707	179,739	188,653
due after two through three years	204,000	215,638	218,893	233,670
due after three through four years	353,815	369,347	302,243	320,436
due after four through five years	243,247	273,999	214,455	235,151
due after five through ten years	845,489	1,002,218	942,722	1,126,196
due after more than ten years	471,402	502,050	467,953	505,538
Total	**2,478,327**	**2,734,873**	**2,455,164**	**2,740,485**
Available for sale				
due in one year[2]	5,350,857	5,349,130	5,345,018	5,346,842
due after one through two years	3,038,098	3,048,246	2,711,972	2,721,829
due after two through three years	3,726,727	3,725,710	3,310,919	3,364,264
due after three through four years	2,594,440	2,596,783	3,659,321	3,675,048
due after four through five years	3,356,368	3,370,325	2,748,835	2,814,657
due after five through ten years	9,570,063	9,610,698	9,992,925	10,218,549
due after more than ten years	5,654,873	5,880,361	4,601,225	4,935,094
Total	**33,291,426**	**33,581,253**	**32,370,215**	**33,076,283**
Financial assets at fair value through profit or loss				
due in one year	503,498	503,498	177,634	177,634
due after one through two years	10,887	10,887	8,620	8,620
due after two through three years	4,321	4,321	–	–
due after three through four years	2,584	2,584	–	–
due after four through five years	15,214	15,214	7,075	7,075
due after five through ten years	4,376	4,376	–	–
due after more than ten years	19,234	19,234	18,713	18,713
Total	**560,114**	**560,114**	**212,042**	**212,042**

[1] Including accrued interest
[2] Including short-term investments and cash

Notes

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

in EUR thousand	30.6.2018				
	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	29,044	742	156	–	29,200
Debt securities issued by semi-governmental entities	24,122	573	2,086	–	26,208
Corporate securities	81,031	1,472	6,993	–	88,024
Covered bonds/asset-backed securities	161,462	3,729	16,326	563	177,225
Total	**295,659**	**6,516**	**25,561**	**563**	**320,657**

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	31.12.2017				
	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	28,624	217	471	–	29,095
Debt securities issued by semi-governmental entities	29,493	437	2,433	–	31,926
Corporate securities	91,286	1,522	8,037	–	99,323
Covered bonds/asset-backed securities	186,779	3,872	19,600	565	205,814
Total	**336,182**	**6,048**	**30,541**	**565**	**366,158**

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

in EUR thousand	30.6.2018				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,537,681	24,348	172,074	4,328	1,705,427
Corporate securities	454,631	3,852	20,112	1,350	473,393
Covered bonds / asset-backed securities	486,015	10,417	70,038	–	556,053
Total	**2,478,327**	**38,617**	**262,224**	**5,678**	**2,734,873**

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

in EUR thousand	31.12.2017				
	Amortised cost including accrued interest	thereof accrued interest	Unrealised gains	Unrealised losses	Fair value
Loans and receivables					
Debt securities issued by semi-governmental entities	1,544,933	22,830	187,976	5,221	1,727,688
Corporate securities	396,794	2,326	25,988	1,454	421,328
Covered bonds / asset-backed securities	513,437	9,331	78,032	–	591,469
Total	**2,455,164**	**34,487**	**291,996**	**6,675**	**2,740,485**

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	30.6.2018				
	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	3,905,634	17,686	156,077	5,759	4,055,952
US Treasury notes	8,116,673	29,677	20,150	120,941	8,015,882
Other foreign government debt securities	1,933,305	16,143	15,897	24,704	1,924,498
Debt securities issued by semi-governmental entities	4,828,958	34,760	157,004	36,806	4,949,156
Corporate securities	10,658,232	115,870	217,720	164,959	10,710,993
Covered bonds/asset-backed securities	2,360,056	17,893	74,986	11,128	2,423,914
Investment funds	81,242	–	12,632	419	93,455
	31,884,100	**232,029**	**654,466**	**364,716**	**32,173,850**
Equity securities					
Shares	12,194	–	6,701	–	18,895
Investment funds	12,308	–	5,981	86	18,203
	24,502	**–**	**12,682**	**86**	**37,098**
Short-term investments	644,264	4,803	119	42	644,341
Total	**32,552,866**	**236,832**	**667,267**	**364,844**	**32,855,289**

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	31.12.2017				
	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	3,101,426	19,901	132,208	10,214	3,223,420
US Treasury notes	6,945,508	28,144	19,192	97,721	6,866,979
Other foreign government debt securities	1,893,711	16,513	26,766	16,290	1,904,187
Debt securities issued by semi-governmental entities	5,137,974	37,859	183,998	45,058	5,276,914
Corporate securities	10,945,807	119,725	401,952	29,217	11,318,542
Covered bonds / asset-backed securities	2,427,624	23,942	116,370	6,497	2,537,497
Investment funds	123,608	–	31,690	929	154,369
	30,575,658	**246,084**	**912,176**	**205,926**	**31,281,908**
Equity securities					
Shares	12,794	–	6,388	17	19,165
Investment funds	12,865	–	5,692	202	18,355
	25,659	**–**	**12,080**	**219**	**37,520**
Short-term investments	958,851	5,582	58	240	958,669
Total	**31,560,168**	**251,666**	**924,314**	**206,385**	**32,278,097**

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

in EUR thousand	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
	Fair value before accrued interest		Accrued interest		Fair value	
Financial assets at fair value through profit or loss						
Fixed-income securities						
US Treasury notes	57,114	–	–	–	57,114	–
Other foreign government debt securities	287,007	–	–	–	287,007	–
Corporate securities	215,703	211,856	290	186	215,993	212,042
	559,824	**211,856**	**290**	**186**	**560,114**	**212,042**
Other financial assets						
Derivatives	130,559	88,832	–	–	130,559	88,832
	130,559	**88,832**	**–**	**–**	**130,559**	**88,832**
Total	**690,383**	**300,688**	**290**	**186**	**690,673**	**300,874**

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	30.6.2018			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	27,230	32,706,734	–	32,733,964
Equity securities	35,342	1,756	–	37,098
Other financial assets	–	63,544	67,015	130,559
Real estate and real estate funds	–	–	384,630	384,630
Other invested assets	–	–	1,569,028	1,569,028
Short-term investments	644,341	–	–	644,341
Total financial assets	**706,913**	**32,772,034**	**2,020,673**	**35,499,620**
Other liabilities	–	60,872	181,802	242,674
Total financial liabilities	**–**	**60,872**	**181,802**	**242,674**

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

in EUR thousand	31.12.2017			
	Level 1	Level 2	Level 3	Total
Fixed-income securities	34,043	31,459,907	–	31,493,950
Equity securities	35,521	1,897	102	37,520
Other financial assets	–	39,793	49,039	88,832
Real estate and real estate funds	–	–	384,973	384,973
Other invested assets	–	–	1,639,065	1,639,065
Short-term investments	958,669	–	–	958,669
Total financial assets	**1,028,233**	**31,501,597**	**2,073,179**	**34,603,009**
Other liabilities	–	78,838	185,498	264,336
Total financial liabilities	**–**	**78,838**	**185,498**	**264,336**

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

in EUR thousand	1.1.–30.6.2018				
	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 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**

Movements in level 3 financial assets and liabilities

in EUR thousand	1.1.–30.6.2017				
	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 31 December of the previous year	**10**	**–**	**390,676**	**1,653,902**	**168,943**
Currency translation at 1 January of the year under review	–	–	(11,306)	(81,972)	(12,806)
Net book value after currency translation	**10**	**–**	**379,370**	**1,571,930**	**156,137**
Income and expenses					
recognised in the statement of income	–	897	(2,127)	(5,863)	(11,795)
recognised directly in shareholders' equity	–	–	(3,218)	23,646	–
Purchases	–	48,217	45,168	145,913	44,059
Sales	–	13,676	34,474	87,437	–
Transfers to level 3	–	–	–	–	–
Transfers from level 3	–	–	–	–	–
Currency translation at 30 June of the year under review	–	(109)	(128)	(1,569)	(1,150)
Closing balance at 30 June of the year under review	**10**	**35,329**	**384,591**	**1,646,620**	**187,251**

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

in EUR thousand	1.1.–30.6.2018			
	Other financial assets	Real estate and 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)	–

Income and expenses from level 3 financial assets and liabilities

in EUR thousand	1.1.–30.6.2017			
	Other financial assets	Real estate and real estate funds	Other invested assets	Other liabilities
Total in the period under review				
Ordinary investment income	–	–	(31)	–
Realised gains and losses on investments	–	–	(2,338)	–
Change in fair value of financial instruments	897	–	(1,282)	11,795
Total depreciation, impairments and appreciation of investments	–	(2,127)	(2,212)	–
Thereof attributable to financial instruments included in the portfolio at 30 June				
Ordinary investment income	–	–	(31)	–
Change in fair value of financial instruments	897	–	63	11,795
Total depreciation, impairments and appreciation of investments	–	(2,127)	(2,212)	–

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 2,020.7 million (EUR 2,073.2 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 1,833.0 million (EUR 1,892.6 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 187.7 million (EUR 180.6 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.

6.2 Notes payable

Hannover Re recognised altogether three (three) subordinated bonds with an amortised cost of EUR 1,492.8 million (EUR 1,492.0 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 June 2018 was EUR 1,174.9 million (EUR 1,193.1 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 518.1 million (EUR 563.1 million), was issued by Hannover Rück SE and similarly placed on the European capital market.

In April 2018 Hannover Rück SE issued a senior unsecured bond with a volume of EUR 750.0 million on the European capital market. The bond has a maturity of ten years and carries a fixed coupon of 1.125% p.a. The fair value of this bond was EUR 737.6 million as at the balance sheet date.

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

6.3 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 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 732.9 million (EUR 758.1 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 680.8 million (EUR 702.4 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 further 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 7 May 2018 to distribute a gross dividend of EUR 5.00 per share, altogether EUR 603.0 million (EUR 603.0 million), for the 2017 financial year. The distribution is comprised of a dividend of EUR 3.50 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 16,530 (18,805) treasury shares during the second quarter of 2018 and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2022. 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 6.0 million (30 June 2017: EUR 35.2 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

7.1 Gross written premium

Gross written premium

in EUR thousand	1.1.–30.6.2018	1.1.–30.6.2017
Regional origin		
Germany	714,979	713,806
United Kingdom	1,321,328	1,211,227
France	401,942	376,520
Other	1,282,995	1,129,697
Europe	**3,721,244**	**3,431,250**
USA	3,074,313	2,678,585
Other	391,049	340,251
North America	**3,465,362**	**3,018,836**
Asia	1,450,483	1,356,438
Australia	638,023	485,896
Australasia	**2,088,506**	**1,842,334**
Africa	264,266	239,877
Other	445,914	465,301
Total	**9,985,292**	**8,997,598**

7.2 Investment income

Investment income

in EUR thousand	1.1.–30.6.2018	1.1.–30.6.2017
Income from real estate	82,588	81,279
Dividends	1,045	15,045
Interest income	451,450	471,779
Other investment income	97,393	67,004
Ordinary investment income	**632,476**	**635,107**
Profit or loss on shares in associated companies	1,792	5,653
Realised gains on investments	163,635	116,710
Realised losses on investments	110,255	33,349
Change in fair value of financial instruments	19,561	10,586
Impairments on real estate	16,597	17,172
Impairments on equity securities	–	3,672
Impairments on participating interests and other financial assets	4,463	2,212
Other investment expenses	56,347	55,624
Net income from assets under own management	**629,802**	**656,027**
Interest income on funds withheld and contract deposits	164,065	186,457
Interest expense on funds withheld and contract deposits	50,269	63,077
Total investment income	**743,598**	**779,407**

The impairments totalling EUR 4.5 million (EUR 8.0 million) were taken exclusively in the area of alternative investments and were attributable to private equity.

As in the previous year, these write-downs were not opposed by any write-ups made 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.–30.6.2018	1.1.–30.6.2017
Fixed-income securities – held to maturity	5,767	7,223
Fixed-income securities – loans and receivables	40,908	40,597
Fixed-income securities – available for sale	388,159	408,948
Financial assets – at fair value through profit or loss	960	925
Other	15,656	14,086
Total	**451,450**	**471,779**

8. Other notes

8.1 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 0.4 million (EUR 1.0 million) and other financial assets at fair value through profit or loss of EUR 0.8 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 7.8 million (EUR 17.7 million) and other financial assets at fair value through profit or loss in an amount of EUR 22.4 million (EUR 2.0 million). The increase in equity from hedging instruments recognised directly in equity pursuant to IAS 39 derived in an amount of EUR 2.3 million (EUR 2.8 million) 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 financial assets at fair value through profit or loss in an amount of EUR 2.1 million (other liabilities of EUR 2.4 million). Ineffective components of the hedge were recognised in profit or loss under other investment income in an amount of EUR 1.1 million (EUR 0.3 million).

In order to hedge the risk of share price changes in connection with the stock appreciation rights granted under the share award plan, Hannover Re took out hedges in 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 0.1 million (EUR 0.8 million) as at the balance sheet date and was recognised under other liabilities. The hedge gave rise to an increase in equity from hedging instruments recognised directly in equity in an amount of EUR 1.6 million (decrease in equity recognised directly in equity in an amount of EUR 1.3 million); ineffective components of the hedge were recognised in a minimal amount under other investment expenses.

The net changes in the fair value of the aforementioned instruments resulted in an improvement of EUR 0.1 million in the result of the period under review (charge to the result of EUR 2.0 million).

Derivative financial instruments in connection with reinsurance

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

On this basis Hannover Re 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 104.2 million (EUR 86.3 million) as at the balance sheet date.

In addition, derivatives in connection with the reinsurance business were recognised under other liabilities in an amount of EUR 234.4 million (EUR 244.7 million) as at the balance sheet date.

Of this amount, EUR 157.7 million (EUR 165.1 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 16.0 million (EUR 12.1 million).

Of the derivatives carried on the assets side, fair values of EUR 19.8 million (EUR 25.1 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 5.9 million in the period under review (improvement of EUR 3.3 million in investment income).

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 7.8 million (EUR 7.4 million). In the course of the year the performance of this derivative improved the result by EUR 0.4 million (deterioration in the result of EUR 0.5 million).

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 accordance 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 9.6 million (EUR 2.2 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 income of EUR 7.0 million (charge of EUR 13.6 million). Conversely, the performance of the structured bond, which is also measured at fair value, gave rise to a charge (income) in the same amount.

In the area of life and health reinsurance a reinsurance treaty was also written with a financing component 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 24.1 million (EUR 20.4 million) and other financial assets at fair value through profit or loss in an amount of EUR 67.0 million (EUR 49.0 million). Altogether, these arrangements gave rise to an improvement in income of EUR 0.6 million (EUR 0.6 million) as at the balance sheet date.

At the end of the previous financial year an index-linked cover was written for longevity risks. The resulting derivative was recognised as at the balance sheet date with a negative fair value of EUR 46.6 million (EUR 52.6 million) under other liabilities. The change in the fair value of the derivative resulted in income of EUR 6.0 million (EUR 0 million) in the course of the year.

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 3,323.8 million (EUR 3,229.1 million); an amount equivalent to EUR 2,625.6 million (EUR 2,525.9 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.

8.2 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, 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. Exclusive responsibility rests with E+S Rückversicherung AG for German business and with Hannover Rück SE for international markets.

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 performed services for the Hannover Re Group 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 the Hannover Re Group'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.–30.6.2018		1.1.–30.6.2017	
	Premium	Underwriting result	Premium	Underwriting result
Business assumed				
Property and casualty reinsurance	185,059	(11,705)	234,093	2,513
Life and health reinsurance	73,030	12,150	71,527	11,714
	258,089	**445**	**305,620**	**14,227**
Business ceded				
Property and casualty reinsurance	1,040	(1,183)	(2,232)	(10,686)
Life and health reinsurance	(27,610)	(4,254)	(34,383)	(4,800)
	(26,570)	**(5,437)**	**(36,615)**	**(15,486)**
Total	231,519	(4,992)	269,005	(1,259)

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 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.

In 2014 Hannover Rück SE reached an agreement with Talanx Asset Management GmbH that allows Talanx Asset Management GmbH 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 Talanx Service AG, Hannover. In addition, lease agreements exist with Talanx 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 Talanx 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 services for operation of data acquisition software used in the preparation of the consolidated financial statement.

Hannover Rück SE has concluded a service contract with Talanx 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.

8.3 Staff

As at the balance sheet date altogether 3,272 (3,251) staff were employed by the Hannover Re Group, with 1,405 (1,385) employed in Germany and 1,867 (1,866) working for the consolidated Group companies abroad.

8.4 Earnings per share

Calculation of the earnings per share

	1.1.–30.6.2018	1.1.–30.6.2017
Group net income in EUR thousand	555,305	535,014
Weighted average of issued shares	120,596,856	120,596,821
Basic earnings per share in EUR	4.60	4.44
Diluted earnings per share in EUR	4.60	4.44

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 2018 and sold them to eligible employees at a later date.

The weighted average number of shares does not include 16,530 (18,805) 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.

8.5 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 (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 3,820.4 million (EUR 3,716.4 million) and EUR 77.7 million (EUR 71.5 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 2,077.0 million (EUR 1,946.5 million) in the form of so-called "single trust funds". This amount includes a sum equivalent to EUR 1,836.1 million (EUR 1,634.5 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 3,223.3 million (EUR 3,173.0 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 1,263.4 million (EUR 1,216.9 million).

We put up own investments with a book value of EUR 7.0 million (EUR 17.2 million) as collateral for existing derivative transactions. We received collateral with a fair value of EUR 26.9 million (EUR 3.0 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 524.8 million (EUR 508.2 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 1,393.6 million (EUR 1,201.9 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 11.4 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.

8.6 Events after the end of the reporting period

After the balance sheet date, in the period until 6 August 2018, cedants of US life reinsurance treaties gave notice to recapture these treaties following price increases implemented by Hannover Re. This will result in a pre-tax charge of USD 264 million. The treaties are part of a portfolio of US mortality business that was acquired in 2009 and has since delivered profit contributions below expectations. The charge to income results from the commutation of reserves based on biometric assumptions made at the time when the portfolio was acquired. The corresponding obligation arising out of the coverage commitments given under these treaties thereby ends. As a consequence of the commutation Hannover Re's long-term exposure to the risks associated with these treaties as well as the resulting capital requirements is reduced.

On 1 August 2018 Hannover Rück SE concluded a purchase agreement with HDI Global SE, Hannover, regarding the sale of 50.22% of the shares in International Insurance Company of Hannover SE, Hannover. The transaction is expected to close at the beginning of January 2019, subject to timely completion of the supervisory review process. No appreciable effect on income is anticipated in connection with deconsolidation.

Hannover, 7 August 2018

Executive Board

Wallin	Althoff	Chèvre	Gräber
Dr. Miller	Dr. Pickel	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 2018, 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 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.

Hannover, 7 August 2018

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Mathias Röcker	ppa. Dennis Schnittger
Wirtschaftsprüfer	Wirtschaftsprüfer

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 report 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, 7 August 2018

Executive Board

Wallin Althoff Chèvre Gräber

Dr. Miller Dr. Pickel Vogel