somewhat different

# Half-yearly Financial Report 2020

hannover re®

# Key figures

| in EUR million | 2020 | | | | | 2019 | | |
|---|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous year | 1.1.–30.6. | +/– previous year | 1.4.–30.6. | 1.1.–30.6. | 31.12. |
| **Results** | | | | | | | | |
| Gross written premium | 6,975.3 | 6,170.8 | +16.0% | 13,146.1 | +12.4% | 5,320.7 | 11,694.0 | |
| Net premium earned | 5,090.9 | 5,287.2 | +11.4% | 10,378.1 | +10.9% | 4,745.0 | 9,355.8 | |
| Net underwriting result [1] | (44.8) | (285.5) | | (330.4) | | (17.6) | 57.5 | |
| Net investment income | 471.7 | 321.4 | -31.1% | 793.1 | -8.4% | 466.7 | 865.6 | |
| Operating profit (EBIT) | 426.6 | 76.9 | -84.4% | 503.5 | -46.6% | 492.1 | 942.1 | |
| Group net income | 300.9 | 101.5 | -72.5% | 402.4 | -39.3% | 368.9 | 662.5 | |
| **Balance sheet** | | | | | | | | |
| Policyholders' surplus | 13,458.9 | | | 13,715.1 | +0.9% | | 12,001.0 | 13,588.9 |
| Equity attributable to shareholders of Hannover Rück SE | 10,464.6 | | | 10,687.7 | +1.5% | | 9,732.7 | 10,528.0 |
| Non-controlling interests | 759.4 | | | 791.6 | -4.2% | | 774.3 | 826.5 |
| Hybrid capital | 2,235.0 | | | 2,235.8 | +0.1% | | 1,494.0 | 2,234.4 |
| Investments (excl. funds withheld by ceding companies) | 47,888.2 | | | 48,768.1 | +2.4% | | 44,846.2 | 47,629.4 |
| Total assets | 72,694.7 | | | 73,307.1 | +2.7% | | 67,978.7 | 71,356.4 |
| **Share** | | | | | | | | |
| Earnings per share (basic and diluted) in EUR | 2.49 | 0.84 | -72.5% | 3.34 | -39.3% | 3.06 | 5.49 | |
| Book value per share in EUR | 86.77 | | | 88.62 | +1.5% | | 80.70 | 87.30 |
| Share price at the end of the period in EUR | 131.00 | | | 153.40 | -11.0% | | 142.20 | 172.30 |
| Market capitalisation at the end of the period | 15,798.2 | | | 18,499.6 | -11.0% | | 17,148.9 | 20,778.9 |
| **Ratios** | | | | | | | | |
| Combined ratio (property and casualty reinsurance) [1] | 99.8% | 104.8% | | 102.3% | | 97.7% | 96.7% | |
| Large losses as percentage of net premium earned (property and casualty reinsurance) [2] | 8.5% | 12.8% | | 10.7% | | 2.7% | 2.4% | |
| Retention | 91.1% | 90.4% | | 90.8% | | 90.9% | 90.6% | |
| Return on investment (excl. funds withheld by ceding companies) | 3.2% | 2.2% | | 2.7% | | 4.0% | 3.5% | |
| EBIT margin [3] | 8.4% | 1.5% | | 4.9% | | 10.4% | 10.1% | |
| Return on equity (after tax) | 11.5% | 3.8% | | 7.6% | | 15.1% | 14.3% | |

[1] Including interest on funds withheld and contract deposits
[2] Hannover Re Group's net share for natural catastrophes and other major losses in excess of EUR 10 million gross as a percentage of net premium earned
[3] Operating result (EBIT)/net premium earned

Jean-Jacques Henchoz,
Chairman of the
Executive Board

# Dear shareholders, ladies and gentlemen,

At the time of writing we all have close to six months of the Covid-19 crisis behind us. The world continues to face an exceptional situation on account of the pandemic. We would like to extend our condolences to everyone who has lost friends and family to the virus and our sympathies to those who have been affected in any other way.

At Hannover Re, we attach the utmost priority to protecting the health and wellbeing of our employees – particularly in times such as these – just as we do to providing reliable support for our clients around the world. The majority of our staff continue to work from home. Thanks to our good level of technology readiness, our changeover from office working to the home environment was accomplished smoothly.

This seamless transition would not have been possible without the dedication and cooperation of our employees. Many members of staff had to entirely reorganise their everyday routine on account of the considerable restrictions placed on public life. Undoubtedly, this was not always easy. I would therefore like to take this opportunity to extend my sincerest thanks – also on behalf of the entire Executive Board – for this significant commitment.

Even though considerable uncertainty remains surrounding the further course of the pandemic, it may be stated for the half-year just ended that Hannover Re has come through this crisis in relatively good shape. Our business model is designed with such extreme events in mind. As a reliable partner, we stand ready to support our clients to the fullest extent.

This was borne out by the treaty renewals in property and casualty reinsurance in April, June and July, which passed off without a hitch despite the restrictions on physical contact and travel. Particularly in uncertain times, reinsurance protection is an essential tool for risk management purposes. After years of price declines, we are now seeing a sustained trend reversal towards higher prices and rising demand for our covers.

Insurers and reinsurers alike play a pivotal role when it comes to minimising risks for society. Such risks include not only pandemics, but also the consequences of climate change, natural disasters and developments in technology. Given the global nature and the immense costs associated with the worldwide spread of a pandemic, comprehensive risk coverage can only work through partnership-based solutions and with the involvement of government institutions. Existing coverages for terrorism risks can serve as a template here. We are aware of our responsibility and we intend to play our part.

This is also in the spirit of our corporate purpose: Beyond risk sharing – we team up to create opportunities. After all, collaborative partnership-driven solutions are especially vital when it comes to dealing with crises. Only if we, as a society, learn the right lessons from the Covid-19 crisis and take the right steps can we ensure that we are better prepared to face the next pandemic.

As a reinsurer, we make our contribution by checking whether the contractual clauses used between policyholders and primary insurers unambiguously regulate the coverage of pandemic risks, or by participating in the design of new coverage concepts. As one of the largest and most financially robust reinsurers in the world, we support the solvency, liquidity and capital position of our clients with tailor-made reinsurance solutions and thereby help them to navigate the current challenges.

Hannover Re's financial strength is geared to managing even extreme risks. This is also one of the basic constants in the cyclical review of our Group strategy, which is underway at the present time. There is no doubt that we are on the right track here. In a continuously shifting landscape, however, we must keep evolving. This has been demonstrated once again by the Covid-19 crisis.

I would now like to briefly summarise below the development of your company's business in the first half of 2020.

Despite the burden of the Covid-19 pandemic, Hannover Re can look back on a first six months that demonstrated again the risk-bearing capacity of our business model. In the first half-year we dealt with strains of around EUR 600 million from losses related to Covid-19 in our Property & Casualty reinsurance business group. Combined with other large losses, total expenditure on major losses amounted to EUR 737 million for net account and was thus significantly higher than our half-year budget.

With Group net income coming in at EUR 402 million in the first half of 2020, we are well below the previous year's level of EUR 663 million. Bearing in mind the losses directly attributable to the Covid-19 pandemic, considerable volatility on capital markets and an extremely uncertain outlook for the entire global economy, we can nevertheless be satisfied with this result. The gross premium booked by Hannover Re grew by 12 percent in the first six months adjusted for exchange rate effects, clearly showing that our clients value our risk protection.

In view of the uncertainty surrounding the future course of the Covid-19 pandemic, however, the results for the first half-year cannot be used to draw any conclusions about the full financial year. What is more, we still have peak hurricane season ahead of us.

Faced with these uncertainties, we had already withdrawn our full-year guidance for 2020 in April and we are still not in a position to reliably quantify the effects on our business and our investments over the course of the year. The various scenarios produce a broad spectrum of potential impacts on earnings. We are making the relevant calculations on an ongoing basis and will announce new guidance as soon as this can be done with the backing of reliable estimates.

We are retaining our dividend policy unchanged. Hannover Re continues to envisage a payout ratio for the ordinary dividend in the range of 35 to 45 percent of its IFRS Group net income. Provided the comfortable level of capitalisation remains stable and subject to a Group result in line with expectations, the ordinary dividend will be supplemented by payment of a special dividend.

As I mentioned at the outset, the dedication shown by our employees has made it possible for Hannover Re to withstand relatively well so far what are challenging times for all of us. I would like to express again to them my sincerest thanks, just as I would to our clients and business partners for the trust that they place in us. Furthermore, I join the entire Executive Board in stating how grateful we are to you, our valued shareholders, for your commitment to Hannover Re. Going forward, as in the past, our primary objective will be to lead your company with the necessary foresight and to constantly safeguard the Group's robust financial strength, even in times of crisis.

Yours sincerely,

Jean-Jacques Henchoz
Chairman of the Executive Board

# Interim management report

# Report on economic position

## Business development

- Business operations continued without restriction despite worldwide physical distancing requirements
- Gross premium income rises by 12.2% adjusted for exchange rate effects
- Return on investment reaches 2.7%
- Group net income down by 39.3% to EUR 402.4 million

Both in property & casualty and in life & health reinsurance, the worldwide spread of Covid-19 was the dominant issue in the first half of the year. Even though many countries were already in a position to start easing some of the restrictive measures taken to fight the pandemic, it remains impossible to make a reliable forecast about the further course of the pandemic. This is equally true when it comes to assessing the implications for insurance and capital markets. For this reason, we had already withdrawn our guidance for the current year back in April. Further details in this regard are discussed in the "Outlook" section of this report.

Despite worldwide physical distancing requirements, we were able to continue our business operations without restriction. The concrete impacts of the Covid-19 pandemic on Hannover Re's business were also manageable in the first half of the year.

In our Property & Casualty reinsurance business group we reserved roughly EUR 220 million for losses related to Covid-19 in the first quarter. The loss advices received by us to date have not exceeded this amount.

Given that the duration and severity of the pandemic cannot be foreseen and bearing in mind the associated sometimes drastic steps taken to contain its spread, we have adjusted our loss estimates. We therefore set aside additional precautionary provisions. Along with ongoing losses due to the coverage of event cancellations, this move was prompted in particular by the uncertainties surrounding risks under business interruption covers. In many countries these are viewed from widely differing perspectives. Against a backdrop of often complex legal evaluations, possible losses here cannot be ruled out.

The situation is similar as regards trade credit reinsurance. Although there are scarcely any concrete indications of losses at the present time, bankruptcies and insolvencies have become more likely due to the economic impacts of the far-reaching steps taken to contain the pandemic. Government support measures should, however, serve as a counterbalance here to some extent. A further consideration is that the premium income generated by insurers could be adversely affected, which may well have implications for reinsurance premiums too.

With this in mind, we set aside additional IBNR reserves of EUR 380 million for losses related to Covid-19 in the second quarter based on the various scenarios. Altogether, this means that we reserved EUR 600 million for losses resulting from the Covid-19 pandemic in the first half of the year in our Property & Casualty reinsurance business group. The bulk of this amount was attributable to losses that are anticipated but have still to be reported.

Right now, we are seeing a significantly lighter impact on life and health reinsurance, where the concrete loss amounts have so far been more moderate. Against the backdrop of the high numbers of infections and deaths in the United States, our largest market, this country accounts for the bulk of our worldwide Covid-19 losses amounting to around EUR 60 million. Our initial estimates of the impact of an increased mortality therefore appear to be rather conservative so far. Nevertheless, here too there is still considerable uncertainty and hence it is difficult to make a reliable assessment.

In the area of financial solutions we are seeing continued increasing demand among primary insurers for tailored solutions designed to provide solvency relief, which can be attributed in part to the effects of the Covid-19 crisis.

Our investments fared better than we had anticipated back in the first quarter. After the massive slumps recorded on global financial markets in March, the situation has since stabilised to some extent. Nevertheless, our investment income was also not spared from the effects of the Covid-19 pandemic. This was reflected in part both in the ordinary income and in the form of impairments taken on alternative investments. Our return on investment stood at 2.7% at the end of the first six months (including effects from ModCo) compared to 3.5% in the previous year.

On a Group level gross written premium grew by 12.4% in the first half-year to EUR 13.1 billion (previous year: EUR 11.7 billion). At constant exchange rates the increase would have been 12.2%. Our retention nudged slightly higher to 90.8% (90.6%). Net premium earned climbed by 10.9% to EUR 10.4 billion (EUR 9.4 billion). Growth would have been 10.9% at constant exchange rates.

The Group's operating profit (EBIT) contracted by 46.6% to EUR 503.5 million (EUR 942.1 million), while Group net income retreated by 39.3% to EUR 402.4 million (EUR 662.5 million). Earnings per share thus stood at EUR 3.34 (EUR 5.49).

Hannover Re's equity base remained very robust as at 30 June 2020 on a level of EUR 10.7 billion (31 December 2019: EUR 10.5 billion) despite the dividend payment of EUR 663.3 million. The book value per share amounted to EUR 88.62 (31 December 2019: EUR 87.30). The annualised return on equity fell to 7.6% (31 December 2019: 13.3%).

Based on provisional estimates, our capital adequacy ratio at the end of June remained comfortably above our limit of 180% and our threshold of 200%.

# Results of operations, financial position and net assets

## Property and casualty reinsurance

- Gross premium for the business group up by 16.3% at constant exchange rates
- EUR 600 million reserved for Covid-19 losses in the first half-year
- Combined ratio deteriorates to 102.3%
- Segment result contracts by 43.3% year-on-year

The worldwide market for property and casualty reinsurance was shaped in the first half-year by the repercussions of Covid-19 on the various lines of business – most notably, covers for business interruption, event cancellation and trade credit. Uncertainty regarding the scale of the potentially insured losses remains high. This was also reflected in the renewal negotiations held within the year, which passed off smoothly despite continued physical distancing requirements and travel restrictions. Covers from financially robust reinsurers with excellent ratings were in brisk demand, enabling us to achieve sometimes substantial improvements in prices and conditions.

The gross written premium in property and casualty reinsurance increased by 16.9% as at 30 June 2020 to EUR 9.2 billion (previous year: EUR 7.8 billion). At constant exchange rates, growth would have come in at 16.3%. Net premium earned climbed by 15.2% to EUR 6.9 billion (EUR 6.0 billion), or 15.0% adjusted for exchange rate effects.

Net expenditure on large losses as at 30 June 2020 was substantially higher than the figure for the comparable period at EUR 737.0 million (EUR 140.5 million) and well above our budget of EUR 414 million for the first six months. As already mentioned in the section on the business development, we have reserved altogether EUR 600 million for losses related to Covid-19. The allocation of an extra EUR 380 million to the reserves in the second quarter was motivated principally by the unforeseeable duration and severity of the pandemic, which gave rise to additional anticipated loss payments – e.g. for covers in the areas of business interruption, trade credit or event cancellation.

Above and beyond this, the largest natural catastrophe losses in the first half of the year were tornadoes in the United States, with an anticipated net share for Hannover Re of EUR 31.1 million, as well as bushfires in Australia at a cost of EUR 26.3 million. In the category of large losses we include catastrophic events that are expected to result in gross loss payments of more than EUR 10 million for our company.

The underwriting result for total property and casualty reinsurance including interest on funds withheld and contract deposits closed with a deficit of EUR 160.7 million. This contrasted with a profit of EUR 195.9 million reported in the previous year. Against the backdrop of risk provision made for possible Covid-19 losses, the combined ratio deteriorated to 102.3% (96.7%). Factoring out the loss reserves connected with Covid-19 and allowing for major loss expenditure within budget, the combined ratio would have amounted to 97.6%.

The income from assets under own management booked for property and casualty reinsurance fell by 8.9% to EUR 433.2 million (EUR 475.6 million) on the back of reduced ordinary income, in particular from alternative investments and fixed-income securities.

The operating profit (EBIT) for the Property & Casualty reinsurance business group contracted by 55.8% to EUR 290.0 million (EUR 656.9 million). The EBIT margin thus stood at 4.2% (11.0%). The net income generated in property and casualty reinsurance declined by 43.3% to EUR 244.7 million (EUR 431.3 million).

**Key figures for property and casualty reinsurance**

| in EUR million | 2020 | | | | | 2019 | |
|---|---|---|---|---|---|---|---|
| | 1.1.– 31.3. | 1.4.– 30.6. | +/– previous year | 1.1.– 30.6. | +/– previous year | 1.4.– 30.6. | 1.1.– 30.6. |
| Gross written premium | 4,986.1 | 4,188.1 | +21.3% | 9,174.2 | +16.9% | 3,453.0 | 7,847.5 |
| Net premium earned | 3,338.0 | 3,531.1 | +16.4% | 6,869.1 | +15.2% | 3,033.6 | 5,963.8 |
| Underwriting result [1] | 7.2 | (167.9) | | (160.7) | -182.0% | 71.1 | 195.9 |
| Net investment income | 296.4 | 162.3 | -38.3% | 458.7 | -8.0% | 262.9 | 498.5 |
| Operating result (EBIT) | 304.7 | (14.7) | -104.6% | 290.0 | -55.8% | 322.4 | 656.9 |
| Group net income | 207.3 | 37.5 | -82.4% | 244.7 | -43.3% | 212.3 | 431.3 |
| Earnings per share in EUR | 1.72 | 0.31 | -82.4% | 2.03 | -43.3% | 1.76 | 3.58 |
| EBIT margin [2] | 9.1% | -0.4% | | 4.2% | | 10.6% | 11.0% |
| Combined ratio [1] | 99.8% | 104.8% | | 102.3% | | 97.7% | 96.7% |
| Retention | 91.7% | 90.9% | | 91.4% | | 90.9% | 91.5% |

[1] Including interest on funds withheld and contract deposits
[2] Operating result (EBIT)/net premium earned



## Life and health reinsurance

- Growth of 3.6% in gross premium at constant exchange rates
- Rising demand for tailor-made financial solutions
- Impact of Covid-19 pandemic on the result moderate at half-year mark
- Operating result for the first six months down by 25.1%

Life and health reinsurance was affected only marginally in the first six months by the repercussions of the Covid-19 pandemic, even though the number of reported cases and deaths has risen sharply around the world in recent months. Against the backdrop of the high rates of infection and mortality in the United States, our largest market, this country also accounts for the bulk of our worldwide Covid-19 losses amounting to around EUR 60 million. The influence on the result in life and health reinsurance as at the end of June consequently remained moderate. Our initial forecasts regarding the impact of an increased mortality would therefore appear to be on the conservative side so far. Here, too, considerable elements of uncertainty nevertheless remain, and for the time being it is scarcely possible to arrive at any reliable estimate.

Risks are primarily associated with mortality covers in the focus regions for our book of mortality business, such as the United States or the United Kingdom. We similarly anticipate elevated losses in disability income insurance, while in other areas such as accidental death the strains are expected to be lighter.

Along with generally stronger demand for reinsurance, we are already recording increased interest among primary insurers in tailor-made solutions designed to offer solvency relief in the financial solutions segment.

Aside from the additional demand for risk protection triggered by the Covid-19 pandemic, we are seeing a sustained need for bespoke coverage concepts in financial solutions business, particularly in Asia. In the first half of the year this was reflected in treaties written in China, Japan and South Korea, among other countries. Business in Europe generally developed favourably on the back of sustained lively customer interest. When it came to the coverage of longevity risks, considerable interest was evident not only on European markets but also among clients worldwide. Aside from losses due to Covid-19, the result for the in-force portfolio in US mortality business is developing as planned. The measures implemented in the past are continuing to pay off here.

The gross premium volume booked in life and health reinsurance increased by 3.3% as at 30 June 2020 to EUR 4.0 billion (previous year: EUR 3.8 billion). At unchanged exchange rates growth would have come in at 3.6%. Net premium earned rose by 3.5% to EUR 3.5 billion (EUR 3.4 billion), equivalent to 3.8% adjusted for exchange rate effects.

Income from assets under own management in life and health reinsurance contracted by 24.6% to EUR 222.2 million (EUR 294.6 million). The investment income reported in the previous year had been positively influenced by one-time income of EUR 99.5 million from the restructuring of a participating interest. The underwriting result for life and health reinsurance including interest on funds withheld and contract deposits closed with a deficit of EUR 169.5 million (EUR -138.2 million).

The operating result (EBIT) declined by 25.1% to EUR 214.2 million (EUR 286.0 million) on account of the business development in the first half-year and the elimination of the aforementioned one-time effect. The net income generated by the Life & Health reinsurance business group contracted by 26.9% to EUR 188.4 million (EUR 257.7 million).

**Key figures for life and health reinsurance**

| in EUR million | 2020 | | | | | 2019 | |
|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous year | 1.1.–30.6. | +/– previous year | 1.4.–30.6. | 1.1.–30.6. |
| Gross written premium | 1,989.2 | 1,982.7 | +6.2% | 3,971.9 | +3.3% | 1,867.7 | 3,846.5 |
| Net premium earned | 1,752.8 | 1,756.1 | +2.6% | 3,508.9 | +3.5% | 1,711.3 | 3,391.8 |
| Investment income | 174.7 | 158.3 | -22.0% | 332.9 | -8.9% | 203.0 | 365.5 |
| Operating result (EBIT) | 124.2 | 89.9 | -47.0% | 214.2 | -25.1% | 169.6 | 286.0 |
| Net income after tax | 110.2 | 78.2 | -53.8% | 188.4 | -26.9% | 169.2 | 257.7 |
| Earnings per share in EUR | 0.91 | 0.65 | -53.8% | 1.56 | -26.9% | 1.40 | 2.14 |
| Retention | 89.4% | 89.4% | | 89.4% | | 91.0% | 88.9% |
| EBIT margin[1] | 7.1% | 5.1% | | 6.1% | | 9.9% | 8.4% |

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

## Investments

- Covid-19 pandemic exacerbates an already challenging investment climate
- Equity allocation of roughly half a percent built up
- Investment income lower than the previous year's comparable period
- Return on investment reaches 2.7%

There were times during the period under review when what had already long been a challenging investment climate eclipsed everything seen on capital markets over the past ten years. The situation has, however, calmed down again somewhat in recent weeks.

After the initial euphoria seen in January, the closing weeks of the first quarter brought abrupt, in some instances panic-stricken market responses to the rapid spread and potential economic consequences of the Covid-19 pandemic. These went hand-in-hand with considerable volatility in all asset classes and markets. What is more, interest rates with minimal risk fell sharply before settling on a low level. Credit spreads initially recorded very marked increases, although these have now largely moderated again. Corporate bond issues have since reached record highs.

The picture on equity markets was a similar one. Initially torn between panic and shimmers of hope, they too were progressively dragged lower at a speed not seen in many decades. The rebound followed at an almost equally fast pace, however, with the result that many stock markets have already made good much of their losses.

Historically established interactions between individual asset classes at times became significantly out of balance, but have since largely stabilised again in the normal range. The massive monetary and fiscal actions are having the expected effect. The rather more uncertain and less transparent situation on credit markets and in the area of collateralised loan obligations as well as the illiquidity affecting high-yield bonds will likely continue to pose appreciable challenges in the immediate future.

Further sharp declines in interest rates – starting out from an already very low level at the end of the previous year – were observed on the fixed-income markets most relevant to our company. This was evident both for euro bonds and those denominated in pound sterling, but was most notable on the US dollar market. Risk premiums on corporate bonds initially moved even more strongly in the opposite direction. These have since moderated appreciably and are back to lower levels.

Our portfolio of assets under own management grew to EUR 48.8 billion (previous year: EUR 47.6 billion). The still somewhat wider credit spreads compared to the end of the previous year were more than offset by lower interest rates. On balance, the unrealised gains on our fixed-income securities as at 30 June increased to EUR 2,246.1 million (31 December 2019: EUR 1,589.1 million).

We changed the allocation of our investments to the individual classes of securities in the first half-year inasmuch as even before the market distortions resulting from the Covid-19 pandemic we had begun to scale back somewhat the proportion of bonds attributable to our US SME portfolio and to invest in US municipal bonds. Following the price corrections on equity markets we additionally built up an equity allocation of roughly half a percent. No other active changes were made. When it comes to reinvesting or making new investments, we focus on top-rated fixed-income securities in each currency area. The modified duration of our portfolio of fixed-income securities stood at 5.8 (5.7).

Ordinary investment income excluding interest on funds withheld and contract deposits amounted to EUR 607.7 million as at 30 June, a level appreciably below the previous year's period (EUR 694.5 million). In the income booked from fixed-income securities this primarily reflects sharply lower inflation expectations owing to the Covid-19 pandemic, giving rise to reduced amounts of amortisation in our portfolio of inflation-linked bonds. This was only partially offset by the higher coupon income overall.

Earnings from private equity were also softer than in the comparable period. It was evident here that the general worldwide state of business and economic structures as a consequence of the Covid-19 pandemic can adversely impact certain business models despite all the support measures put in place. Even the income generated from investments in the real estate sector was not left untouched by this situation and came in lower. Interest on funds withheld and contract deposits amounted to EUR 136.3 million (EUR 93.8 million).

Impairments of altogether EUR 85.1 million (EUR 41.5 million) were recognised. Of this, EUR 45.0 million (EUR 17.3 million) was attributable to alternative investments. This is a reflection, first and foremost, of the economic turmoil already and still to be experienced by companies in the private equity sector and by issuers of high-yield bonds in the context of the Covid-19 pandemic. An impairment of EUR 11.8 million (EUR 0.1 million) was taken on other fixed-income securities as well as EUR 9.2 million (EUR 1.7 million) on real estate and real estate funds. Depreciation recognised on directly held real estate was stable at EUR 18.5 million (EUR 18.5 million). The impairments were not opposed by any write-ups (EUR 0.0 million).

The net balance of gains realised on disposals stood at EUR 139.8 million (EUR 127.5 million) and was due for the most part to regrouping activities as part of the aforementioned portfolio maintenance as well as the successful sale of a real estate object.

We recognise a derivative for the credit risk associated with special life reinsurance treaties (ModCo) under which securities deposits are held by cedants for our account; the performance of this derivative in the period under review gave rise to unrealised losses of EUR 9.7 million recognised in income. These contrasted with a gain of EUR 8.9 million in the previous year. In economic terms we assume a neutral development for this item over time, and hence the volatility that can occur in specific quarters provides no insight into the actual business development. Altogether, the unrealised gains in our assets recognised at fair value through profit or loss amounted to EUR 50.6 million. Unrealised gains of EUR 43.7 million were recognised in the previous year's period.

The investment income of EUR 793.1 million fell short of the comparable period of the previous year (EUR 865.6 million). Income from assets under own management accounted for EUR 656.8 million (EUR 771.8 million). The annualised average return (including effects from ModCo) amounted to 2.7% (3.5%).

**Net investment income**

| in EUR million | 2020 | | | | | 2019 | |
|---|---|---|---|---|---|---|---|
| | 1.1.–31.3. | 1.4.–30.6. | +/– previous year | 1.1.–30.6. | +/– previous year | 1.4.–30.6. | 1.1.–30.6. |
| Ordinary investment income [1] | 326.3 | 281.4 | -24.2% | 607.7 | -12.5% | 371.3 | 694.5 |
| Result from participations in associated companies | 6.4 | 0.0 | -99.9% | 6.4 | -14.3% | 4.4 | 7.5 |
| Realised gains/losses | 101.9 | 38.0 | -63.9% | 139.8 | +9.7% | 105.2 | 127.5 |
| Appreciation [2] | 28.6 | 56.5 | +134.6% | 85.1 | +105.1% | 24.1 | 41.5 |
| Change in fair value of financial instruments [3] | 11.6 | 39.0 | +138.5% | 50.6 | +15.8% | 16.4 | 43.7 |
| Investment expenses | 31.6 | 31.1 | +5.0% | 62.7 | +4.6% | 29.6 | 59.9 |
| Net investment income from assets under own management | 386.1 | 270.7 | -39.0% | 656.8 | -14.9% | 443.5 | 771.8 |
| Net investment income from funds withheld | 85.6 | 50.7 | +118.3% | 136.3 | +45.2% | 23.2 | 93.8 |
| **Total investment income** | **471.7** | **321.4** | **-31.1%** | **793.1** | **-8.4%** | **466.7** | **865.6** |

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

# Opportunity and risk report

## Risk report

- Hannover Re continues to have good capital resources in excess of the defined strategic thresholds. The capital position is constantly reviewed against the backdrop of possible changes in the risk profile and the impacts of the Covid-19 crisis.
- Our risk management system continuously monitors newly added and changing risks and is able to respond flexibly to changes in internal and external factors.

The present opportunity and risk report summarises the key risk information for the first half of 2020. For additional information on the opportunities and risks associated with our business please see the Group Annual Report 2019.

### Risk landscape of Hannover Re

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

The risk landscape of Hannover Re encompasses:

- underwriting risks in property & casualty and life & health reinsurance which originate from our business activities and manifest themselves inter alia in fluctuations in loss estimates as well as in unexpected catastrophes and changes in biometric factors such as mortality,
- market risks which arise in connection with our investments and also as a consequence of the valuation of

sometimes long-term payment obligations associated with the technical account,
- counterparty default risks resulting from our diverse business relationships and payment obligations inter alia with clients, retrocessionaires and banks,
- operational risks which may derive, for example, from deficient processes or systems and
- reputational risks, liquidity risks, strategic risks and emerging risks.

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

## Strategy implementation

Our current corporate strategy encompasses ten guiding principles that safeguard the realisation of our vision "Creating value through reinsurance" across the various divisions. The following principles of the corporate strategy constitute the key strategic points of departure for our Group-wide risk management:

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

Our risk strategy is derived from the corporate strategy. It is the core element in our handling of opportunities and risks. The risk strategy, risk register and central system of limits and thresholds – as integral components of our Risk and Capital Management Guideline – are reviewed at least once a year. In this way we ensure that our risk management system is kept up-to-date.

We manage our total enterprise risk such that we can expect to generate positive IFRS Group net income with a probability of 90% p. a. and the likelihood of the complete loss of our economic capital and shareholders' equity under IFRS does not exceed 0.03% p. a. Our solvency ratio must amount to at least 180%, although 200% is already considered to be a threshold; countermeasures would be triggered if the solvency ratio were to fall below this threshold. These indicators are monitored using our internal capital model and the Executive Board is informed quarterly about adherence to these key parameters as part of regular risk reporting. The necessary equity resources are determined according to the requirements of our economic capital model, regulatory parameters, the expectations of rating agencies with respect to our target rating and the expectations of our clients.

## Major external factors influencing risk management

This section describes external factors that had a particularly significant impact on risk management in the first half of 2020 and could continue to do so subsequently.

**Covid-19 crisis:** The novel coronavirus Covid-19 emerged at the end of 2019. This virus has been classified as a pandemic by the World Health Organization (WHO). As part of Hannover Re's routine business continuity management and in response to the emergence of the crisis, Hannover Re initiated extensive measures – including the discontinuation of all business travel, switching over largely to teleworking, making use of videoconferences and setting up an emergency task force to maintain business operations. These measures proved successful and we have not to date noted any significant repercussions of the Covid-19 crisis for our business operations.

As a consequence of the impacts of the Covid-19 crisis, Hannover Re's financial strength has diminished relative to the start of the 2020 financial year. Effective 31 December 2019 the solvency ratio of the Hannover Re Group was still as high as 252%. In times of volatility on financial markets, Hannover Re's financial resources are protected by our rigorous asset/liability management, including the use of the volatility adjustment. In view of these measures and based on scenario analyses, we are confident of maintaining a solvency ratio in 2020 that is above our limit of 180%. It must, however, be borne in mind that all forecasts remain subject to considerable uncertainty and are dependent on the future course of the crisis as well as the effectiveness and efficiency of institutional countermeasures. Our risk management is, however, geared to preserving Hannover Re's robust financial strength. By performing stress tests, e.g. with regard to pandemics or capital market crises, we have continuously verified the resilience of our financial resources. For further information on the implications of the Covid-19 crisis for our property & casualty and life & health reinsurance business as well as for our investments, please see pages 7 et seq. of this report.

**Regulatory developments:** The European Commission had originally requested the European Insurance and Occupational Pensions Authority (EIOPA) to submit its so-called technical recommendations for the review of Solvency II by 30 June 2020. Owing to the Covid-19 crisis, this deadline was pushed back to the end of December 2020 so as to be able to factor the insights gained from the present crisis into any potential modification of Solvency II. In the first half of 2020 EIOPA carried out a holistic impact assessment to look at, among other things, alternative instruments used to support long-term guarantees and liabilities.

Hannover Re had already received approval from the Federal Financial Supervisory Authority (BaFin) in 2019 to use the dynamic volatility adjustment pursuant to § 82 Insurance

Supervision Act (VAG) and has been able to apply this since year-end 2019. This volatility adjustment is intended to mitigate the effect of value fluctuations on the bond market and through its dynamic modelling it also serves to better capture the effect of the volatility adjustment in the calculation of the risk-based capital.

Parallel to the regulatory developments in Europe, we are seeing adjustments worldwide to the regulation of (re)insurance undertakings.

The Insurance Capital Standard (ICS) is the first global, risk-based capital standard for internationally active insurance groups (IAIGs). ICS version 2.0 opens up the possibility of globally comparable results. This requires the use of consistent approaches, including for example the market- and risk-appropriate measurement of investments and liabilities. Roll-out of ICS 2.0 starts in 2020, initially with a monitoring phase for purposes of improvement and ongoing refinement.

**Risks from the processing of electronic data:** Recent years have seen the increasing emergence of risks affecting electronic data and systems. Hannover Re, in common with other companies, is at risk of outside attacks on its IT systems and has put in place extensive safeguards. Furthermore, Hannover Re offers reinsurance coverage for risks connected with electronic systems and the associated data. The dynamic pace of developments in the context of digitalisation presents a particular challenge for the assessment of such risks. The mapping of cyber risks in the internal capital model had already been improved in 2019, with the result that more detailed risk management encompassing both our cyber portfolio and our "silent cyber" exposure is now possible, insofar as the relevant portfolios have already been analysed.

**Natural catastrophe risks and climate change:** It is likely that the increased storm activity of recent years is due in part to progressive global warming. Hannover Re works together with partners to closely monitor the implications of global warming for extreme weather events so as to be able to factor the insights gained into the models and the management of risks.

Natural catastrophe events in 2019 such as hurricane Dorian and typhoon Hagibis, each of which caused market losses in the order of USD 10 billion, continued to impact Hannover Re in the first half of 2020. Given that these losses occurred in the second half of 2019, there is inevitably some uncertainty in the loss estimates and the amounts will be paid out over the next few years. With this in mind, an element of uncertainty in the remaining anticipated loss payments has been allowed for as part of the estimated technical reserves.

**Capital market environment:** The protracted low level of interest rates is a major external factor influencing the return that can be generated on our investments. Starting from what was already a very low level at the end of the previous year, further – in some instances really appreciable – interest rate declines were observed for both euro- and sterling-denominated bonds and especially the US dollar market. Negative yields are now being seen on euro area government bonds extending well beyond the 10-year maturity point.

Broadly speaking, after some initial euphoria in January, developments connected with the Covid-19 pandemic caused capital markets to degenerate into a panic mode in which the pent-up economic and geopolitical uncertainties of recent years also spilled over, with a peak being reached towards the end of the first quarter. There are hardly any historical parallels for the volatility observed on capital markets. Risk premiums on corporate bonds recorded dramatic increases in a very short space of time and equity markets were progressively dragged lower at speeds not seen in decades. Since then, however, a very clear rebound has set in that has proven altogether more robust than could have been anticipated. This is a reflection, first and foremost, of the massive monetary and fiscal actions taken by central banks and governments that can provide support – especially of a psychological nature – over the short and medium term. As a result, many markets have already made good much of their losses. Nevertheless, we continue to monitor very closely the situation on credit markets, which have become appreciably less transparent in recent months. Should disruptions in market mechanisms occur here in the future, inter alia due to possible caution on the part of institutional investors, this may lead to further losses in our portfolio of high-yield bonds. This could also have negative implications for our CLO portfolio, although we have not incurred any losses here at the mid-year point. When it comes to reinvesting or making new investments, we focus on the top-rated fixed-income securities for each currency area.

Equity markets have taken on somewhat more significance for us again now that we have used the previously mentioned price corrections to build up a manageable equity allocation.

We continue to have exposure to the market for private equity. Roughly half of our holdings shown under the balance sheet item "Other invested assets" are investments made in this area. Fair value changes here tend to be influenced less by general market conditions and more by company-specific evaluations. The risks are thus associated primarily with the business model and profitability and to a lesser extent with the interest rate component in a consideration of cash flow forecasts. The general worldwide state of business and economic structures is, however, likely to adversely impact certain business models despite all the support measures put in place. Here, too, we therefore anticipate losses in the second half of the year. The significance of real estate risks has continued to grow owing to our consistent participation in this sector in recent years. We spread these risks through broadly diversified investments in high-quality markets around the world, with each investment decision being preceded by extensive analyses of the relevant property, manager and market. Nevertheless, rent losses and tenant-oriented legislation due to the Covid-19 pandemic may give rise to cash flow disruptions and hence to impairments. It is our view, however, that in the short term these will be manageable in scope and they will tend to evolve over the medium term. As part of our liquidity management, we defined portfolios that have proven to be highly liquid even in situations of financial stress such as the 2008 financial crisis. These consist principally of unrestricted German, UK and US government bonds and are intended to ensure that our ability to pay is safeguarded even if multiple assumed extreme events were to coincide. The volume of this liquid reserve as at the balance sheet date was EUR 5.8 billion (EUR 5.3 billion). Furthermore, we manage the liquidity of the portfolio by verifying the liquidity of the holdings on each trading day. The liquidity risk is effectively reduced thanks to these measures.

As far as our investments are concerned, we anticipate continuing elevated volatility on global capital markets in the immediate future, although we also see this as an opportunity and believe that we are appropriately prepared with the current posture of our asset portfolio. For further information please see the "Investments" section of the management report on page 10 et seq.

# Opportunity report

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

Key elements in Hannover Re's business opportunity management include its various market-specific innovations in the Life & Health and Property & Casualty reinsurance business groups.

Trends affecting these business groups are systematically identified and analysed with the support of external sources and partners, and the needs of our clients are anticipated along the entire insurance-related value-added chain. Targeted consideration is given to new business opportunities that promise access to innovative technologies and enhance our appeal in the eyes of customers. With this in mind, Hannover Re cultivates business-related partnerships with accelerators, incubators, company builders, start-ups and research institutes in order to boost our competitiveness in the insurtech sector and the area of digital solutions. Various competence centres have been set up in the Hannover Re Group to evaluate the strategic and technical significance of innovative new digital technologies. These include an organisational unit that provides specific support for insurtechs in the development of their digital business models and devises reinsurance solutions to this end, thereby also generating new premium potential for the Group.

Corporate culture and entrepreneurship are increasingly coming into focus as further elements of the innovation landscape. Hannover Re has developed a structured innovation process for the in-house generation of ideas in order to actively support and foster the internal spirit of entrepreneurship. This process is embedded in the "Hannover Re Intrapreneurship Programme" (HIPE), which offered all employees worldwide a platform for contributing innovative ideas geared to increasing efficiency, inter alia in the fields of automation, risk assessment and accumulation control as well as product development. In the course of a 14-week incubator programme selected ideas were developed by employees in an external innovation ecosystem. Project participants were partially released from their line function for the duration of the incubator programme in order to elaborate on their ideas as quickly as possible in a highly focused environment. Upon completion of the conceptual development phase five teams presented their ideas to the full Executive Board. After in-depth exploration, the Board members decided to allocate a budget to three concepts for an implementation phase that will facilitate the development of prototypes. Depending upon how their implementation and commercial success are evaluated, it is likely that the project will be repeated. This promotes the ongoing consolidation of an agile working environment and dynamic enterprise culture within the established processes.

The dynamic networking of the members of staff active in the field of innovation at Hannover Re gives rise to close links with other projects, working groups and bodies, such as with the working group on "Emerging Risks und Scientific Affairs" in regard to emerging risks and opportunities. This working group carries out qualitative assessments of emerging risks. As a result, however, not only are the potential risks explored but also any available business opportunities. In the first half of 2020, for example, issues such as "class actions", "wearables" and "genetic tests" were analysed by the working group.

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

## Overall assessment by the Executive Board

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

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

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

Our own evaluation of the manageability of existing risks is confirmed by various financial indicators and external assessments. Specific monitoring indicators, notification thresholds and potential escalation steps are defined on a mandatory basis in our central system of limits and thresholds for the material risks of the Hannover Re Group. As a result, the system provides us with a precise overview of potentially undesirable developments in the defined risk tolerances and enables us to react in a timely manner. One testament to our financial stability, for example, is the growth of our shareholders' equity: the total policyholders' surplus (hybrid capital, non-controlling interests and shareholders' equity) stands at 183% of the corresponding figure from 2011. In this context, our necessary equity resources are determined by the requirements of our economic capital model, solvency regulations, the assumptions of rating agencies with respect to our target rating and the expectations of our clients and shareholders. This increase gives us a sufficient capital cushion to be able both to absorb risks and act on business opportunities that may arise. Similarly, our very good financial strength ratings also testify to our financial stability. The quality of our Enterprise Risk Management (ERM), for example, is assessed by Standard & Poor's as a key factor in the rating process. Special consideration is given to our established risk management culture, which promotes the development of appropriate risk monitoring systems and supports strategic risk management. The rating encompasses in particular the areas of risk culture, risk controls, emerging risk management, risk models and strategic risk management. This external appraisal confirms the quality of our holistic approach to risk management.

In addition, the risk trigger mechanism and internal monitoring system are reviewed annually by the independent auditor in relation to the financial reporting.

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

# Outlook for 2020

## Forecast

- Group guidance for 2020 withdrawn in April
- New statement on guidance for 2020 not yet possible
- Impacts of the Covid-19 crisis on Hannover Re remain difficult to quantify
- Increased strains expected on investments and in property and casualty reinsurance



In the first half of the year the repercussions of the Covid-19 pandemic on the insurance and capital markets were a central preoccupation for global reinsurance markets. After Covid-19 infections had surged around the world in the first quarter, the containment actions undertaken by governments already began to have an effect in many countries during the second quarter. Despite the considerable effort being invested globally in the development of medications and vaccines, a breakthrough and the subsequent worldwide availability of a treatment is probably still quite some way off.

This means that the elevated uncertainty surrounding the loss experience and the capital market environment in connection with the Covid-19 crisis will persist for the time being. Given the difficulty of quantifying the impacts of the pandemic on capital and insurance markets, we had already withdrawn our guidance for the current year on 21 April.

We continue to take the view that any forecasts for the Group's various key performance indicators would currently still involve too many elements of uncertainty. Furthermore, it remains difficult to precisely quantify the concrete effects of the Covid-19 pandemic on reinsurance markets and investments. In this context, it is also particularly important to monitor the mechanisms through which government support measures make themselves felt over the course of the year. Needless to say, the various scenarios result in a very broad spectrum of possible earnings impacts. Given that the loss advices received from our clients are not yet informative in quantitative terms, we have and will set aside appropriate IBNR reserves for belatedly reported claims. We are making the relevant scenario calculations on an ongoing basis as part of our risk management and will specify new earnings guidance as soon as the underlying probabilities are sufficiently robust.

It is, however, likely that the anticipated losses from the Covid-19 pandemic will to some extent be counteracted by increased demand for reinsurance. In property and casualty reinsurance this is especially true of structured reinsurance solutions, while in life and health reinsurance it applies to financial solutions business. It is our expectation that our support – as a strongly capitalised partner – will continue to be sought-after and that we can play our part in the recovery of the insurance industry and broader economy.

The recent rounds of renewals made it increasingly evident that reinsurance protection from financially robust providers such as Hannover Re is enjoying rising demand in the current crisis. While we were already able to secure higher prices in the 1 April treaty negotiations on a more widespread basis, further sometimes substantial improvements in prices and conditions running into double-digit percentages were obtained in the renewals as at 1 June and 1 July.

Future movements on the pricing front will likely depend not only on the losses still anticipated from the Covid-19 crisis but also on the volume of loss expenditure for the hurricane season in the United States. It is still too early to make any concrete assessment in this regard.

As already stated, our capital adequacy ratio at the end of June remained significantly above our limit of 180% and our threshold of 200% according to provisional estimates. Our risk management is geared to preserving Hannover Re's robust financial strength. By performing stress tests for extreme scenarios such as pandemics or capital market distortions we continuously review the resilience of our financial strength. Our net major loss budget for 2020 amounts to EUR 975 million (previous year: EUR 875 million).

We are maintaining our dividend policy unchanged. This envisages a payout ratio for the ordinary dividend of 35% to 45% of the IFRS Group net income. The ordinary dividend will be supplemented by payment of a special dividend subject to a consistently comfortable level of capitalisation and Group net income in line with expectations.

In July Hannover Rück SE additionally issued subordinated debt in a nominal amount of EUR 500 million. The bond has a final maturity of 8 October 2040 and a first scheduled call date of 8 July 2030. This will enable us to act on further business opportunities that arise out of the present favourable pricing trend on worldwide reinsurance markets.

# Consolidated financial statements

# Consolidated balance sheet as at 30 June 2020

**Assets**

| in EUR thousand | 30.6.2020 | 31.12.2019 |
|---|---|---|
| Fixed-income securities – held to maturity | 216,821 | 223,049 |
| Fixed-income securities – loans and receivables | 2,573,157 | 2,194,064 |
| Fixed-income securities – available for sale | 38,443,222 | 38,068,459 |
| Fixed-income securities – at fair value through profit or loss | 620,090 | 578,779 |
| Equity securities – available for sale | 349,082 | 29,215 |
| Other financial assets – at fair value through profit or loss | 272,332 | 235,019 |
| Investment property | 1,663,863 | 1,749,517 |
| Real estate funds | 575,498 | 534,739 |
| Investments in associated companies | 281,120 | 245,478 |
| Other invested assets | 2,237,862 | 2,211,905 |
| Short-term investments | 380,740 | 468,350 |
| Cash and cash equivalents | 1,154,349 | 1,090,852 |
| **Total investments and cash under own management** | **48,768,136** | **47,629,426** |
| Funds withheld | 10,957,813 | 10,948,469 |
| Contract deposits | 311,094 | 325,302 |
| **Total investments** | **60,037,043** | **58,903,197** |
| Reinsurance recoverables on unpaid claims | 1,720,176 | 2,050,114 |
| Reinsurance recoverables on benefit reserve | 477,189 | 852,598 |
| Prepaid reinsurance premium | 189,139 | 116,176 |
| Reinsurance recoverables on other technical reserves | 9,576 | 9,355 |
| Deferred acquisition costs | 3,059,212 | 2,931,722 |
| Accounts receivable | 6,238,675 | 5,269,792 |
| Goodwill | 84,152 | 88,303 |
| Deferred tax assets | 701,658 | 442,469 |
| Other assets | 671,595 | 640,956 |
| Accrued interest and rent | 17,927 | 15,414 |
| Assets held for sale | 100,749 | 36,308 |
| **Total assets** | **73,307,091** | **71,356,404** |

**Liabilities**

| in EUR thousand | 30.6.2020 | 31.12.2019 |
|---|---|---|
| Loss and loss adjustment expense reserve | 33,908,663 | 32,996,231 |
| Benefit reserve | 8,257,972 | 9,028,000 |
| Unearned premium reserve | 5,912,198 | 4,391,848 |
| Other technical provisions | 679,089 | 673,221 |
| Funds withheld | 1,152,936 | 1,157,815 |
| Contract deposits | 3,394,950 | 3,581,057 |
| Reinsurance payable | 1,527,113 | 1,505,680 |
| Provisions for pensions | 197,005 | 201,952 |
| Taxes | 105,499 | 191,706 |
| Deferred tax liabilities | 2,572,759 | 2,189,372 |
| Other liabilities | 658,599 | 623,075 |
| Financing liabilities | 3,458,255 | 3,461,968 |
| Liabilities related to assets held for sale | 2,754 | – |
| **Total liabilities** | **61,827,792** | **60,001,925** |
| Shareholders' equity | | |
| Common shares | 120,597 | 120,597 |
| Nominal value: 120,597<br>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 | 1,816,554 | 1,287,907 |
| Cumulative foreign currency translation adjustment | 276,589 | 385,153 |
| Changes from hedging instruments | (3,463) | (1,276) |
| Other changes in cumulative other comprehensive income | (63,376) | (66,077) |
| **Total other comprehensive income** | **2,026,304** | **1,605,707** |
| Retained earnings | 7,816,244 | 8,077,123 |
| **Equity attributable to shareholders of Hannover Rück SE** | **10,687,707** | **10,527,989** |
| Non(controlling interests | 791,592 | 826,490 |
| **Total shareholders' equity** | **11,479,299** | **11,354,479** |
| **Total liabilities and shareholders' equity** | **73,307,091** | **71,356,404** |

# Consolidated statement of income as at 30 June 2020

| in EUR thousand | 1.4.–30.6.2020 | 1.1.–30.6.2020 | 1.4.–30.6.2019[1] | 1.1.–30.6.2019[1] |
|---|---|---|---|---|
| Gross written premium | 6,170,847 | 13,146,136 | 5,320,687 | 11,693,984 |
| Ceded written premium | 590,057 | 1,213,743 | 483,298 | 1,095,181 |
| Change in gross unearned premium | (290,593) | (1,628,703) | (81,128) | (1,300,090) |
| Change in ceded unearned premium | (2,972) | 74,394 | (11,283) | 57,042 |
| **Net premium earned** | **5,287,225** | **10,378,084** | **4,744,978** | **9,355,755** |
| Ordinary investment income | 281,401 | 607,661 | 371,270 | 694,492 |
| Profit/loss from investments in associated companies | 5 | 6,431 | 4,428 | 7,507 |
| Realised gains and losses on investments | 37,961 | 139,825 | 105,189 | 127,469 |
| Change in fair value of financial instruments | 39,004 | 50,648 | 16,354 | 43,745 |
| Total depreciation, impairments and appreciation of investments | 56,532 | 85,101 | 24,096 | 41,494 |
| Other investment expenses | 31,105 | 62,659 | 29,634 | 59,927 |
| **Net income from investments under own management** | **270,734** | **656,805** | **443,511** | **771,792** |
| Income/expense on funds withheld and contract deposits | 50,691 | 136,278 | 23,223 | 93,846 |
| **Net investment income** | **321,425** | **793,083** | **466,734** | **865,638** |
| Other technical income | – | – | 71 | 221 |
| **Total revenues** | **5,608,650** | **11,171,167** | **5,211,783** | **10,221,614** |
| Claims and claims expenses | 4,273,343 | 8,198,297 | 3,497,486 | 6,853,791 |
| Change in benefit reserves | (60,693) | (145,482) | 72,559 | 55,819 |
| Commission and brokerage, change in deferred acquisition costs | 1,281,082 | 2,546,594 | 1,086,154 | 2,239,671 |
| Other acquisition costs | 1,273 | 2,376 | 670 | 2,062 |
| Administrative expenses | 128,450 | 242,944 | 129,006 | 240,951 |
| **Total technical expenses** | **5,623,455** | **10,844,729** | **4,785,875** | **9,392,294** |
| Other income | 110,647 | 399,980 | 120,664 | 296,981 |
| Other expenses | 18,978 | 222,909 | 54,485 | 184,169 |
| Other income/expenses | 91,669 | 177,071 | 66,179 | 112,812 |
| **Operating profit (EBIT)** | **76,864** | **503,509** | **492,087** | **942,132** |
| Financing costs | 23,643 | 47,104 | 21,415 | 42,363 |
| **Net income before taxes** | **53,221** | **456,405** | **470,672** | **899,769** |
| Taxes | (42,688) | 51,464 | 92,069 | 206,306 |
| **Net income** | **95,909** | **404,941** | **378,603** | **693,463** |
| thereof | | | | |
| Non-controlling interest in profit and loss | (5,566) | 2,589 | 9,751 | 30,958 |
| **Group net income** | **101,475** | **402,352** | **368,852** | **662,505** |
| **Earnings per share (in EUR)** | | | | |
| Basic earnings per share | 0.85 | 3.34 | 3.06 | 5.49 |
| Diluted earnings per share | 0.85 | 3.34 | 3.06 | 5.49 |

[1] Restated pursuant to IAS 8

# Consolidated statement of comprehensive income as at 30 June 2020

| in EUR thousand | 1.4.– 30.6.2020 | 1.1.– 30.6.2020 | 1.4.– 30.6.2019 | 1.1.– 30.6.2019 |
|---|---|---|---|---|
| **Net income** | **95,909** | **404,941** | **378,603** | **693,463** |
| **Not reclassifiable to the consolidated statement of income** | | | | |
| **Actuarial gains and losses** | | | | |
| Gains (losses) recognised directly in equity | (19,566) | 4,384 | (13,095) | (22,580) |
| Tax income (expense) | 6,372 | (1,418) | 4,279 | 7,368 |
| | **(13,194)** | **2,966** | **(8,816)** | **(15,212)** |
| **Changes from the measurement of associated companies** | | | | |
| Gains (losses) recognised directly in equity | (76) | 22 | (76) | (126) |
| | **(76)** | **22** | **(76)** | **(126)** |
| **Income and expense recognised directly in equity that cannot be reclassified** | | | | |
| Gains (losses) recognised directly in equity | (19,642) | 4,406 | (13,171) | (22,706) |
| Tax income (expense) | 6,372 | (1,418) | 4,279 | 7,368 |
| | **(13,270)** | **2,988** | **(8,892)** | **(15,338)** |
| **Reclassifiable to the consolidated statement of income** | | | | |
| **Unrealised gains and losses on investments** | | | | |
| Gains (losses) recognised directly in equity | 1,271,588 | 728,655 | 513,897 | 1,303,063 |
| Transferred to the consolidated statement of income | 1,256 | (66,052) | (91,836) | (79,739) |
| Tax income (expense) | (326,904) | (126,221) | (137,748) | (320,229) |
| | **945,940** | **536,382** | **284,313** | **903,095** |
| **Currency translation** | | | | |
| Gains (losses) recognised directly in equity | (121,505) | (129,466) | (132,476) | 64,947 |
| Transferred to the consolidated statement of income | – | – | – | 4,645 |
| Tax income (expense) | 6,758 | 20,013 | 10,309 | (6,767) |
| | **(114,747)** | **(109,453)** | **(122,167)** | **62,825** |
| **Changes from the measurement of associated companies** | | | | |
| Gains (losses) recognised directly in equity | 3,785 | 34 | 313 | 1,860 |
| | **3,785** | **34** | **313** | **1,860** |
| **Changes from hedging instruments** | | | | |
| Gains (losses) recognised directly in equity | 3,145 | (4,167) | 3,729 | 5,646 |
| Tax income (expense) | (1,736) | 1,931 | (1,462) | (2,302) |
| | **1,409** | **(2,236)** | **2,267** | **3,344** |
| **Reclassifiable income and expense recognised directly in equity** | | | | |
| Gains (losses) recognised directly in equity | 1,157,013 | 595,056 | 385,463 | 1,375,516 |
| Transferred to the consolidated statement of income | 1,256 | (66,052) | (91,836) | (75,094) |
| Tax income (expense) | (321,882) | (104,277) | (128,901) | (329,298) |
| | **836,387** | **424,727** | **164,726** | **971,124** |
| **Total income and expense recognised directly in equity** | | | | |
| Gains (losses) recognised directly in equity | 1,137,371 | 599,462 | 372,292 | 1,352,810 |
| Transferred to the consolidated statement of income | 1,256 | (66,052) | (91,836) | (75,094) |
| Tax income (expense) | (315,510) | (105,695) | (124,622) | (321,930) |
| | **823,117** | **427,715** | **155,834** | **955,786** |
| **Total recognised income and expense** | **919,026** | **832,656** | **534,437** | **1,649,249** |
| thereof | | | | |
| Attributable to non-controlling interests | 32,577 | 9,707 | 19,651 | 62,047 |
| Attributable to shareholders of Hannover Rück SE | 886,449 | 822,949 | 514,786 | 1,587,202 |

# Consolidated statement of changes in shareholders' equity as at 30 June 2020

| in EUR thousand | Common shares | Additional paid-in capital | Other reserves (cumulative other comprehensive income) Unrealised gains/losses | Currency translation |
|---|---|---|---|---|
| **Balance as at 1.1.2019** | **120,597** | **724,562** | **346,509** | **201,369** |
| Effects from first-time application of new standards | – | – | – | – |
| **Balance as at 1.1.2019 (restated)** | **120,597** | **724,562** | **346,509** | **201,369** |
| Changes in ownership interest with no change of control status | – | – | – | – |
| Changes in the consolidated group | – | – | – | – |
| Capital increases/additions | – | – | – | – |
| Capital repayments | – | – | – | – |
| Acquisition/disposal of treasury shares | – | – | – | – |
| Total income and expense recognised directly in equity | – | – | 872,938 | 62,330 |
| Net income | – | – | – | – |
| Dividends paid | – | – | – | – |
| **Balance as at 30.6.2019** | **120,597** | **724,562** | **1,219,447** | **263,699** |
| | | | | |
| **Balance as at 1.1.2020** | **120,597** | **724,562** | **1,287,907** | **385,153** |
| Changes in ownership interest with no change of control status | – | – | – | – |
| Capital increases/additions | – | – | – | – |
| Capital repayments | – | – | – | – |
| Acquisition/disposal of treasury shares | – | – | – | – |
| Total income and expense recognised directly in equity | – | – | 528,647 | (108,564) |
| Net income | – | – | – | – |
| Dividends paid | – | – | – | – |
| **Balance as at 30.6.2020** | **120,597** | **724,562** | **1,816,554** | **276,589** |

| Continuation: Other reserves (cumulative other comprehensive income) Hedging instruments | Other | Retained earnings | Equity attributable to shareholders of Hannover Rück SE | Non-controlling interests | Total shareholders' equity |
|---|---|---|---|---|---|
| **(3,160)** | **(53,364)** | **7,440,278** | **8,776,791** | **765,237** | **9,542,028** |
| – | – | 1,763 | 1,763 | – | 1,763 |
| **(3,160)** | **(53,364)** | **7,442,041** | **8,778,554** | **765,237** | **9,543,791** |
| – | – | 59 | 59 | 195 | 254 |
| – | 466 | (466) | – | – | – |
| – | – | – | – | 49 | 49 |
| – | – | – | – | (14) | (14) |
| – | – | 37 | 37 | – | 37 |
| 3,226 | (13,797) | – | 924,697 | 31,089 | 955,786 |
| – | – | 662,505 | 662,505 | 30,958 | 693,463 |
| – | – | (633,135) | (633,135) | (53,165) | (686,300) |
| **66** | **(66,695)** | **7,471,041** | **9,732,717** | **774,349** | **10,507,066** |
| **(1,276)** | **(66,077)** | **8,077,123** | **10,527,989** | **826,490** | **11,354,479** |
| – | – | 86 | 86 | (19) | 67 |
| – | – | – | – | 4 | 4 |
| – | – | – | – | (30) | (30) |
| – | – | (33) | (33) | – | (33) |
| (2,187) | 2,701 | – | 420,597 | 7,118 | 427,715 |
| – | – | 402,352 | 402,352 | 2,589 | 404,941 |
| – | – | (663,284) | (663,284) | (44,560) | (707,844) |
| **(3,463)** | **(63,376)** | **7,816,244** | **10,687,707** | **791,592** | **11,479,299** |

Consolidated accounts

# Consolidated cash flow statement as at 30 June 2020

| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| **I. Cash flow from operating activities** | | |
| Net income | 404,941 | 693,463 |
| Appreciation/depreciation | 98,042 | 52,538 |
| Net realised gains and losses on investments | (139,825) | (127,469) |
| Change in fair value of financial instruments (through profit or loss) | (50,648) | (43,745) |
| Realised gains and losses on deconsolidation | – | (6,298) |
| Amortisation of investments | 44,828 | (18,491) |
| Changes in funds withheld | (277,637) | (365,328) |
| Net changes in contract deposits | (169,010) | (68,405) |
| Changes in prepaid reinsurance premium (net) | 1,554,309 | 1,242,888 |
| Changes in tax assets/provisions for taxes | (104,284) | 55,078 |
| Changes in benefit reserve (net) | (99,525) | (251,946) |
| Changes in claims reserves (net) | 1,680,458 | 1,068,490 |
| Changes in deferred acquisition costs | (207,148) | (227,875) |
| Changes in other technical provisions | 26,237 | 23,903 |
| Changes in clearing balances | (1,062,140) | (808,829) |
| Changes in other assets and liabilities (net) | (27,477) | 311,895 |
| **Cash flow from operating activities** | **1,671,121** | **1,529,869** |

| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| **II. Cash flow from investing activities** | | |
| Fixed-income securities – held to maturity | | |
| Maturities | 5,041 | 4 |
| Fixed-income securities – loans and receivables | | |
| Maturities, sales | 82,734 | 101,207 |
| Purchases | (468,755) | (143,717) |
| Fixed-income securities – available for sale | | |
| Maturities, sales | 6,644,095 | 10,250,846 |
| Purchases | (6,760,414) | (10,766,330) |
| Fixed-income securities – at fair value through profit or loss | | |
| Maturities, sales | 156,016 | 978,357 |
| Purchases | (190,588) | (979,732) |
| Equity securities – available for sale | | |
| Sales | 5,504 | 2,936 |
| Purchases | (268,088) | (2,943) |
| Other financial assets – at fair value through profit or loss | | |
| Sales | 64,610 | 59,296 |
| Purchases | (63,163) | (47,927) |
| Other invested assets | | |
| Sales | 826,798 | 192,163 |
| Purchases | (974,110) | (258,500) |
| Affiliated companies and participating interests | | |
| Sales | 103 | 129,261 |
| Purchases | (30,981) | (200,883) |
| Real estate and real estate funds | | |
| Sales | 78,580 | 106,280 |
| Purchases | (108,278) | (150,778) |
| Short-term investments | | |
| Changes | 66,229 | (38,301) |
| Other changes (net) | 71,474 | (12,274) |
| **Cash flow from investing activities** | **(863,193)** | **(781,035)** |

| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| **III. Cash flow from financing activities** | | |
| Contribution from capital measures | 4 | 49 |
| Payment on capital measures | (30) | (14) |
| Structural change without loss of control | 67 | 254 |
| Dividends paid | (707,844) | (686,300) |
| Proceeds from long-term debts | 869 | 6,315 |
| Repayment of long-term debts | (6,988) | (8,424) |
| Other changes | (33) | 37 |
| **Cash flow from financing activities** | **(713,955)** | **(688,083)** |
| | | |
| **IV. Exchange rate differences on cash** | **(26,792)** | **4,155** |
| | | |
| **Cash and cash equivalents at the beginning of the period** | **1,090,852** | **1,151,509** |
| Thereof cash and cash equivalents of the disposal group: 78,594 | | |
| **Change in cash and cash equivalents (I. + II. + III. + IV.)** | **67,181** | **64,906** |
| **Cash and cash equivalents at the end of the period** | **1,158,033** | **1,216,415** |
| Thereof cash and cash equivalents of the disposal group | 3,684 | 17,296 |
| **Cash and cash equivalents at the end of the period excluding the disposal group** | **1,154,349** | **1,199,119** |
| | | |
| **Supplementary information on the cash flow statement** [1] | | |
| Income taxes paid (on balance) | (135,172) | (154,080) |
| Dividend receipts [2] | 59,173 | 102,671 |
| Interest received | 820,037 | 678,780 |
| Interest paid | (131,979) | (80,619) |

[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 2020

# 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 half-yearly 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.

In view of the Covid-19 pandemic, estimates are subject to a higher degree of uncertainty and greater use was therefore made of scenario calculations in the present financial statement. Impacts of the pandemic on Hannover Re's consolidated financial statement have so far been felt primarily in the property and casualty reinsurance segment. A total amount of around EUR 600 million was set aside for incurred losses in the first half of the financial year. Impairments on investments held were taken mainly on alternative investments in an amount of EUR 45 million. This reflects above all the economic turmoil anticipated in connection with the Covid-19 pandemic affecting companies operating in the private equity sector and issuers of high-yield bonds.

The thresholds defined as an indicator for identifying possible impairments of non-financial assets were not exceeded.

The Hannover Re Group did not make use of any direct support measures. It was only in the United States that subsidiaries benefited from passing of the CARES Act ("Coronavirus Aid, Relief and Economic Security Act"), which makes it possible – through modified tax loss carry-back opportunities – to carry back losses to years with higher tax rates and thereby realise a tax benefit of USD 11 million.

The present consolidated half-yearly financial statement was prepared by the Executive Board on 31 July 2020 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 2020.

The consolidated half-yearly financial report was compiled in accordance with IAS 34 "Interim Financial Reporting". Consequently, the accounting policies adopted in the period under review were the same as those applied in the preceding consolidated annual financial statement. For more details of the accounting policies please see the Group annual financial report for the previous year.

All standards adopted by the IASB as at 30 June 2020 with binding effect for the period under review have been observed in the consolidated financial statement.

## Accounting standards applied for the first time

A number of amendments to existing standards and interpretations were issued in the financial year with no significant implications for the consolidated financial statement:

- Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

The restatement of the opening balance of the retained earnings shown in the consolidated statement of changes in shareholders' equity for the comparable year in an amount of EUR 1.8 million results from the modified retrospective application of IFRS 16 "Leases" already implemented in the 2019 financial year. For a detailed description of the implications of the standard, we would refer the reader to the remarks in the Annual Report 2019.

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

Hannover Re continues to meet the requirements for application of "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)", which was published in September 2016, regarding temporary deferral of IFRS 9. The deferral approach allows for a temporary exemption from recognising financial instruments in accordance with IFRS 9 until probable entry into force of IFRS 17 "Insurance Contracts" on 1 January 2023. For further explanatory remarks on the implications of application of IFRS 9 as well as IFRS 17, we would refer to the Group annual financial report for the previous year.

Furthermore, a number of other amendments to existing standards are only subject to mandatory application for financial years beginning on or after 1 January 2022. Hannover Re is refraining from early application of these amendments, which are not expected to have any significant implications for the Group's net assets, financial position or results of operations.

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- Annual Improvements 2018-2020

In addition, application of the amendments to IFRS 16 "Covid-19-Related Rent Concessions" is mandatory for financial years beginning on or after 1 June 2020. Given that no Group companies made use of Covid-19-related rent concessions and the amendments had still to be endorsed in EU law, the concession is not utilised in the present financial statement.

## Key exchange rates

The individual companies' statements of income prepared in the respective functional currency are converted into euro at the average rates of exchange and transferred to the consolidated financial statement. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statement are effected at the mean rates of exchange on the balance sheet date.

**Key exchange rates**

| | 30.6.2020 | 31.12.2019 | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|---|---|
| 1 EUR corresponds to: | Mean rate of exchange on the balance sheet date | | Average rate of exchange | |
| AUD | 1.6341 | 1.6000 | 1.6709 | 1.6012 |
| BHD | 0.4222 | 0.4219 | 0.4173 | 0.4272 |
| CAD | 1.5318 | 1.4620 | 1.5045 | 1.5112 |
| CNY | 7.9203 | 7.8181 | 7.7768 | 7.6885 |
| GBP | 0.9125 | 0.8520 | 0.8737 | 0.8771 |
| HKD | 8.6774 | 8.7135 | 8.5840 | 8.8829 |
| INR | 84.5413 | 79.8393 | 81.5606 | 79.3505 |
| KRW | 1,346.5100 | 1,293.5200 | 1,330.5086 | 1,295.0057 |
| MYR | 4.7942 | 4.5951 | 4.6835 | 4.6721 |
| SEK | 10.4950 | 10.4372 | 10.6426 | 10.4807 |
| USD | 1.1196 | 1.1190 | 1.1054 | 1.1331 |
| ZAR | 19.4325 | 15.7385 | 18.2181 | 16.0611 |

## 3. Consolidated companies and consolidation principles

### Capital consolidation

The capital consolidation is carried out according to the requirements of IFRS 10 "Consolidated Financial Statements" on the basis of a consistent consolidation model for all entities that identifies control as the single basis for verifying the consolidation requirement, irrespective of whether control is substantiated in company law, contractually or economically. Group companies are consolidated from the point in time when Hannover Re gains control over them. Control exists if Hannover Re directly or indirectly has decision-making power over a Group company on the basis of voting rights or other rights, if it has exposure or rights to positive and negative variable returns from its involvement with the Group company and if it can use its power to influence these returns. All of these criteria must be met. Other circumstances may also give rise to control, for example the existence of a principal-agent relationship. In this case a party outside the Group with decision-making powers (agent) acts for Hannover Re, but does not control the company since it merely exercises decision-making powers that have been delegated by Hannover Re (principal). In the context of their operational activities some companies belonging to the Hannover Re Group enter into business relations with structured entities that are also to be examined in accordance with IFRS 10 in conjunction with IFRS 12 with an eye to their implications for consolidation. Structured entities are entities designed in such a way that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Consolidation decisions are reviewed as necessary and at least once a year. Group companies are consolidated until the Hannover Re Group loses control over them. The accounting policies of Group companies are adjusted, where necessary, in order to ensure consistent application of the Hannover Re Group's accounting policies. The capital consolidation is based on the acquisition method. In the context of the acquisition method the acquisition costs, measured at the fair value of the consideration rendered by the parent company on the acquisition date, are netted with the proportionate shareholders' equity of the subsidiary at the time when it is first included in the consolidated financial statement after the revaluation of all assets and liabilities. After recognition of all acquired intangible assets that in accordance with IFRS 3 "Business Combinations" are to be accounted for separately from goodwill, the difference between the revalued shareholders' equity of the subsidiary and the purchase price is recognised as goodwill. Under IFRS 3 goodwill is not amortised, but instead impairment is taken where necessary on the basis of annual impairment tests. Immaterial and negative goodwill are recognised in the statement of income in the year of their occurrence. Costs associated with acquisition are expensed.

Companies over which Hannover Re is able to exercise a significant influence are consolidated as associated companies using the equity method of accounting with the proportion of the shareholders' equity attributable to the Group. A significant influence is presumed to exist if a company belonging to the Hannover Re Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights. We also derive evidence of significant influence over an associated company from representation on a governing body of such company, participation in its policy-making processes – e. g. with respect to dividends or other distributions –, the existence of material inter-company transactions, the possibility of interchanging managerial personnel or the provision of key technical information for the company. Income from investments in associated companies is recognised separately in the consolidated statement of income.

Non-controlling interests in shareholders' equity are reported separately within Group shareholders' equity in accordance with IAS 1 "Presentation of Financial Statements". The non-controlling interest in profit or loss, which forms part of net income and is shown separately after net income as a "thereof " note, amounted to EUR 2.6 million (EUR 31.0 million) as at 30 June 2020.

For further details we would refer to the relevant information in the Group annual financial report as at 31 December 2019.

### Consolidation of business transactions within the Group

Receivables and liabilities between the companies included in the consolidated financial statement are offset against each other. Profits and expenses from business transactions within the Group are also eliminated.

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

## Major acquisitions and new formations

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

## Major disposals

No major disposals have taken place in the current financial year.

In March 2020 Hannover Re decided to dispose of the special purpose property company Pipera Business Park S.r.l. ("Pipera"), Bucharest, Romania. All shares in Pipera are held through HR GLL Central Europe GmbH & Co. KG, Munich, a subsidiary of Hannover Re Euro RE Holdings GmbH, Hannover.

Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" Pipera 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.

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 held for sale" involve "Investment property" (EUR 95.9 million), "Cash and cash equivalents" (EUR 3.7 million) as well as "Other invested assets" (EUR 1.1 million). The "Liabilities related to assets held for sale" consist of "Taxes" (EUR 0.4 million) and "Other liabilities" (EUR 2.4 million).

# 4. Group segment report

**Segmentation of assets**

| in EUR thousand | Property and casualty reinsurance 30.6.2020 | 31.12.2019 |
|---|---|---|
| **Assets** | | |
| Fixed-income securities – held to maturity | 171,062 | 171,542 |
| Fixed-income securities – loans and receivables | 2,259,356 | 2,139,810 |
| Fixed-income securities – available for sale | 28,926,755 | 28,806,079 |
| Equity securities – available for sale | 349,082 | 29,215 |
| Financial assets at fair value through profit or loss | 121,100 | 88,400 |
| Other invested assets | 4,281,364 | 4,287,654 |
| Short-term investments | 237,935 | 296,052 |
| Cash and cash equivalents | 876,779 | 780,340 |
| **Total investments and cash under own management** | **37,223,433** | **36,599,092** |
| Funds withheld | 2,798,156 | 2,393,222 |
| Contract deposits | 4,282 | 2,186 |
| **Total investments** | **40,025,871** | **38,994,500** |
| Reinsurance recoverables on unpaid claims | 1,562,370 | 1,868,390 |
| Reinsurance recoverables on benefit reserve | – | – |
| Prepaid reinsurance premium | 189,084 | 114,764 |
| Reinsurance recoverables on other technical reserves | 551 | 4,489 |
| Deferred acquisition costs | 1,353,990 | 1,061,931 |
| Accounts receivable | 4,459,063 | 3,610,380 |
| Other assets in the segment | 2,519,125 | 1,998,897 |
| Assets held for sale | 100,749 | 36,308 |
| **Total assets** | 50,210,803 | 47,689,659 |

**Segmentation of liabilities**

| in EUR thousand | | |
|---|---|---|
| **Liabilities** | | |
| Loss and loss adjustment expense reserve | 28,994,133 | 28,364,351 |
| Benefit reserve | – | – |
| Unearned premium reserve | 5,560,792 | 4,068,957 |
| Provisions for contingent commissions | 350,628 | 353,359 |
| Funds withheld | 366,631 | 379,411 |
| Contract deposits | 82,507 | 73,023 |
| Reinsurance payable | 946,640 | 824,467 |
| Financing liabilities | 443,798 | 446,282 |
| Other liabilities in the segment | 2,493,508 | 2,157,872 |
| Liabilities related to assets held for sale | 2,754 | – |
| **Total liabilities** | 39,241,391 | 36,667,722 |

| Life and health reinsurance | | Consolidation | | Total | |
|---|---|---|---|---|---|
| 30.6.2020 | 31.12.2019 | 30.6.2020 | 31.12.2019 | 30.6.2020 | 31.12.2019 |
| | | | | | |
| 45,759 | 51,507 | – | – | 216,821 | 223,049 |
| 298,304 | 39,205 | 15,497 | 15,049 | 2,573,157 | 2,194,064 |
| 9,496,622 | 9,247,666 | 19,845 | 14,714 | 38,443,222 | 38,068,459 |
| – | – | – | – | 349,082 | 29,215 |
| 771,322 | 725,398 | – | – | 892,422 | 813,798 |
| 451,181 | 426,191 | 25,798 | 27,794 | 4,758,343 | 4,741,639 |
| 141,889 | 172,298 | 916 | – | 380,740 | 468,350 |
| 274,453 | 307,237 | 3,117 | 3,275 | 1,154,349 | 1,090,852 |
| **11,479,530** | **10,969,502** | **65,173** | **60,832** | **48,768,136** | **47,629,426** |
| 8,159,657 | 8,555,247 | – | – | 10,957,813 | 10,948,469 |
| 306,812 | 323,116 | – | – | 311,094 | 325,302 |
| **19,945,999** | **19,847,865** | **65,173** | **60,832** | **60,037,043** | **58,903,197** |
| 157,806 | 181,724 | – | – | 1,720,176 | 2,050,114 |
| 477,189 | 852,598 | – | – | 477,189 | 852,598 |
| 170 | 1,412 | (115) | – | 189,139 | 116,176 |
| 9,025 | 4,866 | – | – | 9,576 | 9,355 |
| 1,705,222 | 1,869,791 | – | – | 3,059,212 | 2,931,722 |
| 1,779,851 | 1,659,675 | (239) | (263) | 6,238,675 | 5,269,792 |
| 557,018 | 452,806 | (1,600,811) | (1,264,561) | 1,475,332 | 1,187,142 |
| – | – | – | – | 100,749 | 36,308 |
| 24,632,280 | 24,870,737 | (1,535,992) | (1,203,992) | 73,307,091 | 71,356,404 |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| 4,914,530 | 4,631,880 | – | – | 33,908,663 | 32,996,231 |
| 8,257,972 | 9,028,000 | – | – | 8,257,972 | 9,028,000 |
| 351,406 | 322,891 | – | – | 5,912,198 | 4,391,848 |
| 328,461 | 319,862 | – | – | 679,089 | 673,221 |
| 786,305 | 778,404 | – | – | 1,152,936 | 1,157,815 |
| 3,312,443 | 3,508,034 | – | – | 3,394,950 | 3,581,057 |
| 580,704 | 681,213 | (231) | – | 1,527,113 | 1,505,680 |
| 34,755 | 37,731 | 2,979,702 | 2,977,955 | 3,458,255 | 3,461,968 |
| 2,634,137 | 2,314,045 | (1,593,783) | (1,265,812) | 3,533,862 | 3,206,105 |
| – | – | – | – | 2,754 | – |
| 21,200,713 | 21,622,060 | 1,385,688 | 1,712,143 | 61,827,792 | 60,001,925 |

| Segment statement of income | Property and casualty reinsurance | |
|---|---|---|
| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
| Gross written premium | 9,174,203 | 7,847,453 |
| Net premium earned | 6,869,071 | 5,963,846 |
| Net investment income | 458,693 | 498,493 |
| thereof | | |
| Change in fair value of financial instruments | (1,304) | (998) |
| Total depreciation, impairments and appreciation of investments | 83,273 | 37,554 |
| Income/expense on funds withheld and contract deposits | 25,524 | 22,932 |
| Claims and claims expenses | 5,009,822 | 4,041,082 |
| Change in benefit reserve | – | – |
| Commission and brokerage, change in deferred acquisition costs and other technical income/expenses | 1,934,217 | 1,637,332 |
| Administrative expenses | 111,286 | 112,434 |
| Other income and expenses | 17,577 | (14,636) |
| **Operating profit/loss (EBIT)** | **290,016** | **656,855** |
| Financing costs | 1,068 | 1,125 |
| **Net income before taxes** | **288,948** | **655,730** |
| Taxes | 42,661 | 194,613 |
| **Net income** | **246,287** | **461,117** |
| thereof | | |
| Non-controlling interest in profit or loss | 1,553 | 29,793 |
| **Group net income** | **244,734** | **431,324** |

The segment information shown here is based on the same principles as those applied in the consolidated financial statement as at 31 December 2019. 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 2019.

In the current financial year there have been no material changes in the consolidated group.

| Life and health reinsurance | | Consolidation | | Total | |
| --- | --- | --- | --- | --- | --- |
| 1.1.–30.6.2020 | 1.1.–30.6.2019 | 1.1.–30.6.2020 | 1.1.–30.6.2019 | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
| 3,971,933 | 3,846,531 | – | – | 13,146,136 | 11,693,984 |
| 3,508,896 | 3,391,826 | 117 | 83 | 10,378,084 | 9,355,755 |
| 332,940 | 365,487 | 1,450 | 1,658 | 793,083 | 865,638 |
| | | | | | |
| 51,952 | 44,743 | – | – | 50,648 | 43,745 |
| 1,828 | 3,940 | – | – | 85,101 | 41,494 |
| 110,754 | 70,914 | – | – | 136,278 | 93,846 |
| 3,188,475 | 2,812,709 | – | – | 8,198,297 | 6,853,791 |
| (145,482) | 55,819 | – | – | (145,482) | 55,819 |
| 614,753 | 604,180 | – | – | 2,548,970 | 2,241,512 |
| 131,390 | 128,263 | 268 | 254 | 242,944 | 240,951 |
| 161,451 | 129,624 | (1,957) | (2,176) | 177,071 | 112,812 |
| **214,151** | **285,966** | **(658)** | **(689)** | **503,509** | **942,132** |
| 752 | 784 | 45,284 | 40,454 | 47,104 | 42,363 |
| **213,399** | **285,182** | **(45,942)** | **(41,143)** | **456,405** | **899,769** |
| 23,958 | 26,322 | (15,155) | (14,629) | 51,464 | 206,306 |
| **189,441** | **258,860** | **(30,787)** | **(26,514)** | **404,941** | **693,463** |
| | | | | | |
| 1,036 | 1,165 | – | – | 2,589 | 30,958 |
| **188,405** | **257,695** | **(30,787)** | **(26,514)** | **402,352** | **662,505** |

Notes

## 5. Notes on the individual items of the balance sheet

### 5.1. Investments under own management

Investments are classified and measured in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Hannover Re classifies investments according to the following categories: held-to-maturity, loans and receivables, financial assets at fair value through profit or loss and available-for-sale. The allocation and measurement of investments are determined by the investment intent.

The investments under own management also encompass investments in associated companies, real estate and real estate funds (also includes: investment property), other invested assets, short-term investments as well as cash and cash equivalents. Real estate 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 2019.

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

**Investments**

| in EUR thousand | 30.6.2020 | 31.12.2019 |
|---|---|---|
| **Regional origin** | | |
| Germany | 8,063,684 | 8,159,917 |
| United Kingdom | 3,553,483 | 3,728,373 |
| France | 1,555,609 | 1,617,012 |
| Other | 6,172,309 | 6,019,997 |
| **Europe** | **19,345,085** | **19,525,299** |
| | | |
| USA | 16,239,178 | 15,617,670 |
| Other | 2,239,884 | 2,070,537 |
| **North America** | **18,479,062** | **17,688,207** |
| | | |
| Asia | 5,089,316 | 4,571,088 |
| Australia | 3,040,473 | 2,876,907 |
| **Australasia** | **8,129,789** | **7,447,995** |
| | | |
| Africa | 318,695 | 376,152 |
| Other | 2,495,505 | 2,591,773 |
| | | |
| **Total** | **48,768,136** | **47,629,426** |

**Maturities of the fixed-income and variable-yield securities**

| | 30.6.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| in EUR thousand | Amortised cost[1] | Fair value | Amortised cost[1] | Fair value |
| **Held to maturity** | | | | |
| due in one year | 84,995 | 86,730 | 35,277 | 36,392 |
| due after one through two years | 83,533 | 87,746 | 138,711 | 146,834 |
| due after two through three years | 47,542 | 51,245 | – | – |
| due after three through four years | – | – | 48,282 | 52,963 |
| due after four through five years | – | – | – | – |
| due after five through ten years | – | – | – | – |
| due after more than ten years | 751 | 268 | 779 | 268 |
| **Total** | **216,821** | **225,989** | **223,049** | **236,457** |
| | | | | |
| **Loans and receivables** | | | | |
| due in one year | 136,003 | 138,024 | 114,559 | 116,540 |
| due after one through two years | 337,822 | 349,931 | 292,962 | 302,232 |
| due after two through three years | 622,861 | 647,481 | 192,558 | 208,214 |
| due after three through four years | 111,954 | 123,514 | 214,525 | 236,356 |
| due after four through five years | 97,250 | 109,234 | 97,782 | 105,475 |
| due after five through ten years | 794,411 | 907,864 | 803,813 | 937,856 |
| due after more than ten years | 472,856 | 510,464 | 477,865 | 506,720 |
| **Total** | **2,573,157** | **2,786,512** | **2,194,064** | **2,413,393** |
| | | | | |
| **Available for sale** | | | | |
| due in one year[2] | 4,702,817 | 4,727,479 | 4,930,829 | 4,946,309 |
| due after one through two years | 2,718,844 | 2,776,436 | 2,747,789 | 2,774,964 |
| due after two through three years | 3,835,607 | 3,950,829 | 3,458,407 | 3,524,451 |
| due after three through four years | 2,739,600 | 2,872,461 | 3,022,147 | 3,098,443 |
| due after four through five years | 3,413,577 | 3,564,349 | 2,853,983 | 2,960,945 |
| due after five through ten years | 14,093,961 | 14,901,889 | 13,017,561 | 13,541,446 |
| due after more than ten years | 6,449,946 | 7,184,868 | 8,240,612 | 8,781,103 |
| **Total** | **37,954,352** | **39,978,311** | **38,271,328** | **39,627,661** |
| | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| due in one year | 520,883 | 520,883 | 513,831 | 513,831 |
| due after one through two years | 48,297 | 48,297 | 18,880 | 18,880 |
| due after two through three years | 32,319 | 32,319 | 16,840 | 16,840 |
| due after three through four years | 9,895 | 9,895 | 18,489 | 18,489 |
| due after four through five years | 4,195 | 4,195 | – | – |
| due after five through ten years | 4,501 | 4,501 | 10,739 | 10,739 |
| due after more than ten years | – | – | – | – |
| **Total** | **620,090** | **620,090** | **578,779** | **578,779** |

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**

| | 30.6.2020 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | Amortised cost including accrued interest | Thereof accrued interest | Unrealised gains | Unrealised losses | Fair value |
| **Investments held to maturity** | | | | | |
| Fixed-income securities | | | | | |
| Debt securities issued by semi-governmental entities | 24,260 | 341 | 959 | – | 25,219 |
| Corporate securities | 47,542 | 554 | 3,703 | – | 51,245 |
| Covered bonds/asset-backed securities | 145,019 | 3,410 | 4,989 | 483 | 149,525 |
| **Total** | **216,821** | **4,305** | **9,651** | **483** | **225,989** |

**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**

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | Amortised cost including accrued interest | Thereof accrued interest | Unrealised gains | Unrealised losses | Fair value |
| **Investments held to maturity** | | | | | |
| Fixed-income securities | | | | | |
| Debt securities issued by semi-governmental entities | 24,048 | 129 | 1,299 | – | 25,347 |
| Corporate securities | 48,282 | 1,292 | 4,681 | – | 52,963 |
| Covered bonds/asset-backed securities | 150,719 | 2,981 | 7,940 | 512 | 158,147 |
| **Total** | **223,049** | **4,402** | **13,920** | **512** | **236,457** |

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

| | 30.6.2020 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | Amortised cost including accrued interest | Thereof accrued interest | Unrealised gains | Unrealised losses | Fair value |
| **Loans and receivables** | | | | | |
| Debt securities issued by semi-governmental entities | 1,191,167 | 18,812 | 133,491 | – | 1,324,658 |
| Corporate securities | 1,000,787 | 5,314 | 21,081 | 3,309 | 1,018,559 |
| Covered bonds / asset-backed securities | 381,203 | 7,968 | 62,092 | – | 443,295 |
| **Total** | **2,573,157** | **32,094** | **216,664** | **3,309** | **2,786,512** |

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

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | Amortised cost including accrued interest | Thereof accrued interest | Unrealised gains | Unrealised losses | Fair value |
| **Loans and receivables** | | | | | |
| Debt securities issued by semi-governmental entities | 1,228,959 | 20,108 | 134,288 | – | 1,363,247 |
| Corporate securities | 585,958 | 2,721 | 22,589 | 4,381 | 604,166 |
| Covered bonds / asset-backed securities | 379,147 | 6,738 | 66,833 | – | 445,980 |
| **Total** | **2,194,064** | **29,567** | **223,710** | **4,381** | **2,413,393** |

**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**

| | 30.6.2020 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | Amortised cost including accrued interest | Thereof accrued interest | Unrealised gains | Unrealised losses | Fair value |
| **Available for sale** | | | | | |
| Fixed-income securities | | | | | |
| Government debt securities of EU member states | 4,882,645 | 17,834 | 338,060 | 8,377 | 5,212,328 |
| US Treasury notes | 7,920,939 | 30,781 | 599,171 | 7,534 | 8,512,576 |
| Other foreign government debt securities | 3,244,677 | 25,678 | 132,545 | 24,253 | 3,352,969 |
| Debt securities issued by semi-governmental entities | 5,674,708 | 47,087 | 404,501 | 3,233 | 6,075,976 |
| Corporate securities | 12,121,998 | 121,372 | 621,999 | 101,092 | 12,642,905 |
| Covered bonds/asset-backed securities | 2,447,473 | 17,204 | 97,294 | 42,479 | 2,502,288 |
| Investment funds | 127,162 | – | 17,123 | 105 | 144,180 |
| | **36,419,602** | **259,956** | **2,210,693** | **187,073** | **38,443,222** |
| | | | | | |
| Equity securities | | | | | |
| Shares | 12,370 | – | 6,031 | 4 | 18,397 |
| Investment funds | 267,359 | – | 63,362 | 36 | 330,685 |
| | **279,729** | **–** | **69,393** | **40** | **349,082** |
| Short-term investments | 380,401 | 3,250 | 339 | – | 380,740 |
| | | | | | |
| **Total** | **37,079,732** | **263,206** | **2,280,425** | **187,113** | **39,173,044** |

**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**

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| in EUR thousand | 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 | 5,220,153 | 22,517 | 244,693 | 18,299 | 5,446,547 |
| US Treasury notes | 7,682,488 | 31,582 | 189,173 | 8,919 | 7,862,742 |
| Other foreign government debt securities | 2,965,895 | 25,202 | 99,412 | 10,282 | 3,055,025 |
| Debt securities issued by semi-governmental entities | 5,505,215 | 50,359 | 265,550 | 16,529 | 5,754,236 |
| Corporate securities | 12,654,213 | 130,218 | 563,648 | 32,101 | 13,185,760 |
| Covered bonds/asset-backed securities | 2,559,209 | 23,381 | 82,118 | 18,971 | 2,622,356 |
| Investment funds | 124,911 | – | 16,882 | – | 141,793 |
| | **36,712,084** | **283,259** | **1,461,476** | **105,101** | **38,068,459** |
| | | | | | |
| Equity securities | | | | | |
| Shares | 12,806 | – | 5,898 | – | 18,704 |
| Investment funds | 4,411 | – | 6,100 | – | 10,511 |
| | **17,217** | **–** | **11,998** | **–** | **29,215** |
| Short-term investments | 468,392 | 4,747 | 61 | 103 | 468,350 |
| | | | | | |
| **Total** | **37,197,693** | **288,006** | **1,473,535** | **105,204** | **38,566,024** |

Notes

**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 | 30.6.2020 | 31.12.2019 | 30.6.2020 | 31.12.2019 | 30.6.2020 | 31.12.2019 |
|---|---|---|---|---|---|---|
| | Fair value before accrued interest | | Accrued interest | | Fair value | |
| **Financial assets at fair value through profit or loss** | | | | | | |
| Fixed-income securities | | | | | | |
| US Treasury notes | 52,691 | 53,955 | – | – | 52,691 | 53,955 |
| Other foreign government debt securities | 292,470 | 288,315 | – | – | 292,470 | 288,315 |
| Corporate securities | 274,394 | 236,131 | 535 | 378 | 274,929 | 236,509 |
| | **619,555** | **578,401** | **535** | **378** | **620,090** | **578,779** |
| | | | | | | |
| Other financial assets | | | | | | |
| Derivatives | 272,185 | 234,882 | 147 | 137 | 272,332 | 235,019 |
| | **272,185** | **234,882** | **147** | **137** | **272,332** | **235,019** |
| | | | | | | |
| Total | 891,740 | 813,283 | 682 | 515 | 892,422 | 813,798 |

## 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**

| | 30.6.2020 | | | |
|---|---|---|---|---|
| in EUR thousand | Level 1 | Level 2 | Level 3 | Total |
| Fixed-income securities | 24,870 | 39,038,442 | – | 39,063,312 |
| Equity securities | 349,082 | – | – | 349,082 |
| Other financial assets | – | 115,592 | 156,740 | 272,332 |
| Real estate funds | – | – | 575,498 | 575,498 |
| Other invested assets | – | – | 1,872,688 | 1,872,688 |
| Short-term investments | 380,740 | – | – | 380,740 |
| Other assets | – | 791 | – | 791 |
| **Total financial assets** | **754,692** | **39,154,825** | **2,604,926** | **42,514,443** |
| Other liabilities | – | 26,757 | 27,752 | 54,509 |
| **Total financial liabilities** | **–** | **26,757** | **27,752** | **54,509** |

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

| | 31.12.2019 | | | |
|---|---|---|---|---|
| in EUR thousand | Level 1 | Level 2 | Level 3 | Total |
| Fixed-income securities | 20,421 | 38,626,817 | – | 38,647,238 |
| Equity securities | 29,215 | – | – | 29,215 |
| Other financial assets | – | 74,601 | 160,418 | 235,019 |
| Real estate funds | – | – | 534,739 | 534,739 |
| Other invested assets | – | 223 | 1,841,392 | 1,841,615 |
| Short-term investments | 468,350 | – | – | 468,350 |
| Other assets | – | 5,871 | – | 5,871 |
| **Total financial assets** | **517,986** | **38,707,512** | **2,536,549** | **41,762,047** |
| Other liabilities | – | 26,353 | 30,042 | 56,395 |
| **Total financial liabilities** | **–** | **26,353** | **30,042** | **56,395** |

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

**Movements in level 3 financial assets and liabilities**

| | 1.1. – 30.6.2020 | | | |
|---|---|---|---|---|
| in EUR thousand | Other financial assets | Real estate funds | Other invested assets | Other liabilities |
| **Net book value at 31 December of the previous year** | **160,418** | **534,739** | **1,841,392** | **30,042** |
| Currency translation at 1 January of the year under review | (92) | 17,933 | (951) | (17) |
| **Net book value after currency translation** | **160,326** | **552,672** | **1,840,441** | **30,025** |
| Income and expenses | | | | |
| Recognised in the statement of income | 19,045 | (6,787) | (43,456) | (3,793) |
| Recognised directly in shareholders' equity | – | 3,634 | (74,630) | – |
| Purchases | 26,282 | 38,806 | 208,071 | 3,492 |
| Sales | 41,012 | 12,524 | 56,648 | – |
| Transfers to level 3 | – | – | – | – |
| Transfers from level 3 | – | – | – | – |
| Currency translation at 30 June of the year under review | (7,901) | (303) | (1,090) | (1,972) |
| **Closing balance at 30 June of the year under review** | **156,740** | **575,498** | **1,872,688** | **27,752** |

**Movements in level 3 financial assets and liabilities**

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

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

**Income and expenses from level 3 financial assets and liabilities**

| | 1.1. – 30.6.2020 | | | |
|---|---|---|---|---|
| in EUR thousand | Other financial assets | Real estate funds | Other invested assets | Other liabilities |
| **Total in the period under review** | | | | |
| Ordinary investment income | – | – | (7) | – |
| Realised gains and losses on investments | – | – | (4) | – |
| Change in fair value of financial instruments | 19,045 | – | 1,509 | 3,793 |
| Total depreciation, impairments and appreciation of investments | – | (6,787) | (44,954) | – |
| **Thereof attributable to financial instruments included in the portfolio at 30 June** | | | | |
| Ordinary investment income | – | – | (7) | – |
| Change in fair value of financial instruments | 19,045 | – | 1,509 | 3,793 |
| Total depreciation, impairments and appreciation of investments | – | (6,787) | (44,954) | – |

**Income and expenses from level 3 financial assets and liabilities**

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

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 2,604.9 million (EUR 2,536.5 million) as at the balance sheet date, Hannover Re measures financial assets with a volume of EUR 2,317.7 million (EUR 2,237.4 million) using the net asset value method. These items consist principally of shares in private equity and real estate funds. Assuming that the present values of the assets and liabilities contained in the funds would be 10% lower than used for measurement as at the balance sheet date, the fair values for these items would amount to EUR 2,085.9 million. The remaining financial assets included in level 3 with a volume of EUR 287.2 million (EUR 299.2 million) relate to financial assets, the valuation of which is based on technical parameters. Derivative financial instruments in connection with the reinsurance business were recognised under the other liabilities included in level 3 in the year under review. Their performance is dependent upon the risk experience of an underlying group of primary insurance contracts with statutory reserving requirements. The application of alternative inputs and assumptions has no material effect on the consolidated financial statement.

## 5.2. Financing liabilities

Hannover Re recognised altogether four (four) subordinated bonds placed on the European capital market with an amortised cost of EUR 2,235.8 million (EUR 2,234.4 million) as at the balance sheet date.

The subordinated debts from the 2010 and 2012 financial years in amounts of EUR 500.0 million each were issued through Hannover Finance (Luxembourg) S.A. The fair value of the bonds as at 30 June 2020 was EUR 1,084.6 million (EUR 1,118.6 million).

Two further subordinated debts from the 2014 and 2019 financial years with volumes of EUR 500.0 million and EUR 750.0 million respectively, the combined fair values of which were EUR 1,260.2 million (EUR 1,310.4 million), were issued by Hannover Rück SE.

In April 2018 Hannover Rück SE issued a senior unsecured bond with a volume of EUR 750.0 million. The bond has a maturity of 10 years. The fair value of this bond was EUR 803.0 million (EUR 799.3 million) as at the balance sheet date.

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

In addition, long-term debt of EUR 395.2 million (EUR 395.0 million), which is principally used for financing real estate transactions, as well as lease liabilities of EUR 83.5 million (EUR 89.2 million) existed as at the balance sheet date.

## 5.3. Shareholders' equity, non-controlling interests and treasury shares

Shareholders' equity is shown as a separate component of the financial statement in accordance with IAS 1 "Presentation of Financial Statements" and subject to IAS 32 "Financial Instruments: Disclosure and Presentation" in conjunction with IAS 39 "Financial Instruments: Recognition and Measurement". The change in shareholders' equity comprises not only the net income deriving from the statement of income but also the changes in the value of asset and liability items not recognised in the statement of income.

The common shares (share capital of Hannover Rück SE) amount to EUR 120,597,134.00. They are divided into 120,597,134 voting and dividend-bearing registered ordinary shares in the form of no-par shares. The shares are paid in 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 791.6 million (EUR 826.5 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 710.6 million (EUR 745.4 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 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 2025.

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 6 May 2020 to distribute a gross dividend of EUR 5.50 per share, altogether EUR 663.3 million (EUR 633.1 million), for the 2019 financial year. The distribution is comprised of a dividend of EUR 4.00 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 16,511 (16,452) treasury shares during the second quarter of 2020 on the legal basis of § 71 Para. 1 No. 2 Stock Corporation Act (AktG) and delivered them to eligible employees at preferential conditions. These shares are blocked until 31 May 2024. This transaction resulted in an expense of EUR 0.5 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 decrease in the other reserves arising out of currency translation, which is recognised in equity, was attributable in an amount of EUR 35.3 million (in the previous year an increase of EUR 12.6 million) to the translation of long-term debt or loans with no maturity date extended to Group companies and branches abroad.

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

### 6.1. Gross written premium

**Gross written premium**

| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| **Regional origin** | | |
| Germany | 1,010,376 | 905,326 |
| United Kingdom | 1,648,707 | 1,449,215 |
| France | 579,149 | 456,127 |
| Other | 1,437,192 | 1,421,444 |
| **Europe** | **4,675,424** | **4,232,112** |
| | | |
| USA | 4,071,843 | 3,791,664 |
| Other | 579,685 | 426,699 |
| **North America** | **4,651,528** | **4,218,363** |
| | | |
| Asia | 2,293,020 | 1,927,425 |
| Australia | 741,774 | 552,121 |
| **Australasia** | **3,034,794** | **2,479,546** |
| | | |
| Africa | 244,118 | 267,306 |
| Other | 540,272 | 496,657 |
| Total | 13,146,136 | 11,693,984 |

### 6.2. Investment income

**Investment income**

| in EUR thousand | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| Income from real estate | 78,763 | 87,868 |
| Dividends | 3,107 | 2,735 |
| Interest income | 505,622 | 484,965 |
| Other investment income | 20,169 | 118,924 |
| **Ordinary investment income** | **607,661** | **694,492** |
| Profit or loss on shares in associated companies | 6,431 | 7,507 |
| Realised gains on investments | 174,024 | 187,775 |
| Realised losses on investments | 34,199 | 60,306 |
| Change in fair value of financial instruments | 50,648 | 43,745 |
| Impairments on real estate | 27,729 | 20,205 |
| Impairments on fixed-income securities | 11,796 | 128 |
| Impairments on participating interests and other financial assets | 45,576 | 21,161 |
| Other investment expenses | 62,659 | 59,927 |
| **Net income from assets under own management** | **656,805** | **771,792** |
| Interest income on funds withheld and contract deposits | 174,085 | 115,279 |
| Interest expense on funds withheld and contract deposits | 37,807 | 21,433 |
| Total investment income | 793,083 | 865,638 |

The impairments totalling EUR 66.6 million (EUR 23.0 million) were attributable in an amount of EUR 45.0 million (EUR 17.3 million) to alternative investments. Impairments of EUR 9.2 million (EUR 1.7 million) were recognised on real estate and real estate funds. The write-downs taken on fixed-income securities totalled EUR 11.8 million (EUR 0.1 million). Impairments of EUR 0.6 million (EUR 3.9 million) were taken on other invested assets. These write-downs were not opposed by any write-ups.

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.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| Fixed-income securities – held to maturity | 4,253 | 4,857 |
| Fixed-income securities – loans and receivables | 39,475 | 41,230 |
| Fixed-income securities – available for sale | 446,128 | 419,898 |
| Financial assets – at fair value through profit or loss | 2,339 | 2,193 |
| Other | 13,427 | 16,787 |
| Total | 505,622 | 484,965 |

# 7. Other notes

## 7.1. Derivative financial instruments and financial guarantees

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

Hannover Re holds derivative financial instruments to hedge interest rate risks from loans connected with the financing of real estate; these gave rise to recognition of other liabilities in an amount of EUR 5.1 million (EUR 1.5 million).

Hannover Re's portfolio contained forward exchange transactions that gave rise to recognition of other liabilities in an amount of EUR 12.8 million (EUR 15.9 million) and other financial assets at fair value through profit or loss in an amount of EUR 22.2 million (EUR 5.9 million). The increase in equity from hedging instruments recognised directly in equity pursuant to IAS 39 derived in an amount of EUR 1.7 million (decrease in equity of EUR 1.4 million recognised directly in equity) 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 1.8 million (EUR 0.3 million) and other liabilities of EUR 0.0 million (EUR 0.3 million). Ineffective components of the hedge were recognised in a minimal amount as income.

In order to hedge the risk of share price changes in connection with the stock appreciation rights granted under the share award plan, Hannover Re took out hedges in 2014 in the form of so-called equity swaps. The fair value of these instruments amounted to EUR 0.8 million (EUR 5.9 million) as at the balance sheet date and was recognised under other financial assets at fair value through profit or loss. The hedge gave rise to a decrease in equity from hedging instruments recognised directly in equity in an amount of EUR 5.9 million (increase of EUR 7.1 million recognised directly in equity); ineffective components of the hedge were recognised in a minimal amount as an expense.

The net changes in the fair value of the aforementioned instruments resulted in a charge of EUR 6.3 million (EUR 1.5 million) to the result of the period under review.

### Derivative financial instruments in connection with reinsurance

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

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

Hannover Re calculates the fair values of the embedded derivatives in ModCo treaties using the market information available on the valuation date on the basis of a credit spread method. Under this method the derivative has no value on the date when the contract commences and its value then fluctuates over time according to changes in the credit spreads of the securities. The derivative was recognised in an amount of EUR 14.9 million (EUR 23.2 million) under other financial assets at fair value through profit or loss and in an amount of EUR 2.0 million (EUR 0 million) under other liabilities as at the balance sheet date. In the course of the year the change in the fair value of the derivative gave rise in total to a charge of EUR 9.7 million (income of EUR 8.9 million) before tax.

A derivative financial instrument was also unbundled from another similarly structured transaction in previous years. This gave rise to recognition of other financial assets at fair value through profit or loss in an amount of EUR 62.6 million (EUR 25.9 million). The performance of this derivative has improved the result by EUR 40.2 million in the financial year to date (EUR 14.7 million).

A number of transactions concluded in the Life&Health reinsurance business group in previous years, under which Hannover Re companies offer their contracting parties coverage for risks from possible future payment obligations arising out of hedging instruments, are also to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to the development of an underlying group of primary insurance contracts with statutory reserving requirements. The contracts are to be categorised and recognised as stand-alone credit derivatives pursuant to IAS 39. These derivative financial instruments were carried in equity on initial recognition. The fair value of these instruments was EUR 39.3 million (EUR 43.7 million) on the balance sheet date and was recognised under other financial assets at fair value through profit or loss. The change in value in subsequent periods is dependent upon the risk experience and has led to an improvement of EUR 20.2 million (EUR 18.3 million) in investment income in the financial year to date.

A retrocession agreement exists in the area of life and health reinsurance under which the premiums were deposited with Hannover Re and invested in a structured bond. The retrocessionaire has furnished a guarantee for its fair value. In 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 11.5 million (EUR 14.1 million) as at the balance sheet date under other financial assets at fair value through profit or loss. In the course of the year the change in the fair value of the derivative resulted in an expense of EUR 2.6 million (EUR 13.2 million). Conversely, the performance of the structured bond, which is also measured at fair value, gave rise to income in the same amount.

In the area of life and health reinsurance a reinsurance treaty with a financing component was also written in previous years under which the amount and timing of the return flows are dependent on lapse rates within an underlying primary insurance portfolio. This treaty and a corresponding retrocession agreement, which were classified as financial instruments pursuant to IAS 39, resulted in the recognition of other liabilities of EUR 27.8 million (EUR 30.0 million) and other financial assets at fair value through profit or loss in an amount of EUR 117.5 million (EUR 116.7 million). Altogether, these arrangements have given rise to an improvement in income of EUR 2.6 million (EUR 2.5 million) in the course of the financial year to date.

At the end of the 2017 financial year an index-linked cover was written for longevity risks. The resulting derivative was recognised as at the balance sheet date with a positive fair value of EUR 2.6 million (EUR 5.2 million) under other financial assets at fair value through profit or loss. The change in the fair value of the derivative has given rise to an expense of EUR 2.7 million (income of EUR 5.6 million) in the course of the financial year to date.

All in all, application of the standards governing the accounting for derivatives in connection with the technical account led to recognition of assets totalling EUR 248.4 million (EUR 228.8 million) as well as recognition of liabilities in an amount of EUR 36.5 million (EUR 39.1 million) from the derivatives resulting from technical items as at the balance sheet date. Improvements in investment income amounting to EUR 64.6 million (EUR 49.9 million) as well as charges to income of EUR 15.0 million (EUR 15.9 million) have been recognised in the current year under review from all separately measured derivatives in connection with the technical account.

## Financial guarantees

Structured transactions were entered into in the life and health reinsurance business group in order to finance statutory reserves (so-called Triple-X or AXXX reserves) of US ceding companies. In each case such structures necessitated the involvement of a special purpose entity. The special purpose entities carry extreme mortality risks securitised by the cedants above a contractually defined retention and transfer these risks by way of a fixed/floating swap to a member company of the Hannover Re Group. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,789.7 million (EUR 3,345.1 million); an amount equivalent to EUR 2,813.0 million (EUR 2,742.3 million) had been taken up as at the balance sheet date. The variable payments to the special purpose entities that are guaranteed by companies belonging to the Hannover Re Group cover their payment obligations. Under some of the transactions the payments resulting from the swaps in the event of a claim are reimbursed by the parent companies of the cedants by way of compensation agreements. In this case the reimbursement claims from the compensation agreements are to be capitalised separately from and up to the amount of the provision. Under IAS 39 these transactions are to be recognised at fair value as financial guarantees. To this end Hannover Re uses the net method, according to which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of the fair value and the amount carried as a provision on the liabilities side pursuant to IAS 37 is recognised at the point in time when utilisation is considered probable. This was not the case as at the balance sheet date.

## 7.2. Related party disclosures

IAS 24 "Related Party Disclosures" defines related parties as group entities of a common parent, associated entities, legal entities under the influence of key management personnel and the key management personnel of the entity itself. Transactions between Hannover Rück SE and its subsidiaries, which are to be regarded as related parties, were eliminated through consolidation and are therefore not discussed in the notes to the consolidated financial statement. In the period under review the following significant business relations existed with related parties.

Talanx AG holds an unchanged majority interest of 50.22% in Hannover Rück SE. For its part, HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI), Hannover, holds a stake of 79.0% in Talanx AG.

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

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. Divisions of Hannover Rück SE performed services in connection with the insurance and reinsurance business of HDI Global Specialty SE, a joint venture of Hannover Rück SE and HDI Global SE.

Talanx Reinsurance Broker GmbH grants Hannover Rück SE and E+S Rückversicherung AG a preferential position as reinsurers of cedants within the Talanx Group. In addition, Hannover Rück SE and E+S Rückversicherung AG are able to participate in the protection covers on the retention of Group cedants and share in the protection afforded by them. In certain circumstances Hannover Rück SE and E+S Rückversicherung AG are obliged to assume unplaced shares of the reinsurance of Group cedants from Talanx Reinsurance Broker GmbH.

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

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

**Business assumed and ceded in Germany and abroad**

| in EUR thousand | 1.1.–30.6.2020 Property and casualty reinsurance | 1.1.–30.6.2020 Life and health reinsurance | 1.1.–30.6.2020 Total | 1.1.–30.6.2019 Property and casualty reinsurance | 1.1.–30.6.2019 Life and health reinsurance | 1.1.–30.6.2019 Total |
|---|---|---|---|---|---|---|
| **Material items in the statement of income** | | | | | | |
| **Business assumed** | | | | | | |
| Premium | 830,984 | 65,742 | 896,726 | 658,737 | 69,766 | 728,503 |
| Underwriting result | (79,216) | 10,374 | (68,842) | (20,779) | 10,487 | (10,292) |
| **Business ceded** | | | | | | |
| Premium | 6,508 | (37,545) | (31,037) | (1,986) | (32,804) | (34,790) |
| Underwriting result | 10,935 | (4,979) | 5,956 | (899) | (5,733) | (6,632) |
| **Total** | | | | | | |
| Premium | 837,492 | 28,197 | 865,689 | 656,751 | 36,962 | 693,713 |
| Underwriting result | (68,281) | 5,395 | (62,886) | (21,678) | 4,754 | (16,924) |

| in EUR thousand | 30.6.2020 Property and casualty reinsurance | 30.6.2020 Life and health reinsurance | 30.6.2020 Total | 31.12.2019 Property and casualty reinsurance | 31.12.2019 Life and health reinsurance | 31.12.2019 Total |
|---|---|---|---|---|---|---|
| **Material items in the balance sheet** | | | | | | |
| **Assets** | | | | | | |
| Funds withheld | 65,225 | 810,571 | 875,796 | 75,033 | 920,458 | 995,491 |
| Deferred acquisition costs | 239,159 | 11,448 | 250,607 | 214,466 | 14,265 | 228,731 |
| Accounts receivable | 472,835 | 9,831 | 482,666 | 361,572 | 16,049 | 377,621 |
| **Liabilities** | | | | | | |
| Loss and loss adjustment expense reserve | 2,842,043 | 46,693 | 2,888,736 | 2,770,357 | 47,002 | 2,817,359 |
| Benefit reserve | – | 103,818 | 103,818 | – | 104,905 | 104,905 |
| Unearned premium reserve | 815,809 | 95 | 815,904 | 713,091 | 148 | 713,239 |
| Contract deposits | – | 681,269 | 681,269 | – | 788,577 | 788,577 |
| Reinsurance payable | 13,469 | 1,532 | 15,001 | 8,007 | 4,756 | 12,763 |

In the context of a bond issue by Talanx AG the Group companies Hannover Rück SE and E+S Rückversicherung AG invested in a nominal amount of EUR 47.0 million in the issued bearer debt, which has a coupon of 3.125%. The carrying amount of the instrument, which is recognised under fixed-income securities held to maturity, was EUR 47.5 million (EUR 47.5 million) including accrued interest of EUR 0.5 million (EUR 0.5 million).

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

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

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

Under long-term lease arrangements, companies belonging to the Hannover Re Group rented out business premises in 2015 to HDI Service AG, Hannover.

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

Actuarial opinions with respect to the pension commitments given to staff are drawn up for Hannover Rück SE and E+S Rückversicherung AG by HDI Pensionsmanagement AG and

HDI Lebensversicherung AG under an actuarial service contract.

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

Since 2012 a service agreement has existed between Hannover Rück SE and Talanx AG regarding the receipt of 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 HDI Service AG in the area of flight services as well as a contract regarding the reciprocal provision of business continuity management services.

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

## 7.3. Staff

As at the balance sheet date altogether 3,144 (3,083) staff were employed by the Hannover Re Group, with 1,371 (1,396) employed in Germany and 1,773 (1,687) working for the consolidated Group companies abroad.

## 7.4. Earnings per share

**Calculation of the earnings per share**

| | 1.1.–30.6.2020 | 1.1.–30.6.2019 |
|---|---|---|
| Group net income in EUR thousand | 402,352 | 662,505 |
| Weighted average of issued shares | 120,596,859 | 120,596,861 |
| Basic earnings per share in EUR | 3.34 | 5.49 |
| Diluted earnings per share in EUR | 3.34 | 5.49 |

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 2020 and sold them to eligible employees at a later date.

The weighted average number of shares does not include 16,511 (16,452) treasury shares pro rata temporis for the duration of the holding period. For further details please see our comments in section 5.3 "Shareholders' equity, non-controlling interests and treasury shares".

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

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

## 7.5. Contingent liabilities and commitments

Hannover 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 4,250.1 million (EUR 4,135.7 million) and EUR 187.2 million (EUR 172.4 million) respectively as at the balance sheet date. The securities held in the trust accounts are shown as available-for-sale investments. In addition, we furnished further collateral to ceding companies in an amount of EUR 3,435.8 million

(EUR 3,155.7 million) in the form of so-called "single trust funds". This amount includes a sum equivalent to EUR 3,018.1 million (EUR 2,716.6 million) which was furnished by investors as security for potential reinsurance obligations from ILS transactions.

As part of our business activities we hold collateral available outside the United States in various blocked custody accounts and trust accounts, the total amount of which in relation to the Group's major companies was EUR 3,015.1 million (EUR 2,994.2 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 1,561.6 million (EUR 1,568.1 million).

We put up own investments with a book value of EUR 3.3 million (EUR 12.9 million) as collateral for existing derivative transactions. We received collateral with a fair value of EUR 22.5 million (EUR 10.5 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 692.3 million (EUR 700.9 million) as at the balance sheet date.

Outstanding capital commitments with respect to alternative investments exist on the part of the Group in an amount of EUR 1,390.0 million (EUR 1,429.9 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 million (EUR 11.0 million) for an indefinite period in favour of the pension scheme "The Congregational & General Insurance Plc Pension and Life Assurance Scheme" of the liquidated company Congregational & General Insurance Plc., Bradford/UK, at usual market conditions.

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

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

## 7.6. Events after the end of the reporting period

On 8 July 2020 Hannover Rück SE placed subordinated debt with a volume of EUR 500 million on the European capital market. The bond has a total maturity of 20.25 years with a first scheduled call option after ten years. It carries a fixed coupon of 1.75% p.a. until 8 October 2030, after which the interest rate basis changes to a floating rate of 3-month EURIBOR +300 basis points.

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

Hannover, 31 July 2020

Executive Board

Henchoz Althoff Chèvre

Dr. Miller Dr. Pickel Sehm Vogel

# Review report by the independent auditors

To Hannover Rück SE, Hannover

We have reviewed the condensed consolidated interim financial statements – comprising the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and the notes to the consolidated financial statements – together with the interim Group management report of Hannover Rück SE, Hannover, for the period from 1 January to 30 June 2020, 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, 3 August 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Mathias Röcker<br>Wirtschaftsprüfer | ppa. Dennis Schnittger<br>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, 31 July 2020

Executive Board

Henchoz Althoff Chèvre

Dr. Miller Dr. Pickel Sehm Vogel

# Contact information

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