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Talanx Group Interim Report as at 31 March 2013

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The Talanx Group at a glance

		Q1 2013	Q1 2012	+/– %
Gross written premium	*in EUR million*	**8,458**	**7,605**	**+11**
by regions				
Germany	*in %*	40	44	–4 pt.
UK	*in %*	8	8	—
Central and Eastern Europe including Turkey (CEE)	*in %*	8	4	+4 pt.
Rest of Europe	*in %*	15	16	–1 pt.
USA	*in %*	12	11	+1 pt.
Rest of North America	*in %*	2	2	—
Latin America	*in %*	6	6	—
Asia and Australia	*in %*	7	7	—
Africa	*in %*	2	2	—
Net premium earned	*in EUR million*	**5,715**	**4,965**	**+15**
Underwriting result	*in EUR million*	**–263**	**–289** [4]	**+9**
Net investment income	*in EUR million*	**875**	**961**	**–9**
Net return on investment [1]	*in %*	**3.7**	**4.6**	**–0.9 pt.**
Operating profit (EBIT)	*in EUR million*	**516**	**538** [4]	**–4**
Net income (after financing costs and taxes)	*in EUR million*	**341**	**352** [4]	**–3**
of which attributable to shareholders of Talanx AG	*in EUR million*	203	206 [4]	–1
Return on equity [2]	*in %*	**11.2**	**14.8** [4]	**–3.6 pt.**
Earnings per share				
Basic earnings per share at the end of the period	*in EUR*	0.80	0.99	–19 [4]
Diluted earnings per share at the end of the period	*in EUR*	0.80	0.99	–19 [4]
Combined ratio in property/casualty primary insurance and non-life reinsurance [3]	*in %*	**95.0**	**96.4**	**–1.4 pt.**
Combined ratio of property/casualty primary insurers	*in %*	96.2	95.9	+0.3 pt.
Combined ratio for non-life reinsurance	*in %*	94.0	96.8	–2.8 pt.

		31.3.2013	31.12.2012	+/– %
Policyholders' surplus	*in EUR million*	**14,703**	**14,416** [4]	**+2**
Equity attributable to shareholders of Talanx AG	*in EUR million*	7,359	7,153 [4]	+3
Non-controlling interests	*in EUR million*	4,237	4,156 [4]	+2
Hybrid capital	*in EUR million*	3,107	3,107	—
Investments under own management	*in EUR million*	**86,568**	**84,052**	**+3**
Total investments	*in EUR million*	**101,551**	**98,948**	**+3**
Total assets	*in EUR million*	**134,611**	**130,350** [4]	**+3**
Carrying amount per share at the end of the period	*in EUR*	**29.13**	**28.31** [4]	**+3**
Share price at the end of the period	*in EUR*	**23.56**	**21.48**	**+10**
Market capitalisation of Talanx AG at the end of the period	*in EUR million*	**5,951**	**5,426**	**+10**
Staff	*full-time equivalents*	**20,593**	**20,887**	**–1**

[1] Annualised net investment income excluding interest income on funds withheld and contract deposits and income from investment contracts relative to average investments under own management (31.3.13 and 31.12.12)
[2] Annualised net profit/loss for the period without non-controlling interests relative to average equity without non-controlling interests
[3] Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions
[4] Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes

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** Staff representative*

As at: 31 March 2013

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Group Management Report

Markets and business climate

Overall economic development

The first quarter of 2013 was marked by setbacks and concerns relating to the euro debt crisis. Support for the ruling party in Spain fell to its lowest level for several years in January. In February, a lack of clarity regarding the balance of power after the elections in Italy created a lot of uncertainty. In March, markets focused mainly on the rescue package for Cyprus. Economic indicators in Europe slowed against this difficult background. The Eurozone purchasing managers' index dropped from 47.9 to 46.8 in March. The respected ifo index in Germany was more positive, coming close to its highest level for several months.

Economic data for the USA remained stable at the beginning of the year and were surprisingly positive overall. The unemployment rate improved from 7.9% to 7.6%, its lowest level since December 2008. Furthermore, the housing market, an important indicator of US consumer confidence, continued to recover. In the UK, however, development was as weak as the Eurozone's.

The monetary policy pursued by major central banks remained expansionary at the beginning of the year. The Fed reiterated several times its promise to buy up bonds, while the Bank of Japan doubled its inflation target to 2% and announced that it would purchase unlimited bonds. Of the major central banks, only the ECB has significantly reduced its total assets since the beginning of the year. This is due to early repayment of LTRO loans to commercial banks.

Annual inflation rates in the Eurozone dropped to 1.7% in March 2013, below the ECB's target range. There was also a significant decline in US inflation rates early in the year. The annual inflation rate in March 2013 was 1.5%. Inflation in the UK stood at 2.8% according to the most recent figures.

Political uncertainty in Italy and Cyprus had a negative impact on the euro early in the year, causing it to fall against the US dollar from USD 1.32 to USD 1.28/EUR. The euro gained ground against the sterling, however, rising from levels of around GBP 0.81/EUR at the beginning of the year to GBP 0.84/EUR. After significant gains against the Swiss franc in January (temporary high of almost CHF 1.25/EUR), the euro was back down to around CHF 1.22/EUR by the end of the first quarter of 2013.

Capital markets

Capital markets remained robust overall, despite a weak macroeconomic environment. Following a favourable start to the year, market players again began to focus more strongly on fundamental problems. Along with the stalemate following parliamentary elections in Italy, the restructuring of Dutch group SNS led to prolonged uncertainty among investors. The restructuring of the Cypriot banking system with the involvement of private creditors also unsettled market players.

There was a great deal of activity in new issues at the beginning of the year, particularly for corporate securities and in the high-yield segment. Unlike in the previous year, issuers of covered bonds were very restrained throughout the quarter, with considerably more repayments than new issues. In this environment, it was evident that investors had a lasting interest in all products that promised a yield mark-up. This high demand ensured that risk premiums remained stable or even narrowed again slightly in the case of corporate securities and covered bonds, despite the tense atmosphere in the Eurozone.

There was little change in yields on German government bonds compared with the preceding quarter. Yields on bonds with a maturity of less than one year remained marginally negative. Two-year German government bonds returned to negative territory with yields of –0.026%, while five-year German government bonds were almost unchanged at 0.311% and ten-year German government bonds fell slightly to 1.288%.

More positive economic data in the USA were a particularly important driver of growth on the stock markets. The picture was nevertheless very mixed. The DAX gained 2.4% in the first quarter of 2013, while the EUROSTOXX 50 lost around 0.5% in the same period. Steady cash inflows into US equity funds drove the S&P 500 up to a new record high in the first quarter of 2013, with growth in value of 10%. The Dow Jones also climbed 11% in the first quarter, reaching a new record high of 14,578 points. Japan's Nikkei 225 index achieved the strongest growth of around 19% in the first quarter of 2013, driven by hopes of a more expansionary monetary policy in Japan. It had already gained about 17% in the final quarter of 2012.

Insurance markets

Demand for cover has remained robust in the German insurance industry. Sentiment in the German insurance sector remained favourable overall in the first quarter, despite a slight slowdown. The mood in property and casualty insurance and life insurance lines, however, is clearly different.

The business climate in the German **property and casualty insurance** sector further improved in the first quarter, in terms of both the current situation and of expectations for the next six months. This positive assessment of the business climate related to all lines of business, although it was only in private liability insurance that expectations were above average for the property and casualty insurance lines.

Estimates for growth in premium income are slightly lower than in the previous quarter. Positive growth rates are anticipated across all lines of business, but particularly in commercial/industrial lines of business, private property insurance and private motor insurance.

Claims expenses are generally expected to remain stable, although they will vary between lines of business. While claims development is expected to improve in private motor insurance, private property insurance and commercial/industrial lines of business, it is anticipated that claims expenses will increase in private legal protection insurance, private accident insurance and private liability insurance.

The business climate in German **life insurance** remained virtually unchanged in the first quarter compared with the previous quarter. This was largely due to a stable business situation. Sentiment readings for occupational disability insurance, term life insurance and annuity insurance are well above the average figures for the mood in the life insurance sector. Endowment life insurance and unit-linked life and annuity insurance came last in the assessment.

Expectations for premium income in new business have stabilised, with stagnation anticipated for 2013. Following weak development in single-premium business in 2012, forecasts for 2013 predict a gradual stabilisation. If we look at individual lines of business, we see a mixed picture. While the outlook for unit-linked life and annuity insurance is assessed as positive, it is negative for annuity insurance and endowment insurance.

Competition became more intense in renewals in international **non-life reinsurance markets** as at 1 January 2013. Hurricane "Sandy", which led to high claims in the primary and reinsurance sectors in 2012, had a stabilising effect on prices overall. Reinsurers faced comparatively low claims expenses, owing to the low number of major losses in the first quarter.

General conditions in international **life and health reinsurance** remained positive in the first quarter of 2013. Mature insurance markets such as the USA, the UK, Germany, France and Scandinavia continue to offer promising business opportunities owing to demographic trends.

As the population of emerging countries in Asia, Latin America and Eastern Europe becomes increasingly affluent, demand is also increasing for life insurance and pension insurance products. This is resulting in opportunities to develop and introduce new insurance products in line with demand, which are geared towards regulatory frameworks and living conditions on these markets.

Business development of the Talanx Group

- Strong growth, particularly in Retail International and in reinsurance
- Improvement in underwriting result thanks to low level of major losses
- Capital base remains strong despite negative impact of IAS 19

	Q1 2013	Q1 2012 [1]	+/–%
Figures in EUR million			
Gross written premium	8,458	7,605	+11
Net premium earned	5,715	4,965	+15
Underwriting result	–263	–289	+9
Net investment income	875	961	–9
Operating result (EBIT)	516	538	–4
Combined ratio (net, property and casualty only) in %	95.0	96.4	–1.4 pt.

[1] Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes

Talanx implemented the new IFRS regulations in the first quarter. Among other points, these require significant changes with regard to the recognition and measurement of expenses for employee benefits (IAS 19). Although the application of these regulations for the first time had a negative impact on equity, the Group's solvency ratio at the end of the quarter was still well above the level required by law, at 222%.

Talanx successfully issued a senior unsecured bond with a volume of EUR 750 million in mid-February; the cash inflow will be used principally to replace existing financing arrangements. The bond was marketed primarily to institutional investors in Germany and abroad and was several times oversubscribed.

Premium volume

The Group's gross written premium totalled EUR 8.5 (7.6) billion, a year-on-year increase of around 11%. The level of growth would have been almost 12% with adjustments for exchange rate effects. All operating segments contributed to this growth. Net premium earned even grew by around 15% to EUR 5.7 (5.0) billion, while the retention ratio rose from 85.2% to 85.8%. The Retail International Division accounted for a particularly high proportion of this, with an increase of 67% in net premium volume. The Polish companies TU Europa and WARTA, which were acquired in 2012, were included in full for the first time. Solid organic growth also had a positive impact.

Underwriting result

The underwriting result is regularly negative at Group level, since participation of policyholders in our life insurers' investment income is included. However, it improved by around 9% to –EUR 263 (–289) million compared with the corresponding quarter of the previous year, thanks to a substantial drop in the burden of major losses. The major loss ratio was only 0.4 (3.3)% in the first quarter. The combined ratio therefore improved again slightly by 1.4 percentage points to 95.0 (96.4)% compared with the same period of the previous year.

Net investment income

Net investment income fell by almost 9% from EUR 961 million to EUR 875 million, declining year-on-year in all operating segments. While there was only a moderate drop in the Retail Germany and Retail International segments, income fell significantly in Non-Life Reinsurance owing to losses on inflation swaps and in Life/Health Reinsurance owing to ModCo effects. Low interest rates also had an impact on net investment income in primary insurance, albeit to a much smaller extent.

Operating result and Group net income

The Group's operating result (EBIT) fell by 4% to EUR 516 (538) million owing to the decline in net investment income, despite improvements in the underwriting result and improved net exchange rate gains in Non-Life and Life/Health Reinsurance in other income. Group net income remained virtually unchanged year-on-year at EUR 203 (206) million. Earnings per share amounted to EUR 0.80 (0.99), while the (annualised) Group return on equity was a satisfactory 11.2%, following an exceptionally high figure of 14.8% in the corresponding quarter of the previous year.

Business development of the segments
Industrial Lines

- Premium growth continues
- Net result influenced by low level of relief from reinsurers
- Net investment income affected by interest rates

	Q1 2013	Q1 2012 1)	+/–%
Figures in EUR million			
Gross written premium	1,735	1,609	+8
Net premium earned	439	374	+18
Underwriting result	2	65	–97
Net investment income	55	58	–5
Operating result (EBIT)	33	97	–66
Combined ratio (net) 2) in %	99.4	82.7	+16.7 pt.

1) Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes
2) Including interest income on funds withheld and contract deposits

The Industrial Lines Division is led by HDI-Gerling Industrie Versicherung AG (HDI-Gerling Industrie), also by far the largest company in this Group segment. In addition to 11 sites throughout Germany, it operates in over 130 countries through subsidiaries and network partners. As an internationally operating industrial insurer, HDI-Gerling Industrie supports its clients in Germany and around the world with comprehensive insurance solutions optimally tailored to their individual needs. The product range encompasses liability, motor, accident, fire and property insurance as well as marine, special lines and engineering insurance.

Industrial customers also benefit from decades of experience in risk assessment and risk management, as specialist commercial cover is required by large and medium-sized industrial groups in particular, owing to the complex risk environment. HDI-Gerling Industrie's range of services is rounded off by professional claims management that delivers the fastest possible assistance worldwide in the event of loss or damage.

Premium volume

The segment's gross written premium amounted to EUR 1.7 (1.6) billion as at 31 March 2013, an increase of around 8%. HDI-Gerling Industrie made a particularly large contribution to this increase, with growth of 7% to EUR 1.5 (1.4) billion at its branches in Germany and abroad.

The upward trend in premiums, continuing from the previous year, was driven mainly by the fire, liability, motor and accident insurance lines. Overall performance was positive despite ongoing intense competition in Germany, owing to the expansion of international programmes.

Successful restructuring projects in Germany, market hardening in some European countries, increased shares in insurance programmes and new business accounted for the majority of premium growth in fire insurance business. The trend towards market hardening also continued in motor insurance. The accident insurance line gained a new major customer, which had a positive impact on premium growth.

Overall premium development at foreign companies in the segment was also pleasing. The Austrian, Belgian and Spanish subsidiaries are worth a special mention. A substantial increase in premiums at the Austrian company HDI Versicherung AG to EUR 45 (35) million came from new business in all lines. Additional premiums from a major customer affected business at the Belgian company HDI-Gerling Assurances S.A. in the first quarter. Overall premium growth totalled 7%. The Spanish subsidiary achieved premium growth of 10% to EUR 32 (29) million through an increase in Latin American business and the expansion of local business and international programmes.

Reinsurance premium written increased by 4% year-on-year to EUR 0.7 (0.7) billion, a lower level of growth than that in gross written premium. Retentions increased at HDI-Gerling Industrie in particular. At the same time, there was a disproportionate increase in reinsurance premium written at the Austrian subsidiary, owing to the separation of the portfolio into industrial business and retail business.

Net premium earned in the segment rose by 18% to EUR 439 (374) million.

Underwriting result

The net underwriting result of the Industrial Lines segment amounted to EUR 2 (65) million. It was well below the previous year's figure, despite an increase in gross premiums and the positive gross claims experience. The drop in the net result was largely due to a significant increase in loss expenditure after deduction of the shares of reinsurers. The net expense ratio was up one percentage point compared with the previous quarter, at 19.1 (18.1)%, while the (net) loss ratio rose by 16 percentage points to 80.5 (64.5)%, resulting in a combined ratio of 99.4 (82.7)%.

HDI-Gerling Industrie Versicherung AG achieved a net underwriting result of EUR 6 (46) million. Net run-off profits in the liability insurance line had been high in the corresponding period of the previous year, a situation that was not repeated in the current year. While the moderate burden of major losses led to a good gross result in lines with a high proportion of reinsurance, medium-sized losses burdened the net result in lines where the premium retained was high.

Our Dutch subsidiary recorded a drop to –EUR 5 (10) million, largely owing to additional provisions in the amount of EUR 12 million. The Austrian company's underwriting result of EUR 0 (2) million was burdened by a run-off loss of EUR 1 million in the liability insurance line.

Net investment income

Net investment income fell by 5% to EUR 55 (58) million. The interest-induced decline in current income at HDI-Gerling Industrie was offset by higher income from real estate. The Dutch subsidiary had also carried out a write-down of EUR 3 million on a bond from a nationalised bank. On the whole, there were no significant developments in net investment income for the other companies.

Operating result and Group net income

The overall operating result (EBIT) of the Industrial Lines segment fell to EUR 33 (97) million, owing to the above developments and in particular the lower underwriting result. HDI-Gerling Industrie, which dominates the segment, made a substantial contribution of EUR 48 (80) million to EBIT. There was also a noticeable change at the Dutch subsidiary, whose operating result (EBIT) fell to –EUR 11 (7) million owing to the abovementioned one-off effects, which together amounted to –EUR 15 million. The results of the other companies in the segment remained stable year-on-year.

Income apportionable to shareholders of Talanx AG (Group net income) for the segment amounted to EUR 19 (54) million.

Retail Germany

- New business managed with a stronger focus on profitability
- Restructuring in property insurance begins to pay off
- Result significantly exceeds figure for same quarter of previous year, owing to one-off effects

	Q1 2013	Q1 2012[1]	+/–%
Figures in EUR million			
Gross written premium	2,113	2,029	+4
Net premium earned	1,323	1,247	+6
Underwriting result	–296	–335	+12
Net investment income	387	390	–1
Operating result (EBIT)	66	38	+74
Combined ratio (net, property and casualty only)[2] in %	95.0	105.3	–10.3 pt.

[1] Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes
[2] Including interest income on funds withheld and contract deposits

The Retail Germany Division bundles German retail clients served by HDI and the Talanx Group's bancassurance activities and offers them insurance cover tailored to their needs. The division also operates in Austria in the field of life insurance. Its range of services extends from property/casualty and life insurance through all lines to complete solutions for small and medium-sized companies and freelance professionals. Various distribution channels are available, from our own tied agents' organisation to sales through independent intermediaries and multiple agents and through various cooperation partners such as banks.

A functional organisation ensures clear responsibilities and establishes the foundations for operating across the line-based boundaries separating property/casualty and life insurance. This multi-line perspective is a vital prerequisite for improving processes and services to the benefit of clients.

Premium volume and new business

Gross written premium of the Retail Germany segment – including savings elements under unit-linked life insurance – rose by 4% to EUR 2.1 (2.0) billion in the period under review.

Premium income for property/casualty insurers remained unchanged year-on-year, at EUR 0.8 (0.8) billion. Their share in the segment as a whole was thus 40 (41)%. Premiums for our most important property/casualty line – motor – dropped slightly owing to measures for making the business more profitable, although this was more than offset by an increase in premium income in liability insurance as a result of the takeover of portfolios from competitors.

Gross written premium for our life insurers – including savings elements under unit-linked life insurance – rose by 6% to EUR 1.3 (1.2) billion, owing to higher single premiums; this did not involve capitalisation products. Developments at individual companies varied. While HDI Lebensversicherung AG was able to compensate for the disposal of portfolios with single premiums, premium income for the bancassurance companies increased by 11%.

The segment's retention ratio rose to 94.8 (92.6)% owing to lower reinsurance cessions to third parties in property/casualty insurance. Allowing for higher savings elements under our unit-linked products and the change in unearned premium, net premium earned increased by 6% to EUR 1.3 (1.2) billion.

New business – measured by the international standard of the Annual Premium Equivalent (APE) – amounted to EUR 164 (181) million. HDI Versicherung AG recorded a drop to EUR 54 (81) million as a result of measures to improve profitability, although average premiums per policy increased at the same time. New business with life insurance products grew by 10% to EUR 106 (96) million. While new business declined at HDI Lebensversicherung AG, bancassurance life insurers surpassed their result for the corresponding quarter of the previous year by 20% overall. In terms of the composition of new business, the proportion of biometric products – i.e. those without a savings component – increased, as did the proportion of single-premium business (excluding capitalisation products).

Underwriting result

The segment's underwriting result improved by 12% to –EUR 296 (–335) million. This is regularly dominated by life insurance companies, partly owing to the compounding of technical provisions and participation of our policyholders in net investment income. These expenses are offset by income from net investment income, which is recognised in the non-underwriting result.

The change in the underwriting result from our property/casualty insurance products was influenced by measures to increase profitability at HDI Versicherung AG, which continued in the period under review, and by positive one-off effects. Positive development in premium income, in combination with an improved loss ratio for the financial year and higher run-off profits, led to a significant improvement in the result. The total underwriting result for this segment increased to EUR 17 (–16) million.

Net investment income

The segment's net investment income remained virtually unchanged at EUR 387 (390) million. This was mainly influenced by the life insurance companies, which accounted for 93% of this figure. Strong single-premium business led to an increase in interest-bearing assets and thus to higher ordinary investment income, while at the same time there was a slight decline in extraordinary investment income.

Operating result and Group net income

Low interest rates on the capital market have had a negative impact on the quarterly results of our life insurers. At the same time, the first signs of success in the action programme in property business, the cost-cutting measures that have been implemented and one-off effects at HDI Versicherung AG led to an increase in the operating result to EUR 66 (38) million, despite the restructuring process. After taking into account taxes on income and financing interests, Group net income grew to EUR 43 (20) million.

The Retail Germany segment at a glance – further key figures

	Q1 2013	Q1 2012	+/–%
Figures in EUR million			
Gross written premium	**2,113**	**2,029**	**+4**
Property/casualty	835	828	+1
Life	1,278	1,201	+6
Net premium earned	**1,323**	**1,247**	**+6**
Property/casualty	346	330	+5
Life	977	917	+7
Underwriting result	**–296**	**–335**	**+12**
Property/casualty	17	–16	+206
Life	–313	–320	–2
Other	—	1	—
Net investment income	**387**	**390**	**–1**
Property/casualty	27	30	–10
Life	360	360	—
Other	—	—	—
New business measured in Annual Premium Equivalent	**164**	**181**	**–10**
Single premiums (life)	363	281	+29
Regular premiums (life and non-life)	127	153	–17
New business by products in Annual Premium Equivalent	**164**	**181**	**–10**
Motor	34	64	–46
Property insurance	7	4	+76
Liability insurance	9	9	—
Accident insurance	3	3	—
Other property/casualty insurance	4	5	–20
Unit-linked life and annuity insurance	33	32	+3
Classical life and annuity insurance	54	49	+10
Term life products	19	15	+26
Other life products	1	1	—

Retail International

- Second-biggest provider on the Polish property and life insurance market following takeovers
- Acquired companies play a significant part in boosting sales and profitability
- Significant reduction in loss ratio in core markets

	Q1 2013	Q1 2012 [1]	+/–%
Figures in EUR million			
Gross written premium	1,056	647	+63
Net premium earned	877	525	+67
Underwriting result	17	–16	+212
Net investment income	74	76	–2
Operating result (EBIT)	66	35	+86
Combined ratio (net, property and casualty only) [2] in %	94.1	100.3	6.2 pt.

[1] Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes
[2] Including interest income on funds withheld and contract deposits

The Retail International Division brings together the activities of companies serving retail clients in property/casualty insurance, life insurance and bancassurance outside Germany, and now operates in 14 countries through 27 insurance companies.

Its local, industry-specific know-how and presence via an extensive distribution network enable the division to identify its clients' particular requirements and provide customised solutions in all markets in which it operates. The product range encompasses motor insurance, property/casualty insurance, marine and fire insurance as well as life insurance.

The division is present in the two largest and fastest-growing core markets within each of our strategic target regions, Brazil and Mexico in Latin America and Poland and Turkey in Central and Eastern Europe. In each case, the core markets account for the highest proportion of total premium income in their region. Our international business is conducted to a large extent through agents and brokers. In addition, postal service partners and banks are an important sales channel for several companies.

The main development in the first quarter of 2013 was the integration of companies acquired in these target regions in 2012. The Mexican insurer Metropolitana Compañía de Seguros S.A. merged into HDI Seguros S.A. de C.V. on 1 January 2013. The Talanx Group became the second-largest operator on the Polish insurance market in the 2012 financial year following the takeover of the WARTA Group and the TU Europa Group. Following the merger of the property insurance company HDI Asekuracja TU S.A. with TUiR WARTA S.A., the Polish life insurers WARTA TU na Życie and HDI-Gerling Życie are to merge in 2013. Talanx will then be represented on the Polish market with the WARTA and HDI brands and through TU Europa in the field of bancassurance.

A project was initiated in Turkey in response to ongoing difficulties in the market and to ensure long-term stabilisation of income. The aim is to bring the product portfolio into line with the market and to achieve a profitable sales structure, efficient cost and claims management, appropriate pricing and improved risk selection.

The figures for the period under review are only partially comparable to those of the corresponding quarter of the previous year, as the figures for the first quarter of 2013 include companies in the WARTA and TU Europa groups, which were not included in the first quarter of 2012.

Premium volume

The segment's gross written premium (including premiums from unit-linked life and annuity insurance) rose by 63% year-on-year to EUR 1.1 (0.6) billion. The companies acquired in Poland in 2012 accounted for a large share of this premium growth.

Gross written premium growth was primarily influenced by positive developments in property/casualty business, where premium rose by 48% to EUR 713 million, including a significant contribution from the new Polish companies. The life insurance business grew by 108% to EUR 343 million, owing to the first-time inclusion of the new Polish life insurers.

Around three quarters of our total premium income in Latin America comes from the Brazilian market, where we operate mainly in motor insurance. The Brazilian company HDI Seguros S.A. increased its written premium by 7% year-on-year to EUR 212 million, taking into account exchange rate effects. With adjustments for exchange rate effects, the company's premium income rose by 20%, largely owing to higher premiums in motor insurance business. The Mexican company HDI Seguros S.A. de C.V. recorded gross written premium of EUR 43 million. The combined gross written premium of HDI Seguros and Metropolitana in the previous year was EUR 38 million.

The Polish companies accounted for 39% of total written premium in the Retail International segment, compared with 12% in the previous year. Following the merger with HDI Asekuracja S.A., TUiR WARTA S.A. recorded premium volume in property/casualty insurance of EUR 222 million. Premium income for the TU Europa Group amounted to EUR 130 million, most of which came from life insurance. The combined gross written premium of the life insurers WARTA TU na Życie S.A. and HDI Gerling Życie amounted to EUR 57 (15) million.

The Italian company HDI Assicurazioni S.p.A. held its ground well in an insurance market that was in decline overall. Life insurance premiums rose by 94% year-on-year, largely owing to higher income from a banking sales channel. Growth of around 9% was achieved in property/casualty insurance, particularly in fire, householders and motor third-party liability insurance, due to the conclusion of a large number of new contracts.

The Turkish property insurer HDI Sigorta recorded substantial premium growth of 38% compared with the corresponding period of the previous year. With adjustments for exchange rate effects, it rose by 37%. The abovementioned project led in particular to growth of 76% in other property insurance in local currency. Growth in motor insurance amounted to 18% in local currency, while the number of contracts declined by 26%. The company is well on the way to achieving a more diversified product portfolio.

Underwriting result

The combined ratio in international property/casualty insurance was 94.1 (100.3)%, 6.2 percentage points better than in the corresponding period of the previous year. The newly acquired Polish companies with their low combined ratios contributed to this, as did the significant improvement in loss ratios in motor insurance as a result of increases in premiums and a drop in vehicle theft. This applies in particular to HDI Seguros in Brazil and Mexico. TUiR WARTA S. A. was affected by a major loss event in the agricultural sector in the corresponding quarter of the previous year. The Turkish company HDI Sigorta also contributed to the improvement in the combined ratio, as planned. The underwriting result of Italian company HDI Assicurazioni remained largely stable.

The division's underwriting result amounted to +EUR 17 (–16) million. This includes positive effects from the first-time consolidation of the new Polish companies in the amount of EUR 14 million.

Net investment income

Net investment income in the segment amounted to EUR 74 million as at the end of the first quarter of 2013, a year-on-year reduction of 2%. The negative effects on ordinary investment income of the drop in interest rates in many countries were offset by the inclusion of the new companies, which accounted for EUR 25 million or 33% of net investment income for the first quarter. Higher investment portfolios across the board and the effects of shifting parts of the liquid investment portfolio into bonds yielding a higher rate of interest also had a positive impact on the development of ordinary investment income. Extraordinary investment income declined, however, since high gains realised on the sale of Italian government bonds in the corresponding quarter of the previous year were not matched in the current year. Net investment income includes profit on investment contracts in the amount of EUR 2 million. Investment contracts are policies that, in accordance with IFRS, provide too little risk cover to be classified as insurance contracts.

Operating result and Group net income

Operating profit (EBIT) of the Retail International Division increased to EUR 66 million, a rise of 86% year-on-year, thanks to an improvement in the underwriting result. This resulted in an increase of 0.8 percentage points in the EBIT margin, to 7.5%. Group net income apportionable to shareholders of Talanx AG rose by 75% to EUR 38 (22) million.

The Retail International segment at a glance – further key figures	Q1 2013	Q1 2012	+/–%
Figures in EUR million			
Gross written premium	**1,056**	**647**	**+63**
Property/casualty	713	482	+48
Life	343	165	+108
Net premium earned	**877**	**525**	**+67**
Property/casualty	585	409	+43
Life	292	116	+152
Underwriting result	**17**	**–16**	**+212**
Property/casualty	34	–1	>999
Life	–17	–15	–21
Other	—	—	—
Net investment income	**74**	**76**	**–2**
Property/casualty	39	37	+5
Life	35	31	+13
Other	—	8	–100
New business measured in Annual Premium Equivalent	**358**	**211**	**+70**
Single premiums (life)	267	93	+187
Regular premiums (life and non-life)	332	202	+64
New business by products in Annual Premium Equivalent	**358**	**211**	**+70**
Motor	195	134	+46
Property insurance	38	17	+124
Liability insurance	17	13	+31
Accident insurance	4	2	+124
Other property/casualty insurance	54	25	+116
Unit-linked life and annuity insurance	7	5	+49
Classical life and annuity insurance	14	6	+116
Term life products	23	5	+314
Other life products	6	4	+83

Non-Life Reinsurance

- Underwriting result doubled in first quarter
- Uneventful major loss experience with only one satellite loss
- Satisfactory renewals on 1 January despite tough competition

	Q1 2013	Q1 2012[1]	+/–%
Figures in EUR million			
Gross written premium	2,198	2,117	+4
Net premium earned	1,692	1,555	+9
Underwriting result	98	47	+109
Net investment income	195	267	–27
Operating result (EBIT)	266	276	–4
Combined ratio (net)[2] in %	94.0	96.8	–2.8 pt.

[1] Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes
[2] Including interest income on funds withheld and contract deposits

Non-Life Reinsurance is the larger of our two reinsurance segments, both of which are operated by Hannover Re. The Group aims to achieve further profitable growth in this segment. Our strategy is aimed at active cycle management. We expand our business based on the different lines if the rate situation is favourable and scale it back if prices do not appear commensurate with risk.

Business development

The results of treaty renewals on 1 January 2013 were satisfactory. Although competition was more intense this year, we were able to obtain prices that were comparable with those of last year. Hurricane "Sandy", which led to significant burdens for the (re)insurance sector in 2012, had a stabilising effect on prices in non-life reinsurance.

Premium development

Gross premium for our Non-Life Reinsurance segment increased by 4% compared with the corresponding period of the previous year, to EUR 2.2 (2.1) billion. Even at constant exchange rates, especially against the US dollar, growth would have been 4%. The retention ratio dropped slightly to 89.8 (91.2)%. Net premium earned rose by 9% to EUR 1.7 (1.6) billion.

Net investment income

Net investment income in the Non-Life Reinsurance segment declined from EUR 267 million to EUR 195 million in the first quarter of 2013. This was due to a substantial decrease of EUR 50 million in unrealised gains to –EUR 4 million, which was largely the result of changes in inflation swaps.

Underwriting result

Major losses were very low in the first quarter of 2013. We recorded only one satellite loss, resulting in a net burden of approximately EUR 13 million, compared with a burden of around EUR 61 million in the same quarter of the previous year. In this context, the underwriting result for the entire non-life reinsurance portfolio closed at a very pleasing EUR 98 (47) million. The combined ratio improved to a very impressive 94.0 (96.8)%, below our full-year target of 96%.

Operating result and Group net income

The operating result (EBIT) for non-life reinsurance amounted to EUR 266 (276) million as at 31 March 2013. At EUR 79 million, Group net income was below the figure of EUR 83 million for the corresponding period of the previous year.

Life/Health Reinsurance

- Growth in gross premium income stronger than expected, particularly in the field of longevity
- Solid net investment income despite persistent low interest rates
- EBIT targets met

	Q1 2013	Q1 2012 [1)]	+/–%
Figures in EUR million			
Gross written premium	1,560	1,394	+12
Net premium earned	1,389	1,261	+10
Underwriting result	–82	–50	–64
Net investment income	162	177	–9
Operating result (EBIT)	87	117	–26

1) Adjusted on the basis of IAS 8, see section "Accounting policies" of the Notes

As one of the five largest established and internationally operating life and health reinsurers, we offer worldwide reinsurance cover to customers in all lines of life and health insurance. We have an excellent international network and a presence on all continents.

Business development

The market environment for international life and health reinsurance remained positive in the first quarter of 2013, following on seamlessly from 2012. We have made a very successful start to the new financial year with the takeover of three longevity portfolios in the UK. As well as hedging longevity risks, we are focusing on optimising the management of liquidity, capital and risks through the assumption of underwriting risks for customers in mature insurance markets such as the USA, Germany, the UK, France and Scandinavia.

Premium development

Gross premium income in life/health reinsurance grew to EUR 1.6 (1.4) billion as at 31 March 2013. This represents pleasing growth of 12%. At constant exchange rates, growth would have amounted to 13%. Net premium earned increased by 10% to EUR 1.4 (1.3) billion, corresponding to a retention of 90.0 (90.8)%.

Net investment income

Our portfolio performed largely in line with expectations. Investments held for our account by US clients developed positively in the period under review. We recorded unrealised gains amounting to a medium seven-figure sum in euros here. However, all valuation gains and losses are completely reversed by the time the securities mature, assuming that everything goes according to plan, which means that this item has a neutral impact on expenses over the period as a whole, provided that there are no defaults on receivables due to insolvencies.

Operating result and Group net income

The operating result (EBIT) as at 31 March 2013 amounted to EUR 87 (117) million. The EBIT margin was 4.8% in the areas of longevity and financial solutions and 7.6% in mortality and morbidity business. The respective targets of 2% and 6% were thus achieved. Group net income totalled EUR 32 (47) million.

Corporate Operations

- Talanx expands reinsurance business in Ireland
- Assets under own management up by 3%
- Operating profit improves by EUR 25 million

The most important companies in the Corporate Operations segment are the Group holding company Talanx AG, the in-house service providers Talanx Service AG and Talanx Systeme AG, the asset management companies, Talanx Reinsurance Broker AG and Talanx Reinsurance (Ireland) Ltd. in Dublin.

Talanx AG successfully issued a first-rate unsecured bond with a volume of EUR 750 million on 13 February 2013. The euro-denominated bond has a fixed coupon of 3.125% and is due on 13 February 2023. The cash inflow was used principally to replace existing financing arrangements.

Reinsurance specialists at the Group

Underwriting business written through our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment for the first time in the first quarter of 2013. The aim of this in-house reinsurance is to increase retentions and optimise capital utilisation. In-house business written by Talanx Re (Ireland) will be partly reallocated to the ceding segments, to enable the respective segments to exploit the benefits of diversification. Furthermore, any business that includes additional cross-segment diversification benefits will be reported in the Corporate Operations segment. Gross written premium in this business amounted to EUR 11 million in the first quarter of 2013. It resulted mainly from reinsurance cessions in the Retail International segment. Owing to extraordinary start-up costs, Talanx Re (Ireland) still posted a negative operating loss of –EUR 1 (0) million in the first quarter of 2013.

Talanx Reinsurance Broker AG is wholly owned by Talanx AG and handles the complete spectrum of the reinsurance business process for Group cedants. In 2013, it once again managed to obtain the necessary reinsurance capacity for all of the Group cedants that it manages on the global market. The company's operating profit for the first quarter of 2013 was EUR 4 (4) million, of which a significant portion will be reallocated to the ceding business segments. EUR 1 (1) million of this company's earnings therefore remained in the Corporate Operations segment.

Investment specialists at the Group

Talanx Asset Management GmbH – in cooperation with its subsidiary AmpegaGerling Investment GmbH – is chiefly responsible for handling the management and administration of the Group companies' securities portfolios and provides related services such as investment accounting and reporting. The total contribution of the two companies and of Talanx Immobilien Management GmbH to the segment's operating result grew to EUR 12 (8) million in the first quarter of 2013, owing to higher commissions.

As an investment company, AmpegaGerling Investment GmbH administers public and special funds and performs financial portfolio management tasks for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. The total volume of assets managed by AmpegaGerling rose by 3% to EUR 14.5 billion, compared with EUR 14.0 billion at the beginning of the year. Over half of this sum, EUR 8.1 (7.9) billion, was administered on behalf of Group companies through special funds and direct investment mandates. Of the remaining portion, EUR 3.0 (2.8) billion was attributable to institutional third-party clients and EUR 3.4 (3.3) billion to retail business. The latter is offered both through the Group's own sales channels and products such as unit-linked life insurance as well as through external asset managers and banks.

At the end of March 2013, total assets under own management at the Talanx Group amounted to EUR 86.6 billion, an increase of 3% compared with the end of 2012.

Operating result

The operating result of the Corporate Operations segment improved to EUR 14 (–11) million in the first quarter of 2013, largely owing to the sale of shares in Swiss Life Holding AG by Talanx Beteiligungs-GmbH & Co. KG. This transaction resulted in a gain on disposal of EUR 22 million. The contribution of Talanx Beteiligungs-GmbH & Co. KG to the segment result thus improved to EUR 23 (2) million, while that of Talanx AG remained stable at –EUR 20 (–19) million.

Assets and financial position
Assets

The balance sheet structure of the Talanx Group is shaped by its character as a diversified financial services group and its activities as a large, globally operating insurance group. The predominant asset item is investments, accounting for 75% of total assets. Without taking into account funds withheld by ceding companies and investments under investment ↗ contracts, investments amounted to EUR 86.6 billion or 64% of total assets. These investments serve first and foremost as cover for insurance business provisions (69% of total assets), which – excluding life insurance provisions insofar as the investment risk is borne by policyholders – totalled EUR 92.3 billion. The most important sources of funding are shareholders' equity (9% of the balance sheet total) and issued subordinated debt (2% of the balance sheet total).

Asset structure	31.3.2013		31.12.2012[1)]	
	Figures in EUR million	*In %*	*Figures in EUR million*	*In %*
Intangible assets	2,733	2	2,793	2
Investments	101,551	75	98,948	76
Investments for the account and risk of holders of life insurance policies	7,870	6	7,451	6
Reinsurance recoverables on technical provisions	6,970	5	6,989	5
Accounts receivable on insurance business	6,443	5	5,081	4
Deferred acquisition costs	4,544	3	4,378	3
Cash	1,675	1	2,119	2
Deferred tax assets	535	<1	529	<1
Other assets	2,240	2	2,006	2
Non-current assets and assets of disposal groups classified as held for sale	50	<1	56	<1
Total assets	**134,611**	**100**	**130,350**	**100**

[1)] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Amount and composition of assets

The substantial increase of EUR 4.2 billion in our total assets to EUR 134.6 billion in the first quarter of 2013 can be attributed principally to growth in our investment portfolio (+EUR 2.6 billion) and an increase in accounts receivable on insurance business (+EUR 1.4 billion). We obtain disproportionately high premium income in the first quarter of each financial year, as the main due date is 1 January. This is reflected mainly in the investments item on the assets side, while on the liabilities side it particularly increases technical provisions. Growth in investments was due to the increase in "Financial assets available for sale", which related primarily to fixed-income securities. There was also an increase in other invested assets, most of which related to short-term investments (+EUR 844 million). For more detailed explanations of investments, please see the section below and "Notes on individual items of the consolidated balance sheet" in the Notes. Growth in accounts receivable on insurance business was mainly attributable to accounts receivable (+EUR 817 million, of which +EUR 676 million was in the Non-Life Reinsurance segment) and accounts receivable from policyholders (+EUR 466 million, of which +EUR 422 million was in the Industrial Lines segment).

Movements in investments

Breakdown of the investment portfolio	31.3.2013		31.12.2012	
	Figures in EUR million	*In % of total assets*	*Figures in EUR million*	*In % of total assets*
Investments under investment contracts	1,755	1	1,698	1
Funds withheld by ceding companies	13,228	10	13,198	10
Assets under own management	86,568	64	84,052	65
Total	**101,551**	**75**	**98,948**	**76**

The total investment portfolio grew by 3% in the first quarter of the financial year to EUR 101.6 billion. Both investments under investment contracts and funds withheld by ceding companies increased only slightly in the first quarter. The portfolio of assets under own management grew by EUR 2.5 billion owing to cash inflows from underwriting business, which were reinvested in accordance with respective corporate guidelines.

Interest rates temporarily rose for all maturities in the first quarter of 2013, but by the end of the quarter had returned to their level at the beginning of the year. Interest rates for two-year German government bonds stood at 0.01% at the end of the first quarter. The interest rate for ten-year bonds was 1.3%.

Changes in the exchange rate against the US dollar have a direct impact on investments held in USD. The exchange rate as at 31 December 2012 was USD 1.32/EUR. Following an initial increase, the exchange rate was USD 1.28/EUR by the end of the quarter, showing that the US dollar had appreciated slightly against the euro. Our holdings of investments in US dollars amounted to EUR 12.7 billion at the end of the quarter, representing 15% of assets under own management.

Fixed-income investments were once again the most significant asset class in the first quarter of 2013. Most reinvestments also occurred in this class, with due consideration being given to the existing investment structure. Fixed-income securities accounted for 76% of the total investment portfolio. The contribution to earnings of this asset class amounted to EUR 0.7 billion, the majority of which was reinvested in the period under review.

Equity exposure did not increase in the first quarter of the 2013 financial year. Equity allocation after taking account of derivatives (equity ratio) was still under 1.0% at the end of the quarter. Although alternative investments and real estate asset classes still only constituted a small proportion of the total investment portfolio, they nevertheless diversified and thus added stability to the various portfolios.

In compliance with all legal requirements and internal Group guidelines, the investment portfolio as at 31 March 2013 was made up as follows:

Breakdown of the investment portfolio	31.3.2013	31.12.2012
In %		
Fixed-income securities	76	77
Equities and other variable-yield securities	1	1
Funds withheld by ceding companies	13	13
Real estate	2	2
Investments under investment contracts	2	2
Other	6	5
Total	**100**	**100**

Breakdown of assets under own management recognised in the balance sheet by asset class

	31.3.2013		31.12.2012	
	Figures in EUR million	*In %*	*Figures in EUR million*	*In %*
Investment property	1,458	2	1,297	2
Investments in affiliated companies and participations	122	<1	80	<1
Investments in associated companies and joint ventures	237	<1	237	<1
Loans and receivables				
Loans incl. mortgage loans	1,136	1	1,182	1
Loans and receivables due from governmental or quasi-governmental entities together with fixed-income securities	31,395	36	30,919	37
Financial assets held to maturity	3,705	4	3,857	5
Financial assets available for sale				
Fixed-income securities	41,251	48	40,080	48
Variable-yield securities	1,361	2	1,257	1
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss				
Fixed-income securities	1,230	1	1,346	1
Variable-yield securities	87	<1	83	<1
Financial assets held for trading				
Fixed-income securities	13	<1	16	<1
Variable-yield securities	119	<1	123	<1
Derivatives [1]	82	<1	74	<1
Other invested assets	4,372	5	3,501	4
Total investments under own management	**86,568**	**100**	**84,052**	**100**

[1] Derivatives only with positive fair values and excluding hedging instruments used in the context of hedge accounting

Fixed-income securities

Interest rates remained low in the first quarter of 2013. Performance of fixed-income securities was only moderate compared with the previous year. Volatility of financial bond spreads is still driven by the unresolved debt crisis in various countries within and outside the Eurozone, political uncertainty in parts of southern Europe and the fragile situation of the Spanish banking system. In view of declining profitability and falling interest margins, we continued to invest only in senior bonds and selective subordinated bonds from institutions with solid credit ratings. Industrial bonds were more expensive than financial bonds.

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 1.4 billion in the first quarter and totalled EUR 77.6 billion as at 31 March 2013. At 76% of total investments, this asset class continued to represent the most significant share of our investments in terms of volume. Fixed-income investments were primarily divided into the investment categories of “Loans and receivables” and “Financial assets available for sale”.

“Fixed-income securities available for sale”, which have a volatile impact on shareholders’ equity, increased significantly to EUR 41.3 billion or 53% of total investments in this asset class. This represented an increase of EUR 1.2 billion. We invested in German covered bonds (Pfandbriefe) and corporate securities, avoiding countries at risk of default. Valuation reserves – i.e. the balance of unrealised gains and losses – have fallen slightly from EUR 2.6 billion to EUR 2.5 billion since the end of 2012, owing to continuing low interest rates.

Alongside the “Financial assets available for sale” category, the Talanx Group is essentially adhering to its strategy of making new investments in the “Loans and receivables” category in order to reduce balance sheet volatility. These holdings had risen by EUR 0.4 billion to EUR 32.5 billion (42% of total holdings in this asset class) by the end of the period under review. Further investment in government bonds was limited, due to further rating downgrades or extremely low yields. Our portfolio of government securities or securities with a similar level of security in this holdings category thus amounted to

EUR 10.2 billion. German covered bonds (Pfandbriefe) still represent the largest item in the portfolio. Off-balance sheet valuation reserves changed only slightly from EUR 4.3 billion at the end of 2012 to EUR 4.2 billion at the end of the first quarter of 2013.

At the end of the year, the Group had only minor exposure to government bonds from the so-called GIIPS countries. In the light of risk considerations, we sold the Greek government bonds in our portfolio already in 2011 with the exception of a small residual holding. As a result, accumulated write-downs in 2012 amounted to only EUR 81 thousand for the Group as a whole. Cumulative write-downs totalled around EUR 12 million. No further write-downs were required on these securities in the period under review. There was no significant change in our exposure to the GIIPS countries in the first quarter of 2013 compared with 2012.

The Talanx Group's investment exposure to GIIPS government bonds amounts to EUR 971 million at **market value**. Italy accounts for EUR 597 million of this sum (of which our Group company HDI Assicurazioni S. p. A. [including InChiaro] accounts for EUR 384 million), Spain EUR 94 million, Ireland EUR 255 million, Portugal EUR 20 million and Greece EUR 5 million.

GIIPS exposure in fixed-income investments as at 31 March 2013*	Government bonds	Semi-government bonds	Corporate securities: Financial bonds	Corporate securities: Industrial bonds	Covered bonds/asset-backed securities	Other	Total
Figures in EUR million							
Greece	5	—	—	—	—	—	5
Ireland	255	—	11	28	183	206	683
Italy	597	—	247	273	915	19	2,051
Portugal	20	—	—	1	8	—	29
Spain	94	296	92	232	508	—	1,222
Total	**971**	**296**	**350**	**534**	**1,614**	**225**	**3,990**

GIIPS exposure in fixed-income investments as at 31 December 2012*	Government bonds	Semi-government bonds	Corporate securities: Financial bonds	Corporate securities: Industrial bonds	Covered bonds/asset-backed securities	Other	Total
Figures in EUR million							
Greece	4	—	—	—	—	—	4
Ireland	235	—	14	29	162	188	628
Italy	647	—	420	279	961	—	2,307
Portugal	26	—	—	1	8	—	35
Spain	88	254	90	231	522	—	1,185
Total	**1,000**	**254**	**524**	**540**	**1,653**	**188**	**4,159**

* With regard to the allocation of countries, the country of the banking group, rather than that of the issuer, is decisive

With respect to its assets under own management, the Talanx Group also holds fixed-income investments in the following countries at the market values below:

Exposure in fixed-income investments as at 31 March 2013*	Government bonds	Semi-government bonds	Corporate securities: Financial bonds	Corporate securities: Industrial bonds	Covered bonds/asset-backed securities	Other	Total
Figures in EUR million							
Belgium	227	252	71	103	764	—	1,417
Hungary	172	—	3	38	2	—	215
Slovenia	—	—	1	—	—	—	1
Slovakia	112	—	—	—	—	—	112
Total	**511**	**252**	**75**	**141**	**766**	**—**	**1,745**

Exposure in fixed-income investments as at 31 December 2012*	Government bonds	Semi-government bonds	Corporate securities: Financial bonds	Corporate securities: Industrial bonds	Covered bonds/asset-backed securities	Other	Total
Figures in EUR million							
Belgium	210	249	78	101	981	—	1,619
Hungary	163	—	5	32	6	—	206
Slovenia	41	—	—	—	—	—	41
Slovakia	111	—	—	—	—	—	111
Total	**525**	**249**	**83**	**133**	**987**	**—**	**1,977**

The breakdown of exposures in which a Spanish bank was the risk carrier was as follows for all asset classes*.

Exposure to Spanish banks	31.3.2013	31.12.2012
Figures in EUR million		
Covered bonds and asset-backed securities/cédulas	508	522
Financial bonds	92	90
Banks with a public guarantee	5	21
Time deposits	2	2
Equities	2	2
Derivatives	6	6
Total	**615**	**643**

The biggest asset class involving Spanish banks was covered bonds/asset-backed securities and multi-cédulas, which have a similar structure to German covered bonds (Pfandbriefe), at EUR 508 million. The portfolio decline is essentially attributable to disposals and repayments. Only EUR 129 million in this asset class has been invested with counterparties that are generally to be viewed as critical. The covered bonds also include EUR 121 million with non-Spanish subsidiaries of Spanish parent companies. These bonds were issued under British law and generally contain exclusively British mortgage cover. The remainder of the investment volume in unsecured senior bonds and subordinated loans has been placed with the largest, globally operating Spanish commercial banks.

Group holdings in the "Financial assets held to maturity" category totalled EUR 3.7 billion after the first quarter of 2013. Having increased our holdings in this category in 2011 through restructuring, particularly in the Reinsurance segment, we have undertaken no further expansion since then. The option and intention of holding these investments to maturity enables companies to reduce the volatility in their balance sheets caused by movements in interest rates.

When investing in fixed-income securities, we continue to focus on government bonds with good ratings or securities from similarly sound issuers. There were no significant rating downgrades affecting the entire portfolio in the last quarter. There was therefore no change in the proportion of holdings rated AAA.

* With regard to the allocation of countries, the country of the banking group, rather than that of the issuer, is decisive

Rating of fixed-income securities	31.3.2013	31.12.2012
In %		
AAA	32	32
AA	30	30
A	21	20
BBB or less	17	18

The Talanx Group continues to pursue a conservative investment policy. Of instruments in the fixed-income securities asset class, 83% have a rating of A or above.

The Macaulay duration of the total fixed-income securities investment portfolio of the Talanx Group stood at 6.8 years as at 31 March 2013.

As far as matching currency cover is concerned, USD-denominated investments continue to account for the largest share (15%) of the foreign currency portfolio within the Talanx Group. The total share of assets under own management held in foreign currencies as at 31 March 2013 remained virtually unchanged at 28%.

Funds withheld by ceding companies in respect of collateral provided for cedants' technical provisions in the Reinsurance segment have risen slightly to EUR 13.2 billion since the end of 2012. Allowing for increased total investment portfolios, this corresponds to a ratio of 13%, as in the previous year.

Equities and equity funds

European equities made a positive start to the year, with stock markets on the periphery of Europe initially performing well. However, gains that had been built up in Italy by February were later lost, largely as a result of political uncertainty. European markets as a whole moved sideways. The EURO STOXX 50 closed at 2,624 points, down 0.5% compared with the beginning of the year. The DAX gained 2.4%, closing at 7,795 points. Fundamental valuations that have remained favourable in the long term provide support. During the period under review, Talanx AG sold a not insignificant portion of the shares it held in Swiss Life Holding AG via the stock market. The effects of this are described in the section "Net investment income" below.

The net balance of unrealised gains and losses on holdings within the Group (excluding the category of other invested assets) rose by EUR 13 million to EUR 250 (237) million.

Real estate including shares in real estate funds

Investment property totalled EUR 1.5 billion as at the balance sheet date. An additional EUR 423 million is held in real estate funds, which are recognised under "Financial assets available for sale". Depreciation of EUR 6 million was taken on investment property in the period under review. There were no significant impairments or write-ups in the first quarter of 2013.

The real estate allocation, which also includes investments in real estate funds, was unchanged at 2%.

Alternative investments

Holdings of alternative investments are still at a low level and serve to diversify the portfolio. The Talanx Group invested a total of EUR 55 million in a gas cavern fund through its subsidiaries in the first quarter. The Group's investment represents around 20% of the total volume of investment of EUR 278 million.

Net investment income

Development of net investment income	Q1 2013	Q1 2012
Figures in EUR million		
Ordinary investment income	763	761
thereof current income from interest	712	720
thereof profit/loss from shares in associated companies and joint ventures	1	1
Realised net gains on investments	74	61
Write-ups/write-downs on investments	–13	–13
Unrealised net gains/losses on investments	1	114
Investment expenses	41	36
Income from assets under own management	**784**	**887**
Income from investment contracts	**2**	**—**
Interest income on funds withheld and contract deposits	**89**	**74**
Total	**875**	**961**

Income from assets under own management fell by EUR 103 million compared with the previous year. The key driver of income was a significant drop in the unrealised net gain (–EUR 113 million), while ordinary investment income remained almost unchanged (+EUR 2 million), the net gain on disposal increased slightly (+EUR 13 million) and write-downs remained at the same level.

EUR 20 million of the gains of EUR 95 million realised in the period under review related to the sale of equities. This mainly included the sale of the strategic stake in Swiss Life Holding AG (EUR 16 million). A further EUR 6 million came from foreign exchange gains on CHF-denominated equities, which were reported under "Other income/expenses".

The drop in the unrealised net gain from EUR 114 million in the corresponding period of the previous year to EUR 1 million was driven mainly by volatility in the two reinsurance segments. The higher unrealised net gain in the same period of the previous year was attributable to the reinsurance segments (EUR 3 [84] million) and the Retail Germany segment (EUR 2 [10] million). The substantial increase in the market value of the ModCo derivative (EUR 6 [37] million) and the inflation swaps (EUR 2 [43] million) taken out by Hannover Rück SE in the corresponding quarter of the previous year was not matched in the last quarter, owing to developments in the markets. The unrealised net gain in the Retail Germany segment also fell significantly year-on-year in the quarter as a result of the market. For further details, please see item 12 "Net investment income" in the Notes.

At –EUR 13 million, the net gain from write-ups/write-downs was at the same level as in the corresponding period of the previous year. There were no significant write-downs at the level of individual securities in the period under review. Only one fixed-income security of Dutch bank SNS Reaal Bank was completely written off in the amount of a further EUR 3 million in connection with the bank's nationalisation, which has not involved any compensation and has been legally contested. Impairment of EUR 2 million had already been taken on these securities in 2012. Please see item 12 "Net investment income" in the Notes for details of the results for individual asset classes.

The slight decline in current interest income from investments is due to ongoing low interest rates, which have led to a drop in the average coupon.

The annualised net return on investment (including the effects of derivatives)* for our assets under own management was 3.7 (4.6)%.

Performance was more or less stable across all segments. Owing to the development of the unrealised net gain, net investment income was down year-on-year in the reinsurance segments. For further comments, please see "Notes on the consolidated balance sheet", item 12 "Net investment income", in the Notes.

Breakdown of net investment income by Group segment[1)]

	Q1 2013	Q1 2012
Figures in EUR million		
Industrial Lines	52	57
Retail Germany	391	396
Retail International	75	77
Non-Life Reinsurance	196	266
Life/Health Reinsurance	160	176
Corporate Operations	1	–11
Total	**875**	**961**

[1)] Presentation after elimination of intra-Group relations

Net investment income for the Corporate Operations segment, which essentially comprises costs for the management of investments, includes the gains realised on the sale of part of the stake in Swiss Life Holding AG in the period under review. A slight profit was achieved as a result of this.

Off-balance sheet financing instruments

The Group has entered into various commitments. Those that are of material significance to the assessment of its assets are displayed below.

Off-balance sheet financing instruments

	31.3.2013	31.12.2012
Figures in EUR million		
Letters of credit and trust accounts as security for technical liabilities	6,953	6,824
Blocked custody accounts and other trust accounts	2,444	2,392
Guarantee payments under issued subordinated bonds	2,862	2,862
Outstanding commitments under existing capital participations	1,027	1,010
Other	1,572	1,599
Total	**14,858**	**14,687**

For all other commitments, please refer to the section of the Notes entitled "Other information – Contingent liabilities and other financial commitments".

* Annualised net investment income without interest income on funds withheld and contract deposits relative to average assets under own management (31.3. and 31.12.)

Financial position

The Talanx Group's capital structure and the composition of its liabilities are shaped by its primary insurance and reinsurance business. Technical provisions, which must be covered by assets in accordance with regulatory requirements, account for the largest share. In addition, the Group finances itself above all through shareholders' equity and through subordinated debt and liabilities, which also represent our most important sources of funds.

Analysis of capital structure

	31.3.2013		31.12.2012 [1)]	
	In EUR million	*In %*	*In EUR million*	*In %*
Shareholders' equity	11,596	9	11,309	9
Subordinated liabilities	3,107	2	3,107	2
Technical provisions – gross	92,328	69	89,484	69
Technical provisions for life insurance insofar as the investment risk is borne by policyholders	7,870	6	7,451	6
Other provisions	3,309	2	3,264	2
Liabilities	14,361	11	13,731	10
Provisions for deferred taxes	2,013	1	1,984	2
Liabilities of disposal groups classified as held for sale	27	<1	20	<1
Total liabilities	**134,611**	**100**	**130,350**	**100**

1) Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Currency effects

In view of the international nature of the various insurers involved in the Group, currency-related interdependencies between assets and financial position are inevitable.

In principle, however, insurers that operate internationally receive payments and pay claims in their respective national currencies. This means that assets to cover liabilities are also held in foreign currencies (matching currency coverage). Please see our comments in the risk report with regard to this. For the purposes of the consolidated financial statement, respective national currencies are presented as explained in the Notes under "Summary of major accounting policies – Currency translation".

Development of major items

Changes in shareholders' equity are presented in the section "Shareholders' equity" – "Changes in shareholders' equity" below.

Talanx AG issued a first-rate unsecured bond with a volume of EUR 750 million on 13 February 2013, of which EUR 185 million is held by Group companies. The issue price was 99.958%. The features are described under item 10 of the Notes, "Notes payable and loans".

The Group has two syndicated variable-interest credit lines with a nominal value of EUR 1.2 billion and a term of five years, which are intended to provide short- to medium-term financing. Total utilisation as at 31 March 2013 was EUR 300 million. Existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting jointly, other than HDI Haftpflichtverband der Deutschen Industrie V. a. G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

With respect to further loan agreements and letters of credit, please refer to the information given on off-balance sheet financial instruments and the explanatory remarks in the Notes.

Provisions connected with the insurance business after consolidation and allowing for the shares of reinsurers can be broken down as follows:

	31.3.2013	31.12.2012 [1)]
Figures in EUR billion		
Unearned premium reserve	6.3	4.9
Benefit reserve	47.7	47.2
Loss and loss adjustment expense reserve	29.1	28.0
Provision for premium refunds	2.2	2.3
Other technical provisions	0.2	0.3
Total	**85.5**	**82.7**

[1)] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Liabilities to policyholders must be covered by assets in at least the same amount. The proportion of net provisions relating to insurance business relative to total assets as at the balance sheet date – including funds withheld by ceding companies but excluding investments under investment contracts – stood at 86 (85)%. Provisions thus include surplus coverage in the amount of EUR 14.3 (14.6) billion.

Gross provisions rose by 3% or EUR 2.8 billion in total compared with the previous year. EUR 1.7 billion of this increase related to the unearned premium reserve, under which portions of premiums for subsequent insurance periods that are not yet due are reported. There was also an increase in the benefit reserve (+1% or EUR 423 million) and in the loss and loss adjustment expense reserve (+2% or EUR 710 million).

The increase in gross benefit reserves was driven principally by life insurance business in the Retail Germany (+EUR 1,258 million) and Retail International (+EUR 131 million) segments.

The increase in the loss and loss adjustment expense reserve (gross) related mainly to the Non-Life Reinsurance segment (EUR 782 million) and to the Life/Health Reinsurance segment (EUR 182 million). Developments in the Industrial Lines segment compensated for this increase (–EUR 249 million). Growth in the Non-Life Reinsurance segment was driven primarily by Hannover Rück SE (+EUR 694 million). In Life/Health Reinsurance, growth was achieved above all by Hannover Rück SE (+EUR 68 million), Hannover Life Reassurance Company of America, Orlando, USA (+EUR 39 million) and Hannover Life Re of Australasia Ltd., Sydney, Australia (+EUR 73 million). Of the decline in the Industrial Lines segment, EUR 195 million related to HDI-Gerling Industrieversicherung AG.

Shareholders' equity

Changes in shareholders' equity

In the financial year just ended, shareholders' equity increased by EUR 287 million – or 3% – to EUR 11,596 (11,309) million. The Group's share amounted to EUR 7,359 (7,153) million.

Major movements in shareholders' equity were driven by the following factors:

Group net income attributable to our shareholders fell slightly by 1% to EUR 203 (206) million and was allocated in full to retained earnings, before a final resolution was passed by the Annual General Meeting.

"Cumulative other comprehensive income and other reserves" increased slightly by EUR 3 million year-on-year, to EUR 627 million. This item mainly comprises unrealised gains/losses on investments, which fell by EUR 49 million to EUR 1.9 billion in the period under review. "Cumulative other comprehensive income and other reserves" are offset by other changes in shareholders' equity, which essentially comprise policyholder participation/shadow accounting and actuarial gains and losses from pension provisions. The cash flow hedge reserve fell slightly to EUR 83 (87) million.

Standard IAS 19, "Employee Benefits", which must be applied from 1 January 2013, had a significant impact on changes in shareholders' equity at the Group. This led to a retroactive reduction of EUR 46 million in Group shareholders' equity as at 1 January 2012 and to a reduction of EUR 334 million as at 31 December 2012. For further details, please refer to the section on "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes.

Non-controlling interests in shareholders' equity increased by EUR 81 million – or 2% – to EUR 4.2 billion. The non-controlling interest share in net income amounted to EUR 138 (146) million. The slightly higher dividend payment to non-Group shareholders totalling EUR 54 (52) million stemmed mainly from the Hannover Re Group.

Changes in shareholders' equity	31.3.2013	31.12.2012[1]
Figures in EUR million		
Common shares	316	316
Additional paid-in capital	1,369	1,369
Retained earnings	5,047	4,844
Cumulative other comprehensive income and other reserves	627	624
Group shareholders' equity	**7,359**	**7,153**
Non-controlling interests in shareholders' equity	4,237	4,156
Total	**11,596**	**11,309**

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Shareholders' equity by segment[1] including non-controlling interests	31.3.2013	31.12.2012[2]
Figures in EUR million		
Industrial Lines	1,796	1,906
thereof non-controlling interests	—	—
Retail Germany	2,663	2,675
thereof non-controlling interests	58	63
Retail International	2,034	1,998
thereof non-controlling interests	285	285
Reinsurance[3]	6,925	6,707
thereof non-controlling interests	3,913	3,849
Corporate Operations	–1,785	–1,950
thereof non-controlling interests	—	—
Consolidation	–37	–27
thereof non-controlling interests	–19	–41
Total shareholders' equity	**11,596**	**11,309**
Group shareholders' equity	7,359	7,153
Non-controlling interest in shareholders' equity	4,237	4,156

[1] Difference between the assets and liabilities of each segment
[2] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes
[3] In the interests of simplicity, non-controlling interests in equity for the Reinsurance division are derived from Group non-controlling interests in the Hannover Re Group; for this purpose, the two reinsurance segments are combined

The Corporate Operations segment posted a negative value that reflects Talanx AG's debt leverage. As the Group's holding company, Talanx AG performs a financing function for the Group in the primary insurance sector and for the companies in Corporate Operations. The liabilities concerned are mainly retirement pension provisions amounting to EUR 1,057 (1,046) million, liabilities from the utilisation of credit lines in the amount of EUR 300 (500) million, notes payable amounting to EUR 565 (9) million and provisions for taxes totalling EUR 129 (129) million. These liabilities are offset on Talanx AG's balance sheet by the value of its participations in subsidiaries, which are consolidated against the pro-rata equity of the subsidiaries in the consolidated financial statements.

Liquidity and financing

We generate liquidity primarily from our operational primary insurance and reinsurance business, from current income on our investments and from financing measures. Regular liquidity planning and an investment strategy aligned with liquidity requirements ensure that the Group is able to meet its payment obligations at all times. Accordingly, no liquidity shortages have occurred.

Analysis of the consolidated cash flow statement

We have published the entire cash flow in the cash flow statement in the Notes; it can be summarised as follows.

	1.1.–31.3.2013	1.1.–31.3.2012[1]
Figures in EUR million		
Cash flow from operating activities	1,988	2,099
Cash flow from investing activities	–2,695	–2,170
Cash flow from financing activities	246	–106
Change in cash and cash equivalents	–461	–177

[1] Adjusted on the basis of IAS 8, see section "Accounting policies", subsection "Changes in accounting policies and accounting errors" of the Notes

Cash inflows from operating activities, which also include inflows from investment income generated, fell slightly year-on-year from EUR 2,099 million to EUR 1,988 million. The calculation adjusts the net income of EUR 341 (352) million in the consolidated cash flow statement to take account of the increase in technical provisions (net) of EUR 2.7 (2.2) billion. This increase is almost offset by the decline in "Changes in funds withheld and in accounts receivable and payable" (–EUR 1.5 [–1.0] billion). Moreover, other non-cash expenses and income, most of which resulted from "Changes in technical provisions in life insurance insofar as the investment risk is borne by policyholders", reduced cash flow from operating activities. This item fell by EUR 431 (516) million (see corresponding changes in cash flow from investing activities).

The item "Changes in funds withheld and in accounts receivable and payable" fell year-on-year by EUR 507 million to –EUR 1,524 million. Development of funds withheld is the result of provision of collateral by reinsurers. Please see the comments on movements in investments.

Cash outflows from investing activities are determined by payments made for investment purchases. In real estate, cash inflows from sales are more than offset by cash outflows for new investments. Net cash outflow from sales and new investments was –EUR 144 (–8) million. As in the previous year, outflows associated with the purchase of investments, amounting to EUR 1,281 (904) million, exceeded inflows from sales and maturities. The item "Changes in investments for the account and risk of holders of life insurance policies" increased moderately in the period under review to –EUR 431 (–516) million. Cash outflows from investing activities totalled –EUR 2,695 million in 2012, higher than in the previous year.

Cash flow from financing activities in the period under review was determined by Talanx AG's issuing of a first-rate unsecured bond in the amount of EUR 565 million. The company's credit line was also reduced by EUR 200 million. For further explanation, please see "Notes on the consolidated balance sheet", item 10 "Notes payable and loans", in the Notes. This item also includes interest payments in the amount of EUR 50 (41) million. Cash inflows in the year under review were reduced by dividend payments in the amount of EUR 54 (52) million. The net cash flow from financing activities rose by EUR 352 million year-on-year.

Cash and cash equivalents increased by EUR 279 million in total to EUR 1.7 billion in the year under review. EUR 2 (14) million was deducted from cash through reclassification in the reporting period for disposal groups pursuant to IFRS 5.

Risk report

We consider opportunity and risk management to be one of our core tasks. A central mandate performed by Talanx AG is comprehensive monitoring and precise management of our risk position within the Group and the divisions, with the aim of avoiding developments that could jeopardise the Group's continued existence while at the same time maximising available opportunities.

Derived from our corporate strategy, our risk strategy formulates the objectives and structure of our risk management. Our acceptance of risks is governed by the guidelines and decisions of the Board of Management concerning the Group's risk budget. Our risk strategy is a stand-alone set of rules that provides the foundation for Group-wide risk management. It is, in conjunction with value-oriented steering, an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions.

As an internationally operating insurance and financial services group, we consciously enter into a wide range of risks that are indivisibly bound up with our business activities. Both our corporate strategy and our risk strategy are subject to an established review process. Through this regular scrutiny and, if necessary, adjustment of the underlying assumptions, we seek to ensure that our strategic guidelines are appropriate at all times and hence that actions are based on adequate information.

The Talanx Group satisfies all currently applicable solvency requirements.

The interplay of the individual functions and bodies within the overall system is vital to an efficient risk management system. Talanx has defined the roles and responsibilities as follows:

Controlling elements	Key risk management tasks
Supervisory Board	■ Advising and monitoring the Board of Management in its management of the company, inter alia with respect to risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Defining the risk strategy ■ Responsibility for proper functioning of risk management
Risk Committee	■ Risk-monitoring and coordinating body, charged especially with the following tasks: ▪ critical observation and analysis of the risk position of the Group as a whole, with particular attention paid to the risk budget approved by the Board of Management and the risk strategy ▪ monitoring of steering measures within the Group with a focus on risks that could threaten the Group's continued existence
Chief Risk Officer	■ Responsible for holistic risk monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from the Group perspective ■ Chairman of the Risk Committee ■ Right to participate in meetings of the Board of Management when there are items on the agenda relating to risk
Central Risk Management	■ Group-wide, independent risk monitoring function ■ Methodological competence, inter alia for ▪ development of processes/methods for risk assessment, management and analysis ▪ risk limitation and reporting ▪ risk monitoring and quantifying the risk capital needed across the Group
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and processes and systems of limits and thresholds that serve as a framework for local implementation, monitoring and reporting
Internal Auditing	■ Process-independent review of the functional areas of the Group

In addition to these (risk) functions and bodies, organisational structures have been set up to deal with special issues, e.g. task forces for managing contingencies and crises.

Risk reporting in the interim report focuses on material changes in the risk position that have occurred since the compilation of the Talanx Group Annual Report 2012. For a thorough presentation of the various types of risk, which is omitted here, the reader is referred to the detailed information contained in the Annual Report.

The risk situation of the Talanx Group can be broken down into the risk categories described below. They are based on German Accounting Standard DRS 5-20 as well as the risk catalogue contained in the Minimum Requirements for Risk Management in Insurance Undertakings (MaRisk [VA]).

Risk category	Material risks	Major risk management measures
Underwriting risks		
	Across segments	
	■ Concentration risk	■ Risk balancing through diversification
	Property/casualty primary insurance and non-life reinsurance	
	■ Actual claims experience diverges from the expected claims experience (premium/loss risk) ■ Technical provisions do not suffice to fully pay for claims that have not yet been settled or reported	■ Claims analysis and regular monitoring of the claims experience ■ Actuarial modelling and monitoring of the natural hazards exposure ■ Selective underwriting ■ Technical audits ■ Commensurate reinsurance protection ■ Establishment of IBNR reserves ■ External actuarial review of provisions
	Life primary insurance	
	■ Changes in biometric actuarial bases ■ Interest guarantee risk under life insurance contracts with guaranteed interest payments ■ Lapse risks	■ Regular review of the biometric actuarial bases ■ Factoring of safety loadings into the actuarial bases ■ Constant monitoring of investments and markets, initiation of appropriate steering measures ■ Interest rate hedges ■ Adjustment of the surplus distribution ■ Cost controlling, focus on variable sales costs ■ Careful selection of intermediaries ■ Systematic monitoring of the MCEV

Risk category	Material risks	Major risk management measures
Underwriting risks (continued)		
	Life/health reinsurance	
	■ Changes in biometric actuarial bases ■ Lapse and credit risk in connection with the prefinancing of cedants' new business acquisition costs	■ Use of secure biometric actuarial bases ■ Systematic monitoring of the MCEV
Default risks under insurance business		
	Across segments	
	■ Risk of default on receivables due from reinsurers, retrocessionaires, policyholders and insurance agents	■ Careful selection of reinsurers and retrocessionaires ■ Constant monitoring of credit status ■ Measures to secure receivables ■ Effective dunning and reduction of outstandings ■ Establishment of adequate bad debt provisions
Investment risks		
	Across segments	
	■ Potential losses due to adverse changes in market prices (interest rates, share prices and exchange rates) ■ Losses of value due to adverse changes in the credit status of debtors ■ Illiquidity risk: holdings/open positions cannot be sold or closed or can only be sold/closed with delays/price mark-downs	■ Monitoring and management of market price risks using the value at risk (VaR) ■ Performance of enterprise-specific stress tests and those required by regulators ■ Matching currency coverage ■ Reviews of assets and liabilities using ALM/VaR ■ Inclusion of ratings (rating agencies, internal ratings) in investment decisions ■ Monitoring and management of credit risks using the credit VaR ■ Liquid asset structure ■ Regular liquidity planning
Operational risks		
	Across segments	
	■ Risk of losses due to the failure of persons, (IT) systems or processes or on account of external events (including non-compliance with respect to internal or external rules/regulations)	■ Multi-faceted and cause-based risk management ■ Internal control system
Other risks		
	■ Participation risks of Talanx AG: instability in the performance of subsidiaries and/or the portfolio of participating interests ■ Risk of asset erosion of acquisitions	■ Appropriate tools in the areas of controlling, internal auditing and risk management ■ Segmental and regional diversification ■ Investments in growth markets and in product and portfolio segments that stabilise results ■ Due diligence checks ■ Liquidity analyses and forecasts ■ M&A committees
	■ Possible need to establish additional reserves in connection with pension obligations of Talanx AG	■ Regular reviews of the adequacy of actuarial bases
	Across segments	
	■ Emerging risks, the content of which is not as yet reliably known and the implications of which are difficult to assess	■ Various management measures, such as reinsurance, diversification, risk exclusions, safety margins, contingency plans, etc.
	■ Strategic risks: the risk of an imbalance between the corporate strategy and the constantly changing general business environment	■ At least annual review of the corporate and risk strategy ■ Adjustment of processes and structures as required
	■ Reputational risks: possible damage to the company's name as a consequence of an unfavourable public perception	■ Set communication channels ■ Professional approach to corporate communications ■ Tried and tested processes for defined crisis scenarios ■ Established Code of Conduct

The sovereign debt crisis in parts of the Eurozone, the global decline in economic growth, the stability of the banking sector and the low interest rate policy associated with the cause of all these concerns are continuing to shape the market environment.

The German economy is very stable despite high levels of sovereign debt and difficulties encountered in efforts to reschedule and write off debts in the Eurozone. A slowdown is nevertheless also noticeable in Germany, due to the global economy's weaker growth and doubts as to the long-term financial viability of some countries.

Problems resulting from the Eurozone's sovereign debt crisis remain largely unresolved. The deep and persistent recession, combined with further increases in public spending, is impeding the urgently necessary consolidation of state-sector budgets in Greece in particular.

As at 31 March 2013, the Talanx Group held government bonds with a market value of EUR 971 million from the GIIPS countries (including Italy at EUR 597 million, Ireland at EUR 255 million, Spain at EUR 94 million, Portugal at EUR 20 million and Greece at EUR 5 million, excluding unit-linked investments for the account and risk of holders of life insurance policies), which may lead to rating-related impairments. Thanks to support measures at European level (the European "rescue package"), however, there is currently no elevated risk of default on bonds from the GIIPS countries, with the exception of Greece.

The Talanx Group's investments are not directly affected by the current market situation in Cyprus.

The crisis and the prospect of regulatory innovations are increasingly driving a tendency towards more exacting capital requirements on the part of supervisory authorities. This trend could also affect some Group companies and make it necessary to boost their capital.

The "full fair value" principle required by Solvency II leads to severe fluctuations in the capital requirements of German life insurers for long-term guarantees. Long-term guarantees must be taken into account when calculating the market value of underwriting commitments and must be backed up by equity. Persistent low interest rates are further exacerbating the situation, as life insurers face the challenge of generating the contractually agreed return for commitments with high interest guarantees. In view of the uncertainties involved in ensuring that reporting is consistent with the market in accordance with Solvency II, life insurers may therefore require additional equity or may need to reduce their net risks.

European and national supervisory authorities are also preoccupied with the question of whether regulations on drawing up preventive restructuring plans for large international insurers would be advisable, based on the model used for the regulation of banks, and which minimum requirements, if any, would be necessary. If guidelines were issued on drawing up such restructuring plans, which is conceivable, this could lead to unplanned expenses for the Talanx Group.

There are also proceedings pending before the courts that could have implications for the entire German insurance industry and hence also for the Talanx Group once their outcome is legally finalised. This applies in particular to the area of life insurance.

Issues that are to be decided before the courts include, for example, the question of how to deal with a monthly, quarterly or half-yearly method of payment in insurance contracts. Court decisions handed down with regard to the treatment of surcharges for instalment payments vary, although higher regional courts appear to have ruled unanimously in favour of insurers. The Federal Court of Justice issued a judgment in one lawsuit on 6 February 2013 in favour of the insurer against which an action had been brought. Moreover, appeals have been withdrawn by the consumer association Verbraucherzentrale Hamburg in two lawsuits involving class actions. Elements that have so far been strongly challenged in court have been adjusted in new business out of caution and for reasons of consumer-friendliness. This is not possible for in-force business on practical grounds.

No definite risks are as yet discernible that could have a significant negative impact on the Talanx Group's assets, financial position or net income. There is, however, considerable uncertainty as to whether risks associated with the sovereign debt crisis could take an even more concrete form in future and have a lasting impact on the assets, financial position or net income of the Talanx Group. In particular, the further development of the crisis may also have lasting implications for the behaviour of policyholders. In this context, we should point out that, despite the active efforts of both European and German legislators to improve the regulatory framework for insurance groups, some important issues are still the subject of ongoing discussions. This means that there is uncertainty with regard to the legal framework that will govern our entrepreneurial activities in future. In particular, it is unclear what charges will ultimately arise in connection with the fulfilment of legal requirements.

Forecast and opportunities report

Economic environment

The Eurozone economy will remain overshadowed by the sovereign debt crisis for the time being, although the recession in the Eurozone could come to the end of its cycle in the next few quarters. In our opinion, the economy is in an early stabilisation phase. Macroeconomic indicators have to date been mixed. Leading indicators declined unexpectedly sharply in spring 2013. Since the "ECB's euro promise" in summer 2012, however, confidence has gradually returned to the Eurozone. This is evident, for example, from capital inflows into the Eurozone, while financing has become available again in countries on the Eurozone periphery. Short-term negative effects of budget consolidation currently still outweigh the positive effects that can be expected in the long term. The economy could begin to pick up in the second half of the year, although developments within the Eurozone will remain mixed. We expect the US economy to boost momentum generally in the Eurozone, as US economic data have become more stable in relative terms and private household debt has been cut significantly following a painful adjustment process. The US housing crisis appears to have been overcome and the productivity of US industry has increased substantially. The upturn in emerging markets has recently lost momentum, for example in China. However, growth rates are expected to remain high in future.

The current expansionary monetary policy of central banks will not, in our view, lead to a significant increase in inflation rates in the current year, as the liquidity provided by central banks has still not entered the real economy.

Capital markets

Although the majority of forecasts assume that economic development will stabilise in the course of 2013, the macroeconomic environment remains difficult in large parts of the Eurozone, while growth prospects remain limited. Together with ongoing political risks (implementation of the bail-in in Cyprus, capitalisation of banks in Slovenia), we expect low interest rates to persist over the coming months. There are no fundamental reasons at present for an increase in interest rates beyond technical corrections. Market players had already priced in a base rate cut of 25 basis points before its implementation, following the latest economic data and comments from central banks. Monetary policy in the USA also remains expansionary, although the schedule for a withdrawal from bond purchase programmes is increasingly being discussed.

Demand for high-yield investments will remain high, and spreads are therefore expected to remain stable for the time being from a credit perspective.

Possible setbacks in the euro debt crisis continue to constitute a risk for the stock markets. As long as central banks continue to pursue expansionary strategies, however, 2012's liquidity-driven development is likely to continue in 2013. We confirm our positive outlook for European equities. The recent strong growth on US stock markets makes European equities even more attractive in relative terms, as their valuation has basically remained low, which would support potential share price gains in Europe. Profit estimates for European companies likewise seem to be stabilising. At the very least, we expect further stabilisation in the next few months.

Future Group development

When considering future development of the Talanx Group, we have made the following assumptions:

- moderate global economic growth
- steady inflation rates
- continuing low interest rates
- no sudden upheavals on the capital markets
- no significant fiscal or regulatory changes
- catastrophe losses in line with expectations

Talanx Group

Based on steady exchange rates, the Talanx Group is aiming for gross premium growth in 2013 of at least 4%. The acquisitions in Poland, recognised for an entire financial year for the first time in 2013, bring us significantly closer to achieving our strategic long-term target of generating half of our total gross premium in primary insurance outside Germany. Structural net return on investment is expected to be around 3.5% in 2013, with by far the largest contribution coming from ordinary income. We are aiming for Group net income after taxes of over EUR 650 million in 2013. We therefore anticipate a return on equity in 2013 of over 9%, despite the inflow of equity from the IPO and ongoing low interest rates. This profit target is subject to any major losses incurred and to the impact on profit of movements in exchange rates and capital markets. Our express aim is to pay out 35% to 45% of IFRS Group net income as dividends.

Industrial Lines

HDI-Gerling Industrie Versicherung AG is one of the biggest industrial insurers in Europe and, in terms of premium volume, one of the market leaders in Germany. Its strong position in global competition is underpinned by rising premium income and expanding international business. We are aiming for growth of around 4% to 6% in gross premium income in Industrial Lines in 2013, along with an EBIT margin of well over 10%.

The German market overall is still experiencing pressure on premiums, as demand for cover remains stagnant whilst insurance capacity is growing. The market is hardening, however, particularly in motor insurance, and it is proving possible to push through some rate increases. One of our strategic aims is to use the strong capital base of our Industrial Lines segment to gradually increase our retention over the next few years and thereby profit from premium growth disproportionately.

We believe that the best opportunities for growth are still to be found outside Germany – particularly as our domestic market penetration is already high. Our foreign business units will therefore continue to play a major role in 2013 in our drive to become a global player. Europe-wide, we are aiming to expand our industrial insurance business in the fields of local business, small and medium enterprises and international insurance programmes. Our target regions outside Europe continue to be Latin America, (South-)East Asia and the Arabian Peninsula. The expansion of our Madrid site into a hub for industrial insurance solutions in Latin America, our strategic partnership with PVI Holdings, the leading Vietnamese industrial insurer, and the joint venture initiated in 2012 with Indian company NBFC Magma Fincorp are further steps towards internationalisation of the division.

Retail Germany

We expect gross premium income in the Retail Germany Division to remain more or less stable year-on-year in 2013. Operating profit (EBIT) is expected to increase significantly compared with the previous year, particularly as the one-off factors that impacted negatively in 2012 no longer apply. A particular focus in life insurance in 2013 will be on establishing an even closer working relationship with our business partners in bancassurance. There is likely to be a further increase in prices in motor insurance, which accounts for a high proportion of total premium income in property and casualty insurance. We also expect growth to be boosted by expansion of our partnerships with Mercedes-Benz Bank and Daimler Insurance Services.

We are continuing our restructuring of the division, having reached the first milestone in 2012 when we began the move to the two big sites in Essen and Hannover. This is expected to be completed in 2013. Our aim is to align our business procedures and organisation with the requirements of our clients and sales partners so well that we are regarded in Germany as a particularly efficient and client-focused insurer. Cost disadvantages vis-à-vis our competitors should be also eliminated by this realignment.

Retail International

We are following a clear expansionary strategy in our international retail business, with an emphasis on premium growth and adequate profitability. We are concentrating on continuing to build up business in our target regions of Latin America and Central and Eastern Europe through both organic and inorganic growth. A further focus is on optimising our activities in existing markets.

In the foreign markets where our retail business operates we are aiming for gross premium growth of around 17% to 20% in 2013, although there could be some changes at newly acquired companies in recognition of contracts as insurance products in accordance with IFRS. We expect an EBIT margin of at least 5% and a significant year-on-year increase in operating profit (EBIT) in 2013, largely owing to the fact that one-off factors that had a negative impact in 2012 no longer apply and that the newly acquired groups of companies will be recognised for an entire financial year for the first time. The acquisitions of Polish insurers TU Europa Group and WARTA, concluded on 1 June 2012 and 1 July 2012 respectively, will be recognised for the entire financial year for the first time in 2013.

We are continuing to make progress in integrating the recently acquired companies. The merger of Polish WARTA and HDI property and casualty companies at the end of 2012 will be followed in 2013 by the merger of Polish WARTA and HDI-Gerling life companies. The merger of the Mexican companies HDI Seguros and Metropolitana was legally concluded on 20 March 2013 and is retroactively effective from 1 January 2013. The company's official name will from now on be HDI Seguros S. A. de C. V. México.

Non-Life Reinsurance

Although competition has intensified compared with the previous year in Non-Life Reinsurance, we nevertheless see attractive growth opportunities in various markets, including emerging countries. We are satisfied with the results of renewals on 1 April 2013 and expect our non-life reinsurance business as a whole to grow by 3% to 5% in 2013 at constant exchange rates.

Life/Health Reinsurance

We expect our Life/Health Reinsurance segment as a whole to offer promising business opportunities throughout the year. We anticipate organic growth in gross premium of between 5% and 7% in the current financial year, with adjustments for exchange rates.

Corporate Operations

Underwriting business written through our Irish subsidiary Talanx Reinsurance (Ireland) Ltd. will be reported in the Corporate Operations segment for the first time in 2013. Furthermore, any business that includes additional cross-divisional diversification benefits will be reported in the Corporate Operations segment. For 2013, we therefore expect gross premium income in the Corporate Operations segment to amount to a medium eight-figure sum in euros.

Talanx Reinsurance Broker AG acts as a professional reinsurance consultant and intermediary for the non-life primary insurance companies of the Talanx Group in Germany and abroad. The primary objective is to secure long-term reinsurance capacities for Group companies, on the best possible terms, and with reinsurance partners of the highest possible financial standing. There is not expected to be any shortage of capacity in 2013 for reinsurance cessions of Group cedants serviced by the company.

Talanx Asset Management GmbH manages the Group's own investments, including accounting, reporting and risk management. In line with our efforts to grow our insurance business, we also aim to increase assets under own management. However, investment performance is precisely the area that is currently subject to great uncertainty as a result of the sovereign debt and financial market crises and low interest rates.

Consolidated financial statements

Consolidated balance sheet of Talanx AG as at 31 March 2013

Assets	Notes			31.3.2013	31.12.2012[1]
Figures in EUR million					
A. Intangible assets	1				
a. Goodwill			1,149		1,152
b. Other intangible assets			1,584		1,641
				2,733	**2,793**
B. Investments					
a. Investment property			1,458		1,297
b. Investments in affiliated companies and participating interests			122		80
c. Investments in associated companies and joint ventures			237		237
d. Loans and receivables	2		32,531		32,101
e. Other financial assets					
i. Held to maturity	3	3,705			3,857
ii. Available for sale	4/6	42,612			41,337
iii. At fair value through profit or loss	5/6	1,531			1,642
f. Other invested assets	6	4,372			3,501
Investments under own management			**86,568**		**84,052**
g. Investments under investment contracts			1,755		1,698
h. Funds withheld by ceding companies	6		13,228		13,198
Investments				**101,551**	**98,948**
C. Investments for the account and risk of holders of life insurance policies				7,870	7,451
D. Reinsurance recoverables on technical provisions				6,970	6,989
E. Accounts receivable on insurance business				6,443	5,081
F. Deferred acquisition costs				4,544	4,378
G. Cash				1,675	2,119
H. Deferred tax assets				535	529
I. Other assets				2,240	2,006
J. Non-current assets and assets of disposal groups classified as held for sale[2]				50	56
Total assets				**134,611**	**130,350**

[1] Adjusted on the basis of IAS 8. Cf. section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes
[2] Cf. our remarks in the section “Non-current assets held for sale and disposal groups”

Liabilities	Notes			31.3.2013	31.12.2012[1]
Figures in EUR million					
A. Shareholders' equity	7				
a. Common shares		316			316
Nominal value: 316 (previous year: 316) Conditional capital: 104 (previous year: 104)					
b. Reserves		7,043			6,837
Shareholders' equity excluding non-controlling interests			**7,359**		**7,153**
c. Non-controlling interests in shareholders' equity			4,237		4,156
Total shareholders' equity				**11,596**	**11,309**
B. Subordinated liabilities	8		3,107		3,107
C. Technical provisions	9				
a. Unearned premium reserve		7,175			5,440
b. Benefit reserve		48,671			48,248
c. Loss and loss adjustment expense reserve		33,953			33,243
d. Provision for premium refunds		2,254			2,279
e. Other technical provisions		275			274
			92,328		**89,484**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders			7,870		7,451
E. Other provisions					
a. Provisions for pensions and similar obligations		1,887			1,869
b. Provisions for taxes		684			632
c. Sundry provisions		738			763
			3,309		**3,264**
F. Liabilities					
a. Notes payable and loans	10	1,037			677
b. Funds withheld under reinsurance treaties		5,997			5,975
c. Other liabilities	6	7,327			7,079
			14,361		**13,731**
G. Deferred tax liabilities			2,013		1,984
H. Liabilities of disposal groups classified as held for sale[2]			27		20
Total liabilities/provisions				**123,015**	**119,041**
Total liabilities				**134,611**	**130,350**

[1] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] Cf. our remarks in the section "Non-current assets held for sale and disposal groups"

The following Notes form an integral part of the consolidated financial statements.

Consolidated statement of income of Talanx AG
for the period from 1 January to 31 March 2013

	Notes	Q1 2013	Q1 2012 [1)]
Figures in EUR million			
1. Gross written premium including premium from unit-linked life and annuity insurance		8,458	7,605
2. Savings elements of premium from unit-linked life and annuity insurance		258	251
3. Ceded written premium		1,163	1,090
4. Change in gross unearned premium		–1,696	–1,695
5. Change in ceded unearned premium		–374	–396
Net premium earned	**11**	**5,715**	**4,965**
6. Claims and claims expenses (gross)		4,988	4,669
Reinsurers' share		327	559
Claims and claims expenses (net)	**14**	**4,661**	**4,110**
7. Acquisition costs and administrative expenses (gross)		1,417	1,210
Reinsurers' share		139	111
Acquisition costs and administrative expenses (net)	**15**	**1,278**	**1,099**
8. Other technical income		13	14
Other technical expenses		52	59
Other technical result		**–39**	**–45**
Net technical result		**–263**	**–289**
9. a. Income from investments		881	994
b. Expenses for investments		97	107
Net income from investments under own management		**784**	**887**
Income/expense from investment contracts		2	—
Income/expense from funds withheld and contract deposits		89	74
Net investment income	**12/13**	**875**	**961**
Income/expense from associated companies and joint ventures recognised using the equity method		1	1
10. a. Other income		230	140
b. Other expenses		326	274
Other income/expenses	**16**	**–96**	**–134**
Profit before goodwill impairments		**516**	**538**
11. Goodwill impairments		—	—
Operating profit/loss (EBIT)		**516**	**538**
12. Financing costs		50	41
13. Taxes on income		125	145
Net income		**341**	**352**
thereof attributable to non-controlling interests		138	146
thereof attributable to shareholders of Talanx AG		203	206
Earnings per share			
Basic earnings per share (figures in EUR)		0.80	0.99
Diluted earnings per share (figures in EUR)		0.80	0.99

[1)] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

The following Notes form an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income of Talanx AG for the period from 1 January to 31 March 2013

	Q1 2013	Q1 2012[1)]
Figures in EUR million		
Net income	**341**	**352**
Not reclassifiable in the consolidated statement of income		
Actuarial gains or losses on pension provisions		
Gains (losses) recognised directly in other income/expenses during the period	–20	–110
Tax income (expense)	6	33
	–14	**–77**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised directly in other income/expenses during the period	—	4
Tax income (expense)	—	—
	—	**4**
Total non-reclassifiable income and expenses after taxes recognised in other income/expenses during the period	**–14**	**–73**
Reclassifiable in the consolidated statement of income		
Unrealised gains and losses from investments		
Gains (losses) recognised directly in other income/expenses during the period	–13	883
Shifted to the consolidated statement of income	–65	–53
Tax income (expense)	18	–140
	–60	**690**
Currency translation		
Gains (losses) recognised directly in other income/expenses during the period	53	–40
Shifted to the consolidated statement of income	–4	—
Tax income (expense)	–11	8
	38	**–32**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised directly in other income/expenses during the period	47	–416
Tax income (expense)	–3	18
	44	**–398**
Changes from cash flow hedges		
Gains (losses) recognised directly in other income/expenses during the period	–5	50
Shifted to the consolidated statement of income	—	—
Tax income (expense)	—	–4
	–5	**46**
Other changes		
Gains (losses) recognised directly in other income/expenses during the period	15	9
Shifted to the consolidated statement of income	—	—
Tax income (expense)	–4	–3
	11	**6**
Total reclassifiable income and expenses after taxes recognised in other income/expenses during the period	**28**	**312**
Income and expenses after taxes recognised in other income/expenses during the period	**14**	**239**
Total recognised income and expenses during the period	**355**	**591**
thereof attributable to non-controlling interests	149	219
thereof attributable to shareholders of Talanx AG	206	372

[1)] Adjusted on the basis of IAS 8. Cf. "General accounting principles and application of International Financial Reporting Standards (IFRS)", section "Newly applicable standards/interpretations and changes in standards", IAS 1 Presentation of components of other comprehensive income (OCI)

The following Notes form an integral part of the consolidated financial statements.

Consolidated statement of changes in shareholders' equity

	Common shares	Additional paid-in capital	Retained earnings	Other reserves: Unrealised gains/losses on investments	Other reserves: Gains/losses from currency translation	Other reserves: Other changes in shareholders' equity[3]	Other reserves: Measurement gains and losses from cash flow hedges	Equity attributable to shareholders of Talanx AG	Non controlling interests	Total shareholders' equity
Figures in EUR million										
As at 31.12.2011	**260**	**630**	**4,170**	**416**	**49**	**–58**	**–60**	**5,407**	**3,284**	**8,691**
Adjusted on the basis of IAS 8[1]	—	—	14	—	—	–58	—	–44	–2	–46
As at 1.1.2012 adjusted	**260**	**630**	**4,184**	**416**	**49**	**–116**	**–60**	**5,363**	**3,282**	**8,645**
Net income	—	—	206	—	—	—	—	206	146	352
thereof attributable to IAS 8[1]	—	—	–5	—	—	—	—	–5	—	–5
Income and expenses recognised in other income/expenses	—	—	—	569	–9	–435	41	166	73	239
thereof attributable to IAS 8[1]	—	—	—	—	*–4*	*–69*	—	*–73*	*–3*	*–76*
thereof not reclassifiable	—	—	—	—	—	*–70*	—	*–70*	*–3*	*–73*
thereof actuarial gains or losses on pension provisions	—	—	—	—	—	*–73*	—	*–73*	*–4*	*–77*
thereof changes in policyholder participation/shadow accounting	—	—	—	—	—	*3*	—	*3*	*1*	*4*
thereof reclassifiable	—	—	—	*569*	*–9*	*–365*	*41*	*236*	*76*	*312*
thereof unrealised gains and losses from investments	—	—	—	*569*	—	—	—	*569*	*121*	*690*
thereof currency translation	—	—	—	—	*–9*	—	—	*–9*	*–23*	*–32*
thereof change from cash flow hedges	—	—	—	—	—	—	*41*	*41*	*5*	*46*
thereof sundry changes[2]	—	—	—	—	—	*–365*	—	*–365*	*–27*	*–392*
Total recognised income and expenses	—	—	206	569	–9	–435	41	372	219	591
Other capital increase	—	—	—	—	—	—	—	—	1	1
Other capital reduction	—	—	—	—	—	—	—	—	–3	–3
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–52	–52
As at 31.3.2012	**260**	**630**	**4,390**	**985**	**40**	**–551**	**–19**	**5,735**	**3,447**	**9,182**
As at 31.12.2012	**316**	**1,369**	**4,829**	**1,949**	**48**	**–1,126**	**87**	**7,472**	**4,171**	**11,643**
Adjusted on the basis of IAS 8[1]	—	—	15	—	—	–334	—	–319	–15	–334
As at 31.12.2012 adjusted	**316**	**1,369**	**4,844**	**1,949**	**48**	**–1,460**	**87**	**7,153**	**4,156**	**11,309**
Other change in scope of consolidation	—	—	—	—	—	—	—	—	–14	–14
Net income	—	—	203	—	—	—	—	203	138	341
Income and expenses recognised in other income/expenses	—	—	—	–49	21	35	–4	3	11	14
thereof not reclassifiable	—	—	—	—	—	*–14*	—	*–14*	—	*–14*
thereof actuarial gains or losses on pension provisions	—	—	—	—	—	*–14*	—	*–14*	—	*–14*
thereof reclassifiable	—	—	—	*–49*	*21*	*49*	*–4*	*17*	*11*	*28*
thereof unrealised gains and losses from investments	—	—	—	*–49*	—	—	—	*–49*	*–11*	*–60*
thereof currency translation	—	—	—	—	*21*	—	—	*21*	*17*	*38*
thereof change from cash flow hedges	—	—	—	—	—	—	*–4*	*–4*	*–1*	*–5*
thereof sundry changes[2]	—	—	—	—	—	*49*	—	*49*	*6*	*55*
Total recognised income and expenses	—	—	203	–49	21	35	–4	206	149	355
Other capital increase	—	—	—	—	—	—	—	—	2	2
Other capital reduction	—	—	—	—	—	—	—	—	–2	–2
Dividends paid to shareholders	—	—	—	—	—	—	—	—	–54	–54
As at 31.3.2013	**316**	**1,369**	**5,047**	**1,900**	**69**	**–1,425**	**83**	**7,359**	**4,237**	**11,596**

[1] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] Sundry changes consist of policyholder participation/shadow accounting as well as other changes
[3] Other changes to shareholders' equity consist of policyholder participation/shadow accounting and actuarial gains or losses on pension provision, as well as other changes

The following Notes form an integral part of the consolidated financial statements.

Consolidated cash flow statement of Talanx AG
for the period from 1 January to 31 March 2013

	Q1 2013	Q1 2012[1)]
Figures in EUR million		
I. 1. Net income	341	352
I. 2. Changes in technical provisions	2,715	2,155
I. 3. Changes in deferred acquisition costs	–154	–146
I. 4. Changes in funds withheld and in accounts receivable and payable	–1,524	–1,017
I. 5. Changes in other receivables and liabilities as well as investments and liabilities from investment contracts	526	369
I. 6. Changes in financial assets held for trading	2	–46
I. 7. Net gains and losses on investments	–75	–62
I. 8. Other non-cash expenses and income	157	495
I. 9. Other changes[2)]	—	–1
I. Cash flows from operating activities	**1,988**	**2,099**
II. 1. Cash inflow from the sale of consolidated companies	–6	–4
II. 2. Cash outflow from the purchase of consolidated companies	—	–72
II. 3. Cash inflow from the sale of real estate	17	11
II. 4. Cash outflow from the purchase of real estate	–161	–19
II. 5. Cash inflow from the sale and maturity of financial assets	5,409	5,364
II. 6. Cash outflow from the purchase of financial assets	–6,690	–6,268
II. 7. Change in investments for the account and risk of holders of life insurance policies	–431	–516
II. 8. Change in other invested asset	–808	–612
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–28	–55
II. 10. Cash inflows from the sale of tangible and intangible assets	3	1
II. Cash flows from investing activities	**–2,695**	**–2,170**
III. 1. Cash inflow from capital increases	1	—
III. 2. Cash outflow from capital reductions	–2	–3
III. 3. Dividends paid	–54	–52
III. 4. Net changes from other financing activities	301	–51
III. Cash flows from financing activities	**246**	**–106**
Change in cash and cash equivalents (I.+II.+III.)	**–461**	**–177**
Cash and cash equivalents at the beginning of the reporting period, excluding disposal groups	**2,119**	**1,570**
Cash and cash equivalents – exchange-rate differences on cash	**12**	**–11**
Changes in cash and cash equivalents attributable to scope of consolidation	**3**	**—**
Change in cash and cash equivalents of disposal groups in the reporting period	**2**	**14**
Cash and cash equivalents at the end of the reporting period, excluding disposal groups	**1,675**	**1,396**
Additional information		
Taxes paid	102	69
Interest paid	72	76
Dividends received	12	20
Interest received	913	901

[1)] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2)] This item essentially includes changes in the scope of consolidation excluding disposals and acquisitions

The following Notes form an integral part of the consolidated financial statements.

Notes on the consolidated cash flow statement

The cash flow statement shows how the Group's cash and cash equivalents changed in the course of the year under review due to inflows and outflows. In this context a distinction is made between cash flow movements from operating activities and those from investing and financing activities.

Cash flows are presented in accordance with IAS 7 "Statement of Cash Flows".

The cash flow statement is presented using the indirect method for cash flows from operating activities. Liquid funds are limited to cash and cash equivalents and correspond to the balance sheet item "Cash".

The Group's cash flow movements are influenced principally by the business model of an insurance and reinsurance enterprise. Normally, we first receive premiums for risk assumption and subsequently make payments for claims. The effects of exchange rate differences on cash and cash equivalents and the influences of changes in the scope of consolidation are reported separately in the cash flow statement. The acquisition of new subsidiaries is shown in the line "Cash outflow from the purchase of consolidated companies". The sum total of purchase prices paid less acquired cash and cash equivalents is recognised here.

Income taxes paid and dividends and interest received are allocated to cash flows from operating activities.

Dividends received also comprise dividend-like distributions from investment funds and private equity companies, and this results in deviations from our figures in Note 12 "Net investment income".

EUR 48 (51) million of interest paid pertains to cash flows from financing activities, and EUR 24 (25) million to cash flows from operating activities.

The informational value of the cash flow statement for the Group is to be considered minimal. For us, it is not a substitute for liquidity and financial planning, nor is it used as a management tool.

Notes and explanatory remarks

I. General accounting principles and application of International Financial Reporting Standards (IFRS)

General accounting principles

Talanx AG, whose majority shareholder is HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover/Germany (HDI V. a. G.), is the parent company for all Group companies belonging to HDI V. a. G. 11.2% of the shares are in free float with private and institutional investors, 6.5% are held by the Japanese partner of Talanx AG (insurance company Meiji Yasuda) while the remaining 82.3% are held by HDI V. a. G.

As the parent company of the Talanx Group, Talanx AG has drawn up consolidated financial statements pursuant to § 290 of the German Commercial Code (HGB).

The consolidated quarterly financial report as at 31 March 2013 has been compiled in accordance with International Financial Reporting Standards (IFRS) in the form adopted for use in the European Union. The condensed consolidated financial statement, consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and select explanatory notes, reflects in particular the requirements of IAS 34 "Interim Financial Reporting".

We have observed all new or revised IFRSs whose application is mandatory as at 31 March 2013, as well as the interpretations thereof issued by the IFRS Interpretations Committee (IFRS IC, formerly known as the International Financial Reporting Interpretation Committee [IFRIC]) and the previous Standing Interpretations Committee (SIC) (see also the section "Newly applicable standards/interpretations and changes in standards"). In addition, the accounting policies and the consolidation principles for already existing and unchanged IFRSs correspond to those of our consolidated financial statements as at 31 December 2012. We report about changes made pursuant to IAS 8 in specific, justified cases in the section "Accounting policies", subsection "Changes in accounting policies and accounting errors".

In conformity with IAS 34.41, in our preparation of the consolidated quarterly financial statements we draw on estimates and assumptions to a greater extent than is the case with annual financial reporting. Changes in estimates during the current interim reporting period with significant implications for the Group's assets, financial position or net income did not arise. Tax expenditure (domestic income taxes, comparable taxes on income at foreign subsidiaries and changes in deferred taxes) is calculated during the year using an effective rate of taxation anticipated for the full financial year, which is applied to the reporting period's net income. When extrapolating provisions for pensions during the year, the actuarially estimated effect of interest rate changes on pension commitments as at the end of the quarter is recognised under "Other income/expenses" ("Other reserves"). Other actuarial parameters are not updated during the year.

Since 2002 the standards adopted by the International Accounting Standards Board (IASB) have been referred to as IFRS (International Financial Reporting Standards). The standards approved in earlier years still bear the name IAS (International Accounting Standards). Standards are cited in our Notes accordingly. In cases where the Notes do not make explicit reference to a particular standard, the term IFRS is used. Insurance-specific transactions for which IFRSs do not contain any separate standards are recognised in compliance with IFRS 4 "Insurance Contracts" according to the pertinent provisions of United States Generally Accepted Accounting Principles (US GAAP).

These interim financial statements were drawn up in euros (EUR). The amounts shown have been rounded to EUR millions (EUR million). This may give rise to rounding differences in the tables presented in this report. Figures indicated in brackets refer to the previous year.

Newly applicable standards/interpretations and changes in standards

As at 1 January 2013, the Group for the first time applied the following changed or new IFRSs:

IFRS 13 "Fair Value Measurement", which was published in May 2011, is applicable to financial years beginning on or after 1 January 2013, and it is to be applied prospectively as of the beginning of the financial year in which it is initially applied. It standardises the definition of fair value and sets down a framework of applicable methods for measuring fair value. Fair value is defined as the price that would be received to sell an asset, the measurement of this price being based as far as possible on observable market parameters. In addition, an entity is required to provide comprehensive explanatory and quantitative disclosures, which are to describe, in particular, the quality of the fair-value measurement. The scope of IFRS 13 is more extensive and comprises non-financial items alongside financial items. The amendments will essentially be applied if another standard calls for fair-value measurement or information on the fair value is prescribed. The Group applied IFRS 13 for the first time in the first quarter of 2013. Initial application did not result in significant changes to figures in the consolidated financial statements. With respect to the new disclosures that are required to be provided in the interim report, cf. item 6, "Disclosures about fair values and the hierarchy of fair-value measures" in the Notes.

In June 2011 the IASB published an amendment to **IAS 1 "Presentation of Financial Statements"** designed to improve how items of other income comprehensive income (OCI) should be presented. It is applicable retrospectively to financial years beginning on or after 1 July 2012. IAS 1 stipulates that in the future, items under "Other income/expenses" must be disclosed separately according to whether they can be carried in the Consolidated Statement of Income through profit and loss (reclassifiable) or must remain under "Other income/expenses" (not reclassifiable in the Consolidated Statement of Income). Sub-totals must be calculated as required in both cases. According to this logic, taxes on income attributable to items under "Other income/ expenses" are also to be allocated. The Group applied these amendments, which affect solely the breakdown of other income and expenses, for the first time with the start of the 2013 financial year. Pursuant to the transition guidelines, and in conformity with IAS 8, the Group made corresponding adjustments to recognition in the previous period. These amendments had no implications for the figures in the consolidated financial statements or Group net income. With respect to the adjusted depiction of individual items under "Other income/expense", cf. the Consolidated Statement of Comprehensive Income.

In the first quarter of 2013, the Group for the first time applied amended **IAS 19 "Employee Benefits"** (revised in 2011), which was ratified by the EU in 2012. The standard is applicable to financial years beginning on or after 1 January 2013. Pursuant to the transition rules, the standard is to be applied retroactively, apart from several exceptions. The Group has thoroughly explained the impact of initial application in the section "Accounting policies", subsection "Changes in accounting policies and accounting errors" (letter c).

In December 2011, the IASB published amendments to **IFRS 7 "Financial Instruments: Disclosures"** dealing with the presentation of financial assets and liabilities. They mandate comprehensive disclosures regarding certain netting arrangements. The amended standard is applicable retrospectively to financial years beginning on or after 1 January 2013. The amendments, which were observed for the first time with the start of the 2013 financial year, had no significant impact.

The **"Annual Improvements 2009–2011 Cycle",** a collection of amendments to IFRSs issued by IASB on 17 May 2012, forms part of the annual improvement process of the standards issued by IASB. It contains a multitude of minor amendments to IFRS. The amendments, which were approved by the EU in March 2013, are applicable to financial years beginning on or after 1 January 2013. Application of these amendments had no significant impact for the Group.

The amendment **"Government loans" to IFRS 1 "First-time Adoption of International Financial Reporting Standards",** which was published in March 2012 and ratified by the EUR in March 2013, had no practical relevance for the Group.

Standards, interpretation and changes to published standards, application of which was not yet mandatory in 2013 and which were not applied early by the Group

On 12 May 2011 the IASB published three new and two revised standards governing consolidation, accounting of interests in associated companies and joint ventures, and the related disclosures in the Notes:

IFRS 10 "Consolidated Financial Statements" replaces the regulations previously contained in **IAS 27 "Consolidated and Separate Financial Statements"** and SIC 12 "Consolidation – Special-purpose Entities". It defines the principle of control as the universal basis for establishing the existence of a parent-subsidiary relationship. The standard also contains additional guidelines demonstrating when control exists. We are currently examining the implications of the new IFRS 10 for the consolidated financial statements. In the future, the revised IAS 27 will contain only provisions on the accounting requirements for interests in subsidiaries, associated entities and joint ventures disclosed in the parent company's individual financial statements. Apart from several minor changes, the wording of the previous standard was retained.

IFRS 11 "Joint Arrangements" addresses the accounting requirements in cases where an entity shares management control over a joint venture or joint operation. The new standard replaces the pertinent regulations in IAS 31 "Interests in Joint Ventures" and SIC 13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". According to IFRS 11, proportionate consolidation of the assets of a joint venture is no longer admissible, and the equity method must be applied in the future in the event of classification as a joint venture. The Group does not expect any significant impact from this new rule as the joint ventures in the financial statements are already consolidated using the equity method.

The revised **IAS 28 "Investments in Associates and Joint Ventures"** is being expanded to include rules governing accounting for interests in joint ventures. The equity method must be applied as standard in the future.

The disclosure obligations in connection with the consolidation and accounting of interests in associated entities and joint ventures are collated in **IFRS 12 "Disclosure of Interests in Other Entities".** To some extent, duties of disclosure under the new standard for subsidiaries, associated companies, joint arrangements, and all other participating interests extend far beyond what was previously the case, the aim being to provide users of financial statements with a clearer picture of the nature of the company's interests in other entities and the effects on assets, financial position and net income. We are currently reviewing the implications of these expanded disclosure requirements for the Group.

The provisions of IFRS 10, 11 and 12 and the amended IAS 27 and 28 – ratified by the EU on 11 December – are applicable to financial years beginning on or after 1 January 2014.

In June 2012 the IASB published transitional provisions (amendments to IFRS 10, IFRS 11 and IFRS 12). The amendments clarify the transition guidance and also provide additional relief, limiting the requirement to provide comparative information. The effective date of the amendments is aligned with the effective date of IFRS 10, 11 and 12. In October 2012 the IASB announced further amendments to IFRS 10 and 12 and IAS 27, which contain an exception to the full consolidation of controlled subsidiaries. Parent companies that meet the definition of an investment entity must measure their investments in subsidiaries at fair value through profit or loss. As a non-investment entity, Talanx AG will not be affected by this exception, meaning that this amendment has no practical relevance for the consolidated financial statements. The June 2012 amendment was ratified by the EU on 4 April 2013. The October 2012 amendment has yet to be ratified.

The IASB adapted the provisions governing the presentation of financial assets and liabilities and published changes on 16 December 2011 in the form of amendments to **IAS 32 "Financial Instruments: Presentation"** – offsetting financial assets and financial liabilities. The presentation requirements set down in IAS 32 were retained more or less in their entirety and were merely clarified by additional guidelines on application. The amendment is applicable retrospectively to financial years beginning on or after 1 January 2014. We are currently reviewing the implications of this amendment, ratified by the EU on 13 December 2012, for the consolidated financial statements.

In November 2009 the IASB published a new standard on the classification and measurement of financial instruments. **IFRS 9 "Financial Instruments"** is the first step in a three-phase project intended to replace IAS 39 "Financial Instruments: Recognition and Measurement". Amongst other things, IFRS 9 introduces new provisions for classifying and measuring financial assets. In this context, financial assets must be classified into two measurement categories (at fair value or amortised cost). Crucial for this categorisation are the contractually agreed cash flows associated with the financial instrument as well as the type of financial instrument management employed by the Group (business model). This standard was expanded in October 2010 to include rules governing the accounting of financial liabilities and derecognition of financial instruments, the latter having been imported 1:1 from IAS 39. Furthermore, the IASB published a draft amendment on IFRS 9 in November 2012, which provides for a third measurement model for financial assets. Under certain conditions, debt instruments can therefore be measured at fair value, recognising any changes in value under "Other income/expenses". In relation to first-time application, on 16 December 2011 the IASB published further amendments to IFRS 9 and IFRS 7 under the heading "Mandatory effective date and transition disclosures". Accordingly, the mandatory effective date of IFRS 9 has been deferred to financial years beginning on or after 1 January 2015. Also in this context, the IASB incorporated in IFRS 7 detailed disclosures related to transition to IFRS 9. The standard and its amendments have yet to be ratified by the EU. The Group has still to analyse the full implications of IFRS 9, including the two additional phases (rules on recording impairments and on recognising hedging relationships). It is already becoming clear, however, that the revised rules will have an influence, inter alia, on the accounting of financial assets within the Group.

II. Accounting policies

Changes in accounting policies and accounting errors

The changes in accounting policies and error corrections described in letters a) and b) relate solely to adjustments made in the prior year in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with consequential effects for the comparable quarter 31 March 2012. For the individual changes, cf. the 2012 Annual Report (section "Accounting policies", subsection "Changes in accounting policies and accounting errors", pages 144 et seqq.).

In letter c), the Group explains the changes resulting from initial application of revised IAS 19 "Employee Benefits" in conformity with the transition guidelines. In addition, in depicting a merger, an error occurred with respect to the netting of deferred tax assets and liabilities. We explain the error under letter d).

a) With effect from 30 September 2012, the Group changed and harmonised the accounting methods for pension benefit reserves that form part of the technical provisions (item: "Loss and loss adjustment expense reserve") for its Polish property/casualty insurance companies (Retail International segment). Because of this change of method, which was undertaken retroactively and thus had no effect on income, pension benefits reserves at our Polish companies are uniformly discounted.

b) Due to errors in the consolidation method, Group net income was retroactively adjusted in the fourth quarter of 2012. In the comparable period 2012, Group net income increased by EUR 3 million. The correction had to do with the recognition of differences in connection with debt consolidation and with the allocation of controlling and non-controlling interests within shareholders' equity. As a result, shareholders' equity was reduced by a total of EUR 4 million in the balance sheet as at 31 March 2012. The processing logic was accordingly adjusted with respect to both debt and capital consolidation.

c) In accordance with the transition guidelines, revised IAS 19 "Employee Benefits" was applied retrospectively, in conformity with IAS 8. The key amendment to IAS 19 is the abolishment of the option available to companies to recognise future actuarial gains and losses either immediately (with no impact on profit and loss) under "Other income/expenses" in shareholders' equity or on a deferred basis using the "corridor method". Previous application of the corridor method in connection with the recognition of defined-benefit pension plans led to the situation where actuarial gains and losses were recognised only when they exceeded certain threshold values. In addition, the portion to be recognised was spread across several years. Off-balance sheet recognition of partial amounts of the defined benefit obligation also resulted from the previously applicable rules on retroactive plan changes, which led to an increase in the existing obligation and thus to a past service cost. This past service cost was required to be recognised immediately only if the additional entitlements had already vested. Amounts exceeding this were recognised on a pro-rata basis until the resulting entitlements had vested.

In accordance with revised IAS 19, all actuarial gains and losses are to be recognised immediately and in full under "Other income/expenses" with no impact on profit or loss, and past service cost is to be recognised immediately and in full in net income. The effects on the balance-sheet item "Provisions for pensions and similar obligations" and on shareholders' equity, as reduced by deferred taxes and deferred premium refunds, are depicted in the following tables. In addition, the yield on plan assets is in future to be derived from the discount rate underlying the measurement of the defined benefit obligation. Since pension commitments are financed to only a limited extent using plan assets, there were no material effects on Group net income. Furthermore, application of revised IAS 19 on the change in recognition of supplemental benefits led to a modification of the German obligations regarding partial retirement. In particular, when applying the so-called block model, supplemental amounts are no longer to be accumulated in full when the contract on partial retirement is concluded but instead pro-rata over the phase of the contract when the beneficiary is working. The effects on the balance-sheet item "Sundry provisions", which is where partial retirement benefits are recognised, and on shareholders' equity, as reduced by deferred taxes and deferred premium refunds, are likewise depicted in the following tables.

Shareholders' equity was reduced by a total of EUR 124 million as at 31 March 2012, of which EUR 120 million is attributable to the shareholders of Talanx AG. After-tax net income as at 31 March 2012 was reduced by EUR 6 million as a result of the adjustment made to conform to the changed accounting standards. For the overall effect on shareholders' equity compared with the 2012 financial statements, cf. the subsection "Movements in shareholders' equity" in the section "Assets and Financial Position" in the Management Report, page 22.

d) In depicting a merger of two entities (Retail Germany segment), a netting of deferred tax assets and liabilities was overlooked in both the first and second quarters of 2012. As a result, the amounts reported in the corresponding items of the balance sheets as at 31 March and 30 June 2012 were too high. There were no effects on shareholders' equity or net income.

The corrections undertaken had implications for the following items in the consolidated balance sheet as at 1 January 2012, 31 March 2012 and 31 December 2012:

Consolidated balance sheet as at 1 January 2012		As reported at 1.1.2012	Changes due to adjustments in accordance with IAS 8			1.1.2012
Figures in EUR million			Re a)	Re b)	Re c)	
Assets						
D.	Reinsurance recoverables on technical provisions	6,462	5	—	—	6,467
F.	Deferred acquisition costs	4,013	–1	—	—	4,012
H.	Deferred tax assets	319	2	4	1	326
Liabilities						
A. b.	Reserves	5,160	–11	–2	–44	5,103
A. c.	Non-controlling interests in shareholders' equity	3,286	—	–2	–2	3,282
C. c.	Loss and loss adjustment expense reserve	31,420	18	—	—	31,438
C. d.	Provision for premium refunds	1,008	—	—	–2	1,006
E. a.	Provisions for pensions and similar obligations	1,343	—	—	87	1,430
E. c.	Sundry provisions	689	—	—	–17	672
G.	Deferred tax liabilities	1,487	–1	8	–22	1,472

Consolidated balance sheet as at 31 March 2012		As reported at 31.3.2012	Changes due to adjustments in accordance with IAS 8 (including adjustments as at 1 January 2012)				31.3.2012
Figures in EUR million			Re a)	Re b)	Re c)	Re d)	
Assets							
D.	Reinsurance recoverables on technical provisions	6,729	5	—	—	—	6,734
H.	Deferred tax assets	307	2	—	40	–20	329
Liabilities							
A. b.	Reserves	5,610	–14	–2	–119	—	5,475
A. c.	Non-controlling interests in shareholders’ equity	3,454	—	–2	–5	—	3,447
C. c.	Loss and loss adjustment expense reserve	31,610	—	—	—	—	31,610
C. d.	Provision for premium refunds	1,468	—	—	–7	—	1,461
E. a.	Provisions for pensions and similar obligations	1,349	—	—	196	—	1,545
E. c.	Sundry provisions	652	—	—	–5	—	647
F. c.	Other liabilities	4,715	2	—	–1	—	4,716
G.	Deferred tax liabilities	1,628	–1	4	–19	–20	1,592

Consolidated balance sheet as at 31 December 2012		As reported at 31.12.2012	Changes due to adjustments in accordance with IAS 8 (including adjustments as at 1.1.2012)			31.12.2012
Figures in EUR million			Re a)	Re b)	Re c)	
Assets						
H.	Deferred tax assets	433	—	—	96	529
Liabilities						
A. b.	Reserves	7,156	—	—	–319	6,837
A. c.	Non-controlling interests in shareholders’ equity	4,171	—	—	–15	4,156
C. d.	Provision for premium refunds	2,297	—	—	–18	2,279
E. a.	Provisions for pensions and similar obligations	1,347	—	—	522	1,869
E. c.	Sundry provisions	776	—	—	–13	763
F. c.	Other liabilities	7,080	—	—	–1	7,079
G.	Deferred tax liabilities	2,044	—	—	–60	1,984

The effects on the consolidated statement of income for the 2012 financial year were as follows:

Consolidated statement of income 2012	As reported at Q1 2012	Changes due to adjustments in accordance with IAS 8			Q1 2012
Figures in EUR million		Re a)	Re b)	Re c)	
6. Claims and claims expenses (gross)	4,668	1	—	—	4,669
7. Acquisition costs and administrative expenses – reinsurers’ share	112	–1	—	—	111
10. a. Other income	146	—	–6	—	140
b. Other expenses	274	—	–10	10	274
13. Taxes on income	148	—	1	–4	145

The changes in accounting policies in the comparable period resulting from retrospective application of IAS 19 had the following effect on earnings per share:

	1.1.–31.3.2012 as reported	Adjustment	1.1.–31.3.2012
Figures in EUR			
Basic earnings per share	1.01	–0.02	0.99
Diluted earnings per share	1.01	–0.02	0.99

The share split agreed at the Annual General Meeting of Talanx AG on 30 March 2012 came into effect on 2 May 2012. As a result, the share capital is no longer divided into 20,800,000 registered shares but instead into 208,000,000 registered shares. Accordingly, we have adjusted the previous year's figures for the purposes of improved comparability.

The corrected amounts in the current period result from the difference between IAS 19 as actually applied with the start of the period (letter c) and the old IAS 19 standard, which is no longer being applied with the start of the period.

Consolidated balance sheet as at 31 March 2013	Changes due to adjustments in accordance with IAS 8
Figures in EUR million	Re c)
A. b. Reserves	–349
C. d. Provision for premium refunds	–18
E. a. Provisions for pensions and similar obligations	531
E. c. Sundry provisions	–14
G. Deferred tax liabilities	–157

Consolidated statement of income as at Q1 2013	Changes due to adjustments in accordance with IAS 8
Figures in EUR million	Re c)
10. b. Other expenses	10
13. Taxes on income	–3

The changes in accounting policies in the current financial year resulting from retrospective application of IAS 19 had the following effect on earnings per share:

	1.1.–31.3.2013 prior to adjustment	Adjustment	1.1.–31.3.2013
Figures in EUR			
Basic earnings per share	0.83	–0.03	0.80
Diluted earnings per share	0.83	–0.03	0.80

Currency translation

Items in the financial statements of Group companies are measured on the basis of the currency corresponding to that of the primary economic environment in which the company operates (functional currency). The reporting currency in which the consolidated financial statements are prepared is the euro.

The Group companies' statements of income prepared in the national currencies are converted into euro at the average rates of exchange and transferred to the consolidated financial statements. The conversion of foreign currency items in the balance sheets of the individual companies and the transfer of these items to the consolidated financial statements are effected at the mean rates of exchange as at the balance sheet date. All resulting currency translation differences – including those arising out of capital consolidation – are recognised as a separate item under "Other reserves" in shareholders' equity. Goodwill is treated as an asset of the foreign entity and translated accordingly.

The exchange rates for the Talanx Group's key foreign currencies are as follows:

		Balance sheet (balance sheet date)		Statement of income (average)	
Exchange rates		**31.3.2013**	**31.12.2012**	**Q1 2013**	**Q1 2012**
1 EUR corresponds to					
ARS	Argentina	6.5598	6.4758	6.5995	5.7476
AUD	Australia	1.2297	1.2690	1.2695	1.2585
BHD	Bahrain	0.4828	0.4970	0.4963	0.4988
BRL	Brazil	2.5698	2.6942	2.6340	2.3542
CAD	Canada	1.3010	1.3119	1.3285	1.3234
CHF	Switzerland	1.2196	1.2081	1.2207	1.2077
CLP	Chile	604.5827	633.4838	624.1386	651.7794
CNY	China	7.9582	8.2148	8.1902	8.3337
GBP	United Kingdom	0.8462	0.8180	0.8463	0.8369
HKD	Hong Kong	9.9432	10.2186	10.2117	10.2679
HUF	Hungary	304.1023	291.0678	296.0140	297.8993
JPY	Japan	120.7927	113.4992	119.6384	104.6284
KRW	South Korea	1,425.3735	1,407.2395	1,431.9372	1,497.8491
MXN	Mexico	15.8019	17.1341	16.7238	17.3210
MYR	Malaysia	3.9679	4.0364	4.0676	4.0576
PLN	Poland	4.1765	4.0776	4.1513	4.2435
SEK	Sweden	8.3487	8.5742	8.5006	8.8613
TRY	Turkey	2.3227	2.3605	2.3578	2.3714
UAH	Ukraine	10.4349	10.6117	10.6848	10.6117
UYU	Uruguay	24.2672	25.3099	25.1451	25.9786
USD	USA	1.2806	1.3182	1.3164	1.3231
ZAR	South Africa	11.7805	11.2069	11.7136	10.2426

III. Segment reporting

Identification of reportable segments

In conformity with IFRS 8 “Operating Segments”, the reportable segments were determined in accordance with the internal reporting and management structure of the Group, on the basis of which the Group Board of Management regularly assesses the performance of the segments and decides on the allocation of resources to the segments. The Group splits its business activities into the areas of insurance and Corporate Operations. The insurance activities are further subdivided into five reportable segments. In view of the different product types, risks and capital allocations, a differentiation is initially made between primary insurance and reinsurance.

Since they are managed according to customer groups and geographical regions (domestic versus international) – and therefore span various lines of business – insurance activities in the **primary sector** are organised into three reportable segments: “Industrial Lines,” “Retail Germany” and “Retail International”. This segmentation also corresponds to the responsibilities of the members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments Non-Life Reinsurance and Life/Health Reinsurance in accordance with that group’s internal reporting system. In a departure from the segmentation used in the consolidated financial statements of Hannover Rück SE, however, we allocate that group’s holding functions to its Non-Life Reinsurance segment. By contrast, cross-segment loans within the Hannover Re Group are allocated to the two reinsurance segments in the consolidated financial statement of the Talanx Group (in the consolidated financial statements of Hannover Rück SE, these loans are shown in the consolidation column). Deviations between the segment results for reinsurance business as presented in the consolidated financial statements of Talanx AG and those reported in the financial statements of Hannover Rück SE are thus unavoidable.

The major products and services with which these reportable segments generate income are set out below.

Industrial Lines: In the Industrial Lines segment we report worldwide industrial business as an independent segment. The scope of business operations encompasses a wide selection of insurance products, such as liability, motor, accident, fire, property, legal protection, marine, special lines and engineering insurance for large and mid-sized enterprises in Germany and abroad. In addition, reinsurance is provided in various classes of insurance.

Retail Germany: Insurance activities serving German retail and commercial customers that span the various lines of business, including bancassurance business transacted Germany-wide – i.e. insurance products sold over the counter at banks – are managed in this reportable segment. In the area of life insurance, this segment provides insurance services across the border in Austria too. The products range from property/casualty insurance through all lines of life insurance and occupational pension insurance to all-round solutions for small and medium-sized companies and freelancers. The Group employs a wide range of sales channels, including its own exclusivity organisation as well as sales through independent brokers and multiple agents, direct sales and bank cooperations.

Retail International: The scope of operations in this segment encompasses insurance business transacted across the various lines of insurance with retail and commercial customers, including bancassurance activities in foreign markets. The range of insurance products includes car insurance, property and casualty insurance, marine and fire insurance as well as many products in the field of life insurance. A large part of international business is transacted by brokers and agents. Additionally, many companies in this segment use post offices and banks as sales channels.

Non-life reinsurance*: The most important activities concentrate on property and liability business with retail, commercial and industrial customers (first and foremost in the US and German markets), marine and aviation business, credit/surety business, facultative business and catastrophe business.

Life/health reinsurance*: The segment comprises the international activities of the Hannover Re Group in the life, health, annuity and accident lines – provided such are conducted by life insurers. The Group also has speciality line products, such as Sharia compliant reinsurance.

Corporate Operations: In contrast to the five operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group, primarily relating to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions, including intra-group reinsurance, as well as Group financing. Asset management for private and institutional investors outside the Group by AmpegaGerling Investment GmbH, Cologne, is also shown in this segment. This segment also encompasses centralised service companies that provide select billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany.

Measurement bases for the performance of the reportable segments

All transactions between reportable segments are measured on the basis of standard market transfer prices that would also be applicable to transactions at arm's length. Cross-segment transactions within the Group are consolidated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements accruing to the Group holding company are eliminated in the respective segment. For reasons of consistency and comparability, we have adjusted the consolidated statement of income in line with the segment statement of income. The same applies to the consolidated balance sheet and the segment balance sheet. Non-current assets amounting to EUR 4,804 (4,704) million are considered largely to consist of intangible assets (including goodwill) and own-use real estate/investment property. For cost-benefit considerations, no breakdown was calculated by country of origin.

Depending upon the nature and time frame of the commercial activities, various management ratios and performance indicators are used to assess the financial success of the reportable segments within the Group. However, the operating profit (EBIT) – determined from IFRS profit contributions – is used as a consistent measurement basis. The net profit or loss for the period before income taxes is highlighted as a means of capturing true operating profitability and for the sake of better comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

* Cf. our remarks at the start of the section regarding the differences in segment results between the Talanx Group and the Hannover Re Group

Segment reporting.
Balance sheet as at 31 March 2013

Assets	Industrial Lines		Retail Germany		Retail International	
	31.3.2013	31.12.2012[1]	31.3.2013	31.12.2012[1]	31.3.2013	31.12.2012[1]
Figures in EUR million						
A. Intangible assets						
a. Goodwill	153	153	403	403	577	580
b. Other intangible assets	19	20	1,076	1,104	288	313
	172	**173**	**1,479**	**1,507**	**865**	**893**
B. Investments						
a. Investment property	35	35	686	689	82	82
b. Investments in affiliated companies and participating interests	18	19	19	19	5	5
c. Investments in associated companies and joint ventures	130	126	46	38	—	—
d. Loans and receivables	2,331	2,383	26,484	26,210	441	247
e. Other financial instruments						
i. Held to maturity	25	113	116	294	389	389
ii. Available for sale	3,406	3,427	12,940	12,338	3,266	3,221
iii. At fair value through profit or loss	88	89	330	329	953	1,016
f. Other invested assets	640	567	1,281	849	667	565
Investments under own management	**6,673**	**6,759**	**41,902**	**40,766**	**5,803**	**5,525**
g. Investments under investment contracts	—	—	—	—	1,755	1,698
h. Funds withheld by ceding companies	24	24	23	23	—	1
Investments	**6,697**	**6,783**	**41,925**	**40,789**	**7,558**	**7,224**
C. Investments for the account and risk of holders of life insurance policies	—	—	6,801	6,354	1,069	1,097
D. Reinsurance recoverables on technical provisions	4,662	4,687	2,490	2,495	690	703
E. Accounts receivable on insurance business	1,841	1,177	306	340	777	756
F. Deferred acquisition costs	61	24	2,040	1,977	340	315
G. Cash	449	317	219	869	371	305
H. Deferred tax assets	12	8	115	115	79	80
I. Other assets	452	381	988	1,074	329	319
J. Non-current assets and assets of disposal groups classified as held for sale	4	9	22	23	24	18
Total assets	**14,350**	**13,559**	**56,385**	**55,543**	**12,102**	**11,710**

[1] Adjusted on the basis of IAS 8. Cf. section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012	31.3.2013	31.12.2012 [1)]	31.3.2013	31.12.2012	31.3.2013	31.12.2012 [1)]
	16	16	—	—	—	—	—	—	1,149	1,152
	21	23	99	101	81	80	—	—	1,584	1,641
	37	**39**	**99**	**101**	**81**	**80**	**—**	**—**	**2,733**	**2,793**
	653	489	2	2	—	—	—	—	1,458	1,297
	55	12	—	—	25	25	—	—	122	80
	117	118	15	15	13	13	−84	−73	237	237
	3,355	3,340	77	75	1	1	−158	−155	32,531	32,101
	3,152	3,407	198	200	11	10	−186	−556	3,705	3,857
	16,421	16,162	6,182	5,806	397	383	—	—	42,612	41,337
	76	132	82	76	2	—	—	—	1,531	1,642
	1,653	1,598	229	247	620	303	−718	−628	4,372	3,501
	25,482	**25,258**	**6,785**	**6,421**	**1,069**	**735**	**−1,146**	**−1,412**	**86,568**	**84,052**
	—	—	—	—	—	—	—	—	1,755	1,698
	894	951	13,913	13,800	—	—	−1,626	−1,601	13,228	13,198
	26,376	**26,209**	**20,698**	**20,221**	**1,069**	**735**	**−2,772**	**−3,013**	**101,551**	**98,948**
	—	—	—	—	—	—	—	—	7,870	7,451
	1,411	1,426	796	763	2	—	−3,081	−3,085	6,970	6,989
	2,417	1,691	1,367	1,376	6	—	−271	−259	6,443	5,081
	516	476	1,351	1,365	1	—	235	221	4,544	4,378
	444	411	171	161	21	56	—	—	1,675	2,119
	15	16	32	32	281	278	1	—	535	529
	975	935	115	94	471	573	−1,090	−1,370	2,240	2,006
	—	6	—	—	—	—	—	—	50	56
	32,191	**31,209**	**24,629**	**24,113**	**1,932**	**1,722**	**−6,978**	**−7,506**	**134,611**	**130,350**

Segment reporting.
Balance sheet as at 31 March 2013

	Industrial Lines		Retail Germany		Retail International	
Liabilities	**31.3.2013**	**31.12.2012 1)**	**31.3.2013**	**31.12.2012 1)**	**31.3.2013**	**31.12.2012 1)**
Figures in EUR million						
B. Subordinated liabilities	256	149	213	214	—	—
C. Technical provisions						
a. Unearned premium reserve	1,694	856	1,302	815	1,594	1,525
b. Benefit reserve	1	1	35,837	35,579	2,204	2,073
c. Loss and loss adjustment expense reserve	7,946	8,196	2,545	2,574	2,064	2,040
d. Provision for premium refunds	17	11	2,150	2,167	87	101
e. Other technical provisions	26	34	5	8	17	18
	9,684	**9,098**	**41,839**	**41,143**	**5,966**	**5,757**
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	6,801	6,354	1,069	1,097
E. Other provisions						
a. Provisions for pensions	549	547	105	103	14	13
b. Provisions for taxes	108	101	106	90	89	69
c. Sundry provisions	93	96	278	299	85	83
	750	**744**	**489**	**492**	**188**	**165**
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	—
b. Funds withheld under reinsurance treaties	13	13	2,055	2,074	182	179
c. Other liabilities	1,759	1,553	1,997	2,254	2,505	2,355
	1,772	**1,566**	**4,052**	**4,328**	**2,687**	**2,534**
G. Deferred tax liabilities	92	96	328	337	131	139
H. Liabilities of disposal groups classified as held for sale	—	—	—	—	27	20
Total liabilities/provisions	**12,554**	**11,653**	**53,722**	**52,868**	**10,068**	**9,712**

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
31.3.2013	**31.12.2012[1]**	**31.3.2013**	**31.12.2012[1]**	**31.3.2013**	**31.12.2012[1]**	**31.3.2013**	**31.12.2012**	**31.3.2013**	**31.12.2012[1]**
2,234	2,233	71	97	612	612	–279	–198	3,107	3,107
2,596	2,254	102	86	7	—	–120	–96	7,175	5,440
—	—	10,973	10,975	—	—	–344	–380	48,671	48,248
19,321	18,595	3,201	3,017	2	—	–1,126	–1,179	33,953	33,243
—	—	—	—	—	—	—	—	2,254	2,279
138	141	89	73	—	—	—	—	275	274
22,055	**20,990**	**14,365**	**14,151**	**9**	**—**	**–1,590**	**–1,655**	**92,328**	**89,484**
—	—	—	—	—	—	—	—	7,870	7,451
98	97	30	30	1,091	1,079	—	—	1,887	1,869
214	207	29	31	138	134	—	—	684	632
83	91	35	32	166	163	–2	–1	738	763
395	**395**	**94**	**93**	**1,395**	**1,376**	**–2**	**–1**	**3,309**	**3,264**
172	168	276	275	1,353	1,352	–764	–1,118	1,037	677
514	517	6,221	6,101	—	—	–2,988	–2,909	5,997	5,975
935	893	1,128	1,315	345	329	–1,342	–1,620	7,327	7,079
1,621	**1,578**	**7,625**	**7,691**	**1,698**	**1,681**	**–5,094**	**–5,647**	**14,361**	**13,731**
1,066	1,015	369	372	3	3	24	22	2,013	1,984
—	—	—	—	—	—	—	—	27	20
27,371	**26,211**	**22,524**	**22,404**	**3,717**	**3,672**	**–6,941**	**–7,479**	**123,015**	**119,041**
				Shareholders' equity[2]				**11,596**	**11,309**
				Total liabilities				**134,611**	**130,350**

[1] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes
[2] Group shareholders' equity incl. non-controlling interests

Segment reporting.
Statement of income for the period from 1 January to 31 March 2013

	Industrial Lines		Retail Germany		Retail International	
	Q1 2013	Q1 2012[1]	Q1 2013	Q1 2012[1]	Q1 2013	Q1 2012[1]
Figures in EUR million						
1. Gross written premium including premium from unit-linked life and annuity insurance	1,735	1,609	2,113	2,029	1,056	647
thereof attributable to other segments	9	15	16	14	—	—
to third parties	1,726	1,594	2,097	2,015	1,056	647
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	219	220	39	31
3. Ceded written premium	776	744	99	134	118	93
4. Change in gross unearned premium	–836	–792	–487	–475	–51	–21
5. Change in ceded unearned premium	–316	–301	–15	–47	–29	–23
Net premium earned	**439**	**374**	**1,323**	**1,247**	**877**	**525**
6. Claims and claims expenses (gross)	444	605	1,379	1,355	637	410
Reinsurers' share	93	366	37	46	23	16
Claims and claims expenses (net)	**351**	**239**	**1,342**	**1,309**	**614**	**394**
7. Acquisition costs and administrative expenses (gross)	174	160	290	285	252	159
Reinsurers' share	90	92	28	38	21	21
Acquisition costs and administrative expenses (net)	**84**	**68**	**262**	**247**	**231**	**138**
8. Other technical income	4	9	2	1	5	3
Other technical expenses	6	11	17	27	20	12
thereof attributable to amortisation PVFP	—	4	13	25	8	—
Other technical result	**–2**	**–2**	**–15**	**–26**	**–15**	**–9**
Net technical result	**2**	**65**	**–296**	**–335**	**17**	**–16**
9. a. Income from investments	67	69	431	452	87	85
b. Expenses for investments	13	11	38	53	15	9
Net income from investments under own management	**54**	**58**	**393**	**399**	**72**	**76**
Income/expense from investment contracts	—	—	—	—	2	—
Income/expense from funds withheld and contract deposits	1	—	–6	–9	—	—
Net investment income	**55**	**58**	**387**	**390**	**74**	**76**
thereof attributable to interest and similar income	53	55	392	388	78	44
interest and similar expenses	—	1	6	8	16	—
impairments/depreciation on investments	4	—	5	5	2	1
write-ups on investments	—	—	1	—	—	—
income/expense from associated companies and joint ventures recognised using the equity method	—	—	—	–1	—	—
10. a. Other income	27	18	42	48	19	9
b. Other expenses	51	44	67	65	44	34
Other income/expenses	**–24**	**–26**	**–25**	**–17**	**–25**	**–25**
thereof attributable to interest and similar income	—	1	1	3	2	2
write-ups on accounts receivable and other assets	—	—	—	—	1	—
interest and similar expenses	4	6	1	4	—	1
write-downs on accounts receivable and other assets	10	6	2	1	15	4
Profit before goodwill impairments	**33**	**97**	**66**	**38**	**66**	**35**
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	**33**	**97**	**66**	**38**	**66**	**35**
12. Financing costs	3	3	3	3	1	—
13. Taxes on income	11	40	19	14	17	13
Net income	**19**	**54**	**44**	**21**	**48**	**22**
thereof attributable to non-controlling interests	—	—	1	1	10	—
thereof attributable to shareholders of Talanx AG	19	54	43	20	38	22

[1] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

	Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
	Q1 2013	Q1 2012 1)	Q1 2013	Q1 2012 1)	Q1 2013	Q1 2012 1)	Q1 2013	Q1 2012 1)	Q1 2013	Q1 2012 1)
	2,198	2,117	1,560	1,394	11	—	–215	–191	8,458	7,605
	133	110	46	52	11	—	–215	–191	—	—
	2,065	2,007	1,514	1,342	—	—	—	—	8,458	7,605
	—	—	—	—	—	—	—	—	258	251
	225	186	156	128	5	—	–216	–195	1,163	1,090
	–324	–418	–14	–5	–7	—	23	16	–1,696	–1,695
	–43	–42	1	—	–2	—	30	17	–374	–396
	1,692	**1,555**	**1,389**	**1,261**	**1**	**—**	**–6**	**3**	**5,715**	**4,965**
	1,238	1,237	1,353	1,144	2	—	–65	–82	4,988	4,669
	80	122	163	104	—	—	–69	–95	327	559
	1,158	**1,115**	**1,190**	**1,040**	**2**	**—**	**4**	**13**	**4,661**	**4,110**
	470	408	293	274	1	—	–63	–76	1,417	1,210
	35	16	14	4	—	—	–49	–60	139	111
	435	**392**	**279**	**270**	**1**	**—**	**–14**	**–16**	**1,278**	**1,099**
	1	—	—	—	—	—	1	1	13	14
	2	1	2	1	—	—	5	7	52	59
	—	—	1	1	—	—	—	—	22	30
	–1	**–1**	**–2**	**–1**	**—**	**—**	**–4**	**–6**	**–39**	**–45**
	98	**47**	**–82**	**–50**	**–2**	**—**	**—**	**—**	**–263**	**–289**
	224	295	76	103	19	6	–23	–16	881	994
	33	31	4	6	16	15	–22	–18	97	107
	191	**264**	**72**	**97**	**3**	**–9**	**–1**	**2**	**784**	**887**
	—	—	—	—	—	—	—	—	2	—
	4	3	90	80	—	—	—	—	89	74
	195	**267**	**162**	**177**	**3**	**–9**	**–1**	**2**	**875**	**961**
	172	195	176	152	3	2	–25	–20	849	816
	1	2	27	14	—	—	–2	–3	48	22
	3	6	—	1	—	—	—	—	14	13
	—	—	—	—	—	—	—	—	1	—
	1	2	—	—	—	—	—	—	1	1
	76	33	54	24	192	162	–180	–154	230	140
	103	71	47	34	179	164	–165	–138	326	274
	–27	**–38**	**7**	**–10**	**13**	**–2**	**–15**	**–16**	**–96**	**–134**
	1	1	3	1	1	4	–1	–3	7	9
	4	2	—	—	—	—	—	—	5	2
	4	5	14	15	9	18	–2	–7	30	42
	6	5	2	3	—	1	—	—	35	20
	266	**276**	**87**	**117**	**14**	**–11**	**–16**	**–14**	**516**	**538**
	—	—	—	—	—	—	—	—	—	—
	266	**276**	**87**	**117**	**14**	**–11**	**–16**	**–14**	**516**	**538**
	31	25	1	1	32	21	–21	–12	50	41
	60	72	23	20	–6	–14	1	—	125	145
	175	**179**	**63**	**96**	**–12**	**–18**	**4**	**–2**	**341**	**352**
	96	96	31	49	—	—	—	—	138	146
	79	83	32	47	–12	–18	4	–2	203	206

Geographical breakdown of investments and written premium

The geographical breakdown shown below is based on the regional origin of the investments and the gross written premium with respect to external clients. During the reporting period, there were no transactions with any one external client that amounted to 10% or more of total gross premium. Segmentation has been simplified to show only primary insurance, reinsurance and Corporate Operations.

Above and beyond this, we show the gross written premium for each type or class of insurance at Group level.

Investments (without funds withheld by ceding companies and without investments under investment contracts) by geographical origin[1)]

	Primary insurance	Reinsurance	Corporate Operations	31.3.2013 Total
Figures in EUR million				
Germany	25,468	6,608	172	32,248
United Kingdom	3,448	2,356	330	6,134
Central and Eastern Europe (CEE), including Turkey	2,759	394	3	3,156
Rest of Europe	18,748	8,387	387	27,522
USA	1,142	8,324	5	9,471
Rest of North America	78	1,118	1	1,197
Latin America	958	869	—	1,827
Asia and Australia	1,211	3,410	3	4,624
Africa	17	372	—	389
Total	**53,829**	**31,838**	**901**	**86,568**

	Primary insurance	Reinsurance	Corporate Operations	31.12.2012 Total
Figures in EUR million				
Germany	25,587	6,479	123	32,189
United Kingdom	3,286	2,889	209	6,384
Central and Eastern Europe (CEE), including Turkey	2,658	235	—	2,893
Rest of Europe	17,706	7,869	348	25,923
USA	998	7,947	1	8,946
Rest of North America	86	1,139	1	1,226
Latin America	876	775	—	1,651
Asia and Australia	1,038	3,389	2	4,429
Africa	17	394	—	411
Total	**52,252**	**31,116**	**684**	**84,052**

[1)] After elimination of internal transactions within the Group across segments. This can lead to deviations from the figures quoted in the Management Report

Gross written premium by geographical origin (by domicile of customer)[1]

Figures in EUR million	Primary insurance	Reinsurance	Corporate Operations	Q1 2013 Total
Germany	3,099	315	—	3,414
United Kingdom	45	653	—	698
Central and Eastern Europe (CEE), including Turkey	587	69	—	656
Rest of Europe	714	590	—	1,304
USA	116	854	—	970
Rest of North America	1	151	—	152
Latin America	289	231	—	520
Asia and Australia	24	589	—	613
Africa	4	127	—	131
Total	**4,879**	**3,579**	**—**	**8,458**

Figures in EUR million	Primary insurance	Reinsurance	Corporate Operations	Q1 2012 Total
Germany	3,000	314	—	3,314
United Kingdom	36	597	—	633
Central and Eastern Europe (CEE), including Turkey	210	53	—	263
Rest of Europe	645	589	—	1,234
USA	77	792	—	869
Rest of North America	1	134	—	135
Latin America	268	210	—	478
Asia and Australia	17	537	—	554
Africa	3	122	—	125
Total	**4,257**	**3,348**	**—**	**7,605**

[1] After elimination of internal transactions within the Group across segments. This can lead to deviations from the figures shown in the Management Report

Gross written premium by type and class of insurance at Group level[1]

Figures in EUR million	Q1 2013	Q1 2012
Property/casualty primary insurance	3,275	2,905
Life primary insurance	1,604	1,352
Non-Life Reinsurance	2,065	2,006
Life/Health Reinsurance	1,514	1,342
Total	**8,458**	**7,605**

[1] After elimination of internal transactions within the Group across segments. This can lead to deviations from the figures shown in the Management Report

IV. Consolidation

As at the balance sheet date, 124 individual companies, 34 special purpose entities, and four subgroups (three of which are foreign subgroups) – collectively as a group (including associated companies) – were included in full in the Talanx consolidated financial statements, as were nine companies (eight associated companies and one joint venture) that were included at equity (these figures are exclusive of foreign subgroups).

The major changes in the scope of consolidation relative to year-end 2012, including significant relations with special purpose entities, are set out below.

Scope of consolidation

The conversion of Hannover Rück AG into the legal form of a European public limited-liability company (Societas Europaea, or SE) became effective upon its entry on 19 March 2013 in the commercial register maintained by the Hannover District Court. Accordingly, the company is now called Hannover Rück SE, with registered office at Karl-Wiechert-Allee 50, 30625 Hannover, Germany.

The merger of Metropolitana Compañia de Seguros S.A., Mexico City, Mexico, into HDI Seguros S.A. de C.V., León, Mexico, became legally effective retroactive to 1 January 2013 upon recording in the Public Registry of Commerce of León on 20 March 2013.

Glencar Underwriting Managers, Inc., based in Chicago, USA (Glencar), was consolidated for the first time with effect from 1 January 2013, due to increasing business volume. The company's business purpose consists of producing, underwriting and managing specialty, property/casualty programme business in the US market with a focus on small to mid-sized programmes. In the second quarter of 2011, Funis GmbH & Co. KG, a wholly owned subsidiary of Hannover Rück SE, acquired a participating interest in Glencar with a capital contribution of USD 98,000, which corresponded to 49.0% of equity capital. In the third quarter of 2011, it acquired preferred shares amounting to about USD 2.3 million, USD 1.6 million of which consist of callable equity instruments with voting rights, which are thus to be recognised as debt capital pursuant to IAS 32. The remaining preferred shares amounting to about USD 0.7 million consist of non-callable equity instruments without voting rights, which are recognised as equity pursuant to IAS 32. Hannover Rück SE holds the majority of the voting rights in Glencar, meaning that it has the ability to exercise control over the company. For reasons of materiality, Glencar had until the fourth quarter of 2012 been booked as a participating interest. As at the date of initial consolidation and as at the balance sheet date, Funis held shares of equity capital amounting to 49.0%. The difference on the liabilities side from initial consolidation in the amount of EUR 0.2 million was recognised as an expense under "Other income/expenses".

With effect from 1 January 2013, Hannover Rück SE transferred all the business of its subsidiary Hannover Life Reassurance (UK) Ltd., Virginia Water, to a newly formed branch of Hannover Rück SE with the same registered office by means of a so-called Part VII Transfer. This branch is called Hannover Re UK Life Branch and was registered under the Companies Act 2006 on 3 December 2012. Hannover Life Reassurance (UK) Ltd. was struck from the commercial register on 8 January 2013 and liquidated in the first quarter of 2013. Since this intra-group restructuring involves a transaction between companies under common control, the transaction neither generated goodwill nor had an impact on Group net income.

With effect from 1 January 2013, Hannover Rück SE perfected the contractually agreed retransfer of its voting share (management share) in Secquaero ILS Fund Ltd., Georgetown, Grand Cayman, to the non-Group investment manager, thereby ceding control over the company and its participating interests. For this reason, the company is no longer being included in the consolidated financial statements as of that date but rather is being carried as a participating interest that is recognised at net asset value under "Other invested assets". As a result of the derecognition of assets and liabilities and the recognition of the participating interest at net asset value, income of EUR 1.2 million was recognised under "Other income/expenses". In addition, currency translation gave rise to cumulative other comprehensive income in the amount of EUR 3.9 million, which was likewise recognised under "Other income/expenses".

HR GLL Central Europe GmbH & Co. KG, Munich, Germany, which was formed in July 2012 and has been included since the third quarter of 2012, began preparing subgroup financial statements in the first quarter of 2013. Included in these statements is its subsidiary HR GLL Central Europe Holding GmbH, which was formed in January 2013 with registered office in Munich, Germany.

The scope of consolidation as at the balance sheet date encompasses the following companies:

	Individual companies		Subgroups	
Consolidated subsidiaries (fully consolidated)	**Domestic**	**Foreign**	**Domestic/foreign** [1]	**Total**
31.12.2012	69	58	3	**130**
Additions	—	1	1	**2**
Disposals	1	3	—	**4**
31.3.2013	**68**	**56**	**4**	**128**

[1] Including three foreign subgroups

Consolidation of special purpose entities

With regard to the consolidation of special purpose entities, in the following the Group makes a distinction between special funds, investments, securitisation of reinsurance risks, assumed life and health reinsurance business as well as retrocessions and insurance-linked securities (ILS). Relations with such special purpose entities are to be examined, inter alia, in accordance with SIC 12 "Consolidation – Special Purpose Entities" with a view to their consolidation requirement. In cases where IFRSs do not currently contain any specific standards, our analysis also falls back – in application of IAS 8 – on the relevant standards of US GAAP.

Special funds/public funds

The scope of SIC 12 includes, among other things, special investment funds that are chiefly created to serve a narrowly defined purpose. As such the Group must assess whether economic control according to IAS 27.13 in conjunction with SIC 12 exists for its special investment funds. Economic control exists e.g. when the majority of the economic benefits or risks arising out of the activities of the special fund is attributable to a Group company. In this connection, 29 special funds and three public funds were included as at the balance sheet date in the consolidated financial statements due to the existence of a controlling relationship or economic control with respect to the special fund. Of these, 20 were domestic funds.

In the first quarter of 2013, the Group for the first time consolidated the public fund Open Finance Absolute Return Fundusz Inwestycyjny Zamknięty (Retail International segment), which was set up in 2012 and, for reasons of immateriality, had until now been carried as a participating interest. The fund is deemed to be material to the Group's assets, financial position and net income because its volume has increased. Initial consolidation did not give rise to any differences.

A special fund (HG-I Aktien VC Dynamic) and a public fund (Open Finance Public Bonds Close-end Investment Fund Private Equity) were set up in the first quarter and consolidated in the Industrial Lines and Retail International segments, respectively.

Investments

Within the scope of its asset management activities, the Group participates in numerous special purpose entities – predominantly funds – which for their part transact certain types of equity and debt-capital investments. On the basis of our analysis of the relations with these entities, we concluded that the Group does not exercise a controlling influence in any of these transactions and that a consolidation requirement therefore does not exist.

Hannover Rück SE participates – primarily through its companies Hannover Insurance-Linked Securities GmbH & Co. KG (HILS) and Leine Investment SICAV-SIF – in a number of special purpose entities for the securitisation of catastrophe risks by investing in catastrophe (CAT) bonds. While HILS continues to manage its portfolio, future new business in this field will be underwritten by the Leine Investment companies that were formed in the previous year with registered offices in Luxembourg. Leine Investment General Partner S. à. r. l. is the managing partner of the asset management company Leine Investment SICAV-SIF, whose purpose consists of the development, holding, and management of a portfolio of insurance-linked securities and CAT bonds, including for investors outside the Group. Since Hannover Rück SE does not exercise a controlling influence in any of these transactions either, there is no consolidation requirement for the special purpose vehicles in question.

Securitisation of reinsurance risks

The securitisation of reinsurance risks is largely structured through the use of special purpose entities.

In the previous year, Hannover Rück SE issued a CAT bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European storm events. The term of the CAT bond, which has a volume of nominally EUR 100 million, runs until 31 March 2016 and was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd., a special purpose entity domiciled in Hamilton, Bermuda, that was registered in August 2012 as a “Special Purpose Insurer” under the Bermuda Insurance Act 1978. The retrocessions concluded in connection with the transaction with Eurus III Ltd. afford Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. with protection against the aforementioned catastrophe risks. Since Hannover Rück SE does not exercise any controlling influence over Eurus III Ltd., there is no consolidation requirement for the special purpose entity.

Within the scope of its “K” transactions, Hannover Rück SE raised underwriting capacity for catastrophe risks on the capital market. “K-cession”, which was placed with institutional investors in North America, Europe and Asia, involves a quota share cession on worldwide natural catastrophe business as well as aviation and marine risks. The volume of “K-cession” was equivalent to EUR 256 (268) million as at the balance sheet date. The transaction has an indefinite term and can be cancelled annually by the investors. Kaith Re Ltd., a special purpose entity domiciled in Bermuda, is being used for the transaction.

Hannover Rück SE also uses Kaith Re Ltd. for various retrocessions of its traditional covers to institutional investors. In accordance with SIC 12, it is included in the consolidated financial statements.

Assumed life/health reinsurance business

Some transactions in the Life/Health Reinsurance segment require the involvement of cedant special purpose entities as contractual partners established by parties outside the Group and from whom companies of the Hannover Re Group assume certain technical and/or financial risks. The transactions serve e.g. to finance statutory reserves (so-called Triple-X or AXXX reserves) and transfer extreme mortality risks above a contractually defined retention ratio. Since Hannover Rück SE does not bear the majority of the economic risks or benefits arising out of its business relations with these special purpose entities and is not capable of exercising a controlling influence over them, there is no consolidation requirement for Hannover Rück SE. Depending on the classification of the contracts in accordance with IFRS 4 or IAS 39, the transactions are recognised either under reinsurance or as derivative financial instruments or financial guarantees.

With some of these reinsurance contracts, under which special purpose entities carry extreme mortality risks securitised by cedants above a contractually defined retention, these risks are transferred by way of a fixed/floating swap to a Group company of Hannover Rück SE. The total of the contractually agreed capacities of the transactions is equivalent to EUR 1,171 (1,138) million, of which the equivalent of EUR 884 (848) million has been underwritten as at the balance sheet date. The variable payments to the special purpose entities guaranteed by Hannover Rück SE cover their payment obligations. By way of compensation agreements, payments resulting from swaps in the event of a claim are reimbursed by the cedants' parent companies. Under IAS 39 these transactions are to be recognised at fair value as a financial guarantee. To this end Hannover Rück SE 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. In this case reimbursement claims under the compensation agreements are to be capitalised separately from and up to the amount of the provision.

Retrocessions and insurance-linked securities (ILS)

As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has underwritten so-called collateralised fronting arrangements, under which risks assumed from ceding companies are passed on to institutional investors outside the Group using special purpose entities. The purpose of such transactions is to directly transfer clients' business. Due to the lack of a controlling influence over the special purpose entities involved, there is no consolidation requirement for Hannover Rück SE with respect to these structures.

In the course of selling the operational companies of the subgroup Clarendon Insurance Group, Inc. (CIGI), Wilmington, to Enstar Group Ltd., Hamilton, Bermuda, a partial portfolio of CIGI was retroceded to a special purpose entity with effect from 12 July 2011. The term of the retrocession runs until final settlement of the underlying obligations. Since Hannover Rück SE is not the major beneficiary of the special purpose entity and exercises neither indirect nor direct control over it, there is no consolidation requirement for this special purpose entity.

Associated companies valued at equity

Relative to year-end 2012, there were no material changes in the first quarter of 2013. Four domestic and four foreign associated companies therefore continue to be consolidated at equity as at the balance sheet date. The figures are exclusive of foreign subgroups.

Joint ventures valued at equity

As was the case in the 2012 annual financial statements, Magma HDI General Insurance Company Limited, Colcata, continues to be included at equity as a joint venture.

V. Non-current assets held for sale and disposal groups

As part of the merger of HDI Seguros S. A. de C. V. and Metropolitana Compañía de Seguros, Mexico City, Mexico (both Retail International segment), HDI Seguros S. A. de C. V. continues to intend to sell a life insurance portfolio, including investments for covering liabilities, at a prospective price of EUR 2 million, a situation unchanged since 31 December 2012. We continue to expect the transfer to take place within 12 months. The transaction is part of the corporate focusing strategy and will lead to cost optimisation in the area of IT and personnel expenses. HDI Seguros S. A. de C. V. separately reported EUR 19 (18) million in technical provisions and EUR 2 (2) million in other liabilities, which were offset by EUR 17 (15) million in investments, and EUR 0 (2) million in current accounts.

In addition, the company intends in 2013 to sell a non-life insurance portfolio, including investments for covering liabilities, at a prospective price of EUR 0. As described above, the transaction is part of the corporate focusing strategy and will lead to cost optimisation in the area of IT and personnel expenses. For this portfolio, HDI Seguros S. A. de C. V. separately reported EUR 5 million in technical provisions and EUR 1 million in other liabilities, which were offset by EUR 2 million in investments, EUR 4 million in accounts receivable on insurance business and EUR 1 million in deferred acquisition costs.

As at the balance sheet date, the cumulative income and expenses for the two transactions that were recognised in shareholders' equity amounted to EUR 0 (2) million.

Furthermore, as at 31 December 2012, we are continuing to classify as "held for sale" real estate portfolios in the amount of EUR 39 million that are held by HDI-Gerling Industrie Versicherung AG (HG-I) (Industrial Lines segment), HDI Lebensversicherung AG (HLV), neue leben Lebensversicherung AG (NL LV), HDI Versicherung AG (HV) (all three Retail Germany segment), E+S Rückversicherung AG and Hannover Re Real Estate Holdings, Inc. (HRREH) (both Non-Life Reinsurance segment). The purchase prices amounted to EUR 49 million. HG-I (EUR 6 million), E+S Rückversicherung AG (EUR 2 million), HRREH (EUR 4 million) and NL LV (EUR 1 million) were transferred on or before 31 March 2013, meaning that as at the balance sheet date, we are reporting real estate at a total carrying amount of EUR 26 million, which is offset by purchase prices totalling EUR 33 million. The Group remains committed to its sales intentions, which we expect to finalise during 2013.

VI. Notes on individual items of the consolidated balance sheet

The major items of the consolidated balance sheet can be broken down as follows:

(1) Intangible assets

	31.3.2013	31.12.2012
Figures in EUR million		
a. Goodwill	1,149	1,152
b. Other intangible assets	1,584	1,641
thereof attributable to		
Insurance-related intangible assets	1,288	1,328
Software	149	153
Other		
Acquired sales networks and customer relationships	77	93
Other	37	33
Acquired brand names	33	34
Total	**2,733**	**2,793**

"Insurance-related intangible assets" (= PVFP) with respect to life primary insurance companies derived principally from the insurance portfolios of the former Gerling Group acquired in 2006 (EUR 712 million), from the portfolios of the former BHW Lebensversicherung AG (formerly PB Lebensversicherung, now PB Lebensversicherung AG) (EUR 277 million) acquired in 2007, and from neue leben Lebensversicherung AG (EUR 59 million). In addition, EUR 91 million is attributable to Hannover Life Reassurance (Ireland) Ltd. (Life/Health Reinsurance segment). Business combinations in 2012 resulted in a PVFP of EUR 129 million for the Polish TU Europa Group and in a PVFP of EUR 15 million for the Polish life insurance company WARTA Life.

The PVFP is composed of a shareholders' portion – on which deferred taxes are established – and a policyholders' portion. It is capitalised in order to spread the charge to Group shareholders' equity under IFRS upon acquisition of an insurance portfolio equally across future periods in step with amortisation. Only amortisation of the shareholders' portion results in a charge to future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are obliged to enable their policyholders to participate in all results through establishment of a provision for deferred premium refunds.

PVFPs with respect to life primary insurance companies amounted to EUR 1,288 (1,173) million, of which EUR 801 (674) million was attributable to the shareholders' portion and EUR 487 (499) million to the policyholders' portion.

Amortisation of insurance-related intangible assets amounted to EUR 38 (31 March 2012: 30) million, of which EUR 24 (31 March 2012: 30) million was attributable to the shareholders' portion – of this, EUR 3 million to investment contracts – and EUR 14 (31 March 2012: 0) million to the policyholders' portion. This amortisation relates mainly to the Retail Germany and Retail International segments. Amortisation of PVFP from investment contracts is recognised in the statement of income under "Income/expense from investment contracts" in "Net investment income". Amortisation of the shareholders' portion (less investment contracts) is recognised in the statement of income under "Other technical expenses".

Apart from certain amounts of goodwill, intangible assets are recognised in their entirety in the Group. Excluding non-controlling interests and the policyholders' portion, intangible assets attributable to the Group, separated into "Goodwill" and "Other intangible assets", are as follows:

	31.3.2013	31.12.2012
Figures in EUR million		
Intangible assets before deduction of non-controlling interests and the policyholders' portion and including deferred taxes		
a. Goodwill	1,149	1,152
b. Other intangible assets	1,584	1,641
Total	**2,733**	**2,793**
thereof attributable to: non-controlling interests		
a. Goodwill	34	35
b. Other intangible assets	186	204
Total	**220**	**239**
thereof attributable to: policyholders' portion		
a. Goodwill	—	—
b. Other intangible assets	487	499
Total	**487**	**499**
thereof attributable to: deferred taxes		
a. Goodwill	—	—
b. Other intangible assets	178	176
Total	**178**	**176**
Intangible assets after deduction of non-controlling interests and the policyholders' portion and excluding deferred taxes		
a. Goodwill	1,115	1,117
b. Other intangible assets	733	762
Total	**1,848**	**1,879**

(2) Loans and receivables

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012	31.3.2013	31.12.2012
Figures in EUR million						
Mortgage loans	946	990	120	140	1,066	1,130
Loans and prepayments on insurance policies	190	192	—	—	190	192
Loans and receivables due from governmental or quasi-governmental entities [1]	10,184	9,687	1,234	1,326	11,418	11,013
Corporate bonds	6,260	6,516	487	528	6,747	7,044
Covered bonds, asset-backed securities	14,934	14,700	2,334	2,278	17,268	16,978
Participation rights	17	16	3	3	20	19
Total	**32,531**	**32,101**	**4,178**	**4,275**	**36,709**	**36,376**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 2,932 (2,585) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 14,911 (14,676) million, which corresponds to 99 (99)%.

(3) Financial assets held to maturity

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012	31.3.2013	31.12.2012
Figures in EUR million						
Government debt securities of EU member states	570	578	41	46	611	624
US treasury notes	849	825	25	28	874	853
Other foreign government debt securities	58	57	1	1	59	58
Debt securities issued by quasi-governmental entities[1]	686	678	40	42	726	720
Corporate securities	422	502	14	16	436	518
Covered bonds, asset-backed securities	1,120	1,217	88	91	1,208	1,308
Total	**3,705**	**3,857**	**209**	**224**	**3,914**	**4,081**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 169 (167) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 1,117 (1,213) million, which corresponds to 99 (99)%.

(4) Financial assets available for sale

	Amortised cost		Unrealised gains/losses		Fair value	
	31.3.2013	31.12.2012	31.3.2013	31.12.2012	31.3.2013	31.12.2012
Figures in EUR million						
Government debt securities of EU member states	5,312	5,256	323	363	5,635	5,619
US treasury notes	1,214	1,294	37	40	1,251	1,334
Other foreign government debt securities	1,701	1,758	29	26	1,730	1,784
Debt securities issued by quasi-governmental entities[1]	7,228	7,121	470	523	7,698	7,644
Corporate securities	14,871	13,675	893	912	15,764	14,587
Investment funds	763	808	64	71	827	879
Covered bonds, asset-backed securities	7,217	7,104	714	680	7,931	7,784
Participation rights	409	445	6	4	415	449
Total fixed-income securities	**38,715**	**37,461**	**2,536**	**2,619**	**41,251**	**40,080**
Equities	482	423	174	164	656	587
Investment funds	590	558	76	73	666	631
Participation rights	39	39	—	—	39	39
Total variable-yield securities	**1,111**	**1,020**	**250**	**237**	**1,361**	**1,257**
Total	**39,826**	**38,481**	**2,786**	**2,856**	**42,612**	**41,337**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 3,020 (3,147) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 6,847 (6,827) million, which corresponds to 86 (88)%.

(5) Financial assets at fair value through profit or loss

	31.3.2013	31.12.2012
Figures in EUR million		
Government debt securities of EU member states	190	347
Other foreign government debt securities	184	195
Debt securities issued by quasi-governmental entities [1]	43	38
Corporate securities	515	480
Investment funds	150	104
Covered bonds, asset-backed securities	36	91
Participation rights	93	91
Other	19	—
Total fixed-income securities	**1,230**	**1,346**
Investment funds (variable-yield securities)	58	55
Other variable-yield securities	29	28
Total financial assets classified at fair value through profit or loss	**1,317**	**1,429**
Government debt securities of EU member states	12	15
Other foreign government debt securities	—	—
Corporate securities	—	—
Other securities	1	1
Total fixed-income securities	**13**	**16**
Investment funds (variable-yield securities)	119	123
Derivatives	82	74
Total financial assets held for trading	**214**	**213**
Total	**1,531**	**1,642**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 10 (8) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The item "Covered bonds, asset-backed securities" includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 11 (11) million, which corresponds to 31 (12)%.

(6) Information about fair value and fair value hierarchy

Fair value hierarchy

For the purposes of the disclosure requirements pursuant to IFRS 13 "Fair Value Measurement", financial instruments that are to be recognised at fair value must be assigned to a three-level fair value hierarchy. The purpose of this new requirement is, inter alia, to depict how closely the data included in the determination of fair values relates to market inputs. The following classes of financial instruments are affected: financial assets available for sale; financial assets at fair value through profit or loss; other invested assets and investment contracts (financial assets and financial liabilities), insofar as they are recognised at fair value; negative market values under derivative financial instruments; and hedging instruments (derivatives in connection with hedge accounting).

Breakdown of financial assets measured at fair value

As at the balance sheet date, financial assets measured at fair value were assigned to one of the three following levels of fair-value hierarchy:

- Level 1: Unadjusted quoted prices for identical assets and liabilities in active markets. This includes, first and foremost, listed equity shares, futures and options, investment funds, and highly liquid bonds traded on regulated markets. As at the balance sheet date, the share of Level 1 financial assets in the total portfolio of financial assets measured at fair value was 37%.
- Level 2: Measurement using inputs that are based on observable market data and are not allocated to Level 1. This level includes, for example, assets measured on the basis of yield curves, such as debenture bonds and registered debt securities. Also allocated to Level 2 are market prices for bonds with limited liquidity, such as corporate bonds. Altogether, 59% of financial assets measured at fair value were allocated to this level as at the balance sheet date.
- Level 3: Measurement using inputs that are not based on observable market data (unobservable inputs). This level primarily includes unlisted equity instruments. As at the balance sheet date, the Group allocated 4% of financial assets measured at fair value to this category.

The following table shows the carrying amounts of financial assets measured at fair value, broken down according to the three levels of the fair-value hierarchy:

Book value of financial assets measured at fair value	Level 1	Level 2	Level 3 [1)]	Book value 31.3.2013
Figures in EUR million				
Financial assets measured at fair value				
Available for sale				
Fixed-income securities	13,400	27,851	—	41,251
Variable-yield securities	837	81	443	1,361
At fair value through profit or loss				
Financial assets classified at fair value through profit or loss	443	845	29	1,317
Financial assets held for trading	172	39	3	214
Other invested assets	2,953	100	1,202	4,255
Other assets, derivative financial instruments	—	143	—	143
Investment contracts				
Financial assets classified at fair value through profit or loss	323	53	111	487
Derivatives	—	27	15	42
Total amount of financial assets measured at fair value	**18,128**	**29,139**	**1,803**	**49,070**
Financial liabilities measured at fair value				
Other liabilities (negative market values under derivative financial instruments)				
Negative market values under derivative financial instruments	—	44	104	148
Negative market values under hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial assets classified at fair value through profit or loss [2)]	422	203	111	736
Derivatives	—	27	15	42
Total amount of financial liabilities measured at fair value	**422**	**274**	**230**	**926**

[1)] Categorisation in Level 3 is not associated with any statements as to quality. No conclusions may be drawn as to the creditworthiness of the issuers
[2)] Level 2 includes reinsurance contracts measured like financial assets (EUR 27 million) that do not meet the risk-transfer test required under US GAAP. We recognise these financial assets under "Funds withheld under reinsurance treaties"

In the reporting period just ended, securities with a fair value of EUR 376 million that had been classified as Level 1 financial assets in the previous year were instead allocated to Level 2. The reclassification had to be carried out primarily as a consequence of the reduced liquidity of the instruments. In the reporting period just ended, we reclassified securities with a fair value of EUR 2 million from Level 2 financial assets to Level 1. Most reclassifications affect fixed-income securities allocated to the category "Financial assets available for sale".

The balance sheet date is considered to be the transfer date for each of the indicated financial assets.

Analysis of financial assets for which significant inputs are not based on observable market data (Level 3)

The following table shows a reconciliation of the financial assets included in Level 3 at the beginning of the reporting period with the values as at the balance sheet date.

Book value of financial assets measured at fair value[1]	FA available for sale/ variable yield securities	FA classified at fair value through profit or loss	FA held for trading	Other invested assets	Investment contracts/FA classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
Figures in EUR million							
Book value as at 1.1.2013	**369**	**31**	**3**	**1,179**	**114**	**18**	**1,714**
Income and expenses							
recognised in the statement of income	—	—	—	–2	42	4	**44**
recognised directly in equity	2	—	—	3	–46	–7	**–48**
Transfers to Level 3	30[2]	—	—	—	—	—	**30**
Transfers from Level 3	—	—	—	—	—	—	**—**
Additions	41	5	—	37	10	1	**94**
Disposals	2	8	—	35	6	1	**52**
Exchange rate fluctuations	3	1	—	20	–3	—	**21**
Book value as at 31.3.2013	**443**	**29**	**3**	**1,202**	**111**	**15**	**1,803**

[1] Financial assets are abbreviated as FA in the following
[2] Measurement at net asset value

Book value of financial assets measured at fair value[1]	Other liabilities/ Negative market values under derivatives	Investment contracts/ FA classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
Figures in EUR million				
Book value as at 1.1.2013	**103**	**115**	**18**	**236**
Income and expenses				
recognised in the statement of income	—	–6	—	**–6**
recognised directly in equity	—	—	—	**—**
Transfers to Level 3	—	—	—	**—**
Transfers from Level 3	—	—	—	**—**
Additions	—	1	1	**2**
Disposals	1	8	4	**13**
Exchange rate fluctuations	2	–3	—	**–1**
Book value as at 31.3.2013	**104**	**111**	**15**	**230**

[1] Financial assets are abbreviated as FA in the following

As at the balance sheet date, there were no liabilities that had been issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98.

Income and expenses for the period that were recognised in the consolidated statement of income, including gains and losses on Level 3 assets and liabilities held in the portfolio at the end of the reporting period, are shown in the following table.

Effect on results of Level 3 financial assets[1] measured at fair value	Other invested assets	Investment contracts/ FA classified at fair value through profit or loss	Investment contracts/ Derivatives	Total amount of financial assets measured at fair value
Figures in EUR million				
Gains and losses in the 2013 financial year				
Income from investments	—	42	4	**46**
Expenses for investments	2	—	6	**8**
thereof attributable to financial assets included in the portfolio at 31.3.2013				
Income from investments	—	42	4	**46**
Expenses for investments	2	—	5	**7**

[1] Financial assets are abbreviated as FA in the following

Measurement process

The measurement process consists of using either publicly available prices on active markets or measurements with economically established models that are based on observable input factors in order to ascertain the fair value of financial investments. For assets for which publicly available prices or observable market data are not available (Level 3 assets), measurements are primarily made on the basis of proven measurements prepared by independent professional experts (e.g. audited net asset value) that have been previously subjected to systematic plausibility checks. The organisational unit entrusted with measuring investments is independent from the organisational units that enter into investment risks, thus ensuring separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement questions are made by the Talanx measurement committee, which meets monthly.

We do not make use of the option of portfolio measurement within the meaning of IFRS 13.48.

Determination of fair value: Fair value essentially corresponds to the price that the Group would receive if it were to sell an asset or pay if it were to transfer a liability in a customary transaction between market participants on the measurement date. The fair value of securities is thus generally determined on the basis of current, publicly available, unadjusted market prices. Where prices are quoted on markets for financial instruments, the bid price is used. Financial liabilities are measured at the asking price. In the case of securities for which no current market price is available, a valuation price is determined on the basis of current and observable market data using established models of financial mathematics. Such models are used principally for the measurement of unlisted securities.

The Group uses various measurement models for this purpose:

Financial instrument	Pricing method	Parameter	Pricing model
Fixed-income securities			
Unlisted plain-vanilla bonds	Theoretical price	Interest-rate curve	Present-value method
Unlisted structured bonds	Theoretical price	Interest-rate curve, volatility surfaces, correlations	Hull-White, Black-Karasinski, Libor market model, etc.
Unlisted bond funds	Theoretical price	Audited NAV [1]	NAV method [1]
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Future cash-flow method, liquidation method
CDOs/CLOs, profit-participation certificates	Theoretical price	Risk premiums, default rates, recovery rates, redemptions	Present-value method
Equities			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, carrying amount where applicable	NAV method [1]
Other invested assets			
Private equity	Theoretical price	Acquisition cost, cash flows, EBIT multiples, market prices	NAV method [1]
Derivative financial instruments			
Plain-vanilla interest rate swaps	Theoretical price	Interest-rate curve	Present-value method
Currency forwards	Theoretical price	Interest-rate curve, spot and forward rates	Interest parity model
OTC stock options, OTC stock-index options	Theoretical price	Listing of the underlying share, implicit volatilities, money-market interest rate, dividend yield	Black-Scholes
FX options	Theoretical price	Spot rates, exchange rates, implicit volatilities	Garman/Kohlhagen
Interest rate futures (forward purchases)	Theoretical price	Interest-rate curve	Present-value method
Inflation swaps	Theoretical price	Inflation swap rates (Consumer Price Index), historical index fixings, interest-rate curve	Present-value method with seasonality adjustment
Swaption	Theoretical price	Interest-rate curve, implicit volatilities	Black76
Insurance derivatives	Theoretical price	Market values of CAT bonds, interest-rate curve	Present-value method

[1] NAV: net asset value

If Level 3 financial assets are measured using models where the adoption of reasonable alternative inputs leads to a material change in fair value, IFRS 7 requires disclosure of the effects of these alternative assumptions. Of the Level 3 financial assets with fair values of altogether EUR 2.0 (1.9) billion as at the balance sheet date, the Group generally measures financial assets with a volume of EUR 1.6 (1.5) billion using the net asset value method, whereby alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets under investments contracts in the amount of EUR 111 million are offset by liabilities under investment contracts in the same amount. Since assets and liabilities completely offset each other and trend similarly in value, we have elected to dispense with a scenario analysis. For the remaining Level 3 financial assets with a volume of EUR 230 million, the effects of alternative inputs and assumptions are immaterial.

(7) Shareholders' equity

Common shares

The share capital of Talanx AG remains unchanged at EUR 316 million and is divided into 252,625,682 registered no-par value shares. The share capital is fully paid up. With regard to the composition of shareholders' equity, cf. the "Consolidated statement of changes in shareholders' equity".

Conditional capital

On 15 May 2012, the General Meeting resolved to conditionally increase share capital by up to EUR 78 million through the issuance of up to 62,400,000 new no-par value shares (conditional capital II). The conditional capital increase is designed to grant no-par value shares to bondholders, which, on the basis of the authorisation conferred on the Board of Management by virtue of a resolution adopted by the General Meeting on the same date, Talanx AG or a subordinate Group company will issue by 14 May 2017 in exchange for cash in satisfaction of the conditional conversion obligation. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 4 June 2012.

On 28 August 2012, the Extraordinary General Meeting resolved to conditionally increase share capital by up to EUR 26 million through the issuance of up to 20,800,000 new no-par value shares with a pro-rata amount of share capital of EUR 1.25 each (conditional capital III). The conditional capital increase is designed to grant no-par value shares to holders of convertible bonds, warrant bonds, participating bonds with conversion or warrant rights and profit-sharing rights with conversion or warrant rights, which, on the basis of the aforementioned authorisation, Talanx AG or a subordinate Group company will issue by 27 August 2017 in exchange for cash in satisfaction of the conditional conversion obligation. The amendment to the Talanx AG Articles of Association became effective upon its entry in the commercial register on 5 September 2012.

Authorised capital

On 29 September 2012, the Extraordinary General Meeting resolved to rescind the authorised capital under § 7 Para. 1 of the Talanx AG Articles of Association, as amended by the General Meeting on 21 November 2011, and to replace it with a new § 7 Para. 1, which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase share capital by 28 September 2017 in one or more tranches, but up to a total amount of EUR 146 million, through the issuance of new registered no-par values shares in exchange for cash or contribution in kind. Subject to the approval of the Supervisory Board, shareholders may be precluded from exercising subscription rights for certain enumerated purposes connected with cash capital increases, provided the pro-rata amount of share capital attributable to the new shares does not exceed 10% of share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, the exercise of subscription rights may be precluded for contribution-in-kind capital increases if such exclusion is in the Company's predominant interest. The amendment became effective upon its entry in the commercial register on 1 October 2012. When the Greenshoe option was exercised on 8 October 2012, it was reduced to EUR 143 million in accordance with the Articles of Association.

Non-controlling interests in shareholders' equity	31.3.2013	31.12.2012 [1)]
Figures in EUR million		
Unrealised gains and losses from investments	656	667
Non-controlling interest in net income	138	522
Other shareholders' equity	3,443	2,967
Total	**4,237**	**4,156**

1) Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

"Non-controlling interests in shareholders' equity" refers principally to shares held by shareholders outside the Group in the shareholders' equity of the Hannover Re subgroup.

(8) Subordinated liabilities

	Nominal amount	Coupon	Maturity	Rating [4)]	31.3.2013	31.12.2012
	Figures in EUR million				*Figures in EUR million*	*Figures in EUR million*
Hannover Finance (Luxembourg) S. A.	500	Fixed (5%), then floating rate	2005/no final maturity	(a+; A)	491	489
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.75%), then floating rate	2010/2040	(a+; A)	498	498
Hannover Finance (Luxembourg) S. A.	750	Fixed (5.75%), then floating rate	2004/2024	(a+; A)	749	749
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.0%), then floating rate	2012/2043	(a+; A)	497	497
HDI-Gerling Industrie Versicherung AG [1)]	142	Fixed (7%), then floating rate	2004/2024	(bbb+; A–)	148	149
HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG) [2)]	110	Fixed (6.75%)	2005/no final maturity	(—; A–)	112	113
Talanx Finanz [3)]	113	Fixed (4.5%), then floating rate	2005/2025	(bbb; BBB)	112	112
Talanx Finanz	500	Fixed (8.37%), then floating rate	2012/2042	(—; BBB)	500	500
Total					**3,107**	**3,107**

1) As at the balance sheet date, Group companies also hold bonds with a nominal value of EUR 108 million (consolidated in the consolidated financial statement)
2) As at the balance sheet date, Group companies held bonds with a nominal value of EUR 50 million (of these EUR 10 million are consolidated in the consolidated financial statement, with the remaining EUR 40 million being blocked)
3) As at the balance sheet date, Group companies held bonds with a nominal value of EUR 96 million (consolidated in the consolidated financial statement)
4) (Debt Rating A. M. Best; Debt Rating S&P)

With respect to other features, cf. the published 2012 Annual Report, p. 260.

(9) Technical provisions

	31.3.2013			31.12.2012 [1)]		
	Gross	Re	Net	Gross	Re	Net
Figures in EUR million						
a. Unearned premium reserve	7,175	905	6,270	5,440	521	4,919
b. Benefit reserve	48,671	1,022	47,649	48,248	1,017	47,231
c. Loss and loss adjustment expense reserve	33,953	4,875	29,078	33,243	5,248	27,995
d. Provision for premium refunds	2,254	5	2,249	2,279	2	2,277
e. Other technical provisions	275	2	273	274	4	270
Total	**92,328**	**6,809**	**85,519**	**89,484**	**6,792**	**82,692**

1) Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

Of the technical provisions where the investment risk is borne by policyholders in the amount of EUR 7,870 (7,451) million, EUR 161 (197) million is attributable to reinsurers.

(10) Notes payable and loans

As at the balance sheet date, the following were reported under this item:

	31.3.2013	31.12.2012
Figures in EUR million		
Talanx AG bank liability	300	500
Talanx AG notes payable	565	9
Mortgage loan of Hannover Re Real Estate Holdings, Inc., Orlando	172	168
Total	**1,037**	**677**

The bank liability mainly has to do with follow-on funding to the credit line that was retired in July 2012. Talanx AG made use of two syndicated, floating-rate credit lines in an amount of EUR 300 million (nominal value: EUR 500 million and EUR 700 million, respectively). In addition, on 13 February 2013, Talanx AG issued a senior unsecured bond with a volume of EUR 750 million, of which EUR 185 million is held by Group companies. For the features of this bond, cf. the following table. The issue price amounted to 99.958%. In connection with the issue of this bond, bearer bonds in the amount of EUR 9 million that had been scheduled to mature in July 2013 were redeemed by the issuer in advance. Interest expenses of EUR 3 (2) million resulting from these liabilities are recognised under the item "Financing costs".

	Nominal amount	Coupon	Maturity	Rating [1]	Issue	31.3.2013	31.12.2012
	Figures in EUR million					*Figures in EUR million*	*Figures in EUR million*
Talanx AG	750	Fixed (3.125%)	2013/2023	(—; A–)	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons	565	—
Talanx AG	9	Fixed (5.43%)	2003/2013	(—; —)	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons	—	9
Total						**565**	**9**

[1] (Debt Rating A. M. Best; Debt Rating S&P)

The book value of this item corresponds to amortised cost. In general, liquidity outflows take place annually in the amount of the interest payments until final maturity.

VII. Notes on the consolidated statement of income

The major items of the consolidated statement of income can be broken down as follows:

(11) Net premium earned

Gross written premium includes the savings elements of premiums under unit-linked life and annuity policies. These savings elements were eliminated from net premium earned.

Q1 2013[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross written premium, including premiums from unit-linked life and annuity insurance	1,726	2,097	1,056	2,065	1,514	—	**8,458**
Savings elements of premium from unit-linked life and annuity insurance	—	219	39	—	—	—	**258**
Ceded written premium	653	56	86	222	142	4	**1,163**
Change in gross unearned premium	–836	–487	–51	–308	–14	—	**–1,696**
Change in ceded unearned premium	–289	–16	–25	–43	1	–2	**–374**
Net premium earned	**526**	**1,351**	**905**	**1,578**	**1,357**	**–2**	**5,715**

[1] After elimination of internal transactions within the Group across segments

Q1 2012[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross written premium, including premiums from unit-linked life and annuity insurance	1,595	2,015	647	2,006	1,342	—	7,605
Savings elements of premium from unit-linked life and annuity insurance	—	220	31	—	—	—	251
Ceded written premium	646	88	60	180	116	—	1,090
Change in gross unearned premium	–786	–475	–22	–407	–5	—	–1,695
Change in ceded unearned premium	–287	–48	–21	–39	–1	—	–396
Net premium earned	**450**	**1,280**	**555**	**1,458**	**1,222**	**—**	**4,965**

[1] After elimination of internal transactions within the Group across segments

(12) Net investment income

Q1 2013[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	1	19	1	14	—	—	35
Dividends[2]	1	1	—	2	—	—	4
Current interest income	48	383	62	161	57	1	712
Other income	—	1	1	8	2	—	12
Ordinary investment income	**50**	**404**	**64**	**185**	**59**	**1**	**763**
Appreciation	—	1	—	—	—	—	1
Realised gains on investments	10	15	18	29	7	16	95
Unrealised gains on investments	2	3	5	4	8	—	22
Investment income	**62**	**423**	**87**	**218**	**74**	**17**	**881**
Realised losses on investments	4	11	2	4	—	—	21
Unrealised losses on investments	2	1	8	8	1	1	21
Total	**6**	**12**	**10**	**12**	**1**	**1**	**42**
Impairments/depreciation on investment property							
scheduled	—	3	—	3	—	—	6
unscheduled	—	—	—	—	—	—	—
Impairments on equity securities	—	—	2	—	—	—	2
Impairments on fixed-income securities	3	—	—	—	—	—	3
Impairments on other investments	1	2	—	—	—	—	3
Expenses for the administration of investments	1	4	1	3	—	15	24
Other expenses	—	7	1	8	1	—	17
Other investment expenses/impairments	**5**	**16**	**4**	**14**	**1**	**15**	**55**
Investment expenses	**11**	**28**	**14**	**26**	**2**	**16**	**97**
Net income from investments under own management	**51**	**395**	**73**	**192**	**72**	**1**	**784**
Income/expense from investment contracts	**—**	**—**	**2**	**—**	**—**	**—**	**2**
Interest income from funds withheld and contract deposits	1	—	—	5	115	—	121
Interest expense from funds withheld and contract deposits	—	4	—	1	27	—	32
Income/expense from funds withheld and contract deposits	**1**	**–4**	**—**	**4**	**88**	**—**	**89**
Net investment income	**52**	**391**	**75**	**196**	**160**	**1**	**875**

[1] After elimination of internal transactions within the Group across segments
[2] Income from investments in associated companies and joint ventures amounts to EUR 1 (1) million and is recognised under “Dividends”

Q1 2012[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Income from real estate	1	14	—	12	—	—	27
Dividends[2]	2	3	2	2	—	—	9
Current interest income	51	384	44	182	58	1	720
Other income	1	1	—	2	1	—	5
Ordinary investment income	**55**	**402**	**46**	**198**	**59**	**1**	**761**
Appreciation	—	—	—	—	—	—	—
Realised gains on investments	9	31	16	39	7	2	104
Unrealised gains on investments	2	15	23	51	37	1	129
Investment income	**66**	**448**	**85**	**288**	**103**	**4**	**994**
Realised losses on investments	5	27	3	7	1	—	43
Unrealised losses on investments	2	5	2	2	2	2	15
Total	**7**	**32**	**5**	**9**	**3**	**2**	**58**
Impairments/depreciation on investment property							
scheduled	—	3	—	3	—	—	6
unscheduled	—	1	—	—	—	—	1
Impairments on equity securities	—	1	—	—	1	—	2
Impairments on fixed-income securities	—	—	—	—	—	—	—
Impairments on other investments	—	—	1	3	—	—	4
Expenses for the administration of investments	1	2	2	2	—	13	20
Other expenses	1	6	—	8	1	—	16
Other investment expenses/impairments	**2**	**13**	**3**	**16**	**2**	**13**	**49**
Investment expenses	**9**	**45**	**8**	**25**	**5**	**15**	**107**
Net income from investments under own management	**57**	**403**	**77**	**263**	**98**	**–11**	**887**
Income/expense from investment contracts	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Interest income from funds withheld and contract deposits	—	—	—	5	92	—	97
Interest expense from funds withheld and contract deposits	—	7	—	2	14	—	23
Income/expense from funds withheld and contract deposits	**—**	**–7**	**—**	**3**	**78**	**—**	**74**
Net investment income	**57**	**396**	**77**	**266**	**176**	**–11**	**961**

[1] After elimination of internal transactions within the Group across segments
[2] Income from investments in associated companies and joint ventures amounts to EUR 1 (1) million and is recognised under “Dividends”

Of impairments totalling EUR 8 (7) million, EUR 2 (2) million was attributable to equity securities and EUR 3 (4) million to private equity. Of the impairments on fixed-income securities, EUR 3 (0.5) million pertained to structured and other fixed-income securities. In contrast to the comparable period, no impairments were taken on investment property (EUR 0 [1] million). On the other hand, there was slight appreciation of EUR 0.6 (0.2) million on investments that had been written down in previous periods.

For the credit risk associated with special life reinsurance contracts (ModCo), under which securities deposits are held by cedants on our behalf, we recognised a derivative (Life/Health Reinsurance segment) whose change in value in the reporting period gave rise to unrealised gains of EUR 6 (37) million, which were recognised as income. In 2010 we entered into inflation swaps (Non-Life Reinsurance segment) to hedge a portion of the inflation risks associated with our underwriting loss reserve, and in the year to date, this has given rise to unrealised losses of EUR 2 million, which were recognised as an expense. In the previous quarter, the latter were offset by unrealised gains of EUR 43 million.

(13) Net gains and losses on investments by asset types

	Q1 2013	Q1 2012
Figures in EUR million		
Investments in affiliated companies and participating interests	1	1
Loans and receivables	330	345
Held to maturity	33	43
Available for sale		
Fixed-income securities	362	355
Variable-yield securities	21	28
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss		
Fixed-income securities	16	36
Variable-yield securities	1	2
Financial assets held for trading		
Fixed-income securities	—	—
Variable-yield securities	2	—
Derivatives	1	43
Other invested assets, insofar as they are financial assets	9	–3
Other [1]	49	73
Investments under own management	**825**	**923**
Investment contracts investments/liabilities [2]	2	—
Funds withheld by ceding companies/funds withheld under reinsurance treaties	89	74
Total	**916**	**997**

[1] For the purposes of reconciliation with the consolidated statement of income, the item “Other” combines the gains on investment property, associated companies, joint ventures and derivative financial instruments – insofar as the fair values are negative. Derivatives held for hedging purposes within the scope of hedge accounting are not included in the list if they do not relate to hedges in the area of investments

[2] Includes income and expenses from the administration of investment contracts, which net out at –EUR 7 million. Of income and expenses, –EUR 11 million/EUR 18 million is attributable to financial assets at fair value through profit or loss (assets/liabilities), EUR 7 million to loans and receivables, and –EUR 15 million to other liabilities. In addition, amortisation of PVFP in the amount of –EUR 3 million is taken into consideration under expenses

Making allowance for “Expenses for investments under own management” in the amount of EUR 24 (20) million and for “Other expenses” in the amount of EUR 17 (16) million, “Net investment income” as at the balance sheet date amounted to EUR 875 (961) million.

(14) Claims and claims expenses

Q1 2013[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Claims and claims expenses paid	734	909	451	632	1,097	—	3,823
Change in loss and loss adjustment expense reserve	–299	–35	47	570	160	—	443
Change in benefit reserve	—	335	138	—	84	—	557
Provision for premium refunds	6	158	1	—	—	—	165
Total	**441**	**1,367**	**637**	**1,202**	**1,341**	**—**	**4,988**
Reinsurers' share							
Claims and claims expenses paid	420	34	17	144	129	—	744
Change in loss and loss adjustment expense reserve	–369	5	–7	–64	22	—	–413
Change in benefit reserve	—	–7	–1	—	—	—	–8
Provision for premium refunds	3	—	1	—	—	—	4
Total	**54**	**32**	**10**	**80**	**151**	**—**	**327**
Net							
Claims and claims expenses paid	314	875	434	488	968	—	3,079
Change in loss and loss adjustment expense reserve	70	–40	54	634	138	—	856
Change in benefit reserve	—	342	139	—	84	—	565
Provision for premium refunds	3	158	—	—	—	—	161
Total	**387**	**1,335**	**627**	**1,122**	**1,190**	**—**	**4,661**

Q1 2012[1]	Industrial Lines	Retail Germany	Retail International[2]	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Claims and claims expenses paid	543	911	384	873	877	—	3,588
Change in loss and loss adjustment expense reserve	46	–24	23	305	143	—	493
Change in benefit reserve	–1	264	–4	—	120	—	379
Provision for premium refunds	8	194	7	—	—	—	209
Total	**596**	**1,345**	**410**	**1,178**	**1,140**	**—**	**4,669**
Reinsurers' share							
Claims and claims expenses paid	261	41	13	206	84	—	605
Change in loss and loss adjustment expense reserve	65	–4	–17	–95	12	—	–39
Change in benefit reserve	—	–9	–1	—	—	—	–10
Provision for premium refunds	1	—	2	—	—	—	3
Total	**327**	**28**	**–3**	**111**	**96**	**—**	**559**
Net							
Claims and claims expenses paid	282	870	371	667	793	—	2,983
Change in loss and loss adjustment expense reserve	–19	–20	40	400	131	—	532
Change in benefit reserve	–1	273	–3	—	120	—	389
Provision for premium refunds	7	194	5	—	—	—	206
Total	**269**	**1,317**	**413**	**1,067**	**1,044**	**—**	**4,110**

[1] After elimination of internal transactions within the Group across segments
[2] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

(15) Acquisition costs and administrative expenses

Q1 2013[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Acquisition costs and reinsurance commissions	180	266	227	432	216	—	1,321
Change in deferred acquisition costs and change in reserves for commissions	–64	–57	–20	–39	7	—	–173
Total acquisition costs	**116**	**209**	**207**	**393**	**223**	**—**	**1,148**
Administrative expenses	57	79	44	49	40	—	269
Total acquisition costs and administrative expenses	**173**	**288**	**251**	**442**	**263**	**—**	**1,417**
Reinsurers' share							
Acquisition costs and reinsurance commissions	89	5	15	39	11	—	159
Change in deferred acquisition costs and change in reserves for commissions	–14	–3	–1	–5	3	—	–20
Total acquisition costs	**75**	**2**	**14**	**34**	**14**	**—**	**139**
Net						—	
Acquisition costs and reinsurance commissions	91	261	212	393	205	—	1,162
Change in deferred acquisition costs and change in reserves for commissions	–50	–54	–19	–34	4	—	–153
Total acquisition costs	**41**	**207**	**193**	**359**	**209**	**—**	**1,009**
Administrative expenses	57	79	44	49	40	—	269
Total acquisition costs and administrative expenses	**98**	**286**	**237**	**408**	**249**	**—**	**1,278**

Q1 2012[1]	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
Figures in EUR million							
Gross							
Acquisition costs and reinsurance commissions	173	260	106	408	187	—	1,134
Change in deferred acquisition costs and change in reserves for commissions	–65	–56	14	–67	10	—	–164
Total acquisition costs	**108**	**204**	**120**	**341**	**197**	**—**	**970**
Administrative expenses	50	77	39	41	33	—	240
Total acquisition costs and administrative expenses	**158**	**281**	**159**	**382**	**230**	**—**	**1,210**
Reinsurers' share							
Acquisition costs and reinsurance commissions	96	15	8	14	1	—	134
Change in deferred acquisition costs and change in reserves for commissions	–26	–1	—	2	2	—	–23
Total acquisition costs	**70**	**14**	**8**	**16**	**3**	**—**	**111**
Net							
Acquisition costs and reinsurance commissions	77	245	98	394	186	—	1,000
Change in deferred acquisition costs and change in reserves for commissions	–39	–55	14	–69	8	—	–141
Total acquisition costs	**38**	**190**	**112**	**325**	**194**	**—**	**859**
Administrative expenses	50	77	39	41	33	—	240
Total acquisition costs and administrative expenses	**88**	**267**	**151**	**366**	**227**	**—**	**1,099**

[1] Presentation after elimination of intra-Group relations

(16) Other income/expenses

Figures in EUR million	Q1 2013	Q1 2012[1]
Other income		
Foreign exchange gains	104	33
Income from services, rents and commissions	57	55
Reversals of impairments on receivables	5	2
Income from contracts recognised in accordance with the deposit accounting method	15	14
Income from the release of other non-technical provisions	1	1
Interest income	7	9
Miscellaneous income	41	26
Total	**230**	**140**
Other expenses		
Foreign exchange losses	93	58
Other interest expenses	30	42
Depreciation and impairments	35	20
Expenses for the company as a whole	64	60
Expenses for personnel	17	6
Expenses for services and commissions	27	28
Other taxes	8	9
Allocation for restructuring provisions	6	—
Miscellaneous expenses	46	51
Total	**326**	**274**
Other income/expenses	**–96**	**–134**

[1] Adjusted on the basis of IAS 8. Cf. section "Accounting policies", subsection "Changes in accounting policies and accounting errors" in the Notes

"Other income/expenses" does not in general include personnel expenses of our insurance companies, insofar as these expenses are attributed according to function units by means of cost object accounting and allocated to expenses for investments, claims and claims expenses as well as acquisition costs and administrative expenses. In the same way, this also applies to depreciation and impairments of intangible and other assets of our insurance companies.

"Other income/expenses" for the reporting period just ended do not contain any income from the release of restructuring provisions.

VIII. Other information

Staff

The average number of staff employed throughout the reporting period can be broken down as follows:

	31.3.2013	31.12.2012
Industrial Lines	2,833	2,770
Retail Germany	5,125	5,335
Retail International	8,456	8,598
Reinsurance companies	2,336	2,263
Corporate Operations	2,763	2,588
Total excluding apprentices	**21,513**	**21,554**
Apprentices	504	493
Total	**22,017**	**22,047**

As at the balance sheet date, a total workforce of 20,593 (20,887) was employed by the Talanx Group. This figure refers to full-time equivalents (FTEs).

Related-party disclosures

The related entities within the Talanx Group consist of HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated due to their immaterial contributions, and associated companies and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related entities after termination of their employment.

Related individuals comprise members of the Board of Management and the Supervisory Board of Talanx AG and of HDI V. a. G.

Transactions between Talanx and its subsidiaries are eliminated through consolidation and hence not discussed in the Notes. During the reporting period, there were outstanding loans to HDI V. a. G. in the amount of EUR 110 million, due for repayment in October 2013. In addition, HDI V. a. G. conducts primary insurance business in the form of co-insurance, with the lead insurance companies being HDI-Gerling Industrie Versicherung AG (HG-I) and HDI Versicherung AG (HV). Pursuant to the Articles of Association of HDI V. a. G., insurance business is split in the ratio 0.1% (HDI V. a. G.) to 99.9% (HG-I/HV). In addition, various transactions with HDI V. a. G. gave rise to liabilities of EUR 2 million. Furthermore, transactions with the subsidiaries HDI Direkt Service GmbH, Hannover, and HDI-Gerling Financial Service GmbH, Vienna, which are not consolidated for reasons of immateriality, generated expenses that were not consolidated. HDI-Gerling Financial Service GmbH, Vienna, provided services in this context for HDI Lebensversicherung AG, Cologne, based on a services contract in the fields of product management, accounting and controlling, marketing, application and contract management as well as sales. Liabilities to the company amount to EUR 3 million. The services of HDI Direkt Service GmbH, Hannover, were largely provided to Talanx Service AG, Hannover, based on a services contract, also in connection with HR management. Receivables from HDI Versicherung AG, Hannover, amount to EUR 2 million.

Business relations with unconsolidated companies and with associated companies and joint ventures are of minor importance overall.

In addition, there were no significant changes in related-party disclosures in the course of the 2013 reporting period relative to the position as at 31 December 2012.

Other information about financial assets

During the reporting period, there were no changes in the classification of financial assets attributable to a change in the purpose or use of these financial assets.

In addition, as at the balance sheet date, the portfolio did not contain any other overdue, unadjusted securities, because overdue securities are written down immediately.

Lawsuits

In September 2011, the Italian antitrust authority imposed a fine of EUR 6 million on HDI-Gerling Industrie Versicherung AG on the grounds of alleged cartel agreements in the Campania region. The company appealed against this ruling to the competent administrative court, which held in favour of the company in part. The fine was reduced to EUR 5 million. The company is reviewing whether to lodge a further appeal against the decision of the administrative court.

Apart from the aforesaid proceedings, there were no significant court cases pending during the reporting period or as at the balance sheet date, with the exception of proceedings in connection with ordinary insurance and reinsurance business.

Earnings per share

Earnings per share are calculated by dividing the Group net income attributable to the shareholders of Talanx AG by the average number of shares outstanding. Dilutive effects, which have to be recognised separately when calculating earnings per share, were not present either as at the balance sheet date or in the previous year. In the future, earnings per share may be diluted as a result of the issuance of shares or subscription rights from conditional or authorised capital.

	Q1 2013	Q1 2012 [1)]
Net income attributable to shareholders of Talanx AG for calculating earnings per share (figures in EUR million)	203	206
Weighted average number of ordinary shares outstanding (in units)	252,625,682	208,000,000
Basic earnings per share (figures in EUR)	0.80	0.99
Diluted earnings per share (figures in EUR)	0.80	0.99

[1)] Adjusted on the basis of IAS 8. Cf. section “Accounting policies”, subsection “Changes in accounting policies and accounting errors” in the Notes

The share split agreed at the Annual General Meeting of Talanx AG came into effect on 2 May 2012. As a result, the share capital is no longer divided into 20,800,000 registered shares but instead into 208,000,000 registered shares. Accordingly, we have adjusted the previous year’s figures for the purposes of improved comparability.

Contingent liabilities and other financial commitments

As at the balance sheet date, the following contingent liabilities and other financial commitments derived from contracts and memberships that had been entered into, as well as from taxes:

	31.3.2013	**31.12.2012**
Figures in EUR million		
Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US cedants [1]	3,506	3,417
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	3,447	3,407
Guarantees for subordinated debts issued: the guarantees cover the relevant bond volumes as well as interest due	2,862	2,862
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the US [1]	2,444	2,392
Outstanding capital commitments with respect to existing investment exposures: the commitments primarily involve private equity funds and venture capital firms in the form of partnerships	1,027	1,010
Commitments arising out of rental/lease agreements [2]	488	488
Funding commitments and contribution payments pursuant to §§124 et seqq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	398	409
Collateral for liabilities to various banks in connection with participating interests in real estate companies and real estate transactions	295	288
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	269	270
Assets in blocked custody accounts as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 7 (9) million for existing derivative transactions [3]	69	84
Other commitments	53	60
Total	**14,858**	**14,687**

[1] Securities held in the trust accounts are predominantly recognised as “Financial assets available for sale” in the portfolio of investments. The amount stated refers primarily to fair value/carrying amount
[2] Fresh data is collected only at year-end
[3] The amount stated refers primarily to fair value/carrying amount

The amounts stated in the table are nominal amounts.

As guarantor institutions for Gerling Versorgungskasse VVaG, various Group companies are liable pro rata for any deficits that may be incurred by Gerling Versorgungskasse.

Several Group companies are members of the association for the reinsurance of pharmaceutical risks, the association for the insurance of German nuclear reactors and the traffic accident pool Verkehrsopferhilfe e. V. In the event of one of the other pool members failing to meet its liabilities, an obligation exists to take over such other member’s share within the framework of the quota participation.

Within the scope of its regular activities, our subsidiary Hannover Rück SE enters into contingent commitments. A number of reinsurance contracts between Group companies and external third parties contain letters of comfort, guarantees or novation agreements under which, if certain sets of circumstances occur, Hannover Rück SE will guarantee the liabilities of the relevant subsidiary or assume its rights and obligations under the contracts.

On 29 June 2012, Talanx International AG entered into a concert party agreement with Meiji Yasuda Life Insurance Company and Getin Holding S. A., which forms the legal basis for excluding the minority shareholders of TU Europa and assigning their 5.48% shareholding in TU Europa to Meiji Yasuda in exchange for a settlement payment of PLN 193 per share. Under this concert party agreement, Talanx International AG undertook to assume joint and several liability with Meiji Yasuda for Getin Holding's liability for losses, obligations, costs and expenses arising from the conclusion or implementation of the concert party agreement and to indemnify Getin Holding in the event of claims by third parties. Claims against Getin Holding S. A. would be conceivable in particular if minority shareholders were to take legal action regarding the adequacy of the cash settlement. The statutory prescription period for asserting any such claim is up to ten years after payment of the cash settlement. There is in principle no limitation on the amount that could be claimed against Getin Holding S. A. As a result of firm rules under Polish securities law regarding the calculation of a cash settlement for a listed stock corporation – which require that a cash settlement must generally correspond to the average market price over the last three or six months, as the case may be – the Board of Management at present believes that there is little likelihood of a claim being made against Getin Holding S. A. by minority shareholders of TU Europa and, consequently, of Talanx International AG having to assume liability or provide indemnification under the terms of the concert party agreement. The exclusion of the minority shareholders through assignment of their shares to Meiji Yasuda and the payment of the cash settlement were effected on 25 July 2012. In accordance with a resolution adopted by the general meeting of TU Europa, TU Europa was delisted effective 23 October 2012.

The application of tax regulations may be unresolved when the tax items are brought to account. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. However, the revenue authorities may come to different views, which could give rise to additional tax liabilities in the future.

In connection with the initial public offering, Talanx AG committed under the underwriting agreement dated 19 September 2012 to indemnify all banks involved in the IPO against any liability arising from it. In this regard, Talanx AG provided customary guarantees and assurances. As things currently stand, Talanx AG does not believe that any claims will be made under this agreement.

In connection with the issue of a senior unsecured bond, Talanx AG provided customary guarantees and assurances to all of the banks associated with the issue pursuant to a subscription agreement dated 11 February 2013. As things currently stand, Talanx AG does not believe that any claims will be made under this agreement.

Events after the end of the reporting period

Other events

During the first and second quarter of 2013, Talanx AG sold shares in Swiss Life Holding AG on the market in small tranches. As a result, its participation in the company fell from 9.26% at the beginning of the year to 5.03%. This sale is the result of the conservative investment strategy derived from the holistic risk management system, whose aim is to limit accumulation risks. The transaction resulted in an after-tax net gain of EUR 96 million for 2013, of which EUR 22 million was realised in the first quarter of 2013. We continue to view the investment in Swiss Life Holding AG as a long-term investment of Talanx AG.

On 24 April 2013, our subsidiary Hannover Rück SE announced that it had concluded two additional block transactions for longevity risks in the United Kingdom, thus reinsuring additional pension commitments totalling roughly GBP 1 billion. These transactions were preceded in February of this year by the company's assumption of longevity risks from the British insurer Legal & General with a total volume of roughly GBP 2 billion. Under the two recent block transactions, Hannover Rück SE assumed longevity risks from Abbey Life, a subsidiary of Deutsche Bank, with a volume of GBP 490 million and from Rothesay Life in the amount of GBP 460 million. For 2013, the two transactions will generate initial gross premium totalling GBP 53 million. Together with the transaction with Legal & General, Hannover Rück SE will thus book roughly GBP 150 million in 2013.

The Group interim financial statement and the Group interim management report as at 31 March 2013 were reviewed by independent auditors in accordance with § 37x, Para. 3 of the German Securities Trading Act (WpHG).

Drawn up and released for publication in Hannover, 3 May 2013.

Hannover, 3 May 2013

Board of Management

Herbert K. Haas,
Chairman

Dr. Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr. Thomas Noth

Dr. Immo Querner

Dr. Heinz-Peter Roß

Ulrich Wallin

Review report by the independent auditors

To Talanx Aktiengesellschaft, Hannover

We have reviewed the condensed Group interim financial statements – consisting of the consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity, consolidated cash flow statement and select notes – and the Group interim management report of Talanx AG, Hannover, for the period from 1 January to 31 March 2013, which are the components of the quarterly financial report required under § 37x, Para. 3 of the German Securities Trading Act (WpHG). The preparation of both the condensed Group interim financial statements in accordance with the IFRS rules for interim financial reporting, as adopted by the EU, and the Group interim management report in accordance with the provisions of the WpHG applicable to group interim management reports is the responsibility of the company's Board of Management. Our responsibility is to issue a report on the condensed Group interim financial statements and Group interim management report based on our review.

We conducted our review of the condensed Group interim financial statements and Group interim management report in accordance with generally accepted German standards for the review of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the review such that, after a critical assessment, we are able to rule out with fair degree of certainty that, in material respects, the condensed Group interim financial statements have not been prepared in accordance with the IFRS rules for interim financial reporting, as adopted by the EU, and that, in material respects, the Group interim management report has not been prepared in accordance with the provisions of the WpHG applicable to group interim management reports. A review is essentially limited to questioning company employees and making analytical evaluations. It therefore does not offer the certainty that can be achieved by an audit of the financial statements. Since we were not asked to audit the financial statements, we cannot provide an auditor's opinion.

Based on our review, we did not learn of any circumstances that give us reason to assume that, in material respects, the condensed Group interim financial statements have not been prepared in accordance with the IFRS rules for interim financial reporting, as adopted by the EU, or that, in material respects, the Group interim management report has not been prepared in accordance with the provisions of the WpHG applicable to group interim management reports.

Hannover, 8 May 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch
Wirtschaftsprüfer
(German Public Auditor)

Stiede
Wirtschaftsprüfer
(German Public Auditor)

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Interim Report online
www.talanx.com/investor-relations

Financial calendar 2013

14 August
Interim Report as at 30 June 2013

14 November
Interim Report as at 30 September 2013

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