

Jan.-June

Talanx Group Interim Report as at 30 June 2014

THE TALANX GROUP AT A GLANCE

GROUP KEY FIGURES

	UNIT	Q1 2014	Q2 2014	6M 2014	Q1 2013	Q2 2013	6M 2013	+/- % 6M 2014/ 6M 2013
Gross written premium	IN EUR MILLION	8,414	6,561	14,975	8,458	6,508	14,966	—
by regions								
Germany	IN %	39	29	35	40	29	36	–1 pt.
UK	IN %	8	10	9	8	10	9	— pt.
Central and Eastern Europe including Turkey (CEE)	IN %	7	9	8	8	10	9	–1 pt.
Rest of Europe	IN %	17	16	16	15	15	15	+1 pt.
USA	IN %	11	12	11	12	14	12	–1 pt.
Rest of North America	IN %	2	3	2	2	3	2	— pt.
Latin America	IN %	6	7	6	6	7	7	–1 pt.
Asia and Australia	IN %	8	14	11	7	10	8	+3 pt.
Africa	IN %	2	—	2	2	2	2	— pt.
Net premium earned	IN EUR MILLION	5,599	5,709	11,308	5,715	5,783	11,498	–2
Underwriting result	IN EUR MILLION	–370⁵⁾	–405	–775	–252⁵⁾	–464⁵⁾	–716⁵⁾	–8
Net investment income	IN EUR MILLION	1,010	938	1,948	875	1,002	1,877	+4
Net return on investment¹⁾	IN %	4.3	—	4.0	3.7	—	4.0	— pt.
Operating profit (EBIT)	IN EUR MILLION	554⁵⁾	451	1,005	527⁵⁾	505⁵⁾	1,032⁵⁾	–3
Net income (after financing costs and taxes)	IN EUR MILLION	368⁵⁾	289	657	349⁵⁾	323⁵⁾	672⁵⁾	–2
of which attributable to shareholders of Talanx AG	IN EUR MILLION	216⁵⁾	165	381	206⁵⁾	204⁵⁾	410⁵⁾	–7
Return on equity²⁾³⁾	IN %	11.8⁵⁾	8.7	10.3	11.3⁵⁾	11.6	11.8⁵⁾	–1.5 pt.
Earnings per share								
Basic earnings per share	IN EUR	0.86 ⁵⁾	0.65	1.51	0.81 ⁵⁾	0.81	1.62 ⁵⁾	–7
Diluted earnings per share	IN EUR	0.86 ⁵⁾	0.65	1.51	0.81 ⁵⁾	0.81	1.62 ⁵⁾	–7
Combined ratio in property/casualty primary insurance and non-life reinsurance⁴⁾	IN %	94.3⁵⁾	98.4	96.4	95.1⁵⁾	97.1⁵⁾	96.1⁵⁾	+0.3 pt.
Combined ratio of property/ casualty primary insurers	IN %	94.0 ⁵⁾	101.6	98.0	96.4 ⁵⁾	100.6 ⁵⁾	98.5 ⁵⁾	–0.5 pt.
Combined ratio for non-life reinsurance	IN %	94.5	95.7	95.1	94.0	94.3	94.2	+0.9 pt.

		30.6.2014	31.12.2013	+/- %
Policyholders' surplus	IN EUR MILLION	14,283	14,288⁵⁾	—
Equity attributable to shareholders of Talanx AG	IN EUR MILLION	7,645	7,184 ⁵⁾	+6
Non-controlling interests	IN EUR MILLION	4,280	3,997	+7
Hybrid capital	IN EUR MILLION	2,358	3,107	–24
Assets under own management	IN EUR MILLION	90,252	86,310	+5
Total investments	IN EUR MILLION	105,528	100,962	+5
Total assets	IN EUR MILLION	139,699	132,853⁵⁾	+5
Carrying amount per share at the end of the period	IN EUR	30.24	28.42⁵⁾	+6
Share price at the end of the period	IN EUR	25.60	24.65	+4
Market capitalisation of Talanx AG at the end of the period	IN EUR MILLION	6,472	6,231	+4
Staff	FULL-TIME EQUIVALENTS	19,628	20,004	–2

¹⁾ Annualised net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts relative to average assets under own management (30 June 2014 and 31 December 2013)

²⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests

³⁾ Annualised quarterly net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests as at the beginning and the end of the quarter

⁴⁾ Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intra-Group cross-segment transactions

⁵⁾ Adjusted on the basis of IAS 8, cf. "Accounting policies" section of the Notes

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BOARDS AND OFFICERS OF TALANX AG

SUPERVISORY BOARD

Wolf-Dieter Baumgartl

Chairman

Berg

Former Chairman of the Board of Management of Talanx AG

Ralf Rieger*

Deputy Chairman

Raesfeld

Employee HDI Vertriebs AG

Prof. Dr. Eckhard Rohkamm

Deputy Chairman

Hamburg

Former Chairman of the Board of Management of ThyssenKrupp Technologies AG

Antonia Aschendorf

Hamburg

Lawyer

Member of the Board of Management of APRAXA eG

Karsten Faber*

Hannover

Managing Director

Hannover Rück SE,

E+S Rückversicherung AG

Jutta Hammer*

Bergisch Gladbach

Employee HDI Kundenservice AG

Gerald Herrmann*

Norderstedt

Trade union secretary

(until 8 May 2014)

Dr. Hermann Jung

Heidenheim

Member of the Board of Management of Voith GmbH

Dr. Thomas Lindner

Albstadt

Chairman of the Board of Management of Groz-Beckert KG

Dirk Lohmann

Forch, Switzerland

President of the Administrative Board and Chairman of the Board of Management of Secquaero Advisors AG

Christoph Meister*

Hannover

Member of the

ver.di National Executive Board

(since 8 May 2014)

Jutta Mück*

Oberhausen

Employee

HDI-Gerling Industrie Versicherung AG

Otto Müller*

Hannover

Employee Hannover Rück SE

Katja Sachtleben-Reimann*

Hannover

Employee Talanx Service AG

Dr. Erhard Schipporeit

Hannover

Former Member of the

Board of Management of E.ON AG

Prof. Dr. Jens Schubert*

Potsdam

Head of Legal Department,

ver.di National Administration

(since 8 May 2014)

Norbert Steiner

Baunatal

Chairman of the Board of Management of K+S AG

Prof. Dr. Ulrike Wendeling-Schröder*

Berlin

Professor

at Leibniz University Hannover

(until 8 May 2014)

BOARD OF MANAGEMENT

Herbert K. Haas

Chairman

Burgwedel

Dr. Christian Hinsch

Deputy Chairman

Burgwedel

Torsten Leue

Hannover

Dr. Thomas Noth

Hannover

(until 31 March 2014)

Dr. Immo Querner

Celle

Dr. Heinz-Peter Roß

Gräfelfing

(until 30 June 2014)

Ulrich Wallin

Hannover

Dr. Jan Wicke

Stuttgart

(since 1 May 2014)

* Staff representative

INTERIM GROUP MANAGEMENT REPORT

MARKETS AND BUSINESS CLIMATE

OVERALL ECONOMIC DEVELOPMENT

The first half of 2014 saw the global economy grow at a moderate rate, stimulated by upturns in various regions. The emerging trend towards stable economic growth observed last year in the industrialised nations continued in most cases. While economic expansion eased off in China and in certain emerging markets, the Eurozone returned to – albeit modest – growth. The signals from countries that have experienced tough reform programmes are increasingly positive. Spain's growth picked up again early in the year (up by 0.4% in comparison with the previous quarter). In Portugal, the unemployment rate of around 17% recorded in the first half of 2013 dropped to 14.3% in May 2014. On the back of an extremely severe winter and previously excessive inventories, the US economy shrank by 2.1% in the first quarter; annualised growth in the second half of the year was 0.9%. However, the economy should recover quickly after the weather-related slump. The unemployment rate dropped to a five-year low of 6.1% in June.

Overall, the major central banks maintained their expansionary monetary policies, although the Federal Reserve continued to systematically reduce its bond purchases by USD 10 billion per month. In the Eurozone, the European Central Bank unveiled a comprehensive package of measures: on the one hand it reduced its benchmark interest rate from 0.25% to 0.15% in June, while on the other it announced a EUR 400 billion targeted longer-term refinancing operation for banks.

Following already low interest rates in the Eurozone in the first quarter of 2014, the annual inflation rate dropped to 0.5% in May and June, its lowest level since 2009. The annual inflation rate in the USA remained at 1.5% in March, while US consumer prices rose to 2.1% in the second quarter of 2014.

CAPITAL MARKETS

Despite positive tendencies, the continued uncertain and above all very diverse economic climate in the Eurozone, a range of geopolitical risks, and the ECB's continuing expansionary monetary policy had a significant impact on activity in the Eurozone bond markets. Along with unstable developments in various emerging markets such as Argentina, Brazil, Turkey and India, the Ukraine crisis and Russia's annexation of Crimea emerged as the dominant geopolitical risk. The yield curve on German government bonds retreated significantly quarter-on-quarter. By the end of the second quarter, yields on bonds with a maturity of less than one year were slightly into negative territory. Yields on two-year bonds fell to 0.02%, while yields on five- and ten-year bonds dropped to 0.35% and 1.23% respectively.

The primary market experienced high levels of activity in the first half of 2014, with May and June in particular significantly exceeding prior-year levels. Demand for high yields was uninterrupted. Risky investments paid off where performance was concerned, with corporate bonds rated BBB, high-yield investments, subordinated bank bonds and covered bonds from peripheral states recording the best half-year growth.

The recovery in US economic indicators and lively M&A activity on the equity markets led to new record highs in the second quarter. Prices were also buoyed by the ECB's expansionary monetary policy. In the first half of the year the DAX rose by 2.9%, the EUROSTOXX 50 recorded a 3.8% gain and the S&P 500 grew by around 6.1%. In Japan, the Nikkei dropped almost 7% in the first six months of 2014.

INSURANCE MARKETS

Sentiment in the German insurance industry revealed a slight improvement in the second quarter of 2014, and was above-average compared with previous years. The main reason for this was a more positive assessment of the current business situation, whereas the outlook for the next six months was seen as being less optimistic. However, a look at both the property and casualty insurance and the life insurance lines shows that the mood in the industry is assessed differently.

In the **German property and casualty insurance sector**, business confidence increased to an all-time high in the period under review, with the exceptionally positive assessment of the current business situation playing a crucial role. Despite a slight downturn in the second quarter, expectations for the coming six months were at an above-average level. These optimistic assessments are also probably due to higher premiums in several key lines of business such as property insurance and motor insurance. In terms of individual lines of business, sentiment in private property insurance, motor insurance and liability insurance was as encouraging as the mood in property and casualty insurance as a whole. By contrast, the climate in accident insurance and the industrial/commercial lines of business was more restrained.

Premium income was estimated to have grown in net terms across all business lines. Positive growth rates were expected in particular in motor insurance, industrial/commercial lines of business and private property insurance. However, further rate adjustments in the next twelve months were only expected in relation to motor insurance.

Claims during the reporting period were dominated by severe weather conditions in western Germany, France and Belgium at the beginning of June. North-Rhine Westphalia in particular experienced the worst damage caused by strong gusts of wind and hail. Almost two-thirds of the resulting claims expenses were attributable to property insurers, with close to a third attributable to motor insurers. With insured losses across Germany totalling approximately EUR 650 million according to the initial estimate by the German Insurance Association (GDV), this was the second most expensive summer storm for property insurers in the last 15 years.

Sentiment in **German life insurance** improved slightly in the reporting period compared with the previous quarter. This is primarily attributable to more favourable assessments of the current business situation. By contrast, the outlook for the next six months was judged to be below average due to a number of factors including the continuing low interest rates. The most optimistic business climate was in traditional annuity insurance, while the least favourable was in endowment life insurance and occupational disability insurance.

Stable premium income growth is expected for 2014, both in new business with regular premiums and in single-premium business, with total premiums remaining at around the prior-year figure. Potential for growth in premium income was only observed in unit-linked life and annuity insurance and occupational disability insurance.

The situation on the international **non-life reinsurance markets** remained highly competitive. Price pressure is coming increasingly from financial investors, which provided additional capacity, but also from moderate levels of major losses and, in part, from higher retentions by cedants. In the course of the renewals in Japan, rates for natural catastrophe cover declined for the first time on 1 April 2014 since the major earthquake in 2011.

The burden of natural catastrophes around the world was relatively low during both the second quarter and the first half of 2014 as a whole. Total insured losses for the first six months of the year remained under the corresponding average figure for the last ten years. High overall economic losses were caused by severe flooding in the Balkans in May, although the relatively low insurance density meant that the insured proportion was comparatively small. By contrast, the above-mentioned severe weather conditions during the second weekend of June caused high insurance losses amounting to a cross-border figure of some EUR 1.8 billion.

Increasing competition was also noted in international **life and health reinsurance**. As is the case with life primary insurance, the life reinsurance industry in Europe and the USA is also suffering from the persistently low interest rates. The steadily changing age structure of the population continues to present both a challenge and an opportunity due to growing demand for innovative insurance concepts to protect against risks associated with longevity. Emerging countries in Eastern Europe, Asia and Latin America continue to offer growth opportunities, as their expanding urban middle classes are increasingly showing an interest in life and health insurance products.

BUSINESS DEVELOPMENT

PERFORMANCE OF THE GROUP

- Gross premium level remains stable despite continuing adverse environment
- Catastrophe loss ratio down sharply year-on-year
- Net investment income up thanks to strong extraordinary income

GROUP KEY FIGURES

FIGURES IN EUR MILLION

	6M 2014	6M 2013 ¹⁾	+/- %
Gross written premium	14,975	14,966	—
Net premium earned	11,308	11,498	-2
Underwriting result	-775	-716	-8
Net investment income	1,948	1,877	+4
Operating profit (EBIT)	1,005	1,032	-3
Combined ratio (net, property and casualty only) in % ²⁾	96.4	96.1	+0.3 pt.

¹⁾ Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes

²⁾ Including net interest income on funds withheld and contract deposits

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013 ¹⁾	+/- %
Gross premium growth (adjusted for exchange rate effects)	2.1	11.3	-9.2 pt.
Group net income in EUR million	381	410	-6.9
Return on equity ²⁾	10.3	11.8	-1.5 pt.
Net return on investment ³⁾	4.0	4.0	—

¹⁾ Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes

²⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests

³⁾ Annualised net investment income relative to average assets under own management

PREMIUM VOLUME

The Group's gross written premium remained more or less stable year-on-year, at EUR 15.0 (15.0) billion. Adjusted for exchange rate effects, gross premium growth amounted to 2.1% year-on-year, meaning that in the first half of the year we achieved our target of gross premium growth of 2% to 3% based on steady exchange rates. This growth was primarily generated in the Industrial Lines Division outside Germany and in the Retail International segment, including in the single-premium business in Italy. The retention ratio fell slightly to 86.4 (86.8)%, while net premium earned also decreased slightly by 2% to EUR 11.3 (11.5) billion.

UNDERWRITING RESULT

The underwriting result fell by 8% to -EUR 775 million, partly owing to participation of policyholders in net investment income for life insurers in the Group. At EUR 250 (419) million, major losses were significantly down year-on-year in the first half of 2014. The biggest single loss from natural disasters for the Group was caused by the adverse weather in early June, which affected both primary insurance and reinsurance. The Group's combined ratio amounted to 96.4 (96.1)%, due to the slightly increased net expense ratio.

NET INVESTMENT INCOME

Net investment income amounted to EUR 1,948 million in the first half of the year, up 4% on the same period of the previous year (EUR 1,877 million). This is due in particular to gains on the disposal of investments in the Industrial Lines and Retail Germany segments. At 4.0 (4.0)%, the net return on investment was at exactly the same level as in the prior-year period. We have therefore so far achieved our goal for 2014, which was to exceed 3.4%.

OPERATING PROFIT AND GROUP NET INCOME

Operating profit (EBIT) fell slightly to EUR 1,005 (1,032) million, with the improvement in net investment income unable to compensate for the decline in the underwriting result and other income. At EUR 381 (410) million, Group net income was thus down 6.9% year-on-year. The return on equity of 10.3% was slightly below the prior-year figure of 11.8%, but still exceeded the 10% forecast for full-year 2014.

DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

Talanx divides its business strategically into six reportable segments: Industrial Lines, Retail Germany, Retail International, Non-Life Reinsurance, Life/Health Reinsurance and Corporate Operations. Please refer to the “Segment reporting” section in the Notes of this report for details of these segments’ nature and scope of business.

INDUSTRIAL LINES

- Positive growth in premiums continues
- Underwriting result shaped by catastrophe losses (single losses and natural hazards)
- Net investment income influenced by positive effects from sale of investments

ESSENTIAL KEY FIGURES IN THE INDUSTRIAL LINES SEGMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013 ¹⁾	+/- %
Gross written premium	2,497	2,399	+4
Net premium earned	927	895	+4
Underwriting result	6	-19	+132
Net investment income	151	108	+39
Operating profit (EBIT)	141	70	+101

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013 ¹⁾	+/- %
Gross premium growth (adjusted for exchange rate effects)	5.2	7.5	-2.3 pt.
Retention	53.6	47.8	+5.8 pt.
Combined ratio (net) ²⁾	99.4	102.1	-2.7 pt.
EBIT margin ³⁾	15.2	7.8	+7.4 pt.
Return on equity ⁴⁾	9.2	4.5	+4.7 pt.

¹⁾ Adjusted on the basis of IAS 8, cf. “Accounting policies” section in the Notes

²⁾ Including net interest income on funds withheld and contract deposits

³⁾ Operating profit (EBIT)/net premium earned

⁴⁾ Annualised net income excluding non-controlling interests relative to average shareholders’ equity excluding non-controlling interests

MARKET DEVELOPMENT

Competition is extremely fierce in industrial insurance in our core market of Germany. Despite this strong competition, HDI-Gerling Industrie Versicherung AG increased its premium volume both within and outside Germany in the first half of 2014. The ongoing sovereign debt crisis in the Eurozone and limited growth in the global economy continue to present challenges for insurance companies. Economic momentum is diminishing even in emerging countries, although the level of growth there is still significantly higher than in developed economies. As domestic market penetration is already high, growth is generated primarily at our foreign branches and subsidiaries. HDI-Gerling Industrie Versicherung AG has achieved significant premium growth, particularly through its branch in France.

PREMIUM VOLUME

The Industrial Lines segment’s gross written premium amounted to EUR 2.5 (2.4) billion as at 30 June 2014, an increase of 4% (5.2% after adjustment for exchange rate effects). HDI-Gerling industrial insurance made a particularly significant contribution to this with its branches in Germany and abroad, partly through the expansion of customer relationships in marine insurance business. Although growth slowed slightly compared with the previous year, it still remained at a positive level.

The segment’s retention ratio increased significantly to 53.6 (47.8)% in the first half of 2014 due to the higher premium retained at HDI-Gerling industrial insurance. Net premium earned in the segment also rose by 4% year-on-year to EUR 927 (895) million.

UNDERWRITING RESULT

The segment’s net underwriting result improved to EUR 6 (-19) million thanks to the net loss ratio. At 75.9%, this was significantly below the prior-year figure (82.7%), which was impacted by the flooding in southern and eastern Germany. HDI-Gerling Industrie Versicherung AG contributed EUR 32 (-8) million to this. The catastrophe losses from various single losses and the severe weather conditions in early June were offset by the positive effect of the retrospective adjustment made in the first quarter of 2014; see our explanations in section “Accounting policies”, page 39 et seqq. The net expense ratio was up on the prior year, at 23.4 (19.4)%. The prior-year figure had been positively influenced by the change in the accounting for reinsurance settlement. The combined ratio for the Industrial Lines segment was 99.4 (102.1)% overall, and is thus nearing the target for 2014 of 96% to 98%.

NET INVESTMENT INCOME

Net investment income rose significantly by 39% to EUR 151 (108) million despite persistently low interest rates. HDI-Gerling industrial insurance increased its income substantially through the sale of investments, owing to a decline in the area of fixed-income securities caused by the capital market. The company took advantage of positive developments on the capital market early in the year to generate additional income while simultaneously reducing risks in the portfolio. In addition, reversals of impairment losses on Greek bonds amounted to around EUR 7 million.

OPERATING PROFIT AND GROUP NET INCOME

The segment's operating profit grew to EUR 141 (70) million, owing to the above developments and in particular to the improved underwriting result and the increase in net investment income. Group net income – i.e. income attributable to shareholders of Talanx AG – grew to EUR 89 (41) million. The EBIT margin and return on equity in the segment also rose to 15.2 (7.8)% and 9.2 (4.5)% respectively, owing to the increase in operating profit. Both figures have thus met their targets for 2014 of at least 10% and 8% respectively.

RETAIL GERMANY

- Decline in premiums in life insurance
- Lower run-off profits and higher burdens from natural catastrophes in property/casualty insurance
- High realisation of unrealised gains on investments

ESSENTIAL KEY FIGURES IN THE RETAIL GERMANY SEGMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013	+/- %
Gross written premium	3,563	3,623	-2
Net premium earned	2,613	2,663	-2
Underwriting result	-808	-732	-10
Net investment income	937	872	+8
Operating profit (EBIT)	97	90	+7

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013	+/- %
Gross premium growth	-1.7	3.0	-4.7 pt.
Combined ratio (net, property/casualty only) ¹⁾	101.2	99.9	+1.3 pt.
EBIT margin ²⁾	3.7	3.4	+0.3 pt.
Return on equity ³⁾	4.4	4.0	+0.4 pt.

¹⁾ Including net interest income on funds withheld and contract deposits

²⁾ Operating profit (EBIT)/net premium earned

³⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests

MARKET DEVELOPMENT

The difficult capital market situation and the declining attractiveness of life insurance products as a result of low minimum returns continue to dominate the life insurance market. New business expressed in terms of APE is therefore experiencing a market-wide decline, both in regular premiums and in single premiums. As in the previous year, however, growth is expected in property/casualty insurance across all business lines.

PREMIUM VOLUME AND NEW BUSINESS

Gross written premium of the Retail Germany segment – including savings elements under unit-linked life insurance – almost matched its prior-year level in the first half of 2014, at EUR 3.6 billion. Gross written premium in property/casualty insurance remained almost unchanged, at EUR 1.0 (1.0) billion. Ongoing measures to increase profitability led to the erosion of premiums despite premium adjustments, particularly in motor insurance. This was offset by the positive trend in premium income in liability, accident and property insurance. The overall share of property/casualty insurers in the entire segment remained stable, at 28.8 (28.7)%. Gross written premium for our life insurers – including savings elements under

unit-linked life insurance – fell slightly by 2% to EUR 2.5 (2.6) billion, owing to high portfolio disposals. The decline in gross premiums in the Retail Germany segment of around 2% corresponds overall to the expected amount for 2014 of 1% to 2%.

The division's retention ratio remains unchanged, at 94.5%. Allowing for higher savings elements under our unit-linked products and the change in unearned premiums, the net premium earned thus declined by 2% to EUR 2.6 (2.7) billion.

New business in life insurance products – measured by the international standard of the annual premium equivalent (APE) – fell from EUR 214 million to EUR 208 million as a result of lower regular premiums.

UNDERWRITING RESULT

The underwriting result for the period under review amounted to –EUR 0.8 (–0.7) billion. This figure is dominated by life insurance companies, partly owing to compounding of technical provisions and participation of our policyholders in net investment income. These expenses are offset by net investment income, which is recognised in the non-underwriting result.

The combined ratio for property insurance increased by a net 1.3 percentage points to 101.2%. A significantly lower run-off result and a higher level of claims at HDI Versicherung AG, particularly as a result of the severe weather conditions in early June, were largely responsible for this. By contrast, a decline in burdens from single major losses was recorded. The combined ratio therefore is very near to hitting our 101% target for 2014.

NET INVESTMENT INCOME

Net investment income increased by 8% overall to EUR 0.9 billion, of which 94% was attributable to the life insurance companies. Unrealised gains on investments were realised in order to continue financing the additional interest reserve and policyholder participation in the valuation reserves. This led to a corresponding increase in extraordinary investment income. Ordinary investment income remains stable, at EUR 0.8 billion.

OPERATING PROFIT AND GROUP NET INCOME

The operating result for the first half of the year increased by 7% year-on-year to EUR 97 (90) million, influenced in particular by the update of a large number of actuarial bases at the life insurers compared with the prior-year period. Accordingly, the EBIT margin increased by 0.3 percentage points to 3.7%, significantly exceeding our full-year target of 3%. After taking into account taxes on income and financing costs, Group net income attributable to shareholders of Talanx AG rose to EUR 57 (52) million; as a result, return on equity increased by 0.4 percentage points to 4.4%, meeting our target of 4% for 2014 as a whole.

FURTHER KEY FIGURES

THE RETAIL GERMANY SEGMENT AT A GLANCE

FIGURES IN EUR MILLION

	6M 2014	6M 2013	+/- %
Gross written premium	3,563	3,623	–2
Property/casualty	1,027	1,038	–1
Life	2,536	2,585	–2
Net premium earned	2,613	2,663	–2
Property/casualty	703	702	—
Life	1,910	1,961	–3
Underwriting result	–808	–732	–10
Property/casualty	–7	1	—
Life	–801	–733	–9
Other	—	—	—
Net investment income	937	872	+8
Property/casualty	52	55	–5
Life	885	817	+8
Other	—	—	—
New business measured in annual premium equivalent (life)	208	214	–3
Single premiums	762	769	–1
Regular premiums	132	137	–4
New business by product in annual premium equivalent (life)	208	214	–3
Unit-linked life and annuity insurance	59	70	–16
Traditional life and annuity insurance	111	109	+2
Term life products	36	33	+9
Other life products	2	2	—

RETAIL INTERNATIONAL

- Premium growth of 5% despite negative developments in exchange rates
- EBIT increase exceeds premium growth
- Disproportionally high realised gains from investments in the first half of 2014

ESSENTIAL KEY FIGURES IN THE RETAIL INTERNATIONAL SEGMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013	+/- %
Gross written premium	2,255	2,151	+5
Net premium earned	1,912	1,748	+9
Underwriting result	14	17	-18
Net investment income	156	146	+7
Operating profit (EBIT)	124	113	+9

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013	+/- %
Gross premium growth (adjusted for exchange rate effects)	10.7	66.0	-55.3 pt.
Combined ratio (net, property/casualty only) ¹⁾	95.3	94.9	+0.4 pt.
EBIT margin ²⁾	6.5	6.5	—
Return on equity ³⁾	8.4	7.8	+0.6 pt.

¹⁾ Including net interest income on funds withheld and contract deposits

²⁾ Operating profit (EBIT)/net premium earned

³⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests

PREMIUM VOLUME

The division's gross written premium (including premiums from unit-linked life and annuity insurance) rose by around 5% year-on-year (around 11% with adjustments for exchange rate effects) to EUR 2.3 (2.2) billion. Gross premium growth (adjusted for exchange rate effects) declined year-on-year, as the premium volume for the first half of 2013 had included the Polish companies TUIR WARTA S.A. and TUnŻ WARTA S.A. for the first time.

The Retail International Division is active in 14 countries, focusing on two strategic target regions and on two high-growth core markets within each of these. In Latin America, it is present in Brazil and Mexico, the two largest countries in terms of premium income. In Central and Eastern Europe, the division operates in Poland and Turkey, two of the three markets with the highest premium income.

Gross written premium in property insurance was EUR 1.4 billion. This corresponds to a decline of 1% as a result of negative exchange rate effects, particularly in the core markets of Brazil, Mexico and Turkey. With adjustments for exchange rate effects, however, gross premium in property insurance increased by 7% owing to positive development of premium income, particularly in Brazil and Turkey. In contrast, life insurance business grew by 16% to EUR 827 million, owing to higher premium income at the Italian company HDI Assicurazioni. Written premium in life insurance rose by 18% with adjustments for exchange rate effects.

Around three quarters of our total premium income in Latin America comes from the Brazilian company HDI Seguros S.A., which operates mainly in motor insurance. The company's written premium declined by 4% year-on-year to EUR 404 million, taking into account exchange rate effects. With adjustments for exchange rate effects, however, premium income rose by 13%, partly owing to a 6% increase in average premiums in comprehensive motor insurance business. At the same time, the company's motor policy portfolio grew year-on-year by 9% to a total of 1.5 million policies; this was largely due to a large number of new contracts being signed. The gross written premium of the Mexican company HDI Seguros declined by 5% year-on-year to EUR 84 million. With adjustments for exchange rate effects, premium growth amounted to 2% – in excess of the market – mainly owing to growth in new business in other property insurance (especially building insurance).

The Polish companies accounted for 33% of the division's total written premium, compared with 41% in the same period of the previous year, owing to the decline in single-premium business in life insurance in particular. Premium volume from property insurance at TUIR WARTA S.A. amounted to EUR 438 (444) million. Gross written premium at the life insurer TUnŻ WARTA S.A. amounted to EUR 105 (152) million. Premium income for the TU Europa Group from life and property insurance combined amounted to EUR 206 (280) million. The Talanx Group was the second-largest operator on the Polish insurance market at the end of the first quarter of 2014 in terms of premium income.

Gross written premium at the Turkish property company HDI Sigorta rose by 2% to EUR 99 million taking into account exchange rate effects; with adjustments for exchange rate effects, premium income rose by 26%. Written premium in other property insurance increased by 57% in local currency, while the number of contracts rose by 10%. Premium income in motor insurance grew by 4% in local currency.

The Italian company HDI Assicurazioni held its ground well in a property insurance market that was in decline overall. Gross written premium in property/casualty business fell by 1%, with a 7% rise in the number of contracts in motor third-party liability insurance unable to offset fully the 10% drop in average premiums. Nevertheless, an adequate combined ratio of 95.3% was achieved. In contrast, life insurance premiums rose by 173% year-on-year, largely owing to higher single premiums.

UNDERWRITING RESULT

The combined ratio of the property insurance companies rose by 0.4 percentage points year-on-year to 95.3%. This development was due to a rise in the gross acquisition cost ratio owing to the increase in the proportion of other property insurance, which generally involves higher commission for brokers, in line with the diversification strategy. At the same time, the administrative expense ratio declined by almost the same amount. The loss ratio also fell, which was largely attributable to TUIR WARTA S. A., TU Europa and HDI Assicurazioni. By contrast, the low level of losses in motor insurance in Brazil in the corresponding half of the previous year did not continue in the first half of 2014 as a result of price increases due to inflation.

The division's underwriting result totalled EUR 14 million, compared with EUR 17 million in the same half of the previous year.

NET INVESTMENT INCOME

Net investment income in the division amounted to EUR 156 million as at the end of the second quarter of 2014, a year-on-year rise of 7%. The division's ordinary investment income rose by 9% compared with the corresponding period of the previous year, owing in particular to larger investment portfolios combined with a rise in interest rates in Brazil and Turkey. Extraordinary investment income increased to EUR 24 million. In total, the average yield on assets under own management fell by 0.3 percentage points compared with the first half of 2013, to 4.8%. Net investment income includes profit on investment contracts in the amount of EUR 2 (4) million. Investment contracts are policies that, in accordance with IFRS, provide too little risk cover to be classified as insurance contracts.

OPERATING PROFIT AND GROUP NET INCOME

As a result of the above developments, the Retail International Division achieved an operating profit (EBIT) of EUR 124 million in the first half of 2014, a year-on-year increase of 9%. However, EBIT also benefited from extraordinary investment income in the first half of the year. The EBIT margin remained stable at 6.5%, above the 5% target for 2014. Group net income after minority interests grew by 12% to EUR 74 (66) million. Annualised return on equity increased by 0.6 percentage points year-on-year to 8.4%; meaning that we met our target for 2014 of over 6% in the first half of the year.

FURTHER KEY FIGURES

THE RETAIL INTERNATIONAL SEGMENT AT A GLANCE

FIGURES IN EUR MILLION

	6M 2014	6M 2013	+/- %
Gross written premium	2,255	2,151	+5
Property/casualty	1,428	1,439	-1
Life	827	712	+16
Net premium earned	1,912	1,748	+9
Property/casualty	1,147	1,173	-2
Life	765	575	+33
Underwriting result	14	17	-18
Property/casualty	54	59	-8
Life	-40	-42	-5
Other	—	—	—
Net investment income	156	146	+7
Property/casualty	90	83	+8
Life	66	63	+5
Other	—	—	—
New business measured in annual premium equivalent (life)	103	103	—
Single premiums	714	572	+25
Regular premiums	32	46	-30
New business by product in annual premium equivalent (life)	103	103	—
Unit-linked life and annuity insurance	5	17	-71
Traditional life and annuity insurance	23	27	-15
Term life products	34	44	-23
Other life products	41	15	+173

NON-LIFE REINSURANCE

- Tough competition in non-life reinsurance continues
- Moderate volume of major losses in the first half of the year
- Another good underwriting result

ESSENTIAL KEY FIGURES IN THE NON-LIFE REINSURANCE SEGMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013	+/- %
Gross written premium	4,078	4,097	-1
Net premium earned	3,370	3,404	-1
Underwriting result	156	191	-18
Net investment income	412	378	+9
Operating profit (EBIT)	533	567	-6

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013	+/- %
Gross premium growth (adjusted for exchange rate effects)	2.0	1.3	+0.7 pt.
Combined ratio (net) ¹⁾	95.1	94.2	+0.9 pt.
EBIT margin ²⁾	15.8	16.6	-0.8 pt.
Return on equity for Non-Life and Life/Health Reinsurance ³⁾	15.1	15.4	-0.3 pt.

¹⁾ Including interest income on funds withheld and contract deposits

²⁾ Operating profit (EBIT)/net premium earned

³⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests; reported for the Reinsurance Division overall

BUSINESS DEVELOPMENT

Competition in non-life reinsurance is considerably more intense than in 2013. Supply currently outweighs demand significantly. This can be attributed to the absence of market-changing major losses and the fact that cedants are also carrying more risks in their retention due to good capitalisation. Furthermore, additional capacity from the catastrophe bond market (ILS) – particularly in the US catastrophe business – is leading to significant price erosion.

Treaty renewals in Non-Life Reinsurance business as at 1 April 2014 – when traditionally the business in Japan is renewed – were another factor behind the oversupply in reinsurance capacities. In addition, treaty renewals also took place on a minor scale in Korea, Australia and New Zealand. After significant rate increases in Japan in recent years as a result of the major earthquake in 2011, rates for natural catastrophe cover suffered erosion, albeit from a high level. In liability, however, slight price increases were achieved. Although our premium volume fell slightly in Japan, we maintained our market position thanks to our strong, long-standing customer relationships. A smaller portion of the US property catastrophe

business was also up for renewal, and, as expected, saw continued strong price erosion. We were able to achieve adequate margins overall, however, thanks to our selective underwriting policy, in which we focus solely on the profitability of the business.

PREMIUM DEVELOPMENT

As premium growth has averaged 10% in the last five years, we see no incentive to expand our business in the current soft market environment. Nevertheless, we are very satisfied with premium development in Non-Life Reinsurance as at 30 June 2014: the gross premium is only 1% below the prior-year value, at EUR 4.1 (4.1) billion. Indeed, at constant exchange rates, an increase of 2.0% would even have been recorded. The retention ratio increased slightly year-on-year to 91.1 (90.2)%. Net premium earned fell by 1% to EUR 3.4 (3.4) billion; with adjustments for exchange rate effects, a gain of 2% would have been recorded.

UNDERWRITING RESULT

After burdens from major losses were below average in the first quarter of 2014, expenses for major losses again remained encouragingly low in the second quarter. The largest individual loss was caused by the severe weather conditions during the second weekend in June, with strong gusts of wind and hail. This resulted in a net loss burden of EUR 33 million. The net burden from major losses for the first half of 2014 amounted to a total of EUR 105 (260) million, significantly below the EUR 276 million budget for major losses for the first half of the year. We are very pleased with the underwriting result of EUR 156 (191) million for the entire Non-Life Reinsurance segment. At 95.1 (94.2)%, not only was the combined ratio extremely positive, it also met our target of a figure below 96%.

NET INVESTMENT INCOME

Income from investments, including interest income on funds withheld and contract deposits, increased to EUR 412 (378) million. Normalised income from the change in fair value of inflation swaps, which was still negative in the prior-year period, contributed to this. Inflation swaps are used to hedge a portion of the inflation risks associated with the underwriting loss reserve.

OPERATING PROFIT AND GROUP NET INCOME

The operating profit (EBIT) in the Non-Life Reinsurance segment as at 30 June 2014 was EUR 533 million, 6% below the prior-year value (EUR 567 million), partly owing to a considerably lower exchange rate result. The EBIT margin was above the target of at least 10%, at 15.8 (16.6)%. Group net income remained almost at a level with the prior-year period, at EUR 165 (166) million. Return on equity, which is shown for both reinsurance segments, was 15.1 (15.4)%; we have thus slightly exceeded the 2014 target of 15%.

LIFE/HEALTH REINSURANCE

- Significant improvement in profitability on the prior-year period
- EBIT margin target exceeded
- Successful acquisition of an additional portfolio of longevity risks in the United Kingdom

ESSENTIAL KEY FIGURES IN THE LIFE AND HEALTH REINSURANCE SEGMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013 ¹⁾	+/- %
Gross written premium	2,987	3,130	-5
Net premium earned	2,469	2,787	-11
Underwriting result	-147	-172	+14
Net investment income	299	315	-5
Operating profit (EBIT)	152	130	+17

¹⁾ Adjusted on the basis of IAS 8, cf. the "Accounting policies" section in the Notes

MANAGEMENT METRICS

IN %

	6M 2014	6M 2013 ¹⁾	+/- %
Gross premium growth (adjusted for exchange rate effects)	-1.8	13.4	-15.2 pt.
EBIT margin ²⁾ financial solutions/longevity	4.8	4.0	+0.8 pt.
EBIT margin ²⁾ mortality/morbidity	7.1	4.0	+3.1 pt.
Return on equity for Non-Life and Life/Health Reinsurance ³⁾	15.1	15.4	-0.3 pt.

¹⁾ Adjusted on the basis of IAS 8, cf. "Accounting policies" section in the Notes

²⁾ Operating profit (EBIT)/net premium earned

³⁾ Annualised net income excluding non-controlling interests relative to average shareholders' equity excluding non-controlling interests; reported for the Reinsurance Division overall

PREMIUM DEVELOPMENT

The total gross premium in the Life/Health Reinsurance segment amounted to EUR 3.0 (3.1) billion as at 30 June 2014. This represents a decline of 5% compared with the prior-year period; with adjustments for exchange rate effects, a decline of only 1.8% would have been recorded. Net premium earned fell more considerably by 11% to EUR 2.5 (2.8) billion owing to a reduction in the retention of 83.1 (89.6)%; with adjustments for exchange rate effects, the decline would have been 9%.

NET INVESTMENT INCOME

Net income from investments including interest income on funds withheld and contract deposits declined slightly to EUR 299 (315) million in the reporting period just ended, owing to persistently low interest rates. The performance of the embedded ModCo derivatives showed a slight positive change to EUR 4.6 (0.8) million in this reporting period.

OPERATING PROFIT AND GROUP NET INCOME

Operating profit (EBIT) increased encouragingly to EUR 152 (130) million as at 30 June 2014. In terms of the EBIT margin, our financial solutions and longevity business saw a return of 4.8 (4.0)%, thus clearly exceeding the 2% target. The EBIT margin for the mortality and morbidity business recovered in the reporting period; at 7.1 (4.0)%, it also surpassed the target of 6%. Group net income improved considerably by 19% to EUR 57 (47) million. The return on equity shown is for both reinsurance segments together.

BUSINESS DEVELOPMENT

The Life/Health Reinsurance segment recorded an encouraging improvement in profitability in the first half of the year under review compared with the prior-year period. Despite the difficult conditions prevailing on the capital markets, promising business opportunities arose worldwide.

As in the first quarter of 2014, the US financial solutions business made an extremely positive contribution to earnings once again. Our US mortality business improved considerably in the second quarter, exceeding our expectations in the current reporting period. Our business activities in France, Scandinavia and Central and Eastern Europe also showed better-than-expected development and consequently also made a positive contribution to profit.

CORPORATE OPERATIONS

- Gross written premium at Talanx Reinsurance (Ireland) Ltd. up 39% in the Corporate Operations segment
- Group investments under own management rose by 4%
- Operating result in the Corporate Operations segment falls to –EUR 6 million owing to positive one-off effects in the previous year

Talanx AG issued a senior unsecured bond in the first quarter of 2013, which will mature on 13 February 2023. The cash inflow was used principally to replace existing financing arrangements, which led to a significant reduction in financing costs in the first quarter of 2014.

Talanx AG arranged a new syndicated credit line in the first half of 2014 to secure liquidity for the Talanx Group. The credit line has a volume of EUR 550 million and a term of five years, and will replace the EUR 500 million credit line issued in 2011 before it expires.

REINSURANCE SPECIALISTS AT THE GROUP

Underwriting business written through our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment since 2013. The aim of this in-house reinsurance is to increase retention 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 35 (25) million in the first half of 2014. It resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International segments. Talanx Re (Ireland) posted an operating profit of EUR 5 (0) million for this business in the Corporate Operations segment in the first half of 2014.

Talanx Reinsurance Broker GmbH is wholly owned by Talanx AG and handles the complete spectrum of the reinsurance business process for Group cedants. In 2014, it once again managed to obtain the reinsurance capacity on the global market required for all of the Group cedants that it manages. The company's operating profit for the first half of 2014 was EUR 8 (8) million, of which a significant portion will be reallocated to the business ceding segments. EUR 2 (1) million of this company's earnings remained in the Corporate Operations segment.

INVESTMENT SPECIALISTS AT THE GROUP

Talanx Asset Management GmbH – in cooperation with its subsidiary Ampega Investment GmbH (until 1 July 2013 AmpegaGerling Investment GmbH) – is chiefly responsible for handling the management and administration of the Group companies' investments 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 profit amounted to EUR 22 (20) million in the first half of 2014.

As an investment company, Ampega Investment GmbH administers mutual 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 persistently low interest rates are having a lasting impact on the German population's willingness to save. Consumer confidence is the highest it has been since 2006 owing to low interest rates, whereas savings appetite sank to its lowest level since 1997 in the middle of 2014. As a result, net cash inflows in the investment sector are at a relatively low level compared with the years before the financial crisis. The fact that people wanting to make further financial provisions for their future are currently seeking alternatives to the low rate of return offered by traditional savings deposits is having a positive impact on the investment sector, as they are increasingly also turning to investment funds. The total volume of assets managed by Ampega rose by 10% to EUR 17.2 (15.5) billion in the first half of 2014 compared with the beginning of the year. Over half of this sum, EUR 8.9 (8.3) billion, was administered on behalf of Group companies through special funds and direct investment mandates. Of the remaining portion, EUR 4.1 (3.5) billion was attributable to institutional third-party clients and EUR 4.2 (3.8) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance as well as through external asset managers and banks.

OPERATING PROFIT

The operating profit of the Corporate Operations segment declined to –EUR 6 (85) million in the first half of 2014, largely owing to the sale of shares in Swiss Life Holding AG by Talanx AG in the previous year. This transaction had resulted in a pre-tax profit of EUR 98 million in the first half of 2013.

Group net income for this segment attributable to shareholders of Talanx AG amounted to –EUR 57 (31) million in the first half of 2014.

ASSETS AND FINANCIAL POSITION

ASSETS

- Total assets increase by EUR 6.8 billion to EUR 139.7 billion
- Investments account for 76% of total assets

ASSET STRUCTURE

FIGURES IN EUR MILLION

	30.6.2014		31.12.2013	
Intangible assets	2,489	2%	2,551	2%
Investments	105,528	76%	100,962	76%
Investments for the account and risk of holders of life insurance policies	8,896	6%	8,325	6%
Reinsurance recoverables on technical provisions	7,158	5%	6,604	5%
Accounts receivable on insurance business	5,744	4%	5,039	4%
Deferred acquisition costs	4,492	3%	4,513	3%
Cash	1,883	1%	1,864	1%
Deferred tax assets	658	<1%	546	<1%
Other assets	2,615	2%	2,201	2%
Non-current assets and assets of disposal groups classified as held for sale	236	<1%	248	<1%
Total assets	139,699	100%	132,853	100%

SIGNIFICANT MOVEMENTS IN THE ASSET STRUCTURE

The increase of EUR 6.8 billion in our total assets to EUR 139.7 billion can be attributed principally to growth in our investment portfolio, including investments for the account and risk of holders of life insurance policies (+ EUR 5.1 billion).

Of the EUR 2.5 (2.6) billion in intangible assets shown on the balance sheet, EUR 1.4 (1.5) billion related to other intangible assets (including PVFP) and EUR 1.1 (1.1) billion to capitalised goodwill. Other intangible

assets are recognised in their entirety in the Group. Excluding non-controlling interests and the policyholders' portion, other intangible assets attributable to the Group are as follows:

NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

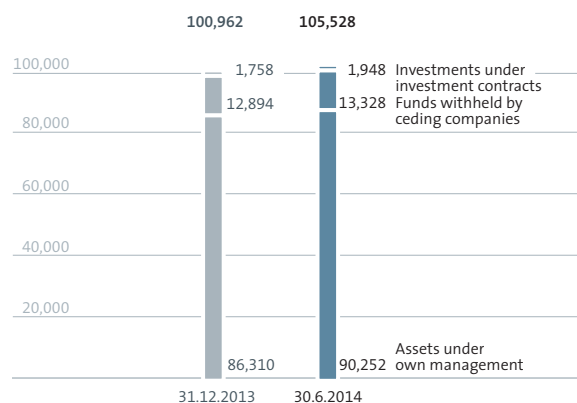
FIGURES IN EUR MILLION

	30.6.2014	31.12.2013
Other intangible assets before deduction of non-controlling interests and the policyholders' portion and including deferred taxes	1,380	1,446
thereof attributable to: non-controlling interests	149	159
thereof attributable to: policyholders' portion	483	513
thereof attributable to: deferred taxes	141	148
Other intangible assets after deduction of non-controlling interests and the policyholders' portion and excluding deferred taxes	607	626

MOVEMENTS IN INVESTMENTS

BREAKDOWN OF THE INVESTMENT PORTFOLIO

FIGURES IN EUR MILLION



The total investment portfolio has grown by 4.5% during the financial year to EUR 105.5 (101.0) billion. Funds withheld by ceding companies were up on the beginning of the year at EUR 13.3 billion. The main increase was in assets under own management, which grew by EUR 3.9 billion. This growth was principally due to cash inflows from

underwriting business, which were reinvested in accordance with respective corporate guidelines. There were slight cash inflows into investments under investment contracts, which totalled EUR 1.9 billion by the end of the second quarter.

Interest rates remain at a historically low level. Disinflation in Europe is the main argument being put forward for further support from central banks. The ECB cut the benchmark interest rate by 10 basis points to 0.15% in June. As a result, interest rates on the markets continued to decline in the second quarter of 2014; the decrease affected all maturities.

Changes in the exchange rate against the US dollar did not have a significant impact on investments in the second quarter, as the rate at the end of the second quarter was USD 1.37 to the euro, roughly the same as in the previous quarter. Our holdings of investments in US dollars amounted to EUR 14.2 billion at the end of the quarter, representing 16% of assets under own management.

Fixed-income investments are once again the most significant asset class. Most reinvestments occurred in this class. Fixed-income securities accounted for 77% of the total investment portfolio, and the contribution to earnings of this asset class amounted to EUR 1.6 billion. As far as possible, this was reinvested in the year under review.

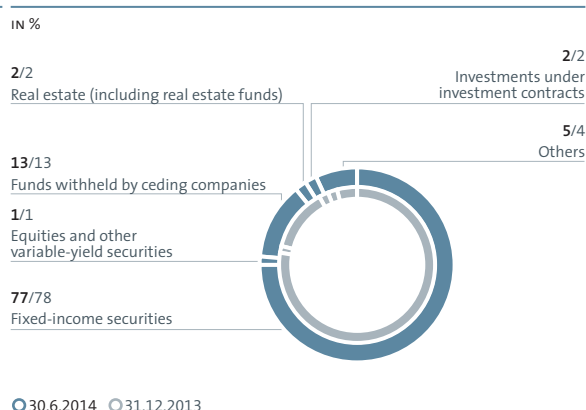
A possible Argentine default would only have an insignificant impact on the Talanx Group, since the latter's total holdings of Argentine

investments amount to a mere EUR 14 million. The portfolio does not contain any Argentine government bonds.

Once again, equity exposure did not increase in the second quarter of 2014. The equity allocation after taking account of derivatives (equity ratio) was 1.1% at the end of the first half of the year.

Although the "alternative investments" asset class and real estate still only constitute a small proportion of the total investment portfolio, they nevertheless diversified and thus added stability to the various portfolios.

BREAKDOWN OF THE INVESTMENT PORTFOLIO



● 30.6.2014 ○ 31.12.2013

BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

FIGURES IN EUR MILLION

	30.6.2014		31.12.2013	
Investment property	1,801	2%	1,623	2%
Investments in affiliated companies and participations	123	<1%	92	<1%
Investments in associated companies and joint ventures	251	<1%	247	<1%
Loans and receivables				
Loans incl. mortgage loans	957	1%	1,041	1%
Loans and receivables due from governmental or quasi-governmental entities, together with fixed-income securities	30,311	34%	31,190	36%
Financial assets held to maturity	2,646	3%	2,984	3%
Financial assets available for sale				
Fixed-income securities	47,544	53%	43,531	50%
Variable-yield securities	1,474	2%	1,391	2%
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss				
Fixed-income securities	814	1%	797	1%
Variable-yield securities	119	<1%	87	<1%
Financial assets held for trading				
Fixed-income securities	4	<1%	4	<1%
Variable-yield securities	86	<1%	120	<1%
Derivatives ¹⁾	79	<1%	82	<1%
Other invested assets	4,043	4%	3,121	4%
Total investments under own management	90,252	100%	86,310	100%

¹⁾ Derivatives only with positive fair values

FIXED-INCOME SECURITIES

Interest rates remained low in the second quarter. The main risk factors for spreads related to the still unresolved debt problems in many countries, economic instability in Asia and geopolitical risks, particularly in Ukraine. We do not have any significant holdings in Ukraine.

Fixed-income investments chiefly comprised the traditional asset classes of government bonds, corporate securities and German covered bonds (Pfandbriefe). The Retail Germany segment sold bonds with a short residual term in 2013 to realise gains, which were then used to strengthen the additional interest reserve, and for policyholder participation in the valuation reserves. We continued this strategy in the first half of 2014.

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 2.8 billion in the first half of 2014 and totalled EUR 81.3 billion at the end of the quarter. At 77% of total investments, this asset class continues 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".

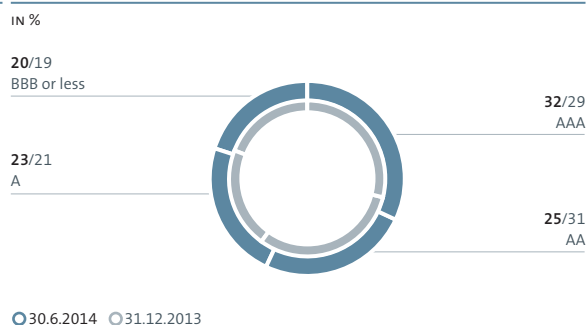
"Fixed-income securities available for sale", whose volatility impacts on shareholders' equity, increased significantly (+EUR 4.0 billion) to EUR 47.5 billion, or 58% of total investments in the fixed-income portfolio. Corporate securities accounted for the majority of these investments. Valuation reserves – i.e. the balance of unrealised gains and losses – have risen from EUR 1.3 billion to EUR 3.0 billion since the end of 2013, owing to the slight fall in interest rates.

Holdings in the "Loans and receivables" category declined during the first half of the year and amounted to EUR 31.3 (32.2) billion at the end of the second quarter. This corresponds to 38% of total holdings in this asset class. Along with corporate securities and German covered bonds (Pfandbriefe), government bonds accounted for a significant portion of holdings in this category. Off-balance sheet valuation reserves increased considerably from EUR 2.8 to 4.3 billion.

Group holdings in the "Financial assets held to maturity" category totalled EUR 2.6 (3.0) billion at the end of the second quarter. Having increased our holdings in this category in 2011 through restructuring, particularly in the Reinsurance segment, we undertook no further expansion in the half-year just ended. The option and intention of holding these investments to maturity enables companies to reduce the volatility in their balance sheets that is caused by movements in interest rates.

We continue to focus on government bonds with good ratings or securities from similarly sound issuers when investing in fixed-income securities. Holdings of AAA-rated bonds stood at EUR 26.5 billion as at the balance sheet date, accounting for 32% of the total portfolio of fixed-income securities and loans.

RATING OF FIXED-INCOME SECURITIES



The Talanx Group pursues a conservative investment policy. Of instruments in the fixed-income securities asset class, 80% have a rating of A or above.

The Macaulay duration of the total fixed-income securities investment portfolio of the Talanx Group stood at 7.50 years as at 30 June 2014.

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share (16%) of the foreign currency portfolio within the Talanx Group. The total share of assets under own management held in foreign currencies as at 30 June 2014 remained virtually unchanged at 29%.

EQUITIES AND EQUITY FUNDS

European stock markets performed well in 2014. The EURO STOXX 50 reached 3,228 points on 30 June, up 3.8% compared with the beginning of the year. The DAX closed at 9,833 points, an increase of 2.9% compared with the start of the year.

The net balance of unrealised gains and losses on holdings within the Group (excluding "Other invested assets") rose slightly by EUR 41 million to EUR 307 (265) million.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Investment property totalled EUR 1.8 billion as at the balance sheet date. An additional EUR 555 million is held in real estate funds, which are recognised under "Financial assets available for sale". No significant investments were made in the year to date. Depreciation

of EUR 16 million was taken on investment property in the period under review. Impairments amounted to EUR 3 million. There were no write-ups to offset these write-downs in the period under review.

The real estate allocation, including investments in real estate funds, was 2 (2)%.

ALTERNATIVE INVESTMENTS

(INVESTMENT PORTFOLIOS UNDER OWN MANAGEMENT)

Holdings of alternative investments are still at a low level and serve to diversify the portfolio.

NET INVESTMENT INCOME

DEVELOPMENT OF NET INVESTMENT INCOME

FIGURES IN EUR MILLION

	6M 2014	6M 2013
Ordinary investment income	1,554	1,553
thereof current income from interest	1,438	1,435
thereof profit/loss from shares in associated companies	6	6
Realised net gains on investments	304	320
Write-ups/write-downs on investments	-16	-36
Unrealised net gains/losses on investments	41	-47
Other investment expenses	102	93
Income from investments under own management	1,781	1,697
Interest income on funds withheld and contract deposits	165	176
Income from investment contracts	2	4
Total	1,948	1,877

Net investment income for the first half of the year amounted to EUR 1.9 billion, a slight increase on the previous year. We managed to keep current income stable despite low interest rates by expanding our portfolio. At EUR 1.4 billion, current income still accounts for the bulk of income. While gains of EUR 0.3 billion were realised on the disposal of investments, there were also lower write-downs of EUR 16 (36) million and higher unrealised gains than in the previous year of EUR 41 (-47) million.

Overall, realised net gains on investments were down slightly year-on-year in the first half of the year, at EUR 304 (320) million. When comparing these figures with the previous year, it should be noted that the 2013 figure was impacted by a one-off effect from the partial sale of shares in Swiss Life Holding AG for approximately EUR 70 million. The positive net gains realised are mainly attributable to regular portfolio restructuring in all segments and the current low interest rates.

No significant write-downs were necessary in the first half of the year. Write-downs across all asset classes totalled EUR 26 (36) million, compared with write-ups of EUR 10 (0) million.

The unrealised net gain improved from -EUR 47 million to EUR 41 million in net terms. Across all segments, unrealised gains were mainly generated in the fixed-income securities and derivatives asset categories. In the year to date, inflation swaps entered into to hedge a portion of the inflation risks associated with our underwriting loss reserve (Non-Life Reinsurance segment) have given rise to positive changes in fair value of EUR 4 million, which were recognised in profit or loss. In contrast, negative changes in fair value of EUR 40 million were recognised in profit or loss in the previous year.

The net result from interest income and expenses on funds withheld and contract deposits amounted to EUR 165 (176) million.

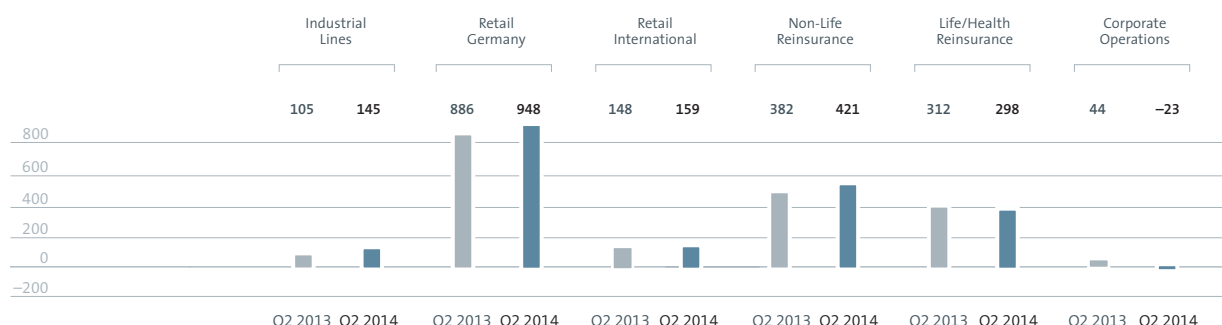
Net income for the first half of 2014 is shown below broken down into Group segments. Contributions to earnings rose in all segments. The increase in the Retail Germany segment was mainly due to the realisation of hidden reserves on investments.

Net investment income in the Corporate Operations Group segment primarily comprises costs for the management of investments. The previous year's figures had also included gains realised on shareholdings.

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 SEGMENT¹⁾

FIGURES IN EUR MILLION

¹⁾ After elimination of intra-Group cross-segment transactions**FINANCIAL POSITION****ANALYSIS OF CAPITAL STRUCTURE**

- Shareholders' equity increases by EUR 0.7 billion to EUR 11.9 billion
- Technical provisions up by EUR 5.1 billion at EUR 96.8 billion
- Technical provisions account for 69% of total assets

CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD

FIGURES IN EUR MILLION

	30.6.2014		31.12.2013	
Shareholders' equity	11,925	9%	11,181	9%
Subordinated liabilities	2,358	2%	3,107	2%
Technical provisions	96,829	69%	91,717	69%
Technical provisions for life insurance insofar as the investment risk is borne by policyholders	8,896	6%	8,325	6%
Other provisions	3,247	2%	3,095	2%
Liabilities	14,070	10%	13,446	10%
Provisions for deferred taxes	2,136	2%	1,749	1%
Liabilities of disposal groups classified as held for sale	238	<1%	233	<1%
Total liabilities	139,699	100%	132,853	100%

SIGNIFICANT MOVEMENTS IN THE CAPITAL STRUCTURE

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

COMPOSITION OF INSURANCE BUSINESS GROSS PROVISIONS (AFTER CONSOLIDATION)

FIGURES IN EUR BILLION

	30.6.2014	31.12.2013
Unearned premium reserve	6.3	5.0
Benefit reserve	49.9	48.9
Loss and loss adjustment expense reserve	30.0	28.9
Provision for premium refunds	3.5	2.2
Other technical provisions	0.3	0.3
Total	90.0	85.3

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 87 (86)%. Provisions thus include surplus coverage in the amount of EUR 13.6 (13.9) billion.

Overall, net technical provisions rose by 5% or EUR 4.7 billion year-on-year. EUR 1.3 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, while EUR 1.3 billion was attributable to provisions for premium refunds and EUR 1.1 billion to loss and loss adjustment expense reserves. The increase was distributed mainly across the Retail Germany (+EUR 1.7 billion), Non-Life Reinsurance (+EUR 1.1 billion) and Retail International (+EUR 0.8 billion) segments.

SHAREHOLDERS' EQUITY

CHANGES IN SHAREHOLDERS' EQUITY

In the reporting period just ended, shareholders' equity grew by EUR 744 million – or 7% – to EUR 11,925 (11,181) million.

The Group's share (shareholders' equity excluding non-controlling interests) amounted to EUR 7,645 (7,184) million. Major movements in shareholders' equity were driven by the following factors:

Net income for the period attributable to our shareholders totalled EUR 381 million and was allocated in full to retained earnings.

"Cumulative other comprehensive income and other reserves" increased by EUR 382 million compared with 31 December 2013, to EUR 570 million. This change was mainly due to a rise in unrealised gains/losses on investments, which grew by EUR 1,207 million to EUR 2,476 (1,269) million as a result of the slight decline in interest rates since the end of the year. Other changes in shareholders' equity had a compensatory effect, declining from –EUR 906 million to –EUR 1,954 million. Of the change of –EUR 1,048 million, –EUR 897 million related to policyholder participation/shadow accounting and –EUR 151 million to underwriting gains and losses from pension provisions. Cumulative gains/losses from currency translation improved by EUR 54 million, from –EUR 209 million to –EUR 155 million. The cash flow hedge reserve grew to EUR 203 (34) million, mainly owing to interest rates.

In contrast, payment of the dividend to Talanx AG shareholders in May of the period under review led to a decrease of EUR 303 (265) million in shareholders' equity.

Non-controlling interests in shareholders' equity increased by EUR 283 million – or 7% – to EUR 4.3 billion. The non-controlling interest share in net income amounted to EUR 276 (6M 2013: 262) million. The dividend payment to non-Group shareholders totalling EUR 245 (6M 2013: 257) million stemmed mainly from the Hannover Re Group.

CHANGES IN SHAREHOLDERS' EQUITY

FIGURES IN EUR MILLION

	30.6.2014	31.12.2013 ¹⁾
Common shares	316	316
Additional paid-in capital	1,373	1,373
Retained earnings	5,386	5,307
Cumulative other comprehensive income and other reserves	570	188
Group shareholders' equity	7,645	7,184
Non-controlling interests in shareholders' equity	4,280	3,997
Total	11,925	11,181

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

SHAREHOLDERS' EQUITY BY SEGMENT¹⁾ INCLUDING NON-CONTROLLING INTERESTS

FIGURES IN EUR MILLION

Segment	30.6.2014	31.12.2013 ²⁾
Industrial Lines	2,016	1,867
thereof non-controlling interests	—	—
Retail Germany	2,768	2,596
thereof non-controlling interests	63	61
Retail International	2,084	1,948
thereof non-controlling interests	239	237
Reinsurance	7,060	6,519
thereof non-controlling interests	3,996	3,717
Corporate Operations	–1,992	–1,739
thereof non-controlling interests	—	—
Consolidation	–11	–10
thereof non-controlling interests	–18	–18
Total shareholders' equity	11,925	11,181
Group shareholders' equity	7,645	7,184
Non-controlling interest in shareholders' equity	4,280	3,997

¹⁾ The difference between the assets and liabilities of each segment

²⁾ Adjusted on the basis of IAS 8. Cf. "Accounting policies" section of the Notes, subsection "Changes in accounting policies and accounting errors"

Note: In the interests of simplicity the non-controlling interests in equity for the Reinsurance Division are derived from Group non-controlling interests in Hannover Re; 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 1,060 (939) million, liabilities from the utilisation of credit lines of EUR 270 (150) million, notes payable of EUR 565 (565) million and provisions for taxes totalling EUR 145 (145) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and, above all, by the value of its participations in subsidiaries, which are consolidated against the pro rata equity of the subsidiaries in the consolidated financial statements.

ANALYSIS OF DEBT

Our subordinated bonds and debentures (abbreviated here to "subordinated bonds") complement shareholders' equity. Their purpose is to optimise the cost of capital and help ensure liquidity at all times. We refer to these subordinated bonds and other bank borrowings that serve to finance corporate acquisitions as "strategic debt".

The bond with a nominal value of EUR 750 million issued on 26 February 2004 through Hannover Finance (Luxembourg) S.A. was called by the issuer with effect from the first regular redemption date in the amount of the entire nominal sum and was repaid on 26 February 2014. As a result, subordinated liabilities totalled EUR 2.4 (3.1) billion as at the balance sheet date. Furthermore, the Group announced on 26 June 2014 that HDI-Gerling Industrie Versicherung AG, Hannover, will repay the nominal amount of its EUR 250 million subordinated bond, which runs until 2024, early at the first possible date. The redemption date is 12 August 2014. Further information can be found in the section "Events after the end of the reporting period" under "Other information" in the Notes.

Credit lines with a nominal volume of EUR 1.25 billion were in place as at 31 March 2014. As at the balance sheet date, the two syndicated floating-rate lines of credit were drawn down by EUR 270 (150) 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. In addition, a senior unsecured bond exists with a volume of EUR 750 million, of which EUR 185 million is held by Group companies, as well as long-term loans, principally mortgage loans, amounting to EUR 287 (227) million. More detailed information can be found in the Notes under "Notes on the consolidated balance sheet", item 10 "Notes payable and loans".

Talanx AG issued another senior unsecured bond with a volume of EUR 500 million on the Luxembourg stock exchange on 23 July (see our comments in the Notes in the section "Events after the end of the reporting period" under "Other information").

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 Board of Management's guidelines and decisions 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

management, an integral component of our entrepreneurial activities and is reflected in the detailed strategies of the various divisions.

As an international insurance and financial services group, we consciously enter into a wide range of risks that are inextricably linked to our business activities. Both our corporate strategy and our risk strategy are subject to an established review process. Through this scrutiny of our assumptions and, if necessary, adjustment of the strategy, 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 regulatory 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:

GROUP RISK MANAGEMENT SYSTEM

Management element	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 management measures within the Group with a focus on risks that could threaten the Group's continued existence
Chief Risk Officer	■ Responsible for holistic monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from a Group perspective ■ Chairman of the Risk Committee ■ Option 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
Compliance	■ Analysis of compliance risk, based on early identification, assessment and communication of relevant changes in the legal framework ■ Establishment and refinement of suitable structures for ensuring compliance with applicable legal standards and the rules applied by the Group
Actuarial function	■ Coordination of and comments on the calculation of underwriting provisions ■ Ensuring the calculations and the assumptions and methods used are appropriate
Group 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.

Further information on risk management can be found in the Group Annual Report 2013.

The Talanx Group's risk situation can be broken down into the risk categories described below; they are based on German Accounting Standard DRS 20.

RISK SITUATION OF THE TALANX GROUP

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, especially with regard to duration - Interest rate hedges - Adjustment of the surplus distribution - Cost controlling, focus on variable sales costs - Careful selection of intermediaries - Systematic monitoring of the MCEV - Review of structure and volumes of new business
	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 - Consistent and uniform use of rating information relating to the balance sheet date through a rating information system that can be accessed throughout the Group - 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, real estate, 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 - Regular monitoring of the development and performance of funds - Liquid asset structure - Regular liquidity planning

RISK SITUATION OF THE TALANX GROUP

Risk category	Material risks	Major risk management measures
Operational risks		
	Across segments ■ Risk of losses due to the failure of persons, (IT) systems or processes or on account of external events (including legal risks)	■ 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 ■ Strategic risks: the risk of an imbalance between the corporate strategy and the constantly changing general business environment ■ Reputational risks: possible damage to the company's name as a consequence of an unfavourable public perception	■ Various management measures, such as reinsurance, diversification, risk exclusions, safety margins, contingency plans, etc. ■ At least annual review of the corporate and risk strategy ■ Adjustment of processes and structures as required ■ Set communication channels ■ Professional approach to corporate communications ■ Tried and tested processes for defined crisis scenarios ■ Established Code of Conduct

Risk reporting in the interim report mainly focuses on relevant changes in the risk position that have occurred since the compilation of the Talanx Group Annual Report 2013. For a thorough presentation of the various types of risk, which is omitted here, the reader is referred to the information contained in the Annual Report.

No material changes in the risk position have occurred since the Annual Report was published, and 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.

Nevertheless, persistently low interest rates could lead to substantial burdens on net income in parts of the life insurance business, owing to increased interest guarantee risk and reinvestment risk. In particular, this poses a risk to the Group's life insurers and occupational pension scheme providers that draw up financial statements according to the German Commercial Code (HGB), in that they may need to boost provisions for interest payments.

The Group has already been strengthening its reserves since 2011 in the form of the additional interest reserve, which is regulated by law. In addition, the Group reduces the interest guarantee risk primarily through regular analyses of its assets and liabilities, by constantly monitoring the investment portfolios and capital markets and by taking appropriate countermeasures. Interest rate hedging instruments such as book yield notes and forward purchases are also sometimes used.

Natural catastrophe risks also constitute significant risks for the Talanx Group. The Group protects itself against peak exposures to such risks by using carefully and individually selected reinsurance coverage. This enables us to limit large individual losses and the impact of accumulation events effectively and thereby to plan for them.

There is still considerable uncertainty, at least in abstract terms and even if it has recently decreased, 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.

Operational risks are also important to the Talanx Group. We define these as the risk of losses occurring due to the inadequacy or failure of internal processes, or as a result of events triggered by employee-related, system-induced, or external factors. This includes operational risks in connection with investments including unit-linked life insurance policies, as well as risks relating to data protection, antitrust law and other legal risks.

Legal risks represent significant risks for the Talanx Group in the area of life insurance in particular. Regulatory reforms, e.g. in connection with IFRS and Solvency II, are identified at an early stage in order to fulfil stricter requirements. In addition, we closely monitor developments in rulings of the Federal Court of Justice and changes in the law that affect Group companies.

For example, on 19 December 2013, the European Court of Justice clarified a legal issue in connection with the policy model that applied to insurance contracts from 1994 to 2007. The court ruled that the statutory period that applied at the time (§ 5 Para. 2 Sentence 4 of the vVG [old version]) – after the expiry of which policyholders could no longer revoke the insurance policy – was incompatible with EU law (see the Talanx Group Annual Report 2013 for details). As one of the legal consequences of this decision, the Federal Court of Justice ruled on 7 May 2014 that life insurance policyholders can still exercise their right to object after the expiry of the period set out in § 5a Para. 2 Sentence 4 of the vVG (old version) in the case that insufficient information had been provided on the right to object, or that no consumer information or insurance terms and conditions had been provided. The actual claim resulting from such an objection, as well as the number of policyholders who will take the ruling as a precedent is, however, still unclear. This means that any assessment of this risk is currently subject to considerable uncertainties.

In addition, the adoption of the Life Insurance Reform Act (LVRG) not only reduces participation in the valuation reserves but also introduces amendments that are disadvantageous to the insurance industry. The precise effects of the change to the law are currently being analysed.

OUTLOOK

ECONOMIC ENVIRONMENT

The economic recovery in the Eurozone is likely to continue at a moderate level in the coming quarters. The upturn is being supported by the consolidation of public finances and labour market reforms. A more stable macroeconomic foundation is becoming increasingly apparent. The Eurozone's trade balance is displaying clear structural improvements, with peripheral countries in particular becoming net exporters. As economic confidence returns, an increase in lending is also likely. We therefore expect modest growth in the Eurozone for 2014.

We still expect the US economy, which is growing steadily, to boost momentum generally in the Eurozone. Its solid economic growth is particularly apparent on the real estate and, increasingly, the labour markets. The real estate market and improved conditions on the labour market are expected to continue propping up private household spending; flanked by higher property values, disposable US household income has increased significantly.

The upturn in emerging countries has recently lost momentum. We believe that these markets are facing structural and cyclical challenges, and that growth rates are likely to be very varied. A positive note is that currency reserves are often high, while overall debt is low.

The ECB's monetary policy is likely to remain expansionary due to low inflation rates, high unemployment, and in some cases very moderate growth rates.

CAPITAL MARKETS

The geopolitical risks and the expansionary monetary policy pursued by the ECB lead us to expect continuing low interest rates in the medium term. Legal and political pressure on the ratings agencies is likely to result in even more cautious and, in case of doubt, lower ratings in the future.

Valuation levels on the European and US stock markets have risen significantly, which means that potential for growth in share prices is limited. We are also seeing the first signs of a possible phase of exaggeration in the USA: M&A volumes have increased significantly and valuations in the technology sector are currently linked to expectations of high growth.

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making 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 year-on-year gross premium growth of 2% to 3% for 2014 as a whole, with most of this generated outside Germany. Based on disposal gains realised in the first half of the year, the IFRS net return on investment should be at least 3.4% in 2014, with by far the largest contribution coming from ordinary income. We are aiming for Group net income of at least EUR 700 million for 2014. It follows that we expect return on equity to be around 10%, thereby meeting our strategic target of 750 basis points in excess of the average risk-free interest rate. This profit target assumes that any major losses will be within the expected range and that there will be no disruptions to currency and capital markets. Our express aim is to pay out 35% to 45% of Group net income as dividends.

INDUSTRIAL LINES

As our domestic market penetration is already high, the best opportunities for growth in this segment are still to be found outside Germany. For this reason, we intend to continue our efforts in 2014 to make HDI-Gerling Industrie Versicherung AG into a global player. Europe-wide, we aim 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. Particularly as a result of the continuing increase in international business, we expect gross premium growth overall of 3% to 5% based on steady exchange rates. To enable us to reflect a disproportionate benefit from achieved premium growth in the result, we will continue in 2014 to follow our strategic aim of gradually raising retention. The segment's strong capital position should probably make it possible to increase the retention ratio to at least 50%. We expect a combined ratio towards the upper end of our forecast range (96% to 98%) for the financial year as a whole, due to disproportionately high utilisation of the major loss budget in the first six months. The EBIT margin should amount to over 10% and the return on equity should be in the region of 8%, as equity has risen in relation to the original forecast while expected profit has remained stable.

RETAIL GERMANY

We anticipate that gross written premium in the Retail Germany Group segment will fall slightly by 1% to 2% in 2014, due in particular to life business treaties maturing and further improvements in motor insurance profitability. With regard to new life insurance business, we aim to improve the proportion of term life products and the flexibility of guarantee products. We are targeting a new business margin of at least 2%. Key components of the future German Life Insurance Reform Act (IVRG), such as the reduction of the maximum technical interest rate, recognition of the effective costs of contracts and the reduction of the maximum zillmerisation rate are not expected to take effect before 1 January 2015. The limits on customer participation in valuation reserves, which will enter into force as soon as the IVRG is adopted, are relevant to life insurers in this area of business. The amount of future distributions from the revaluation reserve is heavily dependent on changes in interest rates, and varies from company to company. However, no significant impact on earnings for the current financial year is expected in this regard. In the property/casualty business we anticipate a combined ratio of around 101%, due to the disproportionately high utilisation of the major loss budget in the first half of the year. We forecast an EBIT margin of around 3% for 2014, meaning that the return on equity should be in the region of 4%.

RETAIL INTERNATIONAL

In the Retail International Group segment we are aiming for growth in gross written premium in 2014 of 4% to 8%, as long as there are no material exchange rate fluctuations. We expect growth in the value of new business in 2014 to be between 5% and 10%, in line with our strategic target. The combined ratio for 2014 should be no higher than 96%; the expected EBIT margin of at least 5% is likely to be positively influenced by the synergy created from merging with the Polish WARTA companies. Integration is expected to be completed in 2014 and should lead to further synergistic effects in subsequent years. In addition, we expect return on equity for 2014 to be in excess of 6%.

NON-LIFE REINSURANCE

The business climate in the international (re)insurance industry remains challenging. On the one hand, the continuing low interest rates make it more difficult to generate attractive investment income. On the other, reinsurers are faced with a much more competitive environment than in previous years. We are well positioned to master the difficult conditions thanks to our conservative reserving policy, broadly diversified investment strategy and selective underwriting policy in non-life reinsurance.

We expect premium volume in non-life reinsurance to remain more or less stable in 2014 as a whole. We shall not make any concessions as far as our systematic underwriting discipline is concerned and we will continue to reduce our business share where risks are not adequately priced. We have set a target of under 96% for our combined ratio and are still aiming for an EBIT margin of at least 10%. We report the return on equity for the Reinsurance Division as a whole; this figure should be around 15% in 2014.

LIFE AND HEALTH REINSURANCE

In life and health reinsurance, we expect positive growth and attractive business opportunities in the second half of the year. This also includes the continued stabilisation of earnings in our Australian disability business. In the industrialised nations we are facing new challenges in the form of the highly complex and still partially uncertain solvency regulations such as the Solvency II Directive and are expecting increased demand for the corresponding reinsurance coverage in the financial solutions area. The focus will be on reinsurance solutions that contribute at an individual level to reducing our customers' capital burdens and optimise their solvency situations. Demand for longevity products should remain at high levels due to demographic change. These products should also see increasing interest in Asian countries, thanks to an ageing population and growing affluence. In Germany it is expected that future developments in the traditional life insurance market will depend heavily on the practical implementation of the legislative reforms currently under discussion, including participation in the revaluation reserves and the reduction in the guaranteed interest rate, among other factors.

In life and health reinsurance, we are anticipating that organic gross premium growth adjusted for exchange rate effects will amount to a low single-digit percentage in 2014. In the Australian group insurance business we managed to achieve our asking prices. Here, too, we will systematically avoid business where risk cannot be incurred at adequate prices. The value of new business (excluding non-controlling interests) should exceed EUR 90 million. We are aiming for an EBIT margin of at least 2% in the financial solutions and longevity reporting categories. The objective for our mortality and morbidity business remains an EBIT margin of 6%. Return on equity for the Reinsurance Division should be around 15% in 2014.

ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

There has been no material change in opportunities since the 2013 reporting year. Please refer to the Talanx Group Annual Report 2013 with regard to this.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 30 JUNE 2014

CONSOLIDATED BALANCE SHEET – ASSETS

FIGURES IN EUR MILLION

	Notes	30.6.2014	31.12.2013 ¹⁾
A. Intangible assets	1		
a. Goodwill		1,109	1,105
b. Other intangible assets		1,380	1,446
		2,489	2,551
B. Investments			
a. Investment property		1,801	1,623
b. Investments in affiliated companies and participating interests		123	92
c. Investments in associated companies and joint ventures		251	247
d. Loans and receivables	2	31,268	32,231
e. Other financial instruments			
i. Held to maturity	3	2,646	2,984
ii. Available for sale	4/6	49,018	44,922
iii. At fair value through profit or loss	5/6	1,102	1,090
f. Other invested assets	6	4,043	3,121
Investments under own management		90,252	86,310
g. Investments under investment contracts		1,948	1,758
h. Funds withheld by ceding companies		13,328	12,894
Investments		105,528	100,962
C. Investments for the account and risk of holders of life insurance policies		8,896	8,325
D. Reinsurance recoverables on technical provisions		7,158	6,604
E. Accounts receivable on insurance business		5,744	5,039
F. Deferred acquisition costs		4,492	4,513
G. Cash		1,883	1,864
H. Deferred tax assets		658	546
I. Other assets		2,615	2,201
J. Non-current assets and assets of disposal groups classified as held for sale ²⁾		236	248
Total assets		139,699	132,853

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

CONSOLIDATED BALANCE SHEET – LIABILITIES

FIGURES IN EUR MILLION

	Notes	30.6.2014	31.12.2013 ¹⁾
A. Shareholders' equity	7		
a. Common shares		316	316
Nominal value: 316 (previous year: 316)			
Conditional capital: 104 (previous year: 104)			
b. Reserves		7,329	6,868
Shareholders' equity excluding non-controlling interests		7,645	7,184
d. Non-controlling interests in shareholders' equity		4,280	3,997
Total shareholders' equity		11,925	11,181
B. Subordinated liabilities	8	2,358	3,107
C. Technical provisions	9		
a. Unearned premium reserve		7,117	5,678
b. Benefit reserve		50,797	49,767
c. Loss and loss adjustment expense reserve		35,095	33,775
d. Provision for premium refunds		3,508	2,178
e. Other technical provisions		312	319
		96,829	91,717
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders		8,896	8,325
E. Other provisions			
a. Provisions for pensions and similar obligations		1,921	1,696
b. Provisions for taxes		714	711
c. Sundry provisions		612	688
		3,247	3,095
F. Liabilities			
a. Notes payable and loans	10	1,122	942
b. Funds withheld under reinsurance treaties		5,599	5,535
c. Other liabilities	6	7,349	6,969
		14,070	13,446
G. Deferred tax liabilities		2,136	1,749
H. Liabilities of disposal groups classified as held for sale ²⁾		238	233
Total liabilities/provisions		127,774	121,672
Total liabilities		139,699	132,853

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

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 30 JUNE 2014

CONSOLIDATED STATEMENT OF INCOME

FIGURES IN EUR MILLION

	Notes	6M 2014	6M 2013 ¹⁾	Q2 2014	Q2 2013 ¹⁾
1. Gross written premium including premium from unit-linked life and annuity insurance		14,975	14,966	6,561	6,508
2. Savings elements of premiums from unit-linked life and annuity insurance		526	583	307	325
3. Ceded written premium		1,959	1,899	590	736
4. Change in gross unearned premium		-1,379	-1,344	340	352
5. Change in ceded unearned premium		-197	-358	295	16
Net premium earned	11	11,308	11,498	5,709	5,783
6. Claims and claims expenses (gross)		10,629	10,332	5,316	5,354
Reinsurers' share		1,343	971	771	643
Claims and claims expenses (net)	14	9,286	9,361	4,545	4,711
7. Acquisition costs and administrative expenses (gross)		2,980	3,000	1,606	1,583
Reinsurers' share		242	268	90	129
Acquisition costs and administrative expenses (net)	15	2,738	2,732	1,516	1,454
8. Other technical income		24	27	-5	14
Other technical expenses		83	148	48	96
Other technical result		-59	-121	-53	-82
Net technical result		-775	-716	-405	-464
9. a. Income from investments		1,977	1,948	946	1,067
b. Expenses for investments		196	251	91	154
Net income from investments under own management		1,781	1,697	855	913
Income/expense from investment contracts		2	4	2	2
Net interest income from funds withheld and contract deposits		165	176	81	87
Net investment income	12/13	1,948	1,877	938	1,002
thereof income/expense from associated companies and joint ventures recognised using the equity method		6	6	2	5
10. a. Other income		338	394	110	164
b. Other expenses		506	523	192	197
Other income/expenses	16	-168	-129	-82	-33
Profit before goodwill impairments		1,005	1,032	451	505
11. Goodwill impairments		—	—	—	—
Operating profit/loss (EBIT)		1,005	1,032	451	505
12. Financing costs		89	104	41	54
13. Taxes on income		259	256	121	128
Net income		657	672	289	323
thereof attributable to non-controlling interests		276	262	124	119
thereof attributable to shareholders of Talanx AG		381	410	165	204
Earnings per share					
Basic earnings per share (figures in EUR)		1.51	1.62	0.65	0.81
Diluted earnings per share (figures in EUR)		1.51	1.62	0.65	0.81

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

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 30 JUNE 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FIGURES IN EUR MILLION

	6M 2014	6M 2013 ¹⁾	Q2 2014	Q2 2013 ¹⁾
Net income	657	672	289	323
Not reclassifiable in the consolidated statement of income				
Actuarial gains (losses) on pension provisions				
Gains (losses) recognised in other comprehensive income during the period	-228	-18	-72	2
Tax income (expense)	69	6	22	—
	-159	-12	-50	2
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income during the period	9	1	3	1
Tax income (expense)	—	—	—	—
	9	1	3	1
Total non-reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	-150	-11	-47	3
Reclassifiable in the consolidated statement of income				
Unrealised gains and losses from investments				
Gains (losses) recognised in other comprehensive income during the period	2,018	-847	1,068	-834
Shifted to the consolidated statement of income	-228	-199	-84	-134
Tax income (expense)	-295	219	-163	201
	1,495	-827	821	-767
Currency translation				
Gains (losses) recognised in other comprehensive income during the period	102	-246	101	-299
Shifted to the consolidated statement of income	—	-4	—	—
Tax income (expense)	-10	14	-9	25
	92	-236	92	-274
Changes in policyholder participation/shadow accounting				
Gains (losses) recognised in other comprehensive income during the period	-1,022	331	-576	284
Tax income (expense)	36	-11	19	-8
	-986	320	-557	276
Changes from cash flow hedges				
Gains (losses) recognised in other comprehensive income during the period	193	-48	98	-43
Shifted to the consolidated statement of income	—	—	—	—
Tax income (expense)	-8	1	-4	1
	185	-47	94	-42
Changes attributable to equity-accounted investments				
Gains (losses) recognised in other comprehensive income during the period	—	-1	—	-1
Shifted to the consolidated statement of income	—	—	—	—
	—	-1	—	-1
Other changes				
Gains (losses) recognised in other comprehensive income during the period	—	—	—	-1
Shifted to the consolidated statement of income	—	—	—	—
Tax income (expense)	—	—	—	—
	—	—	—	-1
Total reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	786	-791	450	-809
Income (expenses) after taxes recognised in other comprehensive income during the period	636	-802	403	-806
Total comprehensive income during the period	1,293	-130	692	-483
thereof attributable to non-controlling interests	530	-29	276	-178
thereof attributable to shareholders of Talanx AG	763	-101	416	-305

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

CHANGES IN SHAREHOLDERS' EQUITY

FIGURES IN EUR MILLION

	Common shares	Additional paid-in capital	Retained earnings
2013			
As at 31.12.2012	316	1,369	4,830
Adjustments on the basis of IAS 8 ¹⁾	—	—	—18
As at 1.1.2013 adjusted	316	1,369	4,812
Changes in ownership interest without change of control status	—	—	—1
Other changes in scope of consolidation	—	—	—
Net income ¹⁾	—	—	410
Income and expenses recognised in other comprehensive income	—	—	—
thereof not reclassifiable	—	—	—
thereof actuarial gains or losses on pension provisions	—	—	—
thereof changes in policyholder participation/shadow accounting	—	—	—
thereof reclassifiable	—	—	—
thereof unrealised gains and losses from investments	—	—	—
thereof currency translation ¹⁾	—	—	—
thereof change from cash flow hedges	—	—	—
thereof change in equity-accounted investments	—	—	—
thereof sundry changes ^{1), 2)}	—	—	—
Total comprehensive income	—	—	410
Capital increase	—	—	—
Capital reduction	—	—	—
Dividends to shareholders	—	—	—265
As at 30.6.2013	316	1,369	4,956
2014			
As at 31.12.2013	316	1,373	5,337
Adjustments on the basis of IAS 8 ¹⁾	—	—	—30
As at 1.1.2014 adjusted	316	1,373	5,307
Changes in ownership interest without change of control status	—	—	1
Other changes in scope of consolidation	—	—	—
Net income	—	—	381
Income and expenses recognised in other comprehensive income	—	—	—
thereof not reclassifiable	—	—	—
thereof actuarial gains or losses on pension provisions	—	—	—
thereof changes in policyholder participation/shadow accounting	—	—	—
thereof reclassifiable	—	—	—
thereof unrealised gains and losses from investments	—	—	—
thereof currency translation	—	—	—
thereof change from cash flow hedges	—	—	—
thereof change in equity-accounted investments	—	—	—
thereof sundry changes ²⁾	—	—	—
Total comprehensive income	—	—	381
Dividends to shareholders	—	—	—303
As at 30.6.2014	316	1,373	5,386

¹⁾ Adjusted on the basis of IAS 8. Cf. "Accounting policies" section of the Notes, subsection "Changes in accounting policies and accounting errors"²⁾ Sundry changes consist of policyholder participation/shadow accounting as well as other changes

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

Other reserves						
Unrealised gains/losses on investments	Gains/losses from currency translation	Other changes in shareholders' equity	Measurement gains and losses from cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interests	Total shareholders' equity
1,949	48	-1,446	87	7,153	4,156	11,309
—	—	—	—	-18	—	-18
1,949	48	-1,446	87	7,135	4,156	11,291
—	—	—	—	-1	1	—
—	—	—	—	—	-14	-14
—	—	—	—	410	262	672
-573	-176	281	-43	-511	-291	-802
—	—	-12	—	-12	1	-11
—	—	-13	—	-13	1	-12
—	—	1	—	1	—	1
-573	-176	293	-43	-499	-292	-791
-573	—	—	—	-573	-254	-827
—	-176	—	—	-176	-60	-236
—	—	—	-43	-43	-4	-47
—	—	-1	—	-1	—	-1
—	—	294	—	294	26	320
-573	-176	281	-43	-101	-29	-130
—	—	—	—	—	2	2
—	—	—	—	—	-2	-2
—	—	—	—	-265	-257	-522
1,376	-128	-1,165	44	6,768	3,857	10,625
1,269	-209	-906	34	7,214	3,997	11,211
—	—	—	—	-30	—	-30
1,269	-209	-906	34	7,184	3,997	11,181
—	—	—	—	1	-1	—
—	—	—	—	—	-1	-1
—	—	—	—	381	276	657
1,207	54	-1,048	169	382	254	636
—	—	-143	—	-143	-7	-150
—	—	-151	—	-151	-8	-159
—	—	8	—	8	1	9
1,207	54	-905	169	525	261	786
1,207	—	—	—	1,207	288	1,495
—	54	—	—	54	38	92
—	—	—	169	169	16	185
—	—	—	—	—	—	—
—	—	-905	—	-905	-81	-986
1,207	54	-1,048	169	763	530	1,293
—	—	—	—	-303	-245	-548
2,476	-155	-1,954	203	7,645	4,280	11,925

CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2014

CONSOLIDATED CASH FLOW STATEMENT

FIGURES IN EUR MILLION

	6M 2014	6M 2013 ¹⁾
I. 1. Net income	657	672
I. 2. Changes in technical provisions	3,120	3,386
I. 3. Changes in deferred acquisition costs	-9	-113
I. 4. Changes in funds withheld and in accounts receivable and payable	-769	-819
I. 5. Changes in other receivables and liabilities as well as investments and liabilities from investment contracts	239	125
I. 6. Changes in financial assets held for trading	50	-1
I. 7. Net gains and losses on investments and property, plant and equipment	-309	-315
I. 8. Other non-cash expenses and income (including income tax expense/income)	427	427
I. Cash flows from operating activities²⁾	3,406	3,362
II. 1. Cash inflow from the sale of consolidated companies	—	-6
II. 2. Cash outflow from the purchase of consolidated companies	-4	—
II. 3. Cash inflow from the sale of real estate	24	29
II. 4. Cash outflow from the purchase of real estate	-189	-308
II. 5. Cash inflow from the sale and maturity of financial instruments	12,591	11,476
II. 6. Cash outflow from the purchase of financial instruments	-13,071	-12,702
II. 7. Changes in investments for the account and risk of holders of life insurance policies	-566	-466
II. 8. Changes in other invested assets	-846	-1,381
II. 9. Cash outflows from the acquisition of tangible and intangible assets	-75	-55
II. 10. Cash inflows from the sale of tangible and intangible assets	7	10
II. Cash flows from investing activities	-2,129	-3,403
III. 1. Cash inflow from capital increases	—	2
III. 2. Cash outflow from capital reductions	—	-2
III. 3. Dividends paid	-548	-522
III. 4. Net changes from other financing activities	-716	232
III. Cash flows from financing activities	-1,264	-290
Change in cash and cash equivalents (I. + II. + III.)	13	-331
Cash and cash equivalents at the beginning of the reporting period, excluding disposal groups	1,864	2,119
Cash and cash equivalents – exchange-rate differences on cash	8	-53
Changes in cash and cash equivalents attributable to scope of consolidation³⁾	-4	3
Changes in cash and cash equivalents of disposal groups in the reporting period	2	2
Cash and cash equivalents at the end of the reporting period, excluding disposal groups	1,883	1,740
Additional information		
Taxes paid	172	268
Interest paid ⁴⁾	202	173
Dividends received	33	38
Interest received	1,646	1,768

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

²⁾ Taxes paid on income as well as 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, which results in deviations from our figures in Note 12 "Net investment income"

³⁾ This item essentially includes changes in the scope of consolidation excluding disposals and acquisitions

⁴⁾ EUR 145 (122) million of interest paid pertains to cash flows from financing activities, EUR 31 (35) million to cash flows from operating activities and EUR 26 (16) million to cash flows from investing activities

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

NOTES AND EXPLANATORY REMARKS

I. GENERAL ACCOUNTING PRINCIPLES AND APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

GENERAL ACCOUNTING PRINCIPLES

The consolidated half-yearly financial report as at 30 June 2014 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 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 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 30 June 2014, 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 2013. We report 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, other than the situation described in the section "Accounting policies". The tax expenditure (domestic income taxes, comparable taxes on income of 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 net income of the reporting period. When extrapolating the 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 comprehensive income" ("Other reserves"). Other actuarial parameters are not updated during the year.

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 2014, the Group for the first time applied the following changed or new IFRSs:

On 20 May 2013 the IASB published **IFRIC 21 "Levies"**. This clarifies how liabilities should be recognised for levies and in particular when these liabilities which are imposed by a government body and do not fall under the scope of a different standard, should be carried. The interpretation standard is applicable for the first time to financial years beginning on or after 1 January 2014. However, application of the interpretation has only been mandatory since its endorsement by the EU in June 2014. This provision has no practical relevance for the Group, since it merely involves a clarification that corresponds to our current accounting practice.

In June 2013 the IASB adopted "**Novation of Derivatives and Continuation of Hedge Accounting**" (**Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"**). According to this amendment, despite novation the derivative remains designated as a hedging instrument in an existing hedging relationship. Application of this amendment had no impact for the Group.

The IASB adapted the provisions governing set-off 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. This amendment was applied by the Group retrospectively and had no significant impact.

On 12 May 2011 the IASB published three new (IFRS 10, IFRS 11, IFRS 12) and two revised (IAS 27, IAS 28) standards governing consolidation, the 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. The revised IAS 27 contains only provisions on accounting requirements for interests in subsidiaries, associated companies and joint ventures disclosed in the parent company’s individual financial statements. Aside from several minor changes, the wording of the previous standard was retained. Initial application of IFRS 10 had no impact for the Group on the consolidation of participating interests and structured entities held by the Group. For more detailed comments about the new control principle, cf. our remarks in the section “Consolidation”, subsection “Consolidation principles”.

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 it is no longer permitted to consolidate joint ventures, e.g. arrangements where the parties have rights to the net assets, on a proportional basis. The equity method must be applied in future where an entity is classified as a joint venture. Initial application of IFRS 11 had no impact on the Group. The significant joint ventures included in the financial statements were already being consolidated using the equity method. There are no joint venture activities pursuant to which the Group has rights to assets attributable to an agreement and liabilities for their debts.

The revised **IAS 28 “Investments in Associates and Joint Ventures”** is being expanded to include rules governing accounting for interests in joint ventures. In future, the equity method must be applied as standard. This is consistent with how the Group has been treating such interests. Another amendment affects accounting procedures in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” if only part of an interest in an associated company/joint venture is held for sale. IFRS 5 must be applied only to the portion held for sale. Since there are currently no plans to sell portions of our interests in our associated companies/joint ventures, this new accounting rule had no impact as at the balance sheet date.

Disclosure requirements relating to the consolidation and accounting treatment of interests in associated companies and joint ventures are brought together 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, unconsolidated structured entities, 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, including risks. These duties of disclosure are not to be applied to interim consolidated financial statements unless material events or transactions during the interim reporting period make disclosure necessary. Consequently, the Group has not made such disclosures.

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, IFRS 11 and IFRS 12. In October 2012, the IASB announced further amendments to IFRS 10, IFRS 12 and IAS 27, which contain an exception to the full consolidation of controlled subsidiaries. These amendments provide that parent companies meeting 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 is not affected by this exception, meaning that this amendment has no practical relevance for the consolidated financial statements.

II. ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ERRORS

In recognising the interest rate-driven portion of the change in the loss and loss adjustment expense reserve (loss provision), various Group companies exercised an option in different ways for certain contracts in the area of Life/Health Reinsurance. For instance, this item was sometimes recognised in the statement of income and sometimes in the statement of other comprehensive income. In accordance with the rules in IAS 8, we provided in the fourth quarter of 2013 for uniform Group recognition in the statement of income, and in accordance with IAS 8.41, we have made a corresponding adjustment to the comparable figures (see a)).

Effective 30 June 2014, the Group retrospectively corrected accounts receivable recognised in prior periods relating to own risks assumed in respect of a client relationship in the Industrial Lines segment in accordance with IAS 8.41 and restated the comparative amounts (see b)).

The effects of the retroactive application of the adjustments described in b) on the opening balance sheet as at 1 January 2013, the consolidated balance sheet as at 31 December 2013, the consolidated statement of income and the consolidated statement of comprehensive income for the comparative period (see a) and b)) were as follows:

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2013

FIGURES IN EUR MILLION

	As reported 1.1.2013	Changes due to adjustments in accordance with IAS 8	1.1.2013
		Adjustment relating to b)	
Assets			
D. Reinsurance recoverables on technical provisions	6,989	4	6,993
E. Accounts receivable on insurance business	5,081	-20	5,061
Shareholders' equity and liabilities			
A.b. Reserves	7,153	-18	7,135
C.c. Loss and loss adjustment expense reserve	33,243	10	33,253
G. Deferred tax liabilities	1,984	-8	1,976

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

FIGURES IN EUR MILLION

	As reported 31.12.2013	Changes due to adjustments in accordance with IAS 8 (incl. adjustments as at 1.1.2013)	31.12.2013
		Adjustment relating to b)	
Assets			
D. Reinsurance recoverables on technical provisions	6,596	8	6,604
E. Accounts receivable on insurance business	5,071	-32	5,039
H. Deferred tax assets	532	14	546
Shareholders' equity and liabilities			
A.b. Reserves	6,898	-30	6,868
C.c. Loss and loss adjustment expense reserve	33,755	20	33,775

EFFECTS ON THE CONSOLIDATED STATEMENT OF INCOME FROM 1 JANUARY 2013 TO 30 JUNE 2013

FIGURES IN EUR MILLION

	As reported 1.1. – 30.6.2013	Changes due to adjustments in accordance with IAS 8		1.1. – 30.6.2013
		Adjustment relating to a)	Adjustment relating to b)	
6. Claims and claims expenses (gross)	10,344	–24	12	10,332
Reinsurers' share	969	–2	4	971
13. Taxes on income	253	6	–3	256
Net income	661	16	–5	672
thereof attributable to non-controlling interests	254	8	—	262
thereof attributable to shareholders of Talanx AG	407	8	–5	410

EFFECTS ON THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2013 TO 30 JUNE 2013

FIGURES IN EUR MILLION

	As reported 1.1. – 30.6.2013	Changes due to adjustments in accordance with IAS 8		1.1. – 30.6.2013
		Adjustment relating to a)	Adjustment relating to b)	
Net income	661	16	–5	672
Currency translation				
Gains (losses) recognised in other comprehensive income during the period	–247	1	—	–246
Shifted to the consolidated statement of income	–4	—	—	–4
Tax income (expense)	14	—	—	14
	–237	1	—	–236
Other changes				
Gains (losses) recognised in other comprehensive income during the period	24	–24	—	—
Shifted to the consolidated statement of income	—	—	—	—
Tax income (expense)	–7	7	—	—
	17	–17	—	—
Total reclassifiable income (expenses) after taxes recognised in other comprehensive income during the period	–775	–16	—	–791
Income (expenses) after taxes recognised in other comprehensive income during the period	–786	–16	—	–802
Total comprehensive income during the period	–125	—	–5	–130
thereof attributable to shareholders of Talanx AG	–96	—	–5	–101

The effect of these changes on earnings per share in the comparable period was as follows:

EFFECTS ON EARNINGS PER SHARE AS AT 30 JUNE 2013

FIGURES IN EUR

	As reported 30.6.2013	Changes due to adjustments in accordance with IAS 8		30.6.2013
		Adjustment relating to a)	Adjustment relating to b)	
Basic earnings per share	1.61	0.03	–0.02	1.62
Diluted earnings per share	1.61	0.03	–0.02	1.62

EFFECTS ON EARNINGS PER SHARE AS AT 30 JUNE 2013

FIGURES IN EUR

	As reported 1.4. – 30.6.2013	Changes due to adjustments in accordance with IAS 8		1.4. – 30.6.2013
		Adjustment relating to a)	Adjustment relating to b)	
Basic earnings per share	0.81	0.01	–0.01	0.81
Diluted earnings per share	0.81	0.01	–0.01	0.81

CHANGES IN ESTIMATES DURING THE REPORTING PERIOD

With effect from the third quarter of 2013, the calculation logic for amortising inflation-indexed government bonds was modified in order to level out seasonal deviations in the underlying inflation indexes. This involves changing an accounting-related estimate that pursuant to IAS 8 is to be made prospectively in the reporting period without adjusting the comparable figures for previous years. If the parameters and procedures used until 30 June 2013 had been maintained, the amount of amortisation in the reporting period would have been higher by EUR 3 million. In future, amortisation amounts will not be different at the end of each year, since adjustment of the parameters merely constitutes a levelling during the year that has an effect only at the end of the respective quarter.

CURRENCY TRANSLATION

The reporting currency of Talanx AG is the euro (EUR).

EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

1 EUR corresponds to	Balance sheet (balance sheet date)		Statement of income (average)	
	30.6.2014	31.12.2013	6M 2014	6M 2013
AUD Australia	1.4532	1.5513	1.5071	1.3019
BRL Brazil	3.0283	3.2095	3.1496	2.6835
CAD Canada	1.4587	1.4751	1.5000	1.3358
CNY China	8.4694	8.3445	8.4507	8.1166
GBP United Kingdom	0.8012	0.8357	0.8213	0.8489
MXN Mexico	17.7121	17.9831	17.9769	16.6573
PLN Poland	4.1566	4.1502	4.1786	4.1966
USD USA	1.3656	1.3766	1.3714	1.3114
ZAR South Africa	14.4770	14.4390	14.6357	12.1184

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. 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 statements 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 from 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, financial 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 segments 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 reinsurance¹⁾: The most important activities are 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, structured reinsurance, and facultative and NatCat business.

Life/health reinsurance¹⁾: The segment comprises the international activities of the Hannover Re Group in all lines of life/health insurance. The Group also has specialty line products such as Sharia-compliant reinsurance.

¹⁾ For the difference in the segment result between the Talanx Group and the Hannover Re Group, cf. our remarks at the start of the section

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 Ampega Investment GmbH, Cologne, is also shown in this segment. This segment includes centralised service companies that provide specific 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 segment statement of income in line with the consolidated statement of income. The same applies to the segment balance sheet and the consolidated balance sheet.

Depending upon the nature and time frame of the commercial activities, various management metrics 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. 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).

SEGMENT REPORTING. BALANCE SHEET AS AT 30 JUNE 2014

FIGURES IN EUR MILLION

Assets	Industrial Lines		Retail Germany		Retail International	
	30.6.2014	31.12.2013 ¹⁾	30.6.2014	31.12.2013	30.6.2014	31.12.2013
A. Intangible assets						
a. Goodwill	153	153	403	403	537	533
b. Other intangible assets	15	16	944	1,000	216	235
	168	169	1,347	1,403	753	768
B. Investments						
a. Investment property	39	21	826	734	19	21
b. Investments in affiliated companies and participating interests	19	19	16	17	—	—
c. Investments in associated companies and joint ventures	123	124	33	35	—	—
d. Loans and receivables	1,813	2,029	25,644	26,466	800	672
e. Other financial instruments						
i. Held to maturity	86	32	167	116	394	353
ii. Available for sale	4,356	3,821	16,142	14,194	4,583	3,883
iii. At fair value through profit or loss	144	98	274	319	571	565
f. Other invested assets	736	524	1,259	549	470	528
Investments under own management	7,316	6,668	44,361	42,430	6,837	6,022
g. Investments under investment contracts	—	—	—	—	1,948	1,758
h. Funds withheld by ceding companies	23	23	26	25	—	—
Investments	7,339	6,691	44,387	42,455	8,785	7,780
C. Investments for the account and risk of holders of life insurance policies	—	—	8,206	7,616	690	709
D. Reinsurance recoverables on technical provisions	5,081	4,640	2,490	2,446	745	668
E. Accounts receivable on insurance business	1,333	1,168	332	364	855	820
F. Deferred acquisition costs	34	16	1,974	2,161	455	403
G. Cash	355	322	379	398	406	427
H. Deferred tax assets	132	75	94	95	89	99
I. Other assets	476	423	998	794	441	409
J. Non-current assets and assets of disposal groups classified as held for sale ²⁾	—	—	—	4	236	233
Total assets	14,918	13,504	60,207	57,736	13,455	12,316

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

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013 ¹⁾
16	16	—	—	—	—	—	—	1,109	1,105
24	22	95	94	86	79	—	—	1,380	1,446
40	38	95	94	86	79	—	—	2,489	2,551
915	845	2	2	—	—	—	—	1,801	1,623
66	32	—	—	22	24	—	—	123	92
129	126	19	19	13	13	–66	–70	251	247
2,930	3,137	70	72	11	11	—	–156	31,268	32,231
2,091	2,469	196	198	3	6	–291	–190	2,646	2,984
17,490	16,918	6,094	5,768	353	338	—	—	49,018	44,922
53	38	59	69	1	1	—	—	1,102	1,090
1,545	1,536	321	281	265	245	–553	–542	4,043	3,121
25,219	25,101	6,761	6,409	668	638	–910	–958	90,252	86,310
—	—	—	—	—	—	—	—	1,948	1,758
942	890	13,816	13,453	—	—	–1,479	–1,497	13,328	12,894
26,161	25,991	20,577	19,862	668	638	–2,389	–2,455	105,528	100,962
—	—	—	—	—	—	—	—	8,896	8,325
1,180	1,307	758	589	4	1	–3,100	–3,047	7,158	6,604
2,267	1,702	1,235	1,243	15	4	–293	–262	5,744	5,039
577	491	1,189	1,181	3	2	260	259	4,492	4,513
484	434	203	209	56	74	—	—	1,883	1,864
17	16	81	56	245	205	—	—	658	546
1,456	1,273	181	151	376	483	–1,313	–1,332	2,615	2,201
—	11	—	—	—	—	—	—	236	248
32,182	31,263	24,319	23,385	1,453	1,486	–6,835	–6,837	139,699	132,853

SEGMENT REPORTING. BALANCE SHEET AS AT 30 JUNE 2014

FIGURES IN EUR MILLION

Liabilities	Industrial Lines		Retail Germany		Retail International	
	30.6.2014	31.12.2013 ¹⁾	30.6.2014	31.12.2013	30.6.2014	31.12.2013
B. Subordinated liabilities	142	144	212	213	2	2
C. Technical provisions						
a. Unearned premium reserve	1,552	936	1,205	888	1,746	1,591
b. Benefit reserve	1	1	36,987	36,795	3,007	2,554
c. Loss and loss adjustment expense reserve	8,773	8,463	2,718	2,701	2,283	2,142
d. Provision for premium refunds	8	8	3,319	2,071	181	99
e. Other technical provisions	34	34	9	8	7	8
	10,368	9,442	44,238	42,463	7,224	6,394
D. Technical provisions in the area of life insurance insofar as the investment risk is borne by policyholders	—	—	8,206	7,616	690	709
E. Other provisions						
a. Provisions for pensions and other post-employment benefits	559	502	112	92	16	14
b. Provisions for taxes	151	130	131	116	72	92
c. Sundry provisions	70	70	207	266	70	74
	780	702	450	474	158	180
F. Liabilities						
a. Notes payable and loans	—	—	—	—	—	—
b. Funds withheld under reinsurance treaties	23	27	1,973	1,951	183	184
c. Other liabilities	1,490	1,283	2,023	2,138	2,733	2,543
	1,513	1,310	3,996	4,089	2,916	2,727
G. Deferred tax liabilities	99	39	337	285	143	121
H. Liabilities of disposal groups classified as held for sale ²⁾	—	—	—	—	238	235
Total liabilities/provisions	12,902	11,637	57,439	55,140	11,371	10,368

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013 ¹⁾
1,491	2,238	63	60	612	612	-164	-162	2,358	3,107
2,703	2,297	122	108	18	8	-229	-150	7,117	5,678
—	—	11,012	10,632	—	—	-210	-215	50,797	49,767
19,473	18,848	3,038	2,821	14	9	-1,204	-1,209	35,095	33,775
—	—	—	—	—	—	—	—	3,508	2,178
127	129	137	140	—	—	-2	—	312	319
22,303	21,274	14,309	13,701	32	17	-1,645	-1,574	96,829	91,717
—	—	—	—	—	—	—	—	8,896	8,325
105	90	33	27	1,096	971	—	—	1,921	1,696
174	218	28	4	158	151	—	—	714	711
83	90	40	45	144	145	-2	-2	612	688
362	398	101	76	1,398	1,267	-2	-2	3,247	3,095
287	227	225	213	1,281	1,217	-671	-715	1,122	942
401	440	5,825	5,778	—	—	-2,806	-2,845	5,599	5,535
911	953	1,631	1,495	122	112	-1,561	-1,555	7,349	6,969
1,599	1,620	7,681	7,486	1,403	1,329	-5,038	-5,115	14,070	13,446
1,225	1,005	307	271	—	—	25	28	2,136	1,749
—	—	—	—	—	—	—	-2	238	233
26,980	26,535	22,461	21,594	3,445	3,225	-6,824	-6,827	127,774	121,672
Shareholders' equity ³⁾								11,925	11,181
Total liabilities								139,699	132,853

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

²⁾ Cf. our remarks in the section "Non-current assets held for sale and disposal groups" of the Notes

³⁾ Group shareholders' equity, including non-controlling interests

SEGMENT REPORTING. STATEMENT OF INCOME FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2014

FIGURES IN EUR MILLION

	Industrial Lines		Retail Germany		Retail International	
	6M 2014	6M 2013 ¹⁾	6M 2014	6M 2013	6M 2014	6M 2013
1. Gross written premium, including premiums from unit-linked life and annuity insurance	2,497	2,399	3,563	3,623	2,255	2,151
thereof attributable to other segments	47	23	28	32	—	—
with third parties	2,450	2,376	3,535	3,591	2,255	2,151
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	479	471	47	112
3. Ceded written premium	1,157	1,252	170	175	191	205
4. Change in gross unearned premium	–610	–605	–317	–329	–132	–117
5. Change in ceded unearned premium	–197	–353	–16	–15	–27	–31
Net premium earned	927	895	2,613	2,663	1,912	1,748
6. Claims and claims expenses (gross)	1,434	1,315	2,798	2,830	1,553	1,284
Reinsurers' share	737	572	77	69	124	50
Claims and claims expenses (net)	697	743	2,721	2,761	1,429	1,234
7. Acquisition costs and administrative expenses (gross)	374	353	722	612	480	508
Reinsurers' share	157	180	46	54	34	41
Acquisition costs and administrative expenses (net)	217	173	676	558	446	467
8. Other technical income	4	8	6	7	11	10
Other technical expenses	11	6	30	83	34	40
thereof attributable to amortisation PVFP	—	—	22	76	7	16
Other technical result	–7	2	–24	–76	–23	–30
Net technical result	6	–19	–808	–732	14	17
9. a. Income from investments	171	132	1,028	965	176	180
b. Expenses for investments	20	24	82	81	21	37
Net income from investments under own management	151	108	946	884	155	143
Income/expense from investment contracts	—	—	—	—	2	4
Net interest income from funds withheld and contract deposits	—	—	–9	–12	–1	–1
Net investment income	151	108	937	872	156	146
thereof attributable to interest and similar income	102	102	789	775	166	155
attributable to interest and similar expenses	1	—	10	12	26	40
impairments/depreciation on investments	1	5	14	16	1	6
write-ups on investments	7	—	3	—	—	—
income/expense from associated companies and joint ventures recognised using the equity method	—	—	—	—	—	—
10. a. Other income	42	48	88	82	32	41
b. Other expenses	58	67	120	132	78	91
Other income/expenses	–16	–19	–32	–50	–46	–50
thereof attributable to interest and similar income	—	—	1	1	6	8
write-ups on accounts receivable and other assets	4	—	—	—	2	1
attributable to interest and similar expenses	10	10	4	3	1	2
write-downs on accounts receivable and other assets	9	14	1	2	16	30
Profit before goodwill impairments	141	70	97	90	124	113
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	141	70	97	90	124	113
12. Financing costs	4	6	7	6	2	1
13. Taxes on income	48	23	30	30	32	31
Net income	89	41	60	54	90	81
thereof attributable to non-controlling interests	—	—	3	2	16	15
thereof attributable to shareholders of Talanx AG	89	41	57	52	74	66

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

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
6M 2014	6M 2013	6M 2014	6M 2013 ¹⁾	6M 2014	6M 2013	6M 2014	6M 2013	6M 2014	6M 2013 ¹⁾
4,078	4,097	2,987	3,130	35	25	-440	-459	14,975	14,966
254	284	76	95	35	25	-440	-459	—	—
3,824	3,813	2,911	3,035	—	—	—	—	14,975	14,966
—	—	—	—	—	—	—	—	526	583
362	400	504	325	8	5	-433	-463	1,959	1,899
-374	-329	-14	-17	-11	-14	79	67	-1,379	-1,344
-28	-36	—	1	-4	—	75	76	-197	-358
3,370	3,404	2,469	2,787	20	6	-3	-5	11,308	11,498
2,488	2,500	2,533	2,568	10	7	-187	-172	10,629	10,332
156	164	442	300	-1	3	-192	-187	1,343	971
2,332	2,336	2,091	2,268	11	4	5	15	9,286	9,361
932	944	565	720	4	2	-97	-139	2,980	3,000
53	65	43	35	—	—	-91	-107	242	268
879	879	522	685	4	2	-6	-32	2,738	2,732
2	1	—	—	—	—	1	1	24	27
5	-1	3	6	1	1	-1	13	83	148
—	—	2	2	—	—	—	—	31	94
-3	2	-3	-6	-1	-1	2	-12	-59	-121
156	191	-147	-172	4	-1	—	—	-775	-716
471	469	148	152	14	83	-31	-33	1,977	1,948
68	99	15	17	36	35	-46	-42	196	251
403	370	133	135	-22	48	15	9	1,781	1,697
—	—	—	—	—	—	—	—	2	4
9	8	166	180	—	—	—	1	165	176
412	378	299	315	-22	48	15	10	1,948	1,877
339	354	341	363	3	6	-35	-37	1,705	1,718
1	2	63	66	—	—	-4	-5	97	115
10	8	—	—	—	1	—	—	26	36
—	—	—	—	—	—	—	—	10	—
4	6	—	—	2	—	—	—	6	6
109	120	55	70	363	408	-351	-375	338	394
144	122	55	83	351	370	-300	-342	506	523
-35	-2	—	-13	12	38	-51	-33	-168	-129
1	2	6	5	3	1	-3	-1	14	16
5	7	—	—	—	—	—	—	11	8
8	9	21	29	21	17	-6	-5	59	65
17	15	5	4	2	1	—	—	50	66
533	567	152	130	-6	85	-36	-23	1,005	1,032
—	—	—	—	—	—	—	—	—	—
533	567	152	130	-6	85	-36	-23	1,005	1,032
49	63	1	2	56	56	-30	-30	89	104
128	141	28	33	-5	-2	-2	—	259	256
356	363	123	95	-57	31	-4	7	657	672
191	197	66	48	—	—	—	—	276	262
165	166	57	47	-57	31	-4	7	381	410

SEGMENT REPORTING. STATEMENT OF INCOME FOR THE PERIOD FROM 1 APRIL TO 30 JUNE 2014

FIGURES IN EUR MILLION

	Industrial Lines		Retail Germany		Retail International	
	Q2 2014	Q2 2013 ¹⁾	Q2 2014	Q2 2013	Q2 2014	Q2 2013
1. Gross written premium, including premiums from unit-linked life and annuity insurance	733	664	1,536	1,510	1,091	1,095
thereof attributable to other segments	23	14	14	16	—	—
with third parties	710	650	1,522	1,494	1,091	1,095
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	284	252	23	73
3. Ceded written premium	253	476	71	76	75	87
4. Change in gross unearned premium	222	231	141	158	–55	–66
5. Change in ceded unearned premium	182	–37	–4	—	9	–2
Net premium earned	520	456	1,326	1,340	929	871
6. Claims and claims expenses (gross)	876	866	1,294	1,451	757	647
Reinsurers' share	476	477	38	32	75	27
Claims and claims expenses (net)	400	389	1,256	1,419	682	620
7. Acquisition costs and administrative expenses (gross)	190	179	447	322	247	256
Reinsurers' share	49	90	16	26	17	20
Acquisition costs and administrative expenses (net)	141	89	431	296	230	236
8. Other technical income	–9	4	–5	5	6	5
Other technical expenses	15	—	12	66	17	20
thereof attributable to amortisation PVFP	—	—	13	63	3	8
Other technical result	–24	4	–17	–61	–11	–15
Net technical result	–45	–18	–378	–436	6	—
9. a. Income from investments	85	65	483	534	88	93
b. Expenses for investments	6	11	43	43	7	22
Net income from investments under own management	79	54	440	491	81	71
Income/expense from investment contracts	—	—	—	—	2	2
Net interest income from funds withheld and contract deposits	—	–1	–4	–6	–1	–1
Net investment income	79	53	436	485	82	72
thereof attributable to interest and similar income	52	49	401	383	84	77
attributable to interest and similar expenses	1	—	5	6	14	24
impairments/depreciation on investments	—	1	9	11	—	4
write-ups on investments	7	—	1	–1	—	—
income/expense from associated companies and joint ventures recognised using the equity method	—	—	—	—	—	—
10. a. Other income	28	21	45	40	10	22
b. Other expenses	27	16	60	65	36	47
Other income/expenses	1	5	–15	–25	–26	–25
thereof attributable to interest and similar income	—	—	1	—	3	6
write-ups on accounts receivable and other assets	4	—	—	—	1	1
attributable to interest and similar expenses	6	6	2	2	—	2
write-downs on accounts receivable and other assets	1	4	1	—	8	15
Profit before goodwill impairments	35	40	43	24	62	47
11. Goodwill impairments	—	—	—	—	—	—
Operating profit/loss (EBIT)	35	40	43	24	62	47
12. Financing costs	2	3	4	3	1	—
13. Taxes on income	12	13	10	11	17	14
Net income	21	24	29	10	44	33
thereof attributable to non-controlling interests	—	—	1	1	9	5
thereof attributable to shareholders of Talanx AG	21	24	28	9	35	28

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

Non-Life Reinsurance		Life/Health Reinsurance		Corporate Operations		Consolidation		Total	
Q2 2014	Q2 2013	Q2 2014	Q2 2013 ¹⁾	Q2 2014	Q2 2013	Q2 2014	Q2 2013	Q2 2014	Q2 2013 ¹⁾
1,970	1,899	1,470	1,570	20	14	-259	-244	6,561	6,508
164	151	38	49	20	14	-259	-244	—	—
1,806	1,748	1,432	1,521	—	—	—	—	6,561	6,508
—	—	—	—	—	—	—	—	307	325
176	175	268	169	—	—	-253	-247	590	736
-50	-5	-14	-3	-9	-7	105	44	340	352
6	7	—	—	2	2	100	46	295	16
1,738	1,712	1,188	1,398	9	5	-1	1	5,709	5,783
1,311	1,262	1,202	1,230	4	5	-128	-107	5,316	5,354
95	84	224	138	—	3	-137	-118	771	643
1,216	1,178	978	1,092	4	2	9	11	4,545	4,711
484	474	287	427	2	1	-51	-76	1,606	1,583
32	30	19	21	—	—	-43	-58	90	129
452	444	268	406	2	1	-8	-18	1,516	1,454
2	—	—	—	—	—	1	—	-5	14
2	-3	2	4	1	1	-1	8	48	96
—	—	1	1	—	—	—	—	17	72
—	3	-2	-4	-1	-1	2	-8	-53	-82
70	93	-60	-104	2	1	—	—	-405	-464
229	245	73	76	11	64	-23	-10	946	1,067
33	66	7	13	20	19	-25	-20	91	154
196	179	66	63	-9	45	2	10	855	913
—	—	—	—	—	—	—	—	2	2
5	4	81	90	—	—	—	1	81	87
201	183	147	153	-9	45	2	11	938	1,002
171	182	161	187	2	3	-25	-12	846	869
1	1	23	39	—	—	-2	-3	42	67
5	5	—	—	—	1	—	—	14	22
—	—	—	—	—	—	—	—	8	-1
1	5	—	—	1	—	—	—	2	5
-1	44	22	16	183	216	-177	-195	110	164
23	19	21	36	175	191	-150	-177	192	197
-24	25	1	-20	8	25	-27	-18	-82	-33
1	1	3	2	1	—	-2	—	7	9
1	3	—	—	—	—	—	—	6	4
5	5	11	15	10	8	-2	-3	32	35
10	9	3	2	1	1	—	—	24	31
247	301	88	29	1	71	-25	-7	451	505
—	—	—	—	—	—	—	—	—	—
247	301	88	29	1	71	-25	-7	451	505
21	32	—	1	36	24	-23	-9	41	54
78	81	16	6	-10	4	-2	-1	121	128
148	188	72	22	-25	43	—	3	289	323
78	100	36	13	—	—	—	—	124	119
70	88	36	9	-25	43	—	3	165	204

GEOGRAPHICAL BREAKDOWN OF INVESTMENTS, NON-CURRENT ASSETS AND WRITTEN PREMIUM

The tables were essentially condensed to the areas of primary insurance, reinsurance, and Corporate Operations.

INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN¹⁾

INVESTMENTS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

FIGURES IN EUR MILLION

	Primary insurance	Reinsurance	Corporate Operations	Total
30.6.2014				
Germany	23,096	5,477	233	28,806
United Kingdom	3,269	2,397	27	5,693
Central and Eastern Europe (CEE), including Turkey	3,109	507	2	3,618
Rest of Europe	23,896	8,142	346	32,384
USA	1,780	8,793	4	10,577
Rest of North America	124	1,342	—	1,466
Latin America	1,099	959	2	2,060
Asia and Australia	1,642	3,701	3	5,346
Africa	4	298	—	302
Total	58,019	31,616	617	90,252
31.12.2013				
Germany	23,484	5,910	173	29,567
United Kingdom	3,062	2,348	53	5,463
Central and Eastern Europe (CEE), including Turkey	2,992	507	2	3,501
Rest of Europe	21,159	8,457	347	29,963
USA	1,315	8,353	4	9,672
Rest of North America	92	1,257	1	1,350
Latin America	931	884	2	1,817
Asia and Australia	1,524	3,135	4	4,663
Africa	14	300	—	314
Total	54,573	31,151	586	86,310

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

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

Non-current assets are considered largely to consist of intangible assets (including goodwill) and own-use real estate/investment property.

NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

FIGURES IN EUR MILLION

	Primary insurance	Reinsurance	Corporate Operations	Total
30.6.2014				
Germany	3,342	690	86	4,118
United Kingdom	—	3	—	3
Central and Eastern Europe (CEE), including Turkey	—	—	—	—
Rest of Europe	368	85	—	453
USA	—	336	—	336
Rest of North America	—	—	—	—
Latin America	32	—	—	32
Asia and Australia	—	2	—	2
Africa	—	7	—	7
Total	3,742	1,123	86	4,951
31.12.2013				
Germany	3,279	616	79	3,974
United Kingdom	—	3	—	3
Central and Eastern Europe (CEE), including Turkey	—	—	—	—
Rest of Europe	408	87	—	495
USA	—	335	—	335
Rest of North America	—	—	—	—
Latin America	33	—	—	33
Asia and Australia	—	2	—	2
Africa	—	7	—	7
Total	3,720	1,050	79	4,849

GROSS WRITTEN PREMIUM BY GEOGRAPHICAL ORIGIN (BY DOMICILE OF CUSTOMER)¹⁾

During the reporting period, there were no transactions with any one external client that amounted to 10% or more of total gross premium.

GROSS WRITTEN PREMIUM BY GEOGRAPHICAL ORIGIN

FIGURES IN EUR MILLION

	Primary insurance	Reinsurance	Corporate Operations	Total
6M 2014				
Germany	4,690	548	—	5,238
United Kingdom	70	1,230	—	1,300
Central and Eastern Europe (CEE), including Turkey	1,065	114	—	1,179
Rest of Europe	1,498	969	—	2,467
USA	198	1,489	—	1,687
Rest of North America	11	333	—	344
Latin America	587	368	—	955
Asia and Australia	100	1,550	—	1,650
Africa	21	134	—	155
Total	8,240	6,735	—	14,975
6M 2013				
Germany	4,785	514	—	5,299
United Kingdom	69	1,270	—	1,339
Central and Eastern Europe (CEE), including Turkey	1,193	117	—	1,310
Rest of Europe	1,216	1,090	—	2,306
USA	169	1,682	—	1,851
Rest of North America	7	341	—	348
Latin America	592	410	—	1,002
Asia and Australia	70	1,182	—	1,252
Africa	16	243	—	259
Total	8,117	6,849	—	14,966

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

FIGURES IN EUR MILLION

	Primary insurance	Reinsurance	Corporate Operations	Total
Q2 2014				
Germany	1,727	183	—	1,910
United Kingdom	41	596	—	637
Central and Eastern Europe (CEE), including Turkey	515	48	—	563
Rest of Europe	616	435	—	1,051
USA	60	723	—	783
Rest of North America	4	185	—	189
Latin America	304	165	—	469
Asia and Australia	52	878	—	930
Africa	4	25	—	29
Total	3,323	3,238	—	6,561

Q2 2013				
Germany	1,686	199	—	1,885
United Kingdom	24	617	—	641
Central and Eastern Europe (CEE), including Turkey	606	48	—	654
Rest of Europe	502	500	—	1,002
USA	53	828	—	881
Rest of North America	6	190	—	196
Latin America	303	179	—	482
Asia and Australia	46	593	—	639
Africa	12	116	—	128
Total	3,238	3,270	—	6,508

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 TYPE AND CLASS OF INSURANCE AT GROUP LEVEL ¹⁾**GROSS WRITTEN PREMIUM BY TYPE AND CLASS OF INSURANCE**

FIGURES IN EUR MILLION

	6M 2014	6M 2013	Q2 2014	Q2 2013
Property/casualty primary insurance	4,905	4,853	1,649	1,578
Life primary insurance	3,335	3,265	1,674	1,661
Non-Life Reinsurance	3,824	3,813	1,806	1,748
Life/Health Reinsurance	2,911	3,035	1,432	1,521
Total	14,975	14,966	6,561	6,508

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

IV. CONSOLIDATION

CONSOLIDATION PRINCIPLES

Effective 1 January 2014, as a result of IFRS 10, the Group changed the accounting method it uses to determine whether it exercises control over its investees, including special purpose entities, and thus must consolidate them.

IFRS 10 establishes a uniform principle of control that is applicable to all entities, including special purpose entities. The standard replaces the provisions of former IAS 27 and of SIC 12. Under IFRS 10, control over an investee exists where the Group has power over a Group entity based on voting or other rights, is exposed, or has rights, to variable returns from its involvement with the Group entity, and has the ability to affect those returns through its power. All of these aspects must be fulfilled.

The capital consolidation is compiled in accordance with the requirements of IFRS 10. Subsidiaries are all companies that are controlled by the Group. Subsidiaries are included in the consolidated financial statements (full consolidation) starting from the point when the Group acquired control over them. They are deconsolidated at the point when control ends.

In addition, cf. our remarks on consolidation principles in the section “Consolidation” in the 2013 Annual Report (page 183).

SCOPE OF CONSOLIDATION

As at the balance sheet date, 125 individual companies, 38 investment funds, two structured 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, along with nine companies that were included at equity.

The major changes in the scope of consolidation relative to year-end 2013 are set out below.

Significant additions and disposals of fully consolidated subsidiaries

Effective 24 March 2014, Funis GmbH & Co. KG (“Funis”) repaid the callable preferred shares with voting rights that it held in Glencar Underwriting Managers, Inc., Chicago, USA (“Glencar”), thus relinquishing the voting majority in the company. As part of the transaction, it was agreed that a change was to be made to the composition of the board of directors of Glencar, since Hannover Rück SE no longer held a majority of the seats. Since Hannover Rück SE is thus no longer able to exercise control over Glencar, although it continues to be able to exercise significant influence over the company, Glencar was deconsolidated in the first quarter of 2014 and included in the consolidated financial statements under the equity method. Derecognition of assets and liabilities and the recognition of the participating interest at fair value resulted in income of EUR 3 million, which was recognised under “Other income/expenses”. In addition, currency translation resulted in a charge against cumulative other comprehensive income in the amount of –EUR 0.1 million.

On entry of the transaction in the commercial register on 27 May 2014, HDI Lebensversicherung AG and HG-1 Alternative Investments Beteiligungs-GmbH & Co. KG (both Cologne) together acquired 100% of the limited partner shares of WP Mörsdorf Nord GmbH & Co. KG, Cologne (formerly ABO Wind WP Mörsdorf Nord GmbH & Co. KG, Heidesheim); this company’s general partner is Talanx Direct Infrastructure 1 GmbH, Cologne. The purpose of the company is to build and operate a wind farm. The purchase price amounted to EUR 7.1 million; no goodwill arose. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. The company was initially consolidated in the second quarter of 2014.

HDI-Gerling Assurances S.A., Brussels, Belgium, was merged with HDI-Gerling Industrie Versicherung AG, Hannover, effective 1 January 2014; this transaction was entered in the commercial register of Hannover on 16 June 2014, on which date it also became legally effective.

Other corporate changes

In August 2013, Hannover Rück SE and another investor agreed to acquire a financial participation in a company designed for the indirect acquisition of Heidelberger Lebensversicherung AG, Heidelberg. After the supervisory authority gave its approval, the sale closed on 31 March 2014. Since that date, the shares of the company have been reported in the consolidated financial statements as a financial investment measured at amortised cost.

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

CONSOLIDATED SUBSIDIARIES (FULLY CONSOLIDATED)

	Individual companies		Investment funds ¹⁾		Structured entities	Subgroups ²⁾	Total
	Domestic	Foreign	Domestic	Foreign	Foreign	Domestic/ Foreign	
31.12.2013	68	55	25	11	2	4	165
Additions	—	2	—	2	—	—	4
Disposals	—	1	—	—	—	—	1
31.3.2014	68	56	25	13	2	4	168
Additions	2	—	—	1	—	—	3
Disposals	—	1	—	1	—	—	2
30.6.2014	70	55	25	13	2	4	169

¹⁾ Not structured entities because they are controlled via voting or similar rights

²⁾ Including three foreign subgroups

CONSOLIDATION OF STRUCTURED ENTITIES

Under IFRS 10, business relations with structured entities have to be examined with respect to their consolidation requirement. A structured entity within the meaning of IFRS 12 is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Accordingly, the Group must examine whether it has control despite the absence of a voting majority. For instance, control exists where the Group can use its power over the structured entity – e.g. through contractual arrangements – to influence the amount of the entity's profitability.

As explained in the "Consolidation" section in the notes to the consolidated financial statements in the 2013 Annual Report (pages 183 to 188), we classify business relations with structured entities and assess whether or not they must be consolidated on the basis of the following five categories: investment funds, investments, securitisation of reinsurance risks, assumed life/health reinsurance business and retrocessions and insurance-linked securities.

The total of the contractually agreed capacities of the transactions in the "assumed life/health reinsurance business" category as at 30 June 2014 is the equivalent of EUR 2,288 (1,372) million, of which the equivalent of EUR 1,332 (892) million has been underwritten as at the balance sheet date. There were no further material changes in the business relations compared with 31 December 2013 that are significant for an assessment of the assets, financial position and net income.

Two structured entities are fully consolidated, as they were in the 2013 consolidated financial statements.

ASSOCIATED COMPANIES/ JOINT VENTURES VALUED AT EQUITY

As at the balance sheet date, three domestic and five foreign associated companies were consolidated at equity (the figures are exclusive of foreign subgroups). As was the case in the 2013 consolidated financial statements, Magma HDI General Insurance Company Limited, Kolkata, continues to be included at equity as a joint venture.

V. NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

CIV HAYAT SIGORTA A. Ş. (RETAIL INTERNATIONAL SEGMENT)

In the second quarter of 2014, CIV Hayat Sigorta A. Ş., Istanbul, Turkey, decided to sell its entire insurance portfolio. As a result, the Group reported assets and liabilities in the amount of EUR 13 million in each case separately as a disposal group. We expect the transfer of the risks and rewards of ownership for this transaction to take place by the end of financial year 2014. The plan is to liquidate the company once the transaction has been completed.

HDI SEGUROS S. A. DE C. V. (RETAIL INTERNATIONAL SEGMENT)

As part of the merger of HDI Seguros S. A. de C. V. and Metropolitana Compañía de Seguros, Mexico City, Mexico, the Group continues to report the sale of a life insurance portfolio, including investments for covering liabilities, as in the prior-year period. The purchase price amounts to EUR 2 million. We expect the transfer of the risks and rewards of ownership for this transaction to take place in the course of 2014.

The key carrying amounts of the disposal group relate to investments, including accounts receivable on insurance business, totalling EUR 15 (15) million, as well as technical provisions and other liabilities amounting to EUR 17 (17) million. As at the balance sheet date, no cumulative income/expenses were contained in "Other comprehensive income". No impairments were recognised from measurement at fair value less costs to sell.

The non-life portfolio previously reported as a disposal group was disposed of in the second quarter of 2014 (assets and liabilities amounting to EUR 2 million in each case).

The transactions are part of the corporate focusing strategy and will lead to cost optimisation in the area of IT and personnel expenses.

ASPECTA ASSURANCE INTERNATIONAL LUXEMBOURG S. A. (RETAIL INTERNATIONAL SEGMENT)

In the third quarter of 2013, ASPECTA Assurance International Luxembourg S. A., Luxembourg, decided to sell a partial portfolio of its unit-linked life insurance business in connection with portfolio optimisation. The transaction has a purchase price at the lower end of seven figures. The agreement was signed on 23 April 2014, and we expect the transfer to take place during 2014. The disposal group contains assets of EUR 208 (216) million (including investments for the account and risk of holders of life insurance policies amounting to EUR 207 [212] million and cash of EUR 1 [4] million) and liabilities of EUR 208 (214) million (including technical provisions in the area of life insurance, insofar as the investment risk is borne by policyholders, amounting to EUR 207 [212] million, and other liabilities amounting to EUR 1 [2] million). As at the balance sheet date, no cumulative income/expenses were contained in "Other comprehensive income". No impairments were recognised from measurement at fair value less costs to sell.

REAL ESTATE

As at the balance sheet date, we are not classifying any material real estate portfolios as held for sale. In the first quarter of 2014, we disposed of all real estate classified as at 31 December 2013 as held for sale (EUR 15 million).

VI. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET

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

(1) INTANGIBLE ASSETS

INTANGIBLE ASSETS

FIGURES IN EUR MILLION

	30.6.2014	31.12.2013
a. Goodwill	1,109	1,105
b. Other intangible assets	1,380	1,446
thereof attributable to		
Insurance-related intangible assets	1,115	1,182
Software	152	140
Other		
Acquired distribution networks and customer relationships	42	51
Other	38	40
Acquired brand names	33	33
Total	2,489	2,551

(2) LOANS AND RECEIVABLES

LOANS AND RECEIVABLES

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013
Mortgage loans	770	849	83	88	853	937
Loans and prepayments on insurance policies	187	192	—	—	187	192
Loans and receivables due from governmental or quasi-governmental entities ¹⁾	9,575	9,691	1,282	860	10,857	10,551
Corporate securities	6,556	6,731	443	218	6,999	6,949
Covered bonds/asset-backed securities	14,149	14,737	2,533	1,608	16,682	16,345
Participation rights	31	31	6	5	37	36
Total	31,268	32,231	4,347	2,779	35,615	35,010

¹⁾ Loans and receivables due from governmental or quasi-governmental entities include securities of EUR 3,007 (3,060) 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 14,128 (14,716) million, which corresponds to 99 (99)%.

(3) FINANCIAL ASSETS HELD TO MATURITY**FINANCIAL ASSETS HELD TO MATURITY**

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013
Government debt securities of EU member states	558	556	29	26	587	582
US treasury notes	359	501	7	13	366	514
Other foreign government debt securities	61	69	—	—	61	69
Debt securities issued by quasi-governmental entities ¹⁾	447	544	22	25	469	569
Corporate securities	375	343	10	10	385	353
Covered bonds/asset-backed securities	846	971	66	65	912	1,036
Total	2,646	2,984	134	139	2,780	3,123

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 105 (130) 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 845 (969) million, which corresponds to 99 (99)%.

(4) FINANCIAL ASSETS AVAILABLE FOR SALE**FINANCIAL ASSETS AVAILABLE FOR SALE**

FIGURES IN EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	30.6.2014	31.12.2013	30.6.2014	31.12.2013	30.6.2014	31.12.2013
Fixed-income securities						
Government debt securities of EU member states	6,777	6,554	660	217	7,437	6,771
US treasury notes	2,122	1,750	18	–5	2,140	1,745
Other foreign government debt securities	1,856	1,682	—	–30	1,856	1,652
Debt securities issued by quasi-governmental entities ¹⁾	7,120	7,056	577	219	7,697	7,275
Corporate securities	18,466	16,923	957	361	19,423	17,284
Investment funds	650	699	62	38	712	737
Covered bonds/asset-backed securities	7,161	7,152	698	489	7,859	7,641
Participation rights	405	416	15	10	420	426
Total fixed-income securities	44,557	42,232	2,987	1,299	47,544	43,531
Variable-yield securities						
Equities	370	391	263	221	633	612
Investment funds	692	639	108	99	800	738
Participation rights	41	41	—	—	41	41
Total variable-yield securities	1,103	1,071	371	320	1,474	1,391
Total securities	45,660	43,303	3,358	1,619	49,018	44,922

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 2,570 (2,681) 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 6,715 (6,541) million, which corresponds to 85 (86)%.

(5) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

FIGURES IN EUR MILLION

	Fair value	
	30.6.2014	31.12.2013
Fixed-income securities		
Government debt securities of EU member states	23	31
Other foreign government debt securities	30	39
Debt securities issued by quasi-governmental entities ¹⁾	24	34
Corporate securities	496	453
Investment funds	148	114
Covered bonds/asset-backed securities	36	24
Participation rights	57	82
Other	—	20
Total fixed-income securities	814	797
Investment funds (variable-yield securities)	48	52
Other variable-yield securities	72	35
Total financial assets classified at fair value through profit or loss	934	884
Fixed-income securities		
Government debt securities of EU member states	—	—
Other foreign government debt securities	2	1
Corporate securities	2	3
Other securities	—	—
Total fixed-income securities	4	4
Investment funds (variable-yield securities)	85	120
Derivatives	79	82
Total financial assets held for trading	168	206
Total	1,102	1,090

¹⁾ Debt securities issued by quasi-governmental entities include securities of EUR 2 (7) 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 0 (12) million, which corresponds to 0 (50)%.

(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 recognised at fair value must be assigned to a three-level fair-value hierarchy. The purpose of this requirement is, inter alia, to show how closely the data included in the determination of fair values relate 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).

The fair value hierarchy reflects characteristics of the pricing information and inputs used for measurement, and it is structured as follows:

- Level 1: Assets and liabilities that are measured using (unadjusted) prices quoted directly on active, liquid markets. This includes, first and foremost, listed equities, futures and options, investment funds and highly liquid bonds traded on regulated markets.
- Level 2: Assets and liabilities that are measured using observable market data and are not allocated to level 1. Measurement is based in particular on prices for comparable assets and liabilities that are traded on active markets, on prices on markets that are not deemed active, and on inputs derived from such prices and market data. 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 securities.

- Level 3: Assets and liabilities that cannot be measured, or measured only in part, using inputs observable on the market. These instruments are mainly measured using measurement models and methods. This level primarily includes unlisted equity instruments.

Allocation to the fair value hierarchy levels is reviewed at a minimum as at the end of a period. Transfers are shown as if they had taken place at the beginning of the financial year.

BREAKDOWN OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

As at the balance sheet date, the share of level 1 financial instruments in the total portfolio of financial assets measured at fair value was 8 (7)%.

Altogether, 88 (89)% of financial instruments measured at fair value were allocated to level 2 as at the balance sheet date.

As at the balance sheet date, the Group allocated 4 (4)% of financial instruments measured at fair value to level 3.

FAIR VALUE HIERARCHY

FIGURES IN EUR MILLION

	Level 1	Level 2	Level 3 ¹⁾	Book value
				30.6.2014
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	25	47,519	—	47,544
Variable-yield securities	805	70	599	1,474
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	86	830	18	934
Financial assets held for trading	97	66	5	168
Other invested assets	2,567	67	1,395	4,029
Other assets, derivative financial instruments (hedging instruments)	—	274	—	274
Investment contracts				
Financial assets classified at fair value through profit or loss	297	444	127	868
Financial assets available for sale	—	27	—	27
Derivatives	—	63	10	73
Total financial assets measured at fair value	3,877	49,360	2,154	55,391
Financial liabilities measured at fair value				
Other liabilities (negative market values under derivative financial instruments)				
Negative market values under derivatives	—	52	126	178
Negative market values under hedging instruments	—	—	—	—
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	361	444	127	932
Derivatives	—	62	10	72
Nominal values	361	558	263	1,182

¹⁾ Categorisation in level 3 does not amount to a statement as to quality; no conclusions may be drawn as to the creditworthiness of the issuers

FAIR VALUE HIERARCHY

FIGURES IN EUR MILLION

	Level 1	Level 2	Level 3 ¹⁾	Book value
				31.12.2013
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	49	43,482	—	43,531
Variable-yield securities	801	67	523	1,391
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	53	807	24	884
Financial assets held for trading	127	77	2	206
Other invested assets	1,782	72	1,265	3,119
Other assets, derivative financial instruments (hedging instruments)	—	86	—	86
Investment contracts				
Financial assets classified at fair value through profit or loss	295	268	89	652
Financial assets available for sale	—	32	—	32
Derivatives	—	59	10	69
Total financial assets measured at fair value	3,107	44,950	1,913	49,970
Financial liabilities measured at fair value				
Other liabilities (negative market values under derivative financial instruments)				
Negative market values under derivatives	—	67	117	184
Negative market values under hedging instruments	—	7	—	7
Other liabilities (investment contracts)				
Financial liabilities classified at fair value through profit or loss	414	263	89	766
Derivatives	—	60	10	70
Nominal values	414	397	216	1,027

¹⁾ Categorisation in level 3 does not amount to a statement as to quality; no conclusions may be drawn as to the creditworthiness of the issuers

In the reporting period just ended, securities with a fair value of EUR 20 million that had been classified as level 1 financial assets in the previous year were instead allocated to level 2. The reclassifications were required primarily as a consequence of the reduced liquidity of the instruments. All reclassifications affect fixed-income securities allocated to the category "Financial assets available for sale". Each of the indicated reclassification amounts relates to the recognised carrying amount of the investment at the start of the period.

ANALYSIS OF FINANCIAL INSTRUMENTS FOR WHICH SIGNIFICANT INPUTS ARE NOT BASED ON OBSERVABLE MARKET DATA (LEVEL 3)

The following table shows a reconciliation of the financial instruments (hereinafter, "FI") included in level 3 at the beginning of the reporting period with the values as at the balance sheet date.

RECONCILIATION OF FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD WITH THE VALUES AS AT 30 JUNE

FIGURES IN EUR MILLION

	FI available for sale/ fixed-income securities	FI classified at fair value through profit or loss	FI held for trading	Other invested assets	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial assets measured at fair value
2014							
Book value as at 1.1.2014	523	24	2	1,265	89	10	1,913
Income and expenses							
recognised in the statement of income	-4	—	—	2	29	—	27
recognised in other comprehensive income	10	—	—	50	—	—	60
Transfers to level 3	3 ²⁾	—	—	—	—	—	3
Transfers from level 3	—	—	—	—	—	—	—
Additions							
Purchases	90	9	3	148	13	3	266
Disposals							
Sales	24	1	—	76	4	3	108
Repayments	—	14	—	—	—	—	14
Exchange rate fluctuations	1	—	—	6	—	—	7
Book value as at 30.6.2014	599	18	5	1,395	127	10	2,154
2013							
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	—	1	-1	-5	-31	-3	-39
recognised in other comprehensive income	5	—	—	-1	—	—	4
Transfers to level 3	30 ²⁾	—	—	—	—	—	30
Transfers from level 3	—	—	—	—	—	—	—
Additions							
Purchases	66	4	2	80	19	1	172
Disposals							
Sales	20	25	—	73	17	5	140
Exchange rate fluctuations	1	—	—	5	-6	-1	-1
Book value as at 30.6.2013	451	11	4	1,185	79	10	1,740

¹⁾ In the following, financial instruments are abbreviated as "FI"

²⁾ Measurement at net asset value and thus transfer to level 3

RECONCILIATION OF FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD WITH THE VALUES AS AT 30 JUNE

FIGURES IN EUR MILLION

	Other liabilities/ negative market values under derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/derivatives	Total amount of financial liabilities measured at fair value
2014				
Book value as at 1.1.2014	117	89	10	216
Income and expenses				
recognised in the statement of income	—	–29	—	–29
recognised in other comprehensive income	—	—	—	—
Transfers to level 3	—	—	—	—
Transfers from level 3	—	—	—	—
Additions				
Purchases	8	13	3	24
Disposals				
Sales	—	4	3	7
Exchange rate fluctuations	1	—	—	1
Book value as at 30.6.2014	126	127	10	263
2013				
Book value as at 1.1.2013	103	115	18	236
Income and expenses				
recognised in the statement of income	—	38	—	38
recognised in other comprehensive income	—	—	—	—
Transfers to level 3	—	—	—	—
Transfers from level 3	—	—	—	—
Additions				
Purchases	—	83	3	86
Disposals				
Sales	1	74	10	85
Exchange rate fluctuations	—	–6	–1	–7
Book value as at 30.6.2013	102	80	10	192

¹⁾ In the following, financial instruments are abbreviated as "FI"

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 INSTRUMENTS¹⁾ (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

FIGURES IN EUR MILLION

	FI available for sale/variable-yield securities	FI classified at fair value through profit or loss	FI held for trading	Other invested assets	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2014							
Gains and losses in the 2014 financial year until 30.6.2014							
Income from investments	—	1	2	3	36	4	46
Investment expenses	-4	-1	-2	-1	-7	-4	-19
thereof attributable to financial instruments included in the portfolio as at 30.6.2014							
Income from investments ²⁾	—	1	2	3	36	4	46
Investment expenses ³⁾	-4	—	-2	-1	-7	-4	-18

2013							
Gains and losses in the 2013 financial year until 30.6.2013							
Income from investments	—	1	—	—	81	4	86
Investment expenses	—	—	-1	-5	-112	-7	-125
thereof attributable to financial instruments included in the portfolio as at 30.6.2013							
Income from investments	—	—	—	—	81	4	85
Investment expenses	—	—	-1	-5	-112	-7	-125

¹⁾ In the following, financial instruments are abbreviated as "FI"²⁾ Thereof EUR 46 (85) million attributable to unrealised gains³⁾ Thereof EUR 13 (-120) million attributable to unrealised losses**EFFECT ON RESULTS OF LEVEL 3 FINANCIAL INSTRUMENTS¹⁾ (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE**

FIGURES IN EUR MILLION

	Other liabilities/ negative market values under derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2014				
Gains and losses in the 2014 financial year				
Income from investments	1	7	4	12
Investment expenses	—	-36	-4	-40
Financing costs	-1	—	—	-1
thereof attributable to financial instruments included in the portfolio as at 30.6.2014				
Income from investments ²⁾	1	7	4	12
Investment expenses ³⁾	—	-36	-4	-40
Financing costs ⁴⁾	-1	—	—	-1

2013				
Gains and losses in the 2013 financial year				
Income from investments	—	38	—	38
Investment expenses	—	—	—	—
Financing costs	—	—	—	—
thereof attributable to financial instruments included in the portfolio as at 30.6.2013				
Income from investments	—	38	—	38
Investment expenses	—	—	—	—
Financing costs	—	—	—	—

¹⁾ In the following, financial instruments are abbreviated as "FI"²⁾ Thereof EUR 12 (38) million attributable to unrealised gains³⁾ Thereof -EUR 40 (0) million attributable to unrealised losses⁴⁾ Thereof -EUR 1 (0) million attributable to unrealised losses

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 (level 1 and level 2 assets). 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 mathematical financial models. Such models are used principally for the measurement of unlisted securities.

The Group uses various measurement models for this purpose:

MEASUREMENT MODELS FOR DETERMINATION OF FAIR VALUE

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.
ABS/MBS for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Present value method
CDOs/CLOs	Theoretical price	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	Present value method
Equities and funds			
Unlisted equities	Theoretical price	Acquisition cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable	NAV method ¹⁾
Unlisted equity, real estate and annuity funds	Theoretical price	Audited NAV ¹⁾	NAV method ¹⁾
Other invested assets			
Private equity funds/private equity real estate funds	Theoretical price	Audited NAV ¹⁾	NAV method ¹⁾
Derivative financial instruments			
Listed stock options	Listed price	—	—
Equity and index futures	Listed price	—	—
Interest rate and annuities futures	Listed price	—	—
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

¹⁾ NAV: net asset value

MEASUREMENT MODELS FOR DETERMINATION OF FAIR VALUE

Financial instrument	Pricing method	Parameter	Pricing model
Swaptions	Theoretical price	Interest rate curve, implicit volatilities	Black76
Credit default swaps	Theoretical price	Interest rate curve, recovery rates	ISDA model
Insurance derivatives	Theoretical price	Market values of CAT bonds, interest rate curve	Present value method
Other			
Real estate	Theoretical value	Location, year of construction, rental space, type of use, term of leases, amount of rent	Expanded discounted cash flow method

¹⁾ NAV: net asset value

OTHER INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

FIGURES IN EUR MILLION

	Fair value 30.6.2014	Measurement method	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs ²⁾	9	Present value method	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	n. a. ⁴⁾
Unlisted equity, real estate and bond funds ¹⁾	612	NAV method ³⁾	n. a.	n. a.
Private equity funds/private equity real estate funds ¹⁾	1.280	NAV method ³⁾	n. a.	n. a.
Written put options for minority interests ¹⁾	49	Discounted NAV ³⁾	Risk-free interest	5.6 %
Unlisted bond funds ¹⁾	8	NAV method ³⁾	n. a.	n. a.
Insurance derivatives ²⁾	185	Present value method	Market values of CAT bonds, interest rate curve	n. a. ⁴⁾
Investment contracts	274	—	—	—

¹⁾ These financial instruments are classified in level 3, since they are neither based on market prices nor measured by the Group on the basis of observable inputs. They are measured using the NAV method

²⁾ These financial instruments are classified in level 3, since unobservable inputs were used to measure them

³⁾ NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established

⁴⁾ Due to the distinct character of the individual measurement inputs, fluctuations cannot be reasonably established without disproportionate effort

If level 3 financial instruments 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 2.4 (2.1) billion as at the balance sheet date, the Group generally measured financial assets with a volume of EUR 1.9 (1.8) billion using the net asset value method, whereby alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets under investment contracts in the amount of EUR 137 (99) 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. Insurance derivatives in the amount of EUR 185 (130) million are recognised in level 3. The trend in the value of these derivatives depends on the risk trends in a subordinate group of primary insurance contracts with statutory reserve requirements. The use of alternative inputs and assumptions had no material effect on the consolidated financial statements. For the remaining level 3 financial assets with a volume of EUR 9 (14) 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 252,797,634 registered no-par value shares. The share capital is fully paid up. With regard to the composition of shareholders' equity, cf. "Consolidated statement of changes in shareholders' equity".

There were no changes in the composition of conditional and authorised capital in the reporting period. For further information, please refer to the disclosures in our 2013 consolidated financial statements (page 240 et seq.).

NON-CONTROLLING INTERESTS

NON-CONTROLLING INTERESTS IN SHAREHOLDERS' EQUITY

FIGURES IN EUR MILLION

	30.6.2014	31.12.2013
Unrealised gains and losses from investments	668	380
Non-controlling interest in net income	276	520
Other shareholders' equity	3,336	3,097
Total	4,280	3,997

"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

COMPOSITION OF LONG-TERM SUBORDINATED DEBT

FIGURES IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating ⁵⁾	30.6.2014	31.12.2013
Hannover Finance (Luxembourg) S. A.	500	Fixed (5%), then floating rate	2005/no final maturity	(a+; A)	496	493
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
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.0%), then floating rate	2012/2043	(a+; A)	497	497
HDI-Gerling Industrie Versicherung AG	142	Fixed (7%), then floating rate	2004/2024 ⁴⁾	(bbb+; A-)	142	144
HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG) ¹⁾	110	Fixed (6.75%)	2005/no final maturity	(—; A-)	111	112
Talanx Finanz ²⁾	113	Fixed (4.5%)	2005/2025	(bbb; BBB)	112	112
Talanx Finanz	500	Fixed (8.37%), then floating rate	2012/2042	(bbb; BBB)	500	500
Open Life Towarzystwo Ubezpieczeń Życie S.A. ³⁾	2	Fixed (2.5%), plus WIBOR 3M	2013/2018	(—; —)	2	2
Total					2,358	3,107

¹⁾ As at the balance sheet date, Group companies in addition held bonds with a nominal value of EUR 50 million (of these EUR 10 million are consolidated in the consolidated financial statements, with the remaining EUR 40 million being blocked)

²⁾ As at the balance sheet date, Group companies in addition held bonds with a nominal value of EUR 96 million (consolidated in the consolidated financial statement)

³⁾ Not included in the calculation of Group solvency

⁴⁾ It was announced on 26 June 2014 that the bond be will repaid at par and in full; the repayment date is 12 August 2014

⁵⁾ (Debt rating A. M. Best; debt rating S&P)

The bond issued by Hannover Finance (Luxembourg) S. A. on 26 February 2004 in the nominal amount of EUR 750 million was called in the entire nominal amount with effect on the first scheduled repayment date and repaid on 26 February 2014.

With respect to other features, cf. the published 2013 Annual Report, page 242.

The fair value of the subordinated liabilities as at the balance sheet date amounted to EUR 2,682 (3,356) million.

(9) TECHNICAL PROVISIONS**TECHNICAL PROVISIONS**

FIGURES IN EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	30.6.2014			31.12.2013 ¹⁾		
a. Unearned premium reserve	7,117	838	6,279	5,678	635	5,043
b. Benefit reserve	50,797	962	49,835	49,767	832	48,935
c. Loss and loss adjustment expense reserve	35,095	5,057	30,038	33,775	4,894	28,881
d. Provision for premium refunds	3,508	1	3,507	2,178	2	2,176
e. Other technical provisions	312	4	308	319	8	311
Total	96,829	6,862	89,967	91,717	6,371	85,346

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

Technical provisions where the investment risk is borne by policyholders amounted to EUR 8,896 (8,325) million. Of this amount, EUR 296 (233) million is attributable to reinsurers.

(10) NOTES PAYABLE AND LOANS

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

NOTES PAYABLE AND LOANS

FIGURES IN EUR MILLION

	30.6.2014	31.12.2013
Talanx AG bank liability	270	150
Talanx AG notes payable	565	565
Mortgage loan of Hannover Re Real Estate Holdings, Inc., Orlando	185	150
Mortgage loan of HR GLL Central Europe GmbH & Co. KG, Munich	102	77
Total	1,122	942

In 2011, and by way of an addendum in 2012, Talanx AG concluded agreements on two syndicated floating-rate lines of credit in a total nominal amount of EUR 1.2 billion, with a term of five years. One of these lines of credit obtained in 2011 (for EUR 500 million) was replaced in the first quarter of 2014 with a new line of credit at better conditions, which likewise has a term of five years. The volume was increased to EUR 550 million. Accordingly, as at 30 June 2014, there are lines of credit having a nominal amount of EUR 1.25 billion. As at the balance sheet date, draw-downs amounted to EUR 270 million.

The fair value of the notes payable and loans as at the balance sheet date amounted to EUR 1,143 (958) million.

On 23 July 2014, Talanx AG issued a senior unsecured bond with a volume of EUR 500 million on the Luxembourg Stock Exchange. The bond carries a fixed coupon of 2.5% and has a term of 12 years.

NOTES PAYABLE

FIGURES IN EUR MILLION

	Nominal amount	Coupon	Maturity	Rating ¹⁾	Issue	30.6.2014	31.12.2013
Talanx AG	750	Fixed (3.125%)	2013/2023	(–; A–)	This senior unsecured bond has a fixed term and may be called only for extraordinary reasons	565	565
Total						565	565

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

VII. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED STATEMENT OF INCOME

(11) NET PREMIUM EARNED

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

NET PREMIUM EARNED

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
6M 2014¹⁾							
Gross written premium, including premium from unit-linked life and annuity insurance	2,450	3,535	2,255	3,824	2,911	—	14,975
Savings elements of premium from unit-linked life and annuity insurance	—	479	47	—	—	—	526
Ceded written premium	920	86	113	356	477	7	1,959
Change in gross unearned premium	–596	–317	–132	–321	–13	—	–1,379
Change in ceded unearned premium	–146	–11	–9	–28	—	–3	–197
Net premium earned	1,080	2,664	1,972	3,175	2,421	–4	11,308
6M 2013¹⁾							
Gross written premium, including premium from unit-linked life and annuity insurance	2,376	3,591	2,151	3,813	3,035	—	14,966
Savings elements of premium from unit-linked life and annuity insurance	—	471	112	—	—	—	583
Ceded written premium	985	77	140	396	297	4	1,899
Change in gross unearned premium	–605	–329	–117	–276	–17	—	–1,344
Change in ceded unearned premium	–287	–10	–28	–34	1	—	–358
Net premium earned	1,073	2,724	1,810	3,175	2,720	–4	11,498

¹⁾ After elimination of internal transactions within the Group across segments

(12) NET INVESTMENT INCOME**NET INVESTMENT INCOME FOR THE REPORTING PERIOD**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
6M 2014¹⁾							
Income from real estate	2	32	1	41	—	—	76
Dividends ²⁾	4	7	2	6	—	10	29
Current interest income	92	774	135	323	113	1	1,438
Other income	1	1	—	3	6	—	11
Ordinary investment income	99	814	138	373	119	11	1,554
Appreciation	7	3	—	—	—	—	10
Realised gains on investments	45	182	23	81	19	—	350
Unrealised gains on investments	11	15	15	11	10	1	63
Investment income	162	1,014	176	465	148	12	1,977
Realised losses on investments	12	17	6	7	4	—	46
Unrealised losses on investments	2	2	6	8	4	—	22
Total	14	19	12	15	8	—	68
Impairments/depreciation on investment property							
scheduled	—	7	—	9	—	—	16
unscheduled	—	3	—	—	—	—	3
Impairments on equity securities	—	1	—	—	—	—	1
Impairments on fixed-income securities	—	3	—	—	—	—	3
Impairments on other investments	—	2	—	1	—	—	3
Expenses for the administration of investments	2	8	2	11	2	35	60
Other expenses	1	16	5	17	3	—	42
Other investment expenses/impairments	3	40	7	38	5	35	128
Investment expenses	17	59	19	53	13	35	196
Net income from assets under own management	145	955	157	412	135	–23	1,781
Profit on investment contracts	—	—	2	—	—	—	2
Interest income from funds withheld and contract deposits	—	—	—	10	226	—	236
Interest expense from funds withheld and contract deposits	—	7	—	1	63	—	71
Net interest income from funds withheld and contract deposits	—	–7	—	9	163	—	165
Net investment income	145	948	159	421	298	–23	1,948

¹⁾ After elimination of internal transactions within the Group across segments²⁾ Income from investments in associated companies and joint ventures amounts to EUR 6 (6) million and is recognised under "Dividends"

NET INVESTMENT INCOME FOR THE PRIOR REPORTING PERIOD

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
6M 2013 ¹⁾							
Income from real estate	2	36	1	31	—	—	70
Dividends ²⁾	4	8	1	7	—	7	27
Current interest income	95	763	124	335	117	1	1,435
Other income	2	3	—	12	4	—	21
Ordinary investment income	103	810	126	385	121	8	1,553
Appreciation	—	—	—	—	—	—	—
Realised gains on investments	20	138	43	70	23	70	364
Unrealised gains on investments	2	5	11	5	8	—	31
Investment income	125	953	180	460	152	78	1,948
Realised losses on investments	8	14	10	9	3	—	44
Unrealised losses on investments	5	8	16	43	6	—	78
Total	13	22	26	52	9	—	122
Impairments/depreciation on investment property							
scheduled	1	6	1	6	—	—	14
unscheduled	—	—	—	—	—	—	—
Impairments on equity securities	—	5	5	—	—	1	11
Impairments on fixed-income securities	3	3	—	—	—	—	6
Impairments on other investments	1	2	—	2	—	—	5
Expenses for the administration of investments	2	8	2	8	2	33	55
Other expenses	1	13	2	18	4	—	38
Other investment expenses/impairments	8	37	10	34	6	34	129
Investment expenses	21	59	36	86	15	34	251
Net income from assets under own management	104	894	144	374	137	44	1,697
Profit on investment contracts	—	—	4	—	—	—	4
Interest income from funds withheld and contract deposits	1	—	—	10	241	—	252
Interest expense from funds withheld and contract deposits	—	8	—	2	66	—	76
Net interest income from funds withheld and contract deposits	1	—8	—	8	175	—	176
Net investment income	105	886	148	382	312	44	1,877

¹⁾ After elimination of internal transactions within the Group across segments²⁾ Income from investments in associated companies and joint ventures amounts to EUR 6 (6) million and is recognised under "Dividends"

Of impairments totalling EUR 10 (22) million, EUR 1 (11) million was attributable to equity securities, EUR 3 (6) million to fixed-income securities and EUR 2 (5) million to private equity. On the other hand, there was an appreciation of EUR 10 (0) 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 positive changes in fair value of EUR 5 (1) 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 positive changes in fair value of EUR 4 (–40) million, which were recognised as an expense. Pursuant to IAS 39, the changes in their market values are recognised as a derivative in the statement of income. From an economic standpoint, we expect that changes in these two balance sheet items will be neutral, meaning that any volatility that may be experienced in individual quarters will have no bearing on actual business performance.

(13) NET GAINS AND LOSSES ON INVESTMENTS BY ASSET TYPE

NET GAINS AND LOSSES ON INVESTMENTS BY ASSET TYPE

FIGURES IN EUR MILLION

	6M 2014	6M 2013
Investments in affiliated companies and participating interests	1	2
Loans and receivables	706	754
Financial assets held to maturity	59	65
Financial assets available for sale		
Fixed-income securities	905	780
Variable-yield securities	56	98
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss		
Fixed-income securities	45	18
Variable-yield securities	9	–1
Financial assets held for trading		
Fixed-income securities	–	–
Variable-yield securities	3	1
Derivatives	6	–12
Other invested assets, insofar as they are financial assets	26	49
Other ¹⁾	67	36
Assets under own management	1,883	1,790
Investment contracts investments/liabilities ²⁾	2	4
Funds withheld by ceding companies/funds withheld under reinsurance treaties	165	176
Total	2,050	1,970

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 1 million. Of income and expenses, EUR 65 million/–EUR 41 million is attributable to financial instruments at fair value through profit or loss (assets/liabilities), EUR 11 million to loans and receivables, and –EUR 26 million to other liabilities. In addition, amortisation of PVFP in the amount of –EUR 6 million is taken into consideration under expenses

Making allowance for “Expenses for assets under own management” in the amount of EUR 60 (55) million and for “Other expenses” in the amount of EUR 42 (38) million, “Net investment income” as at the balance sheet date amounted to EUR 1,948 (1,877) million.

(14) CLAIMS AND CLAIMS EXPENSES**CLAIMS AND CLAIMS EXPENSES**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
6M 2014¹⁾							
Gross							
Claims and claims expenses paid	1,142	1,918	934	1,933	2,256	—	8,183
Change in loss and loss adjustment expense reserve	276	17	136	435	138	—	1,002
Change in benefit reserve	—	234	483	—	117	—	834
Expenses for premium refunds	2	608	—	—	—	—	610
Total	1,420	2,777	1,553	2,368	2,511	—	10,629
Reinsurers' share							
Claims and claims expenses paid	391	65	45	331	298	—	1,130
Change in loss and loss adjustment expense reserve	226	—5	54	—177	23	—1	120
Change in benefit reserve	—	—4	—3	—	99	—	92
Expenses for premium refunds	—	—	1	—	—	—	1
Total	617	56	97	154	420	—1	1,343
Net							
Claims and claims expenses paid	751	1,853	889	1,602	1,958	—	7,053
Change in loss and loss adjustment expense reserve	50	22	82	612	115	1	882
Change in benefit reserve	—	238	486	—	18	—	742
Expenses for premium refunds	2	608	—1	—	—	—	609
Total	803	2,721	1,456	2,214	2,091	1	9,286

¹⁾ Presentation after elimination of internal transactions within the Group across segments

CLAIMS AND CLAIMS EXPENSES

FIGURES IN EUR MILLION

	Industrial Lines ²⁾	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
6M 2013¹⁾							
Gross							
Claims and claims expenses paid	1,206	1,745	937	1,628	2,399	—	7,915
Change in loss and loss adjustment expense reserve	94	18	118	755	85	—	1,070
Change in benefit reserve	—	737	228	—	67	—	1,032
Expenses for premium refunds	7	306	2	—	—	—	315
Total	1,307	2,806	1,285	2,383	2,551	—	10,332
Reinsurers' share							
Claims and claims expenses paid	668	60	35	222	250	—	1,235
Change in loss and loss adjustment expense reserve	-213	-2	-7	-58	27	2	-251
Change in benefit reserve	—	-17	-3	—	1	—	-19
Expenses for premium refunds	4	—	2	—	—	—	6
Total	459	41	27	164	278	2	971
Net							
Claims and claims expenses paid	538	1,685	902	1,406	2,149	—	6,680
Change in loss and loss adjustment expense reserve	307	20	125	813	58	-2	1,321
Change in benefit reserve	—	754	231	—	66	—	1,051
Expenses for premium refunds	3	306	—	—	—	—	309
Total	848	2,765	1,258	2,219	2,273	-2	9,361

¹⁾ Presentation after elimination of internal transactions within the Group across segments²⁾ Adjusted on the basis of IAS 8. Cf. "Accounting policies" section of the Notes, subsection "Changes in accounting policies and accounting errors"

(15) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES**ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES**

FIGURES IN EUR MILLION

	Industrial Lines	Retail Germany	Retail International	Non-Life Reinsurance	Life/Health Reinsurance	Total
6M 2014¹⁾						
Gross						
Acquisition costs and reinsurance commissions	290	439	439	854	453	2,475
Changes in deferred acquisition costs and changes in reserves for commissions	-48	133	-43	-63	-17	-38
Total acquisition costs	242	572	396	791	436	2,437
Administrative expenses	125	146	84	99	89	543
Total acquisition costs and administrative expenses	367	718	480	890	525	2,980
Reinsurers' share						
Acquisition costs and reinsurance commissions	129	7	17	57	61	271
Changes in deferred acquisition costs and changes in reserves for commissions	-9	5	1	-5	-21	-29
Total acquisition costs	120	12	18	52	40	242
Net						
Acquisition costs and reinsurance commissions	161	432	422	797	392	2,204
Changes in deferred acquisition costs and changes in reserves for commissions	-39	128	-44	-58	4	-9
Total acquisition costs	122	560	378	739	396	2,195
Administrative expenses	125	146	84	99	89	543
Total acquisition costs and administrative expenses	247	706	462	838	485	2,738
6M 2013¹⁾						
Gross						
Acquisition costs and reinsurance commissions	269	470	462	827	575	2,603
Changes in deferred acquisition costs and changes in reserves for commissions	-45	-17	-48	-42	—	-152
Total acquisition costs	224	453	414	785	575	2,451
Administrative expenses	127	156	94	94	78	549
Total acquisition costs and administrative expenses	351	609	508	879	653	3,000
Reinsurers' share						
Acquisition costs and reinsurance commissions	158	8	27	67	53	313
Changes in deferred acquisition costs and changes in reserves for commissions	-25	3	1	-5	-19	-45
Total acquisition costs	133	11	28	62	34	268
Net						
Acquisition costs and reinsurance commissions	111	462	435	760	522	2,290
Changes in deferred acquisition costs and changes in reserves for commissions	-20	-20	-49	-37	19	-107
Total acquisition costs	91	442	386	723	541	2,183
Administrative expenses	127	156	94	94	78	549
Total acquisition costs and administrative expenses	218	598	480	817	619	2,732

¹⁾ Presentation after elimination of internal transactions within the Group across segments

(16) OTHER INCOME/EXPENSES**COMPOSITION OF OTHER INCOME/EXPENSES**

FIGURES IN EUR MILLION

	6M 2014	6M 2013
Other income		
Foreign exchange gains	111	147
Income from services, rents and commissions	124	114
Reversals of impairments on receivables	11	8
Income from contracts recognised in accordance with the deposit accounting method	34	40
Income from the release of other non-technical provisions	4	5
Interest income	14	16
Miscellaneous income	40	64
Total	338	394
Other expenses		
Foreign exchange losses	109	95
Other interest expenses	59	65
Depreciation and impairments	50	66
Expenses for the company as a whole	129	134
Expenses for personnel	24	19
Expenses for services and commissions	66	45
Other taxes	20	27
Allocation for restructuring provisions	1	12
Miscellaneous expenses	48	60
Total	506	523
Other income/expenses	-168	-129

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

VIII. OTHER INFORMATION**STAFF****AVERAGE ANNUAL NUMBER OF STAFF EMPLOYED**

	30.6.2014	31.12.2013
Industrial Lines	3,019	2,878
Retail Germany	4,950	5,092
Retail International	7,415	8,072
Reinsurance companies	2,443	2,376
Corporate Operations	2,845	2,792
Total excluding apprentices and student trainees	20,672	21,210
Apprentices and student trainees	517	509
Total	21,189	21,719

The decline in the Retail International segment was expected as a result of restructuring measures associated with the integration of our Polish insurance company TUIR WARTA S.A.

As at the balance sheet date, a total workforce of 19,628 (20,004) was employed by the Talanx Group. This figure refers to full-time equivalents (FTEs).

RELATED-PARTY DISCLOSURES

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 on the grounds of materiality, as well as 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 AG and its subsidiaries are eliminated on consolidation and hence not discussed in the Notes.

In connection with operating activity, there is a contractual relationship between Ampega Investment GmbH, Cologne, and C-QUADRAT Investment AG, Vienna (an associated company measured at equity in the consolidated financial statements), for outsourcing of the portfolio management of investment funds. As at the balance sheet date, this resulted in expenses for services provided of EUR 6 million.

Furthermore, services provided for Group companies by the subsidiaries HDI-Gerling Sicherheitstechnik GmbH and HDI Direkt Service GmbH (both Hannover), which were not consolidated on grounds of materiality, generated income of EUR 5 million and expenses totalling EUR 5 million, with the latter relating primarily to payments to HDI Versicherung AG in connection with the management of the insurance contract portfolio.

Further business relations with unconsolidated companies, associated companies and joint ventures are of minor importance overall.

In addition, there are service contracts with a company in which a member of the Supervisory Board participates. During the reporting period, the company generated revenues under these contracts in the amount of EUR 0.2 million with Group companies.

OTHER INFORMATION ABOUT FINANCIAL ASSETS

As at the balance sheet date, the Group recognised securities that had been sold to third parties under an obligation to redeem at a fixed price (genuine repurchase agreements), since the material risks and opportunities associated with the financial assets remained

within the Group. Of these transactions, investments in the category "Financial assets held to maturity" and the category "Financial assets available for sale" amounting to EUR 7 million and EUR 61 million respectively (carrying amounts prior to the transfer: EUR 7 million and EUR 61 million respectively, fair value as at the balance sheet date corresponds to the carrying amount) were affected. There are no restrictions on use of the transferred financial assets. The Group recognised the redemption obligation under "Other liabilities" in the amount of the payments received (EUR 68 million). The difference between the amount received for the transfer and that agreed to for retransfer is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised under "Net investment income".

LAWSUITS

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 profit attributable to the shareholders of Talanx AG by the average number of outstanding shares. 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.

EARNINGS PER SHARE

	6M 2014	6M 2013 ¹⁾	Q2 2014	Q2 2013 ¹⁾
Net income attributable to shareholders of Talanx AG for calculating earnings per share (figures in EUR million)	381	410	165	204
Weighted average number of ordinary shares outstanding (in units)	252,797,634	252,625,682	252,797,634	252,625,682
Basic earnings per share (figures in EUR)	1.51	1.62	0.65	0.81
Diluted earnings per share (figures in EUR)	1.51	1.62	0.65	0.81

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

DIVIDEND PER SHARE

In the second quarter of 2014, a dividend for the 2013 financial year was paid in the amount of EUR 1.20 per share (in 2013 for the 2012 financial year: EUR 1.05), resulting in a total distribution of EUR 303 (265) million.

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:

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS FROM CONTRACTS, MEMBERSHIPS AND TAXES

FIGURES IN EUR MILLION

	30.6.2014	31.12.2013
Trust accounts in the United States (Master Trust Funds, Supplement Trust Funds and Single Trust Funds) as security for technical liabilities to US cedants ¹⁾	3,348	3,335
Sureties in the form of letters of credit furnished by various financial institutions as security for technical liabilities	2,828	2,946
Guarantees for subordinated bonds issued: the guarantees cover the relevant bond volumes as well as interest due	2,112	2,862
Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA ¹⁾	2,611	2,538
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	1,975	1,558
Commitments arising out of rental/lease agreements ²⁾	464	464
Funding commitments and contribution payments pursuant to §§124 et seq. Insurance Supervision Act (VAG) as a member of the Security Fund for Life Insurers	447	447
Collateral for liabilities to various financial institutions in connection with participating interests in real estate companies and real estate transactions	580	460
Commitments based on service agreements – primarily in connection with IT outsourcing contracts	165	165
Assets in blocked custody accounts as collateral for existing derivative transactions: We have received collateral with a fair value of EUR 2 (60) million for existing derivative transactions ³⁾	50	92
Other commitments	51	53
Total	14,631	14,920

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 the fair value/carrying amount

²⁾ Fresh data is collected only at year-end

³⁾ The amount stated refers primarily to the fair value/carrying amount

There were no other significant changes in contingent liabilities and other financial commitments in the reporting period compared with 31 December 2013.

EVENTS AFTER THE END OF THE REPORTING PERIOD

The German Life Insurance Reform Act (IVRG) was signed by the Federal President and published in the Federal Law Gazette on 6 August. Key aspects of this law (e.g. regarding the valuation reserves) thus came into force on 7 August 2014; however, the full requirements will not apply until 1 January 2015. We are currently in the process of analysing the precise impact of the changes in the law.

Effective 31 July 2014, BaFin authorised Ampega Investment GmbH (AIG), Cologne, to operate as a German AIF management company. This means that, with immediate effect, AIG is a German management company licensed under the new German Investment Code (KAGB) that is permitted to manage UCITS funds (undertakings for collective investment in transferable securities) and open-ended retail and special AIFs (alternative investment funds).

On 23 July 2014, Talanx AG issued a senior unsecured bond with a volume of EUR 500 million on the Luxembourg Stock Exchange. The bond carries a fixed coupon of 2.5% and has a term of 12 years.

The Group acquired ABO Wind WP Berngerode GmbH & Co. KG, Heidesheim, by way of a purchase agreement dated 18 July 2014. The acquisition will become effective upon its entry in the commercial register (expected in the third quarter of 2014). The company operates a wind farm project. HDI Lebensversicherung AG, Cologne (Retail Germany segment), acquired 80% and HG-I Alternative Investments Beteiligungs-GmbH & Co. KG (Industrial Lines segment) acquired 20% of this company's limited partner interests. The new general partner will be Talanx Direct Infrastructure 1 GmbH, Cologne. The purchase price amounted to EUR 12 million, with the planned investment volume expected to total approximately EUR 60 million.

Malaysia Airlines flight MH17, a passenger aircraft on a scheduled flight from Amsterdam to Kuala Lumpur, crashed on 17 July 2014 in the Ukrainian/Russian border region east of Donetsk, Ukraine. In addition, we assume that further losses will result from the armed

clashes at Tripoli airport in Libya. The Talanx Group expects these incidents to result in a significant catastrophe loss in the third quarter, although current indications are that this should be comfortably offset by the unused portion of the major loss budget for reinsurance in the first six months.

In a press release dated 2 July 2014, Hannover Rück SE announced that it had completed a new transaction as part of its extended insurance-linked securities (ILS) activities effective 1 July 2014. Hannover Rück SE transferred defined storm risks to the capital markets via Alamo Re Ltd., a special purpose insurer registered in Bermuda. The assumed risks are limited to the state of Texas. The capital made available by institutional investors amounts to USD 400 million and this catastrophe bond matures in approximately three years.

HDI-Gerling Industrie Versicherung AG, Hannover (Industrial Lines segment), announced on 26 June 2014 that it would repay at par and at the earliest possible date the EUR 250 million subordinated bond maturing in 2024 issued by one of its predecessor companies, Gerling-Konzern Allgemeine Versicherungs-AG, Cologne, on 12 August 2004. The bond will be repaid on 12 August 2014.

Drawn up and released for publication in Hannover, 7 August 2014.

Board of Management

Herbert K. Haas,
Chairman

Dr. Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr. Immo Querner

Ulrich Wallin

Dr. Jan Wicke

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Hannover, 7 August 2014

Board of Management

Herbert K. Haas,
Chairman

Dr. Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr. Immo Querner

Ulrich Wallin

Dr. Jan Wicke

REVIEW REPORT BY THE INDEPENDENT AUDITORS

TO TALANX AKTIENGESELLSCHAFT, HANNOVER

We have reviewed the condensed interim consolidated 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 interim Group Management Report of Talanx AG, Hannover, for the period from 1 January to 30 June 2014, which are the components of the half-yearly financial report required under § 37w of the German Securities Trading Act (WpHG). Preparation of both the condensed interim consolidated financial statements in accordance with the IFRS rules for interim financial reporting, in the form adopted for use in the EU, and the interim Group Management Report in accordance with the provisions of the WpHG applicable to interim group management reports is the responsibility of the company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and the interim Group Management Report based on our review.

We conducted our review of the condensed interim consolidated financial statements and the interim Group 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 a fair degree of certainty that, in material respects, the condensed interim consolidated financial statements were not prepared in accordance with the IFRS rules for interim financial reporting, in the form adopted for use in the EU, and that,

in material respects, the interim Group Management Report was not prepared in accordance with the provisions of the WpHG applicable to 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 upon our review, we did not learn of any circumstances that give us reason to assume that, in material respects, the condensed interim consolidated financial statements were not prepared in accordance with the IFRS rules for interim financial reporting, in the form adopted for use in the EU, or that, in material respects, the interim Group Management Report was not prepared in accordance with the provisions of the WpHG applicable to interim group management reports.

Hannover, 8 August 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Husch
Wirtschaftsprüfer
(German public auditor)

Stiede
Wirtschaftsprüfer
(German public auditor)

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This is a translation of the original German text; the German version shall be authoritative in case of any discrepancies in the translation.

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FINANCIAL CALENDAR 2014/2015

13 November 2014

Interim Report as at 30 September 2014

23 March 2015

Results Press Conference 2014

7 May 2015

Annual General Meeting

11 May 2015

Interim Report as at 31 March 2015

12 August 2015

Interim Report as at 30 June 2015

12 November 2015

Interim Report as at 30 September 2015

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