

# 2016

## PERFORMANCE AND RESULTS

Talanx Group Interim Report as at 30 June 2016

**talanx.**

Insurance. Investments.

# THE TALANX GROUP AT A GLANCE

## GROUP KEY FIGURES

|                                                                                                        | UNIT        | Q1 2016      | Q2 2016      | 6M 2016       | Q1 2015      | Q2 2015      | 6M 2015       | +/- %<br>6M 2016 v.<br>6M 2015 |
|--------------------------------------------------------------------------------------------------------|-------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------------------------|
| <b>Gross written premiums</b>                                                                          | EUR MILLION | <b>8,995</b> | <b>7,432</b> | <b>16,427</b> | <b>9,440</b> | <b>7,387</b> | <b>16,827</b> | <b>-2.4</b>                    |
| by region                                                                                              |             |              |              |               |              |              |               |                                |
| Germany                                                                                                | %           | 36           | 25           | 31            | 37           | 26           | 32            | -1.0 pt.                       |
| United Kingdom                                                                                         | %           | 8            | 11           | 9             | 9            | 10           | 9             | — pt.                          |
| Central and Eastern Europe (CEE),<br>including Turkey                                                  | %           | 7            | 9            | 8             | 7            | 9            | 8             | — pt.                          |
| Rest of Europe                                                                                         | %           | 16           | 16           | 16            | 15           | 13           | 14            | +2.0 pt.                       |
| USA                                                                                                    | %           | 13           | 15           | 14            | 11           | 15           | 13            | +1.0 pt.                       |
| Rest of North America                                                                                  | %           | 2            | 2            | 2             | 2            | 3            | 3             | -1.0 pt.                       |
| Latin America                                                                                          | %           | 7            | 8            | 7             | 7            | 8            | 7             | — pt.                          |
| Asia and Australia                                                                                     | %           | 9            | 12           | 11            | 11           | 14           | 12            | -1.0 pt.                       |
| Africa                                                                                                 | %           | 2            | 2            | 2             | 1            | 2            | 2             | — pt.                          |
| <b>Net premiums earned</b>                                                                             | EUR MILLION | <b>6,266</b> | <b>6,544</b> | <b>12,810</b> | <b>6,367</b> | <b>6,384</b> | <b>12,751</b> | <b>+0.5</b>                    |
| <b>Underwriting result</b>                                                                             | EUR MILLION | <b>-422</b>  | <b>-362</b>  | <b>-784</b>   | <b>-389</b>  | <b>-462</b>  | <b>-851</b>   | <b>+7.9</b>                    |
| <b>Net investment income</b>                                                                           | EUR MILLION | <b>1,022</b> | <b>940</b>   | <b>1,962</b>  | <b>996</b>   | <b>1,041</b> | <b>2,037</b>  | <b>-3.7</b>                    |
| <b>Net return on investment<sup>1)</sup></b>                                                           | %           | <b>3.7</b>   | <b>—</b>     | <b>3.5</b>    | <b>3.6</b>   | <b>—</b>     | <b>3.8</b>    | <b>-0.3 pt.</b>                |
| <b>Operating profit/loss (EBIT)</b>                                                                    | EUR MILLION | <b>573</b>   | <b>491</b>   | <b>1,064</b>  | <b>643</b>   | <b>372</b>   | <b>1,015</b>  | <b>+4.8</b>                    |
| <b>Net income<br/>(after financing costs and taxes)</b>                                                | EUR MILLION | <b>381</b>   | <b>307</b>   | <b>688</b>    | <b>410</b>   | <b>220</b>   | <b>630</b>    | <b>+9.2</b>                    |
| of which attributable to shareholders<br>of Talanx AG                                                  | EUR MILLION | 222          | 179          | 401           | 251          | 60           | 311           | +28.9                          |
| <b>Return on equity<sup>2)3)</sup></b>                                                                 | %           | <b>10.6</b>  | <b>8.4</b>   | <b>9.5</b>    | <b>12.0</b>  | <b>2.8</b>   | <b>7.8</b>    | <b>+1.7 pt.</b>                |
| <b>Earnings per share</b>                                                                              |             |              |              |               |              |              |               |                                |
| Basic earnings per share                                                                               | IN EUR      | 0.88         | 0.71         | 1.59          | 0.99         | 0.24         | 1.23          | +29.3                          |
| Diluted earnings per share                                                                             | IN EUR      | 0.88         | 0.71         | 1.59          | 0.99         | 0.24         | 1.23          | +29.3                          |
| <b>Combined ratio in property/casualty primary<br/>insurance and Non-Life Reinsurance<sup>4)</sup></b> | %           | <b>96.3</b>  | <b>97.3</b>  | <b>96.8</b>   | <b>96.5</b>  | <b>96.2</b>  | <b>96.4</b>   | <b>+0.4 pt.</b>                |
| Combined ratio of property/<br>casualty primary insurers <sup>5)</sup>                                 | %           | 98.4         | 99.2         | 98.8          | 97.5         | 98.0         | 97.8          | +1.0 pt.                       |
| Combined ratio of Non-Life Reinsurance                                                                 | %           | 94.7         | 96.1         | 95.4          | 95.9         | 95.0         | 95.4          | — pt.                          |
| <b>EBIT margin primary insurance and reinsurance</b>                                                   |             |              |              |               |              |              |               |                                |
| EBIT margin primary insurance <sup>5)</sup>                                                            | %           | 6.6          | 4.3          | 5.4           | 6.3          | 0.8          | 3.6           | +1.8 pt.                       |
| EBIT margin Non-Life Reinsurance                                                                       | %           | 15.8         | 14.4         | 15.1          | 14.8         | 16.7         | 15.8          | -0.7 pt.                       |
| EBIT margin Life/Health Reinsurance                                                                    | %           | 6.5          | 4.0          | 5.2           | 11.3         | 1.2          | 6.2           | -1.0 pt.                       |

|                                                                |                          | 30.6.2016      | 31.12.2015     | +/- %       |
|----------------------------------------------------------------|--------------------------|----------------|----------------|-------------|
| <b>Policyholders' surplus</b>                                  | EUR MILLION              | <b>15,954</b>  | <b>15,374</b>  | <b>+3.8</b> |
| Equity attributable to shareholders<br>of Talanx AG            | EUR MILLION              | 8,653          | 8,282          | +4.5        |
| Non-controlling interests                                      | EUR MILLION              | 5,318          | 5,149          | +3.3        |
| Hybrid capital                                                 | EUR MILLION              | 1,983          | 1,943          | +2.1        |
| <b>Assets under own management</b>                             | EUR MILLION              | <b>105,074</b> | <b>100,777</b> | <b>+4.3</b> |
| <b>Total investments</b>                                       | EUR MILLION              | <b>117,741</b> | <b>115,611</b> | <b>+1.8</b> |
| <b>Total assets</b>                                            | EUR MILLION              | <b>157,948</b> | <b>152,760</b> | <b>+3.4</b> |
| <b>Carrying amount per share at end of period</b>              | IN EUR                   | <b>34.23</b>   | <b>32.76</b>   | <b>+4.5</b> |
| <b>Share price at end of period</b>                            | IN EUR                   | <b>26.63</b>   | <b>28.55</b>   | <b>-6.7</b> |
| <b>Market capitalisation of Talanx AG<br/>at end of period</b> | EUR MILLION              | <b>6,732</b>   | <b>7,217</b>   | <b>-6.7</b> |
| <b>Employees</b>                                               | FULL-TIME<br>EQUIVALENTS | <b>20,169</b>  | <b>20,334</b>  | <b>-0.8</b> |

<sup>1)</sup> Ratio of annualised net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management (30 June 2016 and 31 December 2015).

<sup>2)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

<sup>3)</sup> Ratio of annualised net income for the quarter excluding non-controlling interests to average equity excluding non-controlling interests at the beginning and the end of the quarter.

<sup>4)</sup> Combined ratio adjusted for interest income on funds withheld and contract deposits, before elimination of intragroup cross-segment transactions.

<sup>5)</sup> Excluding figures from the Corporate Operations segment.

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Guideline on Alternative Performance Measures – for further information on the calculation and definition of specific alternative performance measures please refer to the Annual Report 2015, chapter “Enterprise management”, page 22ff as well as to the “Glossary and definitions of key figures” on page 257ff.

## GOVERNING BODIES OF TALANX AG

### SUPERVISORY BOARD

**Wolf-Dieter Baumgartl**

*Chairman*

Berg

Former Chairman of the Board of Management, 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, ThyssenKrupp Technologies AG

**Antonia Aschendorf**

Hamburg

Lawyer,

Member of the Board of Management, APRAXA eG

**Karsten Faber\***

Hannover

Managing Director,

Hannover Rück SE,

E+S Rückversicherung AG

**Jutta Hammer\***

Bergisch Gladbach

Employee,

HDI Kundenservice AG

**Dr Hermann Jung**

Heidenheim

Member of the Board of Management, Voith GmbH

**Dr Thomas Lindner**

Albstadt

Chairman of the Board of Management, Groz-Beckert KG

**Dirk Lohmann**

Forch, Switzerland

President of the Administrative Board and

Chairman of the Board of Management,

Secquaero Advisors AG

**Christoph Meister\***

Hannover

Member of the ver.di

National Executive Board

**Jutta Mück\***

Oberhausen

Employee,

HDI Global SE

**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,

E.ON AG

**Prof Dr Jens Schubert\***

Potsdam

Director of the Legal Department,

ver.di National Administration

**Norbert Steiner**

Baunatal

Chairman of the Board of Management,

K+S AG

### BOARD OF MANAGEMENT

**Herbert K Haas**

*Chairman*

Burgwedel

**Dr Christian Hinsch**

*Deputy Chairman*

Burgwedel

**Torsten Leue**

Hannover

**Dr Immo Querner**

Celle

**Ulrich Wallin**

Hannover

**Dr Jan Wicke**

Hannover

\* Staff representative

# INTERIM GROUP MANAGEMENT REPORT

## REPORT ON ECONOMIC POSITION

### MARKETS AND BUSINESS CLIMATE

#### MACROECONOMIC DEVELOPMENT

The global economy endured a turbulent start to the year 2016. The negative dynamic on the emerging markets reached its height in January, driven primarily by concerns about the Chinese economy and the continued slide in raw-material prices. The recovery in raw-material prices, a cyclical stabilisation in China and global support through financial policies led to an increasing stabilisation in the performance of the global economy as the year progressed and overall to a quite positive first six-month period. In the developed nations, private consumption remained the central driver of growth, supported by low energy prices and expansive fiscal policies. On the other hand, the weakness in the emerging markets via export channels acted as a brake on growth. The referendum in the United Kingdom about remaining in the EU was a global factor creating uncertainty even before the decision to leave at the end of June.

The economy in the Eurozone grew by 0.6% in the first quarter of 2016, and by 0.3% in the second quarter. Germany's GDP was up 0.7% on the fourth quarter of 2015. Private consumption was the main growth driver here, but investments and state spending also contributed to the expansion. The positive developments on the labour market continued – the unemployment rate in the Eurozone fell in May to its lowest level since 2011 (10.1%). The economic growth in the United Kingdom was burdened in the first half of the year by the considerable political and economic uncertainty relating to the EU referendum and only managed to increase in the first quarter of this year by 0.4% (end of previous year: 0.7%). The average unemployment rate fell in May 2016 to 4.9%, its lowest level since 2005.

The US economy felt on the one hand the impact of the low oil price for the local oil industry and, on the other hand, the consequences of the strong US dollar for the manufacturing industry, and expanded in the first quarter by only an annualised rate of 0.8%. In the second quarter, growth improved slightly to an annualised level of 1.2%, and early indicators suggest that the dynamic is gathering speed. Here again, private consumption is the central growth driver, supported by the solid performance on the labour market. The decline in economic growth in China continued unabated. The annual growth rate in the GDP stood at 6.7% in the second quarter of 2016, following annual GDP growth of 7.0% in the second quarter of 2015. Monetary and fiscal measures prevented a more considerable decline in growth.

The major central banks continued to pursue extremely expansionary monetary policies. In March, the ECB relaxed its monetary

policy again in the form of a reduction in the main refinancing and deposit interest rate, an expansion of the buying programme to include corporate bonds, an increase in the monthly bond purchases to EUR 80 billion and the announcement of a new series of four relatively long-term refinancing transactions. The US Federal Reserve dispensed in the first half of the year with further increases in the key interest rate due to uncertainty about the state of the US economy and global turbulence. In January, the Japanese central bank surprisingly lowered its interest rates into the negative range. The global deflationary trend continued in the first half of 2016, especially driven by energy prices which were still low in the year-on-year comparison. This effect is gradually fading away, and will lead to an increase in the global inflation rates. In the Eurozone, the annual inflation rate stood at 0.1% in June, and so back in the positive range (May 2016: -0.1%). In the United Kingdom, too, higher inflation data was registered in June. In the USA, however, there was still no increase in the general inflation rate (June 2016: 1.0%).

#### CAPITAL MARKETS

In the first half of 2016, the bond markets were essentially marked by a mixture of macroeconomic, geo-political and monetary issues. At the beginning of the year, the weakening growth dynamic in the emerging markets and weak growth rates in China led to a considerable fall in interest rates and risk mark-ups for credit products becoming more widespread. Energy and raw-material companies were burdened by the weak oil and raw-material prices. In the middle of March, the ECB confirmed the market expectations by expanding its measures (including a buying programme for corporate bonds). Yields then fell further, ten-year German government bonds moved down towards 0% and risk mark-ups – especially for corporate bonds – narrowed again considerably.

From April onwards, the Brexit discussion dominated the fundamental market events and caused corresponding volatility. In particular, UK banks and companies with strong links to the economic growth in the United Kingdom came under pressure. Shortly before the referendum, the forecasts pointed in favour of "Remain", which led to a fall in credit spreads and increasing yields for German government bonds, but this was more than reversed after the ultimate exit vote. The yield of ten-year German government bonds fell by more than 20 basis points and stood at times below -0.10%; on the derivative side in particular, credit indicators demonstrated erratic movements.

The market for the issue of new securities, the primary market, demonstrated normal activity over this six-month period, with strong months in April and May and considerable caution in June. Demand for yield remains strong. With the ECB as an additional market participant, the secondary market – that is, the market for securities that are already in circulation – dried up almost completely for buyers of risk securities. The effects on the primary market and the corresponding allotment ratios for "normal" investors cannot yet be assessed fully.

## INSURANCE MARKETS

The second quarter of 2016 saw sentiment in the German insurance industry improve, but it still remains at a below-average level. The key factor in this improvement was more optimistic assessments about the business development in the next six months. In contrast, the current business situation was assessed to be more negative than at any time since almost four years ago. A look at property and casualty insurance on the one hand and life insurance on the other reveals diverging assessments.

Sentiment in the **German property and casualty insurance sector** deteriorated slightly in the reporting period, although on balance it remained on a comparatively positive level. The causes for this weakening were both less favourable assessments of the current business situation and also dampened business prospects for the coming six months – the latter essentially driven by relatively moderate expectations regarding the premium development in the year as a whole. The gloomy industrial sentiment was reflected in all the different lines. The most optimistic sentiment was found in private property insurance and liability insurance, while motor, accident and legal protection insurance registered a slightly more cautious mood. The mood in the industrial and commercial areas fell into the negative range.

The expectations regarding the development of premium income were dampened and remained on an extremely moderate level. Nevertheless, it was assumed that there would be some expansion in all lines, particularly in private property insurance. In the industrial and commercial areas and in liability insurance, the expansive expectations were slightly less prominent.

In terms of claims trends, the number of losses was expected to be similar to the previous year.

In **German life insurance**, the business climate recovered in the reporting period, but still remained moderate in the long-term comparison. The current business situation was assessed as extraordinarily unfavourable, which was due in part to negative overhang effects from the weak year-end business in 2015. In contrast, the expectations regarding the business performance in the next six months were much more positive. In terms of the various lines, the most optimistic business climate was found in occupational disability insurance, and was generally positive in unit-linked life and annuity insurance and term life insurance, while the mood in classic annuity insurance and endowment policies was frosty.

Expectations regarding premium growth for the full year were at a historic low. In new business, the expectations for single premium business declined considerably; although the forecasts for new, regular premium business were more optimistic, they still represented a decline compared to the previous year. The potential for growth in premium income could be seen in occupational disability insurance, unit-linked life and annuity insurance and also, to a lesser extent, in term life insurance.

The **international property reinsurance markets** continued to experience stiff competition, although the drop in prices for renewals as at 1 April 2016 was less pronounced than in the previous year. Competition continued to be affected by cedants' high levels of capitalisation as well as capital inflows from the CAT bonds market (ILSS) – though the increase was latterly only moderate – especially in the US natural disasters business.

In the first half of 2016 overall, the natural disaster burden was far higher than in the previous year. The total claims were higher than the respective inflation-adjusted average compared to the last 30 years and lower compared to the last ten years. The insured claims corresponded in total to the ten-year average and stood higher than the 30-year average. The highest claims were caused by two earthquakes in Japan, while other claim drivers were storms in Europe and the USA, forest fires in Canada and an earthquake in Ecuador.

Conditions in the **international life and health reinsurance business** remained challenging in the first half of 2016, due in particular to the persistently low interest rates. However, the introduction of Solvency II in the EU markets meant that there were new business opportunities through reinsurance solutions for capital relief and through the optimisation of the solvency situation. Moreover, due to a constantly growing middle class in significant emerging economies, there is an increasing demand for illness cover; on a global level, the demand for longevity cover is becoming increasingly noticeable.

## BUSINESS DEVELOPMENT

### PERFORMANCE OF THE GROUP

- Gross premium income fell slightly, though net premiums earned remained stable at EUR 12.8 billion
- Major losses remain below Group budget for the period
- EBIT improved in the Retail Germany Division

#### GROUP KEY FIGURES

EUR MILLION

|                                                      | 6M<br>2016 | 6M<br>2015 | +/- %    |
|------------------------------------------------------|------------|------------|----------|
| Gross written premiums                               | 16,427     | 16,827     | -2.4     |
| Net premiums earned                                  | 12,810     | 12,751     | +0.5     |
| Underwriting result                                  | -784       | -851       | +7.9     |
| Net investment income                                | 1,962      | 2,037      | -3.7     |
| Operating profit (EBIT)                              | 1,064      | 1,015      | +4.8     |
| Combined ratio<br>(net, property/casualty only) in % | 96.8       | 96.4       | +0.4 pt. |

#### MANAGEMENT METRICS

%

|                                                         | 6M<br>2016 | 6M<br>2015 | +/- %    |
|---------------------------------------------------------|------------|------------|----------|
| Gross premium growth<br>(adjusted for currency effects) | 0.0        | 6.2        | -6.2 pt. |
| Group net income in EUR million                         | 401        | 311        | +28.9    |
| Return on equity <sup>1)</sup>                          | 9.5        | 7.8        | +1.7 pt. |
| Net return on investment <sup>2)</sup>                  | 3.5        | 3.8        | -0.3 pt. |

<sup>1)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

<sup>2)</sup> Ratio of annualised net income from investments to average assets under own management.

### PREMIUM VOLUME

In the Group, the gross written premiums fell by 2.4% to EUR 16.4 (16.8) billion but, adjusted for currency effects, premiums remained stable. Growth, resulting mainly from the Industrial Lines and Retail International Divisions, could not compensate for the decline, caused among other things by the expected fall in single premium business in the Life segment of the Retail Germany Division and due to declines in the Non-Life Reinsurance segment. The retention ratio rose slightly to 86.9% (86.7%), while net premiums earned were EUR 12.8 (12.8) billion, virtually unchanged year-on-year.

### UNDERWRITING RESULT

The underwriting result was up 7.9% to EUR -784 (-851) million, whereby the high major loss burden of EUR 495 million net for the half-year became evident; the Non-Life Reinsurance segment was especially hard hit. However, total major losses remained within the Group budget for the period. The net loss ratio did fall, but the net expense ratio rose rather more sharply. The combined ratio of the Group stood around the level of the same period of the previous year at 96.8% (96.4%).

### NET INVESTMENT INCOME

Net investment income was down 3.7% year-on-year, at EUR 1,962 (2,037) million. This reflected factors such as the absence of a one-off effect in Life/Health Reinsurance that had been present in the same period in the previous year and lower interest income on funds withheld and contract deposits – also primarily in Life/Health Reinsurance. The strong rise in extraordinary net investment income, resulting, for example, from the disposal of our investment in the asset manager C-QUADRAT, could not compensate for the decline in ordinary net income. The consolidated net return on investment amounted to 3.5% (3.8%) in the first half of 2016. This was thus slightly lower than in the corresponding period of the previous year; however, we have exceeded our full-year target of generating a return of more than 3.0% for 2016 in the first half of the year.

### OPERATING PROFIT AND GROUP NET INCOME

The operating profit (EBIT) rose by 4.8% to EUR 1,064 (1,015) million, thanks to a sharp increase in the EBIT in the Retail Germany Division; the previous year was dominated by the impairment in full of the goodwill attributable to the life insurance business of this division. Group net income – net income after non-controlling interests – rose by a good 29% to EUR 401 (311) million. The return on equity of 9.5% (7.8%) exceeded our forecast figure for the full-year 2016 of more than 8.5%.



## DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

At a strategic level, Talanx divides its business into seven reportable segments: Industrial Lines, Retail Germany – Property/Casualty and Life –, Retail International, Non-Life Reinsurance, Life/Health Reinsurance and Corporate Operations. Please refer to the section entitled “Segment reporting” in the Notes to the consolidated financial statements for details of these segments’ structure and scope of business.

### INDUSTRIAL LINES

- Growth in premiums, particularly abroad
- Improved net technical result
- Net investment income impacted by period of low interest rates

#### KEY FIGURES FOR THE INDUSTRIAL LINES SEGMENT

EUR MILLION

|                         | 6M<br>2016 | 6M<br>2015 | +/-%  |
|-------------------------|------------|------------|-------|
| Gross written premiums  | 2,706      | 2,625      | +3.1  |
| Net premiums earned     | 1,083      | 1,021      | +6.1  |
| Underwriting result     | 25         | 13         | +92.3 |
| Net investment income   | 109        | 113        | -3.5  |
| Operating profit (EBIT) | 143        | 142        | +0.7  |

#### MANAGEMENT METRICS

%

|                                                      | 6M<br>2016 | 6M<br>2015 | +/-%     |
|------------------------------------------------------|------------|------------|----------|
| Gross premium growth (adjusted for currency effects) | 4.1        | 1.1        | +3.0 pt. |
| Retention                                            | 52.7       | 52.7       | —        |
| Combined ratio (net) <sup>1)</sup>                   | 97.8       | 98.7       | -0.9 pt. |
| EBIT margin <sup>2)</sup>                            | 13.1       | 13.9       | -0.8 pt. |
| Return on equity <sup>3)</sup>                       | 8.5        | 9.5        | -1.0 pt. |

<sup>1)</sup> Including net interest income on funds withheld and contract deposits.

<sup>2)</sup> Operating profit (EBIT)/net premiums earned.

<sup>3)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

### PREMIUM VOLUME

Gross written premiums for the division amounted to EUR 2.7 (2.6) billion as at 30 June 2016, a slight increase of around 3.1% (4.1% after adjustment for currency effects). In particular, the international branches of HDI Global SE in France and in the UK recorded significant increases in premiums. The Brazilian subsidiary HDI Global S.A. also made a positive contribution to premium growth.

The retention ratio in the division was at the same level as in the previous year, at 52.7% (52.7%). The increased payments to external reinsurers in the property line were offset by lower expenses for reinstatement premiums. Net premiums earned rose by 6.1% compared with the previous-year quarter to EUR 1,083 (1,021) million, corresponding to growth in gross premiums.

### UNDERWRITING RESULT

The division's net underwriting result increased to EUR 25 (13) million. At 21.7% (21.4%), the net expense ratio was slightly higher year-on-year, thanks to the registered growth. In addition, a changeover in the reinsurance arrangements at the subsidiary HDI-Gerling Verzekeringen N.V. to increasingly non-proportional cover has led to higher net commissions. The loss ratio (net) improved to 76.1% (77.4%) due to a lower major loss burden. The combined ratio for the Industrial Lines Division amounted to 97.8% (98.7%).

### NET INVESTMENT INCOME

Net investment income fell by -3.5% to EUR 109 (113) million. It was possible to over-compensate for the lower interest rates for new and reinvestments through higher income from private equity vehicles; however, in comparison to the previous-year period, fewer net gains from the disposal of investments were generated at HDI Global SE overall.

### OPERATING PROFIT AND GROUP NET INCOME

The division's operating profit remains at the same level as the previous year at EUR 143 (142) million thanks to the developments described above. Group net income amounted to EUR 91 (97) million.

## RETAIL GERMANY

Since the second quarter of 2016, the Talanx Group has managed the Retail Germany Division on the basis of the Property/Casualty and Life segments, and has reported accordingly about the performance of these two segments.

### PROPERTY/CASUALTY

- Erosion in premiums due to higher cancellation rate in the motor insurance year-end business
- Increase in losses due to natural disasters
- EBIT below that of previous year due to investment in the future and restructuring costs within the framework of the investment and modernisation programme

#### KEY FIGURES FOR THE RETAIL GERMANY DIVISION – PROPERTY/CASUALTY INSURANCE

EUR MILLION

|                              | 6M 2016 | 6M 2015 | +/- %  |
|------------------------------|---------|---------|--------|
| Gross written premiums       | 980     | 989     | -0.9   |
| Net premiums earned          | 691     | 692     | -0.1   |
| Underwriting result          | -32     | -8      | -300.0 |
| Net investment income        | 47      | 49      | -4.1   |
| Operating profit/loss (EBIT) | -17     | 30      | -156.7 |

#### MANAGEMENT METRICS FOR PROPERTY/CASUALTY INSURANCE

%

|                                    | 6M 2016 | 6M 2015 | +/- %    |
|------------------------------------|---------|---------|----------|
| Gross premium growth               | -0.9    | -3.7    | +2.8 pt. |
| Combined ratio (net) <sup>1)</sup> | 104.7   | 101.1   | +3.6 pt. |
| EBIT margin <sup>2)</sup>          | -2.5    | 4.3     | -6.8 pt. |

<sup>1)</sup> Including net interest income on funds withheld and contract deposits.

<sup>2)</sup> Operating profit/loss (EBIT)/net premiums earned.

### MARKET DEVELOPMENT

In property/casualty insurance, the positive trend is expected to continue in the current year. Premium income is likely to rise by a total of around 2.6%. A similar increase in premiums is expected for both motor insurance (+3.2%) and retail property insurance (+3.0%).

### PREMIUM VOLUME AND NEW BUSINESS

Written premium income in the Property/Casualty segment declined slightly by 0.9% to EUR 980 million. This reduction in premium income was attributable to the erosion of motor insurance portfolios. Overall, the share of the total Retail Germany Division attributable to the property/casualty insurers increased to 29.3% (26.9%) due to the decline in premiums in the life insurance business.

### UNDERWRITING RESULT

The underwriting result fell from EUR -8 million to EUR -32 million in the current financial year. This development was essentially due to higher investment in the future, within the framework of the investment and modernisation programme, of EUR 17 million as well as an increase in losses relating to natural disasters by EUR 9 million.

### NET INVESTMENT INCOME

The net investment income remained stable at EUR 47 (49) million.

### OPERATING PROFIT/LOSS

The EBIT stood at EUR -17 (30) million, below the same period in the previous year. This figure was influenced by investments in the future, within the framework of the investment and modernisation programme, of EUR 36 million (including restructuring costs; of which EUR 19 million was outside the underwriting result) and higher natural disaster losses in the amount of EUR 9 million. In line with this, the EBIT margin declined to -2.5% (4.3%).

### LIFE

- Scheduled decline in the single premium business
- Decline in the ordinary net investment income due to the low interest rate environment
- EBIT rises due to the absence of the previous-year effect arising from the full impairment of goodwill

#### KEY FIGURES FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE

EUR MILLION

|                                                             | 6M 2016    | 6M 2015    | +/- %        |
|-------------------------------------------------------------|------------|------------|--------------|
| Gross written premiums                                      | 2,366      | 2,680      | -11.7        |
| Net premiums earned                                         | 1,763      | 2,097      | -15.9        |
| Underwriting result                                         | -780       | -832       | +6.3         |
| Net investment income                                       | 890        | 899        | -1.0         |
| Operating profit/loss (EBIT)                                | 73         | -91        | +180.2       |
| <b>New business measured in annual premium equivalent</b>   | <b>202</b> | <b>236</b> | <b>-14.4</b> |
| Single premiums                                             | 717        | 944        | -24.0        |
| Regular premiums                                            | 130        | 142        | -8.4         |
| <b>New business by product in annual premium equivalent</b> | <b>202</b> | <b>236</b> | <b>-14.4</b> |
| Unit-linked life and annuity insurance                      | 45         | 73         | -38.4        |
| Traditional life and annuity insurance                      | 109        | 118        | -7.6         |
| Term life products                                          | 44         | 40         | +10.0        |
| Other life products                                         | 4          | 5          | -20.0        |

**MANAGEMENT METRICS FOR LIFE INSURANCE**

| %                         | 6M<br>2016 | 6M<br>2015 | +/- %     |
|---------------------------|------------|------------|-----------|
| Gross premium growth      | -11.7      | 5.7        | -17.4 pt. |
| EBIT margin <sup>1)</sup> | 4.2        | -4.3       | +8.5 pt.  |

<sup>1)</sup> Operating profit/loss (EBIT)/net premiums earned.

**MARKET DEVELOPMENT**

The current financial year continues to be influenced by persistently low and even negative capital market interest rates and a low tendency for consumers to save. As a result of these circumstances, a decline in premiums of around 2.0% is expected in life insurance by the end of the year. In particular, a slight 2.5% decrease is forecast for new regular premium business.

**PREMIUM VOLUME AND NEW BUSINESS**

The Life segment registered a decline in premiums of 11.7% down to EUR 2.4 (2.7) billion in the first half of the year – including the savings elements of premiums from unit-linked life insurance. This change was caused by the scheduled decline in single premiums due to the developments on the capital markets. The retention ratio in the life insurance business remained stable at 95.6% (95.9%). Allowing for the savings elements under our unit-linked products and the change in the unearned premium reserve, the net premiums earned in the Life segment decreased by 15.9% at EUR 1.8 (2.1) billion.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – fell from EUR 236 million to EUR 202 million, primarily due to a decline in the single premium business.

**UNDERWRITING RESULT**

At EUR -780 million, the underwriting result was up in the current financial year from EUR -832 million in the previous year. This was partly due to the unwinding of discounts on technical provisions and policyholder participation in net investment income. These expenses are offset by investment income, which is not recognised in the underwriting result.

**NET INVESTMENT INCOME**

The net investment income remained almost constant at EUR 890 (899) million. The ordinary net investment income reduced by 2.9% from EUR 788 million to EUR 765 million due to a lower reinvestment return. The extraordinary net investment income increased in contrast by 12.6% to EUR 188 (167) million. Higher gains were realised in order to finance the additional interest reserve required by the HGB.

**OPERATING PROFIT/LOSS**

The operating profit/loss (EBIT) in the Life segment of the Retail Germany Division improved to EUR 73 (-91) million and so achieved an EBIT margin of 4.2% (-4.3%). The previous year was characterised by the full impairment of the goodwill in the life insurance business.

**RETAIL GERMANY DIVISION OVERALL – GROUP NET INCOME**

The EBIT for the Retail Germany Division increased in the reporting period from EUR -61 million to EUR 56 million. The previous year was weighed on by the full impairment of the goodwill in the life insurance business. After adjustment for taxes on income, financing costs and non-controlling interests, Group net income increased to EUR 24 (-104) million, causing the return on equity to rise by 9.2 percentage points to 1.8%.

**RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL**

| %                              | 6M<br>2016 | 6M<br>2015 | +/- %    |
|--------------------------------|------------|------------|----------|
| Return on equity <sup>1)</sup> | 1.8        | -7.4       | +9.2 pt. |

<sup>1)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

## RETAIL INTERNATIONAL

- Acquisition of the insurance companies of the Italian banking group Gruppo Banca Sella
- Growth in gross written premiums adjusted for currency effects is 11.9%
- Decline in operating profit due exclusively to new asset tax in Poland and negative exchange rate movements in important markets

### KEY FIGURES FOR THE RETAIL INTERNATIONAL SEGMENT

EUR MILLION

|                         | 6M<br>2016 | 6M<br>2015 | +/- % |
|-------------------------|------------|------------|-------|
| Gross written premiums  | 2,487      | 2,392      | +4.0  |
| Net premiums earned     | 2,097      | 1,903      | +10.2 |
| Underwriting result     | 7          | 19         | -63.2 |
| Net investment income   | 153        | 167        | -8.4  |
| Operating profit (EBIT) | 106        | 127        | -16.5 |

### MANAGEMENT METRICS

%

|                                                            | 6M<br>2016 | 6M<br>2015 | +/- %    |
|------------------------------------------------------------|------------|------------|----------|
| Gross premium growth (adjusted for currency effects)       | 11.9       | 5.9        | +6.0 pt. |
| Combined ratio (net, property/casualty only) <sup>1)</sup> | 96.4       | 95.2       | +1.2 pt. |
| EBIT margin <sup>2)</sup>                                  | 5.1        | 6.7        | -1.6 pt. |
| Return on equity <sup>3)</sup>                             | 6.4        | 8.1        | -1.7 pt. |

<sup>1)</sup> Including net interest income on funds withheld and contract deposits.<sup>2)</sup> Operating profit (EBIT)/net premiums earned.<sup>3)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

This division bundles the activities of the international retail business in the Talanx Group and is active in both Europe and Latin America. In the Europe region, the division has strengthened itself by purchasing the insurance companies of the Italian banking group Gruppo Banca Sella, with the aim of expanding its business in the area of sales via banks. As at 30 June 2016, the acquisition of 100% of the shares of both the life insurance company CBA Vita S. p. A. and its subsidiary Sella Life Ltd. (renamed as InChiaro Life DAC as at 1 July 2016), as well as the other 49% of the property insurer InChiaro Assicurazioni S. p. A., was concluded by the Italian subsidiary HDI Assicurazioni S. p. A. The Group now owns 100% of the shares in all three companies.

## PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 4.0% compared to the first half of 2015 to EUR 2.5 (2.4) billion. Adjusted for currency effects, however, gross premiums increased by 11.9% on the comparison period.

The trend in premium volume was different for the two regions in this reporting period. In the Latin America region, the gross written premiums fell by 7.3% compared to the same period in the previous year to EUR 676 million. An increase of 11.2% was registered when adjusted for currency effects, which was essentially due to the Brazilian company, HDI Seguros S. A. 52% of the premium volume generated in the region was attributable to this company, which provides motor insurance in particular. The performance of the Brazilian motor insurance market was heavily defined in the first half of 2016 by the ongoing economic crisis in the country, as well as the decline in the sales of new cars that this entails. Chile had a positive effect on the gross written premiums of the region, as the new companies acquired as at 13 February 2015 were incorporated for a full six months for the first time in the first half of 2016.

On the other hand, an increase in the gross written premiums of 9.4% to EUR 1.8 billion was recorded in the Europe region, driven particularly by the life insurance premiums at HDI Assicurazioni in Italy due to the growth of the single premium business arising from bank sales. This more than compensated for the decline in premium income in Poland, where the more stringent regulatory framework, such as the asset tax for banks and insurance companies introduced at the beginning of 2016 in particular, dampened the performance of the business, especially in life insurance. Adjusted for currency effects, the growth in premium volume in Europe stood at 12.6%.

## UNDERWRITING RESULT

The combined ratio of the property insurance companies deteriorated by 1.2 percentage points year-on-year to 96.4%. This development was largely attributable to the 1.0 percentage point increase in the loss ratio. This was essentially due to higher costs for spare parts and wages – driven by the devaluation of the local currencies against the US dollar – as well as increased inflation in Brazil, Mexico and Turkey in particular. The increase in the division's expense ratio to 31.4% (31.1%) resulted from the higher acquisition cost ratio due to the diversification strategy.

Overall, the underwriting result recorded in this division at EUR 7 million fell EUR 12 million below the previous-year level.

## NET INVESTMENT INCOME

The division's net investment income amounted to EUR 153 million as at the end of the first half of 2016, a year-on-year decrease of 8.4%. This was primarily due to the decline in interest rates year-on-year, particularly in Poland and Italy, which account for the highest investment volume in the division. The division's ordinary net investment income decreased accordingly by 6.5%. The first half of 2016 was also influenced by lower extraordinary net investment income in Italy. The average return on assets under own management declined by 0.7 percentage points compared to the same period in the previous year to 3.6%. Net investment income includes EUR 6 (4) million in net income from investment contracts. These are policies that provide insufficient risk cover to be classified as insurance contracts in accordance with IFRSs.

## OPERATING PROFIT AND GROUP NET INCOME

In the first half of 2016, operating profit (EBIT) in the Retail International Division declined by 16.5% compared with the prior-year period to EUR 106 million. While the Europe region contributed EUR 76 (91) million to the operating profit of the segment, EUR 34 (42) million of the EBIT was generated in the Latin America region. In Europe, the decline in the operating profit was primarily due to the loss caused by the newly introduced asset tax in Poland (EUR –10 million), which is disclosed under "Other income/expenses". In Latin America, by contrast, the decline in EBIT was partly due to negative currency effects, but primarily to the weaker combined ratio in Brazil compared to the same period in the previous year. Normalised operating profit (EBIT), excluding the currency effects and the newly introduced asset tax in Poland, reached the same level as the previous year despite the challenging market environment. Group net income after non-controlling interests declined by 16.9% to EUR 64 (77) million. As a result of that, the return on equity fell by 1.7 percentage points to 6.4% compared to the same period in the previous year.

## ADDITIONAL KEY FIGURES

### RETAIL INTERNATIONAL SEGMENT BY LINE OF BUSINESS AT A GLANCE

EUR MILLION

|                                                                    | 6M<br>2016   | 6M<br>2015   | +/- %        |
|--------------------------------------------------------------------|--------------|--------------|--------------|
| <b>Gross written premiums</b>                                      | <b>2,487</b> | <b>2,392</b> | <b>+4.0</b>  |
| Property/casualty                                                  | 1,537        | 1,662        | -7.5         |
| Life                                                               | 950          | 730          | +30.1        |
| <b>Net premiums earned</b>                                         | <b>2,097</b> | <b>1,903</b> | <b>+10.2</b> |
| Property/casualty                                                  | 1,305        | 1,296        | +0.7         |
| Life                                                               | 792          | 607          | +30.5        |
| <b>Underwriting result</b>                                         | <b>7</b>     | <b>19</b>    | <b>-63.2</b> |
| Property/casualty                                                  | 46           | 62           | -25.8        |
| Life                                                               | -39          | -43          | +9.3         |
| <b>Net investment income</b>                                       | <b>153</b>   | <b>167</b>   | <b>-8.4</b>  |
| of which property/casualty                                         | 89           | 95           | -6.3         |
| of which life                                                      | 65           | 73           | -11.0        |
| <b>New business measured in annual premium equivalent (life)</b>   | <b>118</b>   | <b>96</b>    | <b>+22.9</b> |
| Single premiums                                                    | 836          | 614          | +36.2        |
| Regular premiums                                                   | 34           | 34           | —            |
| <b>New business by product in annual premium equivalent (life)</b> | <b>118</b>   | <b>96</b>    | <b>+22.9</b> |
| Unit-linked life and annuity insurance                             | 15           | 12           | +25.0        |
| Traditional life and annuity insurance                             | 26           | 23           | +13.0        |
| Term life products                                                 | 23           | 38           | -39.5        |
| Other life products                                                | 54           | 23           | +134.8       |

### RETAIL INTERNATIONAL SEGMENT AT A GLANCE, SPLIT INTO EUROPE AND LATIN AMERICA

EUR MILLION

|                                | 6M<br>2016   | 6M<br>2015   | +/- %        |
|--------------------------------|--------------|--------------|--------------|
| <b>Gross written premiums</b>  | <b>2,487</b> | <b>2,392</b> | <b>+4.0</b>  |
| of which Europe                | 1,798        | 1,644        | +9.4         |
| of which Latin America         | 676          | 729          | -7.3         |
| <b>Net premiums earned</b>     | <b>2,097</b> | <b>1,903</b> | <b>+10.2</b> |
| of which Europe                | 1,471        | 1,276        | +15.3        |
| of which Latin America         | 625          | 624          | +0.2         |
| <b>Underwriting result</b>     | <b>7</b>     | <b>19</b>    | <b>-63.2</b> |
| of which Europe <sup>1)</sup>  | -2           | -9           | +77.8        |
| of which Latin America         | 8            | 29           | -72.4        |
| <b>Net investment income</b>   | <b>153</b>   | <b>167</b>   | <b>-8.4</b>  |
| of which Europe                | 108          | 122          | -11.5        |
| of which Latin America         | 46           | 46           | —            |
| <b>Operating profit (EBIT)</b> | <b>106</b>   | <b>127</b>   | <b>-16.5</b> |
| of which Europe                | 76           | 91           | -16.5        |
| of which Latin America         | 34           | 42           | -19.0        |

<sup>1)</sup> The underwriting result largely reflects policyholder participation in net investment income and the unwinding of discounts on technical provisions at the life insurance companies.

## NON-LIFE REINSURANCE

- Competition remains fierce in Non-Life Reinsurance
- Major loss budget almost exhausted in the first half of the year
- Underlying underwriting result weighed on by high losses in the second quarter

### KEY FIGURES FOR THE NON-LIFE REINSURANCE SEGMENT

EUR MILLION

|                         | 6M<br>2016 | 6M<br>2015 | +/- % |
|-------------------------|------------|------------|-------|
| Gross written premiums  | 4,627      | 4,972      | -6.9  |
| Net premiums earned     | 3,839      | 3,894      | -1.4  |
| Underwriting result     | 165        | 167        | -1.2  |
| Net investment income   | 431        | 437        | -1.4  |
| Operating profit (EBIT) | 580        | 616        | -5.8  |

### MANAGEMENT METRICS

%

|                                                      | 6M<br>2016 | 6M<br>2015 | +/- %     |
|------------------------------------------------------|------------|------------|-----------|
| Gross premium growth (adjusted for currency effects) | -5.6       | 10.0       | -15.6 pt. |
| Combined ratio (net) <sup>1)</sup>                   | 95.4       | 95.4       | —         |
| EBIT margin <sup>2)</sup>                            | 15.1       | 15.8       | -0.7 pt.  |

<sup>1)</sup> Including net interest income on funds withheld and contract deposits.<sup>2)</sup> Operating profit (EBIT)/net premiums earned.

### RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

%

|                                | 6M<br>2016 | 6M<br>2015 | +/- %    |
|--------------------------------|------------|------------|----------|
| Return on equity <sup>1)</sup> | 12.5       | 15.0       | -2.5 pt. |

<sup>1)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

## BUSINESS DEVELOPMENT

The fierce competition in the Non-Life Reinsurance segment is continuing; the supply of reinsurance cover continues to far exceed demand. Individual relatively major losses were registered in certain regions; however, they were not able to bring about a general hardening of the market. As before, the healthy capitalisation levels of the cedants, which mean that they can retain more risks, along with the additional capacities from the market for catastrophe bonds (ILSs) – especially in the US natural disaster business – are factors that apply sustained pressure to the prices and terms.

In the treaty renewals round as at 1 April, we still managed to achieve satisfactory results thanks to our broad diversification. This is traditionally the date on which the business in Japan is renewed, and smaller volumes of treaty renewals for the Australian, New Zealand, Korean and North American markets are also due. Although the price decline was perceptible in some markets and segments, we were still able to secure good profitability for our portfolio thanks to our selective underwriting and the focus on our existing business. In certain areas, it was also possible to exploit attractive business opportunities again, so that the premium volume for the portfolio renewed as at 1 April rose by 9%.

## PREMIUM DEVELOPMENT

Gross written premiums in the Non-Life Reinsurance segment fell by 6.9% to EUR 4.6 (5.0) billion as at 30 June 2016. At constant exchange rates, the decline would have amounted to 5.6%. Retention declined to 88.2% (89.6%) year-on-year. The net premiums earned fell slightly to EUR 3.8 (3.9) billion; when adjusted for currency effects, they remained constant at EUR 3.9 billion.

## UNDERWRITING RESULT

The major loss experience was far more intensive than in the comparable period of the previous year, especially in the second quarter. The loss in this area was considerably above our quarterly forecast of EUR 167 million. Nevertheless, we were able to profit from loss reserves formed from the major loss budget for the first quarter that had not been needed. The net loss for the first half of the year totalled EUR 353 million; in the previous year, it was just EUR 197 million. The most expensive single loss was the devastating fires in the Canadian province of Alberta, worth EUR 132 million. The severe earthquake in Ecuador registered a loss of EUR 57 million. In addition, several smaller natural disasters and man-made losses were registered.

In light of these increased losses, the underwriting result for the Non-Life Reinsurance segment fell slightly by 1.2% to EUR 165 (167) million; however, this still represents an acceptable level. We generated a good combined ratio of 95.4% (95.4%), in line with our target of a figure below 96%.

## NET INVESTMENT INCOME

Net investment income in the Non-Life Reinsurance segment declined slightly by 1.4% to EUR 431 (437) million.

## OPERATING PROFIT AND GROUP NET INCOME

The operating profit (EBIT) of the Non-Life Reinsurance segment fell by 5.8% to EUR 580 (616) million as at 30 June 2016. On the other hand, the EBIT margin exceeded our target level of at least 10%, at 15.1% (15.8%). Group net income declined to EUR 187 (206) million.

## LIFE/HEALTH REINSURANCE

- Very good overall profitability partly overshadowed by negative loss experiences in the US mortality business in earlier underwriting years
- Increasing intensity in the competition and regulatory requirements call for innovative and individual reinsurance concepts

### KEY FIGURES FOR THE LIFE/HEALTH REINSURANCE SEGMENT

EUR MILLION

|                         | 6M<br>2016 | 6M<br>2015 | +/- % |
|-------------------------|------------|------------|-------|
| Gross written premiums  | 3,656      | 3,614      | +1.2  |
| Net premiums earned     | 3,328      | 3,125      | +6.5  |
| Underwriting result     | -176       | -216       | +18.5 |
| Net investment income   | 321        | 366        | -12.3 |
| Operating profit (EBIT) | 174        | 194        | -10.3 |

### MANAGEMENT METRICS

%

|                                                         | 6M<br>2016 | 6M<br>2015 | +/- %    |
|---------------------------------------------------------|------------|------------|----------|
| Gross premium growth (adjusted for currency effects)    | 4.2        | 8.9        | -4.7 pt. |
| EBIT margin <sup>1)</sup> financial solutions/longevity | 7.3        | 13.2       | -5.9 pt. |
| EBIT margin <sup>1)</sup> mortality/morbidity           | 4.3        | 2.7        | +1.6 pt. |

<sup>1)</sup> Operating profit (EBIT)/net premiums earned.

### RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

%

|                                | 6M<br>2016 | 6M<br>2015 | +/- %    |
|--------------------------------|------------|------------|----------|
| Return on equity <sup>1)</sup> | 12.5       | 15.0       | -2.5 pt. |

<sup>1)</sup> Ratio of annualised net income for the reporting period excluding non-controlling interests to average equity excluding non-controlling interests.

## BUSINESS DEVELOPMENT

We are satisfied overall with the business performance in the Life/Health Reinsurance segment for the first half of 2016. After an excellent first quarter, the second quarter also lived up to our expectations.

In Germany, the yield on ten-year German government bonds was negative for the first time. In addition, a reduction in the maximum technical interest rate for endowment life insurance and annuities to 0.9% as from 1 January 2017 was officially announced.

These developments illustrate the persistently difficult situation on the German life insurance market. The primary life insurers are increasingly finding themselves compelled to adjust their product range so that they can go on providing attractive life insurance products. We are attempting to support our customers efficiently with individual reinsurance solutions.

In the other markets in Northern and Western Europe, too, the conditions remained challenging. Against this background, we are satisfied with the performance of our business. Our expectations were also fulfilled in the Eastern European markets, and we assess the business opportunities for the second half of the year as positive.

On the Asian markets, the developments in the individual countries are extremely varied. For instance, Japan finds itself – like Germany – confronted with an ageing population and a low-interest environment. In China, the local regulatory requirements in the (re)insurance sector are becoming more stringent. In Malaysia, on the other hand, the introduction of a new lifestyle insurance concept reflects the dynamic development of the market. In India, too, business is making pleasing progress. As an innovative reinsurer, we have successfully signed contracts for products in the critical illness area that are tailored individually to the needs of our customers.

In the area of longevity, international activities are continuing to increase. This is due, firstly, to ongoing, global demographic change and the growing awareness of the need to provide for old age. Secondly, however, there is a demand for reinsurance solutions for the longevity portfolios at an increasing number of insurers and pension funds. In the United Kingdom, the situation on the market still remains competitive. However, on this market, we have an essential competitive edge thanks to our many years of expertise and our data records, so that we were able to achieve a thoroughly satisfactory performance in the reporting period just ended.

The performance of our US mortality business fell short of our expectations in the reporting period just ended due to individual effects in various business blocks. In the financial solutions area, however, business performed better than planned. Moreover, the health and special risk business exceeded expectations and made a pleasingly positive contribution to an overall sound performance in our US business.



**PREMIUM DEVELOPMENT**

As at 30 June 2016, we achieved gross premiums in the amount of EUR 3.7 (3.6) billion, which represents growth of 1.2%. At unchanged exchange rates, growth would have amounted to 4.2%. Retention rose to 91.8% (86.5%). Net premiums earned rose by 6.5% to EUR 3.3 (3.1) billion. At constant exchange rates, the growth would even have amounted to 9.7%.

**NET INVESTMENT INCOME**

In the reporting period just ended, the net investment income fell by 12.3% to EUR 321 (366) million, whereby income in the same period in the previous year was characterised by a one-off effect in the amount of EUR 39 million. The funds withheld by our cedants achieved income of EUR 164 (187) million.

**OPERATING PROFIT AND GROUP NET INCOME**

The operating profit (EBIT) in the Life/Health Reinsurance segment reached a level of EUR 174 (194) million as at 30 June 2016. This represents a decline in income of 10.3% compared to the same period in the previous year. The financial solutions and longevity business generated an EBIT margin of 7.3%, which far exceeded the target of 2%. The mortality and morbidity business generated an EBIT margin of 4.3%, and was therefore below the target EBIT margin of 6%. The Group net income stood at EUR 63 (69) million.

**CORPORATE OPERATIONS**

- Group assets under own management up 4.3%
- Talanx sells 25.1% share in C-QUADRAT
- Positive operating profit of EUR 27 million

Talanx Asset Management GmbH has sold its 25.1% investment in the asset manager C-QUADRAT Investment AG to Cubic Limited. Talanx AG generated profit after taxes according to IFRS of around EUR 26 million from the sale of the shares. The shares were sold at a price of EUR 42.00 per share; in 2010, Talanx had acquired them at a price of EUR 12.60 per share. The aim is to continue the successful collaboration between the two companies, which stretches back many years.

**THE GROUP'S REINSURANCE SPECIALISTS**

Underwriting business written via our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment since 2013. The aim of this in-house reinsurer is to increase retention and optimise capital utilisation. The in-house business written by Talanx Re (Ireland) is partly reallocated to the ceding segments in order to leverage diversification benefits there. Business including additional cross-segment diversification benefits is also reported in the Corporate Operations segment. Gross written premiums in this business amounted to EUR 22 (27) million in the first half of 2016. They resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International Divisions. Talanx Re (Ireland) posted an operating profit of EUR 4 (6) million for this business in the Corporate Operations segment in the first half of 2016.

Talanx Reinsurance Broker GmbH is wholly owned by Talanx AG and handles all aspects of the reinsurance business process for Group cedants. As part of our segment allocation, earnings have been fully reallocated to the ceding segments since 2015.



### THE GROUP'S INVESTMENT SPECIALISTS

In cooperation with its subsidiary Ampega Investment GmbH, Talanx Asset Management 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 to the segment's operating profit made by the two companies and Talanx Immobilien Management GmbH amounted to EUR 48 (30) million in the first half of 2016.

As an investment company, Ampega Investment GmbH manages retail and special funds and provides financial portfolio management services for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. The net sales of the fund sector in the first half of 2016 fell below the level of the previous year, which was so successful for the entire investment industry. The price declines on the international stock exchanges from the beginning of the year on, coupled with the uncertainty among investors due to Brexit, led to weaker sales results, particularly in the business area of retail investment funds.

The total volume of assets managed by Ampega rose by 6.7% to EUR 20.6 (19.3) billion in the first half of 2016. At EUR 10.4 (9.5) billion, approximately half of this total was managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 5.2 (4.2) billion was attributable to institutional third-party clients and EUR 5.1 (5.5) billion to retail business. The latter is offered both through the Group's own distribution channels and products such as unit-linked life insurance and through external asset managers and banks.

### OPERATING PROFIT

The Corporate Operations segment increased its operating profit to EUR 27 (9) million in the first half of 2016, largely due to the sale of the 25.1% share in C-QUADRAT Investment AG. Group net income attributable to shareholders of Talanx AG for this segment amounted to EUR -23 (-38) million in the first half of 2016.

## NET ASSETS AND FINANCIAL POSITION

### NET ASSETS

- Total assets up EUR 5.2 billion to EUR 157.9 billion
- Investments account for 75% of total assets

#### ASSET STRUCTURE

| EUR MILLION                                                                              |  | 30.6.2016      |             | 31.12.2015     |             |
|------------------------------------------------------------------------------------------|--|----------------|-------------|----------------|-------------|
| Intangible assets                                                                        |  | 1,963          | 1%          | 1,990          | 1%          |
| Investments                                                                              |  | 117,741        | 75%         | 115,611        | 76%         |
| Investments for the benefit of life insurance policyholders who bear the investment risk |  | 9,873          | 6%          | 10,104         | 7%          |
| Reinsurance recoverables on technical provisions                                         |  | 8,424          | 5%          | 8,372          | 5%          |
| Accounts receivable on insurance business                                                |  | 6,317          | 4%          | 6,070          | 4%          |
| Deferred acquisition costs                                                               |  | 4,944          | 3%          | 5,078          | 3%          |
| Cash at banks, cheques and cash-in-hand                                                  |  | 3,359          | 2%          | 2,243          | 1%          |
| Deferred tax assets                                                                      |  | 792            | 1%          | 736            | <1%         |
| Other assets                                                                             |  | 2,683          | 2%          | 2,537          | 2%          |
| Non-current assets and assets of disposal groups classified as held for sale             |  | 1,852          | 1%          | 19             | <1%         |
| <b>Total assets</b>                                                                      |  | <b>157,948</b> | <b>100%</b> | <b>152,760</b> | <b>100%</b> |

### SIGNIFICANT CHANGES IN THE ASSET STRUCTURE

The EUR 5.2 billion increase in our total assets to EUR 157.9 billion is primarily attributable to growth of EUR +2.1 billion in our investment portfolio, coupled with an increase in the assets of disposal groups classified as held for sale (EUR +1.8 billion).

Recognised intangible assets of EUR 2.0 (2.0) billion include EUR 930 (953) million of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1,033 (1,037) million. Other intangible assets are recognised in their entirety in the Group. Other intangible assets that are economically attributable to Group shareholders – excluding non-controlling interests and the policyholders' portion – are calculated as follows:

#### NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

EUR MILLION

|                                                                                                                             | 30.6.2016 | 31.12.2015 |
|-----------------------------------------------------------------------------------------------------------------------------|-----------|------------|
| Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes | 930       | 953        |
| of which attributable to: non-controlling interests                                                                         | 86        | 124        |
| of which attributable to: policyholders' portion                                                                            | 323       | 319        |
| of which attributable to: deferred taxes                                                                                    | 85        | 74         |
| Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes     | 436       | 436        |

#### CHANGES IN INVESTMENT

The total investment portfolio increased by 1.8% over the course of the first half of 2016 and amounted to EUR 117.7 billion. The portfolio of assets under own management rose by 4.3% to EUR 105.1 billion. Growth in the portfolio of assets under own management was predominantly market-driven and is also still determined by the cash inflows from the underwriting business – which were reinvested in accordance with the respective corporate guidelines. Moreover, the assets under own management include the portfolio of the

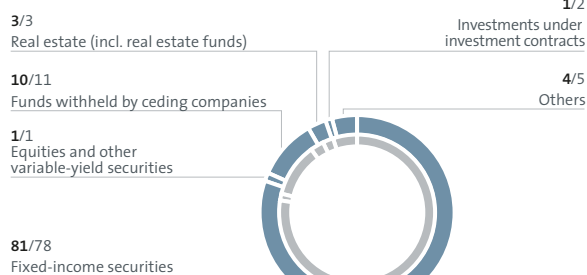
new Italian company, CBA Vita, as at 30 June 2016 in the amount of EUR 915 million. The portfolio of investment contracts, by contrast, fell from EUR 2.2 billion to EUR 1.1 billion. This decline relates to a reclassification of the portfolios of Open Life Towarzystwo Ubezpieczeń Życie S.A. as assets of disposal groups which are classified as held for sale. This decline was cushioned by a growth in investment contracts at InChiaro Life Designated Activity Company (InChiaro Life DAC). For further information about the initial consolidation of CBA Vita S. p. A. (CBA Vita) and InChiaro Life DAC, see our disclosures in the Notes, in the section "Consolidation". Funds withheld by ceding companies fell by 8.1% to EUR 11.6 billion.

Fixed-income investments were again the most significant asset class in the first half of 2016. Most reinvestments were made in this class, reflecting the existing investment structure. This asset class contributed EUR 1.4 billion to earnings, which was reinvested as far as possible in the year under review.

The equity allocation ratio after derivatives (equity ratio) was 1.5% (1.2%) at the end of the quarter.

#### BREAKDOWN OF THE INVESTMENT PORTFOLIO

IN %



30.6.2016 31.12.2015

**BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS**

EUR MILLION

|                                                                                                                 | 30.6.2016      |             | 31.12.2015     |             |
|-----------------------------------------------------------------------------------------------------------------|----------------|-------------|----------------|-------------|
| Investment property                                                                                             | 2,177          | 2%          | 2,198          | 2%          |
| Shares in affiliated companies and participating interests                                                      | 117            | <1%         | 111            | <1%         |
| Investments in associates and joint ventures                                                                    | 273            | <1%         | 272            | <1%         |
| Loans and receivables                                                                                           |                |             |                |             |
| Loans incl. mortgage loans                                                                                      | 661            | 1%          | 733            | 1%          |
| Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities | 29,344         | 28%         | 29,021         | 29%         |
| Financial assets held to maturity                                                                               | 895            | 1%          | 1,287          | 1%          |
| Financial assets available for sale                                                                             |                |             |                |             |
| Fixed-income securities                                                                                         | 63,746         | 61%         | 59,396         | 59%         |
| Variable-yield securities                                                                                       | 2,378          | 2%          | 1,875          | 2%          |
| Financial assets at fair value through profit or loss                                                           |                |             |                |             |
| Financial assets classified at fair value through profit or loss                                                |                |             |                |             |
| Fixed-income securities                                                                                         | 959            | 1%          | 807            | 1%          |
| Variable-yield securities                                                                                       | 25             | <1%         | 67             | <1%         |
| Financial assets held for trading                                                                               |                |             |                |             |
| Fixed-income securities                                                                                         | 2              | <1%         | 6              | <1%         |
| Variable-yield securities                                                                                       | 112            | <1%         | 135            | <1%         |
| Derivatives <sup>1)</sup>                                                                                       | 51             | <1%         | 48             | <1%         |
| Other investments                                                                                               | 4,334          | 4%          | 4,821          | 5%          |
| <b>Total assets under own management</b>                                                                        | <b>105,074</b> | <b>100%</b> | <b>100,777</b> | <b>100%</b> |

<sup>1)</sup> Only derivatives with positive fair values.**FIXED-INCOME SECURITIES**

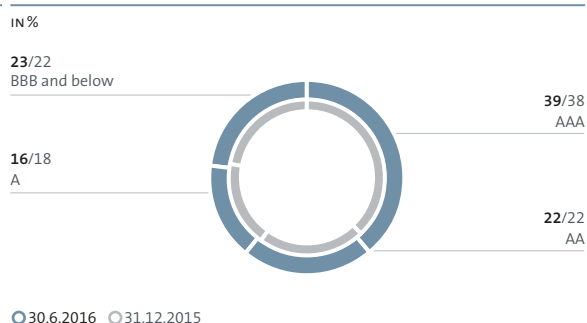
The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 4.4 billion in the first half of 2016 to total EUR 94.9 billion at the end of the six-month period. At 81% of total investments, this asset class continues to represent the most significant share of our investments by 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 equity, increased further by EUR +4.4 billion to EUR 63.7 billion, or 67% of total investments in the fixed-income portfolio. Pfandbriefe and corporate bonds accounted for the majority of these investments. Valuation reserves – i.e. the balance of unrealised gains and losses – have risen from EUR 2.9 billion to EUR 5.6 billion since the end of 2015 due to the further drop in interest rates for long terms.

In the “Loans and receivables” category, investments were primarily held in government securities or securities with a similar level of security. Pfandbriefe still represent the largest item in the portfolio. Total holdings in fixed-income securities within the category “Loans and receivables” amounted to EUR 30.0 billion at the end of the six-month period and thus represent 31% of total holdings in the asset class of fixed-income investments. Off-balance-sheet valuation reserves of “Loans and receivables” (including mortgage and policy loans) increased from EUR 4.9 billion to EUR 6.2 billion.

Investment in fixed-income securities continued to focus on government bonds with good ratings or securities from issuers with a similar credit quality in 2016. At the reporting date, holdings of AAA-rated bonds amounted to EUR 37.5 billion. This represents 39% of the total portfolio of fixed-income securities and loans.

## RATING STRUCTURE OF FIXED-INCOME SECURITIES



The Group pursues a conservative investment policy. As a result, 77% of instruments in the fixed-income securities asset category have a minimum A rating.

The Group has only a small portfolio of investments in government bonds from countries with a rating lower than A-. On a fair value basis, this portfolio amounts to EUR 3.6 billion and therefore corresponds to a share of 3.4% of the assets under own management.

The Macaulay duration of the Talanx Group's total fixed-income securities investment portfolio was 8.1 (7.7) years as at 30 June 2016.

As far as match-oriented currency cover is concerned, US dollar-denominated investments continue to account for the largest share (20%) of the Talanx Group's foreign currency portfolio. Sizeable positions are also held in sterling and Australian dollars, totalling 5% of all investments. The total share of assets under own management in foreign currencies was 32% as at 30 June 2016.

## EQUITIES AND EQUITY FUNDS

Net unrealised gains and losses on equity holdings within the Group (excluding "Other investments") reduced by EUR 11 million to EUR 114 million.

## REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Investment property totalled EUR 2.2 billion at the reporting date. An additional EUR 789 million is held in real estate funds, which are recognised as "Financial assets available for sale".

Depreciation of EUR 21 million was recognised on investment property in the reporting period. There were no impairment losses. Depreciation on real estate funds stood at EUR 2 million. These depreciations were offset by negligible reversals of impairment losses.

The real estate ratio including investments in real estate funds was unchanged at 3%.

## INFRASTRUCTURE INVESTMENTS

In the area of infrastructure investments, a diversified portfolio of equity and external funding investments has been built up over the last few years. New additions to this portfolio in the second quarter included two external funding transactions and a mezzanine transaction. The external funding transactions are a solar farm in Brandenburg and a portfolio of primary care centres in Ireland. The mezzanine investment is debt financing of a subordinated nature for an onshore wind farm.

The investment volume currently amounts to about EUR 1.4 billion. We are aiming for an investment volume in the amount of about EUR 2 billion by the end of 2017. We can see other potential investment opportunities in the areas of transport and social infrastructure and in power supply infrastructure in particular.

## NET INVESTMENT INCOME

## NET INVESTMENT INCOME

EUR MILLION

|                                                               | 6M 2016      | 6M 2015      |
|---------------------------------------------------------------|--------------|--------------|
| Ordinary investment income                                    | 1,639        | 1,700        |
| of which current income from interest                         | 1,374        | 1,456        |
| of which gain/loss on investments in associates               | 3            | 7            |
| Realised net gains on disposal of investments                 | 330          | 344          |
| Write-downs/reversals of write-downs of investments           | -106         | -96          |
| Unrealised net gains from investments                         | 44           | -            |
| Other investment expenses                                     | -118         | -104         |
| Income from assets under own management                       | 1,789        | 1,844        |
| Net interest income from funds withheld and contract deposits | 167          | 189          |
| Net income from investment contracts                          | 6            | 4            |
| <b>Total</b>                                                  | <b>1,962</b> | <b>2,037</b> |

The net investment income in the first half of the year stood at EUR 1,962 (2,037) million, and so was just slightly below the previous year's level despite the low interest rate environment. The annualised net return on investment for the assets under own management fell slightly to 3.5% (3.8%).

Ordinary investment income at the end of the six-month period totalled EUR 1,639 (1,700) million. Discounting the one-off effect in the previous year of EUR 39 million from Life/Health Reinsurance, the income remained almost constant. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.3%, down on the previous year's value of 3.6%. The current interest income included in the investment income amounted to EUR 1.4 billion and still accounted for the majority of the earnings.

Total realised net gains on the disposal of investments in the first half of the financial year were down on the previous-year figure, amounting on balance to EUR 330 (344) million. The positive net gains resulted from regular portfolio turnover in all segments, as

well as from the requirement to realise unrealised gains in order to finance the additional interest reserve for life insurance and occupational pension plans required by the HGB. In addition, we adjusted our private equity portfolio through the sale of older commitments.

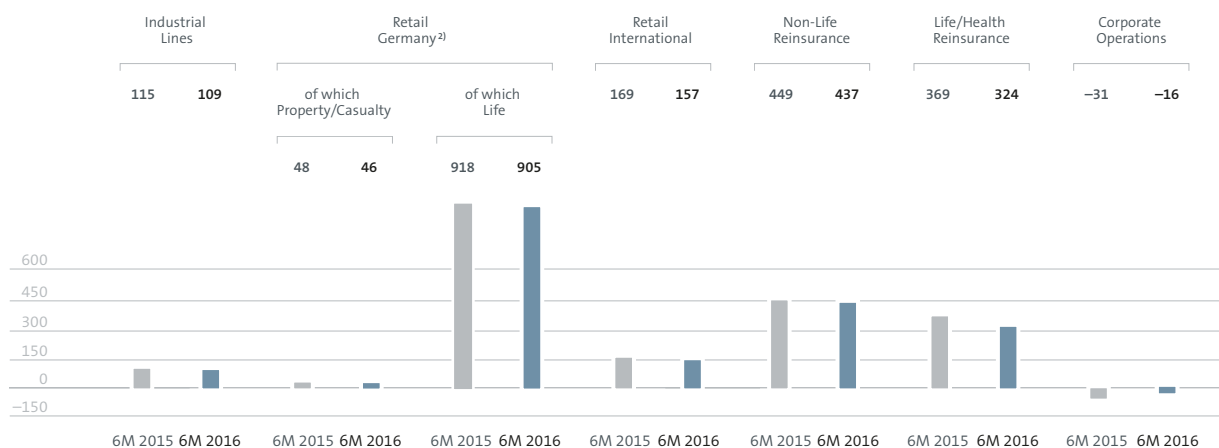
In comparison to the previous year, higher write-downs were required on balance in the first half of this year. These amounted to EUR 106 (96) million in total, net of reversals of impairments. EUR 51 (8) million of this amount was attributable to the area of equities due to lower prices, partly because of the Brexit decision.

Unrealised net gains/losses improved from EUR 0 million to EUR 44 million. The increase was essentially due to changes in the fair value of an unbundled derivative (Life/Health Reinsurance segment) due to the effects of the Brexit vote on the interest levels of the pound sterling.

Net interest income from funds withheld and contract deposits totalled EUR 167 (189) million.

#### NET INVESTMENT INCOME BY GROUP SEGMENT<sup>1)</sup>

EUR MILLION



<sup>1)</sup> After elimination of intragroup transactions between the segments.

<sup>2)</sup> Retail Germany Division 6M 2015: EUR 966 million; 6M 2016: EUR 951 million.

## FINANCIAL POSITION

### ANALYSIS OF CAPITAL STRUCTURE

- Equity up year-on-year at EUR 14.0 (13.4) billion
- Technical provisions up EUR 4.4 billion to EUR 111.3 billion
- Liabilities from investment contracts down EUR 1.1 billion

#### CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION

|                                                                                                          | 30.6.2016      |             | 31.12.2015     |             |
|----------------------------------------------------------------------------------------------------------|----------------|-------------|----------------|-------------|
| Equity                                                                                                   | 13,971         | 9%          | 13,431         | 9%          |
| Subordinated liabilities                                                                                 | 1,983          | 1%          | 1,943          | 1%          |
| Technical provisions                                                                                     | 111,252        | 71%         | 106,832        | 70%         |
| Technical provisions for life insurance policies where the investment risk is borne by the policyholders | 9,873          | 6%          | 10,104         | 7%          |
| Other provisions                                                                                         | 3,744          | 2%          | 3,516          | 2%          |
| Liabilities                                                                                              | 12,644         | 8%          | 14,636         | 10%         |
| Deferred tax liabilities                                                                                 | 2,663          | 2%          | 2,298          | 1%          |
| Liabilities included in disposal groups classified as held for sale                                      | 1,818          | 1%          | —              | —           |
| <b>Total equity and liabilities</b>                                                                      | <b>157,948</b> | <b>100%</b> | <b>152,760</b> | <b>100%</b> |

### SIGNIFICANT CHANGES IN THE CAPITAL STRUCTURE

Overall, net technical provisions rose by 4.5% or EUR 4.4 billion year-on-year to EUR 103.2 (98.8) billion. EUR 1.6 billion of this increase related to benefit reserves and EUR 1.7 billion related to the provisions for premium refunds.

The ratio of net provisions in the insurance business to total investments – including funds withheld by ceding companies but excluding investments under investment contracts – was 88.5% (87.1%) at the reporting date. Investments thus exceed provisions by EUR 13.5 (14.6) billion.

## EQUITY

### CHANGES IN EQUITY

Equity rose by EUR 540 million (+4.0%) to EUR 13,971 (13,431) million in the reporting period just ended. The Group's portion (equity excluding non-controlling interests) amounted to EUR 8,653 (8,282) million. The increase of EUR 371 million (+4.5%) is due firstly to the net profit for the period, EUR 401 (311) million of which is attributable to our shareholders and was allocated in full to retained earnings and, secondly, to the increase in "accumulated other comprehensive income and other reserves", compared with 31 December 2015, by EUR 309 million to EUR 798 million. At the same time, the dividend payment totalling EUR 329 million to Talanx AG shareholders in May of the reporting period had an offsetting effect.

The change in "Other reserves" (EUR +309 million) is mainly due to two partially offsetting effects. On the one hand, the significant rise in unrealised gains on investments by EUR 1,831 million to EUR 4,274 (2,443) million was the cause of the increase in other reserves and was largely due to gains on corporate and government bonds as a result of the further decline in interest rates for long terms. On the other hand, the decrease in the other changes in equity by EUR -1,609 million to EUR -3,976 (-2,367) million cancelled out this effect to a large extent. EUR -1,343 million and thus a major part of this change was attributable to policyholder participations/shadow accounting (in particular policyholder participations in gains on investments) and EUR -264 million was attributable to the increase in provisions for pensions (mainly caused by the further decline in interest rates for long terms). Moreover, the reserve for cash flow hedges increased by EUR 152 million to EUR 508 million due to the changes in interest rates. Accumulated currency translation gains/losses, on the other hand, declined by EUR 65 million to EUR -8 million due to exchange rate changes for foreign currencies against the euro. This decline was particularly due to the devaluation of the Polish zloty, the Mexican peso and the British pound, and a slight devaluation of the US dollar against the euro, and was partly braked by the appreciation of the Brazilian real against the euro in particular.

Non-controlling interests in equity rose slightly by EUR 169 million – or 3.3% – to EUR 5,318 million. Non-controlling interests in net income for the period were EUR 287 (319) million. The dividend payment to non-Group shareholders totalling EUR 348 (336) million was mainly from the Hannover Re Group.

**CHANGES IN EQUITY**

EUR MILLION

|                                                           | 30.6.2016     | 31.12.2015    |
|-----------------------------------------------------------|---------------|---------------|
| Subscribed capital                                        | 316           | 316           |
| Capital reserve                                           | 1,373         | 1,373         |
| Retained earnings                                         | 6,166         | 6,104         |
| Accumulated other comprehensive income and other reserves | 798           | 489           |
| <b>Group equity</b>                                       | <b>8,653</b>  | <b>8,282</b>  |
| Non-controlling interests in equity                       | 5,318         | 5,149         |
| <b>Total</b>                                              | <b>13,971</b> | <b>13,431</b> |

**EQUITY BY DIVISION<sup>1)</sup> INCLUDING NON-CONTROLLING INTERESTS**

EUR MILLION

|                                            | 30.6.2016     | 31.12.2015    |
|--------------------------------------------|---------------|---------------|
| Industrial Lines                           | 2,149         | 2,099         |
| of which non-controlling interests         | —             | —             |
| Retail Germany                             | 2,798         | 2,590         |
| of which non-controlling interests         | 59            | 46            |
| Retail International                       | 2,311         | 2,201         |
| of which non-controlling interests         | 218           | 244           |
| Reinsurance                                | 9,103         | 8,760         |
| of which non-controlling interests         | 5,042         | 4,862         |
| Corporate Operations                       | -2,388        | -2,195        |
| of which non-controlling interests         | —             | —             |
| Consolidation                              | -2            | -24           |
| of which non-controlling interests         | -1            | -3            |
| <b>Total equity</b>                        | <b>13,971</b> | <b>13,431</b> |
| <b>Group equity</b>                        | <b>8,653</b>  | <b>8,282</b>  |
| <b>Non-controlling interests in equity</b> | <b>5,318</b>  | <b>5,149</b>  |

<sup>1)</sup> Equity per division is defined as the difference between the assets and liabilities of each division.

**ANALYSIS OF DEBT**

Subordinated liabilities totalled EUR 2.0 (1.9) billion as at the reporting date. In the second quarter of 2016, a subordinated loan for EUR 27 million was taken out during the acquisition of CBA Vita. Moreover, in this context, a subordinated bond in the amount of EUR 14 million issued by CBA Vita in 2010 is disclosed for the first time. Further information can be found in the Notes to the consolidated balance sheet in the section "Notes to individual items of the consolidated balance sheet", Note 8 "Subordinated liabilities".

In the second quarter of 2016, a syndicated credit line for EUR 700 million was superseded by a credit line for EUR 250 million at improved terms and with a term of five years. As at 30 June 2016, the Group thus had two syndicated variable-rate credit lines with a nominal value of EUR 800 million. As in the previous year, these were not drawn down as at the reporting date. The 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 in concert, 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. Moreover, the notes payable and loans have increased by EUR 59 million to EUR 1,500 million, primarily due to an increase in the loans for financing infrastructure projects. Further information can be found in the Notes to the consolidated balance sheet in the section "Notes to individual items of the consolidated balance sheet", Note 10 "Notes payable and loans".

The Corporate Operations division reports 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 mainly relate to retirement pension provisions of EUR 1,271 (1,069) million, notes payable in the amount of EUR 1,065 (1,065) million and provisions for taxes of EUR 98 (112) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and, above all, by the carrying amounts of its investments in subsidiaries, which are eliminated against the proportionate equity of the subsidiaries in the consolidated financial statements.

## OTHER REPORTS AND DECLARATIONS

### RISK REPORT

We see opportunity and risk management as one of our core functions. As an international group offering insurance and financial services, we enter into a wide range of business risks that are inextricably linked with our business activities. The monitoring and management of our risk position is a key task at Talanx AG. The aim here is to avoid developments that could jeopardise the continued existence of the Group and, at the same time, to exploit opportunities that arise.

The findings from our risk management system provide an overview at all times of the current and the anticipated future overall risk situation of our Group. They form an integral component of the decision-making process at all management levels, as they allow a comprehensive and systematic consideration of the opportunities that arise and the related risks.

The Talanx risk management system deploys appropriate simulation models and processes, which are based on recognised, state-of-the-art methods, for the identification, quantification and management of risks and for determining the required risk capital. The risk strategy, centrally defined guidelines, methods and procedures, limits and thresholds serve as the framework for monitoring and reporting. Our risk strategy is derived from our corporate strategy and formulates our risk management objectives and structures. Together with value-based management, the risk strategy forms an integral component of our entrepreneurial actions and is also reflected in the detailed strategies for the various divisions.

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 tasks within the framework of the corporate management of risks                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Supervisory Board              | <ul style="list-style-type: none"> <li>Advises and oversees the Board of Management in its management of the Company, including with respect to risk strategy and risk management</li> </ul>                                                                                                                                                                                                                                                                                                                                                           |
| Board of Management            | <ul style="list-style-type: none"> <li>Overall responsibility for risk management</li> <li>Definition of the risk strategy</li> <li>Responsibility for proper functioning of risk management</li> <li>Overall responsibility for model changes</li> </ul>                                                                                                                                                                                                                                                                                              |
| Executive Risk Committee (ERC) | <ul style="list-style-type: none"> <li>Management, coordination and prioritisation of Group-wide risk issues</li> <li>Adjustment of limits within fixed materiality thresholds</li> <li>Approval of guidelines and other frameworks in accordance with Group frameworks for the governance of the Group's internal model to the extent that they do not require the approval of the Board of Management as a whole</li> <li>Preliminary examination at cross-segment level of issues that must be submitted to the full Board of Management</li> </ul> |
| Risk Committee                 | <ul style="list-style-type: none"> <li>Risk monitoring and coordinating body, charged with the following key tasks:               <ul style="list-style-type: none"> <li>Critical examination and analysis of the risk position of the Group as a whole, with a particular focus on the risk budget approved by the Board of Management and on the risk strategy</li> <li>Monitoring of management measures within the Group with respect to risks that could potentially threaten the Group's continued existence</li> </ul> </li> </ul>              |
| Chief Risk Officer             | <ul style="list-style-type: none"> <li>Responsible for holistic monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from a Group perspective</li> <li>Chairman of the Risk Committee</li> <li>Option to take part in meetings of the Board of Management when there are items on the agenda relating to risk</li> </ul>                                                                                                                                            |
| Central Risk Management        | <ul style="list-style-type: none"> <li>Group-wide risk monitoring function</li> <li>Methodological expertise, including the following:               <ul style="list-style-type: none"> <li>Development of processes/procedures for risk assessment, management and analysis</li> <li>Risk limitation and reporting</li> <li>Overarching risk monitoring and quantification of the necessary risk capital</li> <li>Validation of the Group model</li> </ul> </li> </ul>                                                                                |
| Local Risk Management          | <ul style="list-style-type: none"> <li>Risk monitoring function in the divisions</li> <li>Observance of the centrally defined guidelines, methods and procedures, limit systems and thresholds that serve as the framework for local implementation, monitoring and reporting</li> </ul>                                                                                                                                                                                                                                                               |
| Compliance                     | <ul style="list-style-type: none"> <li>Analysis of compliance risk, based on the early identification, assessment and communication of compliance-related changes in the legal framework</li> <li>Establishment and enhancement of suitable structures for ensuring compliance with applicable legal norms and Group rules</li> </ul>                                                                                                                                                                                                                  |
| Actuarial Function             | <ul style="list-style-type: none"> <li>Coordinates and comments on calculations of technical provisions</li> <li>Ensures that the calculations and the assumptions and methods used are appropriate</li> </ul>                                                                                                                                                                                                                                                                                                                                         |
| Group Auditing                 | <ul style="list-style-type: none"> <li>Process-independent review of the Group's functional areas</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                           |



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

Further information on the structure of risk management can be found in the 2015 Group Annual Report.

As from the beginning of 2016, the regulatory solvency capital requirement (SCR) is determined using an internal Group model (Talanx Enterprise Risk Model, or "TERM") for all risks with the exception of operational risk. HDI V.a.G., as the ultimate parent company, requested approval for TERM as the partial internal model to replace the standardised approach on behalf of the Group and key subsidiaries, which was approved by BaFin in a letter dated 19 November 2015. At present, the standard formula is used as the

basis for determining the SCR for regulatory purposes for operational risks only. In addition, the application for approval for the extended application of the partial internal model with effect from 1 October 2016 to another four life insurance companies within the Group was submitted on 1 April 2016. A decision is expected from BaFin by the end of September 2016.

The results of the internal model as at 31 December 2015 and 31 March 2016 reveal that the Group has a sufficiently comfortable capital cushion. The Group satisfies all applicable regulatory solvency requirements.

The Talanx Group's risk position can be broken down into the risk categories described below, which are based on GAS 20.

#### THE TALANX GROUP'S RISK POSITION

| Risk category                                 | Material risks                                                                                                                                                                                                                                                      | Key risk management measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Underwriting risk</b>                      |                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <b>Cross-segment</b>                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <ul style="list-style-type: none"> <li>Concentration risk</li> </ul>                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>Risk offset by diversification</li> <li>Limits and thresholds for restricting the concentration risk in investments and reinsurance</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|                                               | <b>Property/casualty (primary insurance and reinsurance)</b>                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <ul style="list-style-type: none"> <li>Actual claims experience differs from the expected claims experience (premium/loss risk)</li> <li>Technical provisions are insufficient to pay claims that have not yet been settled or reported (reserving risk)</li> </ul> | <ul style="list-style-type: none"> <li>Claims analysis and regular review of the claims experience</li> <li>Actuarial modelling and monitoring of exposure to natural hazards</li> <li>Selective underwriting</li> <li>Technical audits</li> <li>Appropriate reinsurance cover</li> <li>Recognition of IBNR reserves</li> <li>Reserves reviewed by external actuaries</li> </ul>                                                                                                                                                                                                                                            |
|                                               | <b>Life/health primary insurance</b>                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <ul style="list-style-type: none"> <li>Changes to biometric actuarial assumptions</li> <li>Interest guarantee risk in the case of life insurance contracts with guaranteed interest payments</li> <li>Lapse risks</li> </ul>                                        | <ul style="list-style-type: none"> <li>Biometric actuarial assumptions regularly reviewed</li> <li>Safety margins factored into actuarial assumptions</li> <li>Ongoing monitoring of investment portfolios and the capital markets, implementation of appropriate measures (in particular with respect to duration)</li> <li>Interest rate hedging instruments</li> <li>Adjustment of surplus participation</li> <li>Cost control, focus on variable sales costs</li> <li>Careful selection of intermediaries</li> <li>Systematic monitoring of MCEV</li> <li>Review of the structure and volume of new business</li> </ul> |
|                                               | <b>Life/Health Reinsurance</b>                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <ul style="list-style-type: none"> <li>Changes to biometric actuarial assumptions</li> <li>Lapse and credit risk when prefinancing cedants' acquisition costs</li> </ul>                                                                                            | <ul style="list-style-type: none"> <li>Use of reliable biometric actuarial assumptions</li> <li>Systematic monitoring of MCEV</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Default risk in the insurance business</b> |                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <b>Cross-segment</b>                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                               | <ul style="list-style-type: none"> <li>Default on accounts receivable from reinsurers, retrocessionaires, policyholders and insurance intermediaries</li> </ul>                                                                                                     | <ul style="list-style-type: none"> <li>Careful selection of reinsurers and retrocessionaires</li> <li>Ongoing monitoring of credit quality</li> <li>Measures to collateralise receivables</li> <li>Consistent and uniform use of rating information as at a specific reporting date via a rating information system accessible throughout the Group</li> <li>Effective dunning process and reduction of outstanding receivables</li> <li>Recognition of appropriate value adjustments</li> </ul>                                                                                                                            |

## THE TALANX GROUP'S RISK POSITION

| Risk category            | Material risks                                                                                                                                                                                                                                                                                                                                                                                | Key risk management measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Market risk</b>       |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Potential losses due to adverse changes in market prices (interest rates, real estate, equity prices and exchange rates)</li> <li>Losses in value due to adverse changes in debtor credit quality</li> <li>Illiquidity risk: holdings/open positions cannot be sold/closed out, or only after a delay or at a discount</li> </ul> | <ul style="list-style-type: none"> <li>Monitoring and managing of market price risk using suitable models and key indicators</li> <li>Performance of proprietary and regulatory stress tests</li> <li>Matching currency cover</li> <li>Analysis of assets and liabilities using ALM VaR</li> <li>Use of ratings (rating agencies, internal ratings) when making investment decisions</li> <li>Monitoring and managing of credit risk using credit VaR</li> <li>Regular tracking of fund development and performance</li> <li>Liquid asset structure</li> <li>Regular liquidity planning</li> </ul> |
| <b>Operational risk</b>  |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Risk of losses due to the inadequacy or failure of processes, or as a result of events triggered by employee-related, systemic or external factors. This includes legal and compliance risks, as well as tax risks.</li> </ul>                                                                                                    | <ul style="list-style-type: none"> <li>Multifaceted, cause-based risk management</li> <li>Internal control system</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Strategic risk</b>    |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Danger of an imbalance between our corporate strategy and the constantly changing general business environment</li> </ul>                                                                                                                                                                                                         | <ul style="list-style-type: none"> <li>Corporate strategy and risk strategy are reviewed annually</li> <li>Processes and structures are adjusted as required</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Reputational risk</b> |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Possible damage to the Company's reputation due to negative public perception</li> </ul>                                                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>Defined communication channels</li> <li>Professional corporate communications</li> <li>Tried-and-tested processes for defined crisis scenarios</li> <li>Established Code of Conduct</li> </ul>                                                                                                                                                                                                                                                                                                                                                              |
| <b>Emerging risk</b>     |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Emerging risks whose risk content is not yet reliably known and whose implications are difficult to assess</li> </ul>                                                                                                                                                                                                             | <ul style="list-style-type: none"> <li>Early identification of risks; various countermeasures, e.g. reinsurance, diversification, risk exclusions, safety margins, emergency planning, etc.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Model risk</b>        |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <b>Cross-segment</b> <ul style="list-style-type: none"> <li>Risks from inappropriate model-related decisions as a result of uncertainty due to a partial or total lack of information with regard to the understanding or knowledge of an event included in the model, its repercussions or its likelihood</li> </ul>                                                                         | <ul style="list-style-type: none"> <li>Sensitivity analyses quantify the inherent model risk and provide an indication of the robustness of the "SCR"</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Other risks</b>       |                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                          | <ul style="list-style-type: none"> <li>Talanx AG's investment risk: volatile earnings by subsidiaries and/or the investment portfolio</li> <li>Risk of asset erosion at acquisitions</li> </ul>                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>Appropriate tools in Controlling, Internal Auditing and Risk Management</li> <li>Segment and regional diversification</li> <li>Investment in high-growth markets and in product and portfolio segments that stabilise earnings</li> <li>Due diligence audits</li> <li>Liquidity calculations and forecasts</li> <li>M&amp;A committees</li> </ul>                                                                                                                                                                                                           |
|                          | <ul style="list-style-type: none"> <li>Possible need to establish additional reserves due to Talanx AG's pension obligations</li> </ul>                                                                                                                                                                                                                                                       | <ul style="list-style-type: none"> <li>Actuarial assumptions are regularly reviewed for adequacy</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

Risk reporting in this interim report mainly focuses on relevant changes to the risk position that have occurred since Talanx's 2015 Group Annual Report was prepared. A detailed description of the various types of risks is not provided here; these are disclosed in the annual report.

The fact that interest rates have been low for several years and are currently extremely low – due among other things to the economic crisis and sovereign debt crisis in the Eurozone and the associated low interest rate policy – increases the interest guarantee risk significantly. The ECB implemented further measures in spring 2016: reduction of the prime rate to 0.00%; tightening of the penalty interest rate for banks (negative interest); and an increase in the volume of the ECB's bond buying programme. The aim of the ECB is to achieve an inflation rate of just under 2% in the Eurozone. However, in February 2016, the inflation rate in the Eurozone stood at -0.2% and so remained far below the desired 2% mark.

If interest rates remain low or fall even further, this will heighten even more the already considerable reinvestment risk for life insurance companies offering traditional guarantee products. It will then become increasingly difficult to generate the guaranteed return. This will be the case even though the Group mitigates this interest guarantee risk primarily by means of interest rate hedges and by extending durations on the assets side, along with the addition of moderate volumes of higher-yield securities including selected GIIPS issues. Depending on the scenario, capital strengthening measures might have to be considered in future. Reserves have been strengthened using the statutory additional interest reserve since 2011. Furthermore, the Group mitigates interest guarantee risk primarily through regular analysis of its assets and liabilities, by constantly monitoring its investment portfolios and the capital markets, and by taking appropriate measures.

No concrete risks that could jeopardise the Talanx Group's continued existence are discernible at present. The risk profile of the Retail Germany Division is, however, heavily dependent on the life insurance companies and is mainly dominated by investment risk – and especially interest rate risk and credit risk. Consequently, the division is still facing a substantial challenge with respect to its risk position.

Natural disaster risk also represents a significant risk for the Group. Carefully and individually selected reinsurance cover is taken out to protect against peak exposures from such risks. This enables us to effectively limit large individual losses and the impact of accumulation events and thus make it possible to plan for them.

In abstract terms at least, there is still considerable uncertainty as to whether risks associated with the sovereign debt crisis could crystallise further in future and have a lasting impact on the Talanx Group's net assets, financial position and results of operations.

In the referendum on membership of the EU on 23 June 2016, a majority of the voters voted in favour of the United Kingdom leaving the EU (known as "Brexit"). It is unclear when the United Kingdom will submit the application to leave the EU, which is causing additional uncertainty. The United Kingdom could slip into recession in the short term. The Bank Of England describes the outlook for the financial stability of the United Kingdom as "challenging". In the long term, the situation could deteriorate further if the new government does not manage to agree any reasonable solutions with the EU. Following the decision in favour of Brexit, uncertainty is rife on the financial markets and in political circles. However, our analyses indicate that the impact on the assets of Talanx remains manageable.

In response to the financial crisis, the EU created the basis for shareholder and creditor participation in the recapitalisation of banks in need of restructuring (bail-in rules) in the form of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD). Austria was the first member state to transpose the EU directive for banks (only) into national law with the Austrian Federal Act on the Recovery and Resolution of Banks (BaSAG). On this basis, the Austrian Financial Market Authority (FMA) imposed a payment moratorium on Heta Asset Resolution ("Heta") on 1 March 2015. However, Heta did not have a banking licence, nor had it participated in ECB stress testing as at this date. As a result, there are serious doubts as to the lawfulness of the FMA's approach for this reason alone. The application – for the first time – of these bail-in rules prevented a classic insolvency of Heta and therefore also a recourse to the guarantor, the Austrian federal state of Kärnten. The Group has correspondingly impaired its interest-bearing portfolio. Legal steps have been initiated for all the affected companies/investment funds. Following the failure of a repurchase offer with a deadline on 11 March 2016, the responsible supervisory authority, FMA, ordered a bail-in on 10 April 2016. The bail-in amounts to 54% for priority liabilities. Such a bail-in releases the liability of the federal state of Kärnten from the statutory deficit guarantee.

As at 18 May 2016, a Memorandum of Understanding (MoU) was concluded by the major creditor groups and the Austrian Ministry of Finance, which is the result of the negotiations between the

creditor groups and Austria and which regulates the procedure for an economic solution of the HETA case and the details for the settlement of the claims as follows: the MoU contains the exchange offer that is already familiar from the initial tender proceedings with an economic value of approx. 90% (zero-coupon bond, guaranteed by the Republic of Austria, term of approx. 13.5 years). The creditors who accept the offer will be given the opportunity, after a retention deadline of approx. 60 days, to sell the zero-coupon bond (i.e. at approx. 90% of the nominal value) within a “stabilisation period” of approx. 180 days (second tender offer).

This therefore represents a fundamental (but legally still non-binding) agreement between Austria and a majority of the creditors who rejected the initial exchange offer (approximately 50% of the non-subordinated creditors). If the creditors who accepted the initial exchange offer are included, this means that there are good prospects that the exchange offer presented in the MoU will be accepted by the two-thirds majority required in accordance with the Austrian Financial Market Stabilisation Act (FinStaG). However, a whole series of tasks still need to be carried out on the Austrian side before the settlement of the transaction planned for October – especially coordination with the EU Commission – so that an acceptable exchange offer can be submitted to the creditors.

The application of such bail-in arrangements is also under discussion with regard to a possible recapitalisation need at several Italian banks.

The Italian banking system has been characterised for several years by the high burden of bad loans, not least as a consequence of comparatively weak economic growth. At present, possible solutions are being drawn up to alleviate the bad-loan burden on the Italian banks. The capitalisation level of some banks is relatively weak and requires the provision of additional equity by private investors; in the worst-case scenario, it may be necessary to call on the creditors (known as a “bail-in”; see next paragraph). At some Talanx Group subsidiaries, there is a comparatively high exposure to Italian securities. Our analyses indicate that the impact on the assets of Talanx remains manageable.

The Talanx Group is also exposed to operational risk. We define this as risks arising from internal processes and events triggered by employee-related, system-induced or external factors. These

include operational risks in connection with our actual insurance activities and those associated with asset management activities, including unit-linked life insurance policies. It also covers legal risk and law amendment risks, including for example data protection, tax law and antitrust law. Strategic risk and reputational risk do not fall into this risk category.

Legal risk represents a significant risk for the Talanx Group in the area of life insurance in particular. Statutory reforms, e.g. in connection with IFRSs and Solvency II, are identified at an early stage in order to enable us to fulfil stricter requirements. In addition, developments in supreme court rulings in particular and changes in the law that could affect Group companies are closely monitored.

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 (section 5a(2) sentence 4 of the old version of the Insurance Contracts Act [vVG]) – after the expiry of which policyholders could no longer revoke the insurance policy – was incompatible with EU law (see Talanx’s 2013 Group Annual Report for details). As one of the legal consequences of this ruling, the German Federal Court of Justice ruled on 7 May 2014 and confirmed in its judgement of 17 December 2014 that life insurance policyholders can still exercise their right of objection after the expiry of the one-year period set out in section 5a(2) sentence 4 of the old version of the vVG in these cases in which insufficient information had been provided on the right of objection, or in which no consumer information or insurance terms and conditions were provided. However, in a further ruling handed down on 16 July 2014, the Federal Court of Justice clarified that policyholders who were properly advised when they entered into contracts based on the policy model and who had performed the contract for years do not have a right of objection and therefore do not have a claim for restitution either. On 15 April 2015, the Federal Court of Justice ruled on the previously open, contested question of when the statute of limitations starts to run on claims for restitution resulting from a right of objection in the policy model in accordance with the old version of section 5a of the vVG. It agreed with the view that the three-year statute of limitations for the claim for restitution only starts to run as of the year in which the right of objection is exercised. By adopting this view, the Federal Court of Justice again rejected views that the statute of limitations begins/began to run

on payment of the premium concerned, or at the latest with the Court's clarification of the previously uncertain legal position on 7 May 2014.

If a valid objection is lodged, the contract must be rescinded in accordance with the principles of the law of enrichment. The Federal Court of Justice ruled on the details of this in its judgement of 29 July 2015. In it, it confirmed that the policyholder can, in principle, demand restitution of all premiums paid in those cases in which a valid objection is lodged. However, the policyholder must permit the insurance cover enjoyed until the policy was terminated to be credited against this. The insurer is not permitted to deduct other items such as acquisition costs, administrative expenses or instalment payment surcharges. In the case on which the judgement was based, the insurer had already paid out the surrender value to the policyholder. The Federal Court of Justice confirmed the insurer's opinion that the policyholder also had to permit the interest income tax and solidarity surcharge that had been remitted in this context to the tax office to be credited towards the amount, as a pecuniary advantage.

Finally, the Federal Court of Justice established with its ruling of 11 November 2015 that the policyholder must, within the framework of the rescission of a unit-linked life insurance agreement, recognise a negative performance of the fund and that the right of restitution must be reduced accordingly. In addition, it is generally to be assumed that the insurer has not benefited from the acquisition costs and administrative expenses, such that benefits can actually only be derived from the savings portion of premiums.

Although judgements by the Federal Court of Justice have now answered a number of previously open questions, and hence permit the amount of a policyholder's claim following a valid objection to be estimated with greater confidence, they have not clarified all legal questions relating to the validity of the advice provided to policyholders on their rights and to the size of any possible claim. Consequently, it is impossible to make a reliable statement on the number of policyholders who could potentially lodge a valid objection, and who actually want to do so. Due to the way in which the Group advises policyholders, however, few are expected to take advantage of this right.

## OUTLOOK

### ECONOMIC ENVIRONMENT

We expect a continuation of the moderate global expansion in the coming quarters. We anticipate an annual growth rate in the global economy of approx. 3%, a similar magnitude to recent years. The global growth drivers are primarily the sound consumer dynamics in the developed world, the recovery in commodity prices and strictly coordinated monetary policies. We regard Brexit primarily as a local, European problem with little global relevance.

The economic recovery in the Eurozone ought to continue in the coming quarters, even if the Brexit-induced uncertainty will leave its mark on the economy. In particular, Germany and the immediate neighbours of the United Kingdom are likely to be affected directly via the trade channel. Indirect implications will also affect the entire economy of the Eurozone. However, we do not anticipate an escalation into a systemic crisis and regard the upturn as intact thanks to the wide range of growth drivers.

The USA is currently on a stable path of growth. The negative effects of the oil price correction for the domestic oil industry and the burden of the strong US dollar on the manufacturing industry have already been taken into account. The US labour market is approaching full employment with an unemployment rate of 4.9%. It may be assumed that private consumption will remain the central driver of growth.

Emerging markets are benefiting from the fundamental recovery in commodity prices, the cyclical stabilisation in China and globally expansionary monetary policies. Nevertheless, considerable macro-economic challenges and specific risks still exist. The transformation of the Chinese economy from an export- and investment-oriented growth model to a modern service society combined with structural problems – such as the high level of debt of the private sector – will probably continue to make the headlines in the coming quarters. We anticipate a further weakening of the growth in China.

The fading deflationary impulse provided by the trend in energy prices should lead to a considerable increase in global inflation rates in the next half of the year. However, we do not yet perceive any global price pressure in structural terms. The exception to this is the trend in prices in the USA: here, we anticipate structural inflation due to a wage and price spiral and so also a further "normalisation" of the monetary policy. The ECB is expected to continue its expansionary monetary policy due to low inflation rates, high levels of political and economic uncertainty and probably also political expedience. We believe that an extension of the current ECB measures is probable.

## CAPITAL MARKETS

A lack of growth dynamic in certain parts of the Eurozone and geopolitical risks of continuing relevance are vindicating the ECB in its policy. The ECB will presumably continue with its expansionary monetary policy and the related measures so long as its growth and inflation targets have not been achieved. The Federal Reserve, too, has initially postponed expected increases in interest rates given this environment. As a result, yields are expected to continue at an extremely low, negative level. The credit markets will continue to be supported. Nevertheless, a danger exists in the form of increasing volatility. In terms of securities, long to very long terms will continue to be in demand. As a result, the current narrowing trend between 30-year and ten-year German government bonds is also expected to continue. The Brexit issue will continue to influence the capital markets during the course of the year, just like other political issues – such as the situation in Turkey, the unclear majority in Spain following the recent elections or the discussion about a solution for the Italian banking crisis, which has become more politically heated since the Brexit vote. The primary market is likely to see more activity in the second half of the year. However, it is too early to assess in particular the impact of the ECB's behaviour on the primary market.

Prices on the European and US stock markets have already risen significantly, meaning that upside potential is limited. Since profit margins and returns on equity are very low in Europe, we are expecting a catch-up process as the European economy continues to stabilise. The developments in response to Brexit are key to the future performance of the stock markets. We are not expecting an escalation into a systemic crisis of confidence in Europe, although the coming quarters will probably be marked by increased levels of volatility. Overall, relatively attractive valuations of shares compared to bonds will encourage a rotation from the latter to the former in structural terms.

## ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

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

### TALANX GROUP

For the Talanx Group, we expect stable gross premium income for 2016 – based on steady exchange rates. The IFRS net return on investment should amount to at least 3%. We are aiming for Group net income of around EUR 750 million. It follows that we expect our return on equity to be above 8.5% in 2016, which would be in line with our strategic target of 750 basis points above the average risk-free interest rate. This earnings target assumes that any major losses will be within the expected range and that there will be no disruptions on the currency and capital markets. Our express aim is to pay out 35% to 45% of Group net income as dividends.

### INDUSTRIAL LINES

HDI Global SE, which manages the division, sees further significant potential for profitable growth in the international business. For this reason, we shall continue to expand HDI Global SE's international business in 2016. Throughout Europe, we aim to expand our industrial insurance business in the fields of local business, small and medium enterprises and international insurance programmes. Latin America, (South-)East Asia and MENA (Middle East and North Africa) remain our target regions outside Europe. Following the further boost to profitability in the domestic business, we expect stable to slightly increasing growth in gross premiums overall (after adjustment for currency effects). In tandem with the anticipated improvement in profitability, we will continue in 2016 to pursue our strategic aim to gradually raise the retention. We are aiming to achieve a retention ratio that is on a par with the previous year, i.e. at least 52%. Compared with the previous year, we expect that major losses will return to normal in 2016 and, as a result, that the combined ratio will be lower, at 97% to 98%. The successful measures to improve profitability in the German property insurance business as well as in the fleet and transport business should also contribute to this. The EBIT margin should therefore be between 9% and 10% in 2016, and the return on equity should be in the region of 7%.



## RETAIL GERMANY

Since the second quarter of 2016, the Talanx Group has managed the Retail Germany Division on the basis of the Property/Casualty and Life Insurance segments.

For the Property/Casualty Insurance segment, we anticipate a stable gross premium volume for 2016. The combined ratio is expected to be above 100%, due to the investment phase of the “KuRS” programme. We are therefore expecting a slightly negative EBIT margin.

For the Life Insurance segment, we assume that the gross written premiums will erode by 3% to 5% in 2016, particularly due to policies maturing and the focus on modern, capital-efficient products. The first successes of this product transition are reflected in the expectation of a new business margin of around 1% for 2016. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 2% to 3% for 2016.

We expect the return on equity of the Retail Germany Division to be between 1% and 2% for 2016.

## RETAIL INTERNATIONAL

For the Retail International Division, we are aiming at growth in gross written premiums adjusted for currency effects of about 10% in 2016. This assumption of growth includes the acquisition of the Italian life insurance company CBA Vita S.p.A. and its subsidiary Sella Life Ltd. (renamed as InChiaro Life DAC as from 1 July 2016). We anticipate that growth in value of new business is likely to be between 5% and 10% in 2016 and that the combined ratio will probably be around 96%. We expect an EBIT margin of around 6%. In addition, we anticipate the return on equity for 2016 to be in the region of 6%.

## NON-LIFE REINSURANCE

In the Non-Life Reinsurance segment, we anticipate a slight decline in premium income when adjusted for currency effects. This assumption is based on our selective underwriting policy which is to underwrite only business that meets our margin requirements. For the full-year 2016, we expect a good underwriting result in Non-Life Reinsurance, which should be approximately on a par with that of 2015. The prerequisite for this is that the major loss burden remains in line with the expected figure of EUR 825 million. Our goal for the combined ratio is for a figure below 96%. The EBIT margin for Non-Life Reinsurance should amount to at least 10%.

## LIFE/HEALTH REINSURANCE

We are also expecting good business opportunities in the rest of 2016 for the Life/Health Reinsurance segment. However, this must be considered under the proviso that unforeseeable changes in high-premium contracts – either positive or negative – may have an impact on the entire business volume. However, thanks to various possibilities that are already emerging for generating profitable new business, we are expecting the premium volume to essentially remain stable. The value of new business (excluding non-controlling interests) should be above EUR 110 million. Our EBIT margin targets for the financial solutions and the longevity business, at 2%, and for the mortality and morbidity business, at 6%, remain unchanged.

## REINSURANCE DIVISION OVERALL

The Talanx Group expects the return on equity for the Reinsurance Division overall to be at least 10% in 2016, in line with its strategic target of 900 basis points above the five-year average for (risk-free) ten-year German government bonds

## ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

Opportunities have not changed significantly compared with the 2015 reporting period. For further information, please refer to Talanx's 2015 Group Annual Report..





# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 30 JUNE 2016

## CONSOLIDATED BALANCE SHEET – ASSETS

EUR MILLION

|                                                                                               | Note | 30.6.2016      | 31.12.2015     |
|-----------------------------------------------------------------------------------------------|------|----------------|----------------|
| A. Intangible assets                                                                          | 1    |                |                |
| a. Goodwill                                                                                   |      | 1,033          | 1,037          |
| b. Other intangible assets                                                                    |      | 930            | 953            |
|                                                                                               |      | <b>1,963</b>   | <b>1,990</b>   |
| B. Investments                                                                                |      |                |                |
| a. Investment property                                                                        |      | 2,177          | 2,198          |
| b. Shares in affiliated companies and participating interests                                 |      | 117            | 111            |
| c. Investments in associates and joint ventures                                               |      | 273            | 272            |
| d. Loans and receivables                                                                      | 2    | 30,005         | 29,754         |
| e. Other financial instruments                                                                |      |                |                |
| i. Held to maturity                                                                           | 3    | 895            | 1,287          |
| ii. Available for sale                                                                        | 4/6  | 66,124         | 61,271         |
| iii. At fair value through profit or loss                                                     | 5/6  | 1,149          | 1,063          |
| f. Other investments                                                                          |      | 4,334          | 4,821          |
| <b>Assets under own management</b>                                                            |      | <b>105,074</b> | <b>100,777</b> |
| g. Investments under investment contracts                                                     |      | 1,076          | 2,223          |
| h. Funds withheld by ceding companies                                                         |      | 11,591         | 12,611         |
| <b>Investments</b>                                                                            |      | <b>117,741</b> | <b>115,611</b> |
| C. Investments for the benefit of life insurance policyholders who bear the investment risk   |      | 9,873          | 10,104         |
| D. Reinsurance recoverables on technical provisions                                           |      | 8,424          | 8,372          |
| E. Accounts receivable on insurance business                                                  |      | 6,317          | 6,070          |
| F. Deferred acquisition costs                                                                 |      | 4,944          | 5,078          |
| G. Cash at banks, cheques and cash-in-hand                                                    |      | 3,359          | 2,243          |
| H. Deferred tax assets                                                                        |      | 792            | 736            |
| I. Other assets                                                                               |      | 2,683          | 2,537          |
| J. Non-current assets and assets of disposal groups classified as held for sale <sup>1)</sup> |      | 1,852          | 19             |
| <b>Total assets</b>                                                                           |      | <b>157,948</b> | <b>152,760</b> |

<sup>1)</sup> For further information see "Non-current assets held for sale and disposal groups" in the Notes.

**CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES**

EUR MILLION

|                                                                                                                    | Note     | 30.6.2016      | 31.12.2015     |
|--------------------------------------------------------------------------------------------------------------------|----------|----------------|----------------|
| <b>A. Equity</b>                                                                                                   | <b>7</b> |                |                |
| a. Subscribed capital                                                                                              |          | 316            | 316            |
| Nominal value: 316 (previous year: 316)                                                                            |          |                |                |
| Contingent capital: 104 (previous year: 104)                                                                       |          |                |                |
| b. Reserves                                                                                                        |          | 8,337          | 7,966          |
| <b>Equity excluding non-controlling interests</b>                                                                  |          | <b>8,653</b>   | <b>8,282</b>   |
| c. Non-controlling interests                                                                                       |          | 5,318          | 5,149          |
| <b>Total equity</b>                                                                                                |          | <b>13,971</b>  | <b>13,431</b>  |
| <b>B. Subordinated liabilities</b>                                                                                 | <b>8</b> | <b>1,983</b>   | <b>1,943</b>   |
| <b>C. Technical provisions</b>                                                                                     | <b>9</b> |                |                |
| a. Unearned premium reserve                                                                                        |          | 8,306          | 7,081          |
| b. Benefit reserve                                                                                                 |          | 56,051         | 54,845         |
| c. Loss and loss adjustment expense reserve                                                                        |          | 40,668         | 40,392         |
| d. Provision for premium refunds                                                                                   |          | 5,879          | 4,138          |
| e. Other technical provisions                                                                                      |          | 348            | 376            |
|                                                                                                                    |          | <b>111,252</b> | <b>106,832</b> |
| <b>D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders</b> |          | <b>9,873</b>   | <b>10,104</b>  |
| <b>E. Other provisions</b>                                                                                         |          |                |                |
| a. Provisions for pensions and other post-employment benefits                                                      |          | 2,337          | 1,945          |
| b. Provisions for taxes                                                                                            |          | 669            | 721            |
| c. Miscellaneous other provisions                                                                                  |          | 738            | 850            |
|                                                                                                                    |          | <b>3,744</b>   | <b>3,516</b>   |
| <b>F. Liabilities</b>                                                                                              |          |                |                |
| a. Notes payable and loans                                                                                         | 10       | 1,500          | 1,441          |
| b. Funds withheld under reinsurance treaties                                                                       |          | 4,418          | 5,351          |
| c. Other liabilities                                                                                               | 6        | 6,726          | 7,844          |
|                                                                                                                    |          | <b>12,644</b>  | <b>14,636</b>  |
| <b>G. Deferred tax liabilities</b>                                                                                 |          | <b>2,663</b>   | <b>2,298</b>   |
| <b>H. Liabilities included in disposal groups classified as held for sale<sup>1)</sup></b>                         |          | <b>1,818</b>   | <b>—</b>       |
| <b>Total liabilities/provisions</b>                                                                                |          | <b>143,977</b> | <b>139,329</b> |
| <b>Total equity and liabilities</b>                                                                                |          | <b>157,948</b> | <b>152,760</b> |

<sup>1)</sup> For further information see “Non-current assets held for sale and disposal groups” in the Notes.

The accompanying 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 2016

## CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

|                                                                                          | Note  | 6M 2016       | 6M 2015       | Q2 2016      | Q2 2015      |
|------------------------------------------------------------------------------------------|-------|---------------|---------------|--------------|--------------|
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance |       | 16,427        | 16,827        | 7,432        | 7,387        |
| 2. Savings elements of premiums from unit-linked life and annuity insurance              |       | 614           | 576           | 353          | 319          |
| 3. Ceded written premiums                                                                |       | 2,072         | 2,164         | 777          | 698          |
| 4. Change in gross unearned premiums                                                     |       | -1,265        | -1,557        | 353          | 323          |
| 5. Change in ceded unearned premiums                                                     |       | -334          | -221          | 111          | 309          |
| <b>Net premiums earned</b>                                                               | 11    | <b>12,810</b> | <b>12,751</b> | <b>6,544</b> | <b>6,384</b> |
| 6. Claims and claims expenses (gross)                                                    |       | 11,631        | 1,041         | 5,916        | 6,081        |
| Reinsurers' share                                                                        |       | 1,061         | 1,409         | 580          | 798          |
| <b>Claims and claims expenses (net)</b>                                                  | 14    | <b>10,570</b> | <b>10,632</b> | <b>5,336</b> | <b>5,283</b> |
| 7. Acquisition costs and administrative expenses (gross)                                 |       | 3,258         | 3,171         | 1,632        | 1,652        |
| Reinsurers' share                                                                        |       | 273           | 256           | 111          | 102          |
| <b>Acquisition costs and administrative expenses (net)</b>                               | 15    | <b>2,985</b>  | <b>2,915</b>  | <b>1,521</b> | <b>1,550</b> |
| 8. Other technical income                                                                |       | 22            | 20            | 6            | 7            |
| Other technical expenses                                                                 |       | 61            | 75            | 55           | 20           |
| <b>Other technical result</b>                                                            |       | <b>-39</b>    | <b>-55</b>    | <b>-49</b>   | <b>-13</b>   |
| <b>Net technical result</b>                                                              |       | <b>-784</b>   | <b>-851</b>   | <b>-362</b>  | <b>-462</b>  |
| 9. a. Investment income                                                                  |       | 2,159         | 2,199         | 1,039        | 1,080        |
| b. Investment expenses                                                                   |       | 370           | 355           | 191          | 135          |
| <b>Net income from assets under own management</b>                                       |       | <b>1,789</b>  | <b>1,844</b>  | <b>848</b>   | <b>945</b>   |
| Net income from investment contracts                                                     |       | 6             | 4             | 4            | 2            |
| Net interest income from funds withheld and contract deposits                            |       | 167           | 189           | 88           | 94           |
| <b>Net investment income</b>                                                             | 12/13 | <b>1,962</b>  | <b>2,037</b>  | <b>940</b>   | <b>1,041</b> |
| of which share of profit or loss of equity-accounted associates and joint ventures       |       | 3             | 7             | 1            | 3            |
| 10. a. Other income                                                                      |       | 564           | 620           | 102          | 153          |
| b. Other expenses                                                                        |       | 678           | 636           | 189          | 205          |
| <b>Other income/expenses</b>                                                             | 16    | <b>-114</b>   | <b>-16</b>    | <b>-87</b>   | <b>-52</b>   |
| <b>Profit before goodwill impairments</b>                                                |       | <b>1,064</b>  | <b>1,170</b>  | <b>491</b>   | <b>527</b>   |
| 11. Goodwill impairments                                                                 |       | —             | 155           | —            | 155          |
| <b>Operating profit/loss (EBIT)</b>                                                      |       | <b>1,064</b>  | <b>1,015</b>  | <b>491</b>   | <b>372</b>   |
| 12. Financing costs                                                                      |       | 73            | 91            | 36           | 45           |
| 13. Taxes on income                                                                      |       | 303           | 294           | 148          | 107          |
| <b>Net income</b>                                                                        |       | <b>688</b>    | <b>630</b>    | <b>307</b>   | <b>220</b>   |
| of which attributable to non-controlling interests                                       |       | 287           | 319           | 128          | 160          |
| of which attributable to shareholders of Talanx AG                                       |       | 401           | 311           | 179          | 60           |
| <b>Earnings per share</b>                                                                |       |               |               |              |              |
| Basic earnings per share (EUR)                                                           |       | 1.59          | 1.23          | 0.71         | 0.24         |
| Diluted earnings per share (EUR)                                                         |       | 1.59          | 1.23          | 0.71         | 0.24         |

The accompanying 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 2016

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

|                                                                                        | 6M 2016       | 6M 2015       | Q2 2016      | Q2 2015       |
|----------------------------------------------------------------------------------------|---------------|---------------|--------------|---------------|
| <b>Net income</b>                                                                      | <b>688</b>    | <b>630</b>    | <b>307</b>   | <b>220</b>    |
| <b>Items that will not be reclassified to profit or loss</b>                           |               |               |              |               |
| Actuarial gains (losses) on pension provisions                                         |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | -402          | 233           | -145         | 435           |
| Tax income (expense)                                                                   | 122           | -71           | 43           | -131          |
|                                                                                        | <b>-280</b>   | <b>162</b>    | <b>-102</b>  | <b>304</b>    |
| Changes in policyholder participation/shadow accounting                                |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | 17            | -11           | 6            | -19           |
| Tax income (expense)                                                                   | —             | —             | —            | —             |
|                                                                                        | <b>17</b>     | <b>-11</b>    | <b>6</b>     | <b>-19</b>    |
| <b>Total items that will not be reclassified to profit or loss, net of tax</b>         | <b>-263</b>   | <b>151</b>    | <b>-96</b>   | <b>285</b>    |
| <b>Items that may be reclassified subsequently to profit or loss</b>                   |               |               |              |               |
| Unrealised gains and losses on investments                                             |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | 2,798         | -1,140        | 1,222        | -2,777        |
| Reclassified to profit or loss                                                         | -152          | -296          | -28          | -116          |
| Tax income (expense)                                                                   | -382          | 205           | -185         | 412           |
|                                                                                        | <b>2,264</b>  | <b>-1,231</b> | <b>1,009</b> | <b>-2,481</b> |
| Exchange differences on translating foreign operations                                 |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | -140          | 388           | 126          | -255          |
| Reclassified to profit or loss                                                         | —             | —             | —            | —             |
| Tax income (expense)                                                                   | 3             | -29           | -3           | 16            |
|                                                                                        | <b>-137</b>   | <b>359</b>    | <b>123</b>   | <b>-239</b>   |
| Changes in policyholder participation/shadow accounting                                |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | -1,495        | 823           | -604         | 1,808         |
| Tax income (expense)                                                                   | 24            | -23           | 7            | -50           |
|                                                                                        | <b>-1,471</b> | <b>800</b>    | <b>-597</b>  | <b>1,758</b>  |
| Changes from cash flow hedges                                                          |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | 174           | -17           | 64           | -144          |
| Reclassified to profit or loss                                                         | -6            | —             | -3           | —             |
| Tax income (expense)                                                                   | -6            | —             | -2           | 8             |
|                                                                                        | <b>162</b>    | <b>-17</b>    | <b>59</b>    | <b>-136</b>   |
| Changes from equity method measurement                                                 |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | -3            | 1             | -2           | —             |
| Reclassified to profit or loss                                                         | —             | —             | —            | —             |
| Tax income (expense)                                                                   | —             | —             | —            | —             |
|                                                                                        | <b>-3</b>     | <b>1</b>      | <b>-2</b>    | <b>—</b>      |
| Other changes                                                                          |               |               |              |               |
| Gains (losses) recognised in other comprehensive income for the period                 | —             | —             | —            | —             |
| Reclassified to profit or loss                                                         | —             | —             | —            | —             |
| Tax income (expense)                                                                   | —             | —             | —            | —             |
|                                                                                        | <b>—</b>      | <b>—</b>      | <b>—</b>     | <b>—</b>      |
| <b>Total items that may be reclassified subsequently to profit or loss, net of tax</b> | <b>815</b>    | <b>-88</b>    | <b>592</b>   | <b>-1,098</b> |
| <b>Other comprehensive income for the period, net of tax</b>                           | <b>552</b>    | <b>63</b>     | <b>496</b>   | <b>-813</b>   |
| <b>Total comprehensive income for the period</b>                                       | <b>1,240</b>  | <b>693</b>    | <b>803</b>   | <b>-593</b>   |
| of which attributable to non-controlling interests                                     | 531           | 350           | 344          | -184          |
| of which attributable to shareholders of Talanx AG                                     | 709           | 343           | 459          | -409          |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### CHANGES IN EQUITY

EUR MILLION

|                                                                  | Subscribed capital | Capital reserves | Retained earnings |
|------------------------------------------------------------------|--------------------|------------------|-------------------|
| <b>2015</b>                                                      |                    |                  |                   |
| <b>Balance at 1.1.2015</b>                                       | <b>316</b>         | <b>1,373</b>     | <b>5,690</b>      |
| Changes in ownership interest without a change in control        | —                  | —                | —                 |
| Other changes in basis of consolidation                          | —                  | —                | —                 |
| Net income                                                       | —                  | —                | 311               |
| <b>Other comprehensive income</b>                                | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| <b>of which not eligible for reclassification</b>                | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| of which actuarial gains or losses on pension provisions         | —                  | —                | —                 |
| of which changes in policyholder participation/shadow accounting | —                  | —                | —                 |
| <b>of which eligible for reclassification</b>                    | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| of which unrealised gains and losses on investments              | —                  | —                | —                 |
| of which currency translation                                    | —                  | —                | —                 |
| of which change from cash flow hedges                            | —                  | —                | —                 |
| of which change from equity method measurement                   | —                  | —                | —                 |
| of which other changes <sup>1)</sup>                             | —                  | —                | —                 |
| <b>Total comprehensive income</b>                                | <b>—</b>           | <b>—</b>         | <b>311</b>        |
| Dividends to shareholders                                        | —                  | —                | –316              |
| Other changes outside profit or loss                             | —                  | —                | –3                |
| <b>Balance at 30.6.2015</b>                                      | <b>316</b>         | <b>1,373</b>     | <b>5,682</b>      |
| <b>2016</b>                                                      |                    |                  |                   |
| <b>Balance at 1.1.2016</b>                                       | <b>316</b>         | <b>1,373</b>     | <b>6,104</b>      |
| Changes in ownership interest without a change in control        | —                  | —                | –10               |
| Other changes in basis of consolidation                          | —                  | —                | —                 |
| Net income                                                       | —                  | —                | 401               |
| <b>Other comprehensive income</b>                                | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| <b>of which not eligible for reclassification</b>                | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| of which actuarial gains or losses on pension provisions         | —                  | —                | —                 |
| of which changes in policyholder participation/shadow accounting | —                  | —                | —                 |
| <b>of which eligible for reclassification</b>                    | <b>—</b>           | <b>—</b>         | <b>—</b>          |
| of which unrealised gains and losses on investments              | —                  | —                | —                 |
| of which currency translation                                    | —                  | —                | —                 |
| of which change from cash flow hedges                            | —                  | —                | —                 |
| of which change from equity method measurement                   | —                  | —                | —                 |
| of which other changes <sup>1)</sup>                             | —                  | —                | —                 |
| <b>Total comprehensive income</b>                                | <b>—</b>           | <b>—</b>         | <b>401</b>        |
| Dividends to shareholders                                        | —                  | —                | –329              |
| Other changes outside profit or loss                             | —                  | —                | —                 |
| <b>Balance at 30.6.2016</b>                                      | <b>316</b>         | <b>1,373</b>     | <b>6,166</b>      |

<sup>1)</sup> "Other changes" consist of policyholder participation/shadow accounting as well as miscellaneous other changes.

| Unrealised<br>gains/losses on<br>investments | Other reserves                       |                            | Measurement<br>gains/losses<br>on cash flow hedges | Equity attributable to<br>shareholders of Talanx AG | Non-controlling<br>interests | Total equity |
|----------------------------------------------|--------------------------------------|----------------------------|----------------------------------------------------|-----------------------------------------------------|------------------------------|--------------|
|                                              | Currency translation<br>gains/losses | Other changes<br>in equity |                                                    |                                                     |                              |              |
| 3,538                                        | -33                                  | -3,254                     | 368                                                | 7,998                                               | 4,902                        | 12,900       |
| —                                            | —                                    | —                          | —                                                  | —                                                   | —                            | —            |
| —                                            | —                                    | —                          | —                                                  | —                                                   | —                            | —            |
| —                                            | —                                    | —                          | —                                                  | 311                                                 | 319                          | 630          |
| -1,034                                       | 196                                  | 889                        | -19                                                | 32                                                  | 31                           | 63           |
| —                                            | —                                    | 143                        | —                                                  | 143                                                 | 8                            | 151          |
| —                                            | —                                    | 152                        | —                                                  | 152                                                 | 10                           | 162          |
| —                                            | —                                    | -9                         | —                                                  | -9                                                  | -2                           | -11          |
| -1,034                                       | 196                                  | 746                        | -19                                                | -111                                                | 23                           | -88          |
| -1,034                                       | —                                    | —                          | —                                                  | -1,034                                              | -197                         | -1,231       |
| —                                            | 196                                  | —                          | —                                                  | 196                                                 | 163                          | 359          |
| —                                            | —                                    | —                          | -19                                                | -19                                                 | 2                            | -17          |
| —                                            | —                                    | 1                          | —                                                  | 1                                                   | —                            | 1            |
| —                                            | —                                    | 745                        | —                                                  | 745                                                 | 55                           | 800          |
| -1,034                                       | 196                                  | 889                        | -19                                                | 343                                                 | 350                          | 693          |
| —                                            | —                                    | —                          | —                                                  | -316                                                | -336                         | -652         |
| —                                            | —                                    | —                          | —                                                  | -3                                                  | 3                            | —            |
| 2,504                                        | 163                                  | -2,365                     | 349                                                | 8,022                                               | 4,919                        | 12,941       |
| 2,443                                        | 57                                   | -2,367                     | 356                                                | 8,282                                               | 5,149                        | 13,431       |
| 1                                            | —                                    | —                          | —                                                  | -9                                                  | -12                          | -21          |
| —                                            | —                                    | —                          | —                                                  | —                                                   | -2                           | -2           |
| —                                            | —                                    | —                          | —                                                  | 401                                                 | 287                          | 688          |
| 1,830                                        | -65                                  | -1,609                     | 152                                                | 308                                                 | 244                          | 552          |
| —                                            | —                                    | -249                       | —                                                  | -249                                                | -14                          | -263         |
| —                                            | —                                    | -264                       | —                                                  | -264                                                | -16                          | -280         |
| —                                            | —                                    | 15                         | —                                                  | 15                                                  | 2                            | 17           |
| 1,830                                        | -65                                  | -1,360                     | 152                                                | 557                                                 | 258                          | 815          |
| 1,830                                        | —                                    | —                          | —                                                  | 1,830                                               | 434                          | 2,264        |
| —                                            | -65                                  | —                          | —                                                  | -65                                                 | -72                          | -137         |
| —                                            | —                                    | —                          | 152                                                | 152                                                 | 10                           | 162          |
| —                                            | —                                    | -2                         | —                                                  | -2                                                  | -1                           | -3           |
| —                                            | —                                    | -1,358                     | —                                                  | -1,358                                              | -113                         | -1,471       |
| 1,830                                        | -65                                  | -1,609                     | 152                                                | 709                                                 | 531                          | 1,240        |
| —                                            | —                                    | —                          | —                                                  | -329                                                | -348                         | -677         |
| —                                            | —                                    | —                          | —                                                  | —                                                   | —                            | —            |
| 4,274                                        | -8                                   | -3,976                     | 508                                                | 8,653                                               | 5,318                        | 13,971       |

# CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016

## CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION

|                                                                                                            | 6M 2016      | 6M 2015       |
|------------------------------------------------------------------------------------------------------------|--------------|---------------|
| I. 1. Net income                                                                                           | 688          | 630           |
| I. 2. Changes in technical provisions                                                                      | 3,033        | 3,581         |
| I. 3. Changes in deferred acquisition costs                                                                | 9            | -235          |
| I. 4. Changes in funds withheld and in accounts receivable and payable                                     | -597         | -954          |
| I. 5. Changes in other receivables and liabilities                                                         | 88           | 286           |
| I. 6. Changes in investments and liabilities under investment contracts                                    | 12           | 7             |
| I. 7. Changes in financial assets held for trading                                                         | 38           | 24            |
| I. 8. Gains/losses on disposal of investments and property, plant and equipment                            | -332         | -364          |
| I. 9. Other non-cash expenses and income (including income tax expense/income)                             | -155         | 932           |
| <b>I. Cash flows from operating activities <sup>1)</sup></b>                                               | <b>2,784</b> | <b>3,907</b>  |
| II. 1. Cash inflow from the sale of consolidated companies                                                 | 3            | —             |
| II. 2. Cash outflow from the purchase of consolidated companies                                            | 82           | -214          |
| II. 3. Cash inflow from the sale of real estate                                                            | 3            | 39            |
| II. 4. Cash outflow from the purchase of real estate                                                       | -14          | -47           |
| II. 5. Cash inflow from the sale and maturity of financial instruments                                     | 11,369       | 10,939        |
| II. 6. Cash outflow from the purchase of financial instruments                                             | -13,047      | -11,527       |
| II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk | 243          | -977          |
| II. 8. Changes in other investments                                                                        | 491          | -128          |
| II. 9. Cash outflows from the acquisition of tangible and intangible assets                                | -45          | -61           |
| II. 10. Cash inflows from the sale of tangible and intangible assets                                       | 5            | 63            |
| <b>II. Cash flows from investing activities</b>                                                            | <b>-910</b>  | <b>-1,913</b> |
| III. 1. Cash inflow from capital increases                                                                 | —            | —             |
| III. 2. Cash outflow from capital reductions                                                               | —            | —             |
| III. 3. Dividends paid                                                                                     | -677         | -652          |
| III. 4. Net changes attributable to other financing activities                                             | -65          | -851          |
| <b>III. Cash flows from financing activities</b>                                                           | <b>-742</b>  | <b>-1,503</b> |
| <b>Net change in cash and cash equivalents (I. + II. + III.)</b>                                           | <b>1,132</b> | <b>491</b>    |
| <b>Cash and cash equivalents at the beginning of the reporting period</b>                                  | <b>2,243</b> | <b>2,152</b>  |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                                        | <b>-7</b>    | <b>52</b>     |
| <b>Effect of changes in the basis of consolidation on cash and cash equivalents <sup>2)</sup></b>          | <b>-2</b>    | <b>—</b>      |
| <b>Cash and cash equivalents at the end of the reporting period <sup>3)</sup></b>                          | <b>3,366</b> | <b>2,695</b>  |
| <b>Additional information</b>                                                                              |              |               |
| Taxes paid <sup>1)</sup>                                                                                   | 290          | 290           |
| Interest paid <sup>4)</sup>                                                                                | 215          | 268           |
| Dividends received <sup>1)</sup>                                                                           | 130          | 77            |
| Interest received <sup>1)</sup>                                                                            | 1,834        | 1,958         |

<sup>1)</sup> "Income taxes paid" as well as "Dividends received" and "Interest received" are allocated to "Cash flows from operating activities". "Dividends received" also comprise dividend-equivalent distributions from investment funds and private equity companies, resulting in differences to the amounts disclosed in Note 12 "Net investment income".

<sup>2)</sup> This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.

<sup>3)</sup> Cash and cash equivalents at the end of the reporting period also include changes in the portfolio of disclosed disposal groups in the amount of EUR 7 (7) million.

<sup>4)</sup> EUR 104 (138) million of "Interest paid" is attributable to "Cash flows from financing activities" and EUR 111 (130) million to "Cash flows from operating activities".

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





# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## I. BASIS OF PREPARATION AND APPLICATION OF IFRSs

### BASIS OF PREPARATION

The consolidated half-yearly financial report as at 30 June 2016 was prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by 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 equity, consolidated cash flow statement and selected explanatory notes, complies in particular with the requirements of IAS 34 "Interim Financial Reporting".

We have applied all new or amended IFRSs effective as at 30 June 2016 (see also the section "Application of new and revised standards/interpretations"). In other respects, the accounting policies for existing and unchanged IFRSs as well as the consolidation methods and presentation principles correspond to those applied in our consolidated financial statements as at 31 December 2015.

As allowed by IAS 34.41, we make greater use of estimation methods and assumptions in preparing the interim consolidated financial statements than we do in preparing the annual financial reports. There were no changes in estimates during the interim reporting period with a material effect on the Group's net assets, financial position and results of operations. The tax expense (income taxes in Germany, comparable income taxes at foreign subsidiaries and changes in deferred taxes) is calculated for interim reporting periods by applying the effective tax rate expected for the full year to net income for the period. Pension provisions are extrapolated for

interim reporting periods by recognising the actuarially estimated effect of interest rate changes on pension liabilities at the end of the interim reporting period in other comprehensive income ("Other reserves"). Other actuarial assumptions are not updated for interim reporting periods.

The interim consolidated financial statements were prepared in euros (EUR). The amounts shown have been rounded to millions of euros (EUR million). This may give rise to rounding differences in the tables presented in this report. As a rule, amounts in brackets refer to the previous year.

### APPLICATION OF NEW AND REVISED STANDARDS/ INTERPRETATIONS

The Group applied the following new or revised IFRSs as at 1 January 2016:

- IAS 19 "Employee Benefits": Defined Benefit Plans: Employee Contributions,
- IFRS 11 "Joint Arrangements": Accounting for Acquisitions of Interests in Joint Operations,
- IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets": Clarification of Acceptable Methods of Depreciation and Amortisation,
- IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture": Agriculture: Bearer Plants,
- IAS 27 "Separate Financial Statements": Equity Method in Separate Financial Statements,
- IAS 1 "Presentation of Financial Statements": Disclosure Initiative,
- Amendments in the context of the annual improvements (2010–2012 cycle),
- Amendments in the context of the annual improvements (2012–2014 cycle).

This implementation had no material effect on the net assets, financial position and results of operations of the Group.

## II. ACCOUNTING POLICIES

### EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

Talanx AG's reporting currency is the euro (EUR).

#### EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

| EUR 1 corresponds to |                | Balance sheet<br>(reporting date) |            | Statement of income<br>(average) |         |
|----------------------|----------------|-----------------------------------|------------|----------------------------------|---------|
|                      |                | 30.6.2016                         | 31.12.2015 | 6M 2016                          | 6M 2015 |
| AUD                  | Australia      | 1.4926                            | 1.4981     | 1.5092                           | 1.4416  |
| BRL                  | Brazil         | 3.5840                            | 4.2314     | 4.0950                           | 3.3162  |
| CAD                  | Canada         | 1.4381                            | 1.5158     | 1.4743                           | 1.3876  |
| CNY                  | China          | 7.3798                            | 7.0970     | 7.2688                           | 7.0014  |
| GBP                  | United Kingdom | 0.8273                            | 0.7381     | 0.7786                           | 0.7349  |
| MXN                  | Mexico         | 20.6390                           | 18.8613    | 19.8492                          | 17.0767 |
| PLN                  | Poland         | 4.4336                            | 4.2392     | 4.3591                           | 4.1564  |
| TRY                  | Turkey         | 3.2121                            | 3.1817     | 3.2233                           | 2.8717  |
| USD                  | USA            | 1.1105                            | 1.0927     | 1.1113                           | 1.1253  |
| ZAR                  | South Africa   | 16.5036                           | 16.8447    | 16.9829                          | 13.3789 |

### III. SEGMENT REPORTING

#### IDENTIFICATION OF REPORTABLE SEGMENTS

In accordance with IFRS 8 “Operating Segments”, the reportable segments were identified in line with the Group’s internal reporting and management that the Group Board of Management uses to regularly assess the performance of the segments and decide on the allocation of resources to them. The Group classifies its business activities into the areas of insurance and Corporate Operations. Due to the change in management implemented as at 30 June 2016, insurance activities are now subdivided into six, rather than the previous five reportable segments. However, in view of the different product types, risks and capital allocations involved, these are classified initially into primary insurance and reinsurance.

Since they are managed according to customer groups and geographical regions (Germany versus other countries) – and therefore span various lines of business – insurance activities in the **primary insurance sector** were previously organised into three reportable segments: “Industrial Lines”, “Retail Germany” and “Retail International”. The Group altered the management of the German retail and commercial customer business as at 30 June 2016 and introduced an organisation by line of business that is customary in the industry (property insurance and life insurance). The “Retail Germany” Division therefore no longer corresponds to one, but rather to two reportable segments – “Retail Germany – Property/Casualty” and “Retail Germany – Life”. This segmentation also corresponds to the responsibilities of the Members of the Board of Management. In order to reflect this change in the segment structure of the Group, the comparison period was adjusted retrospectively.

**Reinsurance business** is handled solely by the Hannover Re Group and is divided into the two segments of Non-Life Reinsurance and Life/Health Reinsurance in accordance with the Hannover Re Group’s internal reporting system. In a departure from the segmentation used in the consolidated financial statements of Hannover Rück SE, however, we also allocate its holding company 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). Differences 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 described in the following.

**Industrial Lines:** We report our worldwide industrial business in the Industrial Lines segment. The scope of business operations encompasses a wide selection of insurance products such as liability, motor, casualty, 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 – Property/Casualty:** This reportable segment manages property and casualty insurance services for German retail and commercial customers. The product portfolio ranges from insurance products for price- and service-conscious customers to tailor-made products for customers who seek consulting and even employees’ personal lines. The sales channels in this segment include not only the Group’s own field organisation, but also sales through independent brokers and multiple agents, cooperations and direct sales.

**Retail Germany – Life:** This reportable segment manages life insurance activities including our Germany-wide bancassurance business activities – i.e. insurance products sold over the counter at banks. This segment also provides cross-border insurance services in Austria. The product portfolio ranges from capital-efficient to individually customised insurance solutions. They include unit-linked life insurance, annuity and risk insurance and also occupational incapacity and disability insurance. The Group employs a wide range of sales channels, including its own exclusive sales organisation as well as sales through independent brokers and multiple agents and partnerships with banks.

**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 motor insurance, property and casualty insurance and marine and fire insurance, as well as many products in the field of life insurance. A large part of our international business is transacted by brokers and agents. Additionally, many companies in this segment use post offices and banks as sales channels.

**Non-Life Reinsurance**<sup>1)</sup>: The most important activities are property and casualty 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 Reinsurance**<sup>1)</sup>: This segment bundles together the global activities of the Hannover Re Group in all lines of life, health and annuity insurance, as well as personal accident insurance, insofar as they are underwritten by life/health insurers. The Group also has Sharia-compliant retakaful reinsurance.

**Corporate Operations**: In contrast to the six operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group; these mainly relate to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions (Talanx Reinsurance Broker GmbH, Hannover), including intragroup reinsurance (Talanx Reinsurance Ltd., Dublin), as well as Group financing. Asset management by Ampega Investment GmbH, Cologne, for non-Group private and institutional investors is also shown in this segment. This segment also 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. A portion of the in-house business written by Talanx Reinsurance Ltd. and the operating profit of Talanx Reinsurance Broker GmbH are reallocated to the ceding segments in the course of segment allocation.

## 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 are calculated on an arm's length basis. Cross-segment transactions within the Group are eliminated in the consolidation column, whereas income from dividend payments and profit/loss transfer agreements attributable to the Group holding company is eliminated in the applicable segment. We have adjusted the statement of income by division/reportable segment to the consolidated statement of income for reasons of consistency and comparability. The same applies to the balance sheet broken down by division and the consolidated balance sheet.

For the segments "Retail Germany – Property/Casualty" and "Retail Germany – Life", neither the taxes on income nor the financing costs are determined at segment level and reported to the main decision makers, with the result that the statement of income ends with the EBIT and no segment balance sheet can be drawn up. The EBIT of the Retail Germany Division can be found by adding the figures from the two reportable segments.

Depending upon the nature and time frame of the commercial activities, various management metrics and performance indicators are used to assess the financial performance of the reportable segments within the Group. However, operating profit (EBIT) – determined on the basis of IFRS earnings 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 to enhance comparability. In addition, the result is adjusted for interest charges incurred for borrowing (financing costs).

<sup>1)</sup> See our remarks at the beginning of this section for an explanation of the difference between the segment results of the Talanx Group and the Hannover Re Group.

## CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 30 JUNE 2016

EUR MILLION

| Assets                                                                                        | Industrial Lines |               | Retail Germany |               | Retail International |               |
|-----------------------------------------------------------------------------------------------|------------------|---------------|----------------|---------------|----------------------|---------------|
|                                                                                               | 30.6.2016        | 31.12.2015    | 30.6.2016      | 31.12.2015    | 30.6.2016            | 31.12.2015    |
| A. Intangible assets                                                                          |                  |               |                |               |                      |               |
| a. Goodwill                                                                                   | 153              | 153           | 249            | 248           | 612                  | 618           |
| b. Other intangible assets                                                                    | 8                | 7             | 555            | 554           | 164                  | 186           |
|                                                                                               | <b>161</b>       | <b>160</b>    | <b>804</b>     | <b>802</b>    | <b>776</b>           | <b>804</b>    |
| B. Investments                                                                                |                  |               |                |               |                      |               |
| a. Investment property                                                                        | 56               | 52            | 822            | 824           | 17                   | 19            |
| b. Shares in affiliated companies and participating interests                                 | 14               | 13            | 19             | 18            | 2                    | 2             |
| c. Investments in associates and joint ventures                                               | 137              | 130           | 52             | 65            | —                    | —             |
| d. Loans and receivables                                                                      | 1,201            | 1,208         | 25,207         | 24,797        | 765                  | 867           |
| e. Other financial instruments                                                                |                  |               |                |               |                      |               |
| i. Held to maturity                                                                           | 78               | 81            | 167            | 170           | 287                  | 323           |
| ii. Available for sale                                                                        | 5,686            | 5,312         | 22,128         | 19,942        | 6,762                | 5,475         |
| iii. At fair value through profit or loss                                                     | 72               | 92            | 279            | 295           | 655                  | 527           |
| f. Other investments                                                                          | 626              | 666           | 1,564          | 1,238         | 340                  | 569           |
| Assets under own management                                                                   | <b>7,870</b>     | <b>7,554</b>  | <b>50,238</b>  | <b>47,349</b> | <b>8,828</b>         | <b>7,782</b>  |
| g. Investments under investment contracts                                                     | —                | —             | —              | —             | 1,076                | 2,223         |
| h. Funds withheld by ceding companies                                                         | 19               | 19            | 4              | 15            | 1                    | —             |
| Investments                                                                                   | <b>7,889</b>     | <b>7,573</b>  | <b>50,242</b>  | <b>47,364</b> | <b>9,905</b>         | <b>10,005</b> |
| C. Investments for the benefit of life insurance policyholders who bear the investment risk   | —                | —             | 9,047          | 9,323         | 826                  | 781           |
| D. Reinsurance recoverables on technical provisions                                           | 5,531            | 5,292         | 2,327          | 2,313         | 872                  | 893           |
| E. Accounts receivable on insurance business                                                  | 1,280            | 1,267         | 395            | 400           | 1,074                | 1,004         |
| F. Deferred acquisition costs                                                                 | 61               | 42            | 2,059          | 2,123         | 582                  | 602           |
| G. Cash at banks, cheques and cash-in-hand                                                    | 577              | 391           | 699            | 539           | 842                  | 373           |
| H. Deferred tax assets                                                                        | 237              | 233           | 55             | 60            | 70                   | 71            |
| I. Other assets                                                                               | 456              | 410           | 1,029          | 1,207         | 431                  | 477           |
| J. Non-current assets and assets of disposal groups classified as held for sale <sup>1)</sup> | —                | —             | —              | —             | 1,852                | —             |
| <b>Total assets</b>                                                                           | <b>16,192</b>    | <b>15,368</b> | <b>66,657</b>  | <b>64,131</b> | <b>17,230</b>        | <b>15,010</b> |

<sup>1)</sup> For further information see "Non-current assets held for sale and disposal groups" in the Notes.

| Non-Life<br>Reinsurance |            | Life/Health<br>Reinsurance |            | Corporate Operations |            | Consolidation |            | Total     |            |
|-------------------------|------------|----------------------------|------------|----------------------|------------|---------------|------------|-----------|------------|
| 30.6.2016               | 31.12.2015 | 30.6.2016                  | 31.12.2015 | 30.6.2016            | 31.12.2015 | 30.6.2016     | 31.12.2015 | 30.6.2016 | 31.12.2015 |
| 19                      | 18         | —                          | —          | —                    | —          | —             | —          | 1,033     | 1,037      |
| 34                      | 34         | 88                         | 92         | 81                   | 80         | —             | —          | 930       | 953        |
| 53                      | 52         | 88                         | 92         | 81                   | 80         | —             | —          | 1,963     | 1,990      |
| 1,281                   | 1,301      | 1                          | 2          | —                    | —          | —             | —          | 2,177     | 2,198      |
| 64                      | 58         | —                          | —          | 18                   | 20         | —             | —          | 117       | 111        |
| 87                      | 99         | 29                         | 29         | —                    | —          | –32           | –51        | 273       | 272        |
| 2,777                   | 2,807      | 42                         | 63         | 13                   | 12         | —             | —          | 30,005    | 29,754     |
| 500                     | 844        | 152                        | 164        | 2                    | 1          | –291          | –296       | 895       | 1,287      |
| 23,692                  | 22,842     | 7,719                      | 7,598      | 137                  | 102        | —             | —          | 66,124    | 61,271     |
| 103                     | 111        | 40                         | 38         | —                    | —          | —             | —          | 1,149     | 1,063      |
| 2,193                   | 2,132      | 505                        | 923        | 202                  | 334        | –1,096        | –1,041     | 4,334     | 4,821      |
| 30,697                  | 30,194     | 8,488                      | 8,817      | 372                  | 469        | –1,419        | –1,388     | 105,074   | 100,777    |
| —                       | —          | —                          | —          | —                    | —          | —             | —          | 1,076     | 2,223      |
| 1,134                   | 1,285      | 11,785                     | 12,705     | 1                    | 1          | –1,353        | –1,414     | 11,591    | 12,611     |
| 31,831                  | 31,479     | 20,273                     | 21,522     | 373                  | 470        | –2,772        | –2,802     | 117,741   | 115,611    |
| —                       | —          | —                          | —          | —                    | —          | —             | —          | 9,873     | 10,104     |
| 1,416                   | 1,240      | 1,308                      | 1,696      | 3                    | —          | –3,033        | –3,062     | 8,424     | 8,372      |
| 2,329                   | 2,168      | 1,470                      | 1,498      | 8                    | 7          | –239          | –274       | 6,317     | 6,070      |
| 702                     | 696        | 1,316                      | 1,399      | 1                    | 1          | 223           | 215        | 4,944     | 5,078      |
| 612                     | 615        | 394                        | 177        | 235                  | 148        | —             | —          | 3,359     | 2,243      |
| 40                      | 55         | 80                         | 78         | 310                  | 239        | —             | —          | 792       | 736        |
| 1,285                   | 1,162      | 299                        | 261        | 422                  | 660        | –1,239        | –1,640     | 2,683     | 2,537      |
| —                       | —          | —                          | —          | —                    | 19         | —             | —          | 1,852     | 19         |
| 38,268                  | 37,467     | 25,228                     | 26,723     | 1,433                | 1,624      | –7,060        | –7,563     | 157,948   | 152,760    |

**CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 30 JUNE 2016**

EUR MILLION

| Equity and liabilities                                                                                      | Industrial Lines |               | Retail Germany |               | Retail International |               |
|-------------------------------------------------------------------------------------------------------------|------------------|---------------|----------------|---------------|----------------------|---------------|
|                                                                                                             | 30.6.2016        | 31.12.2015    | 30.6.2016      | 31.12.2015    | 30.6.2016            | 31.12.2015    |
| B. Subordinated liabilities                                                                                 | 200              | 200           | 161            | 161           | 42                   | 3             |
| C. Technical provisions                                                                                     |                  |               |                |               |                      |               |
| a. Unearned premium reserve                                                                                 | 1,706            | 1,062         | 1,295          | 988           | 2,098                | 2,053         |
| b. Benefit reserve                                                                                          | —                | —             | 39,804         | 39,212        | 4,939                | 3,603         |
| c. Loss and loss adjustment expense reserve                                                                 | 9,511            | 9,571         | 3,052          | 2,990         | 2,553                | 2,588         |
| d. Provision for premium refunds                                                                            | 11               | 10            | 5,541          | 3,930         | 327                  | 198           |
| e. Other technical provisions                                                                               | 39               | 39            | 4              | 4             | 11                   | 10            |
|                                                                                                             | <b>11,267</b>    | <b>10,682</b> | <b>49,696</b>  | <b>47,124</b> | <b>9,928</b>         | <b>8,452</b>  |
| D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders | —                | —             | 9,047          | 9,323         | 826                  | 781           |
| E. Other provisions                                                                                         |                  |               |                |               |                      |               |
| a. Provisions for pensions and other post-employment benefits                                               | 655              | 553           | 154            | 117           | 23                   | 19            |
| b. Provisions for taxes                                                                                     | 108              | 125           | 145            | 120           | 85                   | 88            |
| c. Miscellaneous other provisions                                                                           | 70               | 87            | 312            | 304           | 75                   | 87            |
|                                                                                                             | <b>833</b>       | <b>765</b>    | <b>611</b>     | <b>541</b>    | <b>183</b>           | <b>194</b>    |
| F. Liabilities                                                                                              |                  |               |                |               |                      |               |
| a. Notes payable and loans                                                                                  | 17               | 17            | 107            | 50            | 22                   | —             |
| b. Funds withheld under reinsurance treaties                                                                | 49               | 39            | 1,887          | 1,858         | 166                  | 177           |
| c. Other liabilities                                                                                        | 1,385            | 1,273         | 1,996          | 2,207         | 1,797                | 3,118         |
|                                                                                                             | <b>1,451</b>     | <b>1,329</b>  | <b>3,990</b>   | <b>4,115</b>  | <b>1,985</b>         | <b>3,295</b>  |
| G. Deferred tax liabilities                                                                                 | 292              | 293           | 354            | 277           | 137                  | 84            |
| H. Liabilities included in disposal groups classified as held for sale <sup>1)</sup>                        | —                | —             | —              | —             | 1,818                | —             |
| <b>Total liabilities/provisions</b>                                                                         | <b>14,043</b>    | <b>13,269</b> | <b>63,859</b>  | <b>61,541</b> | <b>14,919</b>        | <b>12,809</b> |



| Non-Life Reinsurance         |            | Life/Health Reinsurance |            | Corporate Operations |            | Consolidation |            | Total     |            |
|------------------------------|------------|-------------------------|------------|----------------------|------------|---------------|------------|-----------|------------|
| 30.6.2016                    | 31.12.2015 | 30.6.2016               | 31.12.2015 | 30.6.2016            | 31.12.2015 | 30.6.2016     | 31.12.2015 | 30.6.2016 | 31.12.2015 |
| 1,491                        | 1,490      | 70                      | 71         | 530                  | 530        | -511          | -512       | 1,983     | 1,943      |
| 3,266                        | 3,019      | 164                     | 140        | 8                    | 2          | -231          | -183       | 8,306     | 7,081      |
| —                            | —          | 11,505                  | 12,207     | —                    | —          | -197          | -177       | 56,051    | 54,845     |
| 23,057                       | 22,823     | 3,790                   | 3,734      | 23                   | 27         | -1,318        | -1,341     | 40,668    | 40,392     |
| —                            | —          | —                       | —          | —                    | —          | —             | —          | 5,879     | 4,138      |
| 101                          | 120        | 194                     | 206        | —                    | —          | -1            | -3         | 348       | 376        |
| 26,424                       | 25,962     | 15,653                  | 16,287     | 31                   | 29         | -1,747        | -1,704     | 111,252   | 106,832    |
| —                            | —          | —                       | —          | —                    | —          | —             | —          | 9,873     | 10,104     |
| 141                          | 114        | 47                      | 37         | 1,317                | 1,105      | —             | —          | 2,337     | 1,945      |
| 201                          | 247        | 14                      | 24         | 116                  | 117        | —             | —          | 669       | 721        |
| 95                           | 125        | 46                      | 67         | 141                  | 181        | -1            | -1         | 738       | 850        |
| 437                          | 486        | 107                     | 128        | 1,574                | 1,403      | -1            | -1         | 3,744     | 3,516      |
| 304                          | 308        | 361                     | 382        | 1,544                | 1,483      | -855          | -799       | 1,500     | 1,441      |
| 428                          | 430        | 4,404                   | 5,518      | —                    | —          | -2,516        | -2,671     | 4,418     | 5,351      |
| 803                          | 923        | 2,047                   | 1,813      | 139                  | 373        | -1,441        | -1,863     | 6,726     | 7,844      |
| 1,535                        | 1,661      | 6,812                   | 7,713      | 1,683                | 1,856      | -4,812        | -5,333     | 12,644    | 14,636     |
| 1,483                        | 1,332      | 381                     | 300        | 3                    | 1          | 13            | 11         | 2,663     | 2,298      |
| —                            | —          | —                       | —          | —                    | —          | —             | —          | 1,818     | —          |
| 31,370                       | 30,931     | 23,023                  | 24,499     | 3,821                | 3,819      | -7,058        | -7,539     | 143,977   | 139,329    |
| Equity <sup>2)</sup>         |            |                         |            |                      |            |               |            | 13,971    | 13,431     |
| Total equity and liabilities |            |                         |            |                      |            |               |            | 157,948   | 152,760    |

<sup>1)</sup> For further information see "Non-current assets held for sale and disposal groups" in the Notes.

<sup>2)</sup> Equity attributable to Group shareholders and non-controlling interests.

**CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016<sup>1)</sup>**

EUR MILLION

|                                                                                          | Industrial Lines |              | Retail Germany |              | Retail International |              |
|------------------------------------------------------------------------------------------|------------------|--------------|----------------|--------------|----------------------|--------------|
|                                                                                          | 6M 2016          | 6M 2015      | 6M 2016        | 6M 2015      | 6M 2016              | 6M 2015      |
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance | 2,706            | 2,625        | 3,346          | 3,669        | 2,487                | 2,392        |
| 2. Savings elements of premiums from unit-linked life and annuity insurance              | —                | —            | 464            | 469          | 150                  | 107          |
| 3. Ceded written premiums                                                                | 1,279            | 1,242        | 128            | 138          | 227                  | 246          |
| 4. Change in gross unearned premiums                                                     | -647             | -552         | -307           | -280         | -37                  | -157         |
| 5. Change in ceded unearned premiums                                                     | -303             | -190         | -7             | -7           | -24                  | -21          |
| <b>Net premiums earned</b>                                                               | <b>1,083</b>     | <b>1,021</b> | <b>2,454</b>   | <b>2,789</b> | <b>2,097</b>         | <b>1,903</b> |
| 6. Claims and claims expenses (gross)                                                    | 1,373            | 1,584        | 2,718          | 3,147        | 1,681                | 1,516        |
| Reinsurers' share                                                                        | 554              | 813          | 37             | 61           | 91                   | 166          |
| <b>Claims and claims expenses (net)</b>                                                  | <b>819</b>       | <b>771</b>   | <b>2,681</b>   | <b>3,086</b> | <b>1,590</b>         | <b>1,350</b> |
| 7. Acquisition costs and administrative expenses (gross)                                 | 423              | 383          | 614            | 595          | 519                  | 547          |
| Reinsurers' share                                                                        | 188              | 165          | 36             | 51           | 39                   | 35           |
| <b>Acquisition costs and administrative expenses (net)</b>                               | <b>235</b>       | <b>218</b>   | <b>578</b>     | <b>544</b>   | <b>480</b>           | <b>512</b>   |
| 8. Other technical income                                                                | 5                | 3            | 7              | 6            | 10                   | 10           |
| Other technical expenses                                                                 | 9                | 22           | 14             | 5            | 30                   | 32           |
| <b>Other technical result</b>                                                            | <b>-4</b>        | <b>-19</b>   | <b>-7</b>      | <b>1</b>     | <b>-20</b>           | <b>-22</b>   |
| <b>Net technical result</b>                                                              | <b>25</b>        | <b>13</b>    | <b>-812</b>    | <b>-840</b>  | <b>7</b>             | <b>19</b>    |
| 9. a. Investment income                                                                  | 149              | 158          | 1,063          | 1,114        | 195                  | 197          |
| b. Investment expenses                                                                   | 40               | 45           | 118            | 157          | 47                   | 34           |
| <b>Net income from assets under own management</b>                                       | <b>109</b>       | <b>113</b>   | <b>945</b>     | <b>957</b>   | <b>148</b>           | <b>163</b>   |
| Net income from investment contracts                                                     | —                | —            | —              | —            | 6                    | 4            |
| Net interest income from funds withheld and contract deposits                            | —                | —            | -8             | -9           | -1                   | —            |
| <b>Net investment income</b>                                                             | <b>109</b>       | <b>113</b>   | <b>937</b>     | <b>948</b>   | <b>153</b>           | <b>167</b>   |
| of which share of profit or loss of equity-accounted associates and joint ventures       | 2                | —            | 5              | —            | —                    | —            |
| 10. a. Other income                                                                      | 75               | 58           | 81             | 110          | 53                   | 46           |
| b. Other expenses                                                                        | 66               | 42           | 150            | 124          | 107                  | 105          |
| <b>Other income/expenses</b>                                                             | <b>9</b>         | <b>16</b>    | <b>-69</b>     | <b>-14</b>   | <b>-54</b>           | <b>-59</b>   |
| <b>Profit before goodwill impairments</b>                                                | <b>143</b>       | <b>142</b>   | <b>56</b>      | <b>94</b>    | <b>106</b>           | <b>127</b>   |
| 11. Goodwill impairments                                                                 | —                | —            | —              | 155          | —                    | —            |
| <b>Operating profit/loss (EBIT)</b>                                                      | <b>143</b>       | <b>142</b>   | <b>56</b>      | <b>-61</b>   | <b>106</b>           | <b>127</b>   |
| 12. Financing costs                                                                      | 4                | 4            | 5              | 5            | 1                    | 2            |
| 13. Taxes on income                                                                      | 48               | 41           | 23             | 37           | 29                   | 32           |
| <b>Net income</b>                                                                        | <b>91</b>        | <b>97</b>    | <b>28</b>      | <b>-103</b>  | <b>76</b>            | <b>93</b>    |
| of which attributable to non-controlling interests                                       | —                | —            | 4              | 1            | 12                   | 16           |
| of which attributable to shareholders of Talanx AG                                       | 91               | 97           | 24             | -104         | 64                   | 77           |

<sup>1)</sup> With the exception of the Retail Germany Division, the statements of income of the divisions are the same as those of the reportable segments.

| Non-Life Reinsurance |         | Life/Health Reinsurance |         | Corporate Operations |         | Consolidation |         | Total   |         |
|----------------------|---------|-------------------------|---------|----------------------|---------|---------------|---------|---------|---------|
| 6M 2016              | 6M 2015 | 6M 2016                 | 6M 2015 | 6M 2016              | 6M 2015 | 6M 2016       | 6M 2015 | 6M 2016 | 6M 2015 |
| 4,627                | 4,972   | 3,656                   | 3,614   | 22                   | 27      | -417          | -472    | 16,427  | 16,827  |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | 614     | 576     |
| 547                  | 519     | 301                     | 486     | 7                    | 7       | -417          | -474    | 2,072   | 2,164   |
| -289                 | -615    | -27                     | -3      | -7                   | -5      | 49            | 55      | -1,265  | -1,557  |
| -48                  | -56     | —                       | —       | -3                   | -4      | 51            | 57      | -334    | -221    |
| 3,839                | 3,894   | 3,328                   | 3,125   | 11                   | 19      | -2            | —       | 12,810  | 12,751  |
| 2,915                | 2,945   | 3,150                   | 3,119   | 2                    | 10      | -208          | -280    | 11,631  | 12,041  |
| 311                  | 222     | 281                     | 419     | —                    | —       | -213          | -272    | 1,061   | 1,409   |
| 2,604                | 2,723   | 2,869                   | 2,700   | 2                    | 10      | 5             | -8      | 10,570  | 10,632  |
| 1,162                | 1,084   | 648                     | 680     | 2                    | 4       | -110          | -122    | 3,258   | 3,171   |
| 92                   | 82      | 20                      | 44      | —                    | —       | -102          | -121    | 273     | 256     |
| 1,070                | 1,002   | 628                     | 636     | 2                    | 4       | -8            | -1      | 2,985   | 2,915   |
| —                    | 1       | —                       | —       | —                    | —       | —             | —       | 22      | 20      |
| —                    | 3       | 7                       | 5       | —                    | —       | 1             | 8       | 61      | 75      |
| —                    | -2      | -7                      | -5      | —                    | —       | -1            | -8      | -39     | -55     |
| 165                  | 167     | -176                    | -216    | 7                    | 5       | —             | 1       | -784    | -851    |
| 558                  | 514     | 191                     | 225     | 33                   | 10      | -30           | -19     | 2,159   | 2,199   |
| 139                  | 87      | 34                      | 46      | 45                   | 39      | -53           | -53     | 370     | 355     |
| 419                  | 427     | 157                     | 179     | -12                  | -29     | 23            | 34      | 1,789   | 1,844   |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | 6       | 4       |
| 12                   | 10      | 164                     | 187     | —                    | —       | —             | 1       | 167     | 189     |
| 431                  | 437     | 321                     | 366     | -12                  | -29     | 23            | 35      | 1,962   | 2,037   |
| 2                    | 1       | —                       | —       | —                    | 6       | -6            | —       | 3       | 7       |
| 145                  | 235     | 181                     | 144     | 371                  | 361     | -342          | -334    | 564     | 620     |
| 161                  | 223     | 152                     | 100     | 339                  | 328     | -297          | -286    | 678     | 636     |
| -16                  | 12      | 29                      | 44      | 32                   | 33      | -45           | -48     | -114    | -16     |
| 580                  | 616     | 174                     | 194     | 27                   | 9       | -22           | -12     | 1,064   | 1,170   |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | —       | 155     |
| 580                  | 616     | 174                     | 194     | 27                   | 9       | -22           | -12     | 1,064   | 1,015   |
| 36                   | 49      | 2                       | 2       | 43                   | 46      | -18           | -17     | 73      | 91      |
| 151                  | 133     | 44                      | 49      | 7                    | 1       | 1             | 1       | 303     | 294     |
| 393                  | 434     | 128                     | 143     | -23                  | -38     | -5            | 4       | 688     | 630     |
| 206                  | 228     | 65                      | 74      | —                    | —       | —             | —       | 287     | 319     |
| 187                  | 206     | 63                      | 69      | -23                  | -38     | -5            | 4       | 401     | 311     |

CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 APRIL TO 30 JUNE 2016<sup>1)</sup>

EUR MILLION

|                                                                                          | Industrial Lines |            | Retail Germany |              | Retail International |            |
|------------------------------------------------------------------------------------------|------------------|------------|----------------|--------------|----------------------|------------|
|                                                                                          | Q2 2016          | Q2 2015    | Q2 2016        | Q2 2015      | Q2 2016              | Q2 2015    |
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance | 785              | 736        | 1,442          | 1,534        | 1,339                | 1,186      |
| 2. Savings elements of premiums from unit-linked life and annuity insurance              | —                | —          | 245            | 260          | 108                  | 59         |
| 3. Ceded written premiums                                                                | 423              | 305        | 57             | 53           | 100                  | 111        |
| 4. Change in gross unearned premiums                                                     | 267              | 306        | 101            | 125          | –13                  | –60        |
| 5. Change in ceded unearned premiums                                                     | 83               | 234        | 4              | 5            | 7                    | 13         |
| <b>Net premiums earned</b>                                                               | <b>546</b>       | <b>503</b> | <b>1,237</b>   | <b>1,341</b> | <b>1,111</b>         | <b>943</b> |
| 6. Claims and claims expenses (gross)                                                    | 680              | 739        | 1,285          | 1,528        | 905                  | 765        |
| Reinsurers' share                                                                        | 279              | 368        | 23             | 29           | 54                   | 108        |
| <b>Claims and claims expenses (net)</b>                                                  | <b>401</b>       | <b>371</b> | <b>1,262</b>   | <b>1,499</b> | <b>851</b>           | <b>657</b> |
| 7. Acquisition costs and administrative expenses (gross)                                 | 191              | 185        | 316            | 309          | 268                  | 286        |
| Reinsurers' share                                                                        | 64               | 58         | 10             | 20           | 19                   | 21         |
| <b>Acquisition costs and administrative expenses (net)</b>                               | <b>127</b>       | <b>127</b> | <b>306</b>     | <b>289</b>   | <b>249</b>           | <b>265</b> |
| 8. Other technical income                                                                | 2                | 1          | 1              | –1           | 4                    | 7          |
| Other technical expenses                                                                 | 8                | –1         | 4              | —            | 16                   | 17         |
| <b>Other technical result</b>                                                            | <b>–6</b>        | <b>2</b>   | <b>–3</b>      | <b>–1</b>    | <b>–12</b>           | <b>–10</b> |
| <b>Net technical result</b>                                                              | <b>12</b>        | <b>7</b>   | <b>–334</b>    | <b>–448</b>  | <b>–1</b>            | <b>11</b>  |
| 9. a. Investment income                                                                  | 79               | 74         | 463            | 565          | 102                  | 101        |
| b. Investment expenses                                                                   | 20               | 14         | 57             | 57           | 32                   | 15         |
| <b>Net income from assets under own management</b>                                       | <b>59</b>        | <b>60</b>  | <b>406</b>     | <b>508</b>   | <b>70</b>            | <b>86</b>  |
| Net income from investment contracts                                                     | —                | —          | —              | —            | 4                    | 2          |
| Net interest income from funds withheld and contract deposits                            | —                | —          | –4             | –5           | –1                   | —          |
| <b>Net investment income</b>                                                             | <b>59</b>        | <b>60</b>  | <b>402</b>     | <b>503</b>   | <b>73</b>            | <b>88</b>  |
| of which share of profit or loss of equity-accounted associates and joint ventures       | —                | —          | 1              | —            | —                    | —          |
| 10. a. Other income                                                                      | 16               | 6          | 23             | 47           | 22                   | 19         |
| b. Other expenses                                                                        | 18               | 3          | 82             | 65           | 49                   | 47         |
| <b>Other income/expenses</b>                                                             | <b>–2</b>        | <b>3</b>   | <b>–59</b>     | <b>–18</b>   | <b>–27</b>           | <b>–28</b> |
| <b>Profit before goodwill impairments</b>                                                | <b>69</b>        | <b>70</b>  | <b>9</b>       | <b>37</b>    | <b>45</b>            | <b>71</b>  |
| 11. Goodwill impairments                                                                 | —                | —          | —              | 155          | —                    | —          |
| <b>Operating profit/loss (EBIT)</b>                                                      | <b>69</b>        | <b>70</b>  | <b>9</b>       | <b>–118</b>  | <b>45</b>            | <b>71</b>  |
| 12. Financing costs                                                                      | 2                | 2          | 2              | 3            | —                    | 1          |
| 13. Taxes on income                                                                      | 24               | 18         | 10             | 18           | 12                   | 18         |
| <b>Net income</b>                                                                        | <b>43</b>        | <b>50</b>  | <b>–3</b>      | <b>–139</b>  | <b>33</b>            | <b>52</b>  |
| of which attributable to non-controlling interests                                       | —                | —          | 2              | —            | 5                    | 8          |
| of which attributable to shareholders of Talanx AG                                       | 43               | 50         | –5             | –139         | 28                   | 44         |

<sup>1)</sup> With the exception of the Retail Germany Division, the statements of income of the divisions are the same as those of the reportable segments.

| Non-Life Reinsurance |         | Life/Health Reinsurance |         | Corporate Operations |         | Consolidation |         | Total   |         |
|----------------------|---------|-------------------------|---------|----------------------|---------|---------------|---------|---------|---------|
| Q2 2016              | Q2 2015 | Q2 2016                 | Q2 2015 | Q2 2016              | Q2 2015 | Q2 2016       | Q2 2015 | Q2 2016 | Q2 2015 |
| 2,125                | 2,355   | 1,895                   | 1,831   | 8                    | 16      | -162          | -271    | 7,432   | 7,387   |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | 353     | 319     |
| 244                  | 228     | 133                     | 274     | —                    | —       | -180          | -273    | 777     | 698     |
| 2                    | -124    | -15                     | 18      | 1                    | -4      | 10            | 62      | 353     | 323     |
| 5                    | -9      | —                       | —       | 2                    | 1       | 10            | 65      | 111     | 309     |
| 1,878                | 2,012   | 1,747                   | 1,575   | 7                    | 11      | 18            | -1      | 6,544   | 6,384   |
| 1,497                | 1,541   | 1,651                   | 1,583   | 1                    | 5       | -103          | -80     | 5,916   | 6,081   |
| 209                  | 149     | 122                     | 224     | —                    | —       | -107          | -80     | 580     | 798     |
| 1,288                | 1,392   | 1,529                   | 1,359   | 1                    | 5       | 4             | —       | 5,336   | 5,283   |
| 574                  | 567     | 330                     | 369     | 1                    | 3       | -48           | -67     | 1,632   | 1,652   |
| 49                   | 39      | 8                       | 25      | —                    | —       | -39           | -61     | 111     | 102     |
| 525                  | 528     | 322                     | 344     | 1                    | 3       | -9            | -6      | 1,521   | 1,550   |
| —                    | —       | —                       | —       | —                    | —       | -1            | —       | 6       | 7       |
| —                    | -2      | 4                       | 3       | —                    | —       | 23            | 3       | 55      | 20      |
| —                    | 2       | -4                      | -3      | —                    | —       | -24           | -3      | -49     | -13     |
| 65                   | 94      | -108                    | -131    | 5                    | 3       | -1            | 2       | -362    | -462    |
| 280                  | 263     | 96                      | 82      | 30                   | 6       | -11           | -11     | 1,039   | 1,080   |
| 70                   | 31      | 17                      | 27      | 22                   | 21      | -27           | -30     | 191     | 135     |
| 210                  | 232     | 79                      | 55      | 8                    | -15     | 16            | 19      | 848     | 945     |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | 4       | 2       |
| 8                    | 6       | 85                      | 92      | —                    | —       | —             | 1       | 88      | 94      |
| 218                  | 238     | 164                     | 147     | 8                    | -15     | 16            | 20      | 940     | 1,041   |
| 1                    | -1      | —                       | —       | —                    | 4       | -1            | —       | 1       | 3       |
| -57                  | 45      | 85                      | 30      | 190                  | 184     | -177          | -178    | 102     | 153     |
| -44                  | 40      | 70                      | 28      | 174                  | 170     | -160          | -148    | 189     | 205     |
| -13                  | 5       | 15                      | 2       | 16                   | 14      | -17           | -30     | -87     | -52     |
| 270                  | 337     | 71                      | 18      | 29                   | 2       | -2            | -8      | 491     | 527     |
| —                    | —       | —                       | —       | —                    | —       | —             | —       | —       | 155     |
| 270                  | 337     | 71                      | 18      | 29                   | 2       | -2            | -8      | 491     | 372     |
| 18                   | 24      | 1                       | 1       | 22                   | 23      | -9            | -9      | 36      | 45      |
| 75                   | 55      | 18                      | 1       | 6                    | -3      | 3             | —       | 148     | 107     |
| 177                  | 258     | 52                      | 16      | 1                    | -18     | 4             | 1       | 307     | 220     |
| 94                   | 139     | 27                      | 13      | —                    | —       | —             | —       | 128     | 160     |
| 83                   | 119     | 25                      | 3       | 1                    | -18     | 4             | 1       | 179     | 60      |

**CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE REPORTABLE SEGMENTS RETAIL GERMANY – PROPERTY/CASUALTY AND LIFE FOR THE PERIOD FROM 1 JANUARY TO 30 JUNE 2016 AND 1 APRIL TO 30 JUNE 2016**

EUR MILLION

|                                                                                          | Property/Casualty |            |            |            | Life         |              |              |              |
|------------------------------------------------------------------------------------------|-------------------|------------|------------|------------|--------------|--------------|--------------|--------------|
|                                                                                          | 6M 2016           | 6M 2015    | Q2 2016    | Q2 2015    | 6M 2016      | 6M 2015      | Q2 2016      | Q2 2015      |
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance | 980               | 989        | 231        | 227        | 2,366        | 2,680        | 1,211        | 1,307        |
| 2. Savings elements of premiums from unit-linked life and annuity insurance              | —                 | —          | —          | —          | 464          | 469          | 245          | 260          |
| 3. Ceded written premiums                                                                | 45                | 48         | 15         | 11         | 83           | 90           | 42           | 42           |
| 4. Change in gross unearned premiums                                                     | –257              | –258       | 135        | 139        | –50          | –22          | –34          | –14          |
| 5. Change in ceded unearned premiums                                                     | –13               | –9         | 1          | 5          | 6            | 2            | 3            | —            |
| <b>Net premiums earned</b>                                                               | <b>691</b>        | <b>692</b> | <b>350</b> | <b>350</b> | <b>1,763</b> | <b>2,097</b> | <b>887</b>   | <b>991</b>   |
| 6. Claims and claims expenses (gross)                                                    | 478               | 475        | 245        | 237        | 2,240        | 2,672        | 1,040        | 1,291        |
| Reinsurers' share                                                                        | –1                | 11         | –2         | 1          | 38           | 50           | 25           | 28           |
| <b>Claims and claims expenses (net)</b>                                                  | <b>479</b>        | <b>464</b> | <b>247</b> | <b>236</b> | <b>2,202</b> | <b>2,622</b> | <b>1,015</b> | <b>1,263</b> |
| 7. Acquisition costs and administrative expenses (gross)                                 | 251               | 243        | 126        | 125        | 363          | 352          | 190          | 184          |
| Reinsurers' share                                                                        | 8                 | 9          | 5          | 5          | 28           | 42           | 5            | 15           |
| <b>Acquisition costs and administrative expenses (net)</b>                               | <b>243</b>        | <b>234</b> | <b>121</b> | <b>120</b> | <b>335</b>   | <b>310</b>   | <b>185</b>   | <b>169</b>   |
| 8. Other technical income                                                                | 2                 | 1          | 1          | —          | 5            | 5            | —            | –1           |
| Other technical expenses                                                                 | 3                 | 3          | 1          | —          | 11           | 2            | 3            | —            |
| <b>Other technical result</b>                                                            | <b>–1</b>         | <b>–2</b>  | <b>—</b>   | <b>—</b>   | <b>–6</b>    | <b>3</b>     | <b>–3</b>    | <b>–1</b>    |
| <b>Net technical result</b>                                                              | <b>–32</b>        | <b>–8</b>  | <b>–18</b> | <b>–6</b>  | <b>–780</b>  | <b>–832</b>  | <b>–316</b>  | <b>–442</b>  |
| 9. a. Investment income                                                                  | 53                | 53         | 27         | 27         | 1,010        | 1,061        | 436          | 538          |
| b. Investment expenses                                                                   | 6                 | 4          | 2          | 2          | 112          | 153          | 55           | 55           |
| <b>Net income from assets under own management</b>                                       | <b>47</b>         | <b>49</b>  | <b>25</b>  | <b>25</b>  | <b>898</b>   | <b>908</b>   | <b>381</b>   | <b>483</b>   |
| Net income from investment contracts                                                     | —                 | —          | —          | —          | —            | —            | —            | —            |
| Net interest income from funds withheld and contract deposits                            | —                 | —          | —          | —          | –8           | –9           | –4           | –5           |
| <b>Net investment income</b>                                                             | <b>47</b>         | <b>49</b>  | <b>25</b>  | <b>25</b>  | <b>890</b>   | <b>899</b>   | <b>377</b>   | <b>478</b>   |
| of which share of profit or loss of equity-accounted associates and joint ventures       | 1                 | —          | —          | —          | 4            | —            | 1            | —            |
| 10. a. Other income                                                                      | 27                | 30         | 10         | 14         | 54           | 80           | 13           | 33           |
| b. Other expenses                                                                        | 59                | 41         | 39         | 22         | 91           | 83           | 43           | 43           |
| <b>Other income/expenses</b>                                                             | <b>–32</b>        | <b>–11</b> | <b>–29</b> | <b>–8</b>  | <b>–37</b>   | <b>–3</b>    | <b>–30</b>   | <b>–10</b>   |
| <b>Profit before goodwill impairments</b>                                                | <b>–17</b>        | <b>30</b>  | <b>–22</b> | <b>11</b>  | <b>73</b>    | <b>64</b>    | <b>31</b>    | <b>26</b>    |
| 11. Goodwill impairments                                                                 | —                 | —          | —          | —          | —            | 155          | —            | 155          |
| <b>Operating profit/loss (EBIT)</b>                                                      | <b>–17</b>        | <b>30</b>  | <b>–22</b> | <b>11</b>  | <b>73</b>    | <b>–91</b>   | <b>31</b>    | <b>–129</b>  |

# INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN <sup>1)</sup>

## ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

EUR MILLION

|                                                    | 30.6.2016      | 31.12.2015     |
|----------------------------------------------------|----------------|----------------|
| Germany                                            | 28,131         | 27,588         |
| United Kingdom                                     | 6,931          | 6,695          |
| Central and Eastern Europe (CEE), including Turkey | 3,386          | 3,842          |
| Rest of Europe                                     | 38,159         | 35,785         |
| USA                                                | 15,878         | 14,960         |
| Rest of North America                              | 2,599          | 2,237          |
| Latin America                                      | 3,129          | 2,935          |
| Asia and Australia                                 | 6,534          | 6,425          |
| Africa                                             | 327            | 310            |
| <b>Total</b>                                       | <b>105,074</b> | <b>100,777</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions. This may result in differences from the amounts disclosed in the management report.

## NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

Non-current assets largely consist of intangible assets (including goodwill) and real estate held and used/investment property.

## NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

EUR MILLION

|                                                    | 30.6.2016    | 31.12.2015   |
|----------------------------------------------------|--------------|--------------|
| Germany                                            | 3,637        | 3,656        |
| United Kingdom                                     | 4            | 2            |
| Central and Eastern Europe (CEE), including Turkey | —            | —            |
| Rest of Europe                                     | 360          | 391          |
| USA                                                | 556          | 570          |
| Rest of North America                              | —            | —            |
| Latin America                                      | 177          | 168          |
| Asia and Australia                                 | 2            | 1            |
| Africa                                             | 10           | 12           |
| <b>Total</b>                                       | <b>4,746</b> | <b>4,800</b> |

## GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN (BY DOMICILE OF CUSTOMER)<sup>1)</sup>

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

### GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN

EUR MILLION

|                                                    | Primary insurance | Reinsurance  | Total         |
|----------------------------------------------------|-------------------|--------------|---------------|
| <b>6M 2016</b>                                     |                   |              |               |
| Germany                                            | 4,480             | 581          | 5,061         |
| United Kingdom                                     | 104               | 1,405        | 1,509         |
| Central and Eastern Europe (CEE), including Turkey | 1,072             | 198          | 1,270         |
| Rest of Europe                                     | 1,567             | 1,112        | 2,679         |
| USA                                                | 301               | 2,012        | 2,313         |
| Rest of North America                              | 21                | 366          | 387           |
| Latin America                                      | 775               | 427          | 1,202         |
| Asia and Australia                                 | 131               | 1,610        | 1,741         |
| Africa                                             | 37                | 228          | 265           |
| <b>Total</b>                                       | <b>8,488</b>      | <b>7,939</b> | <b>16,427</b> |

|                                                    |              |              |               |
|----------------------------------------------------|--------------|--------------|---------------|
| <b>6M 2015</b>                                     |              |              |               |
| Germany                                            | 4,804        | 647          | 5,451         |
| United Kingdom                                     | 89           | 1,436        | 1,525         |
| Central and Eastern Europe (CEE), including Turkey | 1,201        | 164          | 1,365         |
| Rest of Europe                                     | 1,260        | 1,131        | 2,391         |
| USA                                                | 290          | 1,867        | 2,157         |
| Rest of North America                              | 22           | 402          | 424           |
| Latin America                                      | 791          | 446          | 1,237         |
| Asia and Australia                                 | 121          | 1,874        | 1,995         |
| Africa                                             | 34           | 248          | 282           |
| <b>Total</b>                                       | <b>8,612</b> | <b>8,215</b> | <b>16,827</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions. This may result in differences from the amounts disclosed in the management report.



**GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN**

EUR MILLION

|                                                    | Primary insurance | Reinsurance  | Total        |
|----------------------------------------------------|-------------------|--------------|--------------|
| <b>Q2 2016</b>                                     |                   |              |              |
| Germany                                            | 1,631             | 209          | 1,840        |
| United Kingdom                                     | 51                | 758          | 809          |
| Central and Eastern Europe (CEE), including Turkey | 565               | 92           | 657          |
| Rest of Europe                                     | 708               | 498          | 1,206        |
| USA                                                | 118               | 999          | 1,117        |
| Rest of North America                              | 11                | 177          | 188          |
| Latin America                                      | 393               | 199          | 592          |
| Asia and Australia                                 | 62                | 850          | 912          |
| Africa                                             | 9                 | 102          | 111          |
| <b>Total</b>                                       | <b>3,548</b>      | <b>3,884</b> | <b>7,432</b> |

|                                                    |              |              |              |
|----------------------------------------------------|--------------|--------------|--------------|
| <b>Q2 2015</b>                                     |              |              |              |
| Germany                                            | 1,694        | 255          | 1,949        |
| United Kingdom                                     | 46           | 666          | 712          |
| Central and Eastern Europe (CEE), including Turkey | 586          | 83           | 669          |
| Rest of Europe                                     | 470          | 517          | 987          |
| USA                                                | 117          | 961          | 1,078        |
| Rest of North America                              | 11           | 210          | 221          |
| Latin America                                      | 425          | 191          | 616          |
| Asia and Australia                                 | 59           | 953          | 1,012        |
| Africa                                             | 16           | 127          | 143          |
| <b>Total</b>                                       | <b>3,424</b> | <b>3,963</b> | <b>7,387</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions. This may result in differences from the amounts disclosed in the management report.

**GROSS WRITTEN PREMIUMS BY TYPE  
AND CLASS OF INSURANCE AT GROUP LEVEL <sup>1)</sup>**
**GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE**

EUR MILLION

|                                     | 6M 2016       | 6M 2015       | Q2 2016      | Q2 2015      |
|-------------------------------------|---------------|---------------|--------------|--------------|
| Property/casualty primary insurance | 5,183         | 5,234         | 1,773        | 1,787        |
| Primary life insurance              | 3,305         | 3,378         | 1,775        | 1,637        |
| Non-Life Reinsurance                | 4,354         | 4,674         | 2,025        | 2,168        |
| Life/Health Reinsurance             | 3,585         | 3,541         | 1,859        | 1,795        |
| <b>Total</b>                        | <b>16,427</b> | <b>16,827</b> | <b>7,432</b> | <b>7,387</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions. This may result in differences from the amounts disclosed in the management report.

## IV. CONSOLIDATION

### BASIS OF CONSOLIDATION

As at the reporting date, 147 (142) individual companies, 27 (28) investment funds, two (two) structured entities and four subgroups (including three foreign subgroups) were consolidated as a group (including associates) in Talanx's consolidated financial statements, and seven (nine) companies were included using the equity method.

Significant changes in the basis of consolidation compared with year-end 2015 are presented in the following.

### SIGNIFICANT ADDITIONS AND DISPOSALS OF CONSOLIDATED SUBSIDIARIES

With effect from 8 January 2016, Funis GmbH & Co. KG ("Funis"), a wholly owned subsidiary of Hannover Rück SE, increased its share in the share capital of Glencar Underwriting Managers Inc., Chicago, USA ("Glencar") from 49% to 100% and in so doing gained control of the company. Glencar, which was previously accounted for in the consolidated financial statements using the equity method, was therefore consolidated as a subsidiary as from the first quarter of 2016. As a result of the derecognition of the assets and liabilities and the recognition of the previous shares at fair value, an expense of EUR 1 million was recognised in "Net investment income". In addition, currency translation gains resulted in accumulated other comprehensive income of EUR 1 million. A purchase price of EUR 6 million was paid for the remaining shares. In the course of the purchase price allocation, the measurement of the fair values of the acquired assets and assumed liabilities for the initial consolidation resulted in goodwill in the amount of EUR 3 million.

By way of purchase agreements dated 11 December 2015 and a supplement dated 15 December 2015, the Group purchased the wind farm special purpose vehicle "Infrastruktur Ludwigsau GmbH & Co. KG", Wörrstadt, through the acquisition of all the shares by TD Real Assets GmbH & Co. KG, Cologne (Retail Germany segment). The acquisition was subject to conditions precedent, which were met on 22 January 2016 (initial consolidation date). The purchase price stood at EUR 5 thousand. No goodwill was generated. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in "Other income/expenses". The planned investment amounts to EUR 34 million. The company's revenue (included in "Net investment income") of EUR 217 thousand and profit of EUR 125 thousand were included in the financial statements. Before the initial consolidation date, there was no major revenue or income in the financial year 2016.

By way of purchase agreements dated 16 December 2015, the Group purchased the two wind farm special purpose vehicles "UGE Rechain Eins GmbH & Co. KG Umweltgerechte Energie" (WPR), Meißen, and "UGE Parchim Drei GmbH & Co. KG Umweltgerechte Energie" (WPP), Meißen, through the acquisition of all the shares by TD Real Assets GmbH & Co. KG, Cologne. The acquisition was subject to conditions precedent, which were met on 1 February 2016 in the case of WPP and on 9 February 2016 in the case of WPR (initial consolidation dates). Following the acquisition, WPR was renamed as Windpark Rechain GmbH & Co. KG and WPP was renamed as Windpark Parchim GmbH & Co. KG, and the registered office of the companies was changed to Cologne. The purchase price for the complete wind farm project, which was settled entirely in cash, amounted to EUR 3 million. No major goodwill was generated in the process. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in "Other income/expenses". The total planned investment amounts to EUR 55 million. The companies' revenue of EUR 3 million and profit of EUR 287 thousand were included in the financial statements. If the company had already been acquired as at 1 January 2016, the revenue and the earnings would have amounted to EUR 4 million and EUR 1 million, respectively.

No material contingent liabilities were identified for the wind farm special purpose vehicles that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No further contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

### ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE WIND FARM SPECIAL PURPOSE VEHICLES AT THE INITIAL CONSOLIDATION DATE IN EACH CASE IN ACCORDANCE WITH IFRS5

| EUR MILLION                                           |                                                |                                         |                                         |
|-------------------------------------------------------|------------------------------------------------|-----------------------------------------|-----------------------------------------|
|                                                       | Infrastruktur<br>Ludwigsau<br>GmbH &<br>Co. KG | Windpark<br>Rechain<br>GmbH &<br>Co. KG | Windpark<br>Parchim<br>GmbH &<br>Co. KG |
| Investments                                           | 17                                             | 35                                      | 56                                      |
| Cash at banks, cheques and cash-in-hand               | —                                              | 3                                       | 7                                       |
| Other assets                                          | 3                                              | 3                                       | 6                                       |
| <b>Total assets</b>                                   | <b>20</b>                                      | <b>41</b>                               | <b>69</b>                               |
| Other provisions                                      | —                                              | 3                                       | 1                                       |
| Other liabilities                                     | 20                                             | 38                                      | 65                                      |
| <b>Total liabilities</b>                              | <b>20</b>                                      | <b>41</b>                               | <b>66</b>                               |
| <b>Acquired net assets<br/>(before consolidation)</b> | <b>0</b>                                       | <b>0</b>                                | <b>3</b>                                |

On 27 November 2015, the Group signed a purchase agreement for 100% of the shares in the life insurer CBA Vita S. p. A. (CBA Vita), Milan, Italy, including the shares held by this company in Sella Life Ltd., Dublin, Ireland (100%) and in InChiaro Assicurazioni S. p. A., Rome, Italy (49%). Based on the agreements entered into, the Group has therefore recognised the acquisition as at the date of initial consolidation (30 June 2016). The acquisition was conducted via HDI Assicurazioni S. p. A., Rome, Italy (Retail International segment), which took over 100% of CBA Vita and which also already held the remaining 51% of the property insurer InChiaro Assicurazioni S. p. A. The purchase price (EUR 70 million) was settled with EUR 43 million in cash and by drawing on a loan in the amount of EUR 27 million. The purchase price resulted from the sum of EUR 38 million for the acquisition of CBA Vita and the sum of EUR 22 million for Sella Life Ltd. The increase in the equity interest in InChiaro Assicurazioni S. p. A from 51% to 100% is recognised as a majority-protecting increase. EUR 10 million of the purchase price payment is attributable to this transaction. Upon the acquisition, Sella Life Ltd. was renamed InChiaro Life Designated Activity Company (InChiaro Life DAC).

The companies were initially incorporated on a provisional basis. The provisional fair values of the assets acquired and liabilities assumed in this transaction must be analysed within twelve months of the date of initial consolidation and may need to be adjusted in some cases. No major goodwill arose from the acquisition. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal).

The increase in what was already a majority interest in InChiaro Assicurazioni S. p. A. was recognised as a transaction between owners. The difference between the pro-rata purchase price for the non-controlling interests – EUR 10 million – and the equity attributable to the non-controlling interests – EUR 5 million – was recognised directly in equity.

Acquisition-related costs of the transaction (EUR 0.5 million) are reported in “Other income/expenses”.

**ACQUIRED ASSETS AND ASSUMED LIABILITIES OF CBA VITA S. P. A. AND INCHIARO LIFE DAC AS AT 30 JUNE 2016 IN ACCORDANCE WITH IFRS5**

| EUR MILLION                                                                                              |                   |                   |
|----------------------------------------------------------------------------------------------------------|-------------------|-------------------|
|                                                                                                          | CBA Vita S. p. A. | InChiaro Life DAC |
| Intangible assets                                                                                        | 18                | 7                 |
| Investments                                                                                              | 915 <sup>1)</sup> | 616 <sup>2)</sup> |
| Investments for the benefit of life insurance policyholders who bear the investment risk                 | 44                | —                 |
| Reinsurance recoverables on technical provisions                                                         | 3                 | —                 |
| Accounts receivable on insurance business <sup>3)</sup>                                                  | 1                 | —                 |
| Cash at banks, cheques and cash-in-hand                                                                  | 148               | 4                 |
| Deferred tax assets                                                                                      | 33                | 8                 |
| Other assets                                                                                             | —                 | 1                 |
| <b>Total assets</b>                                                                                      | <b>1,162</b>      | <b>636</b>        |
| Subordinated liabilities                                                                                 | 14                | —                 |
| Technical provisions                                                                                     | 994               | 1                 |
| Technical provisions for life insurance policies where the investment risk is borne by the policyholders | 44                | —                 |
| Other provisions                                                                                         | 35                | —                 |
| Other liabilities                                                                                        | 5                 | 613               |
| of which tax liabilities                                                                                 | —                 | 1                 |
| of which insurance-related                                                                               | 2                 | 612 <sup>2)</sup> |
| <b>Total liabilities</b>                                                                                 | <b>1,092</b>      | <b>614</b>        |
| <b>Acquired net assets (before consolidation)</b>                                                        | <b>70</b>         | <b>22</b>         |

<sup>1)</sup> This also includes the carrying amounts for the holdings in InChiaro Life DAC and in InChiaro Assicurazioni S. p. A. totalling EUR 32 million.

<sup>2)</sup> This includes investments under investment contracts in the amount of EUR 612 million, which are offset by insurance-related liabilities in the same amount.

<sup>3)</sup> Gross accounts receivable on insurance business before impairment losses amount to EUR 1 million.

The amount reported for accounts receivable corresponds to their fair value. Further credit losses are not expected. The acquired intangible assets include distribution networks and customer relationships. No material contingent liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent considerations, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

No gross premiums or net income of the company have been generated since initial consolidation. If the group had already been acquired as at 1 January 2016, the gross premiums and net income for the period to be included would have amounted to EUR 289 million and EUR 2 million, respectively.

On 10 May 2016, Hannover Re acquired, via its subsidiary International Insurance Company of Hannover SE, Hannover, 100% of the shares in the company Congregational and General Insurance Company Plc. (CGI), Bradford, United Kingdom. The purchase price for the shares was EUR 11 million. By purchasing this company, Hannover Re also acquired its 25% share in Integra Insurance Solutions Limited, Bradford, United Kingdom. Hannover Re therefore now holds a total of 100% of the shares via various subsidiaries.

The business was included in the consolidated financial statements for the first time as at 1 May 2016. As part of initial consolidation, the fair values of the assets acquired and liabilities assumed were calculated using appropriate valuation techniques and based in some cases on estimates and assumptions.

Consequently, the business has been included in the consolidated financial statements on a provisional basis; the best available information was used as at the reporting date. Nevertheless, updated information may make adjustments necessary in future reporting periods.

The assets and liabilities of the acquired business are as follows at the initial consolidation date:

**ACQUIRED ASSETS AND ASSUMED LIABILITIES OF CGI  
AS AT 1 MAY 2016 IN ACCORDANCE WITH IFRS5**

EUR MILLION

|                                                  |           |
|--------------------------------------------------|-----------|
| Investments                                      | 19        |
| Reinsurance recoverables on technical provisions | 6         |
| Accounts receivable on insurance business        | 3         |
| Deferred acquisition costs                       | 1         |
| Cash at banks, cheques and cash-in-hand          | 3         |
| Deferred tax assets                              | 1         |
| Other assets                                     | 2         |
| <b>Total assets</b>                              | <b>35</b> |
| Technical provisions                             | 9         |
| Provisions for pensions and similar obligations  | 3         |
| Other liabilities                                | 3         |
| <b>Total liabilities</b>                         | <b>15</b> |
| <b>Net assets acquired</b>                       | <b>20</b> |

As the fair values of the recognised, identifiable assets, liabilities and contingent liabilities exceed the purchase price of the transaction, a negative goodwill in the amount of EUR 9 million excluding non-controlling interests resulted from the consolidation, which had to be recognised immediately in profit or loss in accordance with IFRS 3.34. As at 30 June 2016, this one-off effect from the transaction is reported in the consolidated statement of income in "Other income/expenses". The negative goodwill results primarily from the limiting of the revaluation of the assumed pension provisions to the amount to be recognised in accordance with IAS 19 as required by IFRS 3.26. Adjustments to this negative goodwill recognised may also be necessary in future reporting periods, as a consequence of updated information on the fair values of the acquired assets and assumed liabilities or due to taking into account the ancillary costs of the transaction, the amount of which had still to be established at the initial consolidation date.

The gross written premiums of the acquired business amounted to EUR 2 million between the initial consolidation date and the reporting date. A profit in the amount of EUR 100 thousand was recognised for the acquired business for the same period. The revenue disclosed under "Other income/expenses" arising from the reversal of the negative goodwill is not included in this figure.

## OTHER CHANGES UNDER COMPANY LAW

With effect from 1 April 2016, HDI Seguros S. A., Santiago, Chile, was merged with Aseguradora Magallanes S. A., Las Condes, Chile. At the same time, this company was renamed as HDI Seguros S. A. (registered office unchanged: Las Condes, Chile).

## MATERIAL CHANGES TO THE EQUITY-ACCOUNTED ASSOCIATES AND JOINT VENTURES

C-QUADRAT Investment AG, Vienna, Austria, was divested in the second quarter (for further details, see the section "Non-current assets held for sale and disposal groups").

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

### C-QUADRAT INVESTMENT AG, VIENNA, AUSTRIA (CORPORATE OPERATIONS SEGMENT)

As at 31 December 2015, the Group recognised the associate C-QUADRAT Investment AG, Vienna, Austria, as a non-current asset held for sale with a carrying amount of EUR 19 million. The transaction was completed on 13 June 2016 with a profit in the amount of EUR 26 million after tax, which is recognised in "Other income/expenses. The cooperation with C-QUADRAT Investment AG will not be affected by this sale, and will continue as before.

### OPEN LIFE TOWARZYSTWO UBEZPIECZEŃ ŻYCIE S. A., WARSAW, POLAND (RETAIL INTERNATIONAL SEGMENT)

By a resolution dated 28 January 2016, the Group decided to sell its 51% share in Open Life Towarzystwo Ubezpieczeń Życie S. A., Warsaw, Poland, held by Towarzystwo Ubezpieczeń Europa S. A., Wrocław, Poland, for a price in the single-digit millions of euros and carried out the classification as a disposal group in accordance with IFRS 5. The disposal group contained assets in the amount of EUR 1,852 million and liabilities in the amount of EUR 1,818 million, of which investments and liabilities from investment contracts in the amount of EUR 1,683 million and EUR 1,682 million respectively. Accumulated other comprehensive income of EUR 1 million resulting from the translation of the assets and liabilities belonging to the disposal group will not be realised until deconsolidation.

The transaction, which is subject to the unconditional approval of the supervisory authorities, is expected to close in the current year with a disposal loss in the single-digit millions of euros after tax. By selling this company, the Group aims to streamline its portfolio in Eastern Europe.

### REAL ESTATE

As at the reporting date, there are no real estate portfolios classified as available for sale, which represents no change since 31 December 2015.

## VI. NOTES TO INDIVIDUAL ITEMS OF THE CONSOLIDATED BALANCE SHEET

The principal items of the consolidated balance sheet are as follows:

### (1) INTANGIBLE ASSETS

| INTANGIBLE ASSETS                                         |              |              |
|-----------------------------------------------------------|--------------|--------------|
| EUR MILLION                                               |              |              |
|                                                           | 30.6.2016    | 31.12.2015   |
| a. Goodwill                                               | 1,033        | 1,037        |
| b. Other intangible assets                                | 930          | 953          |
| of which                                                  |              |              |
| Insurance-related intangible assets                       | 670          | 699          |
| Software                                                  | 141          | 144          |
| Other                                                     |              |              |
| Acquired distribution networks and customer relationships | 34           | 25           |
| Other                                                     | 48           | 47           |
| Acquired brand names                                      | 37           | 38           |
| <b>Total</b>                                              | <b>1,963</b> | <b>1,990</b> |

### GOODWILL IMPAIRMENTS

In the second quarter of 2015, the goodwill of the Retail Germany Division – Life segment in the amount of EUR 155 million was impaired.

**(2) LOANS AND RECEIVABLES****LOANS AND RECEIVABLES**

EUR MILLION

|                                                                                        | Amortised cost |               | Unrealised gains/losses |              | Fair value    |               |
|----------------------------------------------------------------------------------------|----------------|---------------|-------------------------|--------------|---------------|---------------|
|                                                                                        | 30.6.2016      | 31.12.2015    | 30.6.2016               | 31.12.2015   | 30.6.2016     | 31.12.2015    |
| Mortgage loans                                                                         | 491            | 558           | 51                      | 48           | 542           | 606           |
| Loans and prepayments on insurance policies                                            | 170            | 175           | —                       | —            | 170           | 175           |
| Loans and receivables due from government or quasi-governmental entities <sup>1)</sup> | 10,052         | 9,692         | 1,960                   | 1,513        | 12,012        | 11,205        |
| Corporate bonds                                                                        | 5,629          | 5,862         | 572                     | 436          | 6,201         | 6,298         |
| Covered bonds/asset-backed securities                                                  | 13,663         | 13,450        | 3,631                   | 2,894        | 17,294        | 16,344        |
| Profit participation rights                                                            | —              | 17            | —                       | 3            | —             | 20            |
| <b>Total</b>                                                                           | <b>30,005</b>  | <b>29,754</b> | <b>6,214</b>            | <b>4,894</b> | <b>36,219</b> | <b>34,648</b> |

<sup>1)</sup> "Loans and receivables due from government or quasi-governmental entities" include securities of EUR 3,327 (3,241) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 13,649 (13,434) million; these correspond to 99% (99%) of the total amount.

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

EUR MILLION

|                                                                     | Amortised cost |              | Unrealised gains/losses |            | Fair value |              |
|---------------------------------------------------------------------|----------------|--------------|-------------------------|------------|------------|--------------|
|                                                                     | 30.6.2016      | 31.12.2015   | 30.6.2016               | 31.12.2015 | 30.6.2016  | 31.12.2015   |
| Government debt securities of EU member states                      | 195            | 287          | 17                      | 18         | 212        | 305          |
| US treasury notes                                                   | 18             | 83           | —                       | —          | 18         | 83           |
| Other foreign government debt securities                            | 85             | 98           | —                       | —          | 85         | 98           |
| Debt securities issued by quasi-governmental entities <sup>1)</sup> | 145            | 236          | 7                       | 8          | 152        | 244          |
| Corporate bonds                                                     | 103            | 142          | 4                       | 4          | 107        | 146          |
| Covered bonds/asset-backed securities                               | 349            | 441          | 33                      | 36         | 382        | 477          |
| <b>Total</b>                                                        | <b>895</b>     | <b>1,287</b> | <b>61</b>               | <b>66</b>  | <b>956</b> | <b>1,353</b> |

<sup>1)</sup> "Debt securities issued by quasi-governmental entities" include securities of EUR 36 (80) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 348 (440) million; these correspond to 99% (99%) of the total amount.

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

EUR MILLION

|                                                                     | Amortised cost |               | Unrealised gains/losses |              | Fair value    |               |
|---------------------------------------------------------------------|----------------|---------------|-------------------------|--------------|---------------|---------------|
|                                                                     | 30.6.2016      | 31.12.2015    | 30.6.2016               | 31.12.2015   | 30.6.2016     | 31.12.2015    |
| <b>Fixed-income securities</b>                                      |                |               |                         |              |               |               |
| Government debt securities of EU member states                      | 8,267          | 8,536         | 1,656                   | 1,005        | 9,923         | 9,541         |
| US treasury notes                                                   | 6,041          | 5,450         | 116                     | -19          | 6,157         | 5,431         |
| Other foreign government debt securities                            | 2,406          | 2,370         | 51                      | -16          | 2,457         | 2,354         |
| Debt securities issued by quasi-governmental entities <sup>1)</sup> | 8,917          | 8,033         | 1,317                   | 798          | 10,234        | 8,831         |
| Corporate bonds                                                     | 22,419         | 22,694        | 1,413                   | 490          | 23,832        | 23,184        |
| Investment funds                                                    | 699            | 664           | 96                      | 84           | 795           | 748           |
| Covered bonds/asset-backed securities                               | 9,280          | 8,525         | 937                     | 603          | 10,217        | 9,128         |
| Profit participation certificates                                   | 131            | 178           | —                       | 1            | 131           | 179           |
| <b>Total fixed-income securities</b>                                | <b>58,160</b>  | <b>56,450</b> | <b>5,586</b>            | <b>2,946</b> | <b>63,746</b> | <b>59,396</b> |
| <b>Variable-yield securities</b>                                    |                |               |                         |              |               |               |
| Equities                                                            | 797            | 531           | 50                      | 61           | 847           | 592           |
| Investment funds                                                    | 1,304          | 1,088         | 167                     | 142          | 1,471         | 1,230         |
| Profit participation certificates                                   | 60             | 52            | —                       | 1            | 60            | 53            |
| <b>Total variable-yield securities</b>                              | <b>2,161</b>   | <b>1,671</b>  | <b>217</b>              | <b>204</b>   | <b>2,378</b>  | <b>1,875</b>  |
| <b>Total securities</b>                                             | <b>60,321</b>  | <b>58,121</b> | <b>5,803</b>            | <b>3,150</b> | <b>66,124</b> | <b>61,271</b> |

<sup>1)</sup> "Debt securities issued by quasi-governmental entities" include securities of EUR 3,080 (2,702) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 8,787 (7,725) million; these correspond to 86% (85%) of the total amount.

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

### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR MILLION

|                                                                               | Fair Value   |              |
|-------------------------------------------------------------------------------|--------------|--------------|
|                                                                               | 30.6.2016    | 31.12.2015   |
| <b>Fixed-income securities</b>                                                |              |              |
| Government debt securities of EU member states                                | 30           | 26           |
| Other foreign government debt securities                                      | 178          | 76           |
| Debt securities issued by quasi-governmental entities <sup>1)</sup>           | 3            | —            |
| Corporate bonds                                                               | 517          | 526          |
| Investment funds                                                              | 207          | 140          |
| Covered bonds/asset-backed securities                                         | —            | —            |
| Profit participation certificates                                             | 24           | 38           |
| Other                                                                         | —            | 1            |
| <b>Total fixed-income securities</b>                                          | <b>959</b>   | <b>807</b>   |
| Investment funds (variable-yield securities)                                  | 21           | 30           |
| Other variable-yield securities                                               | 4            | 37           |
| <b>Total financial assets classified at fair value through profit or loss</b> | <b>984</b>   | <b>874</b>   |
| <b>Fixed-income securities</b>                                                |              |              |
| Government debt securities of EU member states                                | —            | 2            |
| Other foreign government debt securities                                      | 2            | 1            |
| Corporate bonds                                                               | —            | 3            |
| <b>Total fixed-income securities</b>                                          | <b>2</b>     | <b>6</b>     |
| Investment funds (variable-yield securities)                                  | 112          | 135          |
| Derivatives                                                                   | 51           | 48           |
| <b>Total financial assets held for trading</b>                                | <b>165</b>   | <b>189</b>   |
| <b>Total</b>                                                                  | <b>1,149</b> | <b>1,063</b> |

<sup>1)</sup> "Debt securities issued by quasi-governmental entities" include securities of EUR 0 (0) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states.



## (6) DISCLOSURES ON FAIR VALUE AND THE FAIR VALUE HIERARCHY

### FAIR VALUE HIERARCHY

The disclosures in accordance with IFRS 13 “Fair Value Measurement” require financial instruments measured at fair value to be allocated to a three-level fair value hierarchy. One goal of this requirement is to reveal the link between market inputs and the data used in determining fair value. The following classes of financial instruments are affected: available-for-sale financial instruments, financial instruments at fair value through profit or loss, other investments and investment contracts (financial assets and liabilities) that are measured at fair value, negative fair values of derivative financial instruments and hedging instruments (derivatives used in hedge accounting).

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

- Level 1: Assets and liabilities that are measured using (unadjusted) prices quoted directly in active, liquid markets. These primarily include listed equities, futures and options, investment funds and highly liquid bonds traded in 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 in active markets, prices in markets that are not deemed active and inputs derived from such prices and market data. Among other things, this level includes assets measured on the basis of yield curves, such as promissory note loans and registered debt securities. Also allocated to Level 2 are market prices for bonds with limited liquidity, such as corporate bonds.
- Level 3: Assets and liabilities that cannot be measured or can only be measured in part using inputs observable in the market. These instruments are mainly measured using valuation models and techniques. This level primarily includes unlisted equity instruments.

Allocation to the fair value hierarchy levels is reviewed at a minimum at the end of each 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

At the reporting date, the share of Level 1 financial instruments in the total portfolio of financial instruments measured at fair value was 6% (6%).

In total, 89% (89%) of financial instruments measured at fair value were allocated to Level 2 at the reporting date.

At the reporting date, the Group allocated 5% (5%) of financial instruments measured at fair value to Level 3.

In the reporting period, securities with a fair value of EUR 8 (24) million that had been allocated to Level 2 in the previous year were allocated to Level 1. The reclassifications had to be made mainly because of the improved available information about the instruments. These reclassifications mainly affected variable-yield securities classified as “available for sale”. The reclassification amounts shown refer in each case to the reported carrying amount of the investments at the beginning of the period.

Liabilities in the amount of EUR 4 (6) million issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 existed as at the reporting date. The credit enhancements are not reflected in the measurement of the fair value.

## FAIR VALUE HIERARCHY

EUR MILLION

| Carrying amount of financial instruments recognised at fair value by class     | Level 1      | Level 2       | Level 3 <sup>1)</sup> | Carrying amount |
|--------------------------------------------------------------------------------|--------------|---------------|-----------------------|-----------------|
| <b>30.6.2016</b>                                                               |              |               |                       |                 |
| <b>Financial assets measured at fair value</b>                                 |              |               |                       |                 |
| Financial assets available for sale                                            |              |               |                       |                 |
| Fixed-income securities                                                        | 107          | 63,639        | —                     | 63,746          |
| Variable-yield securities                                                      | 1,453        | 64            | 861                   | 2,378           |
| Financial assets at fair value through profit or loss                          |              |               |                       |                 |
| Financial assets classified at fair value through profit or loss               | 18           | 926           | 40                    | 984             |
| Financial assets held for trading                                              | 116          | 48            | 1                     | 165             |
| Other investments                                                              | 1,579        | 22            | 2,123                 | 3,724           |
| Other assets, derivative financial instruments (hedging instruments)           | —            | 383           | —                     | 383             |
| Investment contracts                                                           |              |               |                       |                 |
| Financial assets classified at fair value through profit or loss               | 808          | 7             | 185                   | 1,000           |
| Derivatives                                                                    | —            | —             | 4                     | 4               |
| <b>Total financial assets measured at fair value</b>                           | <b>4,081</b> | <b>65,089</b> | <b>3,214</b>          | <b>72,384</b>   |
| <b>Financial liabilities measured at fair value</b>                            |              |               |                       |                 |
| Other liabilities (negative fair values from derivative financial instruments) |              |               |                       |                 |
| Negative fair values from derivatives                                          | 2            | 30            | 214                   | 246             |
| Negative fair values from hedging instruments                                  | —            | —             | —                     | —               |
| Other liabilities (investment contracts)                                       |              |               |                       |                 |
| Financial liabilities classified at fair value through profit or loss          | 208          | 612           | 185                   | 1,005           |
| Derivatives                                                                    | —            | —             | 4                     | 4               |
| <b>Total financial liabilities measured at fair value</b>                      | <b>210</b>   | <b>642</b>    | <b>403</b>            | <b>1,255</b>    |
| <b>31.12.2015</b>                                                              |              |               |                       |                 |
| <b>Financial assets measured at fair value</b>                                 |              |               |                       |                 |
| Financial assets available for sale                                            |              |               |                       |                 |
| Fixed-income securities                                                        | 87           | 59,309        | —                     | 59,396          |
| Variable-yield securities                                                      | 994          | 78            | 803                   | 1,875           |
| Financial assets at fair value through profit or loss                          |              |               |                       |                 |
| Financial assets classified at fair value through profit or loss               | 60           | 770           | 44                    | 874             |
| Financial assets held for trading                                              | 143          | 43            | 3                     | 189             |
| Other investments                                                              | 2,266        | 37            | 2,098                 | 4,401           |
| Other assets, derivative financial instruments (hedging instruments)           | —            | 225           | —                     | 225             |
| Investment contracts                                                           |              |               |                       |                 |
| Financial assets classified at fair value through profit or loss               | 396          | 739           | 181                   | 1,316           |
| Derivatives                                                                    | —            | 48            | 5                     | 53              |
| <b>Total financial assets measured at fair value</b>                           | <b>3,946</b> | <b>61,249</b> | <b>3,134</b>          | <b>68,329</b>   |
| <b>Financial liabilities measured at fair value</b>                            |              |               |                       |                 |
| Other liabilities (negative fair values from derivative financial instruments) |              |               |                       |                 |
| Negative fair values from derivatives                                          | 6            | 16            | 208                   | 230             |
| Negative fair values from hedging instruments                                  | —            | 11            | —                     | 11              |
| Other liabilities (investment contracts)                                       |              |               |                       |                 |
| Financial liabilities classified at fair value through profit or loss          | 416          | 731           | 181                   | 1,328           |
| Derivatives                                                                    | —            | 48            | 5                     | 53              |
| <b>Total financial liabilities measured at fair value</b>                      | <b>422</b>   | <b>806</b>    | <b>394</b>            | <b>1,622</b>    |

<sup>1)</sup> Categorisation in Level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers.

### 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 (abbreviated in the following to FI) included in Level 3 at the beginning of the reporting period to the carrying amounts as at the reporting date.

#### RECONCILIATION OF FINANCIAL INSTRUMENTS<sup>1)</sup> (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 30 JUNE

EUR MILLION

|                                             | Available-<br>for-sale<br>FI/variable-<br>yield securities | FI classified<br>at fair value<br>through<br>profit or loss | FI held<br>for trading | Other<br>investments | Investment<br>contracts/FI<br>classified at fair<br>value through<br>profit or loss | Investment-<br>contracts/<br>derivatives | Total amount<br>of financial<br>assets measured<br>at fair value |
|---------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------|------------------------|----------------------|-------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|
| <b>2016</b>                                 |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Opening balance at 1.1.2016                 | 803                                                        | 44                                                          | 3                      | 2,098                | 181                                                                                 | 5                                        | 3,134                                                            |
| Income and expenses                         |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| recognised in the statement<br>of income    | -9                                                         | 2                                                           | —                      | -12                  | 8                                                                                   | -1                                       | -12                                                              |
| recognised in other<br>comprehensive income | 25                                                         | —                                                           | —                      | -34                  | —                                                                                   | —                                        | -9                                                               |
| Transfers into Level 3                      | 7 <sup>2)</sup>                                            | —                                                           | —                      | —                    | —                                                                                   | —                                        | 7                                                                |
| Transfers out of Level 3                    | 14 <sup>3)</sup>                                           | —                                                           | —                      | —                    | —                                                                                   | —                                        | 14                                                               |
| Additions                                   |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Purchases                                   | 120                                                        | 3                                                           | 1                      | 248                  | 11                                                                                  | —                                        | 383                                                              |
| Disposals                                   |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Sales                                       | 67                                                         | 2                                                           | 3                      | 159                  | 7                                                                                   | —                                        | 238                                                              |
| Repayments/redemptions                      | —                                                          | 7                                                           | —                      | —                    | —                                                                                   | —                                        | 7                                                                |
| Exchange rate changes                       | -4                                                         | —                                                           | —                      | -18                  | -8                                                                                  | —                                        | -30                                                              |
| Ending balance at 30.6.2015                 | 861                                                        | 40                                                          | 1                      | 2,123                | 185                                                                                 | 4                                        | 3,214                                                            |
| <b>2015</b>                                 |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Opening balance at 1.1.2015                 | 657                                                        | 37                                                          | 6                      | 1,662                | 158                                                                                 | 5                                        | 2,525                                                            |
| Income and expenses                         |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| recognised in the statement<br>of income    | -10                                                        | —                                                           | —                      | 7                    | -3                                                                                  | 2                                        | -4                                                               |
| recognised in other<br>comprehensive income | -9                                                         | —                                                           | —                      | 3                    | —                                                                                   | —                                        | -6                                                               |
| Transfers into Level 3                      | —                                                          | —                                                           | —                      | —                    | —                                                                                   | —                                        | —                                                                |
| Transfers out of Level 3                    | —                                                          | —                                                           | —                      | —                    | —                                                                                   | —                                        | —                                                                |
| Additions                                   |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Purchases                                   | 163                                                        | 16                                                          | 1                      | 239                  | 45                                                                                  | 1                                        | 465                                                              |
| Disposals                                   |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Sales                                       | 57                                                         | 2                                                           | 3                      | 114                  | 40                                                                                  | 2                                        | 218                                                              |
| Repayments/redemptions                      | —                                                          | 9                                                           | —                      | —                    | —                                                                                   | —                                        | 9                                                                |
| Exchange rate changes                       | 10                                                         | —                                                           | —                      | 77                   | 4                                                                                   | —                                        | 91                                                               |
| Ending balance at 30.6.2015                 | 754                                                        | 42                                                          | 4                      | 1,874                | 164                                                                                 | 6                                        | 2,844                                                            |

<sup>1)</sup> The term "financial instruments" is abbreviated to "FI" in the following.

<sup>2)</sup> Trading in an active market discontinued.

<sup>3)</sup> Trading in an active market commenced.

**RECONCILIATION OF FINANCIAL INSTRUMENTS<sup>1)</sup> (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3  
AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 30 JUNE**

EUR MILLION

|                                          | Other liabilities/<br>negative fair values<br>from derivatives | Investment contracts/<br>FI classified at fair value<br>through profit or loss | Investment contracts/<br>derivatives | Total amount of<br>financial liabilities<br>measured at fair value |
|------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------|
| <b>2016</b>                              |                                                                |                                                                                |                                      |                                                                    |
| <b>Opening balance at 1.1.2016</b>       | <b>208</b>                                                     | <b>181</b>                                                                     | <b>5</b>                             | <b>394</b>                                                         |
| Income and expenses                      |                                                                |                                                                                |                                      |                                                                    |
| recognised in the statement of income    | 10                                                             | -8                                                                             | 1                                    | 3                                                                  |
| recognised in other comprehensive income | —                                                              | —                                                                              | —                                    | —                                                                  |
| Transfers into Level 3                   | —                                                              | —                                                                              | —                                    | —                                                                  |
| Transfers out of Level 3                 | —                                                              | —                                                                              | —                                    | —                                                                  |
| Additions                                |                                                                |                                                                                |                                      |                                                                    |
| Purchases                                | 21                                                             | 11                                                                             | —                                    | 32                                                                 |
| Disposals                                |                                                                |                                                                                |                                      |                                                                    |
| Sales                                    | —                                                              | 7                                                                              | —                                    | 7                                                                  |
| Exchange rate changes                    | -5                                                             | -8                                                                             | —                                    | -13                                                                |
| <b>Ending balance at 30.6.2016</b>       | <b>214</b>                                                     | <b>185</b>                                                                     | <b>4</b>                             | <b>403</b>                                                         |
| <b>2015</b>                              |                                                                |                                                                                |                                      |                                                                    |
| <b>Opening balance at 1.1.2015</b>       | <b>189</b>                                                     | <b>158</b>                                                                     | <b>5</b>                             | <b>352</b>                                                         |
| Income and expenses                      |                                                                |                                                                                |                                      |                                                                    |
| recognised in the statement of income    | -2                                                             | 3                                                                              | -2                                   | -1                                                                 |
| recognised in other comprehensive income | —                                                              | —                                                                              | —                                    | —                                                                  |
| Transfers into Level 3                   | —                                                              | —                                                                              | —                                    | —                                                                  |
| Transfers out of Level 3                 | —                                                              | —                                                                              | —                                    | —                                                                  |
| Additions                                |                                                                |                                                                                |                                      |                                                                    |
| Purchases                                | 37                                                             | 45                                                                             | 1                                    | 83                                                                 |
| Disposals                                |                                                                |                                                                                |                                      |                                                                    |
| Sales                                    | 35                                                             | 40                                                                             | 2                                    | 77                                                                 |
| Exchange rate changes                    | 14                                                             | 4                                                                              | —                                    | 18                                                                 |
| <b>Ending balance at 30.6.2015</b>       | <b>207</b>                                                     | <b>164</b>                                                                     | <b>6</b>                             | <b>377</b>                                                         |

<sup>1)</sup> The term "financial instruments" is abbreviated to "FI" in the following.

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 PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS<sup>1)</sup> (FINANCIAL ASSETS) MEASURED AT FAIR VALUE**

EUR MILLION

|                                                                                                     | Available-<br>for-sale<br>FI/variable-<br>yield securities | FI classified<br>at fair value<br>through<br>profit or loss | FI held<br>for trading | Other<br>investments | Investment<br>contracts/FI<br>classified at fair<br>value through<br>profit or loss | Investment-<br>contracts/<br>derivatives | Total amount of<br>financial assets<br>measured<br>at fair value |
|-----------------------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------|------------------------|----------------------|-------------------------------------------------------------------------------------|------------------------------------------|------------------------------------------------------------------|
| <b>2016</b>                                                                                         |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| <b>Gains and losses in financial year 2016<br/>until 30.6.2016</b>                                  |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Investment income                                                                                   | —                                                          | 2                                                           | 1                      | 12                   | 17                                                                                  | 1                                        | 33                                                               |
| Investment expenses                                                                                 | -9                                                         | —                                                           | -1                     | -24                  | -9                                                                                  | -2                                       | -45                                                              |
| <b>of which attributable to financial instruments<br/>included in the portfolio as at 30.6.2016</b> |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Investment income <sup>2)</sup>                                                                     | —                                                          | 2                                                           | 1                      | 5                    | 17                                                                                  | 1                                        | 26                                                               |
| Investment expenses <sup>3)</sup>                                                                   | -9                                                         | —                                                           | -1                     | -15                  | -9                                                                                  | -2                                       | -36                                                              |
| <b>2015</b>                                                                                         |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| <b>Gains and losses in financial year 2015<br/>until 30.6.2015</b>                                  |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Investment income                                                                                   | —                                                          | 5                                                           | 2                      | 9                    | 38                                                                                  | 4                                        | 58                                                               |
| Investment expenses                                                                                 | -10                                                        | -5                                                          | -2                     | -2                   | -41                                                                                 | -2                                       | -62                                                              |
| <b>of which attributable to financial instruments<br/>included in the portfolio as at 30.6.2015</b> |                                                            |                                                             |                        |                      |                                                                                     |                                          |                                                                  |
| Investment income                                                                                   | —                                                          | 5                                                           | 2                      | 9                    | 38                                                                                  | 4                                        | 58                                                               |
| Investment expenses                                                                                 | -10                                                        | -5                                                          | -2                     | -2                   | -41                                                                                 | -2                                       | -62                                                              |

<sup>1)</sup> The term "financial instruments" is abbreviated to "FI" in the following.<sup>2)</sup> Of which EUR 26 (58) million attributable to unrealised gains.<sup>3)</sup> Of which EUR -12 (-50) million attributable to unrealised losses.**EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS<sup>1)</sup> (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE**

EUR MILLION

|                                                                                                     | Other liabilities/<br>negative fair values<br>from derivatives | Investment contracts/<br>FI classified at fair value<br>through profit or loss | Investment contracts/<br>derivatives | Total amount of<br>financial liabilities<br>measured at fair value |
|-----------------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------------------------|
| <b>2016</b>                                                                                         |                                                                |                                                                                |                                      |                                                                    |
| <b>Gains and losses in financial year 2016<br/>until 30.6.2016</b>                                  |                                                                |                                                                                |                                      |                                                                    |
| Investment income                                                                                   | 11                                                             | 9                                                                              | 2                                    | 22                                                                 |
| Investment expenses                                                                                 | —                                                              | -17                                                                            | -1                                   | -18                                                                |
| Financing costs                                                                                     | -1                                                             | —                                                                              | —                                    | -1                                                                 |
| <b>of which attributable to financial instruments<br/>included in the portfolio as at 30.6.2016</b> |                                                                |                                                                                |                                      |                                                                    |
| Investment income <sup>2)</sup>                                                                     | 11                                                             | 9                                                                              | 2                                    | 22                                                                 |
| Investment expenses <sup>3)</sup>                                                                   | —                                                              | -17                                                                            | -1                                   | -18                                                                |
| Financing costs <sup>4)</sup>                                                                       | -1                                                             | —                                                                              | —                                    | -1                                                                 |
| <b>2015</b>                                                                                         |                                                                |                                                                                |                                      |                                                                    |
| <b>Gains and losses in financial year 2015<br/>until 30.6.2015</b>                                  |                                                                |                                                                                |                                      |                                                                    |
| Investment income                                                                                   | -1                                                             | 41                                                                             | 2                                    | 42                                                                 |
| Investment expenses                                                                                 | —                                                              | -38                                                                            | -4                                   | -42                                                                |
| Financing costs                                                                                     | -1                                                             | —                                                                              | —                                    | -1                                                                 |
| <b>of which attributable to financial instruments<br/>included in the portfolio as at 30.6.2015</b> |                                                                |                                                                                |                                      |                                                                    |
| Investment income                                                                                   | 3                                                              | 41                                                                             | 2                                    | 46                                                                 |
| Investment expenses                                                                                 | —                                                              | -38                                                                            | -4                                   | -42                                                                |
| Financing costs                                                                                     | -1                                                             | —                                                                              | —                                    | -1                                                                 |

<sup>1)</sup> The term "financial instruments" is abbreviated to "FI" in the following.<sup>2)</sup> Of which EUR 22 (46) million attributable to unrealised gains.<sup>3)</sup> Of which EUR -18 (-42) million attributable to unrealised losses.<sup>4)</sup> Of which EUR -1 (-1) million attributable to unrealised losses.

## MEASUREMENT PROCESS

The measurement process consists of using either publicly available prices in active markets or measurements with economically established models that are based on observable inputs 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 documented measurements prepared by independent professional experts (e.g. audited net asset value) that have previously been 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 the separation of functions and responsibilities. The measurement processes and methods are documented in full. Decisions on measurement questions are taken by the Talanx Valuation Committee, which meets monthly.

We do not make use of the portfolio measurement option allowed by IFRS 13.48.

**Fair value measurement:** As a general rule, fair value is the price that the Group would receive on the sale of an asset or pay on the transfer of a liability in an orderly transaction between market participants at the measurement date. The fair value of securities is therefore generally determined on the basis of current, publicly available, unadjusted market prices. Where prices are quoted on markets for assets, the bid price is used. Financial liabilities are measured at the ask price. Securities for which no current market price is available are measured on the basis of current and observable market data using established financial models. Such models are used principally to measure unlisted securities.

The Group uses several valuation models to measure fair value:

#### VALUATION MODELS USED TO MEASURE FAIR VALUE

| Financial instrument                                      | Pricing method    | Inputs                                                                                    | Pricing model                                          |
|-----------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------|--------------------------------------------------------|
| <b>Fixed-income securities</b>                            |                   |                                                                                           |                                                        |
| Unlisted plain vanilla bonds                              | Theoretical price | Yield curve                                                                               | Present value method                                   |
| Unlisted structured bonds                                 | Theoretical price | Yield curve, volatility surfaces, correlations                                            | Hull-White, Black-Karasinski, Libor market model, etc. |
| ABSs/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                                   |
| <b>Equity and funds</b>                                   |                   |                                                                                           |                                                        |
| Unlisted equities                                         | Theoretical price | Cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable       | NAV method <sup>1)</sup>                               |
| Unlisted equity, real estate and bond funds               | Theoretical price | Audited net asset values (NAV) <sup>1)</sup>                                              | NAV method <sup>1)</sup>                               |
| <b>Other investments</b>                                  |                   |                                                                                           |                                                        |
| Private equity funds/<br>private equity real estate funds | Theoretical price | Audited net asset values (NAV) <sup>1)</sup>                                              | NAV method <sup>1)</sup>                               |
| <b>Derivative financial instruments</b>                   |                   |                                                                                           |                                                        |
| Listed equity options                                     | Listed price      | —                                                                                         | —                                                      |
| Equity and index futures                                  | Listed price      | —                                                                                         | —                                                      |
| Interest rate and bond futures                            | Listed price      | —                                                                                         | —                                                      |
| Plain vanilla interest rate swaps                         | Theoretical price | Yield curve                                                                               | Present value method                                   |
| Currency forwards                                         | Theoretical price | Yield curve, spot and forward rates                                                       | Interest parity model                                  |
| OTC equity options,<br>OTC equity index options           | Theoretical price | Listed price of the underlying, implied volatilities, money market rate, dividend yield   | Black-Scholes                                          |
| FX options                                                | Theoretical price | Spot rates, exchange rates, implied volatilities                                          | Garman/Kohlhagen                                       |
| Interest rate futures<br>(forward purchases)              | Theoretical price | Yield curve                                                                               | Present value method                                   |
| Inflation swaps                                           | Theoretical price | Inflation swap rates (consumer price index), historical index fixings, yield curve        | Present value method with seasonality adjustment       |
| Swaptions                                                 | Theoretical price | Yield curve, implied volatilities                                                         | Black76                                                |
| Credit default swaps                                      | Theoretical price | Yield curves, recovery rates                                                              | ISDA model                                             |
| Insurance derivatives                                     | Theoretical price | Fair values of CAT bonds, yield curve                                                     | Present value method                                   |
| <b>Other</b>                                              |                   |                                                                                           |                                                        |
| Real estate                                               | Theoretical value | Location, year of construction, rental space, type of use, term of leases, amount of rent | Extended discounted cash flow method                   |

<sup>1)</sup> NAV: net asset value.

## ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR MILLION

|                                                                         | Fair value at<br>30.6.2016 | Fair value at<br>31.12.2015 | Valuation technique          | Unobservable inputs                                                               | Fluctuation<br>(weighted average) |
|-------------------------------------------------------------------------|----------------------------|-----------------------------|------------------------------|-----------------------------------------------------------------------------------|-----------------------------------|
| CDOs/CLOs <sup>1)</sup>                                                 | 21                         | 28                          | Present value method         | Prepayment speed, risk premiums,<br>default rates, recovery rates,<br>redemptions | n.a. <sup>4)</sup>                |
| Unlisted equities, real estate<br>and bond funds <sup>2)</sup>          | 890                        | 947                         | NAV method <sup>3)</sup>     | n.a.                                                                              | n.a.                              |
| Private equity funds/<br>private equity real estate funds <sup>2)</sup> | 1,966                      | 1.873                       | NAV method <sup>3)</sup>     | n.a.                                                                              | n.a.                              |
| Written put options<br>for minority interests <sup>2)</sup>             | 51                         | 51                          | Discounted NAV <sup>3)</sup> | Risk-free interest rate                                                           | 5.6 (5.6)%                        |
| Unlisted bond funds <sup>2)</sup>                                       | 18                         | 18                          | NAV method <sup>3)</sup>     | n.a.                                                                              | n.a.                              |
| Insurance contracts <sup>1)</sup>                                       | 225                        | 239                         | Present value method         | Fair values of CAT bonds,<br>yield curve, technical parameters                    | n.a. <sup>4)</sup>                |
| Investment contracts                                                    | 378                        | 372                         | —                            | —                                                                                 | —                                 |
| Interest rate swaps                                                     | 41                         | —                           | Present value method         | Interest rate                                                                     | 6.587%                            |
| Investment-related receivables                                          | 27                         | —                           | Present value method         | Solvency of creditors                                                             | n.a.                              |

<sup>1)</sup> These financial instruments are classified in Level 3, since unobservable inputs were used to measure them.

<sup>2)</sup> 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.

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

<sup>4)</sup> Fluctuations cannot be reasonably established without disproportionate effort due to the distinct character of the individual inputs.

If Level 3 financial instruments are measured using models in which the use 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 instruments with fair values amounting to a total of EUR 3.6 (3.5) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 2.9 (2.9) billion using the net asset value method, under which alternative inputs within the meaning of the standard cannot reasonably be established. In addition, assets from investment contracts in the amount of EUR 189 (186) million are offset by liabilities from 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 contracts in the amount of EUR 225 (239) million are recognised in Level 3. The change in the value of these contracts depends on the change in the risk characteristics of an underlying group of primary insurance contracts with statutory reserve requirements. For the remaining Level 3 financial instruments with a volume of EUR 89 (28) million, the effects of alternative inputs and assumptions are immaterial.



## (7) EQUITY

### SUBSCRIBED CAPITAL

The share capital was unchanged at EUR 316 million and is composed of 252,797,634 no-par value registered shares; it is fully paid up. For information on the composition of the equity, see the “Consolidated statement of changes in equity”.

There were no changes in the reporting period in the composition of contingent and authorised capital. Please see the disclosures in our 2015 consolidated financial statements (page 206 ff.).

## NON-CONTROLLING INTERESTS

### NON-CONTROLLING INTERESTS IN EQUITY

| EUR MILLION                                | 30.6.2016    | 31.12.2015   |
|--------------------------------------------|--------------|--------------|
| Unrealised gains and losses on investments | 1,009        | 575          |
| Share of net income                        | 287          | 675          |
| Other equity                               | 4,022        | 3,899        |
| <b>Total</b>                               | <b>5,318</b> | <b>5,149</b> |

“Non-controlling interests in equity” refers principally to shares held by non-Group shareholders in the equity of the Hannover Re subgroup.

## (8) SUBORDINATED LIABILITIES

### COMPOSITION OF LONG-TERM SUBORDINATED DEBT

EUR MILLION

|                                     | Nominal amount | Coupon                             | Maturity               | Rating <sup>2)</sup> | 30.6.2016    | 31.12.2015   |
|-------------------------------------|----------------|------------------------------------|------------------------|----------------------|--------------|--------------|
| Hannover Finance (Luxembourg) S. A. | 500            | Fixed (5.75%), then floating rate  | 2010/2040              | (a+; A)              | 499          | 499          |
| Hannover Finance (Luxembourg) S. A. | 500            | Fixed (5.0%), then floating rate   | 2012/2043              | (a+; A)              | 498          | 497          |
| Hannover Rück SE <sup>1)</sup>      | 450            | Fixed (3.375%), then floating rate | 2014/no final maturity | (a; A)               | 444          | 444          |
| Talanx Finanz (Luxembourg) S. A.    | 500            | Fixed (8.37%), then floating rate  | 2012/2042              | (bbb+; BBB)          | 500          | 500          |
| HDI Assicurazioni S. p. A.          | 27             | Fixed (5.5%)                       | 2026                   | (—; —)               | 27           | —            |
| CBA Vita S. p. A.                   | 14             | Fixed (4.15%)                      | 2020                   | (—; —)               | 14           | —            |
| Magyar Posta Életbiztosító Zrt.     | 1 (4)          | Fixed (7.57%)                      | 2025                   | (—; —)               | 1            | 3            |
| <b>Total</b>                        |                |                                    |                        |                      | <b>1,983</b> | <b>1,943</b> |

<sup>1)</sup> At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (consolidated in the consolidated financial statements).

<sup>2)</sup> (Debt rating A. M. Best; debt rating S&P).

For additional information on the features of the bonds, please refer to the published 2015 Annual Report, page 208.

In the context of the acquisition of CBA Vita, HDI Assicurazioni S.p.A. took out a subordinated loan of EUR 27 million in July 2016 from the selling company, Banca Sella Holding S.p.A. The loan with a fixed interest rate of 5,5% p.a. has a term of ten years and can be repaid prematurely in 2022 at the earliest.

Moreover, the acquired company CBA Vita had issued a subordinated bond in 2010 in the amount of EUR 15 million, of which EUR 1,5 million were repaid early in March 2013. The bond is subject to an interest rate of 4,15% and has a term until 2020.

The fair value of the subordinated liabilities amounted to EUR 2,262 (2,236) million at the reporting date.

## (9) TECHNICAL PROVISIONS

### TECHNICAL PROVISIONS

EUR MILLION

|                                             | Gross          | Re           | Net            | Gross          | Re           | Net           |
|---------------------------------------------|----------------|--------------|----------------|----------------|--------------|---------------|
|                                             | 30.6.2016      |              |                | 31.12.2015     |              |               |
| a. Unearned premium reserve                 | 8,306          | 1,043        | 7,263          | 7,081          | 706          | 6,375         |
| b. Benefit reserve                          | 56,051         | 1,406        | 54,645         | 54,845         | 1,799        | 53,046        |
| c. Loss and loss adjustment expense reserve | 40,668         | 5,571        | 35,097         | 40,392         | 5,562        | 34,830        |
| d. Provision for premium refunds            | 5,879          | 4            | 5,875          | 4,138          | —            | 4,138         |
| e. Other technical provisions               | 348            | 3            | 345            | 376            | 11           | 365           |
| <b>Total</b>                                | <b>111,252</b> | <b>8,027</b> | <b>103,225</b> | <b>106,832</b> | <b>8,078</b> | <b>98,754</b> |

Technical provisions where the investment risk is borne by the policyholders amounted to EUR 9,873 (10,104) million; the reinsurers' share of this.

**(10) NOTES PAYABLE AND LOANS**

The following items were reported under this heading at the reporting date:

**NOTES PAYABLE AND LOANS**

EUR MILLION

|                                                                   | 30.6.2016    | 31.12.2015   |
|-------------------------------------------------------------------|--------------|--------------|
| Talanx AG notes payable                                           | 1,065        | 1,065        |
| Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando | 202          | 207          |
| Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich     | 102          | 101          |
| Loans from infrastructure investments                             | 124          | 68           |
| Inversiones HDI Limitada                                          | 7            | —            |
| <b>Total</b>                                                      | <b>1,500</b> | <b>1,441</b> |

Talanx AG entered into agreements on two syndicated, variable-rate credit lines with a total nominal value of EUR 1.2 billion and a term of five years in 2011, which were supplemented in 2012. One of these two credit lines from 2011 (EUR 500 million) was replaced in the first quarter of 2014 by a new credit line, again with a term of five years, at improved terms and with an increased volume of EUR 550 million. The second credit line (EUR 700 million) was replaced in the second quarter of 2016 by a new credit line, again with a term of five years, at improved terms and with a reduced volume of EUR 250 million. This means that there were credit lines with a total nominal value of EUR 800 million as at 30 July 2016. They had not been drawn down at the reporting date.

The fair value of notes payable and loans amounted to EUR 1,504 (1,529) million at the reporting date.

**NOTES PAYABLE**

EUR MILLION

|                         | Nominal amount | Coupon         | Maturity  | Rating <sup>1)</sup> | Issue                                                                                            | 30.6.2016    | 31.12.2015   |
|-------------------------|----------------|----------------|-----------|----------------------|--------------------------------------------------------------------------------------------------|--------------|--------------|
| Talanx AG <sup>2)</sup> | 565            | Fixed (3.125%) | 2013/2023 | (—; A—)              | These senior unsecured bonds have a fixed term and may only be called for extraordinary reasons. | 565          | 565          |
| Talanx AG               | 500            | Fixed (2.5%)   | 2014/2026 | (—; A—)              | These senior unsecured bonds have a fixed term and may only be called for extraordinary reasons. | 500          | 500          |
| <b>Total</b>            |                |                |           |                      |                                                                                                  | <b>1,065</b> | <b>1,065</b> |

<sup>1)</sup> (A. M. Best; debt rating S&P).

<sup>2)</sup> At the reporting date, Group companies additionally held bonds with a nominal value of EUR 185 million.

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

### (11) NET PREMIUMS EARNED

Gross premiums written include the savings elements of premiums for unit-linked life and annuity insurance. These savings elements are eliminated from net premiums earned.

#### NET PREMIUMS EARNED

EUR MILLION

|                                                                                        | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total         |
|----------------------------------------------------------------------------------------|------------------|----------------|----------------------|----------------------|-------------------------|----------------------|---------------|
| <b>6M 2016<sup>1)</sup></b>                                                            |                  |                |                      |                      |                         |                      |               |
| Gross written premiums, including premiums from unit-linked life and annuity insurance | 2,668            | 3,334          | 2,486                | 4,354                | 3,585                   | —                    | 16,427        |
| Savings elements of premiums from unit-linked life and annuity insurance               | —                | 465            | 149                  | —                    | —                       | —                    | 614           |
| Ceded written premiums                                                                 | 1,030            | 46             | 160                  | 541                  | 289                     | 6                    | 2,072         |
| Change in gross unearned premiums                                                      | –635             | –307           | –36                  | –260                 | –27                     | —                    | –1,265        |
| Change in ceded unearned premiums                                                      | –273             | –2             | –8                   | –48                  | —                       | –3                   | –334          |
| <b>Net premiums earned</b>                                                             | <b>1,276</b>     | <b>2,518</b>   | <b>2,149</b>         | <b>3,601</b>         | <b>3,269</b>            | <b>–3</b>            | <b>12,810</b> |
| <b>6M 2015<sup>1)</sup></b>                                                            |                  |                |                      |                      |                         |                      |               |
| Gross written premiums, including premiums from unit-linked life and annuity insurance | 2,583            | 3,637          | 2,392                | 4,674                | 3,541                   | —                    | 16,827        |
| Savings elements of premiums from unit-linked life and annuity insurance               | —                | 469            | 107                  | —                    | —                       | —                    | 576           |
| Ceded written premiums                                                                 | 961              | 54             | 177                  | 512                  | 454                     | 6                    | 2,164         |
| Change in gross unearned premiums                                                      | –545             | –280           | –157                 | –572                 | –3                      | —                    | –1,557        |
| Change in ceded unearned premiums                                                      | –147             | –3             | –14                  | –55                  | 1                       | –3                   | –221          |
| <b>Net premiums earned</b>                                                             | <b>1,224</b>     | <b>2,837</b>   | <b>1,965</b>         | <b>3,645</b>         | <b>3,083</b>            | <b>–3</b>            | <b>12,751</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.

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

EUR MILLION

|                                                                      | Industrial<br>Lines | Retail<br>Germany | Retail<br>International | Non-Life<br>Reinsurance | Life/Health<br>Reinsurance | Corporate<br>Operations | Total        |
|----------------------------------------------------------------------|---------------------|-------------------|-------------------------|-------------------------|----------------------------|-------------------------|--------------|
| <b>6M 2016<sup>1)</sup></b>                                          |                     |                   |                         |                         |                            |                         |              |
| Income from real estate                                              | 7                   | 32                | 1                       | 65                      | —                          | —                       | 105          |
| Dividends <sup>2)</sup>                                              | 8                   | 7                 | 1                       | 20                      | —                          | 1                       | 37           |
| Current interest income                                              | 80                  | 713 <sup>3)</sup> | 140                     | 314                     | 126                        | 1                       | 1,374        |
| Other income                                                         | 28                  | 51                | 1                       | 42                      | 1                          | —                       | 123          |
| <b>Ordinary investment income</b>                                    | <b>123</b>          | <b>803</b>        | <b>143</b>              | <b>441</b>              | <b>127</b>                 | <b>2</b>                | <b>1,639</b> |
| Income from reversal of impairment losses                            | —                   | 3                 | —                       | —                       | —                          | —                       | 3            |
| Realised gains on disposal of investments                            | 18                  | 223               | 29                      | 108                     | 30                         | 27                      | 435          |
| Unrealised gains on investments                                      | 5                   | 21                | 23                      | —                       | 33                         | —                       | 82           |
| <b>Investment income</b>                                             | <b>146</b>          | <b>1,050</b>      | <b>195</b>              | <b>549</b>              | <b>190</b>                 | <b>29</b>               | <b>2,159</b> |
| Realised losses on disposal of investments                           | 12                  | 26                | 7                       | 47                      | 12                         | 1                       | 105          |
| Unrealised losses on investments                                     | 1                   | 4                 | 21                      | —                       | 12                         | —                       | 38           |
| <b>Total</b>                                                         | <b>13</b>           | <b>30</b>         | <b>28</b>               | <b>47</b>               | <b>24</b>                  | <b>1</b>                | <b>143</b>   |
| Depreciation of/impairment losses on investment property             |                     |                   |                         |                         |                            |                         |              |
| Depreciation                                                         | —                   | 7 <sup>4)</sup>   | —                       | 14                      | —                          | —                       | 21           |
| Impairment losses                                                    | —                   | —                 | —                       | —                       | —                          | —                       | —            |
| Impairment losses on equity securities                               | 7                   | 9                 | 9                       | 24                      | —                          | 2                       | 51           |
| Impairment losses on fixed-income securities                         | 6                   | —                 | 1                       | 1                       | —                          | —                       | 8            |
| Amortisation of/impairment losses on other investments               |                     |                   |                         |                         |                            |                         |              |
| Amortisation                                                         | 2                   | 9 <sup>4)</sup>   | —                       | —                       | —                          | —                       | 11           |
| Impairment losses                                                    | 3                   | 5                 | 1                       | 9                       | —                          | —                       | 18           |
| Investment management expenses                                       | 3                   | 7                 | 2                       | 12                      | 2                          | 42                      | 68           |
| Other expenses                                                       | 3                   | 26                | 3                       | 16                      | 2                          | —                       | 50           |
| <b>Other investment expenses/impairment losses</b>                   | <b>24</b>           | <b>63</b>         | <b>16</b>               | <b>76</b>               | <b>4</b>                   | <b>44</b>               | <b>227</b>   |
| <b>Investment expenses</b>                                           | <b>37</b>           | <b>93</b>         | <b>44</b>               | <b>123</b>              | <b>28</b>                  | <b>45</b>               | <b>370</b>   |
| <b>Net income from assets under own management</b>                   | <b>109</b>          | <b>957</b>        | <b>151</b>              | <b>426</b>              | <b>162</b>                 | <b>-16</b>              | <b>1,789</b> |
| <b>Net income from investment contracts</b>                          | <b>—</b>            | <b>—</b>          | <b>6</b>                | <b>—</b>                | <b>—</b>                   | <b>—</b>                | <b>6</b>     |
| Interest income from funds withheld and contract deposits            | —                   | —                 | —                       | 12                      | 219                        | —                       | 231          |
| Interest expense from funds withheld and contract deposits           | —                   | 6                 | —                       | 1                       | 57                         | —                       | 64           |
| <b>Net interest income from funds withheld and contract deposits</b> | <b>—</b>            | <b>-6</b>         | <b>—</b>                | <b>11</b>               | <b>162</b>                 | <b>—</b>                | <b>167</b>   |
| <b>Net investment income</b>                                         | <b>109</b>          | <b>951</b>        | <b>157</b>              | <b>437</b>              | <b>324</b>                 | <b>-16</b>              | <b>1,962</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.<sup>2)</sup> Income from investments in associates and joint ventures amounted to EUR 3 (7) million and is reported in "Dividends".<sup>3)</sup> Of the total current interest income of EUR 713 (746) million, EUR 672 (698) million is attributable to the Retail Germany – Life segment and EUR 41 (48) million is attributable to the Retail Germany – Property/Casualty segment.<sup>4)</sup> Of the total amortisation of EUR 16 (10) million, EUR 15 (10) million is attributable to the Retail Germany – Life segment and EUR 1 (–) million is attributable to the Retail Germany – Property/Casualty segment.

## NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

EUR MILLION

|                                                                      | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total        |
|----------------------------------------------------------------------|------------------|----------------|----------------------|----------------------|-------------------------|----------------------|--------------|
| 6M 2015 <sup>1)</sup>                                                |                  |                |                      |                      |                         |                      |              |
| Income from real estate                                              | 2                | 32             | 1                    | 58                   | —                       | —                    | 93           |
| Dividends                                                            | 6                | 6              | 2                    | 1                    | —                       | 7                    | 22           |
| Current interest income                                              | 94               | 746            | 150                  | 340                  | 125                     | 1                    | 1,456        |
| Other income                                                         | 10               | 46             | —                    | 31                   | 42                      | —                    | 129          |
| <b>Ordinary investment income</b>                                    | <b>112</b>       | <b>830</b>     | <b>153</b>           | <b>430</b>           | <b>167</b>              | <b>8</b>             | <b>1,700</b> |
| Income from reversal of impairment losses                            | —                | 1              | —                    | —                    | —                       | —                    | 1            |
| Realised gains on disposal of investments                            | 39               | 268            | 32                   | 77                   | 40                      | —                    | 456          |
| Unrealised gains on investments                                      | 6                | 5              | 12                   | 1                    | 18                      | —                    | 42           |
| <b>Investment income</b>                                             | <b>157</b>       | <b>1,104</b>   | <b>197</b>           | <b>508</b>           | <b>225</b>              | <b>8</b>             | <b>2,199</b> |
| Realised losses on disposal of investments                           | 18               | 39             | 9                    | 28                   | 18                      | —                    | 112          |
| Unrealised losses on investments                                     | 1                | 11             | 10                   | 1                    | 19                      | —                    | 42           |
| <b>Total</b>                                                         | <b>19</b>        | <b>50</b>      | <b>19</b>            | <b>29</b>            | <b>37</b>               | <b>—</b>             | <b>154</b>   |
| Depreciation of/impairment losses on investment property             |                  |                |                      |                      |                         |                      |              |
| Depreciation                                                         | —                | 7              | —                    | 11                   | —                       | —                    | 18           |
| Impairment losses                                                    | 1                | —              | —                    | —                    | —                       | —                    | 1            |
| Impairment losses on equity securities                               | 1                | 2              | 5                    | —                    | —                       | —                    | 8            |
| Impairment losses on fixed-income securities                         | 16               | 40             | 1                    | 2                    | —                       | —                    | 59           |
| Amortisation of/impairment losses on other investments               |                  |                |                      |                      |                         |                      |              |
| Amortisation                                                         | 1                | 3              | —                    | —                    | —                       | —                    | 4            |
| Impairment losses                                                    | —                | 5              | —                    | 2                    | —                       | —                    | 7            |
| Investment management expenses                                       | 2                | 8              | 3                    | 11                   | 2                       | 39                   | 65           |
| Other expenses                                                       | 2                | 16             | 4                    | 14                   | 3                       | —                    | 39           |
| <b>Other investment expenses/impairment losses</b>                   | <b>23</b>        | <b>81</b>      | <b>13</b>            | <b>40</b>            | <b>5</b>                | <b>39</b>            | <b>201</b>   |
| <b>Investment expenses</b>                                           | <b>42</b>        | <b>131</b>     | <b>32</b>            | <b>69</b>            | <b>42</b>               | <b>39</b>            | <b>355</b>   |
| <b>Net income from assets under own management</b>                   | <b>115</b>       | <b>973</b>     | <b>165</b>           | <b>439</b>           | <b>183</b>              | <b>–31</b>           | <b>1,844</b> |
| <b>Net income from investment contracts</b>                          | <b>—</b>         | <b>—</b>       | <b>4</b>             | <b>—</b>             | <b>—</b>                | <b>—</b>             | <b>4</b>     |
| Interest income from funds withheld and contract deposits            | —                | —              | —                    | 11                   | 242                     | —                    | 253          |
| Interest expense from funds withheld and contract deposits           | —                | 7              | —                    | 1                    | 56                      | —                    | 64           |
| <b>Net interest income from funds withheld and contract deposits</b> | <b>—</b>         | <b>–7</b>      | <b>—</b>             | <b>10</b>            | <b>186</b>              | <b>—</b>             | <b>189</b>   |
| <b>Net investment income</b>                                         | <b>115</b>       | <b>966</b>     | <b>169</b>           | <b>449</b>           | <b>369</b>              | <b>–31</b>           | <b>2,037</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.

Of the impairment losses totalling EUR 77 (75) million, EUR 8 (59) million was attributable to fixed-income securities, EUR 51 (8) million to equities, EUR 2 (6) million to real estate and real estate funds and EUR 16 (2) million to private equity capital. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 3 (1) million.

In connection with the recognition of “ModCo” reinsurance contracts, where securities accounts are held by cedants and payments are made on the basis of the income from certain securities,

elements of interest rate risk are clearly and closely linked with the underlying reinsurance agreements. Consequently, embedded derivatives result exclusively from the credit risk of the underlying securities portfolio. In the reporting period, the income from the ModCo derivatives declined by EUR 2 (6) million.

**(13) NET INVESTMENT INCOME BY ASSET CLASS****NET INVESTMENT INCOME BY ASSET CLASS**

EUR MILLION

|                                                                              | 6M 2016      | 6M 2015      |
|------------------------------------------------------------------------------|--------------|--------------|
| Shares in affiliated companies and participating interests                   | 6            | 1            |
| Loans and receivables                                                        | 594          | 600          |
| Financial instruments held to maturity                                       | 26           | 47           |
| Financial assets available for sale                                          |              |              |
| Fixed-income securities                                                      | 962          | 1,042        |
| Variable-yield securities                                                    | -4           | 41           |
| Financial assets at fair value through profit or loss                        |              |              |
| Financial assets classified at fair value through profit or loss             |              |              |
| Fixed-income securities                                                      | 50           | 28           |
| Variable-yield securities                                                    | -2           | 8            |
| Financial assets held for trading                                            |              |              |
| Fixed-income securities                                                      | —            | —            |
| Variable-yield securities                                                    | -2           | 2            |
| Derivatives                                                                  | 13           | -25          |
| Other investments, insofar as they are financial assets                      | 151          | 102          |
| Other <sup>1)</sup>                                                          | 113          | 102          |
| <b>Total assets under own management</b>                                     | <b>1,907</b> | <b>1,948</b> |
| Investment contracts: investments/liabilities <sup>2)</sup>                  | 6            | 4            |
| Funds withheld by ceding companies/funds withheld under reinsurance treaties | 167          | 189          |
| <b>Total</b>                                                                 | <b>2,080</b> | <b>2,141</b> |

<sup>1)</sup> For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property, associates and joint ventures, and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting are not included in the list if they do not relate to hedges of investments.

<sup>2)</sup> Includes income and expenses (net) from the management of investment contracts amounting to EUR 3 (-1) million. Financial instruments (assets/liabilities) measured at fair value through profit or loss account for income of EUR 33 (27) million and expenses of EUR -13 (14) million, while loans and receivables and other liabilities account for income of EUR 9 (9) million and expenses of EUR -20 (-39) million. In addition, expenses include amortisation of PVFP amounting to EUR -6 (-6) million.

Including investment management expenses of EUR 68 (65) million and other expenses of EUR 50 (39) million, net investment income at the reporting date totalled EUR 1,962 (2,037) million.

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

EUR MILLION

|                                                    | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total         |
|----------------------------------------------------|------------------|----------------|----------------------|----------------------|-------------------------|----------------------|---------------|
| <b>6M 2016<sup>1)</sup></b>                        |                  |                |                      |                      |                         |                      |               |
| <b>Gross</b>                                       |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 1,354            | 1,771          | 1,273                | 2,233                | 2,817                   | —                    | <b>9,448</b>  |
| Change in loss and loss adjustment expense reserve | 5                | 62             | –23                  | 517                  | 103                     | –1                   | <b>663</b>    |
| Change in benefit reserve                          | —                | 448            | 412                  | —                    | 204                     | —                    | <b>1,064</b>  |
| Expenses for premium refunds                       | 4                | 434            | 18                   | —                    | —                       | —                    | <b>456</b>    |
| <b>Total</b>                                       | <b>1,363</b>     | <b>2,715</b>   | <b>1,680</b>         | <b>2,750</b>         | <b>3,124</b>            | <b>–1</b>            | <b>11,631</b> |
| <b>Reinsurers' share</b>                           |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 448              | 40             | 96                   | 165                  | 228                     | —                    | <b>977</b>    |
| Change in loss and loss adjustment expense reserve | –58              | –6             | –23                  | 145                  | –17                     | —                    | <b>41</b>     |
| Change in benefit reserve                          | —                | –25            | –3                   | —                    | 67                      | —                    | <b>39</b>     |
| Expenses for premium refunds                       | 4                | —              | —                    | —                    | —                       | —                    | <b>4</b>      |
| <b>Total</b>                                       | <b>394</b>       | <b>9</b>       | <b>70</b>            | <b>310</b>           | <b>278</b>              | <b>—</b>             | <b>1,061</b>  |
| <b>Net</b>                                         |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 906              | 1,731          | 1,177                | 2,068                | 2,589                   | —                    | <b>8,471</b>  |
| Change in loss and loss adjustment expense reserve | 63               | 68             | —                    | 372                  | 120                     | –1                   | <b>622</b>    |
| Change in benefit reserve                          | —                | 473            | 415                  | —                    | 137                     | —                    | <b>1,025</b>  |
| Expenses for premium refunds                       | —                | 434            | 18                   | —                    | —                       | —                    | <b>452</b>    |
| <b>Total</b>                                       | <b>969</b>       | <b>2,706</b>   | <b>1,610</b>         | <b>2,440</b>         | <b>2,846</b>            | <b>–1</b>            | <b>10,570</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.



**CLAIMS AND CLAIMS EXPENSES**

EUR MILLION

|                                                    | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total         |
|----------------------------------------------------|------------------|----------------|----------------------|----------------------|-------------------------|----------------------|---------------|
| 6M 2015 <sup>1)</sup>                              |                  |                |                      |                      |                         |                      |               |
| <b>Gross</b>                                       |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 1,403            | 1,736          | 1,163                | 2,162                | 2,810                   | —                    | 9,274         |
| Change in loss and loss adjustment expense reserve | 167              | 55             | 117                  | 570                  | 208                     | —                    | 1,117         |
| Change in benefit reserve                          | —                | 778            | 235                  | —                    | 79                      | —                    | 1,092         |
| Expenses for premium refunds                       | 2                | 555            | 1                    | —                    | —                       | —                    | 558           |
| <b>Total</b>                                       | <b>1,572</b>     | <b>3,124</b>   | <b>1,516</b>         | <b>2,732</b>         | <b>3,097</b>            | <b>—</b>             | <b>12,041</b> |
| <b>Reinsurers' share</b>                           |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 486              | 60             | 77                   | 216                  | 317                     | —                    | 1,156         |
| Change in loss and loss adjustment expense reserve | 141              | 3              | 59                   | —1                   | 5                       | —                    | 207           |
| Change in benefit reserve                          | —                | —26            | —3                   | —                    | 75                      | —                    | 46            |
| Expenses for premium refunds                       | —                | —              | —                    | —                    | —                       | —                    | —             |
| <b>Total</b>                                       | <b>627</b>       | <b>37</b>      | <b>133</b>           | <b>215</b>           | <b>397</b>              | <b>—</b>             | <b>1,409</b>  |
| <b>Net</b>                                         |                  |                |                      |                      |                         |                      |               |
| Claims and claims expenses paid                    | 917              | 1,676          | 1,086                | 1,946                | 2,493                   | —                    | 8,118         |
| Change in loss and loss adjustment expense reserve | 26               | 52             | 58                   | 571                  | 203                     | —                    | 910           |
| Change in benefit reserve                          | —                | 804            | 238                  | —                    | 4                       | —                    | 1,046         |
| Expenses for premium refunds                       | 2                | 555            | 1                    | —                    | —                       | —                    | 558           |
| <b>Total</b>                                       | <b>945</b>       | <b>3,087</b>   | <b>1,383</b>         | <b>2,517</b>         | <b>2,700</b>            | <b>—</b>             | <b>10,632</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.

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

EUR MILLION

|                                                                         | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total        |
|-------------------------------------------------------------------------|------------------|----------------|----------------------|----------------------|-------------------------|----------------------|--------------|
| <b>6M 2016<sup>1)</sup></b>                                             |                  |                |                      |                      |                         |                      |              |
| <b>Gross</b>                                                            |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 309              | 460            | 423                  | 1,006                | 397                     | —                    | 2,595        |
| Changes in deferred acquisition costs and in provisions for commissions | -41              | -3             | —                    | -19                  | 116                     | —                    | 53           |
| <b>Total acquisition costs</b>                                          | <b>268</b>       | <b>457</b>     | <b>423</b>           | <b>987</b>           | <b>513</b>              | <b>—</b>             | <b>2,648</b> |
| Administrative expenses                                                 | 151              | 155            | 96                   | 107                  | 100                     | 1                    | 610          |
| <b>Total acquisition costs and administrative expenses</b>              | <b>419</b>       | <b>612</b>     | <b>519</b>           | <b>1,094</b>         | <b>613</b>              | <b>1</b>             | <b>3,258</b> |
| <b>Reinsurers' share</b>                                                |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 148              | 6              | 32                   | 101                  | -63                     | —                    | 224          |
| Changes in deferred acquisition costs and in provisions for commissions | -18              | —              | -4                   | -9                   | 80                      | —                    | 49           |
| <b>Total acquisition costs</b>                                          | <b>130</b>       | <b>6</b>       | <b>28</b>            | <b>92</b>            | <b>17</b>               | <b>—</b>             | <b>273</b>   |
| <b>Net</b>                                                              |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 161              | 454            | 391                  | 905                  | 460                     | —                    | 2,371        |
| Changes in deferred acquisition costs and in provisions for commissions | -23              | -3             | 4                    | -10                  | 36                      | —                    | 4            |
| <b>Total acquisition costs</b>                                          | <b>138</b>       | <b>451</b>     | <b>395</b>           | <b>895</b>           | <b>496</b>              | <b>—</b>             | <b>2,375</b> |
| Administrative expenses                                                 | 151              | 155            | 96                   | 107                  | 100                     | 1                    | 610          |
| <b>Total acquisition costs and administrative expenses</b>              | <b>289</b>       | <b>606</b>     | <b>491</b>           | <b>1,002</b>         | <b>596</b>              | <b>1</b>             | <b>2,985</b> |
| <b>6M 2015<sup>1)</sup></b>                                             |                  |                |                      |                      |                         |                      |              |
| <b>Gross</b>                                                            |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 299              | 465            | 532                  | 1,004                | 567                     | —                    | 2,867        |
| Changes in deferred acquisition costs and in provisions for commissions | -66              | -16            | -84                  | -105                 | -28                     | —                    | -299         |
| <b>Total acquisition costs</b>                                          | <b>233</b>       | <b>449</b>     | <b>448</b>           | <b>899</b>           | <b>539</b>              | <b>—</b>             | <b>2,568</b> |
| Administrative expenses                                                 | 148              | 142            | 99                   | 110                  | 103                     | 1                    | 603          |
| <b>Total acquisition costs and administrative expenses</b>              | <b>381</b>       | <b>591</b>     | <b>547</b>           | <b>1,009</b>         | <b>642</b>              | <b>1</b>             | <b>3,171</b> |
| <b>Reinsurers' share</b>                                                |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 130              | 6              | 32                   | 90                   | 62                      | —                    | 320          |
| Changes in deferred acquisition costs and in provisions for commissions | -29              | —              | -6                   | -8                   | -21                     | —                    | -64          |
| <b>Total acquisition costs</b>                                          | <b>101</b>       | <b>6</b>       | <b>26</b>            | <b>82</b>            | <b>41</b>               | <b>—</b>             | <b>256</b>   |
| <b>Net</b>                                                              |                  |                |                      |                      |                         |                      |              |
| Acquisition costs and reinsurance commissions                           | 169              | 459            | 500                  | 914                  | 505                     | —                    | 2,547        |
| Changes in deferred acquisition costs and in provisions for commissions | -37              | -16            | -78                  | -97                  | -7                      | —                    | -235         |
| <b>Total acquisition costs</b>                                          | <b>132</b>       | <b>443</b>     | <b>422</b>           | <b>817</b>           | <b>498</b>              | <b>—</b>             | <b>2,312</b> |
| Administrative expenses                                                 | 148              | 142            | 99                   | 110                  | 103                     | 1                    | 603          |
| <b>Total acquisition costs and administrative expenses</b>              | <b>280</b>       | <b>585</b>     | <b>521</b>           | <b>927</b>           | <b>601</b>              | <b>1</b>             | <b>2,915</b> |

<sup>1)</sup> After elimination of intragroup cross-segment transactions.

## (16) OTHER INCOME/EXPENSES

## COMPOSITION OF OTHER INCOME/EXPENSES

EUR MILLION

|                                                                                     | 6M 2016     | 6M 2015    |
|-------------------------------------------------------------------------------------|-------------|------------|
| <b>Other income</b>                                                                 |             |            |
| Foreign exchange gains                                                              | 265         | 345        |
| Income from services, rents and commissions                                         | 130         | 140        |
| Recoveries on receivables previously written off                                    | 6           | 13         |
| Income from contracts recognised in accordance with the deposit accounting method   | 46          | 47         |
| Income from the reversal of other non-technical provisions                          | 29          | 7          |
| Interest income <sup>1)</sup>                                                       | 30          | 33         |
| Miscellaneous income                                                                | 58          | 35         |
| <b>Total</b>                                                                        | <b>564</b>  | <b>620</b> |
| <b>Other expenses</b>                                                               |             |            |
| Foreign exchange losses                                                             | 241         | 250        |
| Other interest expenses <sup>2)</sup>                                               | 57          | 58         |
| Depreciation, amortisation and impairment losses <sup>3)</sup>                      | 53          | 51         |
| Expenses for the Company as a whole                                                 | 115         | 116        |
| Personnel expenses                                                                  | 23          | 30         |
| Expenses for services and commissions                                               | 70          | 71         |
| Expenses from contracts recognised in accordance with the deposit accounting method | 10          | 9          |
| Other taxes                                                                         | 33          | 22         |
| Additions to restructuring provisions                                               | 36          | 5          |
| Miscellaneous other expenses                                                        | 40          | 24         |
| <b>Total</b>                                                                        | <b>678</b>  | <b>636</b> |
| <b>Other income/expenses</b>                                                        | <b>-114</b> | <b>-16</b> |

<sup>1)</sup> The "Interest income" is attributable to the segments as follows: Industrial Lines EUR 1 (0) million, Retail Germany – Life EUR 9 (1) million, Retail International EUR 4 (4) million, Non-Life Reinsurance EUR 3 (14) million, Life/Health Reinsurance EUR 15 (13) million and Corporate Operations EUR 3 (2) million. Of this, EUR 5 (1) million is consolidated.

<sup>2)</sup> The "Other interest expenses" are attributable to the segments as follows: Industrial Lines EUR 7 (4) million, Retail Germany – Life EUR 14 (1) million, Retail International EUR 1 (1) million, Non-Life Reinsurance EUR 13 (19) million, Life/Health Reinsurance EUR 16 (25) million and Corporate Operations EUR 14 (12) million. Of this, EUR 8 (4) million is consolidated.

<sup>3)</sup> This figure includes depreciation and amortisation of EUR 22 (29) million. These amounts are essentially attributable to the following segments as follows: Retail International EUR 8 (11) million, Non-Life Reinsurance EUR 8 (11) million and Life/Health Reinsurance EUR 5 (6) million.

## VIII. OTHER DISCLOSURES

## NUMBER OF EMPLOYEES

## AVERAGE NUMBER OF EMPLOYEES IN THE REPORTING PERIOD

|                                            | 30.6.2016     | 31.12.2015    |
|--------------------------------------------|---------------|---------------|
| Industrial Lines                           | 3,303         | 3,210         |
| Retail Germany                             | 4,967         | 4,976         |
| Retail International                       | 7,771         | 7,806         |
| Reinsurance companies                      | 2,573         | 2,553         |
| Corporate Operations                       | 2,751         | 2,779         |
| <b>Total excluding vocational trainees</b> | <b>21,365</b> | <b>21,324</b> |
| Vocational trainees                        | 556           | 568           |
| <b>Total</b>                               | <b>21,921</b> | <b>21,892</b> |

The Talanx Group's total workforce at the reporting date numbered 21,815 (21,965).

## RELATED PARTY DISCLOSURES

Related entities in the Talanx Group include HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V.a.G.), Hannover, which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated on the grounds of insignificance, as well as associates 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 party entities after termination of their employment. Individuals classed as related parties are the Members of the Board of Management and the Supervisory Board of Talanx AG and HDI V.a.G.

Transactions between Talanx AG and its subsidiaries are eliminated in the course of consolidation and hence not disclosed in the Notes.

There is a reinsurance treaty in the amount of EUR 6 million between Hannover Rück SE Malaysian Branch, Kuala Lumpur, Malaysia, and Petro Vietnam Insurance Holdings, Hanoi, Vietnam.

neue leben Lebensversicherung AG, Cologne, granted a subordinated loan to neue leben Pensionskasse AG, Cologne, in the amount of EUR 13 million.

Other business relationships with unconsolidated companies, associates or joint ventures are insignificant overall.

In addition, there are contracts for services with a company in which a Member of the Supervisory Board is invested. Revenues generated with Group companies under these contracts during the reporting period were well below EUR 0.1 million.

#### OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

As at the reporting date, the Group recognised securities sold with a redemption obligation to third parties at a fixed price (genuine repurchase transactions, since the material risks and opportunities associated with the financial assets remain within the Group). As at the reporting date, the carrying amount of the financial assets in

the "Financial assets available for sale" category transferred in repo transactions stood at EUR 50 million and the carrying amount of the related liabilities was EUR 50 million. The fair value corresponds to the carrying amount. The components of these transactions recognised as income are presented under "Net investment income".

#### LITIGATION

We were not involved in any significant new litigation in the reporting period and at the end of the reporting period in comparison to 31 December 2015.

#### EARNINGS PER SHARE

Earnings per share are calculated by dividing net income attributable to the shareholders of Talanx AG by the average number of outstanding shares. There were no dilutive effects, which have to be recognised separately when calculating earnings per share, either at the reporting date or in the previous year. In the future, earnings per share may be potentially diluted as a result of the share or rights issues from contingent or authorised capital.

#### EARNINGS PER SHARE

|                                                                                                          | 6M 2016     | 6M 2015     | Q2 2016     | Q2 2015     |
|----------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million) | 401         | 311         | 179         | 60          |
| Weighted average number of ordinary shares outstanding                                                   | 252,797,634 | 252,797,634 | 252,797,634 | 252,797,634 |
| Basic earnings per share (EUR)                                                                           | 1.59        | 1.23        | 0.71        | 0.24        |
| Diluted earnings per share (EUR)                                                                         | 1.59        | 1.23        | 0.71        | 0.24        |

## DIVIDEND PER SHARE

In the second quarter of 2016, a dividend of EUR 1.30 per share was paid for financial year 2015 (in 2015 for financial year 2014: EUR 1.25), resulting in a total distribution of EUR 329 (316) million.

## CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

At the reporting date, there were the following contingent liabilities and other financial commitments attributable to contracts and memberships that had been entered into, as well as to taxes:

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

EUR MILLION

|                                                                                                                                                                                                                                                                                                                       | 30.6.2016     | 31.12.2015    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US cedants <sup>1)</sup> (includes the equivalent of EUR 1,261 (1,281) million furnished by investors as security for technical liabilities from ILS transactions) | 5,133         | 5,349         |
| Sureties in the form of letters of credit furnished by various credit institutions as security for technical liabilities: in contrast to the previous year's report, this item does not include letters of credit granted to Group companies in the amount of EUR 1,090 (1,729) million                               | 1,328         | 1,378         |
| Guarantees for subordinated bonds issued: the guarantees cover the relevant bond volumes as well as interest due                                                                                                                                                                                                      | 1,500         | 1,500         |
| Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA <sup>1)</sup>                                                                                                                                                                          | 3,053         | 2,847         |
| 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                                                                                                                           | 1,856         | 1,743         |
| Commitments under rental/lease agreements <sup>2)</sup>                                                                                                                                                                                                                                                               | 428           | 428           |
| Funding commitments and contribution payments in accordance with sections 124 ff. of the Insurance Supervision Act (VAG) as a member of the Statutory Guarantee Fund for Life Insurance Undertakings                                                                                                                  | 488           | 488           |
| Collateral for liabilities to various credit institutions in connection with investments in real estate companies and real estate transactions                                                                                                                                                                        | 584           | 593           |
| Other financial commitments from planned business combinations                                                                                                                                                                                                                                                        | —             | 70            |
| Securities purchase commitment arising from investment projects (commitment up to one year)                                                                                                                                                                                                                           | 108           | 241           |
| Commitments under service agreements – primarily in connection with IT outsourcing contracts                                                                                                                                                                                                                          | 238           | 229           |
| Assets in blocked custody accounts as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 17 (21) million for existing derivative transactions <sup>3)</sup>                                                                                                        | 81            | 90            |
| Other commitments <sup>4)</sup>                                                                                                                                                                                                                                                                                       | 153           | 47            |
| <b>Total</b>                                                                                                                                                                                                                                                                                                          | <b>14,950</b> | <b>15,003</b> |

<sup>1)</sup> The securities held in the trust accounts are predominantly recognised as “Financial assets available for sale” in the portfolio of investments. The amount disclosed refers primarily to the fair value/carrying amount.

<sup>2)</sup> Fresh data is collected only at year-end.

<sup>3)</sup> The amount disclosed refers primarily to the fair value/carrying amount.

<sup>4)</sup> “Other commitments” include EUR 35 (28) million attributable to tax litigation and EUR 13 (10) million attributable to other litigation.

There were no other significant changes in contingent liabilities and other financial commitments in the reporting period compared with 31 December 2015.

#### EVENTS AFTER THE END OF THE REPORTING PERIOD

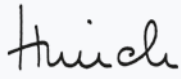
After the reporting date, there were no transactions of any particular significance that would have had a material effect on the results of operations, financial position and net assets of the Group.

Prepared and hence authorised for publication in Hannover on 5 August 2016.

The 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, 5 August 2016

The Board of Management



Herbert K Haas,  
Chairman



Dr Christian Hinsch,  
Deputy Chairman



Torsten Leue



Dr Immo Querner



Ulrich Wallin



Dr Jan Wicke

## REVIEW REPORT

### TO TALANX AKTIENGESELLSCHAFT, HANNOVER

We have reviewed the interim consolidated financial statements – comprising the balance sheet, statement of income, statement of comprehensive income, statement of changes in equity, cash flow statement and selected explanatory notes – and the interim Group management report of Talanx AG, Hannover, for the period from 1 January to 30 June 2016, which are components of the half-yearly financial report in accordance with section 37w of the German Securities Trading Act (WpHG). The preparation of the interim consolidated financial statements in accordance with the IFRSs applicable to interim financial reporting, as adopted by the EU, and of the interim Group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a review report on the interim consolidated financial statements and the interim Group management report based on our review.

We performed our review of the interim consolidated financial statements and the interim Group management report in accordance with German generally accepted 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 so that we can preclude through critical evaluation, with a certain level of assurance, that the interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRSs applicable to interim financial reporting, as adopted by the EU, and that the interim Group management report has not been prepared, in all material respects, in accordance

with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditors' report.

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

Hannover, 5 August 2016

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Möller  
Wirtschaftsprüfer  
(German Public Auditor)

Czupalla  
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.

### Interim Report online:

[www.talanx.com/investor-relations](http://www.talanx.com/investor-relations)

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## FINANCIAL CALENDAR 2016

15 November 2016

Quarterly Statement as at 30 September 2016

18 November 2016

Capital Markets Day

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