2018

PERFORMANCE AND RESULTS

Group Annual Report 2018

talanx.

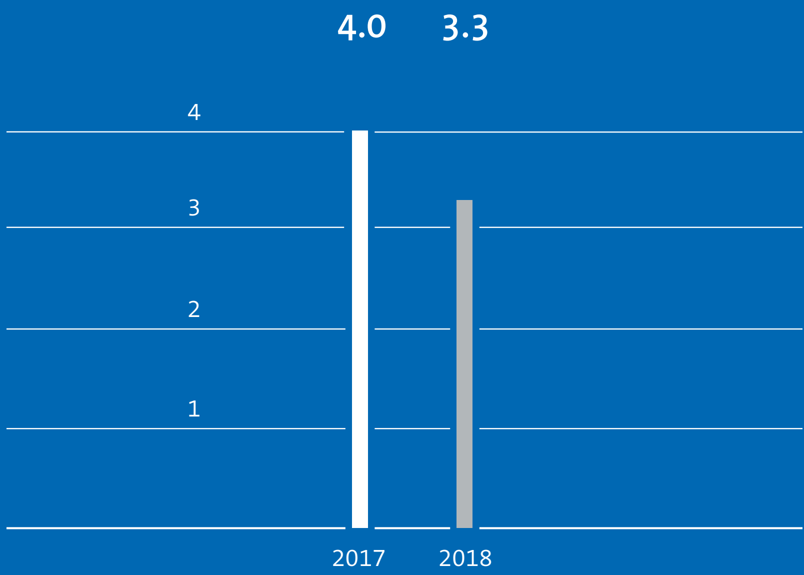
Insurance. Investments.

FINANCIAL YEAR AT A GLANCE

GROSS WRITTEN PREMIUMS

EUR
34.9
BILLION

NET RETURN ON INVESTMENT
%



OPERATING PROFIT (EBIT)

EUR
2.0
BILLION

GROUP NET INCOME

EUR
703
MILLION

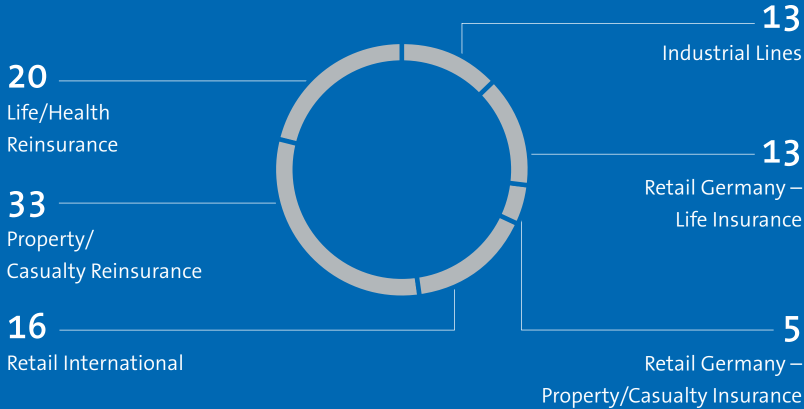
PROPOSED DIVIDEND PER SHARE

1.45
EUR

RETURN ON EQUITY

8.0%

SEGMENTAL BREAKDOWN OF GROSS WRITTEN PREMIUMS
%



THE TALANX GROUP AT A GLANCE

GROUP KEY FIGURES

	UNIT	2018	2017	2016	2015	2014
Gross written premiums	EUR MILLION	**34,885**	33,060	31,106	31,799	28,994
by region						
Germany	%	25	26	28	29	32
United Kingdom	%	8	8	9	9	9
Central and Eastern Europe (CEE), including Turkey	%	8	9	8	8	8
Rest of Europe	%	16	15	15	14	15
USA	%	18	18	15	14	12
Rest of North America	%	2	2	3	3	3
Latin America	%	8	8	8	8	7
Asia and Australia	%	13	12	12	13	12
Africa	%	2	2	2	2	2
Gross written premiums by type and class of insurance						
Property/casualty primary insurance	EUR MILLION	10,006	9,625	8,949	8,973	8,404
Primary life insurance	EUR MILLION	6,206	6,275	6,431	6,495	6,846
Property/Casualty Reinsurance	EUR MILLION	11,622	10,229	8,726	8,759	7,441
Life/Health Reinsurance	EUR MILLION	7,051	6,931	7,000	7,572	6,303
Net premiums earned	EUR MILLION	**29,574**	**27,418**	**25,736**	**25,937**	**23,844**
Underwriting result	EUR MILLION	**–1,647**	**–2,546** [5]	**–1,519**	**–1,370**	**–2,058**
Net investment income	EUR MILLION	**3,767**	**4,478**	**4,023**	**3,933**	**4,144**
Net return on investment [1]	%	**3.3**	**4.0**	**3.6**	**3.6**	**4.1**
Operating profit (EBIT)	EUR MILLION	**2,032**	**1,805** [5]	**2,307**	**2,182**	**1,892**
Net income (after financing costs and taxes)	EUR MILLION	**1,359**	**1,269** [5]	**1,564**	**1,409**	**1,368**
of which attributable to shareholders of Talanx AG	EUR MILLION	703	671 [5]	903	734	769
Return on equity [2]	%	**8.0**	**7.5**	**10.4**	**9**	**10.2**
Earnings per share						
Basic earnings per share	EUR	2.78	2.65 [6]	3.57	2.90	3.04
Diluted earnings per share	EUR	2.78	2.65 [6]	3.57	2.90	3.04
Combined ratio in property/casualty primary insurance and Property/Casualty Reinsurance [3]	%	**98.2**	**100.4**	**95.7**	**96.0**	**97.9**
Combined ratio of property/casualty primary insurers [4]	%	100.6	101.2	98.1	98.0	101.7
Combined ratio of Property/Casualty Reinsurance	%	96.6	99.8	93.7	94.5	94.7
EBIT margin primary insurance and Reinsurance						
EBIT margin primary insurance [4]	%	3.7	4.1	5.4	3.8	2.4
EBIT margin Property/Casualty Reinsurance	%	12.6	12.5	17.2	17.2	17.4
EBIT margin Life/Health Reinsurance	%	4.0	3.5	5.2	6.3	5.0
Policyholders' surplus	EUR MILLION	**16,999**	**16,961** [5]	**16,631**	**15,374**	**15,561**
Equity attributable to shareholders of Talanx AG	EUR MILLION	8,713	8,813 [5]	9,038	8,282	7,998
Non-controlling interests	EUR MILLION	5,548	5,411	5,610	5,149	4,902
Hybrid capital	EUR MILLION	2,738	2,737	1,983	1,943	2,661
Assets under own management	EUR MILLION	**111,868**	**107,881**	**107,174**	**100,777**	**96,410**
Total investments	EUR MILLION	**122,831**	**118,673**	**118,855**	**115,611**	**112,879**
Total assets	EUR MILLION	**162,879**	**158,397** [5]	**156,626**	**152,760**	**147,298**
Carrying amount per share at end of period	EUR	**34.47**	**34.86** [6]	**35.75**	**32.76**	**31.64**
Share price at end of period	EUR	**29.80**	**34.07**	**31.77**	**28.55**	**25.27**
Current dividend proposal and prior years' dividends (per share)	EUR	**1.45**	**1.40**	**1.35**	**1.30**	**1.25**
Market capitalisation of Talanx AG at end of period	EUR MILLION	**7,533**	**8,613**	**8,031**	**7,217**	**6,388**
Employees	FULL-TIME EQUIVALENTS	**20,780**	**20,419**	**20,039**	**20,334**	**19,819**

1) Ratio of net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management.
2) Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests.
3) Combined ratio taking into account interest income on funds withheld and contract deposits, before elimination of intragroup cross-segment transactions.
4) Excluding figures from the Corporate Operations segment.
5) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
6) Adjusted following the adjustment described in footnote 5.

CONTENTS

Guideline on Alternative Performance Measures – for further information on the calculation and definition of specific alternative performance measures please refer to http://www.talanx.com/investor-relations/ueberblick/midterm-targets/definitions_apm?sc_lang=en

2 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated financial statements

Notes

3 FURTHER INFORMATION

Dear Shareholders,
ladies and gentlemen,

In the 2018 financial year, Talanx achieved a satisfactory result, laid key strategic foundations for the future and set itself ambitious targets for 2022. The Group increased its premium income by 5.5% year-on-year to EUR 34.9 billion and its operating profit by 12% to EUR 2.0 billion. Group net income rose against the previous year by around 5% to EUR 703 million with return on equity of 8.0%, slightly exceeding our target.

In light of this, the Board of Management and the Supervisory Board propose another dividend increase of 5 cents to EUR 1.45. This proposal is in line with our goal of maintaining dividends at at least the same level as in the previous year.

We owe this success to our 22,000 highly-motivated employees, who have once again shown great commitment and considerable skill every day to help our customers find the right insurance solutions. I would also like to thank you for your high level of identification with our Talanx Group and look forward to continuing our successful collaboration in future.

"IN THE 2018 FINANCIAL YEAR, TALANX ACHIEVED A SATISFACTORY RESULT, LAID KEY STRATEGIC FOUNDATIONS FOR THE FUTURE AND SET ITSELF AMBITIOUS TARGETS FOR 2022."

TORSTEN LEUE
Chairman

Particularly worthy of mention here is my predecessor Herbert K. Haas, who internationalised and diversified our Talanx Group in his many years here, significantly boosting the Group's earning capacity and making it more robust. I think I speak for all of you too when I thank Herbert K. Haas for his contribution to our Talanx Group as Chairman and long-standing member of the Board of Management.

2018 underscored the operating strength of all Divisions, with the exception of Industrial Lines. Against the backdrop of a very challenging market environment, Industrial Lines posted a deficit of EUR 16 million. This was the result of weak price levels across the sector, an exceptional large loss burden and a spate of frequency losses, in particular in industrial fire insurance. It is now time to systematically implement the restructuring programme launched in July 2018, which aims to achieve a balanced underwriting result in the Industrial Lines Division in 2019.

In the Retail Germany Division, we are now far closer to reaching our target of securing operating profit of EUR 240 million by 2021 thanks to a 31% year-on-year increase in operating profit to EUR 180 million. This was achieved due to an improvement in the combined ratio which, disregarding the extraordinary expenses incurred as part of the "KuRS" optimisation programme, fell significantly from 98.6% last year to 97.1%.

The Retail International Division not only boosted its premium income, it also improved profit by 18% year-on-year to EUR 160 million and so made a considerable contribution to Group net income. Acquisitions in Colombia and Turkey and a joint venture with Banco Santander in Brazil in the motor insurance business also laid the foundations for ongoing profitable growth moving ahead.

Despite non-recurring expenses incurred in connection with restructuring the US mortality business, the Reinsurance Division performed well. Profit rose 19% against the previous year to EUR 540 million, again representing a significant share of our Group net income.

TORSTEN LEUE
Chairman

In 2018, the Talanx Board of Management, in close collaboration with staff, the capital market and the general public, adopted its revised strategy. As well as developing into an agile organisation, this new strategy aims to increase earnings per share at the Talanx Group by an average of at least 5% per year by 2022.

Three growth initiatives make up the core of our 2022 strategy:

- Significantly expanding business with small and medium-sized enterprises to reach a market share of 10% in the Retail Germany Division.
- Pooling strengths within the Group in business with specific risks by combining the Industrial Lines Division and the Reinsurance Division as part of a joint venture. The joint HDI Global Specialty SE company is to maximise profits by increasing premium income from EUR 1.2 billion to EUR 2.1 billion by 2022.
- Establishing an intragroup reinsurer at Talanx AG with the long-term aim of bolstering our annual profit by EUR 50 million.

In addition to the growth initiatives, our core focus is on the digital transformation of our Talanx Group. The main emphasis here is on accelerating the migration of systems, rapidly establishing and expanding skills in the area of data analytics, making use of artificial intelligence and seizing the opportunities offered by our strong entrepreneurial and "B2B" culture to network in selected ecosystems in order to boost profits.

Dear investors, my fellow members of the Board and I are confident that we have operated in your best interests over the last financial year. We have also laid key foundations for future success at your Talanx Group. I would like to thank you for your valuable trust and would be delighted for you to continue as part of our onward journey.

Yours sincerely,

BOARD OF MANAGEMENT

FROM LEFT:
DR IMMO QUERNER, DR JAN WICKE, TORSTEN LEUE (CHAIRMAN), SVEN FOKKEMA, DR CHRISTIAN HINSCH (DEPUTY CHAIRMAN), ULRICH WALLIN

BOARD OF MANAGEMENT

Torsten Leue
Chairman
(since 8 May 2018)
Hannover
Chairman of the Board of Management
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover
(since 13 June 2018)
Chairman of the Board of Management
HDI International AG, Hannover
(until 8 May 2018)

Responsible on the Talanx Board
of Management for:
- Auditing
- Best Practice Lab
- Communications
- Corporate Development
- Corporate Office/Compliance/Legal
- Human Resources/
  Facility Management
- Investor Relations

Herbert K. Haas
Chairman
(until 8 May 2018)
Burgwedel
Chairman of the Board of Management
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover
(until 13 June 2018)

Responsible on the Talanx Board
of Management for:
- Auditing
- Communications
- Corporate Development
- Corporate Office/Compliance
- Data Protection
- Information Technology
- Investor Relations
- Legal

Dr Christian Hinsch
Deputy Chairman
Burgwedel
Deputy Chairman of the Board
of Management
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover
Chairman of the Board of Management
HDI Global SE, Hannover

Responsible on the Talanx Board
of Management for:
- Industrial Lines Division
- Reinsurance Captive (until 8 May 2018)
- Reinsurance Procurement
  (until 8 May 2018)

Sven Fokkema
(since 9 May 2018)
Wedemark
Chairman of the Board of Management
HDI International AG, Hannover
(since 9 May 2018)

Responsible on the Talanx Board
of Management for:
- Retail International Division

Dr Immo Querner
Celle
Member of the Board of Management
HDI Haftpflichtverband der Deutschen
Industrie V.a.G., Hannover

Responsible on the Talanx Board
of Management for:
- Accounting
- Collections
- Controlling
- Finance/Participating Interests/
  Real Estate
- Investments
- Reinsurance Captive (since 9 May 2018)
- Reinsurance Procurement
  (since 9 May 2018)
- Risk Management
- Taxes

Ulrich Wallin
Hannover
Chairman of the Board of Management
Hannover Rück SE, Hannover

Responsible on the Talanx Board
of Management for:
- Reinsurance Division

Dr Jan Wicke
Hannover
Chairman of the Board of Management
HDI Deutschland AG, Hannover

Responsible on the Talanx Board
of Management for:
- Business Organisation
- Data Protection (since 8 May 2018)
- Information Technology
  (since 8 May 2018)
- Procurement (Non-IT) (since 8 May 2018)
- Retail Germany Division

SUPERVISORY BOARD

Herbert K. Haas
Chairman
(since 8 May 2018)
Burgwedel
Former Chairman of the
Board of Management,
Talanx AG

Wolf-Dieter Baumgartl
Chairman
(until 8 May 2018)
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
(until 8 May 2018)
Hamburg
Former Chairman of the
Board of Management,
ThyssenKrupp Technologies AG

Dr Thomas Lindner
Deputy Chairman
(since 8 May 2018)
Albstadt
Chairman of the Board of Directors,
Groz-Beckert KG

Franz Adamczyk *
(since 1 January 2019)
Isernhagen
Head of Underwriting Property Specialities,
HDI Global SE

Antonia Aschendorf
Hamburg
Lawyer,
Member of the Board of Management,
APRAXA eG
Director, 2-Sigma GmbH

Karsten Faber *
(until 31 December 2018)
Hannover
Former Managing Director,
Hannover Rück SE,
E+S Rückversicherung AG

Jutta Hammer *
Bergisch Gladbach
Employee,
HDI Kundenservice AG

Dr Hermann Jung
Heidenheim
Former Member of the Board of Directors,
Voith GmbH

Dirk Lohmann
Forch, Switzerland
Chairman of the Administrative Board
and CEO,
Secquaero Advisors AG

Christoph Meister *
Hannover
Member of the ver.di
National Executive Board

Jutta Mück *
Oberhausen
Account Manager Sales Industrial Lines,
HDI Global SE

Katja Sachtleben-Reimann *
Hannover
Employee,
HDI Service AG

Dr Erhard Schipporeit
Hannover
Self-employed Business Consultant

Prof Dr Jens Schubert *
Potsdam
Director of the Legal Department,
ver.di National Administration
Professor
Leuphana Universität Lüneburg

Jörn von Stein *
Employee,
neue leben Lebensversicherung AG

Norbert Steiner
Baunatal
Former Chairman of the Board
of Management,
K+S AG

Angela Titzrath
(since 8 May 2018)
Hamburg
Chairman of the Board of Management,
Hamburger Hafen und Logistik AG

* Staff representative

Details of memberships of statutory supervisory boards and comparable control boards at other domestic and foreign business enterprises are contained in the report published by Talanx AG.

SUPERVISORY BOARD COMMITTEES
COMPOSITION AS AT 31 DECEMBER 2018

The Supervisory Board has formed four committees from among its ranks. The members of these committees support the work of the full Supervisory Board.

Finance and Audit Committee

- Herbert K. Haas, *Chairman*
- Jutta Hammer
- Dr Hermann Jung
- Dr Thomas Lindner
- Ralf Rieger
- Dr Erhard Schipporeit

Personnel Committee

- Herbert K. Haas, *Chairman*
- Dr Thomas Lindner
- Katja Sachtleben-Reimann
- Norbert Steiner

Standing Committee

- Herbert K. Haas, *Chairman*
- Dr Thomas Lindner
- Ralf Rieger
- Prof Dr Jens Schubert

Nomination Committee

- Herbert K. Haas, *Chairman*
- Dirk Lohmann
- Angela Titzrath

TASKS OF THE COMMITTEES

You can find a detailed description of the committees' tasks in the "Supervisory Board" section of the corporate governance report.

Finance and Audit Committee

- Preparation of financial decisions for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain financial matters, including the establishment of companies, acquisition of participating interests and capital increases at subsidiaries within defined value limits

Personnel Committee

- Preparation of personnel matters for the full Supervisory Board
- Decisions in lieu of the full Supervisory Board on certain personnel matters for which the full Supervisory Board is not required to assume sole responsibility

Standing Committee

- Proposal for the appointment of a Board member if the necessary two-thirds majority is not achieved in the first ballot in accordance with section 31(3) of the German Co-determination Act (MitbestG)

Nomination Committee

- Proposal of suitable candidates for the Supervisory Board's nominations to the Annual General Meeting

REPORT OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

The Supervisory Board fulfilled its tasks and duties in accordance with statutory requirements, the Articles of Association and the Rules of Procedure without restriction again in financial year 2018. We considered at length the economic situation, risk position, succession planning in the Board of Management and Supervisory Board, important courses of action regarding personnel in this context and the 2022 strategy of Talanx AG and its major subsidiaries in both Germany and foreign core markets. We advised the Board of Management on all key matters for the Company, continuously monitored its management of the business and were directly involved in decisions of fundamental importance.

OVERVIEW

In the year under review, we convened for four ordinary and two extraordinary meetings of the Supervisory Board. A inaugural meeting was also held following the elections to the Supervisory Board by the 2018 Annual General Meeting. Two representatives of the Federal Financial Supervisory Authority (BaFin) took part in one of these meetings as a matter of routine. The Supervisory Board's Finance and Audit Committee held four meetings and the Personnel Committee held three meetings. The Standing Committee, formed in accordance with the requirements of the German Co-determination Act (MitbestG), and the Nomination Committee were not required to meet in 2018. The full Supervisory Board was briefed on the work of the various committees. In addition, we received written and verbal reports from the Board of Management on business operations and the position of the Company and the Group, based on the quarterly statements and the interim financial statements. At no point during the year under review did we consider it necessary to perform inspections or investigations in accordance with section 111(2) sentence 1 of the German Stock Corporation Act (AktG). Where transactions requiring urgent approval arose between meetings, the Board of Management submitted these to us for a written resolution in accordance with the procedure laid down by the Chairman of the Supervisory Board. The chairmen of the Supervisory Board and of the Board of Management regularly exchanged information and views on all material developments and transactions within the Company and the Talanx Group gave advice on questions of strategy, planning, business development, the risk situation, opportunity and risk management and compliance. Overall, we satisfied ourselves of the lawfulness, fitness for purpose, regularity and efficiency of the actions taken by the Board of Management in line with our statutory responsibilities and our terms of reference under the Articles of Association.

The Board of Management provided us with regular, timely and comprehensive information regarding the business situation and financial position, risk management, making use of opportunities, major capital expenditure projects and fundamental issues of corporate policy. We were also informed of transactions, which – although not subject to the approval of the Supervisory Board – need to be reported in accordance with the requirements of the Rules of Procedure, as well as of the impact of natural disasters and other large losses, the status of major lawsuits and other material developments within the Company and the Group and in the regulatory environment. As in the previous year, we arranged to be informed of the status of any outstanding approval processes for the internal model. At our meetings, we considered at length the reports provided by the Board of Management, put forward suggestions and proposed improvements.

With the exception of Ms Angela Titzrath, the members of the Supervisory Board and its committees all participated in over half of these meetings. As Ms Titzrath joined the Supervisory Board only in May 2018 and the dates of the Supervisory Board meetings are set well in advance, Ms Titzrath was only able to attend under 50% of the meetings in the financial year in her first year on the Supervisory Board.

We passed resolutions on transactions and measures requiring our approval in accordance with statutory requirements, the Company's Articles of Association and the Rules of Procedure following examination and discussion with the Board of Management.

KEY AREAS OF DISCUSSION FOR THE FULL SUPERVISORY BOARD

The following issues formed the primary focus of reporting and were discussed in detail at our meetings: the Company's business development and that of the individual divisions, the continuing challenges facing the life insurance business due to low interest rates, potential acquisition projects abroad and our planning for 2019. We were informed of, and developed an understanding of, the reasons for divergences between actual and planned business developments for the preceding quarters.

At an extraordinary meeting on 5 February 2018, the Supervisory Board discussed a acquisition project in Latin America proposed by the Board of Management, as well as examining the preliminary business figures for the 2017 financial year. The Supervisory Board also received reports on the US tax reform and the implications of the Base Erosion and Anti-Abuse Tax (BEAT) for the Group's reinsurance and industrial insurance.

At the meeting on 16 March 2018, the Supervisory Board discussed the audited annual and consolidated financial statements as well as the Board of Management's proposal for the appropriation of profits in the 2017 financial year. The auditor determined that the audit opinion for the separate and the consolidated financial statements was issued without reservations in each case. The Supervisory Board also addressed the agenda and resolutions proposed for Talanx AG's 2018 Annual General Meeting. In addition, the Supervisory Board discussed issues relating to individual members of the Board of Management, namely the suitability and structure of the remuneration system for members of the Board of Management, for which the Board also consulted external statements in order to make an assessment. It also fixed variable remuneration for the members of the Board of Management for the 2017 financial year and passed a resolution amending the allocation of Board of Management responsibilities.

At an extraordinary meeting on 13 April 2018, the Supervisory Board discussed another acquisition project in South America proposed by the Board of Management.

On the basis of new elections to the Supervisory Board at the Company's 2018 Annual General Meeting and immediately after the Annual General Meeting took place, an inaugural meeting was held on 8 May 2018 in which Mr Haas was elected Chairman and Dr Lindner – alongside the first Deputy Chairman elected in accordance with the German Co-determination Act who is standing for election again next year – was elected second Deputy Chairman of the Supervisory Board. The Supervisory Board also held by-elections to appoint the members of the committees.

In the meeting on 9 May 2018, the Board of Management reported on the first quarter results and gave an outlook for the financial year ahead. The Supervisory Board heard reports on an array of projects and reportable events, including the restructuring of specialty business, Talanx's position as a captive reinsurer and the implications of the merger of Deutsche Postbank and DB Privat- und Firmenkundenbank regarding PB insurers' cooperation with Postbank. The Supervisory Board also received the annual report on expense ratios compared with competitors, passed an amendment on the allocation of Board of Management responsibilities and discussed training programmes for the full Supervisory Board on the basis of the Supervisory Board's self-assessment.

At the meeting on 10 August 2018, the Board of Management initially reported on the half-year results and expectations for Talanx AG's and the Group's 2018 annual financial statements. This meeting then turned its focus to the strategy of the Talanx Group, its divisions and Talanx AG (solo). The Supervisory Board also heard reports on a range of projects, initiatives and reportable events and received a report on structural and staff realignment in IT. According to the normal cycle, the Supervisory Board also discussed questions relating to the reappointment of a member of the Board of Management. It resolved to extend Dr Wicke's term of office on the Board of Management, which was due to expire in 2019, and specified the remuneration for the time of his reappointment.

At the meeting on 9 November 2018, the Board of Management reported on the third quarter results and gave an outlook for Talanx AG's and the Group's 2018 annual financial statements. The Supervisory Board also discussed the declaration of conformity with the German Corporate Governance Code and planning for the 2019 financial year. It also received reports on a selection of projects, initiatives and reportable events, including listing Talanx on the SDAX, developing the US mortality business and restructuring the fire insurance business. In addition, the Supervisory Board addressed the setting of divisional targets for 2019 and received a report on the design of the remuneration system.

WORK OF THE COMMITTEES

The Supervisory Board has set up various committees to enable it to perform its duties efficiently. These are the Finance and Audit Committee, which has five members, the Personnel Committee and the Standing Committee, each of which has four members, and the Nomination Committee, with three members. The committees prepare discussions and the adoption of resolutions by the full Supervisory Board. They also have the authority to pass their own resolutions in specific areas. The minutes of the Finance and Audit Committee and Personnel Committee meetings are also made available to Members of the Supervisory Board who do not belong to these committees. The composition of these committees can be found on page 10 of the Annual Report.

Along with preparing the discussions and resolutions for the full Supervisory Board, the Finance and Audit Committee also carried out in-depth reviews not only of the Company's and Group's interim financial statements and quarterly statements together with the financial-statement components and key indicators, but also of the results of the review of the interim financial statements conducted by the auditors. Furthermore, the Finance and Audit Committee discussed the findings of an external actuarial audit of the gross and net claims reserves for the Talanx Group's non-life insurance business, along with the results of a performance analysis of the Group companies acquired in the last five years. We regularly focused on the risk reports and received an auditors' report on audit planning containing the key audit matters. The Committee updated the guidelines for approving non-audit services of auditors and the overview of the permissible non-audit services of auditors ("whitelist") and, aside from this, also exercised its rights and obligations within the scope of the range of responsibilities extended by the EU audit reform. The committee also received the annual reports of the four key functions (Risk Controlling, Actuarial function, Auditing and Compliance), which were each prepared and presented to us by the responsible heads of these functions.

Along with preparing the discussions and resolutions in full, the Personnel Committee set interim personal targets for the individual Members of the Board of Management for financial year 2019. In the course of appointing, extending and ending mandates, defining the Board of Management bonuses, reviewing the fixed remuneration and setting the divisional targets for 2019 for the Members of the Board of Management responsible for the respective divisions, recommendations were also given to the full Supervisory Board.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Government Commission on the German Corporate Governance Code made no amendments to the German Corporate Governance Code (the "Code") in 2018. Nonetheless, we continue to devote a great deal of attention to corporate governance. We considered the Board of Management's report on the consolidated non-financial statement (see page 64 of the Group management report). The audit firm PricewaterhouseCoopers GmbH conducted an audit using the "limited assurance" standard and issued an audit opinion. The Board of Management presented the report at the Finance and Audit Committee meeting on 14 March 2019 and the Supervisory Board meeting on 15 March 2019. Auditor representatives were present at both meetings and reported the material findings of their audit. No objections were raised on the basis of the Supervisory Board's own audit of the consolidated non-financial statement and the result of the PWC audit was noted and approved.

In accordance with the provisions of the insurance supervisory body, the members of the Supervisory Board have also submitted self-assessments which cover a range of key areas. As a result, individual training on these specific areas was provided in Talanx AG and the Group companies. In 2018, the Company also offered an internal training event to all Members of the Supervisory Board. Over half of the members used the opportunity to find out more about risk management and gain a deeper understanding of this material. Although the Supervisory Board attaches great importance to the standards for good, responsible enterprise management as formulated in the German Corporate Governance Code, it has decided against complying with the recommendations of section 4.2.3(4) of the Code relating to a severance payment cap in Board of Management contracts, of section 5.3.2(3) sentence 3 regarding the chairmanship of the Audit Committee, and of section 4.2.3(2) regarding the potential need for a cap on the payment of Talanx share awards. The reasons for this are stated in the declaration of conformity in accordance with section 161 of the AktG on observance of the German Corporate Governance Code, which is published in the Group Annual Report as part of the declaration on corporate governance. Further information on Corporate Governance can be found on Talanx AG's website.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Talanx AG annual financial statements submitted by the Board of Management, the financial statements of the Talanx Group, which were prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the corresponding management reports were audited in collaboration with the accounting services of PricewaterhouseCoopers (PwC) GmbH, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the Annual General Meeting. The Finance and Audit Committee issued the detailed audit mandate and determined that, in addition to the usual audit tasks, special attention should be given in the consolidated financial statements to the review of the notes on future IFRS standards, in particular IFRS 9 and 17, and also, in the annual financial statements, to reviewing correct cash management. The areas of emphasis set out by the German Financial Reporting Enforcement Panel (FREP) were also included in the activities performed by the auditors.

The audits performed by the auditors did not give rise to any grounds for objection. The audit reports issued were unqualified and state that the accounting records and the annual and consolidated financial statements give a true and fair view of the net assets, financial position and results of operations, and that the management reports are consistent with the annual and consolidated financial statements.

The financial statement documents and the PwC audit reports were circulated to all Members of the Supervisory Board in good time. They were examined in detail at the Finance and Audit Committee meeting on 14 March 2019 and at the Supervisory Board meeting on 15 March 2019. The auditor took part in the discussions by the Finance and Audit Committee and the full Supervisory Board regarding the annual and consolidated financial statements, reported on the performance of the audits and was available to provide the Supervisory Board with additional information. On completion of our own examination of the annual financial statements, the consolidated financial statements, the corresponding management reports and the audit reports by the external auditors, we concurred with the opinion of the auditors in each case and approved the annual and consolidated financial statements prepared by the Board of Management.

The annual financial statements are thereby adopted. We agree with the statements made in the management reports regarding the Company's future development. After examining all relevant considerations, we agree with the Board of Management's proposal for the appropriation of distributable profit.

The report on the Company's relationships with affiliated companies drawn up by the Board of Management in accordance with section 312 of the AktG was likewise audited by PwC GmbH, and was issued with the following unqualified audit opinion:

"Following the completion of our audit, which was carried out in accordance with professional standards, we confirm that
1. The information contained in the report is correct,
2. The compensation paid by the company with respect to the transactions listed in the report was not inappropriately high."

We examined the report on relationships with affiliated companies. We reached the same conclusion as the auditors and have no objections to the statement reproduced in this report.

COMPOSITION OF THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

Mr Leue was appointed Chairman of the Board of Management with effect from the end of the Annual General Meeting on 8 May 2018, following Mr Haas's decision by mutual agreement to step down as member and Chairman of the Board of Management on this same date. The Supervisory Board thanked Mr Haas and recognised his many years of work at the head of the Company and of the Group.

The term of the shareholder representatives on the Supervisory Board, who were to be newly elected by the 2018 Annual General Meeting, expired with effect from the end of the Annual General Meeting on 8 May 2018. Ms Aschendorf, Dr Jung, Dr Lindner, Mr Lohmann, Dr Schipporeit and Mr Steiner were reappointed. The Annual General Meeting also elected new members of the Supervisory Board, Mr Haas and Ms Titzrath, while the terms of Mr Baumgartl and Prof Rohkamm expired at the end of the Annual General Meeting on 8 May 2018. The Supervisory Board thanked Mr Baumgartl and Prof Rohkamm for their many years of valuable and dependable work, adding that their excellent expert competence, personal integrity and the skilful support they provided to the Board of Management over the years played a key role in the company's and the Group's success. The newly elected Supervisory Board appointed Mr Haas as Chairman and Mr Lindner, alongside Mr Rieger as the employee representative, as the second Deputy Chairman of the Supervisory Board.

The Supervisory Board also resolved to extend Dr Wicke's term of office on the Board of Management, which was due to expire in 2019, by an additional five years. In addition, the Supervisory Board appointed Mr Jean-Jacques Henchoz as a Member of the Board of Management with effect from 1 April 2019. At the end of the Talanx AG Annual General Meeting on 9 May 2019 and the Hannover Rück SE Annual General Meeting on 8 May 2019, he is to succeed Mr Wallin as the person responsible for the Reinsurance Division on the Talanx AG Board of Management and as Chairman of the Board of Management at Hannover Rück SE.

AN EXPRESSION OF THANKS TO THE BOARD OF MANAGEMENT AND OUR EMPLOYEES

The Supervisory Board would like to thank the Members of the Board of Management and all employees worldwide. With their dedicated efforts, they have all contributed to the pleasing results of the Company and the Group once again.

Hannover, 15 March 2019

On behalf of the Supervisory Board
Herbert Haas
(Chairman)

TALANX SHARES

CAPITAL MARKET ENVIRONMENT

The stock market environment remained in the shadow of geopolitical uncertainties in the past financial year. In addition, initial worries about continued economic growth – especially in Europe but also in other parts of the world – intensified. These were prompted predominantly by an array of political and economic disruptions, including the looming trade dispute between the US and its trade partners, notably China. In Europe, lack of clarity regarding the UK's exit from the EU and budget spats between Italy and the other members of the European Union heightened economic growth risks in both Europe and the eurozone. Growth in the European Union remained intact as at the end of 2018, albeit with growth rates flagging somewhat and increasing signs that the upturn may now have reached its final stage. For example, export expectations in Germany in particular dampened towards the end of the year and central banks' economic growth stimuli also declined globally.

The ECB resumed its extremely expansive monetary policy with a prime rate of 0%, but the bank significantly reduced its bond purchases at the end of 2018 and now only the net coupon proceeds from the buyback programme are used for bond purchases. In the US, on the other hand, the Fed raised its benchmark interest rate by a quarter of a percentage point to a range from between 2.25% and 2.5%. This brings the total number of prime rate hikes in the US in 2018 to four.

Independent of this, yields on ten-year German government bonds stood at 0.24% at the end of 2018, some 20 basis points lower than at the close of the previous year. The risk premiums on most spread instruments, in particular for banks and insurance companies, widened significantly in the fourth quarter. The German stock market initially continued its positive performance of the previous year despite ongoing political uncertainties, before prices adjusted over the course of the year. This development was reinforced by central banks' expectation that the liquidity supply would drop off, emerging economic uncertainty and profit warnings issued by some companies. Against a backdrop of mounting volatility, the DAX eventually closed 2018 down 18.3%, a sharp slide. The MDAX and the SDAX lost 17.6% and 20.0% respectively over the year. European insurance stocks were unable to fully escape this trend. Investor concerns about the economy were less pronounced here but declining bond yields alongside rising spreads strained insurance stocks, especially towards the end of the year. Accordingly, the performance of the STOXX Europe 600 Insurance Index, including dividend payments, was down 10.1% last year.

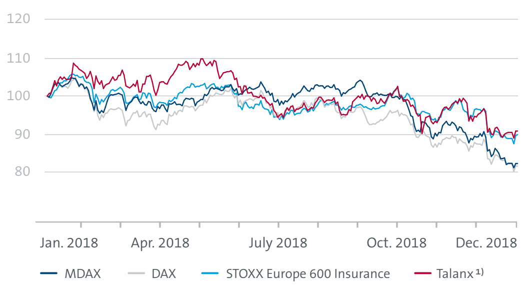
OUR SHARE PRICE PERFORMANCE

In light of these developments, Talanx shares also saw a price drop and ended the 2018 stock market year at a XETRA closing price of EUR 29.80 (2017: EUR 34.07), a decline of 12.5%. Taking into account the dividend of EUR 1.40 distributed in May 2018 reduced the performance decline in 2018 to 8.4%. On this – comparable – basis, Talanx shares therefore performed better than both the most important German indices and the STOXX Europe 600 Insurance Index (performance index).

In the past stock market year, Talanx stocks achieved a new all-time high based on the XETRA closing price, reaching EUR 37.38 on 30 April 2018. However, a weaker result in the Industrial Lines Division – a result chiefly of sector-wide low prices in industrial fire insurance in Germany – led to a share price adjustment before prices picked up again slightly from July 2018. In mid-October 2018, higher large and frequency losses in German industrial property insurance, which were observable throughout the sector, meant that the Talanx Group's earnings targets for the 2018 financial year had to be corrected. Against this backdrop, the share price was unable to elude the general weakness beleaguering the stock market in the final quarter of 2018.

TALANX SHARE PERFORMANCE INDEX COMPARISONS

1 JAN. 2018 = 100



1) Reinvested dividend payments.

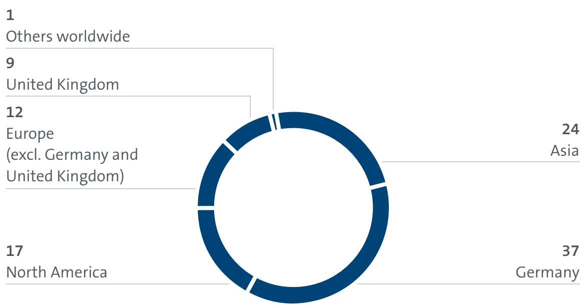
INDEX MEMBERSHIP AND STOCK EXCHANGES

Talanx shares have been listed on the Frankfurt Stock Exchange (Prime Standard) and on the Hannover Stock Exchange since October 2012 and were listed on the MDAX until 24 September 2018. The shares have been represented on the SDAX ever since the German Stock Exchange transitioned to a new index methodology in 2018. Talanx shares have also been listed on the Warsaw Stock Exchange since April 2014.

During the reporting period, the shareholder structure at Talanx AG did not fundamentally change in accordance with the definition of the German Stock Exchange. As at the end of the prior year, the free float share of Talanx AG still stands at 21%. In addition to HDI V. a. G. (79% share of Talanx AG), the Japanese insurance group Meiji Yasuda also holds a stake above the reporting threshold of 3% in the share capital of Talanx AG. However, as this stake amounts to less than 5%, the Meiji Yasuda shareholding is allocated to the free float in accordance with the definition of the German Stock Exchange. Almost 60% of the free float is held by European investors, with over 15% of the shares from the free float attributable to investors from North America. The high share of Asian minority shareholders is mainly due to the share ownership at Meiji Yasuda. Private shareholders make up around one quarter of the free float.

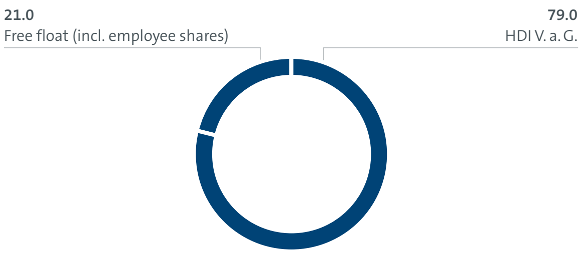
COMPOSITION OF THE MINORITY SHAREHOLDERS AS AT 31.12.2018

%



SHAREHOLDER STRUCTURE AS AT 31.12.2018

%



CAPITAL MARKET COMMUNICATION

The aim of our investor relations (IR) work in 2018 was again to increase awareness of Talanx AG and its equity story on the capital markets, as well as to strengthen contacts with existing investors. We also aimed to continually attract new investors for our shares. We provided our shareholders, potential investors and other parties with an interest in our shares with a regular account of our corporate development. To achieve this, Talanx AG's Board of Management travelled to various investor conferences in 2018 in cities including New York, London, Frankfurt, Berlin and Munich. Members of the Board of Management visited investors at roadshows in locations including New York, Chicago, Los Angeles, London, Frankfurt and Paris and Talanx AG's IR managers also took part in other investor conferences and roadshows in Germany and around the world. In total, meetings were held with around 150 institutional investors in the reporting period. Moreover, employees in the Investor Relations department are regularly involved in events aimed at raising awareness of Talanx shares among private investors.

Talanx AG held its Capital Markets Day again last year, its sixth such event since the company went public in autumn 2012. This took place last October in Frankfurt am Main. The event focused on refining the strategy under the new Chairman of the Board of Management. Torsten Leue, together with the Board of Management team, illustrated which existing strengths he wants to continue to consolidate (entrepreneurial corporate culture, focus on B2B business, portfolio diversification) and which areas of development the company will work on together (more targeted capital management, focussed strategy in the Divisions, accelerating the digital transformation). The event was attended by around 35 analysts and investors and was also broadcast live on our IR website (a recording of it is still available online).

Talanx plans to hold its next Capital Markets Day on 20 November 2019, again in Frankfurt am Main.

We are available to assist analysts, institutional investors and private investors every day. In addition, we have set up an informative IR section on our website at www.talanx.com, which we are expanding and updating continually.

Research reports issued by banks and brokers constitute another valuable source of information for investors and increase transparency. We therefore pay close attention to the financial analysts who create published and independent earnings estimates and share recommendations for us. At the end of the year under review, 17 (in the previous year: 19) analysts gave an investment assessment for Talanx share.

DIVIDEND POLICY

A continuous dividend policy is one of Talanx AG's goals. This means that the aim of achieving the payout ratio announced during the IPO of 35% to 45% of Group net income, as defined by International Financial Reporting Standards (IFRS), after tax and minority interests still holds good. At the same time, the dividends paid per share are expected to be equal or higher than last year's figure.

Talanx paid a dividend of EUR 1.40 for the 2017 financial year (2016 financial year: EUR 1.35), which represents a payout ratio of 52.7% (2016 financial year: 37.8 %).

The Board of Management and Supervisory Board will propose a dividend of EUR 1.45 per share at Talanx AG's Annual General Meeting for the 2018 financial year. Based on the annual average price of EUR 33.32 (XETRA closing price), this results in a dividend yield of 4.3%. The payout ratio, based on IFRS earnings per share, is 52.2%.

The Annual General Meeting will be held on Thursday 9 May 2019 in the Kuppelsaal of the Hannover Congress Centrum (HCC).

GENERAL INFORMATION ON TALANX SHARES

German securities identification number (WKN)	TLX100
ISIN	DE000TLX1005
Trading symbol (XETRA)	TLX
Share class	No-par value ordinary registered shares
Number of shares	252,797,634
Year-end closing price [1]	EUR 29.80
Annual high [1]	EUR 37.38
Annual low [1]	EUR 29.20
Stock exchanges	XETRA, Frankfurt, Hannover, Warsaw
Trading segment	Prime Standard of the Frankfurt Stock Exchange

Share prices: XETRA
[1] Based on XETRA daily closing prices.

1

Combined Management Report

FOUNDATIONS OF THE GROUP

THE TALANX GROUP

BUSINESS MODEL

The Talanx Group is a multi-brand provider in the insurance and financial services sector. It employed 22,642 people worldwide at the end of 2018. The Group parent is Hannover-based financial and management holding company Talanx AG, which has been listed since 2012. HDI V. a. G., a mutual insurance undertaking formed over 110 years ago, is the majority shareholder in Talanx AG and holds an interest of 79.0%. Including employee shares, 21.0% of the shares are held in free float, unchanged against the previous year.

The Group companies operate the insurance classes specified in the Regulation on Reporting by Insurance Undertakings (BerVersV) to the Federal Financial Supervisory Authority, partly in the direct written insurance business and partly in the reinsurance business, focusing on various areas: life insurance, casualty insurance, liability insurance, motor insurance, aviation insurance (including space insurance), legal protection insurance, fire insurance, burglary and theft insurance, water damage insurance, plate glass insurance, windstorm insurance, comprehensive householders insurance, comprehensive home-owners insurance, hail insurance, livestock insurance, engineering insurance, omnium insurance, marine insurance, credit and surety business (reinsurance only), extended coverage for fire and fire loss of profits insurance, business interruption insurance, travel assistance insurance, aviation and space liability insurance, other property insurance, other non-life insurance.

Talanx is represented by its own companies or branches on all continents. Its retail business focuses on Germany and, outside of Germany, in particular on the growth markets of Central and Eastern Europe (including Turkey) and Latin America. The Group has business relationships with primary insurance and reinsurance customers in over 150 countries in total.

The Talanx Group's divisions are each responsible for their own business processes. These tasks, which are shared by several organisational units, help to create value in the Group. The core processes in the internationally aligned Industrial Lines, for example, are product development, sales and underwriting, including the relevant technical supervision. The core processes in the retail segments include product development, rate setting, sales, as well as product management and marketing. Sales, product development and underwriting also play a significant role in the two reinsurance segments. From the Group's perspective, the Corporate Operations segment is responsible for asset management, corporate development, risk management, human resources and other services.

LEGAL AND REGULATORY ENVIRONMENT

To guarantee the stability of companies and financial markets and protect their customers, insurance companies (primary and reinsurance companies), banks and asset management companies around the world are subject to extensive legal and financial supervision by supervisory authorities. In the Federal Republic of Germany this task is the responsibility of the Federal Financial Supervisory Authority (BaFin). In addition, these companies' business is regulated extensively by numerous legal regulations. The previous years' significant development of the legal environment which has become more stringent and complex as a result continued unabated in 2018.

Against the backdrop of the Insurance Distribution Directive (IDD) which is to be implemented in Germany, projects have already been set up in the Group companies concerned to realise the implementation of the substantial specifications in time. These projects were completed in good time before the relevant statutory regulations in Germany came into effect. The legal requirements focus particularly on ensuring the best possible consideration of consumer interests in product development and the sale of insurance products, broad requirements in relation to product monitoring and product governance of insurance products by insurance companies and insurance brokers.

On 25 January 2017, BaFin published its circular 2/2017 (VA) on the authority's interpretation of the minimum requirements for the business organisation of insurance companies (MaGo). This circular explains overarching aspects of business organisation as well as key terms such as "proportionality" or "management or supervisory board" from the supervisory authority's perspective. Irrespective of the fact that these legal views published by BaFin are not directly legally binding, MaGo is taken into consideration when defining the Group's business organisation, in particular in the areas of general governance, key functions, the risk management system, own funds requirements, internal control system, outsourcing and emergency plans.

The act implementing the fourth EU Money Laundering Directive came into effect on 26 June 2017. The Group companies affected have put in place provisions and introduced organisational measures to meet the new statutory requirements.

Digitalisation has become increasingly important in the last few years and the associated transition to digital, data-based business models as well as the resulting legal issues and challenges are playing an ever more significant role for Talanx Group companies. In a circular relating to insurance supervisory requirements for IT, BaFin provided information on the interpretation of the business organisation provisions in the German Insurance Supervision Act that relate to the companies' technical and organisational infrastructure. The Authority also published guidance on outsourcing to cloud providers.

The insurance companies of the Talanx Group are heavily reliant – as is the whole sector – on the collection of personal data. Data is collected, inter alia, to process applications, contracts and benefit settlements, and is processed and used to provide needs-based advice to insured parties. The employees of the companies of the Talanx Group are aware of their corresponding responsibility to handle personal data appropriately and have undertaken in writing to adhere to data protection requirements. Safeguarding the rights of insured parties, employees and shareholders etc. and protecting their privacy are key objectives of all Group companies. The EU General Data Protection Regulation (GDPR) and a new German Data Protection Act have been legally binding since 25 May 2018. In light of this, necessary adjustments have been made to processes, contracts and systems in order to protect the rights of data subjects and the Group companies' obligations. Its implementation must now be monitored by authorities, courts and by providing comments in order to identify any further adjustments that may be required. The data protection organisation was expanded in line with the scope of the GDPR and so Group standards now apply to the locations based in the EU.

The companies in the Talanx Group regard compliance with the applicable law as a prerequisite for successful business in the long term. The companies always devote a great amount of attention to adapting and refining their business and products to new statutory regulations, and to complying with the supervisory and tax law regulatory framework. The mechanisms established as part of this process ensure that future legal developments and their consequences for the company's own business activity are identified and assessed sufficiently early to enable the required adjustments to be made.

As securities issuers, Talanx AG and other Group companies are subject to capital market supervision in Germany as well as in Poland and Luxembourg, for example.

GROUP STRUCTURE

The Group divides its business activities into "Insurance" – with six reportable segments – and "Corporate Operations", as the seventh segment.

In primary insurance, we act with the three divisions Industrial Lines, Retail Germany – with the Property/Casualty Insurance and Life Insurance segments – and Retail International. One member of the Board of Management is responsible for each of these divisions. Industrial Lines operates worldwide and, insofar as possible, it is independent of third companies and is therefore able to lead international consortia through its own companies; since January 2019, special insurer HDI Global Specialty SE, a joint venture between HDI Global SE and Hannover Rück SE, has been providing bespoke insurance solutions to industrial companies, Groups and small and medium-sized enterprises. Companies offering insurance to retail clients and small and medium-sized companies in Germany are consolidated in the Retail Germany Division. The Retail International Division focusses primarily on the strategic core markets of Latin America, as well as Central and Eastern Europe (including Turkey).

The Property/Casualty Reinsurance and Life/Health Reinsurance segments make up the Reinsurance Division; they are operated by Hannover Rück SE. Continental Europe and North America are the target markets for Property/Casualty Reinsurance, which also operates various lines of business in global reinsurance and specialty lines worldwide. Life/Health Reinsurance is divided into financial solutions and risk solutions, which includes longevity solutions, mortality and morbidity.

The Corporate Operations segment includes Talanx AG, which primarily performs strategic duties. It has had a reinsurance license since January 2019 and also conducts business activities. The segment also includes the in-house service companies, as well as Talanx Reinsurance Broker GmbH and the Group business HDI Reinsurance (Ireland) SE (formerly Talanx Reinsurance (Ireland) SE); Ampega Asset Management GmbH (formerly Talanx Asset Management GmbH), Ampega Investment GmbH and Ampega Real Estate GmbH (formerly Talanx Immobilien Management GmbH) are primarily concerned with managing the Group's investments and offer services including in the area of finances.

GROUP STRUCTURE

Talanx AG

Geschäftsbereich Industrieversicherung *Industrial Lines Division*

- HDI Global SE
- HDI Global Specialty SE [1]
- HDI Versicherung AG (Austria)
- HDI Global Seguros S.A. (Brazil)
- HDI Global Network AG
- HDI-Gerling de México Seguros S.A.
- HDI Global Insurance Limited Liability Company (Russia)
- HDI Global SA Ltd. (South Africa)
- HDI Global Insurance Company (USA)

Geschäftsbereich Privat- und Firmenversicherung Deutschland *Retail Germany Division*

- HDI Deutschland AG

Schaden/Unfallversicherung *Property/Casualty Insurance*

- HDI Versicherung AG
- Lifestyle Protection AG
- neue leben Unfallversicherung AG
- PB Versicherung AG
- TARGO Versicherung AG

Lebensversicherung *Life Insurance*

- HDI Lebensversicherung AG
- HDI Pensionskasse AG
- Lifestyle Protection Lebensversicherung AG
- neue leben Lebensversicherung AG
- PB Lebensversicherung AG
- PB Pensionsfonds AG
- HDI Pensionsmanagement AG
- TARGO Lebensversicherung AG

Geschäftsbereich Privat- und Firmenversicherung International *Retail International Division*

- HDI International AG
- HDI Seguros S.A. (Argentina)
- HDI Seguros S.A. (Brazil)
- HDI Seguros S.A. (Chile)
- HDI Seguros S.A. (Colombia)
- HDI Seguros de Vida S.A. (Colombia)
- HDI Seguros S.A. de C.V. (Mexico)
- HDI Seguros S.A. (Uruguay)
- TUiR WARTA S.A. (Poland)
- TU na Życie WARTA S.A. (Poland)
- TU na Życie Europa S.A. (Poland)
- TU Europa S.A. (Poland)
- OOO Strakhovaya Kompaniya „CiV Life" (Russia)
- HDI Assicurazioni S.p.A. (Italy)
- Magyar Posta Biztosító Zrt. (Hungary)
- Magyar Posta Életbiztosító Zrt. (Hungary)
- HDI Sigorta A.Ş. (Turkey)

Geschäftsbereich Rückversicherung *Reinsurance Division*

- Hannover Rück SE

Schaden-Rückversicherung *Property/Casualty Reinsurance*

- E+S Rückversicherung AG
- Hannover ReTakaful B.S.C. (c) (Bahrain)
- Hannover Re (Bermuda) Ltd.
- Hannover Reinsurance Africa Limited
- Hannover Re (Ireland) DAC

Personen-Rückversicherung *Life/Health Reinsurance*

- Hannover Life Re of Australasia Ltd
- Hannover Life Reassurance Bermuda Ltd.
- Hannover Life Reassurance Africa Limited
- Hannover Life Reassurance Company of America

Konzernfunktionen *Corporate Operations*

- Ampega Asset Management GmbH
- Ampega Investment GmbH
- Ampega Real Estate GmbH
- HDI Service AG
- HDI Systeme AG
- Talanx Reinsurance Broker GmbH
- HDI Reinsurance (Ireland) SE

[1] Until 31 December 2018 as Inter Hannover under the Property/Casualty Reinsurance segment

Nur die wesentlichen Beteiligungen
Main participations only

Stand / As at: 30.01.2019

STRATEGY

The Talanx Group is active in primary insurance and reinsurance around the world in both the property/casualty and life insurance businesses. In the more than 100 years of our history, we have evolved from a pure-play liability insurer for industry into a global insurance group with a focus on industrial and retail lines and the reinsurance business. We attach particular importance to close collaboration between us and our industrial partners and retail clients, many of whom have worked with us for many years, in order to provide them with the best possible service. The Talanx Group optimises the relationship between insurance and reinsurance as an integral component of our business model with the aim of consistently enhancing our opportunity/risk profile and improving capital efficiency. The composition of the Group's portfolio ensures that we have sufficient independent risk capacities in all market phases to support our clients reliably and over the long term and to tap into promising markets. This diversification approach bolsters our independence, minimises our exposure to risk and enables us to sustainably grow the Group's success to the benefit of clients, investors and employees.

The Group parent is Talanx AG, a financial and management holding company. It ensures that the Group achieves its primary objective – sustainable, profitable growth and long-term value creation. This is also the guiding principle for all divisional strategies, which are based on the Group strategy. The Talanx Group's organisation centralises Group management and service functions while delegating responsibility for earnings to the divisions. This organisational structure, which offers the individual divisions a high level of entrepreneurial freedom and responsibility for earnings, is key to the Talanx Group's success as it enables the individual divisions to take maximum advantage of their growth and profit opportunities.

While the Talanx brand is oriented towards the capital market, the high level of national and international product expertise, forward-looking underwriting policy and strong distribution resources of our operational divisions are reflected in a multi-brand strategy. This enables us to align ourselves optimally to the needs of different client groups, regions and cooperation partners. It also ensures that new companies and/or business sectors can be efficiently integrated into the Group. This structure also creates a good basis for cooperation, in particular with a wide range of partners and business models.

The Group's strategy is geared towards achieving our ambitious and clearly defined growth and profitability targets by systematically expanding our strengths ("strengthen") and adopting a focused approach to our development areas ("develop"). The Group as a whole aims for a return on equity (in accordance with IFRS) of at least 800 basis points above the risk-free interest rate in order to ensure long-term value creation. Our objective is to increase earnings per share (EPS) by an average of at least 5% a year by 2022, underpinned by focused divisional strategies and a host of strategic growth initiatives. We also intend to continue to distribute no less than 35% to 45% of our consolidated earnings under IFRS to our shareholders, with future dividends remaining at least at the prior year's level in absolute terms. As strategic subsidiary conditions, we have also set ourself the goal of achieving limited market risk (≤ 50%) and a high regulatory solvency ratio (150% – 200%).

Our strengths, and by that measure the basis of our success, include the Group's distinctive entrepreneurial corporate culture with clear local responsibilities, the focus on B2B business – the source of over 80% of our premiums – and strong regional diversification in terms of the mix of business and products. In the medium term, we intend to further boost the share of business generated abroad so that this accounts for up to two thirds of total primary insurance premiums. These strengths already make our Group "traditionally different"!

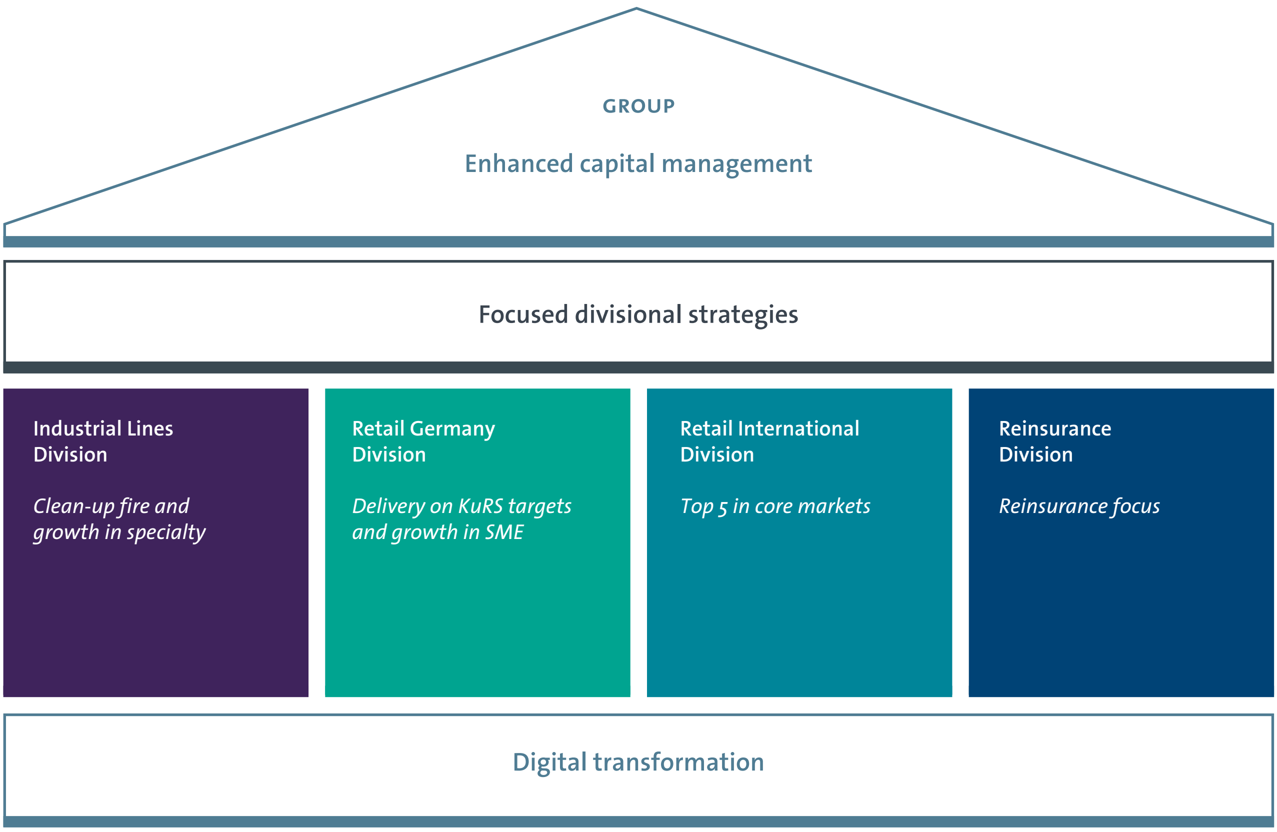
Areas that we are continuing to develop include optimising capital management in order to maximise financial flexibility within the Group, providing first-class capital resources at all times and ensuring dividend stability in the long run. Capital for expanding business is used only where the strategic and profitability criteria have been met and business decisions are managed in such a way that capital and liquidity are transferred to the holding company whenever possible. For this purpose, both the Group capital structure and local capital resources of our subsidiaries are optimised on an ongoing basis. In addition, we will pool the reinsurance requirements for primary insurance on an intragroup basis at the holding company in order to take advantage of capital and diversification effects throughout the Group.

Another strategic focus of development is digital transformation, one of the key tasks for the next few years, which is explicitly driven by individual divisions in the Group. In doing so, we adopt the "traditionally different" approach while simultaneously taking account of varying local regulations and digital customer behaviour patterns. Digital transformation also places emphasis on advancing the IT and system environment as a basis for automation and process digitalisation ("get ready"), alongside the focal topics of data analytics centring around artificial intelligence and behavioural economics ("get skills") and ecosystems/partnerships ("get bundled"). These focal topics are directly supported by the holding company due to their Group-wide relevance.

The strategies of the individual divisions were once again refined and focussed. The Industrial Lines Division is focussing on the systematic restructuring of fire insurance business, international growth and the field of specialty insurance. The objective is to reduce the combined ratio in fire insurance, which currently accounts for around 20% of HDI Global SE's total portfolio, by at least 20 percentage points by 2020 ("20/20/20" programme). In contrast, we see particular growth potential for industrial business in international markets, in particular in North America, Europe and selected emerging markets. As of 1 January 2019, HDI Global Specialty SE marks the launch of an intragroup joint venture for the Division with Hannover Rück SE. We expect the combination of Inter Hannover's underwriting expertise and HDI Global's worldwide sales and claims adjustment network to result in significant growth synergies in future. The Retail Germany Division is consistently pursuing its strategic "KuRS" programme and aiming for further growth in business with small and medium-sized enterprises (SMEs). In the Retail International Division, we aim to continue our strong growth while also further advancing diversification. Our goal is to position ourself as a leader in the five defined core markets in Latin America and in central and eastern Europe, i.e. to be one of the top five providers. This is to be achieved by means of profitable organic and non-organic growth. The Reinsurance Division is concentrating on building further on its existing strengths, particularly with regard to competitiveness and profitability. Making consistent use of diversification benefits and continuing to expand integrated and innovative reinsurance offers plays a key role in this. In addition, as a long-term majority shareholder in Hannover Rück SE, our goal is to consolidate and selectively expand that company's position as a global player.

Our human resources strategy is described in the "consolidated non-financial statement" section on pages 64ff. and our risk management approach is described in the risk report on pages 108ff., and so these aspects are not gone into in more detail here.

TALANX GROUP'S UMBRELLA STRATEGY



ENTERPRISE MANAGEMENT

The Talanx Group's Group strategy is geared towards long-term value creation for all Group stakeholders which, in turn, is based on reliable continuity, financial strength and sustainable profitability. This approach safeguards our independence and enables us to grow the Group's success to the benefit of our investors, clients and employees. At the same time, the range of demands placed on insurance groups by the regulatory environment, the capital markets and rating agencies must be taken into consideration. We have responded to the underlying situation – as determined by these internal and external factors – by defining the following enterprise management goals:

- financial strength
- sustainable growth
- long-term value creation
- optimal capital efficiency

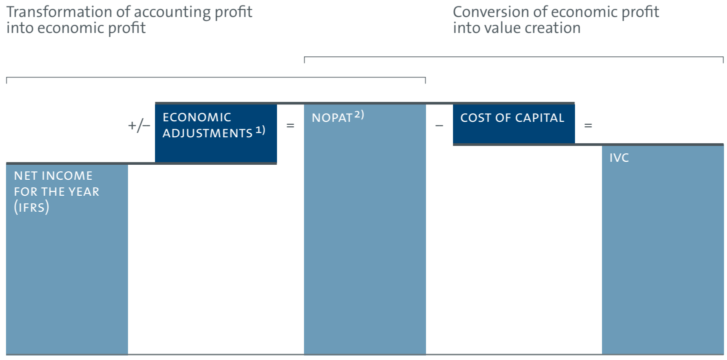
Our holistic, integrated management system will help us to achieve these goals. This system focuses on the four fundamental management processes that govern the relationships between Talanx AG and the various divisions:

- Capital management
- Performance management
- Risk management
- Mergers & acquisitions

This cooperation between Talanx AG and the operating divisions is complemented by the Talanx Group's organisation, which centralises Group management and service functions while delegating responsibility for earnings to the divisions.

We measure financial strength at Group level using the Solvency II key figures and the S&P ratings model. In order to manage long-term value creation, increase profitability and bolster Group capital efficiency, we draw on a key figure that makes it possible to compare various business models (e.g. insurance and reinsurance, non-life and life insurance, business models in different countries) so that we can make decisions on a consistent and comparable basis. This figure is the intrinsic value creation (IVC) strategic management metric, which we analyse as a five-year average over a multi-year period to ensure that management decisions are not based on results for just one year, which could be too volatile. IVC measures the economic net income less the cost of capital (for calculation see the figure below). In addition to net income for the year under IFRS, economic net income takes into account the change in unrealised gains and losses on assets or liabilities both in investments and in underwriting such as the change in the loss reserve discount in non-life insurance and the change in the non-capitalised value of in-force business in life insurance. Cost of capital in non-life insurance includes costs associated with the maintenance of the required risk capital under supervisory law (solvency capital required) and the cost of excess capital. It consists of the risk-free interest rate as the five-year average for ten-year German government bonds, a friction cost rate of 2% and, in relation to the solvency capital required, an additional risk margin of 4%. The cost rates apply on the basis of a value at risk of 99.5%, which corresponds to the confidence level required under supervisory law. In the life insurance business, we take the roll forward into account as cost of capital in the Solvency II own funds calculation; this reflects expected changes in the value of in-force business. In addition, we focus on the performance management process as this constitutes the key process for putting the objectives described above into practice and results in the operational management metrics.

RECONCILING NET INCOME FOR THE YEAR UNDER IFRS WITH IVC



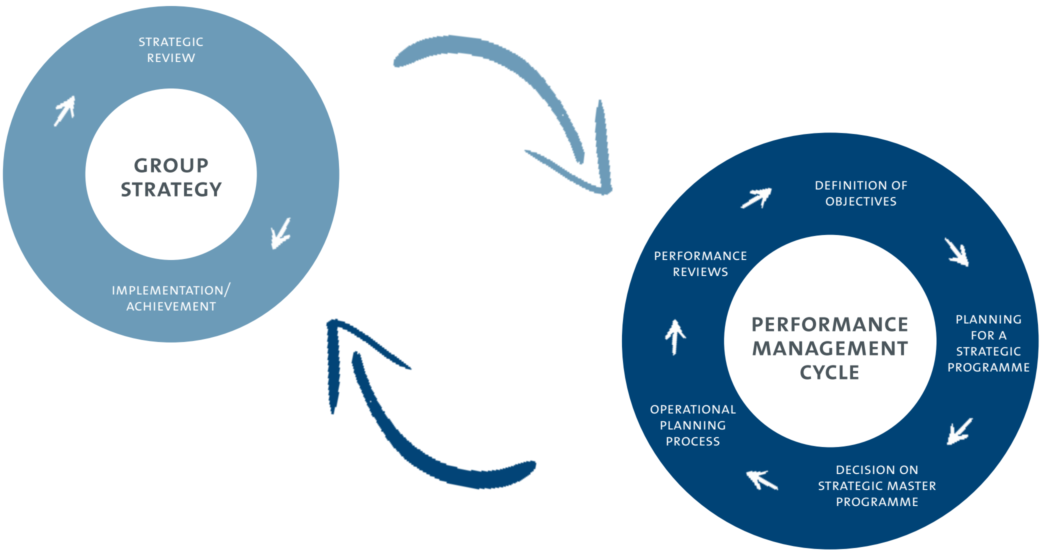
1) Economic adjustments, e.g. change in loss reserves
2) NOPAT: Net Operating Profit after Adjustment and Tax

PERFORMANCE-MANAGEMENT

Performance management is at the heart of our central management system. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. Since mismanagement is very often due to inadequate implementation of the strategy, we devote particularly close attention to the steps of the process that serve to ensure that our business operations are in line with our strategic objectives.

Our performance management cycle combines our strategic and operational planning and is closely linked with our Group strategy. In the year under review, it was as follows:

PERFORMANCE MANAGEMENT CYCLE



At the beginning of the annual performance management cycle, the Board of Management of Talanx AG defines indicative divisional objectives for the strategic and operative planning modules for the relevant planning year designed to enable alignment of business activities with the strategy. These targets focus on the Group's strategic management metrics and on Group-wide strategic initiatives. The Talanx Group's strategic management metrics include return on equity (RoE), value creation (IVC) and the dividend. The risk budget and minimum capital adequacy are also defined, providing the accompanying framework for these management metrics. The indicative objectives formulated by the holding company thus explicitly define the Group's expectations for each planning year in terms of profitability, ability to pay dividends, risk appetite and level of security.

After these indicative objectives have been set, each division establishes a strategic programme as a further important step in implementing the strategy. In it, the strategic objectives are broken down into subgoals underpinned by concrete measures and action programmes. The strategic programmes supplied are critically examined in light of the Group strategy in discussions between the

Board of Management of the holding company and the divisional boards of management. The divisions' agreed strategic planning is then aggregated to produce the strategic programme for the entire Group, which is adopted by the holding company.

The Group and the divisions use the performance metric to strategically manage the business. This is based on indicators that signal sustainable target achievement in the future. In addition to the financial perspective, it addresses other dimensions such as the market/client perspective, the internal process perspective and the employee perspective. This means that the interests of various stakeholder groups have an influence on strategic management.

By following the steps of the process in performance management using the performance metric, we have created a holistic, Group-wide management system. All areas of the Group are aligned with the strategic objectives and presented in a transparent and balanced manner with the help of measurable metrics. For operational management, we translate the strategic objectives into operational value drivers that are consistent with the strategy.

The operational management metrics at Group and segment level shown in the table are restricted to solely financial performance indicators.

OVERVIEW OF OPERATIONAL MANAGEMENT METRICS IN THE GROUP

Industrial Lines Division	Retail Germany Division		Retail International Division	Reinsurance Division		Group
	Property/Casualty Insurance segment	Life Insurance segment		Property/Casualty Reinsurance segment	Life/Health Reinsurance segment	
Gross premium growth (adjusted for currency effects)	Gross premium growth	Gross premium growth	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)	Gross premium growth (adjusted for currency effects)
Retention [1]	—	—	Growth in value of new business (life) [2]	—	Value of new business	Group net income
Combined ratio (net)	Combined ratio (net)	—	Combined ratio (net, property/casualty only)	Combined ratio (net)	—	Net return on investment
EBIT margin	EBIT margin	EBIT margin	EBIT margin	EBIT margin	EBIT growth	Payout ratio
Return on equity	Return on equity		Return on equity	Return on equity		Return on equity

[1] From 2019 we will no longer consider retention in the Industrial Lines Division as an operating management metric as the objective is to boost profitability.
[2] The Retail International Division's operating management metric will shift from "growth in value of new business" to the absolute value of new business from 2019 onwards in order to ensure conformity with the remuneration criteria.

Combined ratio (net, property/casualty)
Total net acquisition and administrative expenses, including from net interest income on funds withheld and contract deposits and claims and claims expenses (net), divided by earned premiums (net)

EBIT growth
Change in operating profit (EBIT) compared to the prior year in %

EBIT margin
Operating profit (EBIT), divided by net premiums earned

Gross premium growth (adjusted for currency effects)
The growth of gross written premiums (GWP) is nominal growth adjusted for exchange rate effects: GWP for the current year at the prior year's exchange rate minus GWP (prior year), divided by GWP (prior year)

Group net income
Consolidated Group net income (after financing costs and taxes) excluding non-controlling interests

Growth in value of new business (life)
Change in the value of new business (life) excluding non-controlling interests compared to the prior year in %

Net return on investment
Ratio of net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts to average assets under own management

Payout ratio
Payout in the following year, divided by Group net income

Retention
Ratio of net premiums written to gross written premiums (excluding savings elements of premiums under unit-linked life and annuity insurance policies)

Return on equity
Net income (after financing costs and taxes) excluding non-controlling interests in relation to average equity excluding non-controlling interests

Value of new business (life insurance)
Present value of future net income for the year excluding non-controlling interests that is generated from portfolios in the current new business year. This is calculated on the basis of the same operational assumptions as those used to determine Solvency II own funds at the end of the financial year

RESEARCH AND DEVELOPMENT

The Federal Financial Supervisory Authority (BaFin) granted Talanx AG a reinsurance license at the beginning of 2019. The Company is now no longer a pure holding company and instead also conducts business activities and acts as an intragroup reinsurer for primary insurance. However, the Company does not conduct any product research and development of its own. However, within the Company we continuously work to refine the methods and processes necessary to fulfil our business purpose, especially in the area of risk management (see pages 108ff. in the risk report).

In our divisions, we analyse lasting changes, e.g. those relating to demographics or climate, and technical innovations such as nanotechnology, and we develop products and investments that are tailored to our customers and markets.

REPORT ON ECONOMIC POSITION

MARKETS AND BUSINESS CLIMATE

MACROECONOMIC DEVELOPMENT

2018 kicked off with high growth expectations thanks to positive economic data and significant fiscal policy expansion in the US. The rest of the year, however, was marked by flagging growth momentum and increasing discrepancies in growth and inflation.

US economic growth noticeably gathered speed in 2018. While the US economy enjoyed high growth rates, other major economies saw a slowdown for the most part. Indicators, such as purchasing managers' indices and growth in global trade volumes, dwindled steadily over the course of the year. Political developments, alongside higher US interest rates, were primarily to blame for the cool-off in global growth momentum, with the US government's aggressive trade policy in particular provoking a downturn in the world economy.

The eurozone economy was particular shaken by the fall in export growth and the conflict surrounding the Italian budget and ongoing high uncertainty regarding Brexit negotiations also strained business and consumer sentiment. Following growth of 2.4% in 2017, the economy slackened, with growth slowing to 1.8% on account of weak momentum in the second half of the year. Even the German economy only narrowly avoided a recession in the second six months of the year on the back of declining quarters. Gross domestic product moved up by 1.5%, down from 2.2% in the prior year. With the exception of declining export growth, the poor result was largely a result of one-off sector effects. Nonetheless, the eurozone labour market continued to perform well. Unemployment hit its lowest level in ten years, falling to 7.9% in December, and Germany even achieved its lowest unemployment rate since reunification, logging 4.9% in December.

Rising US interest rates, a stronger US dollar and the escalating trade conflict over the year put economic development in emerging markets under considerable pressure. A chain of distinctive events, in particular in Turkey and Argentina, exacerbated the situation further. Economic growth in China was also squeezed by factors including the bilateral trade conflict with the US, which is now coming to a head. Annual GDP growth in 2018 is expected at 6.6%, down on the previous year's figure of 6.9%.

CHANGE IN REAL GROSS DOMESTIC PRODUCT

% CHANGE RELATIVE TO PREVIOUS YEAR

	2018 [1]	2017
USA	+2.9	+2.2
Eurozone	+1.8	+2.4
Germany	+1.5	+2.2
China	+6.6	+6.9

[1] Bloomberg consensus forecasts, as at 10 January 2019 (provisional figures).

Inflation also varied on account of disparities in economic performance. While structural pressure on prices continued to pick up in the US, price increases in the rest of the world remained largely subdued. Accordingly, monetary policy was far tighter in the US, with other major central banks making only very gradual attempts at normalisation. The US Federal Reserve continued its cycle of interest hikes, raising the interest rate four times, whereas the ECB discontinued its monthly bond purchases at the end of the year.

In light of the sharp upturn in energy prices, the annual inflation rate rose significantly in both the eurozone and in the US during the year to over 2% and almost 3% respectively. At the same time, inflation fell to 1.5% in the eurozone in December and to 1.9% in the US in December on the back of the price correction on the oil market.

CAPITAL MARKETS

High growth rates in the US economy and indications that inflation was on the rise caused US interest rates to soar, with ten-year US Treasuries climbing from around 2.4% at the beginning of the year to over 3.2% at times. At the same time, the economic slowdown in the eurozone, coupled with political problems, lead to a significant decline in ten-year Bund yields which fell from almost 0.8% in February to 0.2% in December. By and large, however, volatility on the bond market remained at a similarly low level as in the prior year. The euro fell against the US dollar from an average of EUR 1.23 in the first quarter to EUR 1.14 in the fourth quarter.

Global equity markets got off to a flying start in 2018. Nonetheless, following the first stock market correction of around 10% in the first quarter, rising US interest rates, flagging global growth and an array of political risks continued to ensure a higher degree of volatility and a weak overall stock market year. Over the course of the year, the DAX fell by 18.3%, the EURO STOXX 50 by 14.3% and the Nikkei by 12.1%. The S&P 500 performed far better, albeit still negatively, down 6.2%. After getting off to a good start, the rest of 2018 was marked by a significant increase in risk premiums in almost all spread asset classes.

GERMAN INSURANCE INDUSTRY

PROPERTY/CASUALTY INSURANCE

In 2018 the German insurance industry saw premium growth in property/casualty insurance at the same level as the previous year. In light of consistently low interest rates, this indicates that property and casualty insurance providers are continuing with disciplined underwriting.

The balance sheet of the German property insurers for payments due to the consequences of natural disasters was considerably worse in 2018 than in the previous year. Storm and hail damage alone accounted for over 80% of claims and claims expenses paid. In terms of overall losses from natural hazards, 2018 was slightly above the 15-year average and was one of the four stormiest years in the last two decades. The winter storm "Friederike" that struck in January caused the most damage. The long, hot and unusually dry summer resulted in crop losses, most of which were not insured.

LIFE INSURANCE

Premium income in German life insurance was up slightly on the previous year in 2018. This was particularly due to an increase in the single premium business, whereas the regular premium business declined slightly. Despite interest rates that have been declining for some time, the German insurance industry again achieved a total return that exceeded guaranteed returns in 2018.

INTERNATIONAL INSURANCE MARKETS

The Talanx Group has defined the growth regions of Central and Eastern Europe and Latin America as target regions for expanding its international retail business. Talanx is already a leading industrial insurer in Europe and the Group is now expanding its global presence in this division, including in Asia. This section will primarily focus on development in the above-mentioned international target regions.

PROPERTY/CASUALTY INSURANCE

As a whole, international property/casualty insurance saw a slight growth in premiums in 2018. This growth was significantly higher in emerging markets than in developed insurance markets.

The volume of claims due to natural disasters in the year under review was above the long-term average for the past 30 years but still below the record loss amounts seen in the prior year. This was the case for both total losses and insured claims. The two most destructive catastrophes occurred in the US, with the "Camp" forest fire in northern California, which inflicted severe damage on a small town, and Hurricane "Michael", the fourth-strongest storm ever recorded in the US, which devastated northwestern Florida in October. Moderate premium increases in some countries and lines of business improved profitability in international property/casualty insurance.

Of the developed insurance markets, North American markets were the drivers of growth. This was boosted by growing rates in US property insurance after high natural disaster losses in the prior year.

In Western European markets, premium growth in property/casualty insurance stagnated in 2018, stymied in part by declining rates in British motor insurance.

In Central and Eastern Europe, insurance markets were shaped by political and economic volatility. Regulatory change in Poland presented new challenges for insurers in sales and data protection, while the Turkish motor insurance business in particular felt the impact of the depreciating Turkish lira and rising inflation.

However, overall growth momentum in property/casualty insurance picked up in Latin America in light of economic recovery in the region, although growth remains moderate and varies from country to country. Factors including rising prices in sub-areas of industrial liability insurance (financial and professional liability) fostered growth.

The strongest premium growth in the emerging markets was once again achieved in Asia, with the sharpest upturns seen in China and India. In both countries, growth was driven by agricultural insurance. On the other hand, motor insurance dropped off in Japan where premiums eroded as a result of falling loss trends.

The market environment in international property/casualty reinsurance was challenging. The line did benefit from price increases in the year under review, although these were limited to business affected by large losses in the prior year. Following moderate large losses in the first half of 2018, the second half of the year saw loss volumes increase as a result of natural disasters, particularly in the US and Asia.

LIFE INSURANCE

Despite the challenging business environment marked by persistently low interest rates and ever-changing regulatory requirements, premium income on international life insurance markets has increased moderately in comparison to the previous year. Growth was similar in developed insurance markets and emerging markets. Emerging markets' comparatively low contribution to growth reflects a substantial slump in China.

Economic recovery under way in Latin America had a generally positive impact on premium growth, although there were marked variations between countries.

Asia, which usually boasts the highest growth amongst the developing markets, saw a sharp decline in 2018. This was primarily a result of premiums collapsing in China, where stricter regulation for asset management based life insurance products came into force at the beginning of the year under review.

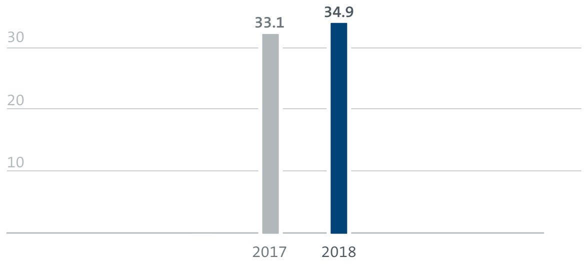
In life/health reinsurance, traditional life insurance products lost some of their appeal on account of ongoing low interest rates. On the other hand, demographic change across the world and ageing populations ensured that demand for retirement provision products and lifestyle products to protect the individual lifestyles of insurance policyholders, which are also relevant to reinsurance, continued to rise. The latter, sales of which were previously limited predominantly to English-speaking and Asian countries, also saw growing interest in Europe.

BUSINESS DEVELOPMENT

The Talanx Group continues to drive profitability in primary insurance both in Germany and abroad. The Industrial Lines Division is focussing on the systematic restructuring of fire insurance business, international growth and the field of specialty insurance. The Retail Germany Division is consistently pursuing its strategic "KuRS" programme and aiming for further growth in business with small and medium-sized enterprises (SMEs). The Retail International Division looks set to see its strong growth continue and aims to be one of the top five in our core markets. The Reinsurance Division is concentrating on building further on its existing strengths, particularly with regard to competitiveness and profitability. The strong underwriting result is having a positive impact on operating profit, causing Group net income to rise to a total of EUR 703 million.

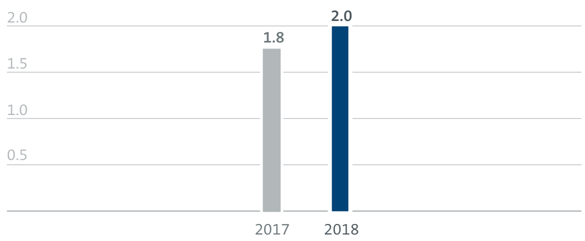
GROSS WRITTEN PREMIUMS

EUR BILLION



OPERATING PROFIT/LOSS (EBIT)

EUR BILLION



GROWTH INITIATIVE IN THE SPECIALTY BUSINESS

Under the umbrella of Talanx AG, Hannover Rück SE and HDI Global SE are launching a joint initiative in global growth and high-margin specialty business, with the two companies merging their specialty activities in a new joint venture. Starting on 1 January 2019, the new company HDI Global Specialty SE will write agency and specialty insurance business in lines such as errors & omissions liability insurance, directors' and officers' (D&O) liability insurance, legal expenses insurance, sports and entertainment, aviation, offshore energy and livestock insurance.

TALANX AG ISSUER RATING UPGRADED

Talanx AG was awarded a financial strength rating by the two international rating agencies Standard & Poor's (S&P) and A.M. Best for the first time. S&P set its rating to A+ with a stable outlook, marking a new and improved issuer rating for Talanx AG (previously A– "CreditWatch Positive"). A.M. Best has also issued Talanx AG a financial strength rating of A with a stable outlook. The decisive factor in both decisions was the granting of the reinsurance license by the Federal Financial Supervisory Authority (BaFin).

TALANX GROUP SETS ITSELF MORE AMBITIOUS TARGETS FOR 2019

Germany's third-largest insurer has launched a new strategy and set itself more ambitious targets for 2019, aiming for a return on equity of at least 800 basis points above the risk-free interest rate and an increase in earnings per share (EPS) of at least 5% per year on average until 2022. This is to be achieved by means of focussed strategies for the divisions, various different growth initiatives, the pooling of intragroup reinsurance at the holding company and more consistent capital management.

PERFORMANCE OF THE GROUP

- Gross written premiums up 5.5%
- EBIT rises by 12.6% to EUR 2.0 billion
- Return on equity improves to 8%

GROUP KEY FIGURES

EUR MILLION

	2018	2017 [1]
Gross written premiums	34,885	33,060
Net premiums earned	29,574	27,418
Underwriting result	–1,647	–2,546
Net investment income	3,767	4,478
Operating profit/loss (EBIT)	2,032	1,805
Combined ratio (net, property/casualty only) in %	98.2	100.4

[1] Adjusted in accordance with IAS 8,see "Accounting policies" section.

MANAGEMENT METRICS

%

	2018	2017 [1]
Gross premium growth (adjusted for currency effects)	8.7	7.5
Group net income in EUR million	703	671
Net return on investment	3.3	4.0
Payout ratio [2]	52.2	52.7
Return on equity	8.0	7.5

[1] Adjusted in accordance with IAS 8, see "Accounting policies" section.
[2] In relation to the appropriation of distributable profits, see the "Other disclosures" section of the Notes, Page 242.

PREMIUM VOLUME

Group gross written premiums increased by 5.5 % (8.7% adjusted for currency effects) to EUR 34.9 (33.1) billion, due in part to good performance in liability and marine business in European countries in the Industrial Lines Divison and structured reinsurance in the Property/Casualty Reinsurance segment. Net premiums earned increased by 7.9% to EUR 29.6 (27.4) billion; retention up slightly at 88.6% (88.5%).

UNDERWRITING RESULT

The underwriting result throughout the Group improved to EUR –1.6 (–2.5) billion thanks to a 2.4% improvement in the loss ratio which comfortably offset the slight increase in the expense ratio. The combined ratio improved year-on-year to 98.2% (100.4%). Although the large-loss burden remained below the previous year's large losses at EUR 1,244 (previous year: EUR 1,620) million, it still overshot the annual budget of EUR 1,125 million. In the Industrial Lines Division, numerous frequency and large losses resulted in a high loss burden. In Property/Casualty Reinsurance, the "Camp" and "Woolsey" forest fires in California and Typhoon "Jebi" in Japan were the source of the largest Group-wide losses due to natural disasters.

NET INVESTMENT INCOME

Net investment income declined by 15.9% to EUR 3.8 (4.5) billion. In particular, extraordinary net investment income, which benefited in the previous year from the realisation of gains resulting from the sale of stock portfolios in the Property/Casualty Reinsurance segment and Retail Germany Division, saw a downturn in the year under review for reasons including lower gains realised to finance the additional interest reserve in the life insurance segment of the Retail Germany Division. This caused the net return on investment to fall to 3.3% (4.0%).

OPERATING PROFIT AND GROUP NET INCOME

Operating profit (EBIT) rose to EUR 2.0 (1.8) billion in the year under review thanks in part to a better underwriting result. Industrial Lines was the only Division to see the underwriting result decline, with the figure picking up in all other Divisions. The high underwriting result offset the downturn in net investment income. Group net income rose correspondingly to EUR 703 (671) million. At 8.0% (7.5%), the return on equity was up on the previous year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE GROUP

%

	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	8.7	> 2
Group net income [1] in EUR million	703	approx. 850
Net return on investment	3.3	≥ 3
Payout ratio [2]	52.2	35 – 45
Return on equity	8.0	~ 9

[1] The forecast for 2018 pertains to the printed forecast in the 2017 Group Annual Report; it was reduced to "around EUR 700 million" during 2018.
[2] In relation to the appropriation of distributable profits, see the "Other disclosures" section of the Notes, page 242.

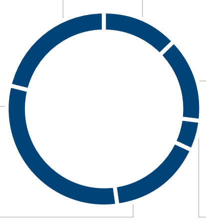
The Group gross premium growth in the year under review amounted to 8.7% (when adjusted for currency effects) and was therefore significantly higher than the prescribed framework for 2018, which was over 2%. At EUR 703 million, Group net income is in line with the outlook figure of EUR 700 million from October 2018. With a return on equity of 8.0% in the year under review, we remained below our guidance for Group return on equity of around 9%. The Board of Management and Supervisory Board are proposing the distribution of a dividend of EUR 1.45 per share to the Annual General Meeting. The payout ratio, based on IFRS earnings per share and on the basis of the proposal to the Annual General Meeting, is 52.2%, which is therefore, as in the previous year, above the target range of 35% to 45%. The net return on investment is 3.3%, meaning that we have exceeded the forecast of at least 3%.

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 Insurance –, Retail International, Property/Casualty 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.

GROSS PREMIUMS BY SEGMENT

%



INDUSTRIAL LINES

- High expenses for large and frequency losses with weak premiums in industrial fire insurance
- Excellent interim results in fire insurance restructuring
- Net investment income high despite challenging market environment and low interest rates

KEY FIGURES FOR THE INDUSTRIAL LINES DIVISION

EUR MILLION

	2018	2017
Gross written premiums	4,686	4,454
Net premiums earned	2,635	2,434
Underwriting result	–240	–207
Net investment income	242	277
Operating profit/loss (EBIT)	11	109

MANAGEMENT METRICS

%

	2018	2017
Gross premium growth (adjusted for currency effects)	7.1	5.2
Combined ratio (net)	109.1	108.5
EBIT margin	0.4	4.5
Return on equity	–0.7	4.1

MARKET DEVELOPMENT

Industrial insurance was again characterised by high losses in 2018. Alongside natural disasters, predominantly in the US and Asia, the year also saw some exceptionally large single losses for the global industrial insurance market, including a fire repercussive loss in the US and damage to a dam in Colombia. There is currently particular market pressure to restructure industrial fire insurance – which has posted high deficits for years – and this will continue in 2019.

To this end, in 2018 we launched the "20/20/20" programme which aims to generate a risk-free additional premium of at least 20% and therefore underwriting gains by 2020 in fire insurance, which accounts for around 20% of our portfolio. By the end of January 2019, we had already agreed around 87% of the minimum rate increases intended to be implemented by 2020 with our customers.

Given ongoing low interest rates and the current challenging environment on the capital market, we should assume that the pressure to restructure will continue to mount on the market.

PREMIUM VOLUME

Gross written premiums in the Industrial Lines Division amounted to EUR 4.7 (4.5) billion as at 31 December 2018, and were therefore higher than expected. They increased by EUR 232 million, or 5.2% (adjusted for currency effects: 7.1%). Premium growth was driven both by additional premiums in property insurance due to restructuring and, in particular, premium increases in the third-party liability and marine lines, especially in our foreign target markets.

The retention ratio in the division increased to 58.6% (55.2%), for reasons including lower payments to external reinsurers in fire insurance and lower year-on-year expenses for reinstatement premiums. The growth in net premiums earned therefore outpaced the gross figures, rising by 8.3% to EUR 2.6 (2.4) billion.

UNDERWRITING RESULT

The net underwriting result, which had already slumped in the previous year, deteriorated again to EUR –240 (–207) million.

The loss ratio (net) was hit hard by numerous large losses and an unusually high accumulation of frequency losses in industrial property insurance, amounting to 87.3%, up from 85.7% in the previous year. At EUR 376 million, the large loss burden was significantly above our EUR 260 million large losses budget. The large losses included an exceptionally high number of large losses in industrial fire insurance caused by human activity, as well as a dam collapse in Colombia and a fire repercussive loss in the US. At 21.8% (22.8%), the net expense ratio was once again down considerably year-on-year, a result of growth and, in particular, strict cost discipline in virtually all areas. The total combined ratio for the Industrial Lines Division was 109.1% (108.5%).

NET INVESTMENT INCOME

Ongoing low interest rates were offset by higher current income, especially from alternative investments (including private equity), and so generated a net return on investment of 3.0% (3.6%) despite the challenging market environment in 2018. The previous year figure was marked primarily by exceptionally high gains on disposal and low write-downs.

OPERATING PROFIT AND GROUP NET INCOME

As a result of the exceptionally high loss burden described above, EBIT was significantly lower in the year under review (EUR 11 million) than in the previous year (EUR 109 million). Group net income amounted to EUR –16 (91) million. The Industrial Lines Division's operating profit includes profits from property sales of EUR 37 million. This is offset by foreign exchange losses of EUR 24 million, also in operating profit/loss (previous year: foreign exchange gain of EUR 34 million).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	7.1	≥ 2
Combined ratio (net)	109.1	~ 99
EBIT margin	0.4	~ 8
Return on equity	–0.7	~ 5

Gross premium growth was up 5.2% (adjusted for currency effects: 7.1%), far above our original expectations. This is a result of additional premiums due to restructuring and, in particular, substantial growth in our selected foreign target markets and in the third-party liability line.

The combined ratio was over the forecast figure of around 99% on account of the high large and frequency losses described above, which were unusually high even compared to the long-term market norm. The expense ratio included in this exceeded our already ambitious expectations, underpinned by our growth and systematic cost discipline.

Although net investment income in 2018 was down on the previous year, when gains on disposal had a particular impact, it was decisively above our expectations thanks to very positive current income.

The developments described above meant that the EBIT margin (0.4%) and the return on equity (–0.7%) fell far short of the approximately 8% and 5% expected respectively.

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

- Growth in third-party liability, accident and property/casualty insurance and in motor insurance
- Cost savings thanks to „KuRS" programme
- Rise in operating profit driven by improved underwriting result

KEY FIGURES FOR THE RETAIL GERMANY DIVISION — PROPERTY/CASUALTY INSURANCE SEGMENT

EUR MILLION

	2018	2017
Gross written premiums	1,564	1,525
Net premiums earned	1,453	1,411
Underwriting result	11	−21
Net investment income	89	91
Operating profit/loss (EBIT)	69	52

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%

	2018	2017
Gross premium growth	2.6	1.8
Combined ratio (net) [1]	99.3	101.6
EBIT margin	4.7	3.7

[1] Including the extraordinary expenses for the “KuRS” programme.

MARKET DEVELOPMENT

In German property/casualty insurance, overall growth of around 3.3% is expected with premium increases in all classes of insurance. Growth in comprehensive homeowners insurance and in motor insurance should be highlighted.

PREMIUM VOLUME

Written premium income of our property/casualty insurers increased by 2.6% to EUR 1.6 (1.5) billion. The higher premium income was thanks in particular to the growth in third-party liability, accident and property corporate business and in motor insurance. The overall share of the entire division accounted for by property/casualty insurers rose to 25.7% (25.2%), due to growth and a decline in premiums in life insurance. The retention ratio remained stable at 94.5% (94.6%).

UNDERWRITING RESULT

The underwriting result from our property/casualty insurance business improved from EUR −21 million to EUR 11 million on the back of profitable growth, lower investments in the “KuRS” modernisation programme, a drop in large losses and cost savings.

The net combined ratio declined by 2.3 percentage points to 99.3%. Adjusted by the investments in the “KuRS” programme, the net combined ratio was 97.1% (98.6%).

NET INVESTMENT INCOME

The division’s net investment income fell by 2.2% to EUR 89 (91) million, the result of lower disposal gains and unrealised gains and losses that could not be offset due to continuing low interest rates.

OPERATING PROFIT

Operating profit for the property insurance business was determined primarily by an improved underwriting result. Provisions for taxes had an adverse effect, in contrast to interest income from tax refunds that we received in the prior year. EBIT rose correspondingly to EUR 69 (52) million. The EBIT margin improved to 4.7% (3.7%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY INSURANCE SEGMENT

%

	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth	2.6	≥ 2
Combined ratio (net) [1]	99.3	~ 100
EBIT margin	4.7	≥ 3

[1] Including the extraordinary expenses for the “KuRS” programme.

Premium income in the property/casualty segment was above the figure forecast due to sharp increases in corporate business and motor insurance. At 99.3%, the line-specific management metric of the combined ratio surpassed expectations thanks to profitable growth, lower investments in the “KuRS” modernisation programme, a fall in large losses and cost savings. The EBIT margin increased to 4.7% as a result and so was also above the figure forecast.

LIFE INSURANCE

- Falling premiums in traditional life and annuity insurance and residual debt insurance
- Decline in net investment income as lower gains realised to finance additional interest reserve
- Growth in EBIT thanks to reduced transfer to provision for premium refunds on account of tax refunds in prior year

KEY FIGURES FOR THE RETAIL GERMANY DIVISION — LIFE INSURANCE SEGMENT

EUR MILLION

	2018	2017
Gross written premiums	4,516	4,576
Net premiums earned	3,379	3,397
Underwriting result	–1,421	–1,883
Net investment income	1,587	2,007
Operating profit/loss (EBIT)	111	85
New business measured in annual premium equivalent	389	385
Single premiums	1,264	1,245
Regular premiums	263	260
New business by product in annual premium equivalent	389	385
of which capital-efficient products	143	139
of which biometric products	137	137

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%

	2018	2017
Gross premium growth	–1.3	–4.4
EBIT margin	3.3	2.5

MARKET DEVELOPMENT

In the current financial year, we expect to see premium growth of around 2.4% in life insurance, with regular premiums rising by 0.2% and single premiums by 8.0%.

PREMIUM VOLUME AND NEW BUSINESS

The gross written premiums in the Retail Germany Division in Life Insurance, including the savings elements from unit-linked life insurance policies, were down 1.3% on the prior year at EUR 4.5 (4.6) billion. In line with expectations, regular premiums fell by EUR 65 million due to an increase in policies maturing, while single premiums increased by EUR 40 million. More stringent sales standards introduced in residual debt insurance made their presence felt, with premiums falling by EUR 36 million.

The retention ratio in the Division dipped to 93.6% (95.2%) as a result of a change in reinsurance. Allowing for savings elements under our unit-linked products and the change in the unearned premium reserve, the net premium earned was consequently somewhat down on the prior year, at EUR 3,379 (3,397) million.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – rose by 1.0% to EUR 389 (385) million due to the upturn in new single premium and regular premium business. The share of capital-efficient products, measured by the total premiums in new business, remained constant in the financial year at 71%.

UNDERWRITING RESULT

The underwriting result rose to EUR –1.4 (–1.9) billion in the current financial year as a result of introducing the corridor approach for allocating the additional interest reserve under HGB. This was partly due to the compounding of 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

Net investment income declined by 20.9% to EUR 1.6 (2.0) billion. In particular, the reduction resulted from the amendment to the Deckungsrückstellungsverordnung (German Benefit Reserve Ordinance), which required the lower realisation of unrealised gains to finance the additional interest reserve. Net investment income remained steady year-on-year at EUR 1.3 (1.3) billion, influenced by persistently low interest rates.

OPERATING PROFIT

The previous year's operating profit (EBIT) was negatively impacted by the provision for premium refunds resulting from tax income and increased to EUR 111 (85) million as a result.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE LIFE INSURANCE SEGMENT

%

	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth	–1.3	slight decline
EBIT margin	3.3	2–3

Premium income in the Life Insurance segment fell by 1.3% in 2018 on account of policies maturing and the adoption of more stringent sales standards in residual debt insurance. Rising EBIT meant that the EBIT margin was slightly above the forecast.

RETAIL GERMANY DIVISION OVERALL

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL

%

	2018	2017
Return on equity	4.2	4.1

The Division's Group net income was unchanged at EUR 102 (102) million. The return on equity rose slightly to 4.2% (4.1%).

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

RETURN ON EQUITY FOR THE RETAIL GERMANY DIVISION OVERALL

%

	2018	Forecast for 2018 from the 2017 Annual Report
Return on equity	4.2	3–4

Group net income remained constant at EUR 102 (102) million, and so, at 4.2%, return on equity slightly exceeded the figure forecast of 3–4%.

RETAIL INTERNATIONAL

- Gross written premiums climb by 7.4% adjusted for currency effects
- Combined ratio at 94.3%
- Return on equity increases to 8.1%

KEY FIGURES FOR THE RETAIL INTERNATIONAL DIVISION

EUR MILLION

	2018	2017 [1]
Gross written premiums	5,552	5,461
Net premiums earned	4,816	4,579
Underwriting result	91	53
Net investment income	321	329
Operating profit/loss (EBIT)	268	238

[1] Adjusted in accordance with IAS 8, see "Accounting policies" section.

MANAGEMENT METRICS

%

	2018	2017 [1]
Gross premium growth (adjusted for currency effects)	7.4	10.5
Growth in value of new business (life) [2]	–18.1	44.7 [3]
Combined ratio (net, property/casualty only)	94.3	95.4
EBIT margin	5.6	5.2
Return on equity	8.1	6.7

[1] Adjusted in accordance with IAS 8, see "Accounting policies" section.
[2] Excluding non-controlling interests; 2018: estimated figure, the final figure will be published in the 2019 Annual Report.
[3] Estimated figure for 2017: 29.7%.

This division bundles the activities of the international retail business in the Talanx Group and is active in both Europe and Latin America. HDI International AG expanded its operations in both regions in the 2018 financial year: The acquisitions of Generali Colombia Seguros Generales S. A. and its subsidiary Generali Colombia Vida Compañia de Seguros S. A., both based in Bogotá, by the Spanish subsidiary Saint Honore Iberia SLU were completed as at 3 April 2018. HDI International AG also assumed a majority interest in Liberty Sigorta A. Ş., Istanbul, on 3 May 2018. The property insurance companies Liberty Sigorta A. Ş. and HDI Sigorta A.Ş. merged on 31 October 2018. On 9 October 2018, the Santander Auto S. A. joint venture was established in Brazil. The joint subsidiary of HDI Seguros S. A., Brazil, and a subsidiary of Banco Santander S. A., Brazil, will also start operations in 2019 after regulatory approval. In addition, an agreement for the sale of HDI Seguros S. A., Peru, was signed on 22 October 2018 but still requires the approval of the Peruvian supervisory authorities.

MARKET DEVELOPMENT

In both of the division's regions, the development of insurance markets in 2018 was influenced by both political and economic volatility. In addition, a shift in political conditions influenced legislation and regulation, and widespread currency depreciation and rising inflation in some emerging markets also had an impact.

Brazil, where the division is mainly active in the area of motor insurance, saw its economic situation improve marginally and this benefited the insurance market, with the motor insurance market generating premium growth of 6.5% in the period from January to November 2018. A trend towards fewer claims had a positive impact on the underwriting result and offset rising inflation. Mexico's economy saw moderate growth in 2018. The property insurer boosted premiums by around 10.0%. The motor insurance market was affected by a drop-off in the number of new car sales and an upturn in theft. Chile also reported stable economic growth, fostered by the new government's reforms in areas including tax legislation. The Chilean insurance market is anticipating growth of 3.0% in 2018.

However, the property insurer saw an upswing in earnings on the Polish insurance market in 2018 thanks to a stable motor insurance market. Regulatory changes relating to sales and data protection presented the insurer with new challenges. The Turkish insurance market was marked by the depreciation of the Turkish Lira and rising inflation in the reporting period and this particularly hurt motor insurance business, with sales of new vehicles down 35.0% on the previous year. Claims expenses rose on account of inflation and regulatory measures meant that these could not be fully offset by increased premium income.

PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) increased by 1.7% compared to the same period of the previous year to EUR 5.6 (5.5) billion. Adjusted for currency effects, gross premiums increased by 7.4% on the comparison period.

In the Latin America region, the gross written premiums in euro increased by 2.0% compared to the same period of the previous year to EUR 1.7 billion. Adjusted for currency effects, the growth amounted to 15.4%, which was essentially due to Mexico and Brazil. The premium volume for the Mexican HDI Seguros S. A. increased, in particular in motor insurance, from bank sales and three new broker programmes, which resulted both from an increased number of insured vehicles and from higher average premiums. 48% of the premium volume generated in the region was accounted for by the Brazilian HDI Seguros S. A. Unadjusted, the company's gross written premiums declined by 9.0% to EUR 807 million. However, adjusted for currency effects, they rose by 7.9%, primarily on account of ongoing price increases in motor insurance. The newly acquired Colombian companies were included for nine months at EUR 60 million.

In the Europe region, gross written premiums rose by 1.7% to EUR 3.8 billion (4.2% adjusted for currency effects), driven primarily by an 8.9% increase in premiums to EUR 1.3 billion at the Polish property insurer TUiR WARTA S. A. The positive performance was driven in particular by the increase in insured vehicles to 5.2 (4.9) million in motor insurance, more than offsetting the drop in average premiums in motor liability insurance. The rise in gross written premiums at the Italian HDI Assicurazioni S. p. A. amounted to 2.8%, resulting largely from the positive development in life single premium business from the bank sales channel. HDI Sigorta A. Ş. in Turkey also reported positive effects on gross written premiums for the region, with the premium volume up 33.0% adjusted for currency effects, thanks mainly to motor insurance. The newly acquired Liberty Sigorta A. Ş. was included for eight months at EUR 7 million.

UNDERWRITING RESULT

The combined ratio for property insurance companies improved by 1.1 percentage points as against the same period of the previous year to 94.3%. The expense ratio for the division was 0.7 percentage points lower than in the previous year at 28.5% (29.2%). This essentially resulted from a decline in the acquisition expense ratio (by 0.6 percentage points to 22.9%) on account of cost optimisation measures, primarily at Poland's TUiR WARTA S. A. and the Brazilian HDI Seguros S. A. The loss ratio was down 0.4 percentage points year-on-year at 65.8%, in particular on account of ongoing price increases in Brazil, the streamlining of the motor insurance portfolio in Italy and a lower vehicle loss ratio at the Polish TUiR WARTA S. A.

Overall, the underwriting result in this division was EUR 91 million, well above the previous year's level (EUR 53 million).

NET INVESTMENT INCOME

In the 2018 financial year, net investment income of EUR 321 million was achieved in the division, representing a year-on-year decrease of 2.4%. Investment income at the division rose by 1.6% year-on-year, primarily a result of the Turkish HDI Sigorta A. Ş., due to higher interest rates, and the Italian HDI Assicurazioni S. p. A. The growth was comfortably offset by lower realised gains in net investment income. Accordingly, the average return on assets under own management fell by 0.3 percentage points to 3.1%.

OPERATING PROFIT AND GROUP NET INCOME

In the 2018 financial year, the Retail International Division achieved an operating profit (EBIT) of EUR 268 million, up 12.6% on the prior year. The EBIT contributed by the Europe region was 25.6% higher as against the same period of the previous year at EUR 234 (187) million, essentially as a result of Poland's TUiR WARTA S. A. and Italy's HDI Assicurazioni S. p. A. By contrast, EBIT of EUR 56 (71) million was generated in the Latin America region, where the decline can be attributed in part to currency effects in Brazil. Taking non-controlling interests into account, Group net income rose by 17.5% to EUR 161 (137) million, with return on equity rising accordingly by 1.4 percentage points to 8.1% compared to the same period in the previous year.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	7.4	5–10
Growth in value of new business (life) [1]	–18.1	5–10
Combined ratio (net, property/casualty only)	94.3	~95
EBIT margin	5.6	~ 5
Return on equity	8.1	~ 7

[1] Excluding non-controlling interests; 2018: estimated figure, the final figure will be published in the 2019 Annual Report.

Adjusted for currency effects, the Retail International Division achieved gross premium income growth of 7.4% in the 2018 financial year. This matches the prior year's forecast. The decline in the new business figure (life) against the prior year figure resulted primarily from new, unfavourable model assumptions relating to future capital markets performance for the Italian HDI Assicurazioni S. p. A. The combined ratio for the international property insurance companies developed better than the 95% forecast due to a lower expense and loss ratio. Both the EBIT margin, at 5.6%, and the return on equity, at 8.1%, exceeded the forecast figures.

ADDITIONAL KEY FIGURES

RETAIL INTERNATIONAL DIVISION BY LINE OF BUSINESS AT A GLANCE

EUR MILLION

	2018	2017 [1]
Gross written premiums	**5,552**	**5,461**
Property/Casualty	3,803	3,703
Life	1,749	1,758
Net premiums earned	**4,816**	**4,579**
Property/Casualty	3,258	3,119
Life	1,558	1,460
Underwriting result	**91**	**53**
Property/Casualty	186	144
Life	–95	–91
Others	—	—
Net investment income	**321**	**329**
Property/Casualty	174	195
Life	152	140
Others	–5	–6
New business by product in annual premium equivalent (life)	**215**	**217**
Single premiums	1,465	1,493
Regular premiums	68	67
New business by product in annual premium equivalent (life)	**215**	**217**
of which capital-efficient products	117	89
of which biometric products	63	59

[1] Adjusted in accordance with IAS 8, see "Accounting policies" section.

RETAIL INTERNATIONAL DIVISION BY REGION AT A GLANCE

EUR MILLION

	2018	2017 [1]
Gross written premiums	**5,552**	**5,461**
of which Europe	3,843	3,778
of which Latin America	1,695	1,661
Net premiums earned	**4,816**	**4,579**
of which Europe	3,414	3,177
of which Latin America	1,400	1,399
Underwriting result	**91**	**53**
of which Europe	38	3
of which Latin America	57	48
Net investment income	**321**	**329**
of which Europe	261	248
of which Latin America	65	87
Operating profit/loss (EBIT)	**268**	**238**
of which Europe	234	187
of which Latin America	56	71

[1] Adjusted in accordance with IAS 8, see "Accounting policies" section.

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

- Gross premium volume rises 16.2% adjusted for currency effects, significantly exceeding expectations
- Large loss burden slightly above EUR 825 million budget at EUR 850 million
- Combined ratio improves to 96.6%
- Property/Casualty Reinsurance market challenging in light of continuing high losses

KEY FIGURES FOR THE REINSURANCE DIVISION – PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR MILLION

	2018	2017
Gross written premiums	11,976	10,711
Net premiums earned	10,805	9,158
Underwriting result	333	1
Net investment income	1,065	1,235
Operating profit/loss (EBIT)	1,364	1,141

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%

	2018	2017
Gross premium growth (adjusted for currency effects)	16.2	18.7
Combined ratio (net)	96.6	99.8
EBIT margin	12.6	12.5

BUSINESS DEVELOPMENT

As before, there is still a surplus supply of capital to cover risks on the global property/casualty reinsurance markets. Even the severe storm damage in the US in 2017 and 2018 did little to change this. At the same time, additional capacity from the market for insurance-linked securities (ILS) is putting sustained pressure on prices and conditions. The environment in which we operate therefore remains challenging. Nevertheless, we saw higher demand for reinsurance coverage in some regions hit by losses and from individual customers.

We were satisfied overall with the results of the contract renewal round on 1 January 2018, when we renegotiated 65% of our portfolio in the Property/Casualty Reinsurance segment (excluding facultative business and structured reinsurance). However, rates in the natural catastrophe business still did not increase as quickly as the market expected after the devastating storm damage last year. Despite challenging contract renewals, we benefited from our customer focus and ability to offer needs-based reinsurance solutions. Growth was particularly strong in Australia, Asia and the United Kingdom and we were also very satisfied with contract renewal in North America and in western and eastern Europe. The area of cyber risk cover also offered attractive opportunities to expand our portfolio. Customers significantly stepped up demand for solvency-easing reinsurance solutions and so we again saw substantial growth in structured reinsurance.

We were also pleased with contract renewals during the year. We continued our profit-oriented underwriting policy for natural disaster risks, keeping our exposure comfortably within our risk appetite, which is unchanged from the previous year. We were able to significantly improve our position in some major customer relationships, particularly in North America and Europe.

PREMIUM DEVELOPMENT

Against this backdrop, gross premiums rose in the year under review by 11.8% to EUR 12.0 (10.7) billion. At constant exchange rates, the increase would have amounted to 16.2%, far above our expectations. Retention increased to 90.7% (89.7%). Net premiums earned climbed by 18.0% to EUR 10.8 (9.2) billion; adjusted for currency effects, the growth would have stood at 22.5%.

EARNINGS DEVELOPMENT

The impact of large losses was less marked in the 2018 financial year than it was in the previous year, when the burden from large losses reached the highest level in our company's history. While the first half of 2018 was characterised by very moderate large losses, the loss volume in the third quarter was essentially consistent with our expectations for the quarter. The biggest losses in the third quarter included Typhoon "Jebi" in Japan, for which we expect a net loss burden of EUR 135 million. We are also anticipating a net burden of EUR 37 million for Hurricane "Florence". Large losses, on the other hand, went significantly over our budget in the fourth quarter, with forest fires in California topping the list of large losses. We also anticipate a net burden of EUR 130 million for the "Camp" forest fires and EUR 64 million for the "Woolsey" forest fires. We expect a net loss burden of EUR 46 million for Hurricane "Michael". Our total net large loss burden in the 2018 financial year was EUR 850 (1,127) million, slightly over the large losses budget we set of EUR 825 million. The underwriting result increased sharply to EUR 333 (1) million. The combined ratio improved to 96.6% (99.8%), slightly above our target rate for the financial year of 96%.

OPERATING PROFIT AND NET INVESTMENT INCOME

There was a very encouraging development in net investment income in the Property/Casualty Reinsurance segment. Ordinary investment income was stable and income from assets under own management fell by 15.4% to EUR 1,029 (1,217) million. The considerable year-on-year decline reflects extraordinarily high gains from the liquidation of our portfolio of listed shares. Due to the lower large loss burden in comparison with the previous year, operating profit (EBIT) rose to EUR 1,364 (1,141) million. The EBIT margin remained stable at 12.6% (12.5%). We therefore achieved our target of at least 10%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	16.2	good growth
Combined ratio (net)	96.6	< 96
EBIT margin	12.6	≥ 10

Gross premium income grew by 11.8% to EUR 12.0 (10.7) billion. At constant exchange rates, growth would have amounted to 16.2%, which is well above our expectations. We are pleased with the result in Property/Casualty Reinsurance. Operating profit (EBIT) increased to EUR 1,364 (1,141) million as at 31 December 2018. At 96.6%, the combined ratio did not meet our forecast of under 96%. The EBIT margin remained stable at 12.6%, exceeding the target of at least 10%.

LIFE/HEALTH REINSURANCE

- Gross premium income growth adjusted for currency effects in line with expectations at 4.6%
- One-time burden due to recaptures in the US mortality business within expected limits
- Excellent result once again for US financial solutions business

KEY FIGURES FOR THE REINSURANCE DIVISION – LIFE/HEALTH REINSURANCE SEGMENT

EUR MILLION

	2018	2017
Gross written premiums	7,200	7,080
Net premiums earned	6,484	6,473
Underwriting result	–416	–493
Net investment income	491	560
Operating profit/loss (EBIT)	262	229

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%

	2018	2017
Gross premium growth (adjusted for currency effects)	4.6	1.4
Value of new business [1] in EUR million	146	183
EBIT growth [2]	14.4	–30.8

1) Excluding non-controlling interests; 2018: estimated figure, the final figure will be published in the 2019 Annual Report.
2) Average annual growth in 2016–2018 in line with strategic target: –13.9%.

BUSINESS DEVELOPMENT

Numerous positive business developments in our international Life/Health Reinsurance portfolio helped us generate a solid result in the year under review. Treaty recaptures precipitated by our announcement of rate increases in the US mortality business reduced the result by EUR 273 million. Taking into account the necessary reversal of a cost reserve in the amount of EUR 87 million, we still achieved operating profit (EBIT) of EUR 262 (229) million. This reflected the overall good quality and solid profitability enjoyed outside the US mortality business acquired in 2009.

Highlights of the year under review included the excellent upturn in new business in Asia, good results in large areas of Europe and the launch of our representative office in Abidjan, Ivory Coast. Establishing this local office has set our course for the future, allowing us to operate locally and therefore in close proximity to our customers in this promising region.

In our domestic market, Germany, primary insurers focussed on the capital and solvency requirements set out by the European Solvency II directive. Reinsurance coverage offers a possible solution for meeting these requirements. Nonetheless, transitional measures that allow insurers to work with reduced requirements for a certain period of time limited the need for reinsurance solutions in the year under review.

Demand for reinsurance solutions to cover longevity risks was high at a global level, driven in part by the high capital requirements for this kind of business in the primary insurance sector. Digitalisation initiatives and InsurTechs also presented us with new business opportunities. These mostly constitute smaller start-ups that tend to be reliant on cooperation agreements with experienced, financially-sound partners. Our collaboration with InsurTech companies also benefits primary insurers and policyholders. These partnerships allow us to help our customers respond to policyholders' changing requirements and bring innovations to the market.

PREMIUM DEVELOPMENT

Gross premium income in the Life/Health Reinsurance segment totalled EUR 7,200 (7,080) million in the year under review. This represents a slight increase of 1.7% which would have amounted to 4.6% adjusted for currency effects, in line with our expectations. Retention amounted to 90.7% (91.7%). Net premiums earned were unchanged at EUR 6,484 (6,473) million; adjusted for currency effects, this would have represented growth of 3.2%.

OPERATING PROFIT AND NET INVESTMENT INCOME

As was expected, the continuation of persistently low interest rates led to a decrease in investment income to EUR 491 (560) million. Of this, EUR 319 (343) million was attributable to assets under own management and EUR 172 (217) million to funds withheld by ceding companies.

EBIT reached EUR 262 (229) million. Given the recaptures in the US mortality business described above that negatively impacted the result, we are pleased with this.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%

	2018	Forecast for 2018 from the 2017 Annual Report
Gross premium growth (adjusted for currency effects)	4.6	3–5
Value of new business [1] in EUR million	146	≥ 110
EBIT growth [2]	14.4	> 5

1) Excluding non-controlling interests; 2018: estimated figure, the final figure will be published in the 2019 Annual Report.
2) Average annual growth in 2016–2018 in line with strategic target: –13.9%.

In the year under review, the result in the Life/Health Reinsurance segment was affected by one-time burdens related to treaty recaptures in the US mortality business. This was counteracted by factors including positive business performance in our international Life/Health Reinsurance business.

For example, new business saw excellent growth in Asia and results were good in many areas of Europe. Demand for reinsurance solutions to cover longevity risks was high at a global level, driven in part by high capital requirements for this kind of business by primary insurers. As a result, our financial solutions business once again made an increased contribution to the earnings result. We were less satisfied with the performance of our US mortality business, which we took over in 2009. Treaty recaptures resulting from our announcement of rate increases led to a one-time negative effect on the result of EUR 273 million. Taking into account the necessary reversal of a cost reserve, one-time burdens amounted to EUR 185 million before taxes. Gross premium income in the Life/Health Reinsurance segment expanded slightly by 1.7% to EUR 7.2 (7.1) billion. Growth would have amounted to 4.6% adjusted for currency effects. At EUR 146 million, the value of new business excluding non-controlling interests once again exceeded the target figure of at least EUR 110 million.

Operating profit (EBIT) rose by 14.4% to EUR 262 (229) million. The rise in earnings is encouraging as the recaptures in the US mortality business already discussed had a one-time negative impact on earnings, but this will largely cease to affect the figure in future.

REINSURANCE DIVISION OVERALL

RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

%

	2018	2017
Return on equity	13.0	11.3

Group net income in the Reinsurance Division climbed to EUR 540 (480) million and return on equity also rose by 1.7 percentage points to 13.0%.

COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2018

RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL

%

	2018	Forecast for 2018 from the 2017 Annual Report
Return on equity	13.0	~ 11

The Reinsurance Division increased its Group net income for the year under review to EUR 540 (480) million, representing growth of 12.5%. The return on equity for the Reinsurance Division as a whole significantly outperformed the forecast.

CORPORATE OPERATIONS

- Group assets under own management climb by 3.7%
- Gross written premiums of business in the Corporate Operations segment up 82.8%
- First structured financing for German railway passenger transport

Talanx, Berenberg and the asset manager of another listed German insurer have together structured the first financing solution by institutional investors for German regional railway passenger transport using a lease structure with DAL Deutsche Anlagen-Leasing. Clients of the cooperation partner and Talanx have provided capital to finance new trains for regional railway transport in the Ulm area.

THE GROUP'S REINSURANCE SPECIALISTS

Underwriting business written via our Irish subsidiary has been reported in the Corporate Operations segment since 2013. Previously known as Talanx Reinsurance (Ireland) SE, the Group's in-house reinsurer took the name HDI Reinsurance (Ireland) SE in January 2019. The aim of this intragroup reinsurance is to increase retention and optimise capital utilisation. The in-house business written by HDI Reinsurance (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 53 (29) million in the reporting period, resulting from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International Divisions. The year-on-year increase primarily reflects the fact that, since 2018, HDI Reinsurance (Ireland) has recognised all new business from the Retail International Division in the Corporate Operations segment. HDI Reinsurance (Ireland) posted an operating profit of EUR –4 (–6) million in the Corporate Operations segment.

THE GROUP'S INVESTMENT SPECIALISTS

In cooperation with its subsidiaries Ampega Investment GmbH and Ampega Real Estate GmbH (previously Talanx Immobilien Management GmbH), Ampega Asset Management GmbH (formerly 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 Group's assets under own management gained 3.7% year-on-year to reach EUR 111.9 (107.9) million. The total contribution to the segment's operating profit made by the three companies amounted to EUR 55 (48) million in the 2018 financial year.

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. Cash inflows from investments were down significantly on the strong prior year figures at EUR 90 billion in 2018 (previous year: EUR 147 billion), although they remained in line with the long-term average. The investment business was dominated by institutional investors in 2018, who regrouped some direct investments (assets outside investment funds) into special funds. By contrast, net new business in retail funds was comparatively weak. Looking at the total investment volume, we can see that the distinctly weak market valuation of equities and corporate bonds had a negative impact in the fourth quarter. This was generated by dwindling corporate earnings momentum, increased profit warnings and political uncertainty. Combined with a weaker net inflow of funds as against 2017, this caused the volume of investment funds to decline for the first time since 2011.

The total volume of assets managed by Ampega Investment GmbH fell by 2.4% to EUR 23.9 (24.5) billion. This was mainly on account of the loss of an institutional non-listed assets client in the amount of EUR 1.6 billion. At EUR 11.5 (11.6) billion, half the total volume is managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 6.0 (7.2) billion was attributable to institutional third-party clients and EUR 6.4 (5.7) 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

Operating profit in the Corporate Operations segment improved to EUR 0 (–12) million in the 2018 financial year, chiefly reflecting a higher exchange rate result and an upturn in commission income. On the contrary, the 2018 financial year was also hit negatively by the impact of Cyclone "Friederike" (also called Storm "David") to the tune of around EUR 5 million.

The Group net income for this segment attributable to the shareholders of Talanx AG in the 2018 financial year increased to EUR –80 (–141) million, due primarily to lower tax expenditure for previous years and a write-down of tax loss carryforwards in 2017 amounting to EUR 41 million.

NET ASSETS AND FINANCIAL POSITION

NET ASSETS

- Total assets up EUR 4.5 billion to EUR 162.9 billion
- Investments account for 75% of total assets

ASSET STRUCTURE

EUR MILLION

	2018		2017 [1]	
Intangible assets	1,953	1%	1,995	1%
Investments	122,831	75%	118,673	75%
Investments for the benefit of life insurance policyholders who bear the investment risk	9,990	6%	11,133	7%
Reinsurance recoverables on technical provisions	8,506	5%	7,697	5%
Accounts receivable on insurance business	7,251	5%	6,626	4%
Deferred acquisition costs	5,358	3%	5,332	3%
Cash at banks, cheques and cash-in-hand	3,362	2%	3,138	2%
Deferred tax assets	1,156	< 1%	603	< 1%
Other assets	2,457	2%	2,782	2%
Non-current assets and assets of disposal groups classified as held for sale	15	< 1%	418	< 1%
Total assets	**162,879**	**100%**	**158,397**	**100%**

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

SIGNIFICANT CHANGES IN THE ASSET STRUCTURE

The increase in total equity and liabilities is primarily due to the increase in investments (up EUR 4.2 billion).

Recognised intangible assets of EUR 2.0 (2.0) billion include EUR 895 (937) million of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1,058 (1,058) 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

	31.12.2018	31.12.2017
Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes	**895**	**937**
of which: attributable to non-controlling interests	104	120
of which: Policyholders' portion	284	295
of which: Deferred taxes	63	67
Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes	**444**	**455**

"Technical provisions for life insurance policies where the investment risk is borne by the policyholders" fell by EUR 1.1 billion (previous year: up EUR 0.6 billion) in line with the decrease in "Investments for the benefit of life insurance policyholders who bear the investment risk", which comprises investments relating to unit-linked insurance products. In the case of these life insurance products, where the policyholders themselves bear the investment risk, the technical liabilities reflect the fair values of the corresponding assets.

As of the reporting date, the item “Non-current assets and disposal groups classified as assets held for sale” includes assets of HDI Seguros S. A., San Isidro, Peru, of EUR 9 million and property holdings of EUR 6 million. In the prior year, this item included the assets of ASPECTA Assurance International Luxembourg S. A., Luxembourg, and the shares in and loan receivables from the associate INDAQUA Indústria e Gestão de Águas S. A., Matosinhos, Portugal, amounting to EUR 418 million in total. Further details of individual transactions can be found in “Non-current assets held for sale and disposal groups” in the Notes.

ASSET MANAGEMENT AND OBJECTIVES

The past financial year was again shaped by the low interest rate environment. The prime rate in the eurozone was unchanged at 0.0%. Monetary policy varied between economic areas, with the US seeing far tighter monetary policy than other major central banks, which trended gradually towards normalisation. Interest rates were raised four times in the US and the Fed continued to reduce its balance sheet, whereas the ECB discontinued its monthly bond purchases at the end of the year.

At the end of the year, the interest rate for ten-year German government bonds was around 0.24%, down approx. 20 basis points on the figure at the beginning of the year. Two-year bonds decreased over the year to approximately –0.66% and five-year bonds were at –0.30%, remaining in the negative zone.

In addition to interest rate factors, movements in the US dollar exchange rate had a direct effect on our US dollar-denominated investments. At 31 December 2017, the US dollar was at 1.20 to the euro. Over the course of the financial year, the USD gained around 4.5% against the EUR, ending the year at USD 1.15 to the euro. At the year end, the US dollar-denominated investment portfolio amounted to EUR 21.3 (19.9) billion and accounted for 19% (18%) of total assets under own management.

Risk measurement and control are a very important part of our asset management. A robust and highly efficient interface between these core functions and portfolio management enabled us to monitor portfolios continuously as part of our asset management activities and thus manage risks efficiently. Various risk measurement and control instruments already in place were adapted to suit current market conditions.

In the fixed-income securities asset category, 78% (76%) of the securities are rated A or better. A broad-based system designed to limit accumulation risks resulted in a balanced mix of assets.

The scope of our investment activities is defined by the Group’s internal risk model and the risk budgets of the individual companies. We continued to optimise portfolios in accordance with asset/liability management guidelines and the risk-bearing capacity of each company.

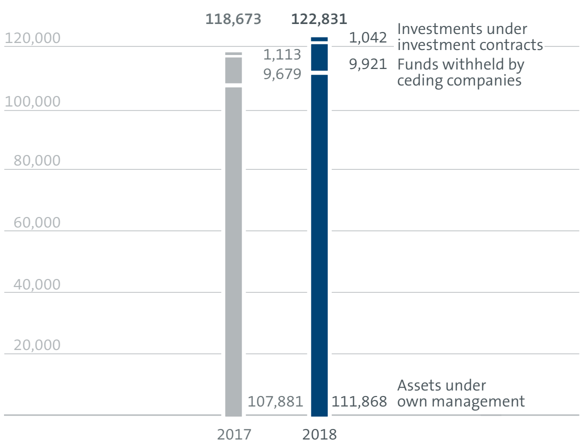
The investment guidelines at Group, segment and company level, which are subject to annual review and amended if necessary with regard to their appropriateness in light of regulatory and market restrictions, represent a further element.

Our investment portfolio does not include any risky counterparties thanks to our high-quality investment procedures. Fixed-income investments continued to be the most important asset class.

CHANGE IN INVESTMENTS

BREAKDOWN OF THE INVESTMENT PORTFOLIO

EUR MILLION



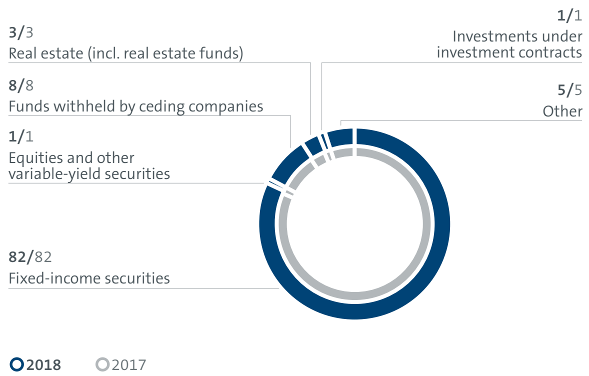
The total investment portfolio rose to EUR 122.8 (118.7) billion at the end of the 2018 financial year. The portfolio of assets under own management rose by 3.7% to EUR 107.9 billion. Growth in the portfolio of assets under own management was largely due to cash inflows from underwriting business, which were reinvested in accordance with the respective corporate guidelines.

The portfolio of investment contracts and funds withheld by ceding companies showed no material changes compared with the start of the year.

Fixed-income investments were again the most significant asset class in 2018. Most reinvestments were made in this class, reflecting the existing investment structure. This asset class contributed EUR 2.7 (2.7) billion to earnings, which was reinvested as far as possible in the year under review.

BREAKDOWN OF THE INVESTMENT PORTFOLIO

%



BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS

EUR MILLION

	2018		2017	
Investment property	2,985	3%	2,799	3%
Shares in affiliated companies and participating interests	206	< 1%	178	< 1%
Shares in associates and joint ventures	265	< 1%	242	< 1%
Loans and receivables				
Loans incl. mortgage loans	460	< 1%	481	< 1%
Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities	28,684	26%	28,412	26%
Financial assets held to maturity	409	< 1%	554	< 1%
Financial assets available for sale				
Fixed-income securities	70,165	63%	66,682	62%
Variable-yield securities	1,799	2%	1,773	2%
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss				
Fixed-income securities	1,344	1%	1,072	1%
Variable-yield securities	126	< 1%	65	< 1%
Financial assets held for trading				
Fixed-income securities	—	—	—	—
Variable-yield securities	131	< 1%	148	< 1%
Derivatives [1]	239	< 1%	149	< 1%
Other investments	5,055	5%	5,326	5%
Assets under own management	**111,868**	**100%**	**107,881**	**100%**

[1] Only derivatives with positive fair values.

FIXED-INCOME SECURITIES

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 3.9 billion in financial year 2018, totalling EUR 100.6 (96.7) billion at the end of the year. At 82% (82%) 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”.

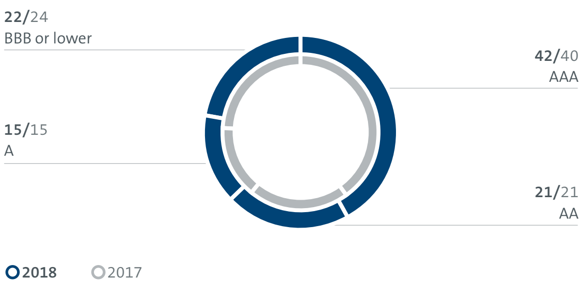
"Fixed-income securities available for sale" account for 70% (69%) of the total portfolio of fixed-income securities, and rose by EUR 3.5 billion to EUR 70.2 (66.7) billion due to new assets. German covered bonds (Pfandbriefe) and corporate bonds accounted for the majority of these investments. Valuation reserves, i.e. the balance of unrealised gains and losses, have declined from EUR 3.3 billion to EUR 1.7 billion since the end of 2017 due to increased spreads, in particular in US corporate bonds. On the other hand, we are benefiting from the rise in risk premiums for new investment and reinvestment activities. The volatility of "fixed-income securities available for sale" is reflected in equity.

In the "Loans and receivables" category, investments were primarily held in government securities or securities with a similar level of security. German covered bonds (Pfandbriefe) are still the largest item in the portfolio. Total holdings in fixed-income securities within the category "Loans and receivables" amounted to EUR 29.1 (28.9) billion at the end of the quarter and thus represent 29% (30%) 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) decreased to EUR 3.8 (4.3) billion.

Investments in fixed-income securities continue to focus on government bonds with good ratings or securities from issuers with a similar credit quality in 2018. Holdings of AAA-rated bonds amounted to EUR 43.1 (39.0) billion as at the reporting date.

RATING STRUCTURE OF FIXED-INCOME SECURITIES

%



The Group pursues a comparatively conservative investment policy. As a result, 78% (76%) of securities 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 4.1 (4.7) billion and therefore corresponds to a share of 3.7% (4.4%) of the assets under own management. The contraction in the portfolio relates to the improvement in Spain's rating.

EQUITIES AND EQUITY FUNDS

The equity holding held steady during the financial year at around EUR 1.1 (1.1) billion. The equity allocation ratio after derivatives (equity ratio) is therefore 0.9% (1.0%) at the year-end.

Net unrealised gains and losses on equity holdings within the Group (excluding "Other investments") decreased by EUR 81 million to EUR 74 (155) million.

REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Commercial transaction volume in the German investment market reached a new all time high thanks to ongoing low interest rates, a thriving economy and very high demand for space with the strong rental markets that this brings. At the same time, the compression of yields continued. Project development investments and forward deals still offer attractive returns for investors. The upheaval in retail initially resulted in rising yields for shopping centres and more difficult sales processes for this kind of real estate. Demand is still buoyant for inner-city office buildings and retail parks. On the other hand, demand among users and investors picked up sharply in the logistics segment. On the office markets, new rental records were achieved, although the demand for space could not be met due to excess demand. Business centres and co-working providers experienced high levels of demand. High demand for space resulted in the lowest vacancy rate in the Big 7 locations for the last 15 years, despite the constant volume of new construction which is also forecast to continue to rise in the next few years. Foreign buyers are the biggest investor group for large-volume transactions.

Investment property totalled EUR 3.0 (2.8) billion at the reporting date. An additional EUR 985 (841) million is held in real estate funds, which are recognised as "Financial assets available for sale".

Depreciation of EUR 57 (52) million was recognised on investment property in the reporting period. There were impairment losses of EUR 4 (16) million. In 2018, impairment losses were attributable to a consolidated special fund and, in 2017, to two properties of the Hannover Re Group in the US. Depreciation on real estate funds stood at EUR 15 (21) million. This depreciation was offset by reversals of impairment losses of EUR 6 (2) million, primarily for investment property.

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

INFRASTRUCTURE INVESTMENTS

Investment in infrastructure projects represents a core component of asset management. Their demand is largely immune to short-term economic volatility and is therefore extremely plannable for institutional investors. At the same time, the projects are a good fit for an insurer's long-term investment horizon. Thanks to our affinity for long maturities and our expertise in this area we are able to leverage illiquidity, complexity and duration premiums. As a result, these carefully selected projects offer attractive returns for an acceptable level of risk. At present, our diversified infrastructure portfolio includes, among other things, finance for wind and solar farms, power grids and public-private partnership (PPP) projects in Germany and the rest of Europe.

Talanx expanded and diversified its infrastructure portfolio by way of measures including road and rail transport and photovoltaics projects in 2018. As at the end of 2018, the Talanx Group had invested a total of approximately EUR 2.1 (previous year: 1.9) billion in infrastructure projects. Infrastructural direct investment is also planned for the future with a volume per project of between EUR 30 million and EUR 150 million (equity) and between EUR 50 million and EUR 200 million (debt) and an investment horizon of five to 30 years.

NET INVESTMENT INCOME

CHANGES IN NET INVESTMENT INCOME

EUR MILLION

	2018	2017
Ordinary investment income	3,445	3,398
of which current income from interest	2,711	2,684
of which attributable to profit/loss from investments in associates	7	24
Realised net gains on disposal of investments	584	1,245
Write-downs/reversals of write-downs of investments	–180	–198
Unrealised net gains/losses on investments	–12	64
Other investment expenses	261	246
Income from assets under own management	3,576	4,263
Net interest income from funds withheld and contract deposits	192	219
Net income from investment contracts	–1	–4
Total	**3,767**	**4,478**

At EUR 3,767 (4,478) million, net investment income was down on the previous year's level on account of lower gains in the reporting period. In particular, the previous year was shaped by extraordinary income from the sale of shares in the Hannover Re Group and gains to strengthen the additional interest reserve in the Retail Germany – Life segment. This resulted in annualised net return on investment of 3.3% (4.0%).

Despite consistently low interest rates, ordinary investment income totalled EUR 3,445 million (EUR 3,398 million) at the reporting date, a year-on-year increase of EUR 47 million, due to portfolio expansion. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 2.9%, down slightly on the previous year's value of 3.0%.

The current interest income included in the investment income amounted to EUR 2.7 (2.7) billion and still accounted for the majority of the earnings. Derivative financial instruments (including forward purchases) were used to hedge reinvestment risk, in particular in the case of life insurers in our Retail Germany – Life segment. Further information on the financial implications can be found in the "Notes to the consolidated balance sheet", Note 13.

Overall, total realised net gains on the disposal of investments in the financial year were below the prior-year figure, at EUR 584 (1,245) million. The sharp drop of EUR 661 million against the previous period is essentially due to the extraordinarily high gains on the liquidation of the portfolio of listed shares in the Hannover Re Group in the previous year. 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 required by the HGB for life insurance and occupational pension plans. The latter were down as against the previous year.

Lower depreciation, amortisation and impairment losses were required overall in the reporting period compared to the prior year; these amounted to EUR 180 (198) million in total net of reversals (EUR 6[3] million). EUR 57 (52) million of this related to depreciation on directly held real estate, EUR 24 (11) million to write-downs on equities, EUR 12 (33) million to fixed-income securities and EUR 89 (89) million to other investments.

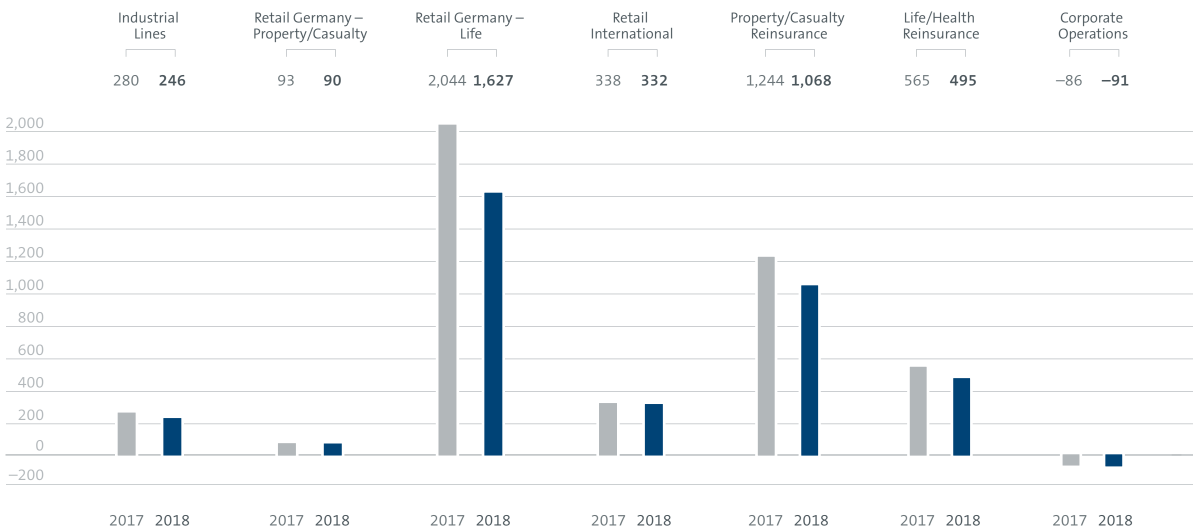
Unrealised net gains/losses fell on balance from EUR 64 million to EUR –12 million. The decline was driven by changes in our assets held at fair value through profit or loss. This includes, among other things, unrealised net gains/losses on ModCo derivatives in the Life/Health Reinsurance segment of EUR 11 (4) million.

Net interest income from funds withheld and contract deposits totalled EUR 192 (219) million.

Further information, including a breakdown by segment, can be found in the Notes to the consolidated statement of income, Note 30 "Net investment income".

BREAKDOWN OF NET INVESTMENT INCOME BY GROUP SEGMENT [1]

EUR MILLION



[1] After elimination of intragroup transactions between the segments.

CURRENCY EFFECTS

In light of the international nature of the various insurers in the Group and as a result of our business model, there are currency-related interdependencies between the net assets and the financial position.

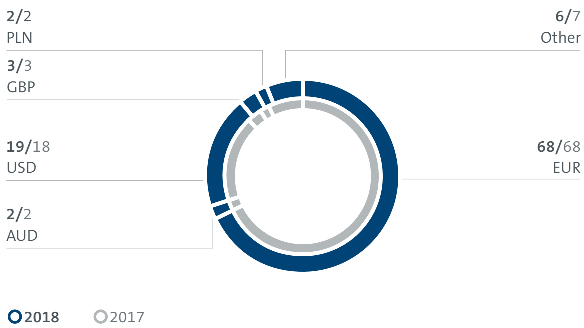
As a general rule, the insurers which operate internationally receive payments and pay claims in the relevant national currencies. This means that assets held to cover liabilities are also held in foreign currencies (matching currency coverage). In this context, please see our disclosures in the risk report. For the purposes of the consolidated financial statements, the exchange rates for the key currencies are presented in the "Summary of significant accounting policies – Currency translation" section in the Notes.

As far as matching currency cover is concerned, US dollar-denominated investments continue to account for the largest share at 19% (18%) of the Talanx Group's foreign currency portfolio. Sizeable positions are also held in pound sterling, Polish zloty and Australian dollars, totalling 7% (7%) of all investments. The total share of assets under own management in foreign currencies was 32% (32%) as at the reporting date.

Our assets under own management, including investment contracts, break down by currency as follows:

INVESTMENTS

%



FINANCIAL POSITION

ANALYSIS OF CAPITAL STRUCTURE

- Equity virtually unchanged year-on-year at EUR 14.3 (14.2) billion
- Technical provisions up EUR 5.1 billion to EUR 117.0 billion

CAPITAL STRUCTURE

EUR MILLION

	2018		2017 [1]	
Equity	14,261	9%	14,224	9%
Subordinated liabilities	2,738	2%	2,737	2%
Technical provisions	117,042	72%	111,938	71%
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	9,990	6%	11,133	7%
Other provisions	3,681	2%	3,784	2%
Liabilities	12,781	8%	12,129	8%
Deferred tax liabilities	2,380	1%	2,109	1%
Liabilities included in disposal groups classified as held for sale	6	< 1%	343	< 1%
Total equity and liabilities	**162,879**	**100%**	**158,397**	**100%**

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

SIGNIFICANT CHANGES IN THE CAPITAL STRUCTURE

Overall, net technical provisions (i.e. less reinsurance recoverables on technical provisions) rose by 4.1% or EUR 4.3 billion year-on-year to EUR 108.8 (104.5) billion. The increase was due to the loss and loss adjustment expense reserve (EUR 2.4 billion) and the benefit reserve (EUR 1.7 billion). The increase in the loss and loss adjustment expense reserve is due primarily to the Property/Casualty Reinsurance and Industrial Lines segments.

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 89.4% (88.9%) at the reporting date. Investments thus exceed provisions by EUR 13.0 (13.0) billion.

OFF-BALANCE-SHEET TRANSACTIONS

Information on existing contingent liabilities can be found in the "Other disclosures – Contingent liabilities and other financial commitments" section of the Notes.

ASSET LIABILITY MANAGEMENT

The structure of our technical provisions and other liabilities forms the basis for the Group's investment strategy. Our focus is on asset/liability management: as far as possible, changes in the value of investments should cover changes in technical liabilities and meet requirements on the liabilities side. This stabilises our positions in the face of fluctuating capital markets.

To this end, we mirror the key features of our liabilities such as maturity and currency structure, as well as sensitivity to inflation, by investing where possible in assets that behave in a similar way. In this context, please see our disclosures in the risk report on page 108ff.

The Macaulay duration of the Group's total fixed-income securities investment portfolio was 8.1 (8.1) across all segments in the year under review, representing an effective duration of 7.9. The Macaulay duration was replaced by the effective duration in the reporting period, meaning that only the effective duration will be reported in future reporting periods. As opposed to the Macaulay duration and the modified duration, the effective duration is defined for almost all types of debt securities, in particular for callable, indexed and structured bonds, and so there is no longer a need for additional definitions. Duration management within the individual segments is guided by the requirements of the respective underwriting business, as described above. For example, the effective asset duration of 10.8 years in the Retail Germany Division is relatively long compared with that of the Industrial Lines Division (4.85 years), reflecting the length of the capital commitment period, especially in the case of life insurance products. Asset-side duration and liabilities-side requirements are coordinated by the insurance providers and Ampega Asset Management GmbH on a regular basis.

We also use derivative financial instruments to manage our assets as effectively as possible. Further information can be found in the "Notes to the consolidated balance sheet", Note 13.

CAPITAL MANAGEMENT PROCESS

ENSURING TRANSPARENCY OF ACTUAL CAPITALISATION → DETERMINING CAPITAL REQUIREMENTS → OPTIMISING CAPITAL REQUIREMENTS → OPTIMISING THE CAPITAL STRUCTURE → IMPLEMENTING CAPITALISATION MEASURES

Capital management is based on a process designed to optimise capital management and development within the Group that is based on clear guidelines and workflows.

Effective and efficient capital management is a core component of the Talanx Group's integrated set of management tools. In doing so, we differentiate between the HDI Group's regulatory perspective and the Talanx Group's economic perspective. We distinguish between the following capital concepts:

- Basic own funds
- Solvency capital required

The term "basic own funds" refers to the economic capital available in a business unit. Basic own funds consist of the surplus of the assets over the liabilities in the solvency balance sheet and differ from the IFRS equity (adjusted for any intangible assets) in terms of the disclosed unrealised gains and losses on assets or liabilities after taxes, and they also contain hybrid capital and surplus funds. From a regulatory point of view, the HDI Group is considered to have eligible own funds. These differ from the basic own funds of the Talanx Group in that they include HDI V. a. G's own funds and deduct the basic own funds to which non-controlling interests are entitled above the Solvency Capital Required ("haircut").

Solvency capital required is the amount of capital required to operate the insurance business. From a regulatory point of view (in accordance with Solvency II), it is calculated with a confidence level of 99.5% for a one-year period. The capital required for this purpose is calculated for the HDI Group on the basis of the approved, partial, internal capital model. For the Talanx Group, we take an economic approach which, for the Solvency Capital Required, is characterized by the full internal modelling of operational risks compared with the partial internal capital model approved by the regulatory authorities. In addition, under the economic approach we do not take any transitional measures.

The ratio of basic own funds to the solvency capital required acts as an indicator of capital adequacy. The confidence level of 99.97% (3,000-year shock) applied to the Talanx Group in accordance with the risk strategy exceeds the level required under supervisory law (confidence level of 99.5%, 200-year shock).

At HDI Group level under supervisory law, we have defined a target range without transitional measures of between 150% and 200% for the Solvency II ratio. Economically, our goal in the Talanx Group is a minimum capital adequacy of 200%.

The primary objective of capital management in the Talanx Group is to ensure the Group's financial strength and bolster capital efficiency. Alongside fulfilling the statutory requirements and the capital requirements of rating agencies as a secondary requirement (requirements of Standard & Poor´s capital model for an "AA" rating), the Group therefore systematically allocates capital in accordance with risk/return considerations and the Talanx Group's target portfolio. Any capital or liquidity that are not needed are transferred to the holding company whenever possible. In the case of significant overcapitalisation at company level, for example, capital management measures aim to systematically reduce free excess capital in order to reinvest it more efficiently elsewhere within the Group. Our stated aim is to use our capital as efficiently as possible while at the same time ensuring first-class capital adequacy.

By optimising the Group's capital structure, capital management safeguards the adequacy of our capital resources, both from a ratings standpoint and with regard to solvency and economic considerations. At the same time, it ensures that dividends are generated for shareholders on a sustainable basis in accordance with Talanx's strategy. Our capital structure must continue to enable us to respond to organic and external growth opportunities at both Group and company level, and it must provide the certainty that volatility on capital markets and in the insurance business can be absorbed without falling below the target confidence level. The fact that Talanx manages its capital resources effectively is a strong indicator for existing and potential investors that it utilises available capital responsibly. All Group companies met the applicable local minimum capital requirements in the reporting period. As part of its Group-wide capital management, Talanx AG monitors the capital resources of its subsidiaries with the utmost diligence.

Another core objective is to moderately substitute equity surrogates such as hybrid capital for equity, which positively impacts the Group's capital structure.

EQUITY

EQUITY RATIO AND RETURN ON EQUITY

The equity ratio, defined as the ratio of total equity to total assets, and the return on equity changed as follows:

CHANGE IN THE EQUITY RATIO

EUR MILLION

	2018	2017 [1]
Total equity	14,261	14,224
of which non-controlling interests in equity	5,548	5,411
Total assets	162,879	158,397
Equity ratio	8.8%	9.0%

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

RETURN ON EQUITY

EUR MILLION

	2018	2017 [3]
Group net income [1]	703	671
Return on equity [2]	8.0%	7.5%

[1] Net income after non-controlling interests.
[2] Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests.
[3] Adjusted in accordance with IAS 8, see "Accounting policies".

CHANGES IN EQUITY

Equity rose by EUR 37 million – an increase of 0.3% – to EUR 14,261 (14,224) million in the reporting period just ended.

The Group's portion (equity excluding non-controlling interests) amounted to EUR 8,713 (8,813) million.

The marked reduction in accumulated other comprehensive income and other reserves compared with 31 December 2017 by EUR 447 million to EUR –257 million (–235.3%) and the dividend payment of EUR 354 (341) million to shareholders of Talanx AG in May of the reporting period were not fully absorbed by the net income for the reporting period, EUR 703 (671) million of which is attributable to our shareholders and was allocated in full to retained earnings, leading to a slight reduction of EUR 100 million (–1.1%) in the Group's equity.

The decline in other reserves of EUR –447 million is due in particular to the negative development of unrealised gains on investments of EUR –1,030 million (down by 36.3%) and the measurement gains/losses on cash flow hedges of EUR –136 million (down by 34.9%), which could be only partially compensated for by the positive development of policyholder participations/shadow accounting (up by EUR 676 million) and exchange differences on translating foreign operations (up EUR 66 million/24.4%). While the unrealised gains on investments fell from EUR 2,842 million to EUR 1,811 million in line with the widening spreads and further increase in interest rates for long terms since the end of 2017, the exchange rate development, in particular the appreciation of the US dollar against the euro, improved the accumulated result of the currency translation by EUR 66 million from a loss of EUR 270 million at the end of 2017 to a loss of EUR 204 million at the end of 2018.

Non-controlling interests increased by EUR 137 million or 2.5% to EUR 5.5 billion. Non-controlling interests in net income for the period were EUR 656 (598) million. The dividend payment to non-Group shareholders totalling EUR 380 (364) million was mainly from the Hannover Re Group.

EQUITY BY DIVISION[1] INCLUDING NON-CONTROLLING INTERESTS

EUR MILLION

	31.12.2018	31.12.2017[2]
Segment		
Industrial Lines	2,364	2,306
of which non-controlling interests	—	—
Retail Germany	2,443	2,508
of which non-controlling interests	61	59
Retail International	2,149	2,254
of which non-controlling interests	231	230
Reinsurance	9,491	9,229
of which non-controlling interests	5,773	5,123
Corporate Operations	−2,228	−2,119
of which non-controlling interests	—	—
Consolidation	42	46
of which non-controlling interests	−517	−1
Total equity	**14,261**	**14,224**
Group equity	8,713	8,813
Non-controlling interests in equity	5,548	5,411

1) Equity per divison is defined as the difference between the assets and liabilities of each division.
2) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

The Corporate Operations segment 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 1,141 (1,136) million, notes payable in the amount of EUR 1,065 (1,065) million, a subordinated bond of EUR 750 (750) million and provisions for taxes of EUR 41 (80) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and tax refund claims 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.

CHANGE IN UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

The unrecognised valuation reserves shown in the following table do not take technical liabilities into account. Valuation reserves amount to EUR 3.8 (4.3) billion and are primarily attributable to loans and receivables. Further information can be found in the Notes to the consolidated balance sheet relating to "Investment property", "Loans and receivables", "Financial assets held to maturity", "Other Investments", "Investments under investment contracts", "Other assets", "Subordinated liabilities", "Notes payable and loans" and "Other liabilities".

EQUITY AND UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET

EUR BILLION

	2018	2017
Group equity	14.3	14.2
Unrecognised valuation reserves before taxes including shares of policyholders and non-controlling interests	4.4	4.3

LIQUIDITY AND FINANCING

The liquid inflows of Talanx AG primarily originate from dividends and profit/loss transfers from subsidiaries and from equity and borrowed funds invested in the capital market. In the course of the coordination of the capital requirement of the Talanx Group and the individual divisions, it is a core task of Talanx AG to optimise the Group's access to sources of liquidity while keeping the financing costs as low as possible. Regular liquidity planning and an investment strategy aligned with liquidity requirements have ensured that the Group was able to meet its payment obligations at all times. Moreover, there is reliable access to internal Group financing funds within the framework of various current account agreements, which enhances the financial flexibility of both Talanx AG and the Talanx Group even further.

In order to take advantage of consistently low interest rates in Europe and to increase the flexibility of investment management, the Hannover Re subgroup issued bonds amounting to EUR 750 million with a term of ten years in April 2018.

Talanx AG placed a subordinated bond with a volume of EUR 750 million in the prior year. The euro-denominated bond has a term to 2047 and can be called for the first time on 5 December 2027. 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 26.

In addition, as at 31 December 2018, the Group had two syndicated variable-rate credit lines, each with a volume of EUR 250 million. One of these credit lines was replaced in the fourth quarter by a new syndicated credit line which also has a volume of EUR 250 million, a term of five years and the option to extend for two additional years. The credit lines run until 2021 and, at the latest, 2023 respectively. As in the prior 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. For more information see the Notes to the consolidated balance sheet under the section "Notes to individual items of the consolidated balance sheet", Note 26.

In addition, a cooperation agreement with HDI V.a.G. allows the Group to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. Further information can be found in the Notes to the consolidated balance sheet in the section "Other disclosures", Note "Related party disclosures".

In addition to the funds from the changes in equity as described above, the assets are also available to us to cover provisions and liabilities. Various credit institutions have provided us with guarantees in the form of letters of credit as surety for our technical liabilities. Further information on our liquidity management can be found in the "Liquidity risk" section in the risk report.

ANALYSIS OF DEBT

Our subordinated bonds and other debt instruments ("subordinated bonds") supplement our equity. They optimise the cost of capital and help to maintain adequate liquidity at all times. We refer to these subordinated bonds and other bank borrowings that serve to finance corporate acquisitions as "strategic debt".

CHANGES IN STRATEGIC DEBT

EUR MILLION

	2018	2017
Subordinated bonds of Hannover Finance (Luxembourg) S.A.	997	997
Subordinated bonds of Talanx AG	750	750
Subordinated bonds of Talanx Finanz (Luxemburg) S.A.	500	500
Subordinated bond of Hannover Rück SE	446	445
Subordinated loan of HDI Assicurazioni S.p.A.	27	27
Subordinated bond of CBA Vita S.p.A.	14	14
Notes payable of Talanx AG	1,065	1,065
Hannover Rück SE notes payable	743	—
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	169	102
Loans from infrastructure investments	102	110
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	97	94
Mortgage loans of Real Estate Asia Select Fund Limited	57	55
Other	16	9
Total	**4,983**	**4,168**

Further information on borrowing and changes to it can be found in the "Notes to the consolidated balance sheet", Note 18 and Note 26.

ANALYSIS OF THE GROUP CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement has minimal informational value for the Group. Its cash flow is primarily shaped by the business model, which is typical for primary insurance and reinsurance undertakings. We normally receive premiums in advance for risks we have taken on, but only make payments at a later date in the event of a claim. Funds are invested until required in interest-bearing investments so as to earn regular income. We therefore neither regard the cash flow statement as a substitute for liquidity planning or financial planning, nor use it as a management tool.

SUMMARY OF CASH FLOWS

EUR MILLION

	2018	2017
Cash flows from operating activities	3,823	5,006
Cash flows from investing activities	–3,538	–4,205
Cash flows from financing activities	–92	–157
Net change in cash and cash equivalents	193	644

Cash inflows from operating activities, which also include inflows from investment income, decreased year on year from EUR 5.0 billion to EUR 3.8 billion. The EUR 1.2 billion decline in cash inflows from operating activities is seemingly shaped by changes in cash for technical provisions for life insurance policies where the investment risk is borne by the policyholders of EUR –1.9 billion.

Cash outflows from investing activities totalled EUR 3.5 (4.2) billion in the reporting period, EUR 0.7 billion lower than the previous year. This effect was mainly due to the year-on-year change in cash of other investments, which increased by EUR 1.2 billion, and to the change in cash of investments for the benefit of life insurance policyholders who bear the investment risk, which rose by EUR 1.9 billion. This was countered by a significant rise in cash outflows, up EUR 2.8 billion year-on-year, which resulted on balance from the cash outflow from the purchase and the cash inflow from the sale and maturity of financial instruments.

In the cash flows from financing activities, the dividend payments increased in the year under review by EUR 29 million to EUR 734 (705) million. The reconciliation of debts from financing activities shown in the Notes (consolidated cash flow statement), in addition to Notes 18 and 26, provide information on "Net changes attributable to other financing activities" (EUR 642 [547] million). The net cash outflows from financing activities decreased by EUR 65 million year-on-year to EUR –92 (–157) million.

Compared with the previous year, cash and cash equivalents, which includes cash at banks, cheques and cash-in-hand, and which are also the total of cash flows from operating activities, investment activities and financing activities, increased by EUR 204 million in total to EUR 3.4 billion.

RATINGS OF THE GROUP

Generally, ratings differentiate between assessing the insurer financial strength rating, which primarily assesses the ability to meet obligations to policyholders, and the issuer credit rating or counterparty credit rating, which provides investors with an assessment of a company's credit quality in general.

Ratings decisions were made for some Talanx companies at the beginning of 2019 which reflect Talanx's revised retention strategy. Talanx AG was awarded a financial strength rating by the two international rating agencies Standard & Poor's (S&P) and A. M. Best for the first time. S&P awarded an A+ ("strong") with a stable outlook and A. M. Best an A ("excellent"), also with a stable outlook. After being granted the reinsurance license by the Federal Financial Supervisory Authority (BaFin) in December of the past financial year, Talanx AG is now classified as an operating holding company by the rating agencies.

ISSUER CREDIT RATINGS

ISSUER CREDIT RATINGS [1]

	Standard & Poor's		A. M. Best	
	Rating	Outlook	Rating	Outlook
Talanx AG [2]	A+	Stable	a+	Stable
Hannover Rück SE	AA–	Stable	aa	Stable

[1] As at 31 January 2019.
[2] As at 31 December 2018, Talanx AG's issuer ratings were A– (S&P) and a– (A. M. Best).

Both rating agencies gave Talanx AG's ability to pay a positive assessment. Talanx AG receiving financial strength ratings for the first time, as described above, also results in an improved issuer rating. On 7 January 2019, S&P upgraded Talanx AG's issuer rating to A+, acknowledging the shift from a non-operative holding company to an operating holding company. At the same time, the outlook was once again rated as stable (previously: CreditWatch positive). A. M. Best also responded based on the same reasoning, upgrading Talanx AG's issuer rating from a– to a+ and lifting the "under review" status on 4 January 2019. A. M. Best also reverted to a stable outlook. The issuer rating for Hannover Rück SE was confirmed by both rating agencies in the year under review. S&P awarded an AA– with a stable outlook and A. M. Best issued an aa (outlook stable).

Bonds issued and guaranteed by Talanx AG also benefit from the rating decisions regarding Talanx AG's issuer rating. These ratings and all other issue ratings for subordinated loans issued by Group companies are set out in the disclosures on the consolidated balance sheet, in the Notes to the consolidated balance sheet under Note 18 "Subordinated liabilities" and Note 26 "Notes payable".

FINANCIAL STRENGTH RATINGS

The change in the intragroup majority shareholder (see section "Business development", subsection "Growth initiative in specialty business") also resulted in a change to the rating for HDI Global Specialty SE, created from Inter Hannover SE, which is now classified as a core company of the Talanx Primary Insurance Group. HDI Global Specialty SE therefore has a financial strength rating of A+ (outlook stable) from S&P, and A from A. M. Best, also with a stable outlook.

Finally, the rating decision for HDI Reinsurance (Ireland) SE should be noted. In November 2018, A. M. Best questioned the strategic importance of this company in the Talanx Group and set the financial strength rating to "under review with developing implications". These reservations were dispelled at the beginning of 2019. On 4 January, A. M. Best eventually rescinded the "under review" status and confirmed a financial strength rating of A (excellent). The outlook is now stable again.

FINANCIAL STRENGTH RATINGS OF THE GROUP AND ITS SUBGROUPS [1]

	Standard & Poor's		A. M. Best	
	Rating	Outlook	Rating	Outlook
Talanx-Konzern [2]	—	—	A	Stable
Talanx Primary Insurance Group [3]	A+	Stable	—	—
Hannover Re subgroup [4]	AA–	Stable	A+	Stable

1) As at 31 January 2019.
2) Definition used by A. M. Best: "HDI V. a. G., the ultimate mutual parent company of Talanx AG, and various subsidiaries".
3) The subgroup of primary insurers including HDI V. a. G. (Industrial Lines, Retail Germany and Retail International Divisions) and its major core companies.
4) Hannover Rück SE and its major core companies; corresponds to the Talanx Group Reinsurance Division.

The S&P financial strength ratings for the subgroups Hannover Re and the Talanx Primary Insurance Group remained unchanged in the year under review, notwithstanding the ratings decisions for individual companies described above. The December 2018 rating report confirmed the A+, outlook stable financial strength rating for the Talanx Primary Insurance Group, with S&P attesting to the Group's solid regional diversification and extremely strong capitalisation. S&P also confirmed the Hannover Re Group's rating of AA–, which is an extremely strong assessment when compared to competitors. In particular, S&P cited the business risk profile and excellent diversification as key strengths.

A. M. Best awarded the primary insurance companies in the Talanx Group a financial strength rating of A (excellent) with a stable outlook. The Hannover Re subgroup was awarded an A+ (superior) rating with a stable outlook. A. M. Best justified the continuing high ratings for the subgroups on the grounds of their healthy earnings situation and excellent capitalisation.

There was one additional change to the S&P financial strength rating for the subsidiaries – at our request, the rating for HDI-Gerling Verzekeringen N. V. was discontinued. This was requested as the company had transferred existing business to the Dutch branch of HDI Global SE and no longer requires its own rating. S&P responded accordingly on 18 December 2018 and withdrew the A, stable, financial strength rating. The other financial strength ratings for our subsidiaries remained stable in the year under review, and were therefore unchanged.

The financial strength ratings of our subsidiaries in primary insurance can be found on the Talanx AG website, while you can find detailed information about the ratings of Hannover Re and its subsidiaries on the Hannover Rück SE website (www.hannover-re.com).

TALANX AG (CONDENSED VERSION IN ACCORDANCE WITH HGB)

This section acts as a supplement to the reporting on the Talanx Group and outlines the performance of Talanx AG. Talanx AG is the parent company of the Talanx Group. Its acts as the financial and management holding company for the Group, which operates around the world with its own companies, branches and cooperations. Companies in the Talanx Group are active primarily in primary and reinsurance but also – in particular in Germany – in investments.

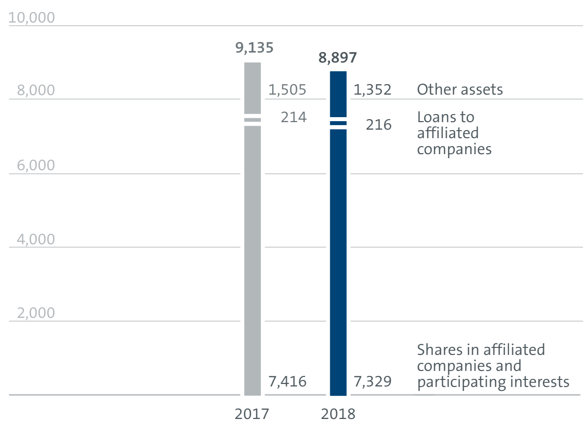
As opposed to the consolidated financial statements, which are prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted in the European Union as at 31 December 2018, Talanx AG's annual financial statements are prepared in accordance with the German Commercial Code (Handelsgesetzbuch – HGB).

As a listed company, Talanx AG pays dividends to its shareholders from the company's earnings under commercial law. Net income for the financial year in accordance with HGB is therefore a key operative management metric for Talanx AG.

NET ASSETS

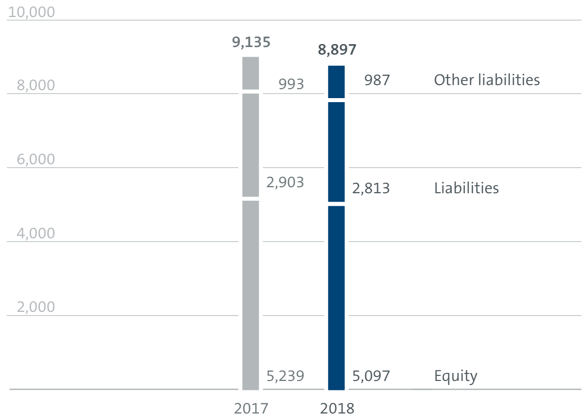
BALANCE SHEET STRUCTURE – ASSETS

EUR MILLION



BALANCE SHEET STRUCTURE – LIABILITIES

EUR MILLION



Talanx AG's balance sheet continues – as in previous years – to be shaped by its role as a holding company and, on the assets side, by its participating interests in subsidiaries held in euro. Total equity and liabilities decreased by 2.6% to EUR 8,897 (9,135) million. The carrying amount of shares in affiliated companies and participating interests decreased to EUR 7,329 (7,416) million, in particular due to a repayment of the capital reserves of HDI Deutschland AG (previously Talanx Deutschland AG) amounting to EUR 84 million. Loans to affiliated companies were virtually unchanged year-on-year at EUR 216 (214) million. Receivables from affiliated companies fell to EUR 386 (455) million. While receivables from short-term loans to HDI Global SE were down EUR 200 million, receivables from HDI Deutschland AG, for example, increased due to the repayment of the capital reserves in the amount of EUR 84 million and a distribution from retained earnings in the amount of EUR 45 million. Cash at banks fell to EUR 650 (815) million. Other assets rose to EUR 317 (235) million, primarily thanks to higher receivables from corporate income tax and the solidarity surcharge.

As at the reporting date, Talanx AG had agreed an available, syndicated variable-rate credit line denominated in euro with two banking groups, which can be drawn if necessary. The variable interest rate is based on the Euribor, plus a premium. The nominal value of each credit line amounted to EUR 250 million as at the reporting date, hence a total of EUR 500 (500) million had not been used. On the basis of a cooperation agreement concluded with HDI Haftpflichtverband der Deutschen Industrie V.a.G. in 2016, Talanx AG is also able to offer HDI Haftpflichtverband der Deutschen Industrie V.a.G. subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis.

The capital structure and the composition of Talanx AG's liabilities are characterised by its role as an investment holding company. Equity amounts to EUR 5,097 (5,239) million. The EUR 142 million decrease is due entirely to the distributable profit.

Liabilities amount to EUR 2,813 (2,903) million and include primarily EUR 974 (1,065) million in liabilities to affiliated companies and EUR 1,815 (1,815) million in liabilities from bonds. The main reason for the decline in liabilities to affiliated companies was lower liabilities from profit/loss transfer agreements to subsidiaries in the amount of EUR 118 (204) million.

The decline in other liabilities to EUR 987 (993) million was essentially a result of tax provisions falling to EUR 41 (80) million and provisions for interest on tax decreasing to EUR 24 (41) million, while provisions for pensions saw an increase to EUR 845 (794) million.

FINANCIAL POSITION

Regular liquidity planning ensures the liquidity required to meet current payment obligations. The accounting department carries out this planning at least once a month. Thanks to regular liquidity planning and an investment strategy that is geared towards liquidity requirements, we ensure that Talanx AG is able to make all necessary payments at all times.

Talanx AG primarily receives funds through profit/loss transfer agreements with affiliated companies, investment income and income from loans. As part of liquidity planning, anticipated liquidity flows from profit/loss transfers are regularly coordinated with the Group Controlling & Finance department within the context of projections, which are updated on an ongoing basis. The company must primarily secure funds for interest and principal repayments on liabilities as well as for dividends. As the company is a holding company, operations in connection with acquiring or selling companies can lead to short-term inflows and outflows of liquidity.

In the past, the company has always taken note of long-term reliability and capital strength when selecting lenders. High priority is given to lenders' capital strength, which is monitored centrally and on an ongoing basis by Ampega Asset Management GmbH.

RESULTS OF OPERATIONS

STATEMENT OF INCOME (HGB)

EUR MILLION

	2018	2017
Net income from long-term equity investments and other operating income	477	328
Net interest income	–116	–97
Other operating expenses and writedowns	135	109
Tax expense	14	–21
Net income for the financial year	**212**	**143**

We provide an explanation of how business has developed with a summary appropriate to the role of our company as a holding company. Talanx AG prepares its annual financial statements in euro. As the results received by subsidiaries also include investment income in foreign currencies, currency fluctuations directly influence this result: a weaker euro tends to result in higher net income from long-term equity investments. A change in interest rates can also have an impact on Talanx AG's earnings.

Net income from long-term equity investments and other operating income rose to EUR 477 (328) million in the financial year, due essentially to lower loss absorption at HDI Global SE of EUR 118 (204) million which resulted primarily from lower large losses claims. In addition, HDI Deutschland AG distributed EUR 45 million from retained earnings in 2018. Tax group subsidiaries also received corporate income tax of EUR 19 million as income due to HDI Deutschland Bancassurance Kundenmanagement GmbH & Co. KG restructuring as a partnership in 2018.

Interest income fell to EUR –116 (–97) million. Interest and similar expenses rose to EUR 131 (115) million, chiefly reflecting a subordinated bond with a volume of EUR 750 million that was placed in December 2017. The bond was issued primarily to institutional investors in Germany and abroad. The bond, denominated in euro, carries a fixed coupon of 2.25% and matures on 5 December 2027. Other interest and similar income fell to EUR 4 (8) million, due in part to lower interest on tax credits. Income from other securities and loans increased to EUR 12 (10) million.

Other operating expenses and write-downs rose to EUR 135 (109) million, generated in particular by higher transfers to pension provisions.

Tax expenditure of EUR 14 million was incurred in the year under review, as opposed to the prior year when tax income of EUR 21 million was generated, attributable in part to changes to tax provisions for previous years. Net income for the financial year rose year-on-year to EUR 212 (143) million. After adding retained profit brought forward of EUR 273 (484) million, the distributable profit is EUR 485 (627) million. The appropriation of profits can be found in the Notes to the Group Annual Report in the section “other disclosures” under the item “dividend per share and appropriation of distributable profits”.

TARGET FIGURES IN ACCORDANCE WITH SECTIONS 76(4) AND 111(5) OF THE GERMAN STOCK CORPORATION ACT (AKTG)

With regard to targets for the proportion of women on the Board of Management and in the next two management levels below Talanx AG’s Board of Management in accordance with sections 76(4) and 111(5) AktG, please see our comments in the “Declaration on Corporate Governance” in accordance with sections 289f. and 315d HGB in the section of this report entitled “corporate governance”.

REMUNERATION REPORT

Talanx AG’s remuneration system matches the remuneration system for the Talanx Group described in detail in the Talanx Group report. The amounts shown in the remuneration report reflect the Board of Management’s remuneration in the financial year for work for the Talanx Group. As well as remuneration components related to work for Talanx AG, the amounts shown also include remuneration provided for work on behalf of companies consolidated in the Talanx Group.

RISK REPORT

As the holding company of a Group offering insurance and financial services with companies that operate primarily in the insurance industry, Talanx AG’s business performance is subject to the same sources of risk as business performance at the Talanx Group. Talanx AG’s launch of operating reinsurance business at the beginning of 2019 does not significantly alter its risk profile. Talanx AG’s earnings and therefore its risk are fundamentally determined by individual companies’ investment income and profit/loss transfers. Talanx AG shares in the risks of its participating interests and subsidiaries in accordance with its stake as well as through intragroup reinsurance. The Group risk report sets out the risks of the subsidiaries and of Talanx AG itself.

FORECAST AND REPORT ON OPPORTUNITIES

Talanx AG is closely intertwined with the Group companies and plays a correspondingly large role in the Group, and so the statements made in the Group forecast and report on opportunities also reflect expectations for the parent company Talanx AG. We anticipate that Talanx AG will see net income for the year pick up significantly in 2019 thanks to factors including HDI Global SE's negative earnings contribution in 2018 on account of an extraordinary large loss and a spate of frequency losses, especially in industrial fire insurance.

In addition, Talanx AG began its role as an intragroup reinsurer on 1 January 2019 and received the reinsurance license required to do so from the Federal Financial Supervisory Authority (BaFin). We pool the reinsurance requirements for primary insurance at the holding company in order to take advantage of diversification effects throughout the Group. Both Standard & Poor's and A. M. Best subsequently upgraded Talanx AG's issuer rating by two grades. Future effects will focus particularly on investing capital more efficiently within the Group. The Group do not consider there to be any significant change to the risk profile.

REPORT ON RELATIONSHIPS WITH AFFILIATED COMPANIES

The report on relationships with affiliated companies to be prepared by the Board of Management in accordance with section 312 AktG stated that Talanx AG received appropriate consideration for all transactions with an affiliated company under the circumstances known at the time the transactions were conducted. There were no measures subject to reporting requirements in the year under review.

OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

Considering the overall economic environment and the specific conditions prevailing in the industry, the management of Talanx AG assesses business performance in the year under review as challenging. Gross premiums and EBIT were both up on the previous year and Group net income achieved the forecast figure, which had been lowered during the year. Alongside good performance in German and International Retail business and in Reinsurance, the financial year was again marked by high large losses and a spate of frequency losses in industrial fire insurance.

All divisions except German life insurance reported growth in gross premiums. Group operating profit saw double-digit percentage gains, due chiefly to higher EBIT in the Reinsurance Division. The Group return on equity fell marginally short of our forecast. The picture was mixed in the divisions: Industrial Lines failed to reach its forecast figure, whilst the other divisions met or exceeded the forecast.

The Group is financially robust, and its solvency ratio remains significantly above the level required by law. As at the preparation date of the management report, the Board of Management rates the Group's economic situation as sound. The persistent low interest rate environment, motivated by the policies of the central banks, alongside the regulatory environment, remain a challenge, particularly for life insurance activities in Germany. However, life insurance companies experienced some relief thanks to the introduction of the corridor approach, which limits additions to the additional interest reserve. This keeps the momentum of the previous regulation for strengthening the benefit reserve, which had since become too severe, in check. In our view, Brexit will not have a material impact on the net assets, financial position and results of operations of the Talanx Group.

OTHER REPORTS AND DECLARATIONS

CONSOLIDATED NON-FINANCIAL STATEMENT

INTRODUCTION

The Talanx Group incorporates ecological, social and governance aspects into its business activities. As an international insurance group and a long-term investor, we are committed to responsible corporate governance based on sustainable value creation. Equally, our customers generally enter into long-term relationships with us. We therefore take a forward-looking approach so as to ensure that we can deliver on the promises we make to our customers in the future, too.

Pursuant to the German Commercial Code (HGB), this consolidated non-financial statement was prepared in accordance with the requirements of section 315b and section 315c in conjunction with sections 289c to 298e of the HGB. In addition, this consolidated non-financial statement was prepared in line with the GRI Standards issued by the Global Reporting Initiative; this applies in particular to the description of the management approaches and to the stakeholder survey/materiality analysis performed in the autumn of 2018.

The Talanx Group has only defined financial ratios/financial key performance indicators. Consequently, it does not have any non-financial key performance indicators that are relevant to its business within the meaning of section 289c(3) no. 5 of the HGB. Comprehensive information on our investments is provided in the net assets and financial position section of the report on our economic position. For information on the amounts contained in the consolidated financial statements, please see the “ESG in insurance solutions” section on page 73. Above and beyond this, there is no connection between the amounts reported in the Talanx Group’s consolidated financial statements pursuant to section 289c(3) no. 6 of the HGB and the non-financial matters.

Pursuant to section 315b(1) sentence 3 of the HGB, reference is also made in connection with individual aspects to non-financial information contained in other parts of the Group management report. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft performed a limited assurance review of the consolidated non-financial statement in accordance with ISAE 3000 (Revised); see the review opinion on page 258f.

References to information outside the management report and the consolidated financial statements are not part of this consolidated non-financial statement.

In accordance with section 315b(1) and section 289b(2) of the HGB, HDI Global SE is exempted from the requirement to include a non-financial statement in its own management report since it is included in this consolidated non-financial statement. This also applies to Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A., which has exempted itself under national legislation as a consequence of Directive 2014/95/EU on the disclosure of non-financial and diversity information from the requirement to issue its own statement by referring to this consolidated non-financial statement. Hannover Rück SE has not exercised the exemption option and publishes its own combined non-financial statement in its combined management report.

DESCRIPTION OF THE BUSINESS MODEL

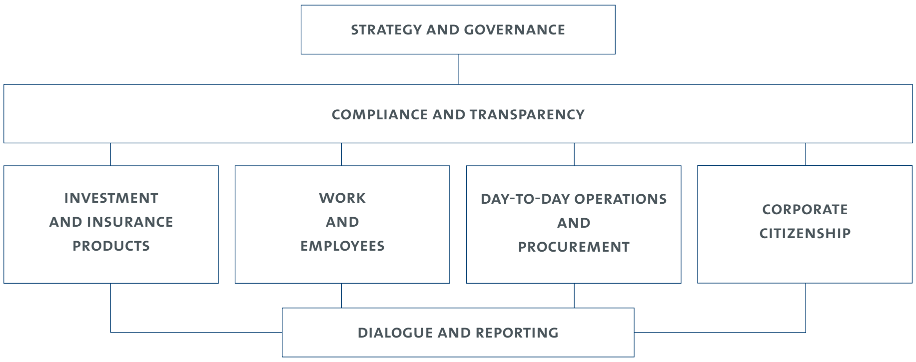
The Talanx Group is a multi-brand provider in the insurance and financial services sector. A detailed description of its business model is given in the “business model” section of the Group management report (page 20).

SUSTAINABILITY STRATEGY

Our sustainability strategy was derived from the Group’s overarching strategy and is aligned with the Group’s mission statement and values. It comprises concrete action areas, goals and measures and serves to ensure that our operations are aligned with ecological and social challenges – in conformity with the Ten Principles set out in the UN Global Compact and taking the UN Sustainable Development Goals (SDGs) into account. To ensure this is the case, we ranked the relevant SDGs for us during the reporting period in an internal workshop. By examining the impact of our business on the SDGs’ subgoals we were able to identify five SDGs that are particularly relevant for Talanx. In descending order of importance, these are SDG 9 (Industry, Innovation and Infrastructure), SDG 13 (Climate Action), SDG 8 (Decent Work and Economic Growth), SDG 7 (Affordable and Clean Energy) and SDG 1 (No Poverty).

In addition, our sustainability strategy and sustainability management activities are based on our stakeholders’ requirements and interests. Our customers, investors and employees play a particularly important role here. As the following graphic shows, the Talanx Group’s sustainability strategy covers two overarching areas – “Strategy and Governance” and “Dialogue and Reporting” – plus five other action areas:

ACTION AREAS FOR THE TALANX GROUP'S SUSTAINABILITY STRATEGY



We updated and expanded our initial stakeholder survey, which we conducted in 2014, in the year under review. The topics that are relevant for the consolidated non-financial statement were identified in 2018 using an internal survey and an external online stakeholder survey, as well as telephone interviews conducted in close cooperation with an external partner. Our internal stakeholders were asked about three categories: "relevance from our own perspective", "impact on business activities" and "relevance to business". Our external stakeholders evaluated the relevance of the topics from their own individual perspectives. The surveys investigated a variety of potential material issues and ranked them for importance on a scale ranging from 1 (= not important) to 7 (= extremely important). Issues that received an average score of 5.0 or more in the evaluation were classified as "material". In addition, we held an internal workshop to prioritise the impact of the Talanx Group's operations on the non-financial matters and include this in our assessment. This process resulted in our identifying eight material issues within the meaning of the HGB; we also report on three other aspects voluntarily as described below:

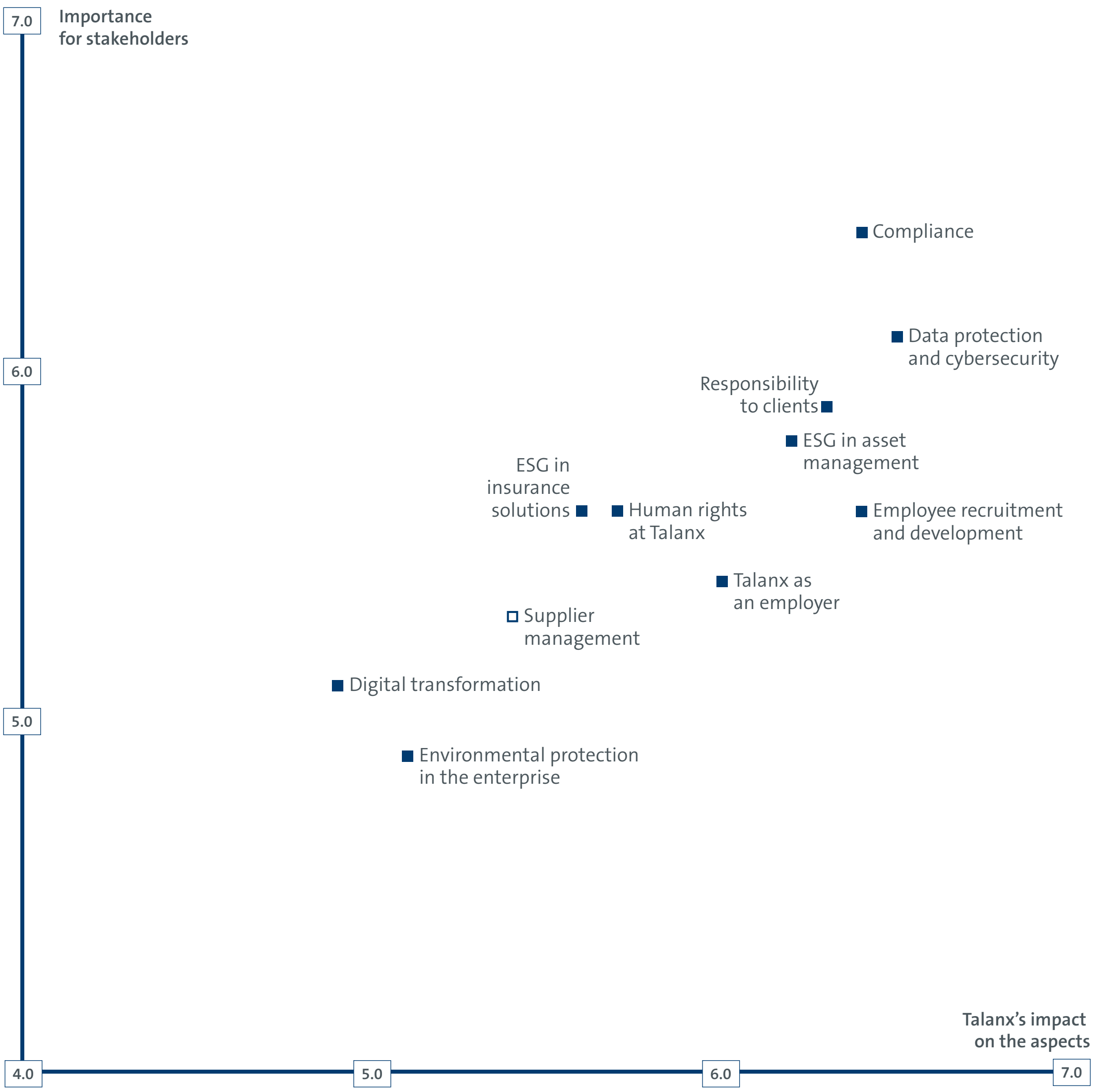
MATERIAL TOPICS AND CONTENTS OF THE CONSOLIDATED NON-FINANCIAL STATEMENT – AN OVERVIEW

Material topics	Non-financial aspects	Section of consolidated non-financial statement
Compliance	Cross-cutting topic (environmental matters, employee matters, respect for human rights, **anti-corruption and bribery matters**)	67f.
Data protection and cybersecurity	Additional non-financial aspect	69ff.
Digital transformation [1]	Additional non-financial aspect	71
ESG [2] in asset management	Cross-cutting topic (environmental matters, social matters, respect for human rights)	72f.
ESG in insurance solutions	Cross-cutting topic (environmental matters, social matters, respect for human rights)	73f.
Responsibility to clients	Additional non-financial aspect	74ff.
Employee recruitment and development	**Employee matters**	76f.
Talanx as an employer	**Employee matters**	77f.
Human rights at Talanx	**Respect for human rights**	79
Supplier management [1]	Cross-cutting topic (environmental matters, employee matters, **social matters**, respect for human rights, anti-corruption and bribery matters)	79f.
Environmental protection in the enterprise [1]	**Environmental matters**	80f.

1) Relevant issue that was not identified as material pursuant to the HGB but which is reported voluntarily.
2) ESG = Environmental, social, governance.

The method used to identify the material issues allows us to compare and contrast internal and external perspectives and represents a holistic view of the enterprise, as shown in the following matrix:

THE TALANX GROUP'S MATERIALITY MATRIX



Measured on a scale from 1 (= not important) to 7 (= extremely important).

■ Topic that is relevant to the Talanx Group's business.
□ Topic that is not relevant to the Talanx Group's business.

In addition to the material topics in accordance with the HGB, the consolidated non-financial statement includes three additional relevant issues that do not qualify as material under the HGB. These are:

- Digital transformation
- Supplier management
- Environmental protection in the enterprise

SUSTAINABILITY GOVERNANCE

Our sustainability management activities are drawn up at the enterprise level and rolled out successively across our core markets. Ownership of the topic of sustainability rests with the full Board of Management of Talanx AG. As is the case with the Group's other goals, values and strategies, the full Board of Management resolves and monitors the development and enhancement of Talanx's sustainability strategy, its sustainability goals and the implementation of the associated measures. The importance of sustainability for the Group's top management is underscored by the Sustainability Commitment issued by the full Board of Management; this has been published as a supplement/voluntarily additional information on our website https://www.talanx.com/~/media/Files/T/Talanx/pdfcontent/nachhaltigkeit/talanx_commitment_en.pdf.

In addition, the Chairman of Talanx AG's Board of Management has a particular responsibility for sustainability, since the Company's sustainability officer is attached to Group Communications, for which he is responsible. This unit coordinates sustainability management, which includes developing sustainability goals and preparing the sustainability report. The head of Group Communications reports directly to the Chairman of the Board of Management.

Due to the Group's decentralised organisational structure, most sustainability measures are implemented by the individual divisions and Corporate Operations in the context of their respective core businesses. The goals and measures are agreed, and data for reporting are captured, in consultation with a competence team comprising representatives from all divisions, the relevant companies, Corporate Operations and Talanx AG departments.

We cooperate closely and coordinate our actions with our subsidiary Hannover Rück SE, which has established its own sustainability strategy and publishes its own sustainability report and combined non-financial statement.

RISK ASSESSMENT OF NON-FINANCIAL ASPECTS

The HGB requires undertakings not only to report on non-financial matters but also to disclose information on corresponding risks pursuant to section 289c(3) nos. 3 and 4 of the HGB.

The Talanx Group has an adequate and effective risk management system. We identify risks throughout the Group using key indicators and various risk surveys. Information on qualitative risks is collected systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the units or experts concerned. To ensure that all risks are identified, they are compared with the Group's customized, comprehensive risk categorisation system that is used as the basis for risk identification.

The Talanx Group assesses risks after risk mitigation measures have been taken into account. In connection with the non-financial aspects, no material and extremely likely risks linked to the Group's operations or its business relationships, products or services that have or would have severe adverse impacts on the non-financial matters could be identified, either by the sustainability management organisation or within the risk management processes. The same applies to Hannover Rück SE, which publishes its own combined non-financial statement. Risks such as climate change whose risk content cannot yet be reliably assessed ("emerging risks") are monitored as part of the Group-wide risk management process. We capture and assess these risks in a Group-wide process that integrates experts from a number of different units. This process also make use of external experts and material.

For a basic overview of our risk management system, please refer to the risk report on page 108ff. of the Group management report.

GOOD CORPORATE GOVERNANCE

COMPLIANCE

For the Talanx Group, complying with the law is a vital prerequisite for sustained business success. This means that compliance is an integral part of all Group activities. In addition to the areas of its compliance programme that the Talanx Group has defined as core/coordination topics, it also helps ensure that environmental and social laws and regulations are observed.

The Group-wide Code of Conduct is an effective tool for making our commitment to complying with existing laws transparent. It sets out key principles and rules applicable to employees at all levels of the Talanx Group. The Code serves to explain to employees fundamental legal and ethical requirements that they have to abide by during their work for the Group companies concerned, and to provide further details of their duties in this area. In addition, it expressly highlights the ban on money laundering and illegal financing and draws attention to the fact that the anti-money laundering officers and the compliance officers must be informed of all suspected cases. Specific rules of conduct are also set out covering, among other things, avoiding and disclosing conflicts of interest; granting and accepting benefits, gifts and invitations; donations and sponsorships; sideline activities; stakes in other companies and participations in transactions. The Code of Conduct applies throughout the Group[1)] and is available in ten languages. It is supplemented by a set of more concrete Compliance Guidelines and other information and explanatory documents, which are available on our intranet. The Compliance Guidelines provide detailed content guidance on the principles set out in the Code of Conduct, which have now been addressed by Group companies in Germany and abroad and have been adopted as binding.

A whistle-blower system on our website can be used to report certain significant breaches of the law. It is currently available in German and six other languages that are commonly used within the Group. The system can be used – fully anonymously, if desired – to provide information about a variety of issues (including fraud, breaches of fiduciary duty and corruption; incorrect bookkeeping or accounting; anti-competitive and anti-trust offences; money laundering and terrorism financing; breaches of capital market regulations, sanctions and embargoes; and infringements of labour law, supervisory law and tax law provisions). Additionally, employees can report suspected breaches of the law or guidelines to their line manager or directly to the compliance officer responsible for the company in question within the Talanx Group or the division concerned.

A training plan tailored to different specific groups offers employees regular opportunities to refresh, broaden and deepen their knowledge of and expertise in selected compliance topics. New employees are regularly briefed on these issues as part of their induction events. In addition, regular classroom-based courses and web-based training (WBT) are provided on relevant compliance topics. Supplementary anti-corruption training serves to ensure that gifts are dealt with correctly. Above and beyond this, the Chief Compliance Officer holds classroom training sessions for various groups of managers several times a year in order to promote the Group's compliance culture. This dialogue helps Group Compliance identify any training needs in good time and to develop customized training offerings for them. Another focus in 2018 was on expanding cooperation with the local compliance officers. In addition to holding a European compliance managers' meeting, we introduced a regular virtual compliance meeting format known as ComplianceXchange, in which Group Compliance and local compliance officers develop and exchange best practice solutions together.

The Talanx Group's compliance organisation is a separate department. It is headed by the Chief Compliance Officer, who is also the Corporate Governance Officer and an authorised representative of Talanx AG, and who reports directly to Talanx AG's CEO. The compliance officers responsible for the individual divisions and Group companies report to the Group Chief Compliance Officer. The Compliance department is responsible for establishing and updating Group guidelines and structures designed to ensure compliance, for following up on complaints and compliance breaches, and for internal training within the Group. In addition, in-depth advice is provided on relevant compliance issues where necessary.

A global network of compliance managers at our foreign locations assists the Chief Compliance Officer in his tasks, and reports to him. This means that local compliance breaches can also be reported directly, without going through the local hierarchy. The Chief Compliance Officer prepares an annual report for the Board of Management on material compliance issues and developments.

Compliance is relevant at all levels of the Talanx Group, from divisions through departments down to individual employees. Outside the Group, it can affect customers, business partners and suppliers in particular. As a matter of principle, dealings with these stakeholder groups are to be based on a Code of Conduct for Business Partners. A draft document was produced in the reporting period.

1) Hannover Re has its own Business Principles, a revised version of which was formally adopted by the Board of Management on 29 May 2017. These supplement Talanx AG's Code of Conduct, which expresses the Talanx Group's value system.

GOALS AND MEASURES: "COMPLIANCE"

Goal	Measure	Scope	Deadline	Status
Review Compliance Guidelines for sustainability criteria and incorporate where necessary	Expand compliance management system to include Group-wide integrity management	Talanx Group	2020	In process
Optimise compliance management	Agree suitable measures to improve compliance rules and guidelines in the regular European compliance officer meetings and conference calls	Hannover Re	2020	In process
	Regularly review corruption risk based on compliance risk analyses produced as part of compliance planning	Talanx Group	Ongoing	Done

In addition to establishing structures and workflows, we have continuously expanded our compliance programme in recent years (see the "Compliance" section on page 86f. of the Group management report). The compliance management system builds on Talanx's compliance policy, which comprises Talanx's Code of Conduct, its Compliance Guidelines and work instructions. These documents were comprehensively reviewed, a process that included sustainability aspects and that resulted in some cases in revisions or new internal documents. For example, the foreword to Talanx's Code of Conduct already draws attention to individual employees' responsibility to act in a forward-looking, reliable, fair and open manner.

Adherence to the compliance requirements is verified by Group Compliance and during internal audits. Content reviews of the applicable compliance rules and regulations are performed regularly and revisions made where necessary. The annual compliance report informs the Supervisory Board about significant compliance risks and the measures taken to ensure that existing requirements are met. For details, please refer to the risk report on page 108ff. of the Group management report. In addition, the Group takes stakeholder interests and requirements in the areas of compliance and transparency into account, firstly by engaging in dialogue with stakeholders on sustainability issues and secondly by adhering to the GRI Standards and taking part in ESG rating processes.

DATA PROTECTION AND CYBERSECURITY

Information is an essential basis for our daily work. Customer data, and company and capital market information underpin all key decision-making and business processes: insurers and their intragroup service providers collect, process and store large volumes of personal data. These data are needed during the application process, to provide advice to customers, in underwriting, in customer and contract services, and in claims and payment management. Additionally, personal data are collected, processed and stored in connection with human resources management, shareholders and the funds business, among other things. The basic principle applied is that Group employees may only collect, process and store personal data if this is required for a specifically defined purpose and in the lawful performance of their duties, or if there is another legal basis for this. Personal data are transferred to external recipients (mainly service providers) in order to enhance the efficiency of the services provided. At the same time, external recipients must be seen as part of processing operations, e.g. in the case of brokers, appraisers, reinsurers, etc. External recipients are bound by contract and/or the law to comply with the data protection requirements.

The Group's Code of Conduct requires employees to comply with the provisions of data protection law and the Group Data Protection Guidelines, and to actively contribute to ensuring that personal data are reliably protected against unauthorised access.

The Talanx Group has appointed company data protection officers as required by law. The data protection requirements to be observed have been incorporated in a data protection management system. Group guidelines are used to lay down binding rules for material data protection requirements. Awareness measures and training are conducted and random checks performed on the basis of these Group requirements. Centrally defined methods are specified for data subjects' rights (e.g. the right to access stored personal data), ensuring that the processes are executed correctly. A reporting system for senior management has been set up.

Close cooperation and consultation with important interfaces such as Group Legal, Group Compliance, Group Security and Group Auditing ensure that the data protection legislation requirements are met. Data protection risks are reported to Group Risk Management.

The necessary modifications were made to ensure compliance with the EU General Data Protection Regulation (EU GDPR) and other legal requirements relating to data protection. In individual cases, interpretations or further details that must be provided by the relevant authorities are still outstanding; these need to be monitored and implemented following a brief analysis. The implementation of complex modification issues is ongoing. A common data protection framework was established for those of our branches and subsidiaries that are domiciled in the EU or the EEA. The branch or subsidiary concerned must observe the national legal data requirements.

GOALS AND MEASURES: "DATA PROTECTION AND CYBERSECURITY"

Goal	Measure	Scope	Deadline	Status
Supplement data protection solutions to incorporate initial experience gained since May 2018 (data protection guidelines, sample texts, checklists, etc.)	Review requirements and solutions used in the light of experience to date and interpretations	Germany	2019	In process
Refresher training for all senior executives every two years (attendance ratio at least 95%)	Roll-out eLearning data protection training course: refresher training concept to be completed in 2019 (the first roll-out took place in May 2018)	Germany	2019	In process
Extend the data protection training programme	Revise the training content (eLearning) and increase the training ratios for employees (including new employees) achieved in 2018	Germany	2019	In process
Optimise the components of the data protection management system	Enhance the methods and procedures used to ensure compliance with the requirements governing records of processing activities, data protection impact assessments and the rights of data subjects	Germany	2019	In process
Continue establishment of support services for foreign data protection management within the primary insurance group	Establish collaborative model for EU locations outside Germany to ensure compliance with minimum data protection standards	Talanx Group EU locations	2019	In process
Maintain ISO 27001 certification	Perform annual surveillance audits and obtain recertification of information security management system after three years	Talanx Group	Ongoing	In process

Two data protection management systems have been established within the Group as a whole (primary insurance and reinsurance group). The data protection management system for the primary insurance group is implemented at Talanx AG, whereas Hannover Rück SE is responsible for the data protection management system for the reinsurance group. Within the primary insurance group, a distinction must be made between two ways of allocating responsibility, which are described in the following.

Group Data Protection is responsible for designing the data protection management system for companies belonging to HDI Deutschland AG (Talanx Deutschland AG); this entails issuing data protection requirements, implementing awareness measures (training courses, etc.), monitoring compliance and contributing to operational design (consulting), as well as reporting to senior management.

HDI Global SE manages its data protection issues directly and allocates tasks and responsibilities centrally and locally. Local contacts have been assigned responsibility for ensuring compliance with data protection requirements. In some cases, the foreign locations have specialist departments such as legal or compliance functions that are actively involved in data protection management. In the case of very small foreign locations that exclusively perform operational tasks, data protection support by headquarters is currently being set up.

HDI International AG (Talanx International AG) subsidiaries have implemented data protection management activities at local level and monitor their adequacy and effectiveness using established management tools. All subsidiaries must prove that they meet the data protection requirements applicable to their processes, IT systems and interfaces and that they have implemented all necessary organisational measures.

Hannover Rück SE's data protection management system differs from the system used by the primary insurance group. The business model used at Hannover Re means that different risks need to be reflected in the data protection management system. The principles documented in the Group Data Protection Guidelines apply to all companies and units within Hannover Re. The established Compliance organisation's existing structures are used to implement these minimum data protection law standards. Responsibilities within Compliance have been established and documented throughout the Group. Interfaces to data protection have been implemented. The EU GDPR does not affect all Hannover Re companies directly, partly because some of them are domiciled outside the EU or the EEA. In these cases, the relevant national legal frameworks apply. Regardless of whether or not the EU GDPR applies in a particular case, the compliance officers or contacts who have been appointed are responsible for local data protection requirements. Where necessary, these develop additional local data protection guidelines and act as the interface to Hannover Re's Data Protection Officer in Germany.

The Data Protection Officer coordinates overarching aspects of the data protection management system that has been established within the Hannover Re Group. He advises on solutions to concrete data protection law issues and monitors compliance with the EU GDPR and other data protection regulations. Data protection law requirements are monitored in close cooperation with Group Auditing using a documented interface. Defined reporting channels ensure transparency. The findings of the separate data protection reporting system are included in the compliance report.

Group Data Protection at Talanx did not receive any notifications of reportable data breaches or incidents in the reporting period.

Clients, employees and partners trust Talanx Group companies every day with sensitive data that must be processed responsibly and in line with the legal requirements. However, many players outside the company are also very interested in this data, for example in the context of industrial or corporate espionage targeting our industrial clients, obtaining personal information about retail policyholders, or downloading employee details for improper use. Information security is a critical competitive advantage today, as well as being the prerequisite for successful digital transformation.

Our information security management system has been fully ISO 27001 certified since 2013 and undergoes an external review every year, ensuring a high degree of transparency both within Talanx and outside it. Flanking measures include the use of ISAE 3402 (ISAE stands for the International Standard on Assurance Engagements) and of the IT-Grundschutz Catalogues published by the Federal Office for Information Security (BSI). Since HDI Deutschland AG (Talanx Deutschland AG) and HDI Global SE meet the Federal Republic of Germany's critical infrastructure criteria, they were linked to the central registry operated by the GDV, the German Insurance Association, in 2018.

Information security plays an important role in the selection of, and collaboration with, external service providers. For example, service providers must undertake to comply with, and are audited to, the same standards as internal IT services.

The security standards in place at Talanx are continuously enhanced by an internal, growth-oriented unit that has been specifically authorised to perform this task and that reports directly to the Group CIO; the results are constantly monitored. In addition, our staff in this area regularly network with other experts, for example via the BSI's cybersecurity alliance, the Allianz für Cyber-Sicherheit (ACS). In addition to consciously managing IT risks, we sensitize employees to security issues using ongoing awareness campaigns.

DIGITAL TRANSFORMATION

Digital transformation is a key strategic focus and part of the Talanx Group's new strategy that was adopted during the reporting period. This provides a framework for the divisions to develop their digital transformation strategies. In keeping with our decentralised Group structure, it is the divisions that drive the digital transformation process. One focus is on upgrading our IT and systems environment to provide a basis for automation and for digitalising processes ("get ready"). The other two focus areas are content-related: data analytics, which addresses the issues of artificial intelligence and behavioural economics ("get skills"), and ecosystems/partnerships ("get bundled"). Since these focus areas are relevant for the entire Group, the holding company provides targeted support for them as well, e. g. by facilitating international discussion and scaling up of best practices and by entering into scouting and market intelligence partnerships. For example, in the reporting period we introduced Group-wide formats for sharing best practices on specific focus areas and extended our partnership with the Plug & Play innovation platform to include a European location (Munich).

GOALS AND MEASURES: "DIGITAL TRANSFORMATION"

Goal	Measure	Scope	Deadline	Status
Improve efficiency Increase revenue Enhance our cooperation readiness/interface ability	Defined initiatives and KPIs for the individual divisions	Industrial Lines Division	2022	In process
		Retail International Division	2022	In process
		Retail Germany Division	2022	In process
		Reinsurance division	2020	In process

PRODUCT RESPONSIBILITY

At the Talanx Group, our investments and insurance products are the main aspects of our operations where sustainability has to be taken into account. Given the leverage that we can achieve with our business, this means we can potentially make a highly significant contribution to sustainable development. We are therefore aiming to include sustainability aspects in our investments (in line with the ESG criteria adopted by the Talanx Group), insurance products and services in the long term.

ESG IN ASSET MANAGEMENT

Our investments under management total approximately EUR 122.8 billion. Of this figure, 82% was invested in fixed-income securities as at 31 December 2018, while equities accounted for just under 11%. Roughly 3% was invested in real estate. The remainder is attributable to asset classes such as private equity and infrastructure, and to cash positions, funds withheld by ceding companies and investment contracts. Investors, analysts and customers are increasingly interested in how the Talanx Group includes social and ecological issues in its investments. When making investment decisions, the Talanx Group aims on the one hand to avoid potential negative impacts by not investing in unsustainable issuers. To do this, we developed a Group-wide ESG screening process in 2016 and implemented it at the beginning of financial year 2017. On the other hand, the Talanx Group also aims to promote positive impacts overall; however, these effects are not measured and quantified at present.

We have analysed securities investments throughout the Group for their compliance with ESG criteria since the start of the 2017 financial year. Existing investments are screened on the basis of the UN Global Compact's Ten Principles. These principles for responsible action serve as the basis for a wide-ranging filter catalogue. In addition to these ten universal principles, which relate to the areas of human rights, labour standards, the environment and anti-corruption, the catalogue also excludes investments in controversial weapons such as anti-personnel mines. The filter catalogue was expanded to include a coal criterion at the end of 2018. As a matter of principle, we shall no longer invest in companies whose revenue/energy generation mix is based more than 25% on coal. Before new securities are purchased a check is also made to establish whether the issuer meets the ESG criteria. For asset classes such as infrastructure and real estate that cannot currently be included in the screening procedure, the Talanx Group has issued separate investment guidelines. These exclude, among other things, investments in facilities involving a significant environmental impact such as nuclear power projects.

ESG screening is performed every six months by an external service provider. In the process, almost 90% of all Talanx Group investments under own management – depending on strategic allocation changes – are communicated to the service provider and rated, to the extent that a rating exists. Equally a new body, the Responsible Investment Committee (RIC), was set up in 2017 to establish the process. It is chaired by Talanx AG's Chief Financial Officer. This Committee defines the filter criteria used and makes individual decisions on whether to retain or divest holdings.

Investments in core infrastructure items are a key component of asset management. Since demand in this area is largely immune to short-term economic volatility, it is an excellent planning choice for institutional investors. At the same time, the projects are a good fit for an insurer's long-term investment horizon. Thanks to our affinity for long maturities and our expertise in this area we are able to leverage illiquidity, complexity and duration premiums. As a result, these carefully selected projects offer attractive returns for an acceptable level of risk. The goal at all times is to make sound investments in the interests of our policyholders.

One of the core screening criteria for investments is a regulated environment, e.g. in the form of statutory feed-in fees, incentive-based regulation and public-private partnerships (PPPs). Our infrastructure investments are mainly located in the eurozone, with the focus being on projects in the areas of transport, energy and social infrastructure. The Talanx Group has been indirectly involved in infrastructure projects for some time via funds and has also participated directly in selected projects since the beginning of 2014, providing both equity and debt. At present, our diversified infrastructure portfolio includes, among other things, finance for wind and solar farms, power grids and public-private partnership projects in Germany and the rest of Europe.

GOALS AND MEASURES: "ESG IN ASSET MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Check sustainability criteria when selecting investments	Continuous review and, where necessary, fine-tuning of sustainability approach adopted in asset management	Talanx Group	Ongoing	In process
Increase investments in infrastructure	Continuing sectoral diversification of infrastructure portfolio	Talanx Group	Ongoing (longer-term goal)	In process
Enhance the sustainability approach adopted in asset management	The previous version of the ESG Investment Guidelines was expanded in 2018 to include sustainability criteria for fossil fuels. In addition, a best in class investment approach was developed as an additional tool and implemented at the technical level	Hannover Re	2020	In process

In addition, direct infrastructure investments with investment volumes of between EUR 30 million and EUR 150 million per project (equity) and between EUR 50 million and EUR 200 million (debt) are planned; the investment horizon is 5–30 years. As at the end of 2018, the Talanx Group had invested a total of approximately EUR 2.1 (1.9) billion in infrastructure projects. Of this figure, roughly EUR 1.3 billion is attributable to renewable energy sources. For 2019, the Infrastructure Investments team expects new investments to total approximately EUR 300 million of equity and debt.

ESG IN INSURANCE SOLUTIONS

Customers may react positively to the inclusion of social matters and support for environmentally friendly products and projects, since social awareness of sustainability is growing. Customer satisfaction can also improve employee satisfaction and staff identification with their employer. In addition, insurance products have to be reviewed for their ecological and social impact and their relevance to sustainable development.

The Talanx Group's insurance services do not have any direct relevant environmental impacts. Rather, these services help ensure that environmental risks are adequately insured and that, in case of loss, the impact can be remedied or mitigated. Information on provisions for asbestos-related claims and environmental damage is contained in our risk report on page 108ff. The insurance business essentially has a positive social impact – it involves transferring risk so that losses arising from loss events can be absorbed and financial protection can be provided for both entities and individuals.

Nevertheless, the potential indirect ecological and social impacts of the insurance business on sustainable development, such as any consequences that insured projects may have, must be borne in mind. The Talanx Group's Code of Conduct addresses compliance with human rights at industrial policyholders.

In the long term, the Talanx Group's goal is to increase the inclusion of sustainability criteria in insurance products and services. To date, specific sustainability goals have been defined in this area for the entities belonging to Hannover Re.

GOALS AND MEASURES: "ESG IN INSURANCE SOLUTIONS"

Goal	Measure	Scope	Deadline	Status
Support, develop and expand sustainable insurance solutions	Promote the expansion of climate change products such as weather insurance and energy savings insurance	Hannover Re	2020	In process

A large number of products from the Talanx Group's insurance companies support environmentally friendly technologies and behaviour or take social interests into account. For example, the services provided help ensure that environmental risks are suitably insured and that the impact of any damage can be remedied or mitigated. Engineering insurance offers a wide range of insurance solutions that promote renewable energies, from onshore and offshore wind power projects through photovoltaics down to geothermal energy. The Industrial Lines Division also covers prototype development, such as for tidal power plants. Insurance cover starts with construction and extends for many years of operation at the customer. In this way, Talanx Group companies are supporting Germany's change in energy policy. Hannover Re is also promoting the increase in climate change products such as weather insurance and energy savings insurance. By offering solutions in areas such as microinsurance and agricultural insurance, Hannover Re also contributes to social advances in underdeveloped regions. For example, people without large financial reserves can insure themselves against basic risks such as sickness, occupational disability, the consequences of natural disasters or failed harvests. No information is currently available on the monetary value of products and services developed by the Talanx Group to deliver a specific environmental or social benefit.

RESPONSIBILITY TO CLIENTS

In the "responsibility to clients" group of topics, easy-to-understand information about insurance solutions, financial incentives for fair sales advice, and rapid, transparent claims processing are material for the Talanx Group. These topics address customer concerns and have a significant influence on customer satisfaction, which in turn is decisive for the Talanx Group's success. Consequently, meeting customer needs is paramount; this is also reflected in the Talanx Values with their reference to "comprehensive customer orientation". Key elements in addition to high-quality advice are transparency, fairness and innovative, customer-oriented products and services.

The Regulation on Information Obligations for Insurance Contracts (VVG-InfoV) imposes extensive duties on the insurance industry to inform their customers, and we naturally comply with these. Above and beyond this, providing easy-to-understand information about insurance solutions is a key component of the Code of Conduct for Insurance Distribution produced by the German Insurance Association (GDV). The Code is voluntary and aims to present a sector-wide standard for fair, needs-driven customer advice.

GOALS AND MEASURES: "RESPONSIBILITY TO CLIENTS"

Goal	Measure	Scope	Deadline	Status
Easy-to-understand information about insurance solutions	The relevant companies in the Retail Germany Division have signed up to the Code of Conduct issued by the German Insurance Association (GDV). Following the implementation of the Insurance Distribution Directive (IDD), the companies have now undertaken to abide by the revised, IDD-compliant version of the Code	Germany and HDI Global SE	2018	Ongoing
Financial incentives for fair sales advice	The provisions of the EU Insurance Distribution Directive (IDD) were implemented on schedule at the subsidiaries belonging to HDI Deutschland AG (Talanx Deutschland AG) and HDI Global SE	Germany and HDI Global SE	2018	Done

The fifth principle set out in the GDV Code of Conduct for Insurance Distribution requires insurance products to be developed and sold on a needs-driven basis. Simple, easily understandable product documentation should give customers the confidence to make conscious choices that are right for them.

One of the main ways Talanx Group companies ensure this is by providing product/consumer information sheets that score positively on the Hohenheimer Verständlichkeitsindex, a German readability index. The general terms and conditions for insurance policies, the annual life insurance policy statements and the sample calculations for life insurance are also based on the GDV recommendations. Following the introduction of the EU Insurance Distribution Directive (IDD), manufacturers of insurance products have to comply with more extensive supervisory and management requirements. The companies in the Retail Germany Division meet these. Products are developed using standardised creation and consultation processes, including uniform readability specifications.

As regards customer requirements, HDI obliges its tied agents and the banks and other partners with which it works to put determining these needs during their consultations at the heart of their brokerage activities. In addition, consultations have to be carefully documented using standardised report forms. This is monitored by Complaints

Management. Confirmation from customers that they have received a record of the advice provided or (exceptionally) that they have expressly waived such a record is an integral part of our application/contract documentation. The standardised digital sales processes provided by HDI serve as a basic consultation document that is made available to customers.

Giving customers easy-to-understand information and focusing on their needs are also a component of independent reviews and audits. A compliance management system was developed and implemented in 2016 for the sales forces at HDI Versicherung AG, HDI Lebensversicherung AG and our bancassurance companies to ensure that the Code is properly implemented. In 2018, HDI Versicherung AG and HDI Lebensversicherung AG were recertified by an independent auditor.

In the area of payment protection insurance, the sector (including the bancassurance companies in the Retail Germany Division) implemented new statutory requirements at the beginning of 2018 that introduced additional transparency requirements and consumer rights: among other things, consumers are informed that payment protection insurance is voluntary and is not a precondition for being granted a loan. Consumers have the right and the opportunity to terminate the agreement at any time throughout its life. They receive a separate order confirmation for the payment protection insurance policy roughly a week after the loan contract has been entered into. They can also revoke the payment protection insurance policy in the first few weeks (up to 30 days after receipt of the welcome letter), in which case it will be annulled at no cost to the policyholder. Even after this, consumers can terminate the policy at any time, in which case the unused pro rata portion of their premium is refunded. Additionally, the GDV and the banking associations are developing voluntary undertakings designed to further increase transparency. The banking partners for the bancassurance companies (Hamburger Sparkasse AG, Postbank – a branch of DB Privat- und Firmenkundenbank AG, and TARGOBANK AG) are already working on disclosing to customers not just the loan instalment payment but also, for comparative purposes, the loan instalment payment that would be due if no payment protection insurance were payable; in some cases this has already been implemented. As a result, customers can directly see the monthly charge attributable to the payment protection insurance policy in addition to the amount explicitly disclosed in the agreement.

Providing our customers with fair, independent advice has top priority for the Talanx Group. This is why we aim to continuously improve our advisory services. Our Group-wide Code of Conduct sets standards for responsible and ethical behaviour at all levels of the Group. Sales compliance is also covered by the Code, as well as being the subject of extensive compliance training. The GDV Code of Conduct for Insurance Distribution also emphasises the importance of having qualified intermediaries and focuses on continuous professional development. With respect to remuneration, the GDV Code of Conduct notes that additional remuneration above and beyond the contractual fee arrangements cannot be allowed to negatively affect either the intermediary's independence or customer interests. The requirements of the EU's Insurance Distribution Directive, including the delegated acts that still had to be determined and its various transpositions into national law, were implemented on schedule in 2018.

The HDI Compliance Steering Committee is the core steering and oversight body both for the compliance management systems used by those companies that have signed up to the GDV Code of Conduct and for implementing the requirements regarding material risk takers at the Retail Germany Division resulting from the entry into force of the IDD and the relevant national legislation.

In order to ensure that intermediaries have the necessary qualifications and expertise required for advising customers, Talanx Group companies have been active since 2013 (the year of its launch) in the "Gut beraten – Weiterbildung der Versicherungsvermittler in Germany" initiative, which was set up by the GDV and the associations of intermediaries in the German insurance industry. All tied agents are contractually required to take part. The Retail Germany Division has reviewed all existing agreements with an eye to the provisions on additional remuneration. Where necessary, new sample agreements have been drafted and clear rules for restructuring additional remuneration have been drawn up.

Customer satisfaction is a critical success factor and hence a top priority for us. We therefore measure customer satisfaction using a mix of our own surveys and a number of instruments from external providers, such as the "Kundenmonitor Assekuranz" or "Gewerbekunden-Check Assekuranz" surveys. In 2016, work started on a project to harmonise the life and casualty application environment at the companies belonging to HDI Deutschland AG (Talanx Deutschland AG), with the goal of introducing a uniform portfolio management system; in 2017 and 2018, products and new business at the first HDI Deutschland AG (Talanx Deutschland AG) subsidiaries were migrated to this common portfolio management system. In addition, we decided to realign our life insurance business: among other things, traditional classic life insurance products were replaced by capital-efficient concepts in 2016. Our national and international Group companies use a variety of instruments to poll customer satisfaction – from their own customer satisfaction surveys at various customer contact points through the use of external assessment tools down to specialist conferences and stakeholder dialogues forming part of our sustainability management activities. In addition, customer workshops were held with claims customers in 2017 and with sales partners from the third-party liability, accident and property, and motor vehicle claims areas in 2018.

The effects of this can be seen among other places in HDI's claims function: the claims app in the third-party liability, accident and property, and motor vehicle claims units and of the FAST live calculation tool for motor vehicle claims allowed us to reach and extend major milestones in process and application environment optimisation. Both elements of the digital transformation process and opportunities for enhanced customer contact are being incorporated into the claims management process. Customer service quality was enhanced, firstly by further optimising existing processes in the spirit of active claims management (such as the glass damage process within motor vehicle claims) and secondly by implementing new processes, such as needs-driven customer support in the case of cyberattacks. Another method of enhancing service quality is by anchoring a tailor-made service story among employees – the focus here is on ensuring that all claims staff take a positive approach to customers in every claim.

Cross-departmental support from the specialists in the third-party liability, accident and property claims area is resulting in rapid, transparent claims management. In particular, this allows us to process accumulated claims rapidly and in a customer-friendly manner – Cyclone Friederike is worth a particular mention here. We successfully achieved our goals of completing claims processing on first contact as flexibly and rapidly as possible and while ensuring easy accessibility. The seals of quality we were awarded for regulating homeowners' insurance claims reflected the positive feedback we received from customers.

Above and beyond this, no specific goals were set for the "Responsibility towards customers" group of topics during the reporting period.

EMPLOYEES

Our human resources activities aim to support our staff in their work in such a way that we can achieve our corporate goals as fully as possible, retain existing employees and attract new ones. We ensure this by having the right people in the right place and by assigning them the right tasks. Key elements of our human resources work – such as human resources support and human resources development – are closely aligned and coordinated. These areas all play a major role in addressing current human resources issues, from ensuring a positive, agile culture through contemporary recruitment processes and staff qualification/professional development topics down to designing incentive systems and state-of-the-art working conditions.

EMPLOYEE RECRUITMENT AND DEVELOPMENT

Competent, committed and entrepreneurial staff are a critical success factor for the Talanx Group. They use their many and varied talents at the different Group companies to drive forward our business success and promote customer satisfaction. Our professional programmes assist in employee development and help staff continuously enhance their skills. These offerings also take developments such as demographic change, the decline in the number of experts in certain areas and changes in the world of work into account. The Talanx Group uses a variety of strategic approaches to ensure it always has adequate numbers of talented young staff. These include dual-track vocational training and degree courses, graduate trainee programmes for particular functions and induction programmes for young professionals. Human resources controlling is responsible for planning, managing and evaluating human resources activities and processes within the Talanx Group. Key elements of this process include regular analyses of headcount changes and human resources reporting (both internal and external). In addition, the Operational Auditing Competence Centre performs risk and process assessments for the human resources area in accordance with the principles of the Institute of Internal Auditors (IIA).

External human resources marketing measures help position the Talanx Group as an attractive employer.

GOALS AND MEASURES: "EMPLOYEE RECRUITMENT AND DEVELOPMENT"

Goal	Measure	Scope	Deadline	Status
Review human resources guidelines for sustainability criteria and incorporate these where necessary	Analyse/review existing guidelines for sustainability criteria	Germany	Ongoing	In process
Ensure adequate numbers of talented young staff	Facilitate initial professional training	Germany	Ongoing	In process
Maintain/restore employees' working capacity	▪ Roll out employee health days/health management to locations ▪ Employee qualification offerings	Primary insurance Germany	Ongoing	In process
	▪ Continue existing health/screening and prevention programmes	Hannover Re	2020	In process
Extend further education measures for specialists and managers	Induction programmes for specialists/experts, executives and project team leaders	Primary insurance	Ongoing	In process
	> 4 days continuing professional development per employee/year (Reinsurance, Group-wide)	Hannover Re	2020	In process

Initial professional training is a key component of our activities to attract and retain talented young staff in Germany. This can be seen from the consistently high number of vocational trainees who are taken on permanently after completing their courses, which has been in the range of 80% to 90% for years. Different companies within the Talanx Group offer a wide range of training options, from classic vocational training through to bachelor's degrees.

A broad range of internal training opportunities ensures our employees have the skills they need to perform their current and future tasks. In addition, our financial support for in-service vocational training and degree programmes promotes employability in general.

Identifying and developing high flyers and high-potential employees is another focus of our human resources development work. Customised development programmes are used to prepare and qualify high-potentials for their future work. As a result, we are able to fill management and specialist positions primarily from within our own ranks, assuming that candidates are equally qualified. This human resources policy offers career-driven high performers especially attractive prospects. In 2018, we offered a development programme for young professionals for the first time that aims to provide support for and nurture outstanding vocational trainees and dual-track degree students as they transition to the world of work, and by doing so retain them at the Group. In addition, we provide ongoing skills development measures aimed at expanding employees' professional knowledge and strengthening their personal skills. Employee reviews, feedback instruments and personal stocktaking exercises can also be used to enable staff to reflect on their own behaviour and adapt to changed requirements.

The Talanx Corporate Academy is an established, successful core tool for strategy implementation and cultural development within the Group. The programme teaches strategy issues to top managers from all divisions. The focus in 2018 was on digital transformation and agility.

The Talanx Group's strategic revamp of its university marketing will focus in future on selected universities in order to attract suitable graduate recruits for the Group. In addition, the Hannover-based insurance companies and Leibniz University Hannover launched the "House of Insurance" project as a joint centre of competence for research and teaching in the fields of insurance economics, actuarial science and insurance law, with the aim of strengthening Hannover's position as a centre of the insurance industry.

Above and beyond this, the Talanx Group offers performance-related pay, flexible working hours where the job permits and attractive social benefits such as occupational retirement provision, capital accumulation benefits, and holiday and Christmas bonuses. All these benefits are reflected in our moderate employee turnover rate and the long periods of staff service for the Group.

At the Group level, Hannover Re has also expanded its staff retention, development and empowerment measures. Activities in the reporting period revolved around providing support for employees and managers on how to deal with the impact of the tangible changes in the world of work. The effects produced by agile forms of working and automated and digitalised workflows play a key role here.

TALANX AS AN EMPLOYER

Our diversity management activities aim to promote a corporate culture that is open, respectful and appreciative, and in which people with widely differing individual skills can work happily together. Our goal is to actively and consciously strengthen diversity, so as to maintain and enhance our company's success and competitiveness. The Talanx Group employs men and women from an extremely wide range of national, ethnic, religious and personal backgrounds and of different ages, as well as people with and without disabilities and with different sexual orientations.

There are numerous examples of developments that are changing the nature of work within the Group. These include a rising number of older workers, generations Y and Z, demands for greater mobility and an improved work-family balance, increasing globalisation and the associated rise in the proportion of women in work and of people in our society who come from migrant backgrounds.

Outside the Group this is important for the supply chain/value chain, e.g. for (potential) job applicants, customers and business partners. Active diversity management is built into the planning, management and evaluation of human resources activities and processes within the Talanx Group and hence is included in human resources controlling; see also the section entitled "Employee recruitment and development" on page 76f.

GOALS AND MEASURES: "TALANX AS AN EMPLOYER"

Goal	Measure	Scope	Deadline	Status
Diversity/increase proportion of women in management positions (rate of increase depends on the starting position for the company concerned)	Recruit women to at least 25% of vacant management positions at all levels of the hierarchy in Germany	Germany	Ongoing	In process
	Recruit women to at least 35% of management positions	WARTA Group	Ongoing	In process
	Mentoring programme for women	Germany (primary insurance)	Ongoing	In process
	Frauen@Talanx network	Germany (primary insurance and reinsurance)	Ongoing	In process
	Seminar offering for women	Germany (primary insurance)	Ongoing	In process
Women should account for at least 18% of second- and third-level management positions at our Hannover location	Repeat the mentoring programme for women in 2019 and 2020	Hannover Re	Ongoing	In process
Work-family balance/work-life balance	▪ Flexible working time models (flexible and part-time working, where the tasks performed permit this) ▪ Introduce mobile working ▪ Deferred compensation scheme ▪ Contribution to childcare costs ▪ Parent-child office ▪ Talingo EAP (external advice for employees) ▪ Health days	Germany (primary insurance)	Ongoing	In process
	▪ Part-time/remote working models ▪ Company crèche	Hannover Re	2020	In process
Internationality	▪ International Management Development Programme (MDP) ▪ Shadowing opportunities for foreign employees ▪ Secondments abroad	Talanx Group	Ongoing	In process
Remuneration and performance	▪ Positions assigned to salary bands set out in collective agreement for the insurance industry ▪ Use of Hay job evaluation method, including associated remuneration system, for management functions	Talanx Group (not including Hannover Re)	Ongoing	In process

The Group has already taken a number of measures to promote diversity, prevent discrimination and support its employees' development regardless of their origins. The Group Board of Management's "Diversity Commitment" undertakes to acknowledge, value and incorporate diversity as part of Talanx's corporate culture. In addition, the Board signed the Diversity Charter, a corporate initiative designed to promote diversity in companies and institutions, back in 2013. The Board of Management also takes diversity into account when filling executive positions within the Company. This is set out in the Corporate Governance Principles.

The "Frauen@Talanx" women's network has independently set itself the goal of giving female employees in the Talanx Group a platform for networking and for learning from and with each other. The members of the group act as contacts for female colleagues from their divisions and as multipliers. The women's network is sponsored by Torsten Leue, Talanx AG's CEO.

The Talanx Group is keen to ensure a successful work-life balance and supports this – where the tasks performed permit – by offering flexible working time models, the opportunity to work part-time and a deferred compensation scheme. The introduction of mobile working in 2018 now enables employees at the Hannover headquarters to organise their daily work more flexibly and lays the groundwork for modern, remote/mobile working that permits a better work-family balance.

Moreover, since 2014 Talanx has paid up to EUR 100 a month tax-free towards the cost of looking after preschool children in the first year after their parents return to work following parental leave. Parent-child offices at a number of locations helps solve short-term childcare problems in emergency situations.

Our employees have access to a comprehensive range of preventive measures as part of our holistic health management programme, allowing them to enhance their personal resources. For example, health days were held at all locations in Germany during the reporting period. In addition, external employee counselling was introduced in 2016. This offering comprises free, anonymous and immediate assistance with private, professional and psychological issues, plus a family service.

Our business success depends not only on the quality of our products and services, but also on our staff acting in a legally correct and responsible manner in their dealings with each other, and with our clients, business partners, shareholders and the general public. Our employees' behaviour is based on the principles of fair, polite dealings and on respect for individuals' personal rights. This is also reflected in the Talanx Values Award, which was conferred in its original form in the years between 2016 and 2018. This prize aims to honour activities that can serve as an example within the Group and to inspire others to act in the spirit of our enterprise values. In 2018, the jury gave the prize to the liability, accident and property, and motor vehicle claims team for its compelling claims service story – which aims to increase customer orientation and satisfaction throughout the enterprise. For 2019, the competition is to be continued in a focused form as the "HDI Agile Award".

The Group's remuneration system comprises a performance-driven and responsibility-based salary along with results-based payments and the attractive social benefits mentioned here. Salary adjustments based on internal and external remuneration analyses ensure that the remuneration paid by the Group is competitive. Paying adequate salaries and informing our staff transparently about the individual components of their overall remuneration are key human resources goals. At Talanx, individual salaries depend on the function performed and the employee's personal professional qualifications and performance. In addition to assigning positions to the salary bands set out in the collective agreement for the insurance industry, this is based on a uniform, non-employee-specific evaluation of all management positions throughout the Group that is performed using the standardised Hay method. This framework enables the Group to ensure that its salary structure is not only performance-driven and responsibility-based, but also market-competitive.

HUMAN RIGHTS AT TALANX

As an international insurance group, Talanx hereby discloses, in accordance with section 54(5) of the UK Modern Slavery Act 2015, the steps taken by the Group during the financial year ending on 31 December 2018 to prevent forms of modern slavery and human trafficking: As an international group with more than 22,000 employees worldwide, we are aware of the obligations towards our employees and business partners that result from our size and market position. In line with this, Talanx has as its aim, and is committed to, respecting human rights worldwide in keeping with the applicable laws, conventions and regulations in this area, and we actively support employee rights. To underscore this commitment and make the importance of compliance transparent for our employees and business partners, Talanx has adopted a range of internal rules and regulations designed to ensure and review its compliance with human rights. A number of works agreements on human resources topics also exist. Particularly relevant in this context are the sections on the Code of Conduct and the whistle-blowing system (see the relevant paragraphs of the "Compliance" section on page 67ff. of the consolidated non-financial statement). In addition, we are developing and implementing other initiatives, such as drafting an overarching Code of Conduct for Business Partners (see the section below entitled "Supplier management"). Above and beyond the measures described, no other results were achieved in the "Human rights at Talanx" group of topics and no more far-reaching projects were implemented; a comprehensive policy has not been resolved to date.

SUPPLIER MANAGEMENT

The biggest impact that the Talanx Group can have on the observance of human rights is in its global supply and value chain. Although we consider the risk of human rights abuses and of significant negative environmental impacts in our supply chain to be minor, we take care when selecting suppliers to ensure that they comply with national legislation on environmental protection and human rights, and with our Talanx Values. We are planning a uniform Group Code of Conduct for Business Partners in order to underscore our commitment and to be able to have a positive influence over and above the legal requirements. With respect to the procurement aspect, we make a distinction between the Purchasing and IT Purchasing units. In the case of IT procurement, we already use a Code of Conduct for Contractors that forms part of the Talanx Group's work instructions for the procurement of IT assets and services. The Code covers the human rights of employees – e.g. by banning forced and child labour and discrimination – employee health and safety, and environmental protection. It also requires contractors to comply with ethical standards. Hannover Re uses a similar code.

GOALS AND MEASURES: "SUPPLIER MANAGEMENT"

Goal	Measure	Scope	Deadline	Status
Take sustainability management criteria into account more in procurement	Develop and successively implement a uniform Group Code of Conduct for Suppliers in the appropriate languages	Talanx Group	2018	In process
Continuous assessment of approximately 90% of suppliers (measured in terms of procurement volumes) in accordance with environmental and social standards	Ongoing supplier selection and assessment in accordance with environmental and social standards	Hannover Re	2020	In process

Two of our companies, Hannover Re and HDI Systeme AG (Talanx Systeme AG), already use a supplier code of conduct. Hannover Re obliges its key suppliers and subcontractors to comply with the minimum standards set out in Hannover Re's Code of Conduct for Suppliers. Supplier management at our Hannover location therefore provides for supplier assessments at event-driven intervals. Suppliers are evaluated on the basis of self-assessments with the help of an application-based procedure; in the case of a critical assessment in an environmental, social or governance (ESG) risk category they are put on a negative list, which means that no further orders will be placed with them.

The WARTA Group in Poland and HDI Assicurazioni in Italy also oblige their suppliers to behave in an ethically, socially and environmentally correct manner. Potential suppliers must issue a declaration that they will abide by national labour laws and the principles set out in the UN Global Compact.

Work is currently ongoing on the development and successive implementation of a Group-wide Code of Conduct for Suppliers. As a result, this sustainability goal will be achieved later than originally planned.

ENVIRONMENTAL PROTECTION IN THE ENTERPRISE

As a service provider, the Talanx Group has a comparative small environmental impact. The effects that we do produce stem mainly from the employees at our locations, who consume energy and materials, take business trips and travel to and from work every day. Nevertheless, the Group takes its responsibility for the environment extremely seriously and aims to minimise the negative ecological impact of its business operations. The Talanx Group's attempts to make our day-to-day operations and procurement activities sustainable and cost-efficient are focused on using resources sparingly. This applies in particular to the consumption of energy, water and materials.

Talanx has therefore set itself concrete goals for reducing emissions and energy consumption. We review the progress we make towards achieving these objectives on an ongoing basis and expand them to include additional or new targets where this makes sense. In addition, we perform energy audits in accordance with DIN EN 16247 in line with the German Energy Services Act (EDL-G) in order to systematically analyse energy utilisation and consumption. We are using our participation in the collaborative ÖKOPROFIT project in the reporting period specifically to take stock of our situation, analyse our weaknesses and develop measures to improve our internal environmental management. Our analysis and reviews also incorporate ESG rating results.

GOALS AND MEASURES: "ENVIRONMENTAL PROTECTION IN THE ENTERPRISE"

Goal	Measure	Scope	Deadline	Status
Reduce CO_2 emissions and consumption of energy and resources	Successively transition to renewable energies	Germany	2018 onwards	Undergoing implementation
	Optimise energy consumption by adjusting timer programs, using efficient LED lighting in all buildings owned by the Talanx Group, and making greater use of occupancy detectors in offices (implementation of measures arising from the energy audit)	Germany	approx. 2026	In process
	Step up internal communication on cutting energy and paper consumption in the workplace (continuous raising of employee awareness of sustainability)	Germany	Ongoing	In process
Expand and promote sustainable mobility policies	Retire E4 vehicles from Internal Services vehicle pool	Germany	2018	In process
	Use electric Smarts for city trips in Hannover, Cologne, Hamburg and Dortmund in order to reduce pollutant emissions	Germany	2017 onwards	In process
	In a pilot project at our central location in Hannover, employees with electric vehicles or e-bikes will be offered the opportunity to charge these at charging towers or charging stations	Germany, Hannover	2017 onwards	In process
Expand and promote corporate environmental protection	Successfully pass commission audit of the "ÖKOPROFIT" project sponsored by the City and Region of Hannover	Germany, Hannover	2019	In process
Continuously enhance environmental management	▪ 10% reduction in electricity consumption per employee ▪ 5% cut in carbon-neutral heating energy requirements ▪ 15% cut in paper consumption ▪ Keep water consumption and CO_2 emissions constant	Hannover Re	2020	In process

In addition to setting an upper CO_2 limit for company cars, the Talanx Group is helping employees get to work in an environmentally friendly way by subsidising local public transport offerings at a variety of locations in Germany. After commissioning an all-electric postal delivery vehicle in 2017, Talanx acquired two further e-Smarts at its Hamburg and Dortmund locations. In addition, we aim to further reduce the number of business trips made within the Group and are making increased use of videoconferencing technology.

The main way in which the materials used aspect affects the Talanx Group, as a service provider in the insurance and finance areas, is in relation to paper consumption. The volume of other materials used in the production of insurance cover and other services is not significant. We focus on a variety of sustainability seals when procuring paper. We are also continuously optimising energy consumption at our national and international locations. Greater use is being made of timer programmes and occupancy detectors in offices and more LED lighting is being installed in the buildings.

Back in 2012, our subsidiary Hannover Re established standard environmental protection processes by introducing a DIN EN ISO 14001 certified environmental management system, and defined concrete targets in its environmental programme. Since then, the environmental management system has undergone annual certification audits; since 2016, these have been conducted in accordance with the revised DIN EN ISO 14001:2015 standard. In addition, Hannover Re has published a validated EMAS III environmental statement every year since 2016.

CORPORATE GOVERNANCE

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT [1)]

DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTIONS 289F, 315D OF THE GERMAN COMMERCIAL CODE (HGB)

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The Board of Management and Supervisory Board issued the following declaration of conformity with the German Corporate Governance Code for Talanx AG before the annual financial statements were adopted:

The German Corporate Governance Code (DCGK) sets out key statutory provisions governing the management and supervision of listed German companies and contains both internationally and nationally recognised standards of good, responsible enterprise management. The purpose of the Code is to promote the trust of investors, customers, employees and the general public in German corporate governance. Section 161 of the German Stock Corporation Act (AktG) requires the boards of management and supervisory boards of listed German companies to issue an annual declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code published by the Federal Ministry of Justice, or alternatively to explain which recommendations were or are not followed and why (“comply or explain”).

The last declaration of conformity was issued on 27 February 2018. The Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that in its implementation of the German Corporate Governance Code in the currently applicable version dated 7 February 2017 Talanx AG has departed from the recommendations of the Code for the following three items:

1. Section 4.2.3(2) of the Code (maximum limits on variable remuneration components in Board of Management contracts)

Part of the variable remuneration of Members of the Board of Management is granted in the form of Talanx share awards. The maximum number of share awards granted at the time of allocation depends on the total amount of variable remuneration, which is capped. This means that the allocation of share awards is subject to the maximum limit. Share awards are subject to a four-year vesting period. This means that Members of the Board of Management share in both positive and negative developments at the Company during this period, as reflected in the share price. After the end of the vesting period, the equivalent value of the share awards is paid out to Members of the Board of Management. The amount paid out is determined on the basis of the price of the Talanx share on the payout date, plus an amount equal to the total dividends per share distributed during the vesting period. This means that the share awards are aligned with the economic performance of the Talanx share.

The amount of variable remuneration resulting from the granting of share awards is therefore limited at the time of allocation of the share awards, but it is not capped again on the payout date. The Company believes that it is unreasonable to impose a further limit as of the payout date on the amount of variable remuneration resulting from the granting of share awards, given that the share awards are intended to align the interests of the shareholders and Members of the Board of Management of Talanx AG. From the Company’s perspective, payment in Talanx share awards represents, in economic terms, a compulsory investment in Talanx shares with a four-year holding period.

Talanx AG therefore formally declares a departure from section 4.2.3(2) of the Code as a highly precautionary measure.

2. Section 4.2.3(4) of the Code (caps on severance payments in Board of Management contracts)

Early termination of a contract of service without serious cause is only possible by mutual agreement. Even if the Supervisory Board insists upon setting a severance cap when concluding or renewing a Board of Management contract, this does not rule out the possibility of negotiations also extending to the severance cap if a Member of the Board of Management leaves. In addition, the scope for negotiation over such an exit could be restricted if a severance cap were agreed, which could be particularly disadvantageous in cases where there is ambiguity surrounding the existence of a serious cause for termination. In the opinion of Talanx AG, it is therefore in the interest of the Company to depart from the recommendation in section 4.2.3(4) of the Code.

[1)] This subsection is a section of the report explicitly exempted by legislators from the audit of the financial statements/management report (section 317(2) sentence 6 and sentence 4 of the German Commercial Code (HGB); unaudited information).

3. Section 5.3.2 (3) Sentence 3 of the Code (chairmanship of the Audit Committee)

The current Chairman of the Finance and Audit Committee is also the Chairman of the full Supervisory Board. In view of his earlier service as Chief Financial Officer he is equipped with extensive knowledge of and experience in the application of accounting principles and internal control procedures in the primary insurance and reinsurance sector. Combined with his many years of experience in leading the company and the Group, he is therefore particularly well suited for the role of Committee Chairman. In his dual role as Chairman of the Finance and Audit Committee and of the full Supervisory Board, he singlehandedly coordinates the work of both bodies and can therefore optimise the efficiency of their activities. This does not lead to a concentration of power in his hands on either the Finance and Audit Committee or the full Supervisory Board because in both bodies he has only one vote, just like the other members. In light of this, the Company believes that the current Chairman of the Supervisory Board is the most suitable person to act as Chairman of the Finance and Audit Committee. It is therefore in the interest of the Company to depart from the recommendation in section 5.3.2(3) Sentence 3 of the Code.

Apart from the above-mentioned exceptions, the Company will continue to comply with the recommendations of the German Corporate Governance Code.

Hannover, 9 November 2018

On behalf of the Board of Management	On behalf of the Supervisory Board

The declaration of conformity and further information on corporate governance at Talanx can be found on our website at http://www.talanx.com/investor-relations/corporate-governance. You will also find the report on the “Code of Best Practice for Warsaw Stock Exchange Listed Companies”, required as a result of Talanx AG’s secondary listing on the Warsaw Stock Exchange there.

TARGET FIGURES IN ACCORDANCE WITH SECTIONS 76(4) AND 111(5) OF THE AKTG; STATUTORY QUOTA FOR THE SUPERVISORY BOARD IN ACCORDANCE WITH SECTION 96(2) OF THE AKTG

The female quota on Talanx AG’s Supervisory Board is defined at at least 30% in accordance with the statutory regulations; this figure applies for any necessary new elections and postings as from 1 January 2016 for filling any individual or multiple places on the Supervisory Board. This quota was taken into consideration when electing new shareholder representatives in the year under review. Following these elections, more than 30% of the Supervisory Board – both in its entirety and divided by employee representatives and shareholders representatives – are women.

The Supervisory Board has resolved to aim to appoint at least one woman to the Board of Management in the period 1 July 2017 to 30 June 2022. A target proportion of 20% has been set for the first management level under the Board of Management and 30% for the second.

CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH NUMBER 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE (“THE CODE”)

The Board of Management and the Supervisory Board define good corporate governance as responsible enterprise management and supervision for Talanx AG and the Talanx Group that is geared towards sustainable value creation. In particular, we aim to further promote the trust placed in us by investors, our business partners and our employees, and the public at large. We also attach great importance to the efficiency of the work performed by the Board of Management and the Supervisory Board, to good cooperation between these bodies and with the Company’s staff and to open and transparent corporate communication. Our understanding of good corporate governance is summarised in Talanx AG’s Corporate Governance Principles (https://www.talanx.com/corporate-governance). Our aim is to always apply the highest ethical and legal standards both to strategic considerations and in our day-to-day business, as the behaviour, actions and conduct of each individual employee determine the public image of Talanx AG and the entire Group.

CORPORATE GOVERNANCE

Good corporate governance is indispensable if Talanx AG and Talanx Group are to achieve their goal of sustainably enhancing their enterprise value. The Board of Management, Supervisory Board and employees identify with the Corporate Governance Principles that have been resolved, which are based on the German Corporate Governance Code. This is by no means contradicted by the fact that the Company again did not comply with certain recommendations of the Code in the year under review, since well-founded departures from the recommendations of the Code can, as in this case, be in the interests of good corporate governance (see the foreword to the Code). Talanx AG continues to comply with a large proportion of the Code's recommendations and suggestions, meaning that it continues to occupy a very good position among listed German companies.

Talanx AG is a stock corporation under German stock corporation law. It has three governing bodies: the Board of Management, the Supervisory Board and the Annual General Meeting. The duties and powers of these bodies are defined by law, the Company's Articles of Association, and the Rules of Procedure for the Board of Management and the Supervisory Board.

BOARD OF MANAGEMENT

The Board of Management is directly responsible for managing the Company and defines its goals and corporate strategy. Article 8(1) of the Articles of Association sets out that the Board of Management shall comprise at least two persons. Beyond that, the Supervisory Board determines the number of members. The Supervisory Board's Rules of Procedure stipulate that the Supervisory Board should only appoint persons under the age of 65 to the Board of Management.

The current Members of the Board of Management and their areas of responsibility are set out on page 8 of this Annual Report.

The activities of the Board of Management are governed by Rules of Procedure for the Board of Management of Talanx AG adopted by the Supervisory Board. These define the areas of responsibility of the individual Members of the Board of Management. Notwithstanding their collective responsibility, each Member of the Board is individually responsible for the area(s) assigned to them, subject to the resolutions passed by the full Board of Management. However, all Members of the Board of Management are obliged by the Rules of Procedure to inform the other Members of the Board of Management of major undertakings and proposals, transactions and developments in their areas of responsibility. In addition, the Rules of Procedure set out the matters reserved for the full Board of Management and the required voting majorities. The full Board of Management resolves on all cases in which a resolution by the full Board of Management is required by law, the Articles of Association or the Rules of Procedure.

The Board of Management meets at least once a month. It reports regularly, promptly and comprehensively to the Supervisory Board on business developments, the Company's financial position and results of operations, planning and goal achievement, and on current opportunities and risks. The Supervisory Board has set out the Board of Management's information and reporting obligations in more detail in a binding information policy document entitled "Reporting by the Board of Management to the Supervisory Board of Talanx AG". Documents on which a decision must be made, and particularly the separate financial statements, the consolidated financial statements and the auditors' reports, are forwarded to the Members of the Supervisory Board immediately after they have been prepared. The Board of Management may only execute certain transactions of special importance or strategic significance with the approval of the Supervisory Board. Some of these approval requirements are prescribed by law, while others are set out in the Rules of Procedure of the Board of Management. For instance, the following actions and transactions require the Supervisory Board's prior approval:

- adoption of strategic principles and targets for the Company and the Group
- adoption of the annual planning for the Company and the Group
- any decision to exit the industrial insurance business
- the signing, amendment and termination of intercompany agreements
- the acquisition and disposal of parts of undertakings in excess of a certain size

Members of the Board of Management may only perform sideline activities, and in particular be appointed to the supervisory boards of non-Group companies, with the consent of the Supervisory Board.

SUPERVISORY BOARD

The Supervisory Board advises and oversees the Board of Management in its activities. It is also responsible, in particular, for the appointment and contracts of service of Members of the Board of Management and for examining and approving the individual and consolidated financial statements. The Chairman of the Supervisory Board is in constant contact with the Chairman of the Board of Management to discuss the Company's strategy, business developments and important transactions. The Supervisory Board has introduced Rules of Procedure for its work; among other things, these govern membership of the Supervisory Board and its internal organisation and contain general and specific rules for the committees to be formed by the Supervisory Board in accordance with the Rules of Procedure.

The Supervisory Board consists of 16 Members. Half of these are elected by the shareholders and half by the Company's staff. The composition of the Supervisory Board and its committees is set out on page 9 of this Annual Report.

The Supervisory Board holds ordinary meetings regularly, and at least once per quarter. Extraordinary meetings are convened as required. The Finance and Audit Committee and the Personnel Committee also hold regular meetings. The Supervisory Board is quorate when all Members have been invited to the meeting or called upon to vote and at least half of the total number of Members of which the Supervisory Board is required to be composed take part in the resolution. All decisions are passed by a simple majority, unless another majority is prescribed by law. If a vote is tied and a further vote is held on the same subject; the Chairman shall have the casting vote in the event of a further tie.

The Supervisory Board has formed the following committees to ensure that it performs its tasks effectively:

- Personnel Committee
- Finance and Audit Committee
- Nomination Committee
- Standing Committee

The Supervisory Board committees prepare the decisions of the Supervisory Board that lie within their respective remits and pass resolutions in lieu of the Supervisory Board within the framework of the powers assigned to them by the Rules of Procedure. The committee chairs report regularly to the Supervisory Board on the work of the committee for which they are responsible.

The Finance and Audit Committee (FAC) oversees the financial reporting process, including the effectiveness of the internal control system and of the risk management and internal audit systems. It discusses the quarterly reports and deals with issues relating to compliance, profitability trends at Group companies and the size of the loss reserves. Additionally, it prepares the Supervisory Board's review of the annual financial statements, the management report, the Board of Management's proposal for the appropriation of distributable profit, and the consolidated financial statements and Group management report. In this context, the FAC informs itself in detail of the auditors' opinion of the net assets, financial position and results of operations, and has the effects of any changes in the accounting policies explained to it. The FAC is also responsible for monitoring the impartiality of the auditors and the additional services provided by them. The FAC deals with auditor selection and submits a recommendation to the Supervisory Board regarding the appointment of auditors. The FAC engages the auditors. It is responsible for defining the focal points for audits and agreeing fees with auditors and assumes its rights and obligations in the light of the broader remit established by the EU Audit Reform. The FAC receives direct reports from the Board of Management and also, once a year, from the heads of the four key functions (Compliance, Risk Management, Actuarial, Auditing).

The Personnel Committee prepares resolutions by the Supervisory Board relating to Members of the Board of Management and passes resolutions in lieu of the Supervisory Board on the content, signature, amendment and termination of service contracts with Members of the Board of Management, with the exception of remuneration issues and their implementation. It is responsible for granting loans to the persons referred to in sections 89(1) and 115 of the Stock Corporation Act (AktG) and to persons assigned a similar status in section 89(3) of the AktG, and for approving contracts with Supervisory Board Members in accordance with section 114 of the AktG. It exercises the powers set out in section 112 of the AktG on behalf of the Supervisory Board and ensures long-term succession planning together with the Board of Management.

The Nomination Committee advises the Supervisory Board on suitable candidates for election to the Supervisory Board to be proposed by it to the Annual General Meeting. To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee of the Supervisory Board has drawn up a catalogue of requirements for Supervisory Board Members, one of the aims of which is to make sure that the Supervisory Board has the necessary expertise to cover all business areas at the Group.

The Supervisory Board's Rules of Procedure state that the Supervisory Board may not include more than two former Members of the Company's Board of Management, so as to guarantee the independence of Supervisory Board Members. Additionally, Members of the Supervisory Board may not hold offices on the governing bodies of, or provide advisory services in an advisory capacity to, any significant competitors of the Company, Group companies or the Talanx Group. Supervisory Board Members ensure that they have sufficient time available for their activities and avoid potential conflicts of interest. In accordance with the Rules of Procedure of the Supervisory Board, Members of the Supervisory Board should not have reached the age of 72 at the time of their election and, as a rule, they should appear on the Supervisory Board for a maximum of three consecutive periods of office, whereby the period of office that begun in 2018 – or begins in 2019 for the employee representatives – is the first period of office to be taken into account in this regard.

With regard to the number of independent Supervisory Board Members that the Supervisory Board considers appropriate, the latter has decided that it should include two independent members as defined in section 5.4.2 of the German Corporate Governance Code. These include Ms Aschendorf and Mr Lohmann. The Supervisory Board therefore currently meets this target. Employee representatives on the Supervisory Board are not taken into account here.

DIVERSITY CONCEPT – TARGETS FOR BOARD OF MANAGEMENT AND SUPERVISORY BOARD COMPOSITION AND STATUS OF IMPLEMENTATION

Talanx AG also follows the principle of diversity in the composition of its Board of Management and Supervisory Board. The broad-based skills, knowledge and relevant experience of the Members of the Board of Management and Supervisory Board allow them to assess the Company's opportunities and risks in its business operations in a nuanced manner and to adopt a balanced and professional approach, including to decision-making, based on that assessment. The diversity aspect is considered to an appropriate extent when appointing members to the Board of Management and the Supervisory Board. This includes, in particular, the age, gender, education and professional experience of a candidate as well as their specialist skills and personal attributes (expertise). In order to guarantee that the diversity concept is embraced consistently, each new appointment of a member to the Board of Management or Supervisory Board is assessed to determine whether the planned appointment is also conducive to implementing the diversity concept.

The Supervisory Board is to be composed in such a way that its members as a whole possess the knowledge, skills and specialist experience required to duly perform their duties. The composition of the Supervisory Board is intended to ensure that the Board of Management of an international, highly diversified insurance group is competently monitored and advised by a supervisory body and to preserve the Group's good reputation in the public eye. It is therefore essential to pay particular attention to the integrity, personality, motivation, professionalism and independence of the individuals put forward for election. The aim is for the Supervisory Board as a whole to possess all the knowledge and experience deemed essential in light of the Talanx Group's activities. Given Talanx AG's international focus, it must be ensured that the Supervisory Board has a sufficient number of Members with many years of international experience. Thanks to their current or previous activities as CEOs or members of boards of management or in similar executive roles in international companies or organisations, all the shareholder representatives on the Supervisory Board have many years of international experience. The Supervisory Board believes that the international dimension has been taken sufficiently into consideration. The aim is to maintain the Board's current international makeup.

Care is taken when selecting candidates who are to be proposed to the Annual General Meeting for election to the Supervisory Board that these have the necessary knowledge, skills and professional experience. The principle of diversity is also taken into account in the selection process. At present, the Supervisory Board has five female members. One woman sits on each of the Nomination Committee, the Finance and Audit Committee and the Personnel Committee. As regards the Board of Management, the aim is to appoint at least one woman as a Member of this board by June 2022.

By signing up to the "Diversity Charter" in 2013, the Board of Management has clearly signalled its intention to promote diversity within the Company and the Group.

REMUNERATION PAID TO THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The remuneration report beginning on page 89ff. contains a detailed description of the structure of the remuneration paid to the Board of Management and the Supervisory Board, as well as to senior executives.

SECURITIES TRANSACTIONS SUBJECT TO DISCLOSURE REQUIREMENTS (DIRECTORS' DEALINGS)

Members of the Board of Management and Supervisory Board, authorised representatives of Talanx AG and closely related parties are legally obliged to disclose the acquisition or disposal of shares in Talanx AG or of associated financial instruments if the value of the transactions in a single calendar year amounts to or exceeds EUR 5,000. In relation to this, Talanx AG not only ensures that it makes the relevant publications and disclosures required in accordance with Article 19(2) and (3) of the Market Abuse Regulation but also publishes the Directors' Dealings on its website.

SHARES HELD BY THE BOARD OF MANAGEMENT AND THE SUPERVISORY BOARD

The aggregate shares in Talanx AG and related financial instruments held by all Members of the Board of Management and Supervisory Board amounted to less than 1% of all shares issued by the Company as at 31 December 2018.

COMPLIANCE

Compliance with the law and internal Company guidelines, and ensuring that Group companies also observe these, is an essential part of management and oversight in the entire Talanx Group. This calls for a strong compliance culture underpinned by a compliance management system tailored to the Company's specific needs.

The Group does in fact have a robust compliance management system designed around and based on risk. This general approach is reflected in the way the Group-level process for identifying compliance risks is reviewed and refined on a regular basis. As a result, an up-to-date risk map is available at all times and paves the way for the risk-oriented resource input in terms of compliance work across the Group in the coming year.

The compliance management system is also based on the compliance policy. A code of conduct serves as the linchpin for internal Group compliance regulations. It contains the key principles and rules for ensuring that all Talanx Group employees act in a legally compliant and responsible manner. It also sets out the high ethical and legal standards on which the Group's global operations are based. The code of conduct is available on the website. All Group employees must ensure that they comply with the code and the laws, guidelines and instructions governing their individual areas of work. The compliance guidelines embody the contents of the code and set out minimum requirements in respect of individual core compliance issues (prevention of corruption, antitrust law compliance, financial sanctions and embargoes, product and sales compliance, capital markets compliance, investment compliance, corporate compliance). They are split into topic and Division-specific instructions. As a result, all employees have access to a set of guidelines tailored to the actual needs of their day-to-day work and designed to help them conduct themselves with integrity and in accordance with the law.

During the year under review, employees were made more aware of the main tenets and precepts of the compliance policy through various communication measures and training courses. Long established methods, such as the dialogue event for experts and managers with the Chief Compliance Officer and web-based training for various employee groups in Germany and abroad, were continued. In addition, the Group compliance function launched the virtual "Compliance XChange" meeting in the year under review, which offers decentralised compliance officers in Europe a regular opportunity to exchange information across divisions. As well as personal interaction, this aims to strengthen the compliance organisation and promote the exchange of best practice methods within the compliance organisation.

In terms of staff, Talanx's compliance organisation consists of the Chief Compliance Officer, who is also the Corporate Governance Officer and an authorised representative of Talanx AG, one team leader from each of the Hannover and Cologne locations and additional compliance officers responsible for the individual divisions of the Talanx Group. An exception to this is the Hannover Re subgroup, which has its own compliance organisation that liaises closely with Talanx's Compliance department. Compliance officers are appointed in the decentralised Group units in Germany and abroad and are the first point of contact regarding compliance questions for local employees.

Another element in ensuring Group-wide compliance is a whistleblower system that can be contacted from anywhere in the world via the Talanx website, and which employees and third parties can use to report significant breaches of the law and the rules contained in the code of conduct.Complaints can be made anonymously if desired. Any evidence of violations of the law or of misconduct is followed up rigorously as befits a culture of compliance and in the interests of all stakeholders.

The importance of compliance for the Group is also underlined by its membership of compliance associations, which advocate robust compliance structures for sustainable corporate success. A notable example at national level is Deutsche Institut für Compliance e.V. (DICO), and Talanx is also a member of the international Chief Compliance Officers' Forum (CCO Forum) for the insurance industry. These memberships help identify common positions and offer incentives to develop solutions based on best practice, as well as providing opportunities to pick up on and appraise developments within the regulatory environment for compliance at an early stage.

The Board of Management submits the compliance report, which sets out the Talanx Group's structure and its wide range of activities in this area, to the Finance and Audit Committee before the annual financial statements are adopted each year.

TAKEOVER-RELATED DISCLOSURES

STRUCTURE OF SUBSCRIBED CAPITAL

The structure of the subscribed capital is explained in the Notes under "Notes to the consolidated balance sheet", Note 17.

RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

In the case of section 136 AktG, voting rights of the shares concerned are excluded by law. Beyond that, there are not currently any restrictions on voting rights and the transfer of shares.

DIRECT AND INDIRECT INTERESTS IN THE SHARE CAPITAL EXCEEDING 10% OF THE VOTING RIGHTS

HDI Haftpflichtverband der Deutschen Industrie V.a.G., HDI-Platz 1, 30659 Hannover, holds 79.0% of the voting rights in the Company.

SHARES CONVEYING SPECIAL CONTROL RIGHTS

There are no shares conveying special control rights.

SYSTEM OF VOTING RIGHTS CONTROL WHERE EMPLOYEES ARE SHAREHOLDERS

No employees are shareholders within the meaning of section 315a(1) No. 5 of the HGB.

ASSOCIATION GOVERNING THE APPOINTMENT AND DISMISSAL OF MEMBERS OF THE BOARD OF MANAGEMENT AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The appointment and dismissal of Members of the Board of Management of Talanx AG are regulated in sections 84 and 85 of the AktG, section 31 of the German Co-determination Act (MitbestG) and section 5 of the Supervisory Board's Rules of Procedure.

The Supervisory Board appoints the Members of the Board of Management for a maximum period of five years. Members can be reappointed for a maximum period of five years in each case. As the MitbestG applies to Talanx AG, Members of the Board of Management must be appointed in an initial vote by a majority of two-thirds of the Members' votes. If such a majority is not obtained, section 31(3) of the MitbestG stipulates that the appointment can be made in a second vote by a simple majority of the Members' votes. If the necessary majority is still not obtained, a third vote is held, in which a simple majority of votes is once again required, but in which the Chairman of the Supervisory Board has a casting vote in accordance with section 31(4) of the MitbestG.

German supervisory law requires Members of the Board of Management to be reliable and professionally qualified to run an insurance holding company (section 24(1) sentence 1 in conjunction with section 293(1) of the Insurance Supervision Act [VAG]). Persons who are already senior executives of two insurance companies, pension funds, insurance holding companies or special purpose entities for insurance cannot be appointed as Members of the Board of Management. However, the supervisory authority can permit more offices to be held if the companies concerned belong to the same insurance group or group of companies (section 24(3) in conjunction with section 293(1) of the VAG). The Federal Financial Supervisory Authority must be notified of plans to appoint a Member of the Board of Management (section 47 No. 1 in conjunction with section 293(1) of the VAG).

The Annual General Meeting resolves amendments to the Articles of Association (section 179 of the AktG). Unless otherwise mandated by law, resolutions of the Annual General Meeting are passed by a simple majority of votes cast and, if a majority of the capital is required, by a majority of the share capital represented at the time the resolution is passed (article 16(2) of the Articles of Association). A larger majority is required by law, for example, in the case of a change to the corporate purpose (section 202(2) of the AktG). In accordance with section 179(1) sentence 2 of the AktG in conjunction with article 11 of the Articles of Association of Talanx AG, the Supervisory Board can make amendments to the Articles of Association that merely affect the wording.

POWERS OF THE BOARD OF MANAGEMENT TO ISSUE OR REPURCHASE SHARES

The powers of the Board of Management to issue and repurchase shares are regulated by the Company's Articles of Association and by sections 71ff. of the AktG. In this context, the Annual General Meeting of the Company authorised the Board of Management on 11 May 2017 in accordance with section 71(1) No. 8 of the AktG to acquire treasury shares, including by means of derivatives, for a period of five years, i.e. up to 10 May 2022, under certain conditions.

On 11 May 2017, the Annual General Meeting authorised the Board of Management, subject to the approval of the Supervisory Board, to issue registered bonds with a total nominal value of up to EUR 500 million on one or more occasions until 10 May 2022, and to impose contingent conversion obligations for no-par value shares of Talanx AG on the creditors of the bonds, without granting them rights of exchange or pre-emptive rights. Subject to the approval of the Supervisory Board, the Board of Management may disapply pre-emptive rights. In order to service the registered bonds, the share capital was increased conditionally by up to EUR 126,398,821.25 at the same Annual General Meeting (Contingent Capital I). The Annual General Meeting of 11 May 2017 also authorised the Board of Management, subject to the approval of the Supervisory Board, to issue on one or more occasions until 10 May 2022 bonds (convertible bonds and bonds with warrants), participating bonds and/or profit participation rights, which can be combined with conversion rights or warrants, with a total nominal value of up to EUR 500 million. Subject to the approval of the Supervisory Board, the Board of Management may disapply pre-emptive rights for certain listed purposes. In order to service the above bonds, participating bonds and/or profit participation rights, the share capital was increased contingently by up to EUR 31,599,700 at the same Annual General Meeting (Contingent Capital II). On 11 May 2017, the Annual General Meeting resolved to renew the authorised capital in accordance with article 7(1) of Talanx AG's Articles of Association and to insert a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions until 10 May 2022 by a maximum of EUR 157,998,521.25 million by issuing new no-par value registered shares in exchange for cash or non-cash contributions. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for noncash capital increases if their disapplication is in the Company's overriding interest. The amendment to the Articles of Association took effect on its entry in the commercial register on 14 June 2017.

MATERIAL AGREEMENTS OF TALANX AG SUBJECT TO CHANGE OF CONTROL CLAUSES

Talanx AG's contracts for syndicated credit facilities specify that the lenders may terminate the credit line if, among other reasons, there is a change of control, i.e. if a person or a group of persons acting in concert other than HDI Haftpflichtverband der Deutschen Industrie V.a.G. acquires direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Distribution agreements with DB Firmen und Privatkundenbank AG (legal successor of Deutsche Postbank AG) and with its Postbank sales subsidiaries, based on the cooperation agreements with Deutsche Postbank AG dated 18 July 2007, each contain a clause that, in the event of the direct or indirect acquisition of control over one of the parties to the contract by a third company not affiliated with the parties, grants the other party to the contract an extraordinary right of termination.

The cooperation agreement for Russia signed on the basis of the general agreement with Citibank dated December 2006 contains a clause that, in the event that the controlling majority of the shares or the business operations of one of the parties to the contract are acquired by a company not affiliated with the parties, grants the other party to the contract an extraordinary right of termination.

COMPENSATION ARRANGEMENTS IN THE EVENT OF A TAKEOVER BID

No compensation arrangements are in place at the Company for Members of the Board of Management or employees in the event of a takeover bid.

REMUNERATION REPORT

The remuneration report describes and explains the basic features of the remuneration structure for the Board of Management of Talanx AG, the amount of the remuneration paid to the Board of Management and the key criteria for its calculation. The description covers the payments made to the Board of Management in financial year 2018 in respect of the activities of the Members of the Board of Management on behalf of Talanx AG and its consolidated companies. It also explains the structure and amount of remuneration paid to the Supervisory Board of Talanx AG and the basic principles governing the remuneration of senior executives below the level of the Group Board of Management.

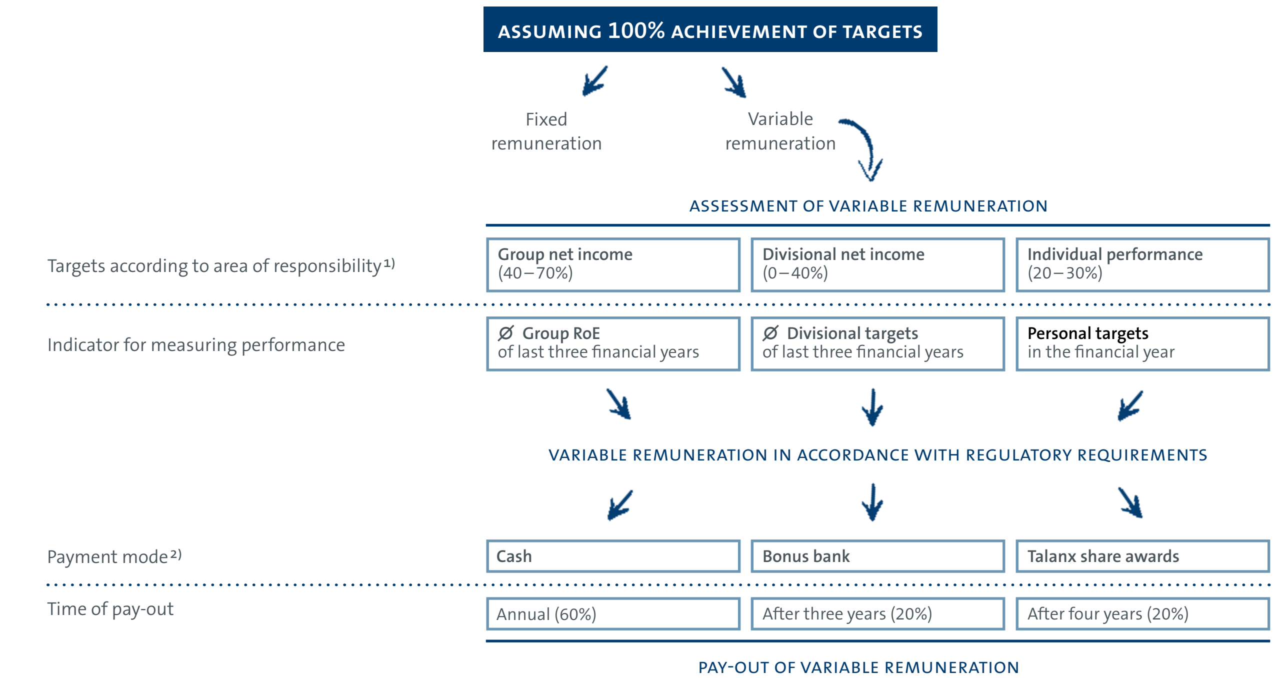
The remuneration report is based on the recommendations of the German Corporate Governance Code and contains information that is included in the Notes to the 2018 consolidated financial statements in accordance with IAS 24 "Related Party Disclosures". In accordance with German commercial law, the information also contains mandatory disclosures from the Notes (section 314 of the HGB) and the management report (section 315 of the HGB). These are all discussed in this remuneration report and, additionally, are summarised in the Notes in accordance with the statutory provisions.

The remuneration system complies with the provisions of the German Act on the Appropriateness of Management Board Remuneration (VorstAG) and the provisions of Article 275 of the Delegated Regulation (EU) 2015/35 and of the Insurance Supervision Act (VAG) in conjunction with the German Remuneration Regulation for Insurance Companies (VersVergV). In addition, the more specific rules of German Accounting Standard GAS 17 (amended 2010) "Reporting on the Remuneration of Members of Governing Bodies" have been taken into account. An independent expert report confirms that the remuneration system complies with the requirements of Article 275 of the Delegated Regulation (EU) 2015/35 for a business- and strategy-compliant and risk-adjusted remuneration policy.

REMUNERATION OF THE BOARD OF MANAGEMENT

The Supervisory Board sets out the structure and amount of remuneration for the Board of Management. The Supervisory Board reviews and discusses the remuneration structure and adequacy of the remuneration at regular intervals, but at least once every year.

BOARD REMUNERATION MODEL FROM 1 JANUARY 2011



1) Chairman/Chief Financial Officer: 70% Group net income, 30% individual performance (achievement of personal targets).
Deputy Chairman: 50% Group net income, 30% divisional net income, 20% individual performance (personal targets).
Managers responsible for divisions: 40% Group net income, 40% divisional net income, 20% individual performance (personal targets).
2) Split dictated by statutory minimum requirement.

STRUCTURE OF REMUNERATION FOR THE BOARD OF MANAGEMENT

The aim of the remuneration system for the Board of Management is to pay Board members appropriate remuneration. The remuneration of the Board of Management takes into account the size and activities of the Company, its economic and financial situation, its performance and future outlook, and the common level of remuneration within the Company's peer group (horizontal) and the remuneration structure in place for the rest of the Company's staff (vertical). It also takes into consideration the tasks and duties of the individual members of the Board of Management, their personal performance and the performance of the Board of Management as a whole.

Overall, the remuneration has been designed in such a way as to make allowance for both positive and negative developments, to be in line with the market and be competitive, and to promote the Company's sustainable, long-term development.

The remuneration of the Board of Management comprises an annual fixed component and a variable component based on a multi-year assessment. The proportion of variable remuneration within the overall remuneration package differs in each individual case and ranges from 55% to 75% in the case of 100% achievement of the Board of Management's targets.

Fixed remuneration

The fixed remuneration is paid out in cash in twelve equal monthly instalments. It is tailored in particular to the individual Board member's range of tasks and duties and professional experience. The amount of the fixed remuneration applies to the entire term of their appointment.

Non-cash benefits/fringe benefits

Members of the Board of Management also receive certain non-performance-related fringe benefits in line with common market practice, which are reviewed at regular intervals. They are provided with a car for business and private use for the duration of their Board membership. The individual Board members are responsible for paying tax on the monetary value of the private use of the company car. Non-cash benefits and fringe benefits are recognised at cost value in the Annual Report. The Company also takes out insurance cover (liability, accident and luggage insurance) in a reasonable amount for its Board Members under group contracts.

Variable remuneration

The amount of variable remuneration paid depends on specific defined results and on specific targets, which vary depending on the function of the Board Member concerned, being achieved. The variable remuneration consists of a Group bonus, a personal bonus and – in the case of Board Members responsible for a specific division – a divisional bonus. The weighting of the various components making up the variable remuneration is determined individually for each member of the Board of Management on the basis of the function they perform.

Group bonus

The Group bonus consists of an individually determined amount for each 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate; the amount in question is set out in the Board member's contract of service. If the average RoE is below the risk-free interest rate or is a negative figure, a corresponding penalty amount is deducted for each 0.1 percentage point by which it undershoots the risk-free rate. The underlying risk-free interest rate is the average market rate for ten-year German government bonds over the last five years, which is calculated annually at the year-end on the basis of the prevailing interest rate. There is an annual adjustment of the underlying risk-free interest rate (for 2018: 0.42%). The Group bonus is capped at twice the amount granted if the basis of calculation is reached, while the maximum penalty is –100%.

Divisional bonus

The divisional bonus for the Industrial Lines, Retail Germany and Retail International Divisions has been calculated on the basis of the following criteria for the respective divisions' target values: gross premium growth, net combined ratio in property/casualty insurance/the change in the value of new business in life insurance, the EBIT margin, the return on equity and the profit transferred/dividend paid to Talanx AG. The Supervisory Board determines the divisional bonus after a due assessment of the circumstances, based on the extent to which these criteria have been met. The bonus is based on the average target achievement for the last three financial years. If the targets are met in full, the individually defined amount for a target achievement of 100% is payable. If the defined targets are exceeded or not met, the amount will be adjusted upwards or downwards. The divisional bonus is capped at twice the bonus payable if the targets are met in full, while the minimum bonus is a penalty corresponding to a target achievement of –100%.

Individual bonus

In addition, individual qualitative and, where appropriate, quantitative personal targets are defined annually for each Board member to meet in the following year. The criteria applied may be the individual Board Member's personal contribution to achieving the overall business result, their leadership skills, power of innovation and business abilities, and other quantitative or qualitative personal targets, with particular reference to the specifics of their area of responsibility. The degree to which the targets have been reached is determined by the Supervisory Board after a due assessment of the circumstances. The amount payable for a target achievement of 100% is determined on an individual basis. If the defined targets are exceeded or not met, the amount will be adjusted upwards or downwards. A general performance bonus in line with the overall personal performance of the Board Member may be specified in the context of the individual bonus, at the reasonable discretion of the Supervisory Board. The minimum individual bonus is EUR 0, while the maximum is double the bonus payable if the defined targets are achieved in full.

Total amount of variable remuneration

The total amount of variable remuneration is arrived at by adding the amounts for the individual remuneration components. If this sum is negative, the variable remuneration amounts to zero (in other words, there can be no negative variable remuneration). However, negative amounts are taken into account when calculating the bonus bank (see the subsection below entitled "Payment of variable remuneration").

The amount of variable remuneration payable is determined at the Supervisory Board meeting in which the consolidated financial statements for the financial year in question are approved. The Supervisory Board decides regularly and in exceptional circumstances after a due assessment of the circumstances whether the variable remuneration needs to be adapted or payouts restricted.

BASIS OF ASSESSMENT/PRECONDITIONS FOR PAYMENT OF VARIABLE REMUNERATION

Remuneration component	Basis of assessment/parameters	Preconditions for payment
Group bonus		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 70% Deputy Chairman: 50% Divisional managers on the Board of Management: 40% or 70%	■ Group return on equity (RoE); individual basic amount (staggered according to area of responsibility and professional experience) per 0.1 percentage point by which the average return on equity (RoE) for the last three financial years exceeds the risk-free interest rate ■ Calculation basis (= 100%): 10% RoE (8% RoE from 2019 onwards) plus risk-free interest rate; for 2018: 10.42% ■ Max. cap: 200% ■ Min. cap: –100% (penalty) ■ Calculation of the risk-free interest rate as the average market interest rate of the past five years for ten-year German government bonds; ■ Calculation of RoE: Group net income in accordance with IFRS (excluding non-controlling interests)/arithmetical mean of Group equity in accordance with IFRS (excluding non-controlling interests) at the start and end of the financial year	■ Average RoE over three years > risk-free interest rate ■ Mathematical calculation
Divisional bonus		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 0% Deputy Chairman: 30% Divisional managers on the Board of Management: 0% or 40%	■ Gross premium growth, net combined ratio in property/casualty insurance/change in the value of new business in life insurance, EBIT margin, return on equity, profit transferred/dividend paid; each in comparison to target (three-year average) ■ 100% = targets achieved in full ■ Max. cap: 200% ■ Min. cap: –100% (penalty)	■ Achievement of three-year targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved
Individual bonus		
Share of variable remuneration Chairman of the Board of Management and Chief Financial Officer: 30% Deputy Chairman and divisional managers on the Board of Management: 20% or 30%	■ Qualitative and quantitative personal targets; individual contribution to overall result, leadership skills, innovation skills, business abilities, specific achievements in areas of responsibility ■ 100% = targets achieved in full ■ Max. cap: 200% ■ Min. cap: EUR 0	■ Achievement of annual targets ■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved

PAYMENT OF VARIABLE REMUNERATION

Short-term	Medium-term	Long-term
▪ 60% of variable remuneration paid together with the monthly salary payment following the resolution by the Supervisory Board	▪ 20% of variable remuneration added to bonus bank ▪ Payment of the positive amount added to the bonus bank three years before the payout date in each case, provided this does not exceed the balance after taking into account all credits/debits up to and including those for the financial year most recently ended ▪ Amounts due for disbursement for which there is no positive bonus bank balance lapse ▪ Bonus bank entitlements are forfeited in special cases: resignation without cause; offer to extend contract on same terms rejected ▪ No interest paid on positive balance	▪ Automatic allocation of virtual Talanx share awards equivalent to 20% of variable remuneration ▪ Payment after expiry of four-year lock-up period at the value calculated at the payout dates ▪ Value of shares on allocation/payout: unweighted arithmetic mean of XETRA closing prices in the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements ▪ Sum of all dividends distributed per share during the lock-up period paid out in addition ▪ Share awards adjusted if value changes by 10% or more due to structural measures

Negative total variable bonus = payment of EUR 0 variable remuneration.
Any negative total variable bonus for a financial year is added in full to the bonus bank (see "medium-term" column).

Payment of variable remuneration

An amount equal to 60% of the total variable remuneration adopted is paid out in cash in the month following the Supervisory Board meeting that approves the consolidated financial statements. The remaining 40% of the total variable remuneration is initially withheld and is paid out only after a reasonable retention period. In order to take account of long-term changes in enterprise value, half of the withheld portion (i.e. 20% of the total variable remuneration) is added to a bonus bank and the other half is granted in the form of share awards in accordance with the procedures described below.

Bonus bank

Each year, 20% of the variable remuneration that has been determined is allocated to the bonus bank, where it is retained interest-free for a period of three years. If the calculated amount of variable remuneration in any year is negative, 100% of this negative amount is added to the bonus bank, where it reduces the balance accordingly. Any positive balance in the bonus bank after deduction of any amounts paid out is carried forward to the next year; negative balances are not carried forward. Amounts added to the bonus bank each year are paid out after three years, to the extent that the balance held in the bonus bank after all credits/debits up to and including those for the financial year most recently ended permits this. Any portion of the variable remuneration due for disbursement that is not covered by the balance in the bonus bank lapses.

Share awards

The other 20% of the total variable remuneration that has been determined is granted as a share-based entitlement in the form of virtual share awards. The total number of share awards granted depends upon the value per Talanx AG share at the time of allocation. The value per Talanx AG share is the unweighted arithmetic mean of the XETRA closing prices of Talanx shares for the period stretching from five trading days before to five trading days after the meeting of the Supervisory Board of Talanx AG that approves the consolidated financial statements. Share awards are allocated automatically, without the need for a declaration by Talanx AG or the Board Member.

The total number of share awards allocated is arrived at by dividing the amount to be credited by the value per share, rounded up to the nearest whole share (cap). After expiry of a lock-up period of four years, the value of one Talanx share as calculated on the disbursement date (using the same procedure as for allocation), plus an amount equal to the dividends if dividends are paid out to shareholders, is paid out for each share award. The Board member is not entitled to receive actual shares.

A Member of the Board of Management is also allocated virtual share awards, the total number of which depends on the value per share of Hanover Re at the time of allocation. The value per share of Hanover Re is the unweighted arithmetic mean of the XETRA closing prices of Hanover Re shares for the period stretching from five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements of Hanover Rück SE for the financial year just ended (cap). In this case, the value of one Hanover Re share calculated on the disbursement date (using the same procedure as for allocation), plus an amount equal to the dividends if dividends are paid out to shareholders, is paid out for each share award after expiry of a lock-up period of four years. The Board member is not entitled to receive actual shares.

Under the remuneration model applicable until 31 December 2010, a Member of the Board of Management was allocated stock appreciation rights of Hannover Rück SE. Stock appreciation rights were awarded for the last time in 2011 for the 2010 financial year. The virtual stock option plan with stock appreciation rights was completed in the 2018 financial year as all share options were exercised in full.

Anti-dilution protection

In the event of a change in the share capital of Talanx AG or of restructuring measures during the term of the share award programme that have a direct impact on the Company's share capital or the total number of shares issued by Talanx AG resulting in a cumulative change of 10% or more of the value of the share awards, the Supervisory Board will adjust the number of share awards or the method used to calculate the value of individual share awards so as to offset the change in value of the share awards caused by these structural measures.

Payment in the event of incapacity

If any member of the Board of Management is temporarily unable to discharge their duties, the fixed portion of their annual salary will continue to be paid unchanged for the duration of the incapacity, but not later than the end of their contract.

If a Board member becomes permanently incapacitated during the term of their contract, their contract will be terminated at the end of the sixth month after the permanent incapacity was established, but no later than the end of their contract. Board members shall be deemed to be permanently incapacitated if they are expected to be unable to discharge their duties without restriction for the long term.

Early termination of membership of the Board of Management

If a Member of the Board of Management resigns from the Board of their own accord, if their contract is terminated/revoked by the Company for good cause or if the Member of the Board of Management rejects an offer to extend their contract on the same or better terms (except if the Member of the Board of Management is at least 60 years old and has already served two terms of office on the Board of Management), all rights to payment of the balance of the bonus bank and of the share awards lapse. If the Member's contract ends normally before the end of the lock-up period for the bonus bank or share awards, without the Member being offered a contract extension, the Member of the Board of Management retains his or her entitlement to payment from the bonus bank and to any share awards already allocated.

In principle, members of the Board of Management have no claim to any amounts to be paid into the bonus bank or to the allocation of share awards after they have left the Company, except if the Member of the Board of Management's departure from the Company is a result of their not being reappointed or of their retirement or death, and then only in respect of claims or pro rata claims to variable remuneration earned by the Member of the Board of Management in the last year of their activity as a Member of the Company's Board of Management.

The contracts of service for members of the Board of Management do not contain any provisions in respect of benefits to be paid in the event of early termination of their membership of the Board of Management as a result of a change of control at the Company. The provisions contained in their contracts of service regarding early termination or non-renewal of the contracts allow for payment of a "transitional allowance" under certain circumstances; this is calculated on the basis of the percentage of fixed remuneration reached by the members in respect of their pensions. A vesting period of eight years generally applies. 50% of any other income from self-employment or employment shall be offset against the transitional allowance up to the age of 65.

The contracts of service of members of the Company's Board of Management do not include caps on severance payments as recommended in section 4.2.3(4) of the German Corporate Governance Code. Please see our remarks in the declaration of conformity in the "Declaration on Corporate Governance" section on page 82ff. of this Group Annual Report regarding this and the maximum limits on remuneration/the variable remuneration components recommended in section 4.2.3(2) of the German Corporate Governance Code.

Sideline activities of Members of the Board of Management

Members of the Board of Management require the approval of the Supervisory Board if they wish to perform any sideline activities. This ensures that neither the payment received for such activities nor the time required for them conflicts with their duties as Members of the Board of Management. Sideline activities comprising offices on supervisory boards or similar bodies are listed in Talanx AG's Annual Report. Remuneration for supervisory body offices at Group companies and other offices associated with the Company is offset against the variable remuneration.

Amount of remuneration for the Board of Management

The aggregate benefits for all active Members of the Board of Management in respect of their activities on behalf of Talanx AG and its affiliated companies amounted to EUR 9,820 (10,359) thousand. The following table shows a breakdown of the remuneration into the components set out in GAS 17.

AGGREGATE BENEFITS FOR ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT IN ACCORDANCE WITH GAS 17 (AMENDED 2010)

EUR THOUSAND

		Non-performance-related remuneration		Performance-related remuneration[1), 8)]		
				Short-term		Medium-term
		I	II	III	IV	V
Name		Fixed remuneration	Non-cash benefits/ fringe benefits	Variable remuneration payable	which remuneration from memberships of Group supervisory bodies[2)]	Allocated to bonus bank[3)]
Torsten Leue	2018	760	12	633	7	211
	2017	630	13	570	—	190
Herbert K. Haas (until 8 May 2018)	2018	317	10	311	292	104
	2017	882	20	781	293	260
Dr Christian Hinsch	2018	576	14	424	8	141
	2017	568	14	527	8	176
Sven Fokkema (since 9 May 2018)	2018	290	8	247	—	82
	2017	—	—	—	—	—
Dr Immo Querner	2018	638	19	461	128	154
	2017	638	19	511	124	170
Ulrich Wallin	2018	630	14	893	—	298
	2017	606	14	864	—	288
Dr Jan Wicke	2018	630	—	573	13	191
	2017	630	—	542	13	181
Total	**2018**	**3,841**	**77**	**3,542**	**448**	**1,181**
	2017	3,954	80	3,795	438	1,265

1) No governing body resolution regarding the amount of performance-related remuneration for 2018 had been taken as at the 2018 reporting date. The amounts are recognised on the basis of estimates and the corresponding provisions.
2) Remuneration for Supervisory Board offices at affiliated companies offset against the variable remuneration payable for 2018.
3) The figure shown represents the nominal amount; payment will be made in full or in part from 2022 onwards, depending on the changes to the bonus bank balance up to that time.
4) The figure shown represents the nominal amount of the share awards to be granted for work performed in the year under review; the equivalent amount of the share awards will be paid out from 2023 at the value applicable at that time.
5) Total of I, II, III, V, VI, VII
6) Estimate of number of Talanx share awards to be granted, based on the XETRA closing price of Talanx shares as at the reporting date (EUR 29.80 per share). The actual number of Talanx share awards will be calculated on the basis of the arithmetic mean of the XETRA closing prices for Talanx shares for the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Talanx AG in March 2019.
7) Estimate of the number of Hannover Re share awards to be granted, based on the XETRA closing price for Hannover Re shares as at the reporting date (EUR 117.70 per share). The actual number of Hannover Re share awards will be calculated on the basis of the arithmetical mean of the XETRA closing prices for Hannover Re shares for the period stretching from five trading days before to five trading days after the Supervisory Board meeting that approves the consolidated financial statements of Hannover Rück SE in March 2019.
8) Payments for performance-related remuneration in 2017 exceeded the provisions recognised for this by a total of EUR 199 (382) thousand. The total amount recognised for performance-related remuneration in 2018 and the number of share awards for 2018 were increased accordingly.

Performance-related remuneration [1), 8)]				
Long-term				
VI	VII			
Talanx share awards granted [4)]	Hannover Re share awards granted [4)]	Aggregate benefits [5)]	No. of Talanx share awards [6)]	No. of Hannover Re share awards [7)]
211	—	1,827	7,079	—
190	—	1,593	5,573	—
104	—	846	3,485	—
260	—	2,203	7,642	—
141	—	1,296	4,741	—
176	—	1,461	5,156	—
82	—	709	2,761	—
—	—	—	—	—
154	—	1,426	5,161	—
170	—	1,508	4,998	—
67	229	2,131	2,254	1,982
56	232	2,060	1,658	2,171
191	—	1,585	6,408	—
181	—	1,534	5,306	—
950	**229**	**9,820**	**31,889**	**1,982**
1,033	232	10,359	30,333	2,171

The following table shows the expense incurred in connection with share-based remuneration for the active Members of the Board of Management. This table should be viewed separately from the presentation of the aggregate benefits for active Members of the Board of Management in accordance with GAS 17.

TOTAL EXPENSE IN CONNECTION WITH SHARE-BASED REMUNERATION FOR THE ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT

EUR THOUSAND

Name		Expense for new Talanx share awards granted [1]	Expense for new Hannover Re share awards granted [1]	Allocations to provisions for Talanx share awards [2] from previous years	Allocations to provisions for Hannover Re share awards [3] from previous years	Allocations to provisions for existing stock appreciation rights	Stock appreciation rights exercised	Total
Torsten Leue	2018	38	—	142	—	—	—	**180**
	2017	33	—	252	—	—	—	285
Herbert K. Haas (until 8 May 2018)	2018	89	—	98	—	—	—	**187**
	2017	182	—	589	—	—	—	771
Dr Christian Hinsch	2018	51	—	138	—	—	—	**189**
	2017	44	—	162	—	—	—	206
Sven Fokkema (since 9 May 2018)	2018	24	—	—	—	—	—	**24**
	2017	—	—	—	—	—	—	—
Dr Immo Querner	2018	43	—	129	—	—	—	**172**
	2017	37	—	221	—	—	—	258
Ulrich Wallin	2018	43	173	82	899	—	—	**1,197**
	2017	19	78	87	318	–103	103	502
Dr Jan Wicke	2018	33	—	—	—	—	—	**33**
	2017	72	—	154	—	—	—	226
Total	2018	**321**	**173**	**589**	**899**	—	—	**1,982**
	2017	**387**	**78**	**1,465**	**318**	**–103**	**103**	**2,248**

[1] The expense for share awards is recognised pro rata in the various financial years depending upon the remaining term of the Member's contract of service.
[2] The allocation to the provisions for Talanx share awards from previous years is calculated on the basis of the decrease in the price of Talanx shares, the dividend resolved for Talanx AG for 2017 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service.
[3] The allocation to the provisions for Hannover Re share awards from previous years is calculated on the basis of the increase in the price of Hannover Re shares, the dividend resolved for Hannover Rück SE for 2017 and the distribution of expenses for share awards across the individual remaining terms of the contracts of service.

OCCUPATIONAL RETIREMENT PROVISION

The contracts of service of four active Members of the Board of Management of Talanx AG provide for commitments relating to an annual retirement pension that is calculated as a percentage of the fixed annual remuneration ("defined benefit"). The agreed maximum pension varies from contract to contract and is between 50% and 65% of the Board Member's monthly fixed salary at the time of their scheduled retirement on reaching the age of 65. A non-pensionable fixed remuneration component was introduced in connection with the new remuneration structure, which took effect from financial year 2011.

The contract of two Members of the Board of Management provides for a pension on a defined contribution basis. This grants a life-long retirement pension when the Board Member turns 65 and leaves the Company. The amount of the monthly retirement pension is calculated on the basis of the Board Member's age at the reporting date (year of reporting date less year of birth) and the funding contribution on the reporting date. The Company's annual funding contribution for these contracts amounts to 20% or 25% of pensionable income (fixed annual remuneration).

In both the contract variants, income from other sources during the pension payment period may be counted towards the pension in full or in part under certain circumstances (e.g. in the event of incapacity or where the contract is terminated before the Board Member reaches the age of 65).

SURVIVORS' PENSIONS

If a member of the Board of Management dies during the term of their contract, their surviving spouse – or, if no such spouse exists, any eligible children – is/are entitled to continued payment of the monthly fixed salary for the month in which the Board member died and the following six months, but no longer than the expiry date of the contract. If a Board member dies after the start of the pension payment period, the pension for the month in which the Board member dies and the following six months will be paid to the surviving spouse and, if no such spouse exists, to any dependent children.

The widow's pension is 60% of the retirement pension that the deceased member of the Board of Management was drawing or would have drawn if they had become incapacitated before the time of their death. If the member's widow remarries, she forfeits her widow's pension. If that marriage ends in death or divorce, the widow's pension entitlement is revived, but all pensions, annuities and other insurance benefits accruing by virtue of the new marriage will be counted towards it.

An orphan's pension will be granted in the amount of 15% of the retirement pension that the deceased Member of the Board of Management was drawing at the time of death, or would have drawn if he or she had retired early due to permanent incapacity.If the widow's pension has been forfeited, this sum increases to 25%. The orphan's pension will be paid at a maximum until the child turns 27. Any income from employment or an apprenticeship will be counted in part towards the orphan's pension.

ADJUSTMENTS

Retirement, widow's and orphan's pensions are linked to the consumer price index for Germany (overall index). Ongoing pensions based on commitments under the defined contribution system are increased annually by 1% of their last (gross) amount.

PENSIONS PAID

Pension commitments for active Members of the Board of Management totalled EUR 1,784 (1,743) thousand. The service cost (and/or annual funding contribution) for active Members of the Board of Management amounted to EUR 1,655 (1,513) thousand. Individualised disclosures are presented and explained in the following table.

ACCRUED PENSION RIGHTS FOR ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT

EUR THOUSAND

Name		Pension commitment[1]	Present value of DBO[2]	Cost of retirement provisions[3]
Torsten Leue	2018	350	4661	546
	2017	350	3,858	425
Herbert K. Haas (until 8 May 2018)	2018	478	13,183	317
	2017	478	10,832	316
Dr Christian Hinsch	2018	325	7,658	217
	2017	325	7,048	253
Sven Fokkema[4] (since 9 May 2018)	2018	41	339	48
	2017	—	—	—
Dr Immo Querner	2018	217	4,429	196
	2017	217	4,019	198
Ulrich Wallin	2018	258	6,874	173
	2017	258	5,831	163
Dr Jan Wicke[4]	2018	115	776	158
	2017	115	545	158
Total	2018	**1,784**	**37,920**	**1,655**
	2017	**1,743**	**32,133**	**1,513**

[1] Value of the agreed annual pension that can be achieved on leaving the company as contractually agreed after reaching the age of 65.
[2] DBO = Defined Benefit Obligation.
[3] The figure shown represents the service cost recognised in the year under review for pensions and other post-retirement benefits.
[4] There is a defined contribution pension commitment. The figure shown is the annual funding contribution.

Total payments made to former Members of the Board of Management and their surviving dependants, for which there were 8 (7) commitments in force in the year under review, amounted to EUR 1,098 (765) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 31,517 (18,346) thousand.

The following two tables show the benefits granted to and received by the active Members of the Board of Management in accordance with section 4.2.5(3) of the German Corporate Governance Code.

VALUE OF BENEFITS GRANTED IN THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (1ST BULLET POINT) OF THE GERMAN CORPORATE GOVERNMENT CODE

EUR THOUSAND

		Benefits granted										
		I	II	III	IV	V	VI	VII	VIII	IX	X	
		Fixed remuneration	Fringe benefits	**Total (I + II)**	One-year variable remuneration	Multiyear variable remuneration (Total VI + VII + VIII)	Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	**Total (III + IV + V)**	Pension expense	**Overall remuneration**
Torsten Leue, *Chairman of the Board of Management* (since 8 May 2018) *Head of Division* (until 8 May 2018)	**2018[1]**	760	12	**772**	670	446	223	223	—	**1,888**	546	**2,434**
	(Min.)[2]	760	12	**772**	—	–517	–517	—	—	**255**	546	**801**
	(Max.)[3]	760	12	**772**	1,339	892	446	446	—	**3,003**	546	**3,549**
	2017[1]	630	13	643	457	305	152	152	—	1,405	425	1,830
Herbert K. Haas, *Chairman of the Board of Management* (until 8 May 2018)	**2018[1]**	317	10	**327**	797	531	266	266	—	**1,655**	—	**1,655**
	(Min.)[2]	317	10	**327**	—	–779	–779	—	—	**–452**	—	**–452**
	(Max.)[3]	317	10	**327**	1,593	1,062	531	531	—	**2,982**	—	**2,982**
	2017[1]	882	20	902	797	531	266	266	—	2,230	316	2,546
Dr Christian Hinsch, *Deputy Chairman of the Board of Management*	**2018[1]**	576	14	**590**	559	373	186	186	—	**1,522**	217	**1,739**
	(Min.)[2]	576	14	**590**	—	–530	–530	—	—	**60**	217	**277**
	(Max.)[3]	576	14	**590**	1,118	746	373	373	—	**2,454**	217	**2,671**
	2017[1]	568	14	582	559	373	186	186	—	1,514	253	1,767
Sven Fokkema, *Head of Division* (since 9 May 2018)	**2018[1]**	290	8	**298**	253	169	84	84	—	**720**	48	**768**
	(Min.)[2]	290	8	**298**	—	—	—	–	—	**298**	48	**346**
	(Max.)[3]	290	8	**298**	506	338	169	169	—	**1,142**	48	**1,190**
	2017[1]	—	—	—	—	—	—	—	—	—	—	—
Dr Immo Querner, *Chief Financial Officer*	**2018[1]**	638	19	**657**	491	327	164	164	—	**1,475**	196	**1,671**
	(Min.)[2]	638	19	**657**	—	–513	–513	—	—	**144**	196	**340**
	(Max.)[3]	638	19	**657**	981	654	327	327	—	**2,292**	196	**2,488**
	2017[1]	638	19	657	491	327	164	164	—	1,475	198	1,673
Ulrich Wallin, *Head of Division*	**2018[1]**	630	14	**644**	743	496	248	60	188	**1,883**	173	**2,056**
	(Min.)[2]	630	14	**644**	—	–851	–851	—	—	**–207**	173	**–34**
	(Max.)[3]	630	14	**644**	1,487	991	496	120	376	**3,122**	173	**3,295**
	2017[1]	606	14	620	703	469	234	60	174	1,792	163	1,955
Dr Jan Wicke, *Head of Division*	**2018[1]**	630	—	**630**	510	340	170	170	—	**1,480**	158	**1,638**
	(Min.)[2]	630	—	**630**	—	–514	–514	—	—	**116**	158	**274**
	(Max.)[3]	630	—	**630**	1,020	680	340	340	—	**2,330**	158	**2,488**
	2017[1]	630	—	630	510	340	170	170	—	1,480	158	1,638

1) Target (value at achievement of a target of 100%).
2) Minimum value of remuneration component granted for the financial year that can be achieved.
3) Maximum value of remuneration component granted for the financial year that can be achieved; the amount paid out for share awards depends on the share price in the year of payment and the dividends paid until then.

INFLOW IN/FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (2ND BULLET POINT) OF THE GERMAN CORPORATE GOVERNMENT CODE

EUR THOUSAND

		Fixed remuneration	Fringe benefits	Total	One-year variable remuneration [1]
Torsten Leue, *Chairman of the Board of Management* (since 8 May 2018) *Head of Division* (until 8 May 2018)	**2018**	760	12	**776**	584
	2017	630	13	**643**	631
Herbert K. Haas, *Chairman of the Board of Management* (until 8 May 2018)	**2018**	317	10	**327**	773
	2017	882	20	**902**	818
Dr Christian Hinsch, *Deputy Chairman of the Board of Management*	**2018**	576	14	**590**	492
	2017	568	14	**582**	579
Sven Fokkema, *Head of Division* (since 9 May 2018)	**2018**	290	8	**298**	—
	2017	—	—	—	—
Dr Immo Querner, *Chief Financial Officer*	**2018**	638	19	**657**	504
	2017	638	19	**657**	542
Ulrich Wallin, *Head of Division*	**2018**	630	14	**644**	859
	2017	606	14	**620**	921
Dr Jan Wicke, *Head of Division*	**2018**	630	—	**630**	540
	2017	630	—	**630**	525

[1] Inflow (amount paid out) in the year under review.
[2] Inflow in accordance with German tax law.
[3] For example claw-backs.

SUPERVISORY BOARD REMUNERATION

The remuneration of the Supervisory Board is governed by article 13 of the Articles of Association of Talanx AG. It is set by the Annual General Meeting of Talanx AG. By resolution of the Annual General Meeting of Talanx AG on 4 June 2010, members of the Supervisory Board receive, in addition to reimbursement of their expenses, an annual fixed remuneration (basic remuneration) and performance-related variable remuneration, which is linked to the Company's long-term success. To make allowance for their considerable extra workload, the Chairman receives 2.5 times and his deputies receive 1.5 times this remuneration.

The annual basic remuneration in the year under review was EUR 50,000 per Supervisory Board member. The basic remuneration of the Chairman was EUR 125,000, and that of the deputy chairmen was EUR 75,000 each. In addition, each Member of the Supervisory Board receives annual variable remuneration of EUR 55 for each full million euros by which the average Group net income for the last three financial years, after non-controlling interests, exceeds the minimum return in accordance with section 113(3) of the AktG (4% of the contributions paid on the lowest issue price for the shares) (benchmark). The factor applied in the case of the Chairman amounts to EUR 138, while that for each of his deputies amounts to EUR 83. The variable remuneration is capped at a maximum of EUR 50,000 for Members of the Supervisory Board, EUR 125,000 for the Chairman and EUR 75,000 for his deputies. If the average Group net income for the last three financial years, after non-controlling

Inflow							
Multiyear variable remuneration [2]							
Bonus bank (3 years)	Talanx share awards (4 years)	Hannover Re share awards (4 years)	Hannover Rück stock appreciation rights (10 years)	Other [3]	**Total**	Pension expense	**Total remuneration**
186	291	—	—	—	**1,797**	546	**2,343**
181	256	—	—	—	**1,711**	425	**2,136**
232	411	—	—	—	**1,743**	317	**2,060**
255	409	—	—	—	**2,384**	316	**2,700**
157	264	—	—	—	**1,503**	217	**1,720**
164	276	—	—	—	**1,601**	253	**1,854**
—	—	—	—	—	298	48	**346**
—	—	—	—	—	—	—	—
159	253	—	—	—	**1,573**	196	**1,769**
157	246	—	—	—	**1,602**	198	**1,800**
278	90	427	—	—	**2,298**	173	**2,471**
257	80	407	103	—	**2,285**	163	**2,448**
106	—	—	—	—	**1,276**	158	**1,434**
—	—	—	—	—	**1,155**	158	**1,313**

interests, falls short of the minimum return in accordance with section 113(3) of the AktG, the variable remuneration is forfeited. Calculating the performance-related remuneration component on the basis of average Group net income for the last three financial years ensures that the variable remuneration is aligned with the Company's sustainable development.

In addition, the Members of the Supervisory Board's Finance and Audit Committee and Personnel Committee receive fixed remuneration of EUR 25,000 per Member. The chairman of each of these committees receives twice this amount.

The cap on total annual remuneration payable to any Supervisory Board Member (including remuneration for membership of Supervisory Board committees) is three times the basic remuneration for each Member.

In addition to reimbursement of their expenses, Members of the Supervisory Board receive an attendance allowance of EUR 1,000 for each meeting of the Supervisory Board or of Supervisory Board committees in which they take part. If two or more meetings of the Supervisory Board or its committees are held on the same day, only one attendance allowance is payable.

The Company reimburses the value-added tax payable on Supervisory Board remuneration.

The aggregate benefits for all active Members of the Supervisory Board amounted to EUR 2,634 (2,410) thousand. The details are given in the following table.

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1)]

EUR THOUSAND

Name	Function	Type of remuneration	2018[2)]	2017[2)]
Herbert K. Haas[3)] (since 8 May 2018)	■ Chairman of the ▫ Supervisory Board ▫ Personnel Committee ▫ Finance and Audit Committee ▫ Nomination Committee ▫ Standing Committee	Basic remuneration	181	—
		Variable remuneration	167	—
		Remuneration for committee activities	133	—
		Attendance allowances	23	—
			504	—
Wolf-Dieter Baumgartl[3)] (until 8 May 2018)	■ Chairman of the ▫ Supervisory Board ▫ Personnel Committee ▫ Finance and Audit Committee ▫ Nomination Committee ▫ Standing Committee	Basic remuneration	69	173
		Variable remuneration	53	152
		Remuneration for committee activities	43	123
		Attendance allowances	9	19
			174	**467**
Dr Thomas Lindner	■ Deputy Member of the Supervisory Board (since 8 May 2018) ■ Member of the ▫ Personnel Committee (since 8 May 2018) ▫ Finance and Audit Committee ▫ Nomination Committee	Basic remuneration	66	50
		Variable remuneration	56	47
		Remuneration for committee activities	41	25
		Attendance allowances	11	9
			174	**131**
Ralf Rieger[3)]	■ Deputy Chairman of the Supervisory Board ■ Member of the ▫ Finance and Audit Committee	Basic remuneration	81	82
		Variable remuneration	65	71
		Remuneration for committee activities	25	25
		Attendance allowances	8	6
			179	**184**
Prof Dr Eckhard Rohkamm (until 8 May 2018)	■ Deputy Chairman of the Supervisory Board ■ Member of the ▫ Personnel Committee ▫ Finance and Audit Committee ▫ Standing Committee	Basic remuneration	27	75
		Variable remuneration	37	71
		Remuneration for committee activities	18	50
		Attendance allowances	5	10
			87	**206**
Antonia Aschendorf[3)]	■ Member of the Supervisory Board	Basic remuneration	80	83
		Variable remuneration	43	47
		Attendance allowances	7	4
			130	**134**
Karsten Faber (until 31 December 2018)	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	43	47
		Attendance allowances	7	4
			100	**101**
Jutta Hammer[3)]	■ Member of the ▫ Supervisory Board ▫ Finance and Audit Committee (since 8 May 2018)	Basic remuneration	58	50
		Variable remuneration	43	47
		Remuneration for committee activities	16	—
		Attendance allowances	9	4
			126	**101**
Dr Hermann Jung	■ Member of the ▫ Supervisory Board ▫ Finance and Audit Committee (since 8 May 2018)	Basic remuneration	50	50
		Variable remuneration	43	47
		Remuneration for committee activities	16	—
		Attendance allowances	9	4
			118	**101**
Dirk Lohmann	■ Member of the ▫ Supervisory Board ▫ Nomination Committee	Basic remuneration	50	50
		Variable remuneration	43	47
		Attendance allowances	6	6
			99	**103**

INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

EUR THOUSAND

Name	Function	Type of remuneration	2018[2]	2017[2]
Christoph Meister	■ Member of the Supervisory Board	Basic remuneration	50	50
		Variable remuneration	43	47
		Attendance allowances	7	4
			100	**101**
Jutta Mück[3]	■ Member of the Supervisory Board	Basic remuneration	60	60
		Variable remuneration	43	47
		Attendance allowances	9	6
			112	**113**
Katja Sachtleben-Reimann	■ Member of the ■ Supervisory Board ■ Personnel Committee	Basic remuneration	50	50
		Variable remuneration	43	47
		Remuneration for committee activities	25	25
		Attendance allowances	10	6
			128	**128**
Dr Erhard Schipporeit[3]	■ Member of the ■ Supervisory Board ■ Finance and Audit Committee	Basic remuneration	80	80
		Variable remuneration	73	78
		Remuneration for committee activities	35	40
		Attendance allowances	18	15
			206	**213**
Prof Dr Jens Schubert	■ Member of the ■ Supervisory Board ■ Standing Committee	Basic remuneration	50	50
		Variable remuneration	43	47
		Attendance allowances	7	4
			100	**101**
Norbert Steiner	■ Member of the ■ Supervisory Board ■ Personnel Committee	Basic remuneration	50	50
		Variable remuneration	43	47
		Remuneration for committee activities	25	25
		Attendance allowances	10	8
			128	**130**
Angela Titzrath (since 8 May 2018)	■ Member of the ■ Supervisory Board ■ Standing Committee	Basic remuneration	32	—
		Variable remuneration	27	—
		Attendance allowances	2	—
			61	—
Jörn von Stein[3]	■ Member of the Supervisory Board	Basic remuneration	58	50
		Variable remuneration	43	42
		Attendance allowances	7	4
			108	**96**
Total[4]			**2,634**	**2,410**

[1] Amounts excluding reimbursed VAT.
[2] Remuneration for the financial year is payable at the end of the Annual General Meeting that approves the activities of the Supervisory Board for the financial year in question. For the variable remuneration provisions formed are shown on the basis of estimates.
[3] Including Supervisory Board and Advisory Board remuneration from consolidated companies.
[4] The total amounts reflect the remuneration for all active members of the Supervisory Board during the period under review. Payments made in relation to 2017 remuneration exceeded provisions by a total of EUR 38 (96). The total amount for 2018 variable remuneration was increased in line with this.

LOANS TO MEMBERS OF GOVERNING BODIES AND CONTINGENT LIABILITIES

In order to avoid potential conflicts of interest, Talanx AG and its affiliated companies may only grant loans to Members of the Board of Management or Supervisory Board or their dependants with the approval of the Supervisory Board.

No loans or advances were granted to Members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

There were no reportable transactions with related parties in accordance with IAS 24 in the year under review.

IAS 24 requires the remuneration components of key management personnel to be presented separately. This group of persons encompasses the Members of the Board of Management and Supervisory Board of Talanx AG. The remuneration of this group of persons can be broken down as follows:

MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

EUR THOUSAND

	2018	2017
Salaries and other short-term remuneration	10,094	10,239
Other long-term benefits [1)]	1,181	1,265
Awards of shares and other equity-based remuneration [2)]	1,181	1,265
Cost of retirement provisions [3)]	1,338	1,513
Total	**14,111**	**14,282**

1) The figure shown represents the value of the portion of performance-related remuneration for Members of the Board of Management required to be allocated to the bonus bank for the year under review.
2) The figure shown represents the value of the share awards to be granted to Members of the Board of Management for the year under review.
3) The figure shown represents the service cost (and/or annual funding contribution) recognised in the year under review for pensions and other post-retirement benefits).

REMUNERATION OF SENIOR EXECUTIVES BELOW GROUP BOARD OF MANAGEMENT LEVEL

The Talanx Group's remuneration strategy is geared towards the goal of sustainably enhancing the value of the Group. The remuneration structure described above for Members of the Group Board of Management therefore also applies in principle to senior executives below Group Board of Management level who have a material influence on the overall risk profile (risk takers).

Remuneration for those senior executives below Group Board of Management level who are not classified as risk takers already consists in all divisions of a fixed and a variable component. On average, the share of variable remuneration for 2017, which was paid out in April 2018, stood at 26.7%.

A uniform remuneration system has been in place in primary insurance and the related Corporate Operations for risk takers and managers reporting directly to the Board of Management as from 1 January 2013. Remuneration for this group of persons comprises a fixed component and a performance-related component. It is in line with the market and competitive and promotes sustainable corporate development. The remuneration system was also introduced for senior executives two levels below the Board of Management with effect from 1 January 2014.

The performance-related remuneration system is based on the concept of a target salary. This means the total gross salary for the year that can be achieved in the case of good performance. The target salary is composed of a fixed component and a variable remuneration component that depends on the level of responsibility and function of the position in question. Variable remuneration accounts for 20% or 30% of the target salary.

Variable remuneration is calculated on the basis of the extent to which certain targets relating to Group net income, divisional results and personal achievements have been met. For managers in the primary insurance divisions, these three target categories for variable remuneration are given weightings of 10%, 30% and 60% respectively. In Corporate Operations, personal targets are given a weighting of 70% and Group net income a weighting of 30%. In sales, managers reporting directly to the Board of Management have an average variable remuneration component of 30% of their target salary, with Group net income and the divisional result each accounting for 10% and personal targets for 80%

In the Reinsurance Division, a uniform remuneration system has been in place for all Group managers worldwide since 1 January 2012. The remuneration for executives below the Board of Management level (management levels 2 and 3) and for national key function holders who always belong to the management group consists of both a fixed annual salary and a variable remuneration. The latter comprises a short-term variable component, an annual cash bonus and a long-term share-based payment, the share award programme. In the treaty departments, the variable remuneration is measured on the basis of Group net income (20%), the achievement of targets in the respective Property/Casualty Reinsurance or Life/Health Reinsurance segment (40%) and personal targets (40%). For managers in the service sector, variable remuneration is based on Group net income and on achieving personal targets, with a respective weighting of 40% and 60%. The level of target achievement is determined for both the Group net income and for the segments. Personal targets, and the extent to which they have been met, are agreed between the manager and the respective superior.

REPORT ON POST-BALANCE SHEET DATE EVENTS

Events that may influence our net assets, financial position and results of operations are described in the report on expected developments and opportunities, as well as under "Events after the end of the reporting period" on page 244 of the Notes.

RISK REPORT

RISK STRATEGY

The risk strategy is derived from our Group strategy and formulates the objectives of our risk management. Our primary aim is to use the risk budget to ensure compliance with the strategically defined risk position. This is determined by the following specifications:

- there is a 90% probability that we will achieve positive net income in accordance with IFRS
- the economic capital base must be able to withstand at least an aggregated theoretical 3,000-year shock ("probability of ruin")
- the Group's investment risks are limited to a maximum of 50% of the total risk capital requirement

Talanx also targets a capital adequacy ratio that corresponds to the AA category in the Standard & Poor's (S&P) capital model. Regulatory requirements must also be met.

The confidence level chosen for the economic capital base ensures that the Group will also be able to cope with any new risks that arise; at 99.97%, it is far higher than the level of 99.5% stipulated by the supervisory authorities.

Both our Group strategy and our risk strategy are subject to an annual review. This re-examination of our assumptions and any necessary adjustment of our underlying strategy resulting from it are designed to ensure that our strategic guidelines are appropriate and up-to-date at all times and that our actions are based on adequate information. Similarly, this allows us to guarantee a consistent derivation of the risk strategy from the business strategy.

TALANX ENTERPRISE RISK MODEL (TERM)

TERM has been designed as a fully internal model for the risk kernel, i.e. the Group at Talanx AG level, and this is being expanded to cover the HDI V. a. G. for regulatory purposes. In this process, the operational risk at Group level is currently still partially modelled on the basis of the standard formula, with TERM a partial internal model for the entire HDI Group from the regulatory point of view. The internal, regulatory modelling for all operational risks in the HDI Group is currently under development.

The basis of consolidation as defined in the internal model essentially corresponds to that used in the Group Annual Report, with the exception that the solvency capital requirements for occupational pension scheme providers are still calculated in accordance with the relevant sector requirements.

The results of the model run as at 31 December 2018 are not yet available. For the desired regulatory solvency ratio, before taking into account approved transitional measures, the Group has set a target corridor of 150% to 200%. We will be publishing the actual ratio in May 2019, together with the results for the first quarter of 2019 and in the Solvency and Financial Condition Report as at 31 December 2018.

BUSINESS ORGANISATION

Supervisory requirements state that the Group and all insurance and reinsurance companies have to have a proper and effective business organisation in place that ensures solid and prudent business management. The following four key functions have been established throughout the Group on the basis of these requirements: the independent risk controlling function (risk management function), the compliance function, the internal audit function and the actuarial function. Talanx AG's Board of Management produced a policy guideline that defines the guiding principles, tasks, processes and reporting obligations for each key function. The provisions put in place ensure that the key functions rank equally and have equally entitlements, and are only subject to the – non-technical – instructions of the Board of Management with respect to undertaking the relevant key function. With respect to performing their applicable tasks, they have all necessary rights to information and report directly to the Board of Management.

Individuals who manage a key function are subject to certain regulatory requirements (as are members of the Board of Management and the Supervisory Board) with regard to their professional qualifications and personal reliability.

RISK MANAGEMENT SYSTEM

STRUCTURE OF THE RISK MANAGEMENT SYSTEM

A risk management system represents the sum of all measures in place for identifying, analysing, assessing, communicating, monitoring and controlling risks and opportunities at a company. The Group implemented its risk management system along the lines of an enterprise risk management system. Its design and structure draw heavily on the ISO 31000 standard for risk management.

Using our internal model as a basis, we – in accordance with risk-bearing capacity – derive a limit and threshold system, which is adequate for assessing risks in both an independent and complete manner. This applies to risk categories and participating interests. In line with this limit and threshold system, a risk budget is defined for the Group and its divisions. This risk budget describes a contingent risk potential that reflects the Board of Management's risk appetite as derived from the company's targets. The risk budget also takes into account the risk-bearing capacity of the divisions, whereby the latter are viewed as a secondary condition in the risk budgeting process.

In order to ensure consistent Group-wide implementation of the risk management system, the Group's risk controlling function integrates the risk management units at the divisions/subsidiaries by means of Group guidelines on the one hand, and on the other hand through the incorporation and active participation of subsidiaries in risk management-relevant bodies and/or decision-making and escalation processes that have been established throughout the Group.

The following table describes the roles of key responsible individuals in the risk management process, as well as important bodies from the perspective of the Group. The role of the Group CRO (Chief Risk Officer) enables the company to meet the regulatory requirements associated with this key function (independent risk controlling function). In addition, the organisational structure and escalation processes are in conformance with Solvency II.

RISK MANAGEMENT SYSTEM

Managers and organisational units	Key roles in the Risk Management System
Supervisory Board	■ Advises and oversees the Board of Management in its management of the Company, including with respect to risk strategy and risk management
Board of Management	■ Overall responsibility for risk management ■ Defining the risk strategy, including limits and thresholds ■ Responsibility for proper functioning of risk management ■ Approval of amendments to models ■ Approval of key Group guidelines
Executive Risk Committee (ERC)	■ Management, coordination and prioritisation of Group-wide risk issues ■ Adjustment of limits within fixed materiality thresholds ■ 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 ■ Preliminary examination at cross-segment level of issues that must be submitted to the full Board of Management
Risk Committee	■ Risk monitoring and coordinating body, charged with the following key tasks: ■ 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 ■ Monitoring of management measures within the Group with respect to risks that could threaten the Group's continued existence
Chief Risk Officer (CRO)	■ Responsible for holistic monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from a Group perspective ■ Chairman of the Risk Committee ■ Inclusion of the CRO in key Board of Management decisions
Central Risk Management of the Group	■ Group-wide risk monitoring function ■ Methodological expertise, including the following: ■ Development of processes; procedures for risk identification assessment management and analysis ■ Risk limitation and reporting ■ Overarching risk monitoring and quantification of the necessary risk capital ■ Validation of the Group model
Local Risk Management	■ Risk monitoring function in the divisions ■ Observance of the centrally defined guidelines, methods and procedures, limit systems, and thresholds that serve as the framework for local implementation, risk identification, risk assessment, monitoring and reporting

Key stipulations regarding the design and structure of risk management at the Group are defined in binding internal guidelines and specific regulations. In accordance with the principle of "centralised strategic management and decentralised divisional responsibility", this framework is further specified in line with requirements at division and subsidiary level.

RISK MANAGEMENT PROCESS AND COMMUNICATION

We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are recorded systematically using a Group-wide risk capture system. Risks spanning multiple divisions, such as compliance risks, are addressed by involving the areas or experts concerned. Product-related risk identification starts as early as during the New Products Process. This ensures we have completely understood the risks we enter into when purchasing or selling financial instruments and have adequately measured such risks in a qualitative or quantitative manner.

An overall examination of risks is also conducted within the framework of the modelling and validation of our internal model. The latter is particularly important for ensuring an adequate presentation of diversification effects.

The risk analysis and risk measurement are carried out for regulatory solvency purposes on the basis of our internal model. We also use a series of supplementary models for the operational management of certain risk categories. In contrast to our internal model TERM, model runs here are generally more frequent and much more granular in terms of the depiction of the underlying financial instruments.

The risk assessment includes a holistic appraisal of the information obtained through the risk analysis as a means of ensuring that the Board of Management can make risk-informed decisions. In line with our ISO-based risk management philosophy, we define the inherent model uncertainties associated with the use of any model.

RISK REPORTING

The purpose of our risk reporting is to provide the Board of Management and the Supervisory Board with systematic and timely information about risks and their potential effects, to strengthen the risk culture, and to ensure smooth internal communication about all material risks as a basis for effective decision-making.

The Solvency and Financial Condition Report, Regular Supervisory Reporting and the Own Risk and Solvency Assessment are key components of the reporting cascade. These core reports are produced annually.

By their nature, all of the reports focus on aspects of risk strategy. We also utilise a range of short-notice reporting formats in order to provide up-to-date information on the latest developments. In this manner, the complementary reporting formats enable risks and events to be analysed and addressed in a timely manner.

Rules governing the content and frequency of reporting are contained in guidelines. Both documentation and the reporting process are subject to reviews by Auditing and the supervisory authority.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE FINANCIAL REPORTING PROCESS

The key requirements of the internal control system (ICS) and risk management system implemented at Talanx AG with regard to the consolidated financial reporting process can be described as follows:

- there is a clear separation of areas of responsibility involved in the financial reporting process (separation of functions)
- the financial systems used are protected against unauthorised access by appropriate IT measures. Where possible, standard protective software is used for the relevant systems
- processes and controls as well as work procedures and guidelines in the accounting-related internal control and risk management system are recorded in comprehensive ICS documentation, and are reviewed as and when required, but at least once a year, for appropriateness and to determine whether any adjustments are necessary

Financial reporting must comply with the International Financial Reporting Standards (IFRS). In order to comply with these requirements, controls are implemented in the consolidated financial statements process in order to ensure that the financial statements are complete and accurate. Potential risks arising from the Group financial reporting process are identified and assessed by Group Accounting. Any action required is derived from this. The risks are included in the Group's risk survey and are monitored by Group Risk Management.

IFRS accounting specifications that are internal to the Group are set out in an accounting manual. The aim of this manual is to ensure the consistent and correct application of the International Financial Reporting Standards throughout the Group. The manual is regularly updated and amended as standards evolve. Compliance with specifications is ensured by means of Group Accounting providing support to the companies.

An IT tool with standardised reporting and consolidation rules is used for creating the consolidated financial statements. Intragroup transactions are verified through prior reconciliation processes and eliminated where necessary. Written instructions exist for this to ensure that appropriate procedures are followed. In addition, the consolidation system incorporates an approval process for manual entries that ensures compliance with the dual control principle for items over certain value limits. The subsidiaries are responsible for compliance with the Group-wide accounting regulations as well as for running their accounting-related processes and systems properly and in a timely fashion. A package review is implemented in the consolidated financial statements process, which is performed and documented by Group Accounting employees.

The consolidated financial statements of Talanx AG are audited by the auditor on the reporting date; the Group's interim financial statements undergo an audit review.

RISK PROFILE

German Accounting Standard (GAS) 20, which forms the basis for the further presentation and categorisation of risks into what are referred to as risks of future development, is definitive for this report. These include:

- Underwriting risks
- Risks arising from the default of accounts receivable on insurance business
- Risks from investments
- Operational risks
- Other material risks

UNDERWRITING RISK

The underwriting risk refers to the danger of an unexpected, disadvantageous change in the value in the Solvency balance sheet. The causes for such a deviation may be random chance, error or a change in the assumptions underlying the calculation (e.g. biometrics, loss amounts, payout duration or costs for loss adjustment).

UNDERWRITING RISKS IN PROPERTY/CASUALTY INSURANCE

Reserve risks

The reserve risk refers to unexpected, disadvantageous changes to the value of insurance liabilities, which have an effect on the amount of the loss run-off. The cause for such an unexpected change may in particular be the loss amount, the payout duration or costs for loss adjustment. Any loss events that occurred before the reporting date are taken into account in the reserve risk.

The adequacy of the reserves for asbestos-related claims and environmental damage is usually assessed on the basis of the survival ratio, which expresses the number of years for which the reserves would last if we were to continue to pay claims at the average amount over the last three years. At the end of the year under review, our survival ratio in the Property/Casualty Reinsurance segment was 30.0 (27.2) years; reserves for asbestos-related claims and environmental damage amounted to EUR 177 (175) million.

Run-off triangles are another tool used to review our assumptions within the Group. These show how reserves change over time as claims are settled and the reserves required to be recognised are recalculated at each reporting date. Adequacy is monitored using actuarial methods (see "Notes to the consolidated balance sheet – Equity and liabilities", Note 21). In addition, the quality of our own actuarial calculations of the adequacy of reserves is verified annually by external actuarial and audit firms.

In particular, our subsidiary Hannover Rück SE has securities in its portfolio with inflation-linked coupons and repayments in order to partially hedge inflation risk. Inflation risk stems in particular from the possibility that, due to inflation, liabilities (e.g. loss reserves) may not change as assumed when the reserves were recognised. These bonds protect this portion of the loss reserves against inflation risks.

In addition, external actuaries regularly analyse the effects of possible stress scenarios on the Primary Group, so that the impact of an unexpected change in inflation on the Group's loss provisions can be assessed in more detail.

Given the risks described, a five percentage-point increase in the net loss ratio in property/casualty primary insurance and Property/Casualty Reinsurance would reduce net income after taxes by EUR 622 (552) million.

Premium risks

Premium risk refers to unexpected, disadvantageous changes in the value of the insurance liabilities arising from fluctuations in relation to the occurrence, frequency and severity of the insured events. In contrast to reserve risk, premium risk takes into account any loss events (excluding natural disasters) that may take place after the reporting date. In the context of premium risk, expected premium income is compared to future loss events.

The Group primarily manages and reduces the various components of premium risk through claims analyses, actuarial modelling, selective underwriting, specialist audits and regular review of the claims experience, as well as by recourse to appropriate reinsurance cover. For details of the run-off triangles, see Note 21 in the Notes. The reinsurers' credit ratings are given in the "Risks arising from the default of accounts receivable on insurance business" section.

We address the premium risk assumed by taking out appropriate reinsurance cover, among other things. The retention ratio expresses the volume of reinsurance cover relative to gross written premiums and shows the proportion of underwritten risks retained by ourselves.

RETENTION RATIO IN PROPERTY/CASUALTY INSURANCE BY SEGMENT

%

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Industrial Lines	58.6	55.2	53.4	51.8	50.9	44.5	45.6	44.1	46.1	43.7
Retail Germany – Property/Casualty	94.5	94.6	95.4	95.6	95.6	94.9	94.6	92.9	91.6	85.6
Retail International	89.3	89.0	87.9	87.3	88.9	88.5	88.5	88.7	92.4	86.9
Property/Casualty Reinsurance	90.7	89.7	88.5	89.3	90.6	89.9	90.2	91.3	88.9	94.1
Total property/casualty insurance	**83.9**	**82.4**	**80.7**	**80.7**	**81.0**	**79.3**	**79.8**	**79.8**	**78.9**	**78.7**

NET LOSS RATIO BY SEGMENT

%

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Industrial Lines	87.3	85.7	74.9	76.5	81.2	81.8	75.2	66.8	82.0	68.6
Retail Germany – Property/Casualty	63.4	64.6	66.7	64.2	74.1	67.0	65.2	67.5	69.4	62.5
Retail International	65.8	66.2	65.4	64.9	65.3	66.3	68.9	70.4	75.6	71.6
Property/Casualty Reinsurance	67.0	71.2	66.7	69.3	68.9	70.3	70.7	78.8	72.0	72.8
Total property/casualty insurance	**69.5**	**71.9**	**67.8**	**69.1**	**70.8**	**70.8**	**70.3**	**74.4**	**73.6**	**70.5**

The rise in the loss ratio, which increased by 1.6 percentage points to 87.3%, is due primarily to reserve strengthening and an upturn in large and frequency losses. The segment's large losses overshot the large losses budget by EUR 116 million. The 1.2 percentage point decline in the loss ratio in the Retail Germany segment was driven by lower losses from natural catastrophes and large losses. The loss ratio in the Retail International segment improved slightly by 0.4 percentage points. Italy, Brazil and Poland saw a particular downturn in the loss ratio, although this was counteracted by increases in Turkey and Chile. The loss ratio in the Property/Casualty Reinsurance segment improved by 4.2 percentage points in comparison to the previous year thanks to a significant decrease in large losses, which dropped by EUR 277 million to EUR 850 (1,127) million.

The loss ratio therefore decreased overall in comparison to the prior year by 2.4 percentage points, to 69.5%. This downturn is essentially a result of a lower level of large losses at EUR 1,244 (1,620) million, although this is still over the EUR 1,125 (1,115) million large losses budget. This shows that the past financial year was once again dominated by higher large losses than expected by the market. Nonetheless, compared with the previous year, the rise in the Industrial Lines segment was comfortably offset by the decline in the other segments.

Large losses are losses that exceed a defined amount (or meet other criteria) and therefore are of particular significance in Property/Casualty Insurance. The table shows the large losses (net) in the financial year in millions of euros, broken down into natural catastrophes and other large losses, and also as a percentage of the Group's combined ratio:

LARGE LOSSES (NET) IN THE FINANCIAL YEAR [1]

	2018	2017
EUR MILLION		
Large losses (net)	1,244	1,620
of which natural catastrophes	722	1,232
of which other large losses	522	388
%		
Combined ratio of property/casualty primary insurance and reinsurance	98.2	100.4
of which large losses (net)	6.8	10

[1] Natural disasters and other large losses over EUR 10 million gross, for the share accounted for by the Group.

Concentration risk

In indemnity insurance, concentration risk results, in particular, from clustering with respect to geographical areas, reinsurance and investments as well as from insured natural catastrophe risks and man-made disasters.

In a similar way to premium risk, nat natural catastrophe deals with future loss events. Such risk is handled separately, due to the possibility of an extremely high impact on the loss events due to natural disasters. A standardised global event set has been developed to support the analysis of such natural-hazard events (extreme scenarios and accumulations).

Based on the figures calculated most recently, the estimates of the Group's net burden (annual total loss) under the following accumulation scenarios of natural hazards are as follows:

ACCUMULATION SCENARIOS INCLUDING NON-CONTROLLING INTERESTS, BEFORE TAXES [1]

EUR MILLION

	2018	2017
200-year loss Atlantic hurricane	2,294	1,963
200-year loss US/Canadian earthquake	1,926	1,522
200-year loss Asia-Pacific earthquake	1,446	1,272
200-year loss European storm (winter storm)	846	1,049
200-year loss Central and South-American earthquake	1,505	1,017
200-year loss European earthquake	1,134	1,004
200-year loss European flood	776	698

[1] Actual trends in natural hazards may differ from model assumptions.

Other accumulation scenarios are also regularly tested. In addition, peak exposures from accumulation risks are covered by individually selected reinsurance protection, with the objective of effectively limiting high single losses as well as the effects of accumulation events, thus making them possible to plan for.

In order to restrict concentration risks, the maximum permissible natural catastrophe risk is limited by hazard regions at Group and division level. The risk modelling and business planning interact closely to achieve this.

The expectations with regard to loss burdens are expressed in the context of business planning partly through the large-loss budget.

The net large loss burden in the financial year was EUR 1,244 (1,620) million, comprising the large loss due to Typhoon "Jebi" in Japan with a net loss of EUR 141.5 million, the "Camp" forest fires in California, USA, with a net loss of EUR 129.5 million and the heavy rainfall in Colombia with a net loss of EUR 87.2 million.

The following table shows the distribution of the property insurers' loss reserves by region on both a gross and a net basis (after adjustment for the reinsurers' share of these reserves):

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE[1]

EUR MILLION

	Gross	Re	Net[2]
31.12.2018			
Germany	9,403	1,057	8,346
United Kingdom	3,829	654	3,175
Central and Eastern Europe (CEE), including Turkey	2,152	168	1,984
Rest of Europe	8,421	1,783	6,638
USA	10,146	519	9,627
Rest of North America	1,231	1,533	–302
Latin America	1,830	166	1,664
Asia and Australia	3,366	161	3,205
Africa	266	12	254
Total	**40,644**	**6,053**	**34,591**
31.12.2017[3]			
Germany	9,005	3,557	5,448
United Kingdom	3,788	305	3,483
Central and Eastern Europe (CEE), including Turkey	2,003	98	1,905
Rest of Europe	7,788	–46	7,834
USA	8,797	233	8,564
Rest of North America	1,248	695	553
Latin America	1,694	164	1,530
Asia and Australia	2,767	97	2,670
Africa	270	16	254
Total	**37,360**	**5,119**	**32,241**

1) After elimination of intragroup cross-segment transactions.
2) After adjustment for the reinsurers' share of these reserves.
3) Adjusted in accordance with IAS 8, see "Accounting policies" section.

The following table shows the focus of our insurance business in property/casualty primary insurance, broken down by the main types and classes of insurance:

PREMIUMS BY TYPE AND CLASS OF INSURANCE[1]

EUR MILLION

	Gross written premiums	Net written premiums
31.12.2018		
Property/casualty primary insurance		
Motor insurance	4,014	3,818
Property insurance	2,973	1,497
Liability insurance	1,822	1,374
Casualty insurance	349	286
Marine	530	378
Other property/casualty insurance	418	303
Property/Casualty Reinsurance	11,976	10,868
Total	**22,082**	**18,524**
31.12.2017		
Property/casualty primary insurance		
Motor insurance	3,948	3,739
Property insurance	2,741	1,308
Liability insurance	1,740	1,247
Casualty insurance	337	281
Marine	487	346
Other property/casualty insurance	458	296
Property/Casualty Reinsurance	10,711	9,605
Total	**20,422**	**16,822**

1) Before elimination of intragroup cross-segment transactions.

TECHNICAL RISKS, LIFE

Typical risks in life insurance are associated with the fact that policies grant guaranteed long-term biometric and/or investment benefits. Whereas the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters may change. This applies to the legal framework, defined by the legislators and the courts, underlying the contractual relationship. Changes that can aggravate the risk in this regard are discussed in the "Operational risks" section.

The retention ratio expresses the volume of reinsurance cover relative to gross written premiums and shows the proportion of underwritten risks retained by ourselves.

RETENTION RATIO IN LIFE/HEALTH INSURANCE BY SEGMENT

%

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Retail Germany – Life Insurance	93.6	95.2	95.4	95.8	95.2	93.9	94.4	93.6	92.9	90.4
Retail International	98.8	98.5	98.5	97.2	98.0	95.8	89.7	82.8	84.1	83.3
Life/Health Reinsurance	90.7	91.7	90.4	84.2	83.9	87.7	89.3	91.0	91.7	90.7
Total life/health insurance	**92.6**	**93.6**	**92.9**	**89.1**	**89.6**	**90.9**	**91.3**	**91.8**	**91.8**	**90.1**

Biometric risks and lapse risks in primary life insurance

Biometric actuarial assumptions such as mortality, longevity and morbidity are established at the inception of a contract. Over time, however, these assumptions may prove to be no longer accurate, and additional expenditure may be needed to boost the benefit reserve. The adequacy of the underlying biometric actuarial assumptions is therefore regularly reviewed. Epidemics, a pandemic or a global shift in lifestyle habits may pose special risks to contracts under which death is the insured risk. Under annuity insurance, the risk derives first and foremost from steadily improving medical care and social conditions as well as unexpected medical innovations that increase longevity – with the result that insured persons draw benefits for longer than the calculated period.

To calculate premiums and technical provisions, Group companies use carefully determined biometric actuarial assumptions, the adequacy of which is regularly ensured by continually comparing claims expected on the basis of mortality and morbidity tables against claims that have actually occurred. In addition, adequate safety margins are applied in the actuarial assumptions so as to ensure that the actuarial assumptions make allowance for the risks of error, random fluctuation and change.

Primary life insurance policies are mainly long-term contracts with a discretionary surplus participation feature. Relatively small changes in the assumptions about biometric factors, interest rates and costs that are used as the basis for calculations are absorbed by the safety margins included in the actuarial assumptions. If these safety margins are not required, they generate surpluses, which are to a large extent passed on to policyholders in accordance with statutory requirements. The impact on earnings in the event of a change in risk, cost or interest rate expectations can therefore be limited by adjusting policyholders' future surplus participation.

Reinsurance contracts provide additional protection against certain assumed – primarily biometric – risks. Reserves are set up to ensure that commitments under these policies can be met at all times; among other factors, these are calculated on the basis of assumptions as to the future development of biometric data such as mortality or occupational disability. Specially trained life actuaries use safety margins to make sure that the actuarial assumptions also make sufficient allowance for risks of change.

In addition, life insurance policies entail lapse risks. In the event of an unusual cluster of cancellations, for example, the liquid assets available might not be sufficient to cover the benefits payable. This could lead to unplanned losses being realised on the disposal of assets. For this reason, the Group's life insurers maintain a sufficiently large portfolio of short-term investments and regularly analyse the situation with regard to cancellations. They also regularly match and manage the duration of their assets and liabilities. Furthermore, insurance premium refunds from insurance intermediaries may default in the event of cancellations, which means that the intermediaries must be selected very carefully. Cancellations may also create a cost risk if new business drops off significantly and fixed costs – unlike variable costs – cannot be reduced in the short term.

We regularly review the lapse behaviour of our policyholders and trends in lapse activity in our insurance portfolio.

Scenario and sensitivity analyses are a risk management instrument to quantify underwriting risks, as part of the internal model in relation to basic own funds. For these, we show ranges within which the Group's primary life insurers sit. These analyses provide pointers as to which areas to focus on from a risk management perspective.

RANGE OF SENSITIVITIES OF UNDERWRITING RISKS, PRIMARY LIFE INSURANCE

%

	2018	2017
Mortality/morbidity +5% (excluding annuity business)	−3 to −1	−3 to −1
Mortality −5% (annuity business only)	−4 to −1	−4 to −1
Lapse rate +10%	−2 to 0	−2 to +1
Expenses +10%	−5 to −1	−6 to −1

The exposure of the Group's life insurers varies depending on the nature of the insurance products. For example, a lower mortality rate than expected has a positive impact on products that primarily entail mortality or morbidity risk and a negative impact on products that entail longevity risk, with corresponding impacts on basic own funds. Annuities and death cover are not netted in the sensitivities.

Interest guarantee risk taking into account risks from investments

In endowment life insurance, a basic distinction is made between unit-linked policies and traditional policies with guaranteed actuarial interest rates, with traditional policies accounting for the majority of the Group's portfolio. While the investment risk is borne by customers under unit-linked policies, the insurer promises a guaranteed return on the savings elements of the premium under traditional policies. As opposed to with the historical portfolio, for newly-developed products with significantly curtailed guarantees (modern classic), we took account of the impact of individual products on cover for the solvency capital requirement when developing the products and achieved a solvency-easing influence on the risk profile in favour of higher cover.

In German life insurance, the most significant risk in primary life insurance is that investments do not generate sufficient returns to meet liabilities to customers. The guaranteed returns on savings elements under traditional life insurance policies mainly depend on the actuarial interest rate generation of the policies concerned. The interest rates included in the premium calculations for the various rate generations range between 4% (4%) and 0.9% (0.9%) per annum. Taking into account the additional interest reserve following a change to the calculation method in 2018, the average guaranteed interest rate for the German life insurance companies in the Group and at HDI Pensionskasse AG as at 31 December 2018 was 1.95% (2.08%). The interest guarantee risk is also the dominating concentration risk.

In particular, due to the limited availability of long-term fixed-income securities on the capital market, it is only possible in some cases to cover the interest liabilities under the policies at matching maturities. As a result, fixed interest rates on the assets side regularly have a shorter term than those on the liabilities side (duration or asset-liability mismatch).

At a Group level, the asset-side duration (Macaulay duration) for fixed-income securities (including interest rate derivatives) as at 31 December 2018 was 8.1 (8.1) years and the average remaining term of the gross loss reserves including gross benefit reserves was 9.5 (9.6) years. If we include expected future surplus participation for life insurance with options and guarantees, the duration (Macaulay duration) for liabilities increases to 12.0 (12.1) years.[1]

Due to this duration mismatch shown in both cases, basic own funds are sensitive to the discounting assumptions used within the model. Beyond a term of 20 years, these are not derived from the capital market, but instead follow the industry convention that is also used in the Solvency II regime by the European supervisory authorities. If standard industry assumptions about the discount rate for liabilities with a term of more than 20 years are higher than the interest rates actually obtainable in the market at that time, the valuation models used to calculate basic own funds underestimate the liability to policyholders and interest rate sensitivity in life insurance. If, on the other hand, the interest rates actually obtainable are higher than the discount rates, liabilities to policyholders and interest rate risk are overestimated. At present, the interest rates actually obtainable in the illiquid capital market segments for particularly long-term securities tend to suggest that the valuation models underestimate liabilities to policyholders and interest rate sensitivity and therefore overestimate basic own funds.

Exposure with respect to the interest guarantee risk is determined based on risks from investments, which are set out together with the relevant stress tests and sensitivities in the "Risks from investments" section.

For unit-linked life insurance contracts, the technical provisions are determined in the same way as the fund volumes held for the policyholders. Therefore, changes in share prices have a direct impact on the amount of the technical provisions for the unit-linked insurance; however, these are offset by equal effects on the investments. Basic own funds are thus not only influenced by investments held for the benefit of life insurance policyholders who bear the investment risk. In this respect, a decline in equity prices would also have a negative impact, albeit very minor as the equity ratio is currently small.

1) The key figure recognised here is based on the cash flows of the liabilities calculated using valuation models, in relation to the certainty equivalent path, which meets the latest EIOPA requirement in the insurer stress test.

TECHNICAL RISKS IN LIFE/HEALTH REINSURANCE

Biometric risks are especially important in Life/Health Reinsurance. In our Life/Health Reinsurance business, reserves are largely recognised on the basis of the information provided by our ceding companies. Reliable biometric actuarial assumptions are used to check the plausibility of these figures. The Group uses quality assurance measures to monitor that reserves calculated by ceding companies in accordance with local accounting principles satisfy all requirements with respect to the calculation methods and assumptions. All new business written by the Group in all regions complies with our globally applicable framework of underwriting guidelines, which set out detailed rules governing the type, quality, level and origin of risks, and which are checked annually. Specific underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with this framework of underwriting guidelines, the Group minimises the potential credit risk associated with the insolvency or deterioration in the financial status of cedants. Regular reviews and comprehensive analyses are performed whenever new business activities are launched or international portfolios acquired.

We have confidence in our underwriters' expertise and the responsibilities we confer on them are graduated to reflect this. In our decentralised organisation, we manage risks where they arise, adopting the same approach throughout the Group to gain an overall view of the risks involved in Life/Health Reinsurance. Our global underwriting guidelines provide the underwriters with a suitable framework for this. The risks arising from Life/Health Reinsurance are illustrated in the internal capital model.

The interest guarantee risk that is so important in primary life insurance is of little relevance in Life/Health Reinsurance, owing to the structure of the contracts. The risk profile here is dominated by mortality and longevity risks, as some of the contracts have to pay death benefits while others pay survival benefits. Furthermore, Life/Health Reinsurance is exposed to lapse risks, as the payment flows resulting from the reinsurance contracts also depend on the policyholders' lapse behaviour. We prudently calculate the diversification effect between mortality and longevity risks, as the contracts are usually arranged for various regions, age groups and persons.

Hannover Re took over a large Life/Health Reinsurance portfolio in 2009. The mortality experience for this portfolio in 2018 was better than initially expected. We introduced rate adjustments for the portfolio in question as part of our portfolio management. If the cedants in question exercise their right to withdraw, this can have a negative impact on the IFRS result.

The sensitivities affecting the Reinsurance Division's basic own funds are as follows:

SENSITIVITIES OF UNDERWRITING RISKS, REINSURANCE DIVISION

%

	2018	2017
Mortality +5% (excluding annuity business)	–9 to –7	–9 to –7
Morbidity up 5%	–3 to –1	–2 to –1
Mortality –5% (annuity business only)	–3 to –2	–3 to –2
Lapse rate +10%	–3 to –1	–3 to –1
Expenses +10%	–1 to 0	–1 to 0

Derivatives embedded in life insurance contracts and not recognised separately

The insurance products in primary life insurance may include the following significant options on the part of policyholders, if agreed when the contract was entered into:

- minimum return/guaranteed interest rate
- surrender option and premium waiver
- increase in the insured benefit without another medical examination
- option under deferred annuity policies to take the insurance benefit as a one-time payment (lump-sum option) instead of drawing a pension

With unit-linked products, policyholders may opt to have the units transferred on termination of the contract rather than receive payment of their equivalent value (benefit in kind). In this respect, there is no direct market risk.

In Life/Health Reinsurance, a number of contracts have features that require embedded derivatives to be separated from the underlying insurance contract and recognised separately at fair value in accordance with IAS 39. For further information, please refer to our disclosures in the "Notes to the consolidated balance sheet – Assets" section under Note 13 of the Notes.

RISKS ARISING FROM THE DEFAULT OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

Accounts receivable on insurance business always entail default or credit risk. This applies in particular to receivables due from reinsurers, retrocessionaires, policyholders and insurance intermediaries. Value adjustments or write-downs on receivables would be the result.

Accounts receivable from policyholders and insurance intermediaries are generally unsecured. There is no material financial risk for the Group as there are relatively few individual receivables and these are due from a diverse array of debtors.

Credit risk also arises in the primary insurance business on accounts receivable from reinsurers and in the reinsurance business on receivables from retrocessionaires. In reinsurance ceded, we ensure that reinsurers are extremely financially sound, especially in the case of accounts with a long run-off period.

The Group counters the risk of default on accounts receivable from reinsurers and retrocessionaires through Group-wide directives and guidelines. Reinsurance partners are carefully selected by security committees made up of experts, and their creditworthiness is continually monitored. Information from external rating agencies is also taken into consideration.

Outstanding receivables more than 90 days past due at the reporting date and the average default rate over the last three years are shown in the Notes. Please refer to our disclosures in Note 14.

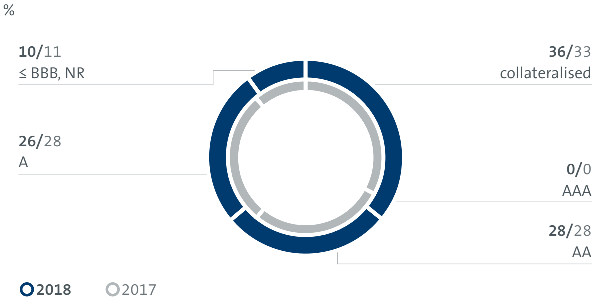
The reinsurance recoverables on technical provisions amount to EUR 8.5 (7.7) billion.

In addition to guarantees, this figure is set against recorded cash deposits or other offsetting items of EUR 3.1 (2.5) billion recognised as funds withheld under reinsurance treaties.

We are also the active reinsurer for most of our reinsurers and retrocessionaires (particularly in the Property/Casualty Reinsurance segment), meaning that there is some potential for offsetting defaults against our own liabilities. An amount of EUR 5.4 (5.2) billion remains after deducting the entries stated above.

The rating structure here is as follows:

REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING CLASS



Within the unsecured portion, 84% (83%) of our reinsurance partners/retrocessionaires are rated A or above. The large proportion of reinsurers with a high rating reflects our efforts to avoid default risk in this area.

The carrying amount of financial instruments associated with insurance contracts (policy loans, accounts receivable on insurance business, reinsurance recoverables on technical provisions) – disregarding any collateral or other arrangements that reduce default risk – is equivalent to the maximum exposure to default risk at the reporting date.

Funds withheld by ceding companies represent the collateral furnished by Group companies to cedants outside the Group (e.g. cash deposits and securities accounts), which does not trigger payment flows and cannot be used by those cedants without our companies' consent. The duration of this collateral is generally matched to the corresponding provisions. If a ceding company defaults on funds it has withheld, the technical provisions are reduced by the same amount. Credit risk is therefore limited.

The accounting balance (income for primary insurers), defined as the reinsurers' share of earned premiums less the reinsurers' share of gross claims and claims expenses as well as gross expenses for insurance operations, was EUR –13 (–167) million in the year under review.

RISKS FROM INVESTMENTS

On the one hand, market risk involves fluctuations in the investments on the asset side; on the other hand, effects on the underwriting risks arise on the liability side due to the development of the capital markets as a result of economic accounting. The fluctuations in investments result from market price fluctuations, which may result in impairments in the event of unfavourable changes.

Following the principles of commercial prudence, investment policy is guided by the following goals:

- optimising the return on investment while at the same time preserving a high level of security
- ensuring liquidity requirements are satisfied at all times (solvency)
- risk diversification (mix and spread)

Our portfolio of fixed-income securities in general is exposed to interest rate risk. Declining market yields lead to increases and rising market yields to decreases in the market price of the fixed-income securities portfolio. Similarly, the change from credit spreads effects the market price of fixed-income securities.

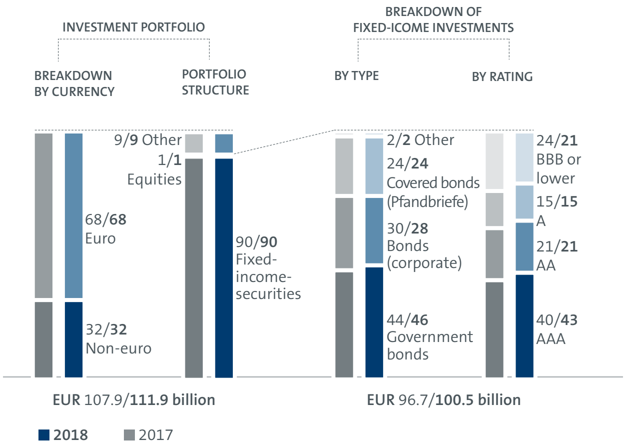
Equity price risks arise from unfavourable changes in the value of equities, equity derivatives and equity index derivatives held in the portfolio. Currency risk results from exchange rate fluctuations – especially if there is a currency imbalance between the technical liabilities and the assets.

Real estate risks may result from unfavourable value changes either directly or via fund units. They may be caused by a deterioration in the features of a particular property or by a general downturn in market prices.

Exposure to these risks is influenced particularly by the structure of the investment portfolio. The following table shows the portfolio of the Talanx Group, arranged by currency, asset class and rating according to measurement under IFRS for annual financial statements.

THE TALANX GROUP'S PORTFOLIO BY CURRENCY, ASSET CLASS AND RATING

%



The portfolio is dominated by fixed-income securities, of which 79% (76%) hold a rating of at least A. We supplement bonds with excellent creditworthiness and a long duration selectively by adding high-interest bonds with a short maturity. The majority of our investments are denominated in euros, whereas the US dollar dominates in the non-euro area.

46% (44%) of fixed-income securities are attributable to government bonds. We model these in TERM with a risk exposure, in contrast to the standard formula.

Despite our relatively low-risk portfolio, the volume of the investment portfolio means that market risks are still highly significant for the risk profile of the Group. We assess the market risks with TERM. The term material refers particularly to interest rate risk and credit risk.

We map the risk concentration in a model which contains not only the pure effect of the concentration of issuers, but also the impact of the correlation of economic and geographical interactions between issuers.

Market risks are monitored and managed by means of our limit and threshold system. A key aspect of this involves regularly reviewing the value at risk (VaR), taking into account not only the investments but also the forecast cash flows for technical liabilities and their sensitivity to market risk factors. The ALM VaR is calculated based on a confidence level of 99.5% and a holding period of ten days. This means that there is only a 0.5% probability that this estimated potential loss will be exceeded within ten days.

As at 31 December 2018, the ALM VaR was EUR 1,531 (1,514) million, or a ratio of 1.3% (1.4%) of the investments under consideration. In comparison to the previous year, the ALM VaR ratio is virtually unchanged. An external provider switched the model used to an internal solution.

Alongside this, a version of the model is used to identify risks at an early stage in which shorter time periods are taken into account and the most recent market observations have a stronger impact on the risk indicators due to the use of exponential weighting. This version of the ALM VaR model is much more sensitive to current changes in volatility on the capital markets and can in addition provide an early indication of an increase in risk.

Stress tests and scenario analyses complement the range of management tools. For interest rate-sensitive products and equities, we calculate possible changes in fair value on a daily basis using an historical worst-case scenario, thereby estimating the potential loss under extreme market conditions. We use scenarios to simulate changes in equity prices and exchange rates, general interest rates and spreads on bonds launched by issuers that pose a credit risk. Interest rate risk entails the risk of an adverse change in the value of the financial instruments held in the portfolio due to changes in market interest rates.

The following table shows scenarios for changes in the Group's assets under own management as at the reporting date. The amounts shown are gross amounts; in particular, the effects shown do not reflect taxes or the provision for premium refunds. Effects arising from policyholders' surplus participation in life/health primary insurance are therefore not part of the analysis. Taking these effects into account would reduce the illustrated effects on earnings and equity significantly.

SCENARIOS FOR CHANGES IN THE GROUP'S ASSETS UNDER OWN MANAGEMENT AS AT THE REPORTING DATE

EUR MILLION

Portfolio	Scenario		Recognised in profit or loss [1]	Recognised in other comprehensive income [1]	31.12.2018 Change in the portfolio on a fair value basis [2]	31.12.2017 Change in the portfolio on a fair value basis [2]
Equities [3]						
	Equity prices	+20%	13	165	178	210
	Equity prices	+10%	6	83	89	105
	Equity prices	–10%	–5	–83	–88	–103
	Equity prices	–20%	–10	–166	–176	–201
Fixed-income securities						
	Increase in yield	+200 bp	–56	–8,401	–14,075	–13,670
	Increase in yield	+100 bp	–31	–4,550	–7,669	–7,442
	Decrease in yield	–100 bp	38	5,079	8,386	8,101
	Decrease in yield	–200 bp	78	10,801	17,869	17,228
Exchange rate-sensitive investments						
	Appreciation of the EUR [4]	+10%	–3,360	–260	–3,620	–3,424
	against USD		–1,907	–214	–2,121	–1,980
	against GBP		–351	–4	–355	–351
	against PLN		–230	–3	–233	–234
	against other currencies		–872	–40	–912	–859
	Depreciation of the EUR [4]	–10%	3,360	260	3,620	3,424
	against USD		1,907	214	2,121	1,980
	against GBP		351	4	355	351
	against PLN		230	3	233	234
	against other currencies		872	40	912	859

[1] Gross (before taxes and surplus participation).
[2] Including financial instruments classified as "Loans and receivables" and "Financial assets held to maturity".
[3] Including derivatives.
[4] Exchange rate movements against the euro of +/–10%, based on carrying amounts.

The Group primarily enters into derivative transactions in order to hedge against price risk or interest rate risk affecting existing assets, to prepare for the subsequent purchase of securities or to generate additional earnings from existing securities. The Group also uses OTC derivatives on a minor scale, which involve a counterparty risk.

The full boards of management of the Group companies concerned decide on the nature and scope of investments in derivative financial instruments.

Internal guidelines regulate the use of derivative products to ensure the most efficient and low-risk use of forward purchases, derivative financial instruments and structured products, and to satisfy regulatory requirements. The use of such instruments is thus subject to very strict limits. We constantly monitor the requirements set out in the investment guidelines and the statutory provisions governing the use of derivative financial instruments and structured products and we specify derivative positions and transactions in detail in the reports. We reduce the risk of financial default by the counterparties concerned arising from the use of OTC derivatives by netting and by means of collateral agreements.

Further information on the use of derivative financial instruments can be found in Note 13 in the "Notes to the consolidated balance sheet – Assets" section.

CREDIT RISKS

Credit risk or counterparty credit risk refers to a potential deterioration in the credit quality of debtors resulting in the risk of their being unable to make contractually agreed payments in part or in full as they fall due, or to declines in the value of financial instruments due to the impaired creditworthiness of the issuer. The following specific risks can be subsumed under credit risks:

- issuer risk (default risk, migration risk)
- counterparty risk (replacement and settlement risk)
- concentration risk

Credit risk is expanded into the following sub-risks in the course of risk modelling: spread, migration and default risk, as well as correlation and concentration risk. While the spread risk and migration and default risks can be quantified at the level of individual assets, correlation and concentration effects can only be observed in a specific portfolio context. Dependencies on various issuers' credit quality is shown via correlations. The correlation and concentration risks measures the concentration of investments with individual issuers, taking into account these dependencies on credit quality.

Counterparty credit risk is limited by Talanx's system of limits and thresholds and by its investment guidelines, and is continuously monitored. To this end, limits are set at portfolio, issuer/counterparty and in some cases asset class level, ensuring a broad mix and spread in the portfolio. When limits are exceeded, defined escalation processes are triggered.

An issuer's creditworthiness is the key criterion when deciding whether to invest. Creditworthiness is assessed on the basis of the Group's own credit risk analyses, which are supplemented by ratings from external agencies such as Standard & Poor's, Moody's, Fitch and other rating agencies. New investments are mainly in securities with an investment grade rating. An early warning system based on market information (such as credit spreads and equity prices) has been put in place to spot initial signs of deteriorating creditworthiness. To reduce counterparty risk, OTC transactions are only entered into with a select group of counterparties, and cross-product master agreements covering both netting and collateral are agreed (see our disclosures in Note 13 in the Notes). We also use credit default swaps to efficiently manage credit risk.

We use the following features to characterise the counterparty credit risk at individual counterparty level:

- Default probability, derived from the composite rating (average of the available agency ratings from Standard & Poor's, Moody's and Fitch). This describes the probability that a debtor will default within a defined period of time
- Loss given default (LGD), derived from the volume of the collateral and the seniority of an issue
- The exposure at default (EAD). This represents the expected amount of the receivable at the time of default

For the portfolios, taking account of ratings or the allocated probability of default and the expected loss given default (LGD), an expected loss and a credit value at risk (CVaR) is calculated. The CVaR represents the amount of the (unexpected) loss that, with a probability of 99.5%, will not be exceeded within a year. The stochastic simulation used to calculate the CVaR takes into consideration the issue-specific features, the portfolio concentrations, e.g. in sectors and countries, as well as the correlations between the individual assets. This approach ensures that, in particular, concentration effects and dependencies between the portfolios are captured when measuring the credit risk.

The risk indicators calculated in this way are aggregated at the various management levels and provide the basis for monitoring and managing credit risk.

As at 31 December 2018, the credit VaR for the Group as a whole was EUR 4,865 (5,067) million, or 4.3% (4.6%) of the assets under own management. Year-on-year, then, the average credit risk of the investments has decreased slightly. The internal risk calculations capture all investments exposed to credit risk. This also includes European government bonds, which are notionally considered risk-free under the standard model in Solvency II.

The decrease in the credit VaR compared to the previous year particularly reflects the continued diversification and conservative reinvestment of the investments. In addition, investment in infrastructure was further expanded, which was taken into consideration in the credit VaR with slightly above-average risk weighting factors due to its relatively long terms.

CREDIT VAR STRESS TEST

IN EUR MILLION

	31.12.2018	31.12.2017
Rating downgrade by one notch	5,903 (+21%)	6,129 (+21%)
Rating downgrade by two notches	7,160 (+47%)	7,387 (+46%)
Increase in LGD by ten percentage points	5,526 (+14%)	5,723 (+13%)

The table indicates the sensitivity of the CVaR for certain credit scenarios. It illustrates both the effect of issuer ratings being downgraded by one or two notches and the reduction in expected recovery rates in the event of default.

Within its portfolio of assets under own management, the Group's exposure to government bonds with a rating of less than A– amounts to EUR 4.1 (4.7) billion on a fair value basis, or 3.7% (4.4%).

EXPOSURE TO BONDS WITH A RATING OF LESS THAN A–

EUR MILLION

	Rating [1]	Government bonds	Semi-government bonds	Financial bonds	Corporate bonds	Covered bonds	Others	Total
31.12.2018								
Italy	BBB	2,319	—	547	501	454	—	**3,821**
Spain	BBB+	—	—	—	—	—	—	**—**
Brazil	BB	270	—	42	354	—	4	**670**
Mexico	BBB+	120	3	59	267	—	—	**449**
Hungary	BBB–	541	—	2	11	26	—	**580**
Russia	BB+	239	15	25	146	—	—	**425**
South Africa	BB+	147	—	5	52	—	2	**206**
Portugal	BBB–	38	—	11	53	20	—	**122**
Turkey	BB+	18	—	26	32	3	—	**79**
Others BBB+		73	—	52	70	—	—	**195**
Others BBB		161	6	124	114	—	—	**405**
Others <BBB		197	26	108	139	—	255	**725**
Total		**4,123**	**50**	**1,001**	**1,739**	**503**	**261**	**7,677**
31.12.2017								
Italy	BBB	2,361	—	573	647	475	—	**4,056**
Spain	BBB+	742	422	213	416	269	—	**2,062**
Brazil	BB	263	—	79	303	—	5	**650**
Mexico	BBB+	110	6	47	227	—	—	**390**
Hungary	BBB–	509	—	—	9	22	—	**540**
Russia	BB+	206	15	36	198	—	—	**455**
South Africa	BBB–	161	2	9	60	—	4	**236**
Portugal	BB+	44	—	11	75	38	—	**168**
Turkey	BB+	18	—	19	18	3	—	**58**
Others BBB+		14	—	31	66	—	—	**111**
Others BBB		94	43	60	48	—	—	**245**
Others <BBB		185	17	98	163	—	238	**701**
Total		**4,707**	**505**	**1,176**	**2,230**	**807**	**247**	**9,672**

[1] Determined by external issue ratings (Standard & Poor's, Moody's, Fitch or other rating agency appointed by Talanx [ECAI]). If external issue ratings are available from more than one agency, the second best rating is used.

Disregarding collateral or other arrangements that reduce default risk, the maximum exposure to default risk (of our investments, excluding funds withheld by ceding companies) as at the reporting date corresponds to the balance sheet items.

Within the Group, financial assets totalling EUR 766 (781) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 28 (26) million secure existing derivatives transactions for which own investments are held in blocked custody accounts. In addition, Hannover Re Real Estate Holdings has furnished standard collateral to various credit institutions for liabilities related to investments in real estate businesses and real estate transactions. At the reporting date, this collateral amounted to EUR 647 (508) million.

Further information on collateral pledged by the Group can be found in the "Consolidation" section of the Notes under "Disclosures on the nature and extent of significant restrictions".

Hannover Rück SE has furnished guarantees from various banks in the form of letters of credit as surety for technical liabilities amounting to EUR 1.3 (1.2) billion. In addition, assets with a fair value of EUR 121 (250) million have been provided to the Group as collateral, which can be sold or transferred as collateral without the owner being in default on payment.

With the exception of mortgage loans secured by charges on property, the portfolio did not contain any past-due investments that were not impaired at the reporting date, as past-due securities are written down immediately. For information on impairment losses charged on investments in the year under review, see Note 30.

The rating structure of our fixed-income securities, broken down by balance sheet item, investment contracts and short-term investments is presented in the "Notes to the consolidated balance sheet – Assets" section.

LIQUIDITY RISK

We define liquidity risk as the risk of being unable to convert investments and other assets into cash when they are needed to meet our financial obligations as they fall due. The exposure here is dependent on the level of the liabilities. For example, occasionally it may not be possible to sell holdings (or at least not without a delay) or to close out open positions (or only at a discount) due to market illiquidity. The evaluation of this risk is also based heavily on qualitative analyses. We regard the risk as relevant in its entirety. We do not perceive a risk concentration.

As a rule, the Group generates significant liquidity positions on an ongoing basis because regular premium income, almost without exception, accrues well before claims are paid and other benefits rendered.

The following table shows cash inflows from premium payments, cash outflows from claims and claims expenses paid, acquisition costs, and reinsurance commissions, including administrative expenses incurred for property/casualty insurance, as at the reporting date in each case.

The cash inflows shown below for indemnity insurance are all positive.

CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS [1]

EUR MILLION

	31.12.2018	31.12.2017
Gross written premiums including premiums from unit-linked life and annuity insurance	21,628	19,855
Claims and claims expenses incurred (gross)	–12,247	–11,506
Acquisition costs and reinsurance commissions paid plus administrative expenses	–5,883	–5,267
Liquid funds	**3,498**	**3,082**

1) After elimination of intragroup cross-segment transactions.

To monitor liquidity risk, the Group's life insurers regularly compare net claims and claims expenses paid during the financial year against existing investments (during the year, budgeted amounts are used for net claims and claims expenses paid in the course of the financial year). In doing so, they make allowance for potential unforeseen increases in net claims and claims expenses paid using appropriate margins and monitor the ability to liquidate the investments.

Liquidity risk on the Group level is reduced through regular liquidity planning and by continuously matching the maturities of our investments to our financial obligations. A liquid asset structure ensures that the Group is able to make the necessary payments at all times. Planning for underwriting payment obligations is based, among other things, on the expected due dates, after allowance for the run-off pattern of reserves.

To cushion any short-term liquidity requirements that occur in the Group, Talanx AG holds a minimum level of liquidity. A further component of liquidity management is the availability of a sufficiently large credit line. For further explanations, see “Net assets and financial position” section in the Management Report, “Liquidity and financing” subsection.

Moreover, Talanx AG secures the Group’s access to long-term and, if required, also short-term external financing sources. In addition to the assets available to cover provisions and liabilities, LoC facilities are also in place with credit institutions for the equivalent of EUR 2.4 (2.9) billion. The durations vary and run until 2023 at the latest.

A number of LoC facilities include standard contractual clauses that give the credit institutions the right to terminate the facilities in the event of significant changes in the ownership structure of our Group company Hannover Rück SE, or that trigger a requirement to provide collateral if certain material, adverse events occur, such as a significant rating downgrade.

We assume that we would even be able to comply with relatively large, unexpected payout requirements within the time stipulated.

OPERATIONAL RISKS

Operational risk comprises the loss risk that arises from the unsuitability or failure of internal processes, employees or systems or due to external events.

All the processes were recorded, described and given key controls within the internal controlling system in order to identify the operational risk entailed in the process organisation. Operational risks inevitably relate to the performance of our business – indeed, the exposure depends on our business activities – and it cannot be avoided entirely.

For the economic perspective, operational risks are evaluated on the basis of scenarios that are created using expert surveys. In the primary insurance group, however, we still currently use procedures that are based on the standard Solvency II formula for the regulatory perspective.

The standard formula quantifies operational risks on the basis of factors to be applied to the premium and reserve volume, and does not permit any differentiated analysis using sub-categories of operational risk. In particular, the standard formula also does not permit any diversification between operational risks and other risk categories or within operational risk, for example between individual companies. For that reason alone, the standard formula tends to overestimate operational risks on Group level. Internal assessments of occurred losses arising from operational risk and the results of the internal model applied for the economic perspective also for this risk category support our estimation that the application of the standard formula leads to an excessive capital requirement for operational risks. We therefore fundamentally wish to have the use of the internal model approved for the calculation of the operational risk in primary insurance, even in the regulatory perspective. The procedure has already received regulatory approval for the Hannover Re sub-group. For the primary insurance group, we are holding in-depth talks with the supervisory authority on the implementation of the approval procedure.

The material sub-categories of operational risk and the respective reduction measures are described below.

We perceive operational risks in the area of business continuity and IT service continuity, i.e. the risk that business operations could be threatened or disturbed by natural hazards or human-caused hazards. We counter this risk with preventive measures, such as status monitoring of central IT systems, redundant designs. In addition, instruments for handling crisis situations have been set up (e.g. emergency plans, crisis management team at Group level).

The operational risks also include the loss risk that may arise from the possible unsuitability or failure of internal processes or inadequate data quality. An effective, internal controlling system is an important instrument for reducing such risks. We have also established Group-wide standards for process management that are enhanced continuously.

Within the area of operational risk, legal, tax and compliance risks are highly significant for the Group. This also explicitly includes risk of legal change. A number of central functions of the Group, particularly the compliance function and the Legal and Tax department, monitor the risk situation closely and advise both subsidiaries and technical departments.

Extensive tax reform was passed in the USA in December 2017. This provides for new tax regulations that also have considerable financial implications for the subsidiaries that operate in the USA. An essential aspect of the tax reform is the introduction of a “Base Erosion Anti-abuse Tax (BEAT)”. This results in premiums for ceded insurance risks within the Group context also being included in the tax assessment basis. The implications for subsidiaries operating in the US were initially analysed in detail and cession and reinsurance structures related to business in the US in particular were revised as a result.

A subgroup of the risk of legal change is formed by changes in how basic topics are handled by government bodies, for example changes in tax law based on pronouncements by the Federal Ministry of Finance (BMF). With its letter dated 17 July 2017, for example, the BMF pronounced a restrictive position with respect to the fiscal treatment of various securities transactions, which were previously not only common, but were also generally classified as unproblematic from a tax law perspective, and correspondingly also recorded as part of normal investment by individual companies in the Group. There is a risk that these companies will be faced with tax assets based on this amended administrative opinion. However, expert reports collected from external sources come to the conclusion that there is no legal foundation for any tax assets of this type, and rights of recourse against contractual partners would have a high chance of success.

In addition to the risk of legal change, the Group is also involved in court and out-of-court proceedings as part of its normal business activity. The outcome of these proceedings is usually uncertain. In our view, none of these proceedings have a material negative impact on the Group's financial position.

The risk arising from negligent or deliberate breaches of laws, in particular from offences against property or breaches of internal regulations by employees and/or by third parties, is also a component of operational risk. We also counter this risk internally, particularly with compliance training and measures under the internal control system (ICS). In the event of suspicion, special checks may also be carried out, for example, by the Auditing department.

Information and IT security risk refers to risks that could potentially endanger the completeness, confidentiality or availability of information or IT systems. In order to do justice to the increasing significance of such risk, we have set up Group-wide information security guidelines and regularly implement communications measures to increase security awareness. Our internal IT service provider, HDI Systeme AG (previously Talanx Systeme AG), is certified to ISO 27001 – Information Security; external partners are obliged to comply with high standards. Risks arising from cyber attacks are counteracted in particular by the IT Security Department established in the Group – primarily through the use of technical measures.

As a way of consolidating and improving the operational stability of IT infrastructure and making it more flexible, as well as cutting the Group's IT infrastructure and running costs in the long run, the Group is focussing on bringing in third-party providers such as IBM Deutschland GmbH. The interaction between internal and external services as well as their quality and scope are monitored on an ongoing basis and we make appropriate adjustments taking into account opportunities and risks.

We allocate outsourcing risks that are not IT-specific to operational risks; we define this as the risk that arises from outsourcing – within the Group or externally to it – (key) functions or activities relevant to the operation of the insurance business, which otherwise could also be performed by the company itself. In addition to direct outsourcing, this term also refers to further outsourcing. These risks are integrated into the risk management processes and the ICS of the Group. In addition, there are also specific internal specifications and regulations for the management of outsourcing. The vast majority of outsourcing relations entered into by subsidiaries remains within the Group.

OTHER MATERIAL RISKS

We have identified emerging risk, strategic risk, reputational risk and model risk as "other material risks". The common factor among these risks is that they cannot be analysed meaningfully with mathematical models, which means that we primarily have to fall back on qualitative analyses in these cases. Risks analysed in this way are taken into account as part of the ORSA.

The term "emerging risks" refers to risks where the hazard potential is not yet known with any degree of certainty and where it is difficult to assess the possible impact. For example, increasing uncertainty about political developments around the world and in individual countries can lead to nervous markets and a heightened potential for the occurrence of systemic shocks. Subsequent effects may arise from the spread of new technologies, medicines or materials, which in turn lead to unforeseeable losses. We identify and evaluate these risks with a Group-wide process, involving the experts from various units. For this process, we also call on externally available expertise and material.

Strategic risks result from the danger of an imbalance between our corporate strategy and the constantly changing general business environment. Such an imbalance might be caused, for example, by inappropriate strategic decisions, failure to consistently implement strategies once defined, the inadequate implementation of strategic projects or increased management complexity due to handling differing attitudes towards capital and risks. We therefore review our corporate strategy and risk strategy annually and adjust our processes and structures as required.

Reputational risks are risks associated with possible damage to the Company's reputation as a consequence of unfavourable public perception. Our well-established communication channels, professional approach to corporate communications, tried-and-tested processes for defined crisis scenarios and established Code of Conduct help us to manage this risk.

At Group level, model risk receives particular attention. For us, it means the risks associated with inappropriate decisions that result from uncertainty due to a partial or total lack of information with regard to the understanding or knowledge of an event, its repercussions or its likelihood. To restrict the model risk, we have taken steps including implementing quality assurance measures and a rigorous model adjustment process.

Mostly, complex tasks that in this respect may also be associated with specific operational risks (project risks) are handled in projects. Project risks arise in particular in the context of major IT projects.

The Group's other risks also implicitly include Talanx AG's investment risks, especially those associated with the performance of subsidiaries, earnings stability in our investment portfolio, and potential imbalances in the business. Talanx AG participates directly in its subsidiaries' performance and risks through profit and loss transfer agreements and dividend payments.

The pension obligations assumed by Talanx AG in the course of acquiring Gerling may result in the need to establish additional reserves if interest rates remain at the current low level or fall even further, or if ongoing lawsuits relating to the fact that pensions have not been adjusted make further allocations necessary. A rising inflation rate may also lead to additional expenses if it means that larger than planned adjustments to pensions become necessary. We regularly review the adequacy of the underlying actuarial assumptions in order to counter this risk.

In the referendum on membership of the EU on 23 June 2016, the majority of voters voted in favour of the United Kingdom leaving the EU (Brexit). The exit negotiations between the UK and the EU have proven difficult. On 14 November 2018, the EU Commission and the UK government eventually agreed on the text of an exit deal, although this still requires ratification. It is uncertain whether or not the UK government will be able to secure a parliamentary majority to ratify the deal or pass an alternative, soft Brexit deal and so a hard Brexit scenario still cannot be ruled out. In light of this, the EU Commission has developed and published contingency measures for this scenario in case that the UK will be considered a third country in the EU as of 30 March 2019. We have also taken preventive structural measures regarding the organisation of UK business to prepare for a hard Brexit, as a significant share of the Group's premiums come from the UK. This particularly concerns the entities of Hannover Re and HDI Global SE. If, following a hard Brexit, business is conducted under the status of a third country branch, this will result in increased regulatory and capital costs. No significant changes are anticipated for reinsurance business written in the UK via Group companies in Hannover and Ireland. Macroeconomic ramifications, in particular the implications for the capital market, remain very high given the political uncertainty. In terms of investments, no material valuation risks are discernible in regard to potential Brexit scenarios. Nonetheless, we cannot rule out significant price fluctuations in individual market segments in future as a result of Brexit. These kind of potential price fluctuations represent increased uncertainty, which is not currently fully reflected in risk models based on historical time series. All in all, our current analysis indicates that the impact of Brexit on the Talanx Group is manageable.

The Italian banking system has been troubled by a high level of non-performing loans for a number of years, due not least to the continuing weakness of economic growth. A few problematic banks have been wound up or taken over. As a result, impairments may be necessary on receivables at fair value.

From a Group perspective, the commencement of operative reinsurance business by Talanx AG does not represent any material change to the risk profile. Further details on Talanx AG's reinsurance business can be found in the "Forecast and report on opportunities".

SUMMARY OF THE RISK POSITION

No concrete risks that could have a material adverse effect on the Group's net assets, financial position or results of operations are discernible at present. The Talanx Group has established a functioning, appropriate system of governance and risk management, which is consistently refined and corresponds to demanding quality requirements and standards. We are therefore able to identify our risks in a timely manner, and manage them effectively.

The following risks – stated by their level of materiality – determine the Group's overall risk profile: risks in the context of investment; premium and reserve risk in property/casualty insurance; natural catastrophe risk; life insurance underwriting risk; and operational risk. Similarly, diversification is becoming increasingly important with regard to assessing the overall risk. This results from our geographical diversity and the diversity of our business. As a result, the Group is well positioned, even if an accumulated materialisation of risks occurs.

The Solvency Assessment in accordance with Solvency II indicates sufficient capitalisation at Group level.

FORECAST AND REPORT ON OPPORTUNITIES

ECONOMIC ENVIRONMENT

We expect global growth to cool off in 2019. While growth in emerging markets is likely to remain relatively steady, we anticipate declining growth in industrial nations. In our opinion, this will be driven primarily by a strained external environment and investment climate, a result of political uncertainties such as protectionist US trade policy and Brexit. However, ongoing positive global labour market conditions, the lack of economic exaggeration and stabilising counter-effects such as China's stimulus programme and the Fed's less aggressive stance should be indicative of moderate development.

After growth momentum dropped off in 2018, indications now point to conditions in the eurozone stabilising. Robust performance on the labour market, which in turn ensures solid income and consumption, is a key driver of growth. Increasingly scarce capacities and continuing expansive monetary policy allow for more investments. As it gradually becomes more expansive, fiscal policy is also helping shore up growth, while political risks such as Brexit, developments in Italy and the European Parliament elections pose uncertainties.

In the US, extremely expansive fiscal policy is likely to slowly dampen the high growth rates seen in the prior year. The slump in the price of oil is having a negative impact on the investment outlook due to the increased importance of the oil sector. Nonetheless, we still consider the US economy sturdy and expect the economic upturn to continue in 2019, in particular thanks to a healthy labour market.

Emerging markets are benefiting from their generally prudent policies in recent years and are likely to continue to perform at a similar pace as in 2018, despite the muted global economic climate. Global monetary policy slowly returning to normal, moderate inflation and support provided by lower oil prices are all fostering growth. A structural slowdown in economic growth in China is also being squeezed by factors including the latent trade conflict with the US. However, China's top priority currently is to avoid weaker growth, which jeopardises political stability, and so, as in the past, we anticipate aggressive fiscal and monetary countermeasures and that growth will therefore cool off only gradually.

Falling commodities prices should lead to a noticeable decline in inflation rates in the first half of the year. The core inflation rate, i.e. the inflation rate excluding energy and food prices, is likely to rise gradually on account of worldwide production increasingly running at full capacity. We anticipate a cautious normalising of global monetary policy. The ECB may raise the deposit rate in the second half of the year for the first time in eight years. The Fed, however, will likely have to proceed far more slowly in 2019 due to its previous interest rate hikes and the decline in US growth momentum.

CAPITAL MARKETS

In the medium term, central bank policy and real interest rates returning to normal are indicative of higher capital market rates. Nevertheless, political uncertainties are expected to slow down or delay Bund yields' return to normal. The end of the ECB's purchasing programme and special political issues have not yet been fully priced in to the broad credit environment and leave scope for market volatility and for spreads to widen further.

Prices on the European and US stock markets normalised perceptibly in the reporting period. The continuation of the global upturn, albeit at a slower pace, is at odds with high political uncertainty. On the whole, we see only a limited potential for an upwards movement in share prices. Political headlines and global monetary policy increasingly returning to normal also mean that the degree of volatility is likely to remain high.

FUTURE STATE OF THE INDUSTRY

GERMAN INSURANCE INDUSTRY

Despite the positive trend in the previous year, the macroeconomic environment continues to be characterised by economic risk factors. Assuming that macroeconomic conditions do not deteriorate significantly, the insurance industry should achieve slightly increasing premium volumes year on year in 2019 according to the German Insurance Association (GDV).

Property/casualty insurance in Germany is expected to see premium income continue its climb in 2019. Premium growth is likely to be around the level of the year under review. The most pronounced premium increases are anticipated in comprehensive householders insurance – reflecting increased natural hazards and high losses in this area in the reporting period – and, to a lesser extent, in private motor insurance.

Following a pick-up in premium volume for German life insurers in the year under review, the GDV expects premiums to continue their growth in 2019, albeit at a slower pace than in the reporting period. In view of the persistently low interest rates and their negative impact on total returns, the profitability of German life insurers is likely to be impacted again in 2019.

INTERNATIONAL INSURANCE MARKETS

In **international property/casualty insurance**, we expect premium income in 2019 to grow at the level of the year under review. We anticipate constant growth momentum in emerging markets as well as in developed insurance markets. Profitability is likely to remain stable in 2019, working on the assumption that the positive effect from premium increases in the year under review was limited to regions with high prior year losses and that this will taper off.

We expect to see premium income pick up slightly in the developed **European insurance markets** in 2019, whereas we anticipate a slightly negative performance in the US. In a similar vein, in 2019 we expect to see growth rates fall in **Central and Eastern Europe**, but momentum to gain ground in **Latin America** thanks to economic recovery in the region. In **Asia's** developed insurance markets, premium growth looks set to strengthen on the back of price increases. Growth in China is likely to cool off in comparison to the high level in the year under review.

We believe that **international life insurance** markets will be stable in terms of development; following the slump in the year under review, emerging markets should again see a sharp upturn in real premium growth. Nonetheless, consistently low interest rates are continuing to squeeze profitability.

Overall, we anticipate declining premium growth in **Central and Eastern Europe** but rising growth rates in **Latin America** in 2019. Once China recovers from the negative non-recurring effect induced by the regulation of asset management based life insurance products, we expect premium growth in **Asia** to return to the prevailing pre-2017 level.

FOCUS AND FORECASTS FOR THE TALANX GROUP IN FINANCIAL YEAR 2019

Our expectations for the Group and its divisions for the current year are presented below. It remains challenging to forecast earnings and to make reliable predictions because the capital market, and in particular the interest-rate and returns environment, and also the general political situation are subject to a considerable degree of uncertainty.

In the Industrial Lines Division, we aim to continue the restructuring of industrial fire insurance that we begun in 2018 with the help of our "20/20/20" programme. In addition, Hannover Rück SE and HDI Global SE launched the joint venture HDI Global Specialty SE on 1 January 2019 in order to pool specialty activities and harness attractive growth prospects. In the Retail Germany Division, we are continuing our "KuRS" programme which we launched in 2015 to sustainably improve competitiveness. In the Retail International Division, we are focussing on our core markets and plan to continue our profitable growth. In light of the profits from the treaty renewal round as at 1 January 2019, we expect significant growth under stable conditions in the Property/Casualty Reinsurance segment. We anticipate moderate premium growth in the Life/Health Reinsurance segment. Moreover, on 1 January 2019, Talanx AG began operations as an intragroup reinsurer and received the necessary reinsurance license from the Federal Financial Supervisory Authority (BaFin). We pool the reinsurance requirements for primary insurance at the holding company in order to take advantage of diversification effects throughout the Group. Both Standard & Poor's and A. M. Best upgraded Talanx's issuer rating by two grades. Future effects will particularly focus on investing capital more efficiently within the Group. From a Group perspective, there are no material changes to the risk profile.

FOCUS OF THE TALANX GROUP'S PRINCIPAL DIVISIONS TAKING INTO ACCOUNT ECONOMIC CONDITIONS

Division	Our mission and strategic tasks
Industrial Lines	▪ International market growth ▪ Become a global player ▪ Expansion of specialty business ▪ Enhance profitability in Germany and abroad
Retail Germany	▪ Enhance customer benefit through innovative, needs-based products and services ▪ Increase efficiency and improve cost structure ▪ Increase profitability
Retail International	▪ Profitable growth in strategic target markets ▪ Optimise business in existing markets
Reinsurance	▪ Significant growth under largely stable conditions ▪ Establish a selective underwriting policy in Property/Casualty Reinsurance ▪ Moderate premium growth in Life/Health Reinsurance

ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

- moderate global economic growth
- steady inflation rates
- very low interest rates in the Eurozone to continue
- no sudden upheavals on the capital markets
- no exchange rate shocks
- no significant fiscal or regulatory changes
- a large-loss burden in line with expectations

TALANX GROUP

MANAGEMENT METRICS

%

	2019
Gross premium growth (adjusted for currency effects)	~4
Net return on investment	~2.7
Group net income in EUR million	approx. 900
Return on equity	~9.5
Payout ratio	35–45

We expect an increase in gross premiums (adjusted for currency effects) of around 4% for the Talanx Group in 2019. The ambitious IFRS net return on investment is expected to be around 2.7%. We are aiming for Group net income of around EUR 900 million. It follows that we expect our return on equity to be around 9.5% in 2019, surpassing our strategic target of 800 basis points above the average risk-free interest rate. This earnings target assumes that any large 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 continue to pay out 35% to 45% of Group net income as dividends and to ensure that this dividend is no lower than in the previous year.

INDUSTRIAL LINES

MANAGEMENT METRICS FOR THE INDUSTRIAL LINES DIVISION

%

	2019
Gross premium growth (adjusted for currency effects)	≥20
Combined ratio (net)	~100
EBIT margin	~5
Return on equity	~4

The Division sees further potential for profitable growth in international business and in the field of specialty insurance. Gross premium income growth of at least 20% (adjusted for currency effects) is expected, primarily as a result of the 2018 joint venture with Hannover Rück SE and the related first-time consolidation of HDI Global Specialty SE in the Industrial Lines Division.

Nonetheless, substantial improvement of our underwriting result will continue to take centre stage in 2019. In 2018, we launched the "20/20/20" programme in order to restructure fire insurance, which has posted high deficits for years. This programme aims to generate a risk-free additional premium of at least 20% and therefore underwriting gains by 2020 in fire insurance, which accounts for around 20% of the industrial portfolio. In 2019, we will also continue the restructuring of fire insurance that this programme already successfully kick-started, continuing to take into account our customers' individual risk situations.

As a result of the restructuring measures implemented and taking into consideration large losses in line with our expectations, we expect a combined ratio of around 100% in 2019. Provided there is no turbulence on currency and capital markets, the EBIT margin should be around 5% and the return on equity in the region of 4%.

RETAIL GERMANY

PROPERTY/CASUALTY INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – PROPERTY/CASUALTY INSURANCE SEGMENT

%

	2019
Gross premium growth	≥ 3
Combined ratio (net)	~99
EBIT margin	≥ 5

We are aiming to continue boosting growth in business with small and medium-sized enterprises for the Property/Casualty Insurance segment in 2019. We expect a total gross premium growth of at least 3%. Moreover, the segment will also be shaped by investment measures from the "KuRS" programme and the expansion of digitalisation in 2019, so we anticipate a combined ratio of around 99%, around 97% without "KuRS" investments. As a result, the EBIT margin should be at least 5%.

LIFE INSURANCE

MANAGEMENT METRICS FOR THE RETAIL GERMANY DIVISION – LIFE INSURANCE SEGMENT

%

	2019
Gross premium growth	stable
EBIT margin	2–3

In the life insurance segment, the division is still focusing on capital-efficient retirement provision products and biometric risks, and particularly on growth opportunities in occupational retirement provisions. We anticipate stable gross written premiums in 2019. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 2% to 3% for 2019.

RETAIL GERMANY OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE RETAIL GERMANY DIVISION OVERALL

%

	2019
Return on equity	~5

We consider the return on equity of the Retail Germany Division on an overall basis and expect it to stand at around 5% for 2019.

RETAIL INTERNATIONAL

MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL DIVISION

%

	2019
Gross premium growth (adjusted for currency effects)	5–10
Value of new business [1] (life) in EUR million	30–40
Combined ratio (net, property/casualty insurance)	~95
EBIT margin	5–6
Return on equity	8–9

[1] Excluding non-controlling interests.

In the Retail International Division, Talanx aims to continue its strong growth while also further advancing diversification. We are aiming at growth in gross written premiums (adjusted for currency effects) of between 5% and 10% in 2019. We anticipate the value of new business to be between EUR 30 million and EUR 40 million in 2019. The combined ratio is likely to be around 95%. We expect to see an EBIT margin of 5–6% and a return on equity of 8–9% in 2019.

REINSURANCE

PROPERTY/CASUALTY REINSURANCE

MANAGEMENT METRICS FOR THE PROPERTY/CASUALTY REINSURANCE SEGMENT

%

	2019
Gross premium growth (adjusted for currency effects)	significant growth
Combined ratio (net)	< 97
EBIT margin	≥ 10

In light of the profits from the treaty renewal round as at 1 January 2019, we expect significant growth under stable conditions in the Property/Casualty Reinsurance segment. We must remain true to our selective underwriting policy which is to underwrite, for the most part, only business that meets our margin requirements. For further renewal rounds, we expect a generally similar situation to the beginning of the year. Areas particularly affected by catastrophes – for example cover for hurricanes in the US, typhoons in Japan and forest fires in California – will probably represent an exception. In these areas we expect to see further rate increases as a better picture of reinsurers' results is expected during the year and pressure on capital market investors exerted by the market and interest rates is likely to increase. The EBIT margin should be at least 10% in the Property/Casualty Reinsurance segment. Our goal for the combined ratio here is a figure below 97%.

LIFE/HEALTH REINSURANCE

MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT

%

	2019
Gross premium growth (adjusted for currency effects) 1)	moderate growth
Value of new business 1) in EUR million	≥ 110
EBIT growth 2)	> 5

1) Excluding non-controlling interests.
2) Average over a three-year period

We anticipate moderate premium growth in the Life/Health Reinsurance segment in 2019. Earnings burdens in the US mortality business should fall significantly. The result would therefore see an above-average upturn and so we anticipate EBIT in the range of EUR 400 million. The target for the value of new business remains unchanged at at least EUR 110 million per year.

REINSURANCE DIVISION OVERALL

RETURN ON EQUITY MANAGEMENT METRIC FOR THE REINSURANCE DIVISION OVERALL

%

	2019
Return on equity	~14

The Talanx Group expects return on equity for the entire Reinsurance Division to come to around 14% in 2019, in line with the strategic target of 900 basis points above the five-year average for ten-year German government bonds (risk-free).

OVERALL ASSESSMENT BY THE BOARD OF MANAGEMENT

The Talanx AG Board of Management's objectives focus on reliable continuity, a high and stable return on equity, financial strength and sustainable profitable growth and so are gearing the Talanx Group towards long-term value creation. To achieve these goals, the Talanx Group must have a strong capital basis that provides its clients with effective risk cover. By giving that assurance, we serve the interests of our shareholders, clients, employees and other stakeholders, and create the greatest possible benefit for all concerned. For this purpose, we have structured our organisation in tune with the needs of our customers, meaning that it is our customers who point the way in our lean structure. Our main focus is on bolstering our own strengths and pooling forces within the Group in order to generate sustainable and profitable growth.

The Talanx Group actively addresses the challenges presented by a globalised world and has set itself the goal of above-average success in business abroad. Strategic cooperation and acquisitions of companies with good sales positions in the defined regions of Latin America and central and eastern Europe will help the Group prosper abroad. Industrial groups and small and medium-sized enterprises offer industrial insurance services across the world and, at the same time, win new customers in local markets abroad. The foreign companies incorporated under HDI International conduct local business with private and corporate clients. Reinsurance is intrinsically an international business. Global diversification is one of the key aspects of reinsurance when it comes to ensuring large and complex risks remain sustainable.

OPPORTUNITIES MANAGEMENT

Identifying, managing and taking advantage of opportunities is an integral part of our performance management process, and has been firmly anchored in the Talanx Group's corporate culture and end-to-end management philosophy for years. We see the consistent exploitation of available opportunities as a key business challenge that is crucial to achieving our corporate objectives. The core element of our opportunities management process is an integrated performance metric developed along the lines of a balanced scorecard. This is applied across all hierarchical levels – from senior Group management down to individual functions at Group companies. It also forms the link between our strategic and operational opportunities management.

In the area of strategic opportunities management, Group management evaluates the strategic targets and specific strategic core issues and these are broken down into indicative targets for the divisions. Previously, these were identified as part of the annual performance management cycle on the basis of our umbrella strategy. These are then broken down into indicative targets for the divisions, which in turn use these as a basis to develop specific targets and strategic action programmes as part of their strategic programme planning. Following a strategy dialogue between Group management and the divisional boards of management concerned, the individual strategic programmes are combined to create a strategic programme for the entire Group that forms the starting point and framework for the operational aspect of opportunities management.

In the area of operational opportunities management, strategic inputs are translated into operational targets and a detailed schedule of activities, and are also implemented as mandatory goal agreements at levels below division level. The integrated performance metric is also used here. Whether and to what extent opportunities and possibilities actually result in operational success is assessed and tracked using mid-year and end-of-year performance reviews. In turn, these reviews generate forward-oriented management inputs for the next opportunities management cycle.

Two key aspects of opportunities management at the Talanx Group are therefore shifting the focus from short-term performance and purely financial results onto the success factors and actions required in the long term, and monitoring the successful implementation of these value drivers as part of a regular, integrated management and assessment process.

ASSESSMENT OF FUTURE OPPORTUNITIES AND CHALLENGES

OPPORTUNITIES ASSOCIATED WITH DEVELOPMENTS IN THE BUSINESS ENVIRONMENT

Climate change: Increasing greenhouse gas emissions are causing average temperatures on earth to rise. With this comes a surge in extreme weather, which significantly amplifies the losses from natural disasters and means that we, as insurers, can assume that the need for insurance solutions to protect against risks from natural catastrophes will also rise. This affects both primary insurance and reinsurance. We have developed and refined risk models that assess risks from natural disasters and we also have extensive expertise in the area of risk management. This puts us in a position to offer our customers tailor-made insurance solutions to hedge against existential risks. Climate change also means that it is increasingly important to meet rising energy needs with renewable energy. As institutional investors, this allows us to step up investments in alternative areas such as wind parks.

Should the demand for insurance for these developments rise faster than expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Demographic change in Germany: Demographic change is currently creating two markets offering considerable growth potential: firstly, a market for products for senior citizens, and secondly, a market for young customers needing to make additional personal provision in response to the diminishing benefits offered by social welfare systems. It is evident that today's senior citizens can no longer be equated with the "traditional" pensioners of the past. Not only are these customers increasingly making use of services – for which they are willing and able to pay – but, even more significantly, this customer group is increasingly active and is therefore devoting more attention than previous generations to finding the necessary financial cover for various risks. This means that it is not enough for providers simply to add assistance benefits onto existing products; instead, they have to offer innovatively designed products to cater for these newly emerging needs. Examples include products for second homes and extensive foreign travel, for sporting activities pursued well into pensioners' advancing years, and for passing assets on to their heirs. At the same time, younger customers are also becoming increasingly aware of the issue of financial security in old age. It is possible to tap into this potential via a range of (state-subsidised) private retirement products and attractive occupational retirement provision schemes. We currently expect to see a trend in this client group towards increased demand for retirement provision products with more flexible saving and payout phases. Due to their comprehensive range of products, innovative solutions and sales positioning, the Group's life insurance companies may be able to profit from the senior citizen and young customer markets.

Should we be able to benefit more from the sales opportunities arising from demographic change than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Change in energy policy: Germany has decided in principle that it will meet its future energy requirements primarily from renewable sources. The change in energy policy and climate protection feature strongly at the federal-government level. The policy of converting the energy system to supplying renewable energy is to be continued, while attention is also to be focused on moderating price increases for the end consumer. In addition to further extending the use of renewable energies within a stable regulatory framework, energy efficiency is becoming increasingly important. We see the changes to the energy system as an important chance to stimulate innovation and technological progress, thus creating an opportunity to strengthen Germany as a business location. As an insurance group, we are actively supporting this change. We offer tailor-made solutions for our industrial clients for developing, marketing and using new energy technologies. Apart from renewable energy sources, storage technologies, the expansion of the power grid and intelligent control of individual components (smart grid) will make a decisive contribution to the success of the change in energy policy. We are supporting the change with our investments in the energy sector. Building on our existing investments in energy networks and wind farms, we are planning to further increase our investments in power distribution and renewable energies.

Should we be able to benefit from sales opportunities arising from the change in energy policy more than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Financial market stability: Turbulence on the financial markets in recent years has severely shaken clients' trust in banks. Policyholders are also experiencing a significant and prolonged burden as well as uncertainty, against the backdrop of current low interest rates and volatility in the capital markets. However, this macroeconomic environment also offers opportunities for insurance companies to develop innovative products designed specifically to address these new concerns. In Europe, the USA and Asia, life insurers have been increasingly concentrating on selling modern, versatile index-linked products. The German insurance market, too, is showing a clear trend towards capital-efficient products that have only a minor impact on the equity of the life insurer but at the same time offer the customers additional yield opportunities.

Should the financial markets stabilise more definitively and should innovative products be accepted more quickly than currently expected, this could have a positive impact on our premium growth, net return on investment and results of operations, and could lead to us exceeding our forecasts.

SALES OPPORTUNITIES

Bancassurance: The sale of insurance products via banks, known as bancassurance, has become an established practice in recent years. Bancassurance has been a great success at the Talanx Group and offers encouraging prospects for the future. The basis of this success is a special business model in which the insurance business is fully integrated into the banking partner's business structures. The insurance companies design and develop the insurance products and, in return, banks, savings institutions and post offices provide a variety of sales outlets. This sales channel is established within the Talanx Group both in Germany and in particular in Poland, Italy, Hungary and Russia. In principle, we see the use of this model outside Germany as a means of promoting profitable growth with a focus on the European markets. The success of Talanx's bancassurance model at its current Group companies primarily stems from three core factors: firstly, we draw up exclusive long-term cooperation agreements, enabling insurance products to be sold via our partners' sales outlets. Secondly, the highest possible degree of integration is required, together with excellent products and services: cooperation is part of our partners' strategic focus. The insurance companies design exclusive, tailor-made products for the bank's client segments, and form an integral part of their market presence. Integration with our partners' IT systems also makes it easier to provide all-round advice when selling banking and insurance products. Thirdly, success depends on providing customised sales support to our partners. Bank sales staff are given individual training and exclusive guidance by sales coaches from the insurance companies, allowing them to build up product expertise and experience of sales approaches. The insurance companies also supply readily understandable and supportive sales materials.

Our companies abroad also market their established products via sales cooperation agreements, but often use a number of different banks and are not fully integrated with their partners' market presence. In 2018, we launched a digital insurer in Brazil together with Bank Santander. The new company will operate under the name "Santander Auto" and will provide exclusively motor insurance using Santander's sales platform.

Should we be able to expand our bancassurance activities faster than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Internet: Growing digitalisation means that companies are increasingly suffering massive losses as a result of cyber attacks. Most notably, hacking attacks that have recently come to light have demonstrated that the manufacturing industry in particular is not immune to risks from cyber crime, despite excellent defence mechanisms. Attention is also increasingly focused on senior management responsibility. For this reason, HDI Global SE has developed Cyber+, an insurance solution that comprehensively covers the various risks. HDI's all-round protection spans all lines of business and covers both first-party losses arising as a result of cyber crime and also third-party losses by customers, service providers or other third parties, for which companies are liable. In addition, it allows management's civil and criminal responsibilities to be taken into account.

Should we be able to exploit the sales opportunities arising from the need for additional internet risk cover to a greater extent than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

OPPORTUNITIES WITHIN THE GROUP

Internal processes: We are currently in the process of realigning the Retail Germany Division so as to future-proof the Group, improve its competitiveness and eliminate cost disadvantages in the German private retail business. Our ultimate aim is to reduce complexity and make our procedures more efficient and customer friendly. Our activities revolve around four key areas: customer benefits, profitable growth, efficiency, and a performance culture. We will continue to be successful only when our clients are fully satisfied, and to this end we are working on making it as simple as possible for both end clients and sales partners to take decisions. Our aims are clear language, speedy solutions and compelling products. To achieve positive premiums and earnings trends, we need to align our business with clear-cut risk and profit targets, and fully exploit opportunities in the market. For this reason it is important for us to review each individual product for long-term profitability and make even better cross-divisional use of existing client contacts. This realignment requires a firm belief on our part that the way we think and act must be performance-driven throughout. We actively encourage this kind of culture.

Should we succeed in restructuring our internal procedures faster than currently expected, this could impact positively on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Digitalisation: Hardly any other development has changed the insurance industry as profoundly as digitalisation. Through digitisation, business processes and models are being redesigned from the ground up using IT systems. This development is particularly critical for the competitiveness of insurance companies. It has created new opportunities for communication with customers, for the processing of insurance claims, the evaluation of data and the opening up of new business fields. We are conducting numerous projects in order to shape this digital change. For example, the business processes in the Retail Germany Division are to be made more efficient, the rate of black box processing will be increased and service quality will be improved. Furthermore, the process and IT landscape in the Industrial Lines Division is to be harmonised across borders. In this way, we intend to be a global leader in the provision of industrial insurance. Digitalisation offers numerous opportunities. It makes processing insurance claims much faster, more cost-effective and much less complicated. We are already using IT systems to enable us to make customised offers to customers and to determine premiums automatically and in real time. Above all, however, digitalisation offers us the opportunity, as a large internationally active Group, to profit from scale effects. Digitalisation has brought about changes in terms of customer behaviour and loss adjustment expectations, in particular for younger generations of customers who expect speedy and simple solutions. We have developed a loss service app in order to respond to these new customer needs. The app allows customers to submit a loss report with key information on the damage in just a few minutes. In motor insurance, customers can opt for a "pay as you drive" system, which submits vehicle data and uses this to calculate a premium more suitable to the risk. In return, we will be able to attract and retain more new customers.

If we are able to implement the digitalisation projects in the Group and have them accepted by customers faster than currently expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Knowledge management: Knowledge and innovation management are increasingly important in the insurance sector. We have set up a Best Practice Lab at the Group in order to foster the exchange of knowledge and innovation: international experts come together in "excellence teams" to discuss specific topics and develop new solutions together. These topics include pricing, sales, marketing, damage, fraud management, the customer service centre and digitalisation. The results and solutions conceived at the Best Practice Lab are made available to our companies so that they can use these to bring about lasting improvements to their processes and methods.

If our Best Practice Lab allows us to generate new solutions and ideas more quickly than currently anticipated, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Agility: In today's age of information, changes in the globalised world are unfolding faster than ever. The world is shaped by volatility, uncertainty, complexity and ambiguity (VUCA). If we as an insurance company want to be able to keep up with the pace of change, we must transform into an agile organisation. We believe that being an agile organisation means being a learning organisation that puts the needs of its customers at the heart of what it does in order to boost company profits. This is why we are committed to interdisciplinary and creative teams, open and direct communication, flat hierarchies and adopting a positive approach to mistakes. We have numerous initiatives in place to support our company's transition to an agile organisation. Our work places are designed to minimise communication channels and promote cross-divisional communication. Our agility campus provides a space for our employees to get familiar with agile methods and acquire the skills to develop new solutions on their own. Our teams hold daily stand-up meetings in order to improve teams' self-management. Other examples include our hackathons that we run as a way of pooling new ideas which we then work on in our digital lab. Agility opens up opportunities for clients, employees and investors. Clients benefit from new insurance solutions that are tailor-made to their needs. Agile work methods provide employees with more creative opportunities and allow them to grow by taking on new challenges. Last but not least, investors benefit from increasing company profits, satisfied clients and employees who are able to realise their full potential.

If we implement the transition to an agile organisation more quickly than expected, this could have a positive impact on our premium growth and results of operations, and could lead to us exceeding our forecasts.

SUMMARY OF FUTURE OPPORTUNITIES

Talanx AG's Board of Management considers that identifying, managing and taking advantage of opportunities is an integral part of the Talanx Group's range of management tools. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. We therefore constantly monitor changing external market conditions to enable us to identify opportunities at an early stage, and to respond to them via our flexible internal structure. This allows us to fully exploit future opportunities that are crucial to achieving our corporate goals.

2

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET OF TALANX AG AS AT 31 DECEMBER 2018

CONSOLIDATED BALANCE SHEET — ASSETS

EUR MILLION

	Notes			31.12.2018	31.12.2017 [1]
A. Intangible assets					
a. Goodwill	1			1,058	1,058
b. Other intangible assets	2			895	937
				1,953	**1,995**
B. Investments					
a. Investment property	3		2,985		2,799
b. Shares in affiliated companies and participating interests	4		206		178
c. Shares in associates and joint ventures	5		265		242
d. Loans and receivables	6/12		29,144		28,893
e. Other financial instruments					
i. Financial assets held to maturity	7/12	409			554
ii. Financial assets available for sale	8/12	71,964			68,455
iii. Financial assets at fair value through profit or loss	9/12/13	1,840			1,434
f. Other investments	10/12		5,055		5,326
Assets under own management			**111,868**		**107,881**
g. Investments under investment contracts	11/12/13		1,042		1,113
h. Funds withheld by ceding companies			9,921		9,679
Investments				**122,831**	**118,673**
C. Investments for the benefit of life insurance policyholders who bear the investment risk				9,990	11,133
D. Reinsurance recoverables on technical provisions				8,506	7,697
E. Accounts receivable on insurance business	14			7,251	6,626
F. Deferred acquisition costs	15			5,358	5,332
G. Cash at banks, cheques and cash-in-hand				3,362	3,138
H. Deferred tax assets	28			1,156	603
I. Other assets	12/13/16			2,457	2,782
J. Non-current assets and assets of disposal groups classified as held for sale [2]				15	418
Total assets				**162,879**	**158,397**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.
[2] For further information see “Non-current assets held for sale and disposal groups” in the Notes.

CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

EUR MILLION

	Notes		31.12.2018		31.12.2017 [1]
A. Equity	17				
a. Subscribed capital		316			316
Notional amount: 316 (previous year: 316) Contingent capital: 158 (previous year: 158)					
b. Reserves		8,397			8,497
Equity excluding non-controlling interests			**8,713**		**8,813**
c. Non-controlling interests in equity			5,548		5,411
Total equity				**14,261**	**14,224**
B. Subordinated liabilities	12/18		2,738		2,737
C. Technical provisions					
a. Unearned premium reserve	19	8,590			8,116
b. Benefit reserve	20	56,234			54,596
c. Loss and loss adjustment expense reserve	21	45,887			42,578
d. Provision for premium refunds	22	5,703			6,199
e. Other technical provisions		628			449
			117,042		**111,938**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders			9,990		11,133
E. Other provisions					
a. Provisions for pensions and other post-employment benefits	23	2,144			2,115
b. Provisions for taxes	24	650			762
c. Miscellaneous other provisions	25	887			907
			3,681		**3,784**
F. Liabilities					
a. Notes payable and loans	12/26	2,245			1,431
b. Funds withheld under reinsurance treaties		4,441			4,546
c. Other liabilities	12/13/27	6,095			6,152
			12,781		**12,129**
G. Deferred tax liabilities	28		2,380		2,109
H. Liabilities included in disposal groups classified as held for sale [2]			6		343
Total liabilities/provisions				**148,618**	**144,173**
Total equity and liabilities				**162,879**	**158,397**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] 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 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

	Notes	2018	2017 [1]
1. Gross written premiums including premiums from unit-linked life and annuity insurance		34,885	33,060
2. Savings elements of premiums from unit-linked life and annuity insurance		1,006	1,172
3. Ceded written premiums		3,848	3,669
4. Change in gross unearned premiums		–479	–831
5. Change in ceded unearned premiums		–22	–30
Net premiums earned	29	**29,574**	**27,418**
6. Claims and claims expenses (gross)	31	26,746	26,188
Reinsurers' share		3,229	2,918
Claims and claims expenses (net)		**23,517**	**23,270**
7. Acquisition costs and administrative expenses (gross)	32	8,217	7,242
Reinsurers' share		610	554
Net acquisition and administrative expenses		**7,607**	**6,688**
8. Other technical income		66	126
Other technical expenses		163	132
Other technical result		**–97**	**–6**
Net technical result		**–1,647**	**–2,546**
9. a. Investment income	30	4,455	4,960
b. Investment expenses	30	879	697
Net income from assets under own management		**3,576**	**4,263**
Net income from investment contracts	30	–1	–4
Net interest income from funds withheld and contract deposits	30	192	219
Net investment income		**3,767**	**4,478**
of which share of profit or loss of equity-accounted associates and joint ventures		7	24
10. a. Other income	33	1,633	1,527
b. Other expenses	33	1,721	1,654
Other income/expenses		**–88**	**–127**
Profit before goodwill impairments		**2,032**	**1,805**
11. Goodwill impairments		—	—
Operating profit/loss (EBIT)		**2,032**	**1,805**
12. Financing costs	34	170	149
13. Taxes on income	35	503	387
Net income		**1,359**	**1,269**
of which attributable to non-controlling interests		656	598
of which attributable to shareholders of Talanx AG		703	671
Earnings per share			
Basic earnings per share (EUR)		2.78	2.65
Diluted earnings per share (EUR)		2.78	2.65

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

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 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

	2018	2017 [1]
Net income	**1,359**	**1,269**
Items that will not be reclassified to profit or loss		
Actuarial gains (losses) on pension provisions		
Gains (losses) recognised in other comprehensive income for the period	–35	41
Tax income (expense)	10	–12
	–25	**29**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	1	–1
Tax income (expense)	—	—
	1	**–1**
Total items that will not be reclassified to profit or loss, net of tax	**–24**	**28**
Items that may be reclassified subsequently to profit or loss		
Unrealised gains and losses on investments		
Gains (losses) recognised in other comprehensive income for the period	–1,450	241
Reclassified to profit or loss	–218	–812
Tax income (expense)	330	53
	–1,338	**–518**
Exchange differences on translating foreign operations		
Gains (losses) recognised in other comprehensive income for the period	197	–878
Reclassified to profit or loss	—	—
Tax income (expense)	—	52
	197	**–826**
Changes in policyholder participation/shadow accounting		
Gains (losses) recognised in other comprehensive income for the period	778	447
Tax income (expense)	–49	8
	729	**455**
Changes from cash flow hedges		
Gains (losses) recognised in other comprehensive income for the period	4	5
Reclassified to profit or loss	–154	–82
Tax income (expense)	4	2
	–146	**–75**
Changes from equity method measurement		
Gains (losses) recognised in other comprehensive income for the period	–3	–12
Reclassified to profit or loss	—	—
Tax income (expense)	—	—
	–3	**–12**
Total items that may be reclassified subsequently to profit or loss, net of tax	**–561**	**–976**
Other comprehensive income for the period, net of tax	**–585**	**–948**
Total comprehensive income for the period	**774**	**321**
of which attributable to non-controlling interests	517	179
of which attributable to shareholders of Talanx AG	257	142

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

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
2017			
Balance at 31.12.2016	**316**	**1,373**	**6,630**
Adjustments to reflect IAS 8 [1]	—	—	–25
Adjusted balance at 1.1.2017	316	1,373	6,605
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	671
Other comprehensive income [1]	**—**	**—**	**—**
of which not eligible for reclassification	**—**	**—**	**—**
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification [1]	**—**	**—**	**—**
of which unrealised gains and losses on investments	—	—	—
of which currency translation [1]	—	—	—
of which change from cash flow hedges	—	—	—
of which change from equity method measurement	—	—	—
of which other changes [2]	—	—	—
Total comprehensive income [1]	**—**	**—**	**671**
Capital increases	—	—	—
Dividends to shareholders	—	—	–341
Other changes outside profit or loss	—	—	–1
Balance at 31.12.2017 [1]	**316**	**1,373**	**6,934**
2018			
Balance at 1.1.2018	**316**	**1,373**	**6,934**
Changes in ownership interest without a change in control	—	—	—
Other changes in basis of consolidation	—	—	—
Net income	—	—	703
Other comprehensive income	**—**	**—**	**—**
of which not eligible for reclassification	**—**	**—**	**—**
of which actuarial gains or losses on pension provisions	—	—	—
of which changes in policyholder participation/shadow accounting	—	—	—
of which eligible for reclassification	**—**	**—**	**—**
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 [2]	—	—	—
Total comprehensive income	**—**	**—**	**703**
Dividends to shareholders	—	—	–354
Other changes outside profit or loss	—	—	–2
Balance at 31.12.2018	**316**	**1,373**	**7,281**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.
[2] "Other changes" consist of policyholder participation/shadow accounting as well as miscellaneous other changes.

Other reserves						
Unrealised gains/losses on investments	Currency translation gains/losses	Other changes in equity	Measurement gains/losses on cash flow hedges	Equity attributable to shareholders of Talanx AG	Non-controlling interest	Total equity
3,278	184	–3,191	448	9,038	5,610	14,648
—	—	—	—	–25	—	–25
3,278	184	–3,191	448	9,013	5,610	14,623
—	—	—	—	—	1	1
—	—	—	—	—	–15	–15
—	—	—	—	671	598	1,269
–436	–454	419	–58	–529	–419	–948
—	—	26	—	26	2	28
—	—	26	—	26	3	29
—	—	—	—	—	–1	–1
–436	–454	393	–58	–555	–421	–976
–436	—	—	—	–436	–82	–518
—	–454	—	—	–454	–372	–826
—	—	—	–58	–58	–17	–75
—	—	–12	—	–12	—	–12
—	—	405	—	405	50	455
–436	–454	419	–58	142	179	321
—	—	—	—	—	1	1
—	—	—	—	–341	–364	–705
—	—	—	—	–1	–1	–2
2,842	–270	–2,772	390	8,813	5,411	14,224
2,842	–270	–2,772	390	8,813	5,411	14,224
–1	—	—	—	–1	–2	–3
—	—	—	—	—	1	1
—	—	—	—	703	656	1,359
–1,030	66	654	–136	–446	–139	–585
—	—	–22	—	–22	–2	–24
—	—	–23	—	–23	–2	–25
—	—	1	—	1	—	1
–1,030	66	676	–136	–424	–137	–561
–1,030	—	—	—	–1,030	–308	–1,338
—	66	—	—	66	131	197
—	—	—	–136	–136	–10	–146
—	—	—	—	—	–3	–3
—	—	676	—	676	53	729
–1,030	66	654	–136	257	517	774
—	—	—	—	–354	–380	–734
—	—	—	—	–2	1	–1
1,811	–204	–2,118	254	8,713	5,548	14,261

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

CONSOLIDATED CASH FLOW STATEMENT OF TALANX AG FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

CONSOLIDATED CASH FLOW STATEMENT

EUR MILLION

	2018	2017 [1]
I. 1. Net income	1,359	1,269
I. 2. Changes in technical provisions	4,705	5,008
I. 3. Changes in deferred acquisition costs	–15	–192
I. 4. Changes in funds withheld and in accounts receivable and payable	–930	–868
I. 5. Changes in other receivables and liabilities	241	45
I. 6. Changes in investments and liabilities under investment contracts	2	13
I. 7. Changes in financial assets held for trading	125	–53
I. 8. Gains/losses on disposal of investments and property, plant and equipment	–621	–1,260
I. 9. Change in technical provisions for life insurance policies where the investment risk is borne by the policyholders	–1,144	778
I. 10. Other non-cash expenses and income (including income tax expense/income)	101	266
I. Cash flows from operating activities [2), 3)]	**3,823**	**5,006**
II. 1. Cash inflow from the sale of consolidated companies	–1	3
II. 2. Cash outflow from the purchase of consolidated companies	–32	–106
II. 3. Cash inflow from the sale of real estate	122	110
II. 4. Cash outflow from the purchase of real estate	–243	–561
II. 5. Cash inflow from the sale and maturity of financial instruments	32,726	26,257
II. 6. Cash outflow from the purchase of financial instruments	–37,476	–28,169
II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk	1,144	–778
II. 8. Changes in other investments	352	–869
II. 9. Cash outflows from the acquisition of tangible and intangible assets	–148	–119
II. 10. Cash inflows from the sale of tangible and intangible assets	18	27
II. Cash flows from investing activities	**–3,538**	**–4,205**
III. 1. Cash inflow from capital increases	—	1
III. 2. Cash outflow from capital reductions	—	—
III. 3. Dividends paid	–734	–705
III. 4. Net changes attributable to other financing activities	642	547
III. Cash flows from financing activities [3)]	**–92**	**–157**
Net change in cash and cash equivalents (I. + II. + III.)	**193**	**644**
Cash and cash equivalents at the beginning of the reporting period	**3,159**	**2,589**
Effect of exchange rate changes on cash and cash equivalents	**11**	**–75**
Effect of changes in the basis of consolidation on cash and cash equivalents [4)]	**—**	**1**
Cash and cash equivalents at the end of the reporting period [5)]	**3,363**	**3,159**

1) Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.
2) EUR 524 (329) million of “Income taxes paid”, EUR 393 (368) million of “Dividends received” and EUR 3,470 (3,403) million of “Interest received” are allocated to “Cash flows from operating activities”. Dividends received also comprise dividend-equivalent distributions from investment funds and private equity companies.
3) EUR 499 (423) million of “Interest paid” is attributable to EUR 164 (151) million to “Cash flows from financing activities” and EUR 335 (272) million to “Cash flows from operating activities”.
4) This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions.
5) Cash and cash equivalents at the end of the reporting period” include changes in the portfolio of disclosed disposal groups in the amount of EUR 1 (21) million on the reporting date.

RECONCILIATION OF DEBTS FROM FINANCING ACTIVITIES AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER

EUR MILLION			Non-cash items			
	1.1.	Cash flows from financing activities	Acquisition/ disposal of subsidiaries	Change in exchange rate	Other changes (mainly amortisation)	31.12.
2018						
Subordinated liabilities	2,737	—	—	—	1	2,738
Notes payable and loans	1,431	806	1	6	1	2,245
Total debts from financing activities	**4,168**	**806**	**1**	**6**	**2**	**4,983**
Interest paid from financing activities		–164				
Total cash flows from other financing activities		**642**				
2017						
Subordinated liabilities	1,983	754	—	—	—	2,737
Notes payable and loans	1,505	–56	6	–23	–1	1,431
Total debts from financing activities	**3,488**	**698**	**6**	**–23**	**–1**	**4,168**
Interest paid from financing activities		–151				
Total cash flows from other financing activities		**547**				

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

NOTES

GENERAL INFORMATION

The consolidated financial statements include Talanx AG, with registered office at HDI-Platz 1, 30659 Hannover, Germany, and its subsidiaries (referred to collectively as the Talanx Group). Talanx AG is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546. The Group, which is active in over 150 countries worldwide through Group companies and cooperation arrangements, offers insurance services in property/casualty and life insurance as well as reinsurance, and also conducts business in the asset management sector. However, as a financial and management holding company, Talanx AG does not itself transact insurance business as at 31 December 2018. After being granted the reinsurance license by the Federal Financial Supervisory Authority (BaFin) on 21 December 2018, the company will act as an intragroup reinsurer for primary insurers in 2019 and began operations in January 2019.

The majority shareholder of Talanx AG with 79.0% is HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (parent company), Hannover (HDI V.a.G.). In accordance with section 341i of the German Commercial Code (HGB), HDI V.a.G. is required to prepare consolidated financial statements that include the financial statements of Talanx AG and its subsidiaries. The consolidated financial statements are published in the Federal Gazette.

BASIS OF PREPARATION AND APPLICATION OF IFRS

The consolidated financial statements of Talanx AG were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as the additional requirements of German commercial law in accordance with section 315e(1) of the German Commercial Code (HGB).

In accordance with IFRS 4 "Insurance Contracts", insurance-specific transactions for which the IFRSs do not contain any separate guidance are accounted for in accordance with the relevant requirements of United States Generally Accepted Accounting Principles (US GAAP) as at the date of initial application of IFRS 4 on 1 January 2005.

IFRS 4 requires disclosures to be made about the nature and extent of risks associated with insurance contracts and IFRS 7 "Financial Instruments: Disclosures" requires similar disclosures on risks associated with financial instruments. Additionally, section 315(2) no. 1 of the HGB requires insurance undertakings to disclose in the management report information on how they manage underwriting and financial risks. The disclosures resulting from these requirements are contained in the risk report. For disclosures in accordance with IFRS 4 see pages 111–118 "Technical risks". For disclosures in accordance with IFRS 7 see pages 119–124 "Risks from investments". We do not present identical disclosures in the notes. Therefore, both the risk report and the relevant disclosures in the notes must be read in order to obtain a comprehensive overview of the risks to which the Group is exposed. Please refer to the corresponding explanations in the risk report and the notes.

The consolidated financial statements were prepared in euro (EUR). The amounts shown have been rounded to millions of euros (EUR million), unless figures in thousands of euros (EUR thousand) are required for reasons of transparency. This may give rise to rounding differences in the tables presented in this report. Amounts in brackets refer to the previous year.

APPLICATION OF NEW AND REVISED STANDARDS/ INTERPRETATIONS

The Group applied the following revised IFRS regulations as at 1 January 2018:

The IASB has issued amendments to IFRS 4 "Application of IFRS 9 and IFRS 4", which allow certain insurance companies to postpone the obligatory application of IFRS 9 "Financial Instruments" until 2021. At its meeting on 14 November 2018, the IASB also provisionally decided to postpone the time of initial application for IFRS 17 "Insurance Contracts" by one year to financial years beginning on or after 1 January 2022. It was also decided to extend the period of time in which companies that are active primarily in the insurance business can apply the temporary exemption from IFRS 9 "Financial instruments" accordingly. The Talanx Group fulfils the relevant necessary prerequisites (the proportion of the Group's insurance activities was 96.7% as at 31 December 2015 and there has been no change in business since) and is therefore exercising the option to postpone, in part due to the interaction between the recognition of financial instruments and insurance contracts. The new deferral approach disclosures in the Notes (fair values of financial instruments currently in the portfolio, broken down by cash flow criterion, and disclosures regarding the credit risk of securities that passed the SPPI test), which are intended to provide a certain degree of comparability with companies already applying IFRS 9, will be presented for the first time in the Notes in the section “other disclosures”.

The new provisions on revenue recognition of IFRS 15 “Revenue from Contracts with Customers” replace the existing guidance on revenue recognition, including IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. IFRS 15 establishes a comprehensive framework to determine how, how much and when revenue is recognised. Financial instruments and other contractual rights and obligations that need to be accounted for using separate standards and (re)insurance contracts in the area of application of IFRS 4 (core business activity of the Group) are explicitly excluded from the area of applicability of this standard. In applying IFRS 15, the Group has selected the modified retrospective approach, whereby the cumulative effect from the initial application is recognised in retained earnings as at 1 January 2018. The Group has also applied the practical expedients with regard to concluded contracts (IFRS 15.C7) and contract modifications (IFRS 15.C5(c)). There were no significant transition effects from first-time adoption, hence the Group elected not to recognise the transition effect in line with the materiality concept. In accordance with the materiality concept, the amount by which each financial statement line item is affected by the application of IFRS 15 in the year of initial application, as compared to the IAS 11 and IAS 18 requirements and the related Interpretations that were in effect before the change, is not disclosed. Disclosures on revenue in accordance with IFRS 15 can be found under “Other disclosures” in the Notes.

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

STANDARDS, INTERPRETATIONS AND REVISIONS TO ISSUED STANDARDS THAT WERE NOT YET EFFECTIVE IN 2018 AND THAT WERE NOT APPLIED BY THE GROUP PRIOR TO THEIR EFFECTIVE DATE

A) EU ENDORSEMENT ALREADY GRANTED

IFRS 9, which was published on 24 July 2014, supersedes the existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidance for the classification and measurement of financial instruments, including a new model for impairing financial assets that provides for expected credit losses, and the new general hedge accounting requirements. It also takes over the existing guidance on recognising and derecognising financial instruments from IAS 39. IFRS 9 is effective for financial years beginning on or after 1 January 2018, but is not expected to be applied by the Talanx Group until financial years from 1 January 2022 on account of the amendments to IFRS 4 “Application of IFRS 9 and IFRS 4”. The new classification regulations mean that more financial instruments are recognised at fair value through profit or loss. In addition, the Group expects the new impairment model to have an impact on debt instruments. A Group-wide project was launched in order to advance the stages required to implement this key IFRS standard.

On 13 January 2016, the IASB published the new requirements governing lease accounting in IFRS 16 “Leases”. IFRS 16 introduces a standardised accounting model, whereby leases must be recognised in the balance sheet of the lessee. A lessee recognises a right-of-use asset that represents their right to use the underlying asset and a liability arising from the lease, representing their obligation to make lease payments. There are exceptional regulations for short-term leases and leases concerning low-value assets. The accounting at the lessor is comparable to the current standard – which means that lessors must continue to classify leases as financing or operating leases. IFRS 16 replaces IAS 17 “Leases”. The Group intends to apply the Standard using the modified retrospective approach from 1 January 2019. The cumulative effect of the initial application – insofar as it is material – will therefore be recognised as an adjustment of the opening balance of retained earnings as at 1 January 2019, without any adjustment of the comparative period. For leases classified to date as operating leases in accordance with IAS 17, the lease liability is measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the date of initial application. The right-of-use asset is measured at the amount of the lease liability plus initial direct costs. Prepayments and liabilities relating to the past financial year are also taken into account. The Group intends to make use of the simplification rule regarding the retention of the definition of a lease during the transition. This means that the Group will apply IFRS 16 for all contracts concluded before 1 January 2019 that have been identified as leases in accordance with IAS 17 and IFRIC 4. In addition, the Group will use the simplification regulations for short-term leases and leases for which the underlying asset is of low value, as well as all practical expedients under IFRS 16.C10. In a Group-wide analysis of the potential impact of the application of IFRS 16, the Group has identified an immaterial impact on its consolidated financial statements. The analysis found that lease liabilities and right-of-use assets of around EUR 0.4 billion are expected to be recognised in the balance sheet as at 1 January 2019, attributable primarily to real estate leasing. The change in the reporting of lease expenses from operating leases will increase the cash flow from operating activities and reduce the cash flow from financing activities accordingly.

Apart from the above-mentioned new standards, some of which will have a material impact on the consolidated financial statements, other standard amendments have been passed but they are not expected to have any material impact on the net assets, financial position and results of operations of the Group:

APPLICATION OF NEW INTERPRETATIONS AND STANDARD AMENDMENTS

Standard	Title of the standard/ interpretation/amendment	First application [1]
IFRIC 23	Uncertainty over income tax treatments	1.1.2019
IFRS 9 “Financial Instruments”	Prepayment Features with Negative Compensation	1.1.2019
IAS 28 “Investments in Associates and Joint Ventures”	Long-term investments in associates and joint ventures	1.1.2019

[1] Effective for financial years beginning on or after the date stated.

B) EU ENDORSEMENT IS STILL PENDING

On 18 May 2017, the IASB published the IFRS 17 which, subject to being endorsed in EU law and after the IASB makes a preliminary decision, will be effective for financial years beginning on or after 1 January 2022. IFRS 17 supersedes IFRS 4 and, for the first time, will stipulate uniform requirements for the recognition, measurement and presentation of notes on insurance contracts, reinsurance contracts and investment contracts with discretionary surplus participation. According to the assessment model of the new standard, groups of insurance contracts are assessed on the basis of the expected value of discounted cash flows with an explicit risk adjustment for non-financial risks and a contractual service margin, which leads to a profit recognition corresponding to the provision of services. Instead of premium income in every period, the changes arising from the liability to grant insurance cover are recognised as “insurance turnover”, for which the insurance company receives a fee minus incoming and outgoing payments of savings components. Insurance financing earnings and costs result from discounting effects and financial risks. They may be recognised for each portfolio either in the statement of income through profit or loss or in the other comprehensive income. Changes in the assumptions that do not relate to interest or financial risks are booked against the contractual service margin and are distributed over the term of the services that are still due to be provided. If the service margin becomes negative, a corresponding amount must be recognised through profit or loss. IFRS 17 provides a simplified procedure for short-term contracts, which presents the liability to grant insurance cover as was done previously via unearned premiums. A modified form of the general assessment model is used for large parts of the life insurance business – the variable fee approach. As the new requirements affect the Group’s core business activities, significant impacts on the consolidated financial statements are inevitable. Due to the particular significance of the new accounting regulations, the Group has set up a multi-year project to examine the impact of the standard on the consolidated financial statements, including the interaction with IFRS 9, and to take the necessary steps towards implementation. At present, the technical accounting principles are being developed so that the extensive requirements can then begin to be implemented into the Group’s processes and systems. This means that the impact on the consolidated financial statements cannot yet be quantified.

Moreover, further standard amendments have been passed, but it is anticipated that they will not have any material impact on the net assets, financial position and results of operations of the Group:

APPLICATION OF NEW STANDARD AMENDMENTS

Standard	Title of the standard/ interpretation/amendment	First application [1)]
Amendments in the context of the "annual improvements (2015–2017 cycle)"	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	1.1.2019
IAS 19 "Employee Benefits"	Plan amendments, curtailments and settlements	1.1.2019
IFRS 3 "Business Combinations"	Definition of business operations	1.1.2020
IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"	Change to definition of materiality	1.1.2020
IFRS conceptual framework	Conceptual Framework for Financial Reporting	1.1.2020

1) Effective for financial years beginning on or after the date stated.

ACCOUNTING POLICIES

The essential accounting policies followed for the production of the consolidated financial statements are described below. The described methods were applied consistently to the presented reporting periods, unless otherwise specified. Newly applicable accounting standards in financial year 2018 are described in the "Basis of preparation and application of IFRSs" section, while consolidation principles are described in the "Consolidation" section (pages 146ff. and 172ff.).

The calculation method for a certain part of the loss reserve in the Retail International segment was revised retrospectively in the fourth quarter. The change in method means that cash flows for pending and future legal proceedings are explicitly taken into account when making actuarial valuations. The loss reserve is therefore shown more adequately with respect to the net assets, financial position and results of operations and improves comparability with similar items.

The effects of the retrospective application of the aforementioned change to the opening balance sheet as at 1 January 2017, the consolidated balance sheet as at 31 December 2017, the consolidated statement of income and the consolidated statement of comprehensive income for the comparative period are shown in the following tables:

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 1 JANUARY 2017

EUR MILLION

		1.1.2017 as reported	Changes from adjustments in accordance with IAS 8	1.1.2017
Assets				
H.	Deferred tax assets	568	10	578
Equity and liabilities				
A.b.	Reserves	8,722	–25	8,697
C.c.	Loss and loss adjustment expense reserve	41,873	46	41,919
G.	Deferred tax liabilities	2,171	–11	2,160

EFFECTS ON THE CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017

EUR MILLION

		31.12.2017 as reported	Changes from adjustments in accordance with IAS 8	31.12.2017
Assets				
H.	Deferred tax assets	592	11	603
Equity and liabilities				
A.b.	Reserves	8,519	–22	8,497
C.c.	Loss and loss adjustment expense reserve	42,537	41	42,578
G.	Deferred tax liabilities	2,117	–8	2,109

IMPACT ON THE 2017 CONSOLIDATED STATEMENT OF INCOME

EUR MILLION

		1.1.–31.12.2017 as reported	Changes from adjustments in accordance with IAS 8	1.1.–31.12.2017
6.	Claims and claims expenses (gross)	21,186	2	26,188
13.	Income taxes	388	–1	387
	Net income	1,270	–1	1,269
	of which attributable to non-controlling interests	598	—	598
	attributable to shareholders of Talanx AG	672	–1	671

The overall effect on Group net income amounts to EUR –1 million.

Additionally, the item described results in an increase in other comprehensive income for financial year 2017 of EUR 4 million (income) solely relating to currency translation.

Earnings per share for financial year 2017 declined as a result from EUR 2.66 to EUR 2.65.

SIGNIFICANT MANAGEMENT JUDGEMENT AND ESTIMATES

Preparation of the consolidated financial statement requires management to exercise a certain degree of judgement and to make estimates and assumptions that affect the accounting policies applied and the carrying amounts of recognised assets and liabilities, income and expenses, and contingent liabilities disclosed. Actual results may differ from those estimates.

All estimates and underlying assumptions are reassessed continuously and are based on past experience as well as on other factors, including expectations of future events that currently appear reasonable. Revisions of assessments are recorded prospectively.

Information on assumptions, judgements and estimation uncertainty are particularly relevant for the following items:

- **Goodwill** (Note 1 – impairment test)
- **Fair value and impairments of financial instruments** (Note 12 – allocation of financial instruments to the various levels of the fair value hierarchy and disclosures on fair value measurement as well as the assessment of the need to recognise impairment losses in the “Accounting policies” section)
- **Deferred acquisition costs** (Note 15 and review of actuarial assumptions in the section “Accounting policies”)
- **Deferred tax assets** (Notes 28 and 35 and the section “Accounting policies” – availability of future taxable profit against which tax loss carryforwards can be utilised)
- **Technical provisions:** Loss and loss adjustment expense reserves (Note 21) are generally calculated on the basis of defined subportfolios (analysis segments) by applying actuarial loss reserving methods. The realistically estimated future settlement amount is recognised. The development of a claim until expected completion of the run-off is projected on the basis of statistical triangles. The actual amounts payable may prove to be higher or lower.Any resulting run-off profits or losses are recognised as income or expenses. In primary life insurance and Life/Health Reinsurance, too, the determination of reserves and assets is crucially dependent on actuarial projections of the business. In this context, key input parameters are either predetermined by the metrics of the insurance plan

(e.g. costs included in the calculation, amount of premium, actuarial interest rate) or estimated (e.g. mortality, morbidity and lapse rates). These assumptions are heavily dependent on, among other things, country-specific parameters, the sales channel, the quality of underwriting and the type of reinsurance, and they are reviewed as at each reporting date by specialised life insurance actuaries and subsequently adjusted in line with the actual projection. The resulting effects are reflected, for instance, in true-up adjustments in "Other intangible assets", "Insurance-related intangible assets" PVFP), "Deferred acquisition costs", "Provision for premium refunds" (provision for deferred premium refunds) and, where applicable, "Benefit reserve" (funding of terminal bonuses). Further information on underwriting risks, including information on sensitivities, can be found in the risk report in the Group management report, in addition to the explanations in the "Accounting policies" section.

- **Provisions for pensions and other post-employment benefits** (Note 23 – essential actuarial assumptions)
- **Miscellaneous other provisions and contingent liabilities** (Note 25 and descriptions in "Accounting policies" and in the "Other disclosures" section of the Notes)
- **Basis of consolidation** ("Consolidation principles" section – in particular inclusion of investment funds managed by the Group or third parties)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INSURANCE AND INVESTMENT CONTRACTS

Insurance/reinsurance contracts and investment contracts with a discretionary surplus participation are accounted for in accordance with the relevant requirements of US GAAP as at the date of initial application of IFRS 4 on 1 January 2005, provided IFRS 4 contains no specific provisions to the contrary. We cite certain requirements of US GAAP using the designation valid at that time (Statement of Financial Accounting Standards [SFAS]). Investment contracts that do not contain a discretionary surplus participation feature are recognised as financial instruments in accordance with IAS 39.

ASSETS

Intangible assets

Goodwill resulting from business combinations is tested for impairment once a year, and it is measured at initial cost less accumulated impairment losses. Information on the impairment test and assumptions used in the test, as well as corresponding sensitivity analyses, can be found in Note 1 in the Notes.

Insurance-related intangible assets: The present value of future profits (PVFP) on acquired insurance portfolios refers to the present value of expected future net cash flows from existing insurance/reinsurance contracts and investment contracts at the date of acquisition. It consists of a shareholders' portion, in respect of which deferred taxes are recognised, and a policyholders' portion (for life insurance contracts only). Insurance portfolios are amortised in line with the realisation of the surpluses on which the calculation is based and reflecting the remaining duration of the acquired contracts. Impairment losses and the measurement parameters applied are reviewed at least once a year; if necessary, the amortisation patterns are adjusted or an impairment loss is recognised. See Note 2 for further information and details on terms. We report the amortisation of the PVFP associated with investment contracts in "Net income from investment contracts" under "Net investment income". Depreciation or amortisation of the shareholders' portion is reported in "Other technical expenses".

Purchased intangible assets with a finite useful life are recognised at cost less accumulated amortisation and impairment losses. They are amortised over their estimated useful life, generally on a straight line basis. As a rule, this is three to ten years for **software** and the duration for the **acquired sales networks and customer relationships** is generally four to 16 years. Intangible assets with an indefinite useful life (e.g. acquired **brand names**) are tested for impairment annually and whenever there is evidence of impairment. Amortisation and impairment losses, as well as reversals of impairment losses that are required to be recognised in profit or loss are allocated to the insurance-specific functions.If allocation to the functions is not possible, they are reported in "Other income/expenses".

Investments

Investment property is recognised at cost. Depreciation is charged on a straight-line basis over the expected useful life, with a maximum of 50 years. An impairment loss is recognised if the difference between the market value (recoverable amount) determined using recognised valuation techniques and the carrying amount is more than the depreciation charge for a calendar year. Valuations that are based on the discounted cash flow method are generally carried out by internal Group experts for the directly held portfolio (an external report is produced every five years). An external market value report is obtained for real estate special funds every 12 months – the reporting date is the date of the initial valuation.

Gains or losses from the disposal of properties, maintenance costs and repairs, as well as depreciation and any impairment losses or their reversal, are recognised in profit or loss (in "Net investment income").

The **Investments in associates and joint ventures** item consists solely of consolidated material associates and joint ventures measured using the equity method. After the initial approach, the consolidated financial statements contain the share of the Group in the overall result of these financial assets. Further information can be found in the "Consolidation principles" subsection of the "Consolidation" section.

In accordance with IAS 39, **financial instruments** are recognised/derecognised at the time of their acquisition or disposal at the settlement date. Financial assets are classified at initial recognition into one of four categories, depending on their purpose: "Loans and receivables", "Financial assets held to maturity", "Financial assets available for sale" or "Financial assets at fair value through profit or loss". Financial liabilities are classified either as "Financial liabilities at fair value through profit or loss" or at amortised cost. Depending on the categorisation, transaction costs directly connected with the acquisition of the financial instrument may be recognised.

Financial instruments are subsequently measured at either amortised cost or fair value. Amortised cost is calculated on the basis of the original cost of the instrument, after allowing for redemption amounts, premiums or discounts amortised using the effective interest rate method and recognised in income, and any impairment losses or reversals of impairment losses.

Shares in affiliated companies and participating interests include investments in subsidiaries as well as in associates and joint ventures that are not consolidated or accounted for using the equity method because of their insignificance for the presentation of the Group's net assets, financial position and results of operations, as well as other participating interests. Investments in listed companies are recognised at their fair value.Other investments are measured at cost, less impairments where applicable.

Loans and receivables consist primarily of fixed-income securities in the form of promissory note loans, registered bonds and mortgage loans. They are measured at amortised cost, applying the effective interest rate method. Impairment losses and their reversal are recognised in profit or loss. The upper limit of the reversal is the amortised cost that would have resulted at the measurement date if no impairment losses had been recognised.

Financial assets held to maturity are financial instruments where the Group has the positive intention and the ability to hold these securities to maturity. The procedures for measuring and testing these financial instruments for impairment are the same as for "Loans and receivables".

Financial assets available for sale consist of fixed-income and variable-yield financial instruments that the Group does not immediately intend to sell and that cannot be allocated to any other category. These securities are recognised at fair value. Premiums and discounts are amortised over the term of the assets using the effective interest rate method. Unrealised gains and losses from changes in fair value are recognised in "Other comprehensive income" and reported in equity ("Other reserves") after allowing for accrued interest, deferred taxes and amounts that life insurers owe to policyholders upon realisation (provision for deferred premium refunds).

Financial instruments at fair value through profit or loss comprise the trading portfolio and those financial instruments that are designated upon initial acquisition as at fair value through profit or loss. In particular, trading portfolios include all derivative financial instruments with positive fair values, including derivatives embedded in hybrid financial instruments that are required to be separated and derivatives related to insurance contracts, unless they qualify as hedges (hedge accounting under IAS 39). Derivatives with negative fair values are recognised in "Other liabilities". Financial instruments classified at fair value through profit or loss consist of structured products that are recognised using the fair value option. All securities recognised at fair value through profit or loss are carried at their fair value at the reporting date. If quoted prices are not available for determining the fair value of these financial instruments, the carrying amounts are determined using recognised valuation techniques. All unrealised gains and losses from this measurement are recognised in profit or loss (in "Net investment income"), in the same way as realised gains and losses.

The individual balance sheet items relating to investments are also discussed in the relevant notes with reference to **classes of financial instruments** in accordance with IFRS 7.

Derivatives that are designated as **hedging instruments** (hedge accounting) are recognised at their fair value under "Other assets" or "Other liabilities". The method used to recognise gains and losses in the course of subsequent measurement depends on the type of hedged risk. The Group designates certain derivatives as hedges of the fair value of certain assets (fair value hedges) and others as hedges of exposures to variability in cash flows attributable to a particular risk associated with a recognised liability or recognised asset, or a highly probable forecasted transaction (cash flow hedges). Further information is provided in Note 13.

Fair value measurement: Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments is generally determined on the basis of current, publicly available, unadjusted market prices. Where prices are quoted on markets for financial instruments, the bid price/traded price is used. Financial liabilities are measured at the ask price at the reporting date. In the event that no current market price is available, financial instruments are measured on the basis of current and observable market data using established financial models. The following table shows the valuation techniques used to measure fair values. Financial assets for which publicly available prices or observable market data are not available (financial instruments in level 3 of the fair value hierarchy) are mainly measured on the basis of documented valuations prepared by independent professional experts, e.g. audited net asset values that have been previously subjected to systematic plausibility checks. For further explanations, see our disclosures in Note 12.

MEASUREMENT MODELS FOR CALCULATING FAIR VALUE

Financial instrument	Pricing method	Inputs	Pricing model
Fixed-income securities			
Unlisted plain vanilla bonds	Theoretical price	Yield curve	Present value method
Unlisted structured bonds	Theoretical price	Yield curve, volatility surfaces, correlations	Hull-White including interest rate model
ABSs/MBSs for which no market prices are available	Theoretical price	Prepayment speed, incurred losses, default probabilities, recovery rates	Present value method
CDOs/CLOs	Theoretical price	Prepayment speed, risk premiums, default rates, recovery rates, redemptions	Present value method
Equities and funds			
Unlisted equities	Theoretical price	Cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable	NAV method [1]
Unlisted equities, real estate and bond funds	Theoretical price	Audited net asset values (NAV) [1]	NAV method [1]
Other investments			
Private equity funds/ private equity real estate funds	Theoretical price	Audited net asset values (NAV) [1]	NAV method [1]
Derivative financial instruments			
Listed equity options	Quoted price	—	—
Equity and index futures	Quoted price	—	—
Interest rate and bond futures	Quoted price	—	—
Plain vanilla interest rate swaps	Theoretical price	Yield curve	Present value method
Total return swaps	Theoretical price	Price of underlying, yield curve	Present value method
OTC equity options, OTC equity index options	Theoretical price	Listed price of the underlying, implied volatilities, money market rate, dividend yield	Black-Scholes
Currency forwards	Theoretical price	Yield curve, spot and forward rates	Present value method
Interest rate futures (forward purchases, forward sales)	Theoretical price	Yield curve	Present value method
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
Other			
Real estate	Theoretical value	Location, year of construction, rental space, type of use, term of leases, amount of rent	Extended discounted cash flow method
Infrastructure debt financing	Theoretical price	Yield curve	Present value method

[1] NAV: net asset value.

Impairment: At each reporting date, the Group tests whether there is objective evidence of impairment among our financial assets that are not recognised at fair value through profit or loss, including an interest in a company that is accounted for using the equity method.

In the case of held equity instruments, a significant or relatively long-lasting decline in the fair value below the acquisition costs is considered to be objective evidence of an impairment. The Group considers a decline of 20% to be significant and a period of nine months to be relatively long-lasting. We apply the same principles to investments in funds that invest in private equity. In this case, we recognise an impairment loss on net asset value as an approximation of fair value. In order to account for the specific character of these funds (in this case, initially negative trends in yield and liquidity during the investment period of the funds), we recognise significant declines in value within a two year waiting period only if there is evidence of significant or prolonged impairment that is not the result of the "J curve" effect.

Indicators for determining whether fixed-income securities, loans and receivables are impaired include financial difficulties being experienced by the issuer/debtor, failure to receive or pay interest income or capital gains, and the likelihood that the issuer/debtor will initiate bankruptcy proceedings, as well as the current market situation. A case-by-case qualitative analysis is carried out in making this determination. First and foremost, we factor in the rating of the security, the rating of the issuer or borrower, and a specific market assessment.

Impairment losses are recognised in profit or loss and the securities are written down to their fair value, which is generally the published exchange price. In this context, we generally deduct impairment losses on investments directly from the relevant asset items rather than using an allowance account. Reversals of impairment losses on equity instruments are recognised in "Other comprehensive income".

Financial assets and liabilities are **offset** and recognised as a net amount only if there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Securities that we loan under **securities lending transactions** continue to be recognised, since the principal opportunities and risks resulting from such securities still remain within the Group. Cash securities are recognised under "Other liabilities", whereas securities (that are included as collateral) are not recognised in the absence of the transfer of the related risks and opportunities.

Under **genuine securities repurchase transactions** (repo transactions), the Group sells securities with a simultaneous obligation to repurchase them at a later date at an agreed price. Since the principal risks and opportunities associated with the financial assets remain within the Group, we continue to recognise these investments. We recognise the repurchase obligation in "Other liabilities" in the amount of the payment received. The difference between the amount received for the transfer and the amount agreed for the return is allocated in accordance with the effective interest rate method for the term of the repurchase transaction and recognised in profit or loss (in "Net investment income").

Other investments are recognised primarily at fair value. If these financial instruments are not listed on public markets (e.g. investments in private equity firms), they are recognised at the latest available net asset value as an approximation of fair value. Non-current assets from infrastructure investments (primarily from consolidated wind farm project companies) are accounted for at cost. Depreciation is charged on a straight-line basis over a useful life of 20 years. Any provision to be recognised for restoration obligations is reported in "Miscellaneous other provisions". We also test these assets for impairment as at the reporting date. Impairment losses, reversals of impairment losses, depreciation charges and revenue relating to these assets are recognised in "Net investment income".

Investments under investment contracts

Investment contracts that do not contain a discretionary surplus participation feature are recognised as financial instruments in accordance with IAS 39. Payments for these contracts therefore do not lead to a disclosure of premiums, but rather to deposit liabilities in the amount of the corresponding financial instruments. Financial assets arising from investment contracts are reported in a separate "Investments under investment contracts" line item under "Investments", while financial liabilities (i.e. liabilities arising from investment contracts) are recognised in the "Other liabilities" liability item. Our disclosures on the recognition of financial instruments apply, with the necessary modifications. The effects on earnings resulting from these contracts (e.g. fluctuations in the value of financial assets or liabilities) and the fees collected from asset management activities, net of the relevant administrative expenses, are presented as a separate item in "Net income from investment contracts" under "Net investment income".

Funds withheld by ceding companies, funds withheld under reinsurance treaties and contracts without sufficient technical risk

"Funds withheld by ceding companies" are receivables from the reinsurance business with our customers. "Funds withheld under reinsurance treaties" represent cash deposits provided to us by our retrocessionaires. Funds withheld by ceding companies and funds withheld under reinsurance treaties are recognised at cost (nominal amount).Appropriate allowance is made for credit risks.

Insurance contracts that satisfy the test of a significant risk transfer to the reinsurer as required by IFRS 4 but fail to meet the test of risk transfer required by US GAAP are recognised using the deposit accounting method and eliminated from the technical account. The compensation paid for risk assumption under these contracts is recognised in profit or loss (in "Other income/expenses").

Investments for the benefit of life insurance policyholders who bear the investment risk

This item consists of policyholders' investments under unit-linked life insurance contracts. The insurance benefits under these policies are linked to the unit prices of investment funds or to a portfolio of separate financial instruments. They are recognised at fair value. Unrealised gains or losses are offset by changes in technical provisions. Policyholders are entitled to generated profits and are likewise liable for incurred losses.

Reinsurance recoverables on technical provisions are calculated in this item from the gross technical provisions in accordance with the contractual conditions. Appropriate allowance is made for credit risks.

Receivables

Receivables are generally recognised at amortised cost in "Accounts receivable on insurance business" and "Other receivables". Where necessary, impairment losses are recognised on an individual basis or for groups of similar receivables. Impairment losses on accounts receivable on insurance business are recognised in allowance accounts. In all other cases, the underlying assets are written down directly. If the reasons for a recognised impairment loss no longer apply, it is reversed to profit or loss directly, or by adjusting the allowance account, up to a maximum of the original amortised cost.

Deferred acquisition costs

Commissions and other variable costs that are closely connected with the renewal or conclusion of contracts are recognised in "Deferred acquisition costs". In the case of property/casualty primary insurance companies and Property/Casualty Reinsurance, acquisition costs are normally amortised at a constant rate over the average contract period. In the case of short-duration contracts, premiums are amortised as they are collected to reflect the time-based amortisation of unearned premiums. In primary life insurance and Life/Health Reinsurance, deferred acquisition costs are calculated on the basis of the contract duration, anticipated surrenders, lapse expectations and anticipated interest income. Depending on the type of contract, amortisation is charged in proportion either to premium income or to anticipated profit margins. In the case of Life/Health Reinsurance contracts classified as "universal life-type contracts", deferred acquisition costs are amortised on the basis of the anticipated profit margins for the reinsurance contracts, making allowance for the duration of the insurance contracts. The deferred acquisition costs are regularly tested for impairment using an adequacy test in accordance with IFRS 4. The actuarial bases are also subject to ongoing review and adjusted if necessary.

Deferred tax assets

Deferred tax assets are recognised if the carrying amounts of assets are lower or those of liabilities are higher in the consolidated balance sheet than in the tax base of the relevant Group Company, and where these temporary differences will reduce future tax liabilities. Deferred tax assets are also recognised in respect of tax credits and tax loss carryforwards. Valuation allowances are recognised for impaired deferred tax assets.

The measurement of deferred tax assets is prepared by local tax and finance experts in the countries concerned. The earnings projections are based on business plans that have been duly reviewed and approved and that are also used for managing the companies. Uniform Group principles place particularly high demands on the level of evidence required if the Group Company concerned has reported a loss in the current or in a prior period. The recognition and recoverability of material deferred tax assets are reviewed by the Group Tax department.

Deferred taxes are based on current country-specific tax rates. In the event of a change in the tax rates on which the calculation of deferred taxes is based, this is reflected in the year in which the change in the tax rate becomes effective. Deferred taxes at Group level are generally recognised using the Group tax rate of 32.2%, unless they can be allocated to specific companies.

We always account for **other assets** using the amortised cost, with the exception of hedging instruments. Property, plant and equipment is recognised at cost less straight-line depreciation and impairment losses. The maximum useful life for real estate held and used is 50 years. The useful life of operating and office equipment is normally between two and ten years. The principles that apply to the presentation of investment property generally also apply to the measurement and impairment testing of own-use real estate. Impairments/valuation allowances are allocated to the technical functions or recognised in "Other income/expenses".

Cash at banks, cheques and cash-in-hand is/are recognised at their nominal amounts.

Disposal groups

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale and disclosed separately if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The sale must be highly probable. These assets are measured at the lower value of carrying amount and fair value less costs to sell; in the case of financial instruments, the measurement remains unchanged. Depreciation charges are recognised until the date of classification as held for sale. Impairment losses are recognised in profit or loss. Any subsequent increase in fair value less costs to sell leads to the recognition of a gain up to the amount of the cumulative impairment loss.

EQUITY AND LIABILITIES

Equity consists of subscribed capital, capital reserves, retained earnings and other reserves. Subscribed capital and capital reserves contain the amounts paid in for shares by shareholders of Talanx AG.

In addition to allocations from net income, **retained earnings** consist of reinvested profits that Group companies have generated since becoming members of the Group. Moreover, in the event of a retrospective change in accounting policies, an adjustment for previous periods is made to the opening balance of retained earnings.

Other reserves: Unrealised gains and losses from changes in the fair value of available-for-sale financial assets are recognised in "Unrealised gains/losses on investments"; differences resulting from the translation of the financial statements of foreign subsidiaries as well as unrealised gains and losses from equity method measurement are also recognised in "Other reserves". In addition, reversals of impairment losses on variable-yield securities classified as available for sale are recognised in this equity account, as well as the effective part of the gain or loss attributed to hedging instruments in the context of cash flow hedges.

The **share of net income attributable to non-controlling interests** is presented in the consolidated statement of income after net income. It is followed by non-controlling interests in equity, which are recognised as part of equity and relate to interests in the equity of subsidiaries that are held by non-Group third parties.

Subordinated liabilities consist of financial obligations that, in the event of liquidation or bankruptcy, will only be settled after the claims of other creditors. These financial obligations are measured at amortised cost using the effective interest rate method.

Technical provisions

Technical provisions are reported gross in the balance sheet, i.e. before deduction of the reinsurers' share. Measurement of technical provisions is based on US GAAP (SFAS 60, SFAS 97 and SFAS 120).

In the case of short-duration insurance contracts, such as in Property/Casualty Insurance or Property/Casualty Reinsurance, those portions of premiums already collected that are attributable to future years are deferred on a time-proportion basis and recognised in **"Unearned premium reserves"**. These unearned premiums will be earned in future periods in proportion to the insurance cover granted. For insurance contracts, this premium income is generally deferred to a specific date (predominantly in primary insurance).In the reinsurance business, assumptions are made if the data required for a time-proportion calculation is unavailable.

The **benefit reserve** in the life insurance business, which covers commitments arising out of guaranteed claims of policyholders under life primary insurance policies and of cedants in Life/Health Reinsurance, is calculated using actuarial methods. It is calculated as the difference between the present value of future expected payments to policyholders and cedants and the present value of future expected net premiums still to be collected from policyholders and cedants. The calculation includes assumptions relating to mortality and morbidity as well as to lapse rates, the return on investment and costs. The actuarial bases used in this context are estimated when the contract is entered into and allow for an adequate safety margin for the risks of change, error and random fluctuation.

In the case of life insurance contracts that do not provide for surplus participation, the method draws on assumptions (based on customer and industry data) as to the best estimate, allowing for a risk margin. In the case of life insurance contracts that provide for surplus participation, assumptions are used that are contractually guaranteed or based on the determination of surrender values. The biometric actuarial assumptions are based on current mortality tables; if no entity-specific mortality tables are available, industry mortality tables are used.

The measurement of the benefit reserve depends on the relevant product category. Accordingly, life insurance products must be divided into the following categories:

In the case of primary life insurance contracts with "natural" surplus participation (SFAS 120), the benefit reserve is composed of the net level premium reserve and a reserve for terminal bonuses. The net level premium reserve is calculated based on the present value of future insurance benefits (including earned bonuses, but excluding loss adjustment expenses) less the present value of the future premium reserve. The premium reserve is calculated as net premiums less the portion of premiums earmarked to cover loss adjustment expenses. The reserve for terminal bonuses is generally created from a fixed portion of the gross profit generated in the financial year from the insurance portfolio.

In the case of primary life insurance contracts that do not provide for surplus participation (SFAS 60), the benefit reserve is calculated as the difference between the present value of future benefits and the present value of the future net level premium. The net level premium corresponds to the portion of the gross premium used to fund future insurance benefits.

In the case of primary life insurance contracts classified according to the "universal life" model, unit-linked life insurance contracts or similar life reinsurance contracts (SFAS 97), a separate account is maintained to which premium payments are credited, less costs and plus interest. In the life insurance field, we recognise benefit reserves separately in item D of "Liabilities", insofar as the investment risk is borne by the policyholders.

The loss and loss adjustment expense reserve is established for payment obligations relating to primary insurance and reinsurance claims that have occurred but have not yet been settled. They are subdivided into reserves for claims that have been reported as at the reporting date and reserves for claims that have been incurred but not yet reported as at the reporting date (IBNR reserve).

The loss and loss adjustment expense reserve is generally calculated on the basis of recognised actuarial methods.These are used to estimate future claims expenditures, including expenses associated with loss adjustment, provided no estimates for individual cases need to be taken into account. The realistically estimated future settlement amount is recognised according to a long-established practice, which is generally calculated for the reinsurance on the basis of information provided by cedants. Receivables arising from subrogation, salvage and claim sharing agreements are taken into account. In order to assess the ultimate liability, anticipated ultimate loss ratios are calculated for all lines of Property/Casualty Reinsurance as well as primary property insurance using actuarial methods such as the chain ladder method. In such cases, the development of all claims in an occurrence year or an underwriting year until the presumed completion of the run-off is projected on the basis of statistical triangles. In addition, experiences from the past, currently known facts and circumstances and other assumptions regarding the future development are taken into account. More recent underwriting years and occurrence years are subject to greater uncertainty in actuarial projections, although this is reduced with the aid of a variety of additional information. Particularly in reinsurance business, a considerable period of time may elapse between the occurrence of an insured loss, notification by the primary insurer and pro rata payment of the loss by the reinsurer. In this regard, provisions for the assumed insurance business are generally recognised in accordance with the data provided by prior insurers (in the case of Group business) or on the basis of actuarial analyses (in the case of non-Group business).

Because settlements of major losses differ from case to case, there is often insufficient statistical data available. In these instances, appropriate reserves are created after analysing the portfolio exposed to such risks and, where appropriate, after individual scrutiny. These reserves represent the Group's realistic estimates. In addition, an individually determined reserve is created for a portion of known insurance claims. These estimates, which are based on facts that were known at the time the reserve was established, are made on a case-by-case basis by the employees responsible for loss adjustment and take into account general principles of insurance practice, the loss situation and the agreed-upon scope of coverage. Reserves are regularly remeasured when warranted by new findings.

With the exception of a few partial reserves, such as pension benefit reserves, the loss and loss adjustment expense reserve is generally not discounted.

The **provision for premium refunds** is established in life insurance for obligations that relate to surplus participation by policyholders that have not yet been definitively allocated to individual insurance contracts at the reporting date. It consists of amounts allocated to policyholders in accordance with national regulations or contractual provisions and amounts resulting from temporary differences between the IFRS consolidated financial statements and the local annual financial statements (provision for deferred premium refunds) that will have a bearing on future surplus participation calculations. For unrealised gains and losses on financial instruments that are "available for sale", we form the resulting provision for deferred premium refunds outside profit or loss in the "Other comprehensive income" (shadow provision for premium refunds); otherwise, we account for any changes in this provision through profit or loss.

At least once a year, we subject all technical provisions to an **adequacy test in accordance with IFRS 4**. If the test indicates that future income will probably not cover the anticipated expenses at the level of the calculation cluster, a provision is recognised for anticipated losses after writing off the related deferred acquisition costs and PVFP. The calculation of the unearned premium reserve and the loss reserve on the basis of the current realistically estimated future settlement amount is generally based on each line's business model and takes into account future modifications of terms and conditions, reinsurance cover and, where appropriate, the ability to control the profitability of individual contractual relationships. Investment income is not included in this calculation. We test the adequacy of the benefit reserve on the basis of current assumptions about the actuarial bases, including pro-rata net investment income and (where relevant) future surplus participations.

Shadow accounting: IFRS 4 allows unrealised gains and losses deriving from changes in the fair value of financial assets classified as "available for sale" to be included in the measurement of technical items. This approach is applied so that unrealised gains and losses are treated in the same way as realised gains and losses. This may affect deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders and the provision for premium refunds. The resulting adjustments are reported – as "shadow adjustments" of the affected items – as a contra item in "Other comprehensive income" to reflect the underlying changes in value.

Technical provisions for life insurance policies where the investment risk is borne by the policyholders

In the case of life insurance products under which policyholders themselves bear the investment risk (e.g. in unit-linked life insurance contracts), the benefit reserve and other technical provisions reflect the fair value of the corresponding investments. See our disclosures on the asset item "Investments for the benefit of life insurance policyholders who bear the investment risk".

Other provisions

Provisions for pensions and other post-employment benefits: Liabilities under defined benefit pension plans are calculated separately for each plan according to actuarial principles. They are valued using the projected unit credit method. Measurement reflects benefit entitlements and current pension payments at the reporting date, together with their future trends. The interest rate used for discounting pension liabilities is based on the rates applicable to high-quality corporate bonds. The used discount rate is a payment-weighted average interest rate, where the maturities, the amount and the currency of the due payments reflect each other.

If pension liabilities are offset by assets of a legally independent entity (e.g. a fund or benefit commitments funded by external assets) that may only be used to settle the pension promises given and are exempt from attachment by any creditors, such pension liabilities are recognised net of those assets. If the fair value of such assets exceeds the associated pension liabilities, the net amount is recognised in "Other accounts receivable" after adjustment for effects from the application of the asset ceiling. The cost components resulting from changes to defined benefit plans are recognised in profit or loss for the period, insofar as they relate to service costs and net interest on the net liability. Past service costs resulting from plan amendments or curtailments as well as gains and losses from plan settlements are recognised in profit or loss at the time they occur. All remeasurement effects are recognised in "Other comprehensive income" and presented in equity. Remeasurements of pension liabilities consist of actuarial gains or losses on gross pension liabilities and the difference between the actual return on plan assets and the interest income on plan assets. Moreover, where plans are in surplus, the remeasurement components include the difference between the interest rate on the effect of the asset ceiling and the total changes in net assets from the effect of the asset ceiling. You can find further information on sensitivity analyses in Note 23.

Miscellaneous other provisions, tax and restructuring provisions are recognised in the amount that is likely to be required to settle the obligations, based on best estimates. These provisions are discounted if the effect of the time value of money is material. Restructuring provisions are recognised if a detailed, formal restructuring plan has been approved by the Group and the main features of the restructuring have been publicly announced. Among other things, the provisions reflect assumptions in respect of the number of employees affected by redundancy, the amount of severance payments and costs in connection with terminating contracts. Expenses related to future business activities (e.g. relocation costs) are not included in the recognition of provisions.

Liabilities

Financial liabilities, including **"Notes payable and loans"**, are recognised at amortised cost if they do not relate to liabilities from derivatives or liabilities under investment contracts at fair value through profit or loss. **Liabilities from derivatives** are measured at fair value. In respect of written put options on non-controlling interests, the Group recognises a liability in the amount of the present value of the repurchase amount of the interests. It is charged to non-controlling interests in equity.Effects from subsequent measurement are recognised as income or expenses in "Other income/ expenses". Unwinding of the discount on these financial liabilities is reported in "Financing costs". The fair value of **investment contracts** is generally calculated using surrender values for policyholders and account balances. In addition, the Group uses the fair value option in order to eliminate or significantly reduce accounting mismatches relating to assets from investment contracts that cover liabilities.

Share-based payments in the Group are exclusively cash-settled. Liabilities for cash-settlement share-based payment plans are measured at each reporting date and at the settlement date at fair value. The fair value of each of these plans is recognised as an expense and distributed over the vesting period. Thereafter, any change in the fair value of plans that have not yet been exercised is recognised in the statement of income.

Deferred tax liabilities are recognised if the carrying amounts of assets are higher or those of liabilities are lower in the consolidated balance sheet than in the tax base, and where these temporary differences will increase future tax liabilities. See our disclosures on deferred tax assets.

KEY PERFORMANCE INDICATORS

The amount that the insurer has declared due either once or on a continual basis during the financial year in exchange for providing insurance coverage is recognised under **written premiums**. Premiums include instalment payment surcharges, ancillary payments and cash payments for assumed portions of technical provisions (portfolio accessions). Payments received for premium receivables that lapsed or were written down in prior years, as well as income resulting from the reversal or reduction of impairment losses on accounts receivable from policyholders, are also recognised under this item. Increases in impairment losses are deducted from written premiums.

Premiums for insurance contracts are recognised as earned – and thus as income – over the duration of the contracts in proportion to the amount of insurance cover provided or as they fall due. Savings elements under life insurance contracts are deducted from **earned premiums**. Please refer to our disclosures on the "Unearned premium reserve".

Claims and claims expenses include claims paid during the financial year as well as claims paid in prior years (including terminal bonuses in life insurance). They also include changes in the loss and loss adjustment expense reserve and changes in the benefit reserve. Expenses for premium refunds are also recognised in this item. These consist of direct credits from the allocation to the provision for premium refunds, as well as changes to the provision for deferred premium refunds that are recognised as an expense, including amortisation of PVFP in favour of policyholders.

Acquisition costs mainly comprise commissions paid to individuals and organisations engaged to sell insurance products, reinsurance commissions paid and changes in deferred acquisition costs and in provisions for commissions. Other cost elements that are closely related to the acquisition of new insurance contracts and to the extension of existing insurance contracts, such as costs for health examinations, are also recognised here. Administrative expenses primarily consist of expenses for contract management, such as collection of premiums when due. All costs directly attributable to this function, including personnel costs, depreciation, amortisation and impairment losses and rents, are recognised here.

Premiums, claims and claims expenses, acquisition costs and administrative expenses are recognised both gross and **net**, i.e. after taking reinsurance items into account.

The composition of **"Net investment income"** and of **"Other income/expenses"** can be found in the relevant comments in the Notes.

In addition to its core business activities (within the scope of IFRS 4), the Group provides various services related to the insurance business, in particular asset management services and other insurance-related services within the scope of IFRS 15 "Revenue from Contracts with Customers". **Revenue from contracts with customers** is recognised when control of the promised goods or services is transferred to the customer. The amount of revenue recognised corresponds to the amount of consideration to which the Group expects to be entitled in exchange for transferring goods or services to the customer. For contracts within the scope of IFRS 15, the Group acts as the principal as it generally has control over the goods or services before they are transferred to the customer. Contracts with customers do not usually contain significant financing components. This revenue is shown in the section "Other disclosures" in the Notes.

Taxes on income: Tax expenditures consist of the current taxes levied on the results of Group companies to which local tax rates are applied, as well as changes in deferred tax assets and deferred tax liabilities. Expenses for and income from interest or penalties payable to the tax authorities are shown in "Other income/expenses".

EXCHANGE DIFFERENCES ON TRANSLATING FOREIGN OPERATIONS

The Group's reporting currency is the euro.

Transactions in foreign currencies are generally translated into the functional currency of the units of the Company in question at the exchange rates prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies on the reporting date are translated into the functional currency using the exchange rate prevailing on the reporting date. Gains and losses from this translation are recognised in "Other income/expenses". Exchange rate gains or losses from non-monetary items, such as equity instruments classified as available for sale, are initially recognised in "Other comprehensive income" and subsequently reclassified to profit or loss when the instrument is sold or impaired.

Foreign currency items of foreign subsidiaries – including goodwill – in countries that do not use the euro as their national currency are translated into euro at the middle rates at the reporting date. Statements of income are translated at average exchange rates. Unless the translation difference is attributable to non-controlling interests, all resulting currency translation differences are recognised in "Other comprehensive income" and presented in equity in the currency translation reserve.

EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

EUR 1 corresponds to		Balance sheet (reporting date)		Statement of income (average)	
		2018	2017	2018	2017
AUD	Australia	1.6208	1.5347	1.5799	1.4772
BRL	Brazil	4.4552	3.9734	4.2988	3.6238
CAD	Canada	1.5591	1.5047	1.5313	1.4677
CLP	Chile	796.5400	736.9100	756.8885	733.8123
CNY	China	7.8768	7.8051	7.8174	7.6306
GBP	UK	0.9028	0.8875	0.8870	0.8744
JPY	Japan	126.3700	135.0100	130.4562	126.9877
MXN	Mexico	22.5895	23.6511	22.7140	21.4436
PLN	Poland	4.3031	4.1772	4.2603	4.2558
USD	USA	1.1451	1.1994	1.1814	1.1305
ZAR	South Africa	16.4522	14.8140	15.5416	15.0052

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 Insurance and Corporate Operations. Insurance activities are further subdivided into six 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, geographical regions (Germany versus other countries) and line of business in Retail Germany (property insurance and life insurance), insurance activities in the **primary insurance** sector are divided into four reportable segments: "Industrial Lines", "Retail Germany – Property/Casualty", "Retail Germany – Life" and "Retail International". This segmentation also corresponds to the responsibilities of the Members of the Board of Management.

Reinsurance business is handled solely by the Hannover Re Group and is divided into the two segments of Property/Casualty 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 Property/Casualty 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 online 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.

Property/Casualty Reinsurance: 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 nat cat business.

Life/Health Reinsurance: 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 (HDI Reinsurance (Ireland) SE, 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 HDI Reinsurance (Ireland) SE and the operating profit of Talanx Reinsurance Broker GmbH is 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. The balance sheet for the Reinsurance Division, by contrast, is a combination of the segment balance sheets for its reportable segments Property/Casualty Reinsurance and Life/Health Reinsurance.

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).

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2018

EUR MILLION

Assets	Industrial Lines		Retail Germany	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
A. Intangible assets				
a. Goodwill	154	154	248	248
b. Other intangible assets	8	8	458	481
	162	**162**	**706**	**729**
B. Investments				
a. Investment property	173	125	1,116	1,075
b. Shares in affiliated companies and participating interests	12	12	41	41
c. Shares in associates and joint ventures	154	120	—	—
d. Loans and receivables	1,067	973	25,109	24,844
e. Other financial instruments				
i. Financial assets held to maturity	73	73	169	170
ii. Financial assets available for sale	5,864	5,524	23,191	22,794
iii. Financial assets at fair value through profit or loss	180	136	349	358
f. Other investments	777	779	1,641	1,495
Assets under own management	**8,300**	**7,742**	**51,616**	**50,777**
g. Investments under investment contracts	—	—	—	—
h. Funds withheld by ceding companies	15	18	4	4
Investments	**8,315**	**7,760**	**51,620**	**50,781**
C. Investments for the benefit of life insurance policyholders who bear the investment risk	—	—	9,506	10,485
D. Reinsurance recoverables on technical provisions	5,202	4,844	1,861	2,131
E. Accounts receivable on insurance business	1,413	1,484	312	304
F. Deferred acquisition costs	63	51	2,158	2,232
G. Cash at banks, cheques and cash-in-hand	676	630	686	638
H. Deferred tax assets	71	46	111	72
I. Other assets	695	795	822	959
J. Non-current assets and assets of disposal groups classified as held for sale [2]	—	18	—	43
Total assets	**16,597**	**15,790**	**67,782**	**68,374**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.
[2] For further information see “Non-current assets held for sale and disposal groups” in the Notes.

	Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2018	31.12.2017 [1)]	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017 [1)]
	622	623	34	33	—	—	—	—	1,058	1,058
	151	150	174	197	109	101	–5	—	895	937
	773	**773**	**208**	**230**	**109**	**101**	**–5**	**—**	**1,953**	**1,995**
	10	15	1,686	1,584	—	—	—	—	2,985	2,799
	—	—	135	108	18	17	—	—	206	178
	—	—	111	122	—	—	—	—	265	242
	531	604	2,421	2,455	16	17	—	—	29,144	28,893
	210	268	250	336	—	1	–293	–294	409	554
	8,841	8,245	33,930	31,705	138	187	—	—	71,964	68,455
	561	639	750	301	—	—	—	—	1,840	1,434
	418	392	2,967	3,266	768	679	–1,516	–1,285	5,055	5,326
	10,571	**10,163**	**42,250**	**39,877**	**940**	**901**	**–1,809**	**–1,579**	**111,868**	**107,881**
	1,042	1,113	—	—	—	—	—	—	1,042	1,113
	—	—	10,865	10,903	1	—	–964	–1,246	9,921	9,679
	11,613	**11,276**	**53,115**	**50,780**	**941**	**901**	**–2,773**	**–2,825**	**122,831**	**118,673**
	484	648	—	—	—	—	—	—	9,990	11,133
	705	668	3,209	2,714	6	—	–2,477	–2,660	8,506	7,697
	1,220	1,156	4,420	3,822	5	2	–119	–142	7,251	6,626
	614	588	2,283	2,229	1	—	239	232	5,358	5,332
	592	598	1,152	820	256	452	—	—	3,362	3,138
	101	72	599	118	273	295	1	—	1,156	603
	432	412	1,695	1,429	653	731	–1,840	–1,544	2,457	2,782
	16	427	—	—	—	—	–1	–70	15	418
	16,550	**16,618**	**66,681**	**62,142**	**2,244**	**2,482**	**–6,975**	**–7,009**	**162,879**	**158,397**

CONSOLIDATED BALANCE SHEET BY DIVISION AS AT 31 DECEMBER 2018

EUR MILLION

Equity and liabilities	Industrial Lines		Retail Germany	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
B. Subordinated liabilities	200	200	162	162
C. Technical provisions				
a. Unearned premium reserve	1,152	1,082	1,381	1,307
b. Benefit reserve	—	—	41,214	40,205
c. Loss and loss adjustment expense reserve	10,327	9,376	3,399	3,258
d. Provision for premium refunds	34	16	5,473	5,848
e. Other technical provisions	47	48	7	2
	11,560	**10,522**	**51,474**	**50,620**
D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	—	9,506	10,485
E. Other provisions				
a. Provisions for pensions and other post-employment benefits	587	593	140	143
b. Provisions for taxes	124	118	113	108
c. Miscellaneous other provisions	73	81	350	362
	784	**792**	**603**	**613**
F. Liabilities				
a. Notes payable and loans	14	15	88	96
b. Funds withheld under reinsurance treaties	53	55	1,494	1,754
c. Other liabilities	1,408	1,627	1,815	1,887
	1,475	**1,697**	**3,397**	**3,737**
G. Deferred tax liabilities	214	272	197	247
H. Liabilities included in disposal groups classified as held for sale [1]	—	1	—	2
Total liabilities/provisions	**14,233**	**13,484**	**65,339**	**65,866**

	Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
	31.12.2018	31.12.2017 [2]	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017 [2]
	42	42	1,878	1,661	1,280	1,280	−824	−608	2,738	2,737
	2,431	2,332	3,731	3,541	6	1	−111	−147	8,590	8,116
	5,987	5,577	9,184	8,978	—	—	−151	−164	56,234	54,596
	2,996	2,765	30,401	28,379	64	45	−1,300	−1,245	45,887	42,578
	196	335	—	—	—	—	—	—	5,703	6,199
	10	13	578	394	—	—	−14	−8	628	449
	11,620	**11,022**	**43,894**	**41,292**	**70**	**46**	**−1,576**	**−1,564**	**117,042**	**111,938**
	484	648	—	—	—	—	—	—	9,990	11,133
	50	22	184	178	1,183	1,179	—	—	2,144	2,115
	121	130	246	320	46	86	—	—	650	762
	103	94	183	182	178	189	—	−1	887	907
	274	**246**	**613**	**680**	**1,407**	**1,454**	**—**	**−1**	**3,681**	**3,784**
	77	70	1,539	712	1,482	1,482	−955	−944	2,245	1,431
	49	39	4,581	4,924	—	—	−1,736	−2,226	4,441	4,546
	1,747	1,794	2,840	2,172	233	336	−1,948	−1,664	6,095	6,152
	1,873	**1,903**	**8,960**	**7,808**	**1,715**	**1,818**	**−4,639**	**−4,834**	**12,781**	**12,129**
	102	93	1,845	1,472	—	3	22	22	2,380	2,109
	6	410	—	—	—	—	—	−70	6	343
	14,401	**14,364**	**57,190**	**52,913**	**4,472**	**4,601**	**−7,017**	**−7,055**	**148,618**	**144,173**
Equity [3]									**14,261**	**14,224**
Total equity and liabilities									**162,879**	**158,397**

1) For further information see "Non-current assets held for sale and disposal groups" in the Notes.
2) Adjusted in accordance with IAS 8, see "Accounting policies" section of the Notes, "changes in accounting policies and errors".
3) Equity attributable to Group shareholders and non-controlling interests.

CONSOLIDATED STATEMENT OF INCOME BY DIVISION/REPORTABLE SEGMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018 [1)]

EUR MILLION

	Industrial Lines		Retail Germany	
	2018	2017	2018	2017
1. Gross written premiums including premiums from unit-linked life and annuity insurance	4,686	4,454	6,080	6,101
of which attributable to other divisions/segments	47	56	59	59
with third parties	4,639	4,398	6,021	6,042
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	853	892
3. Ceded written premiums	1,941	1,997	321	259
4. Change in gross unearned premiums	–66	–48	–75	–147
5. Change in ceded unearned premiums	44	–25	–1	–5
Net premiums earned	**2,635**	**2,434**	**4,832**	**4,808**
6. Claims and claims expenses (gross)	3,813	3,679	5,128	5,645
Reinsurers' share	1,535	1,585	125	82
Claims and claims expenses (net)	**2,278**	**2,094**	**5,003**	**5,563**
7. Acquisition costs and administrative expenses (gross)	919	911	1,373	1,236
Reinsurers' share	344	355	144	100
Net acquisition and administrative expenses	**575**	**556**	**1,229**	**1,136**
8. Other technical income	3	20	26	30
Other technical expenses	25	11	36	43
Other technical result	**–22**	**9**	**–10**	**–13**
Net technical result	**–240**	**–207**	**–1,410**	**–1,904**
9. a. Investment income	396	341	2,012	2,432
b. Investment expenses	154	64	322	319
Net income from assets under own management	**242**	**277**	**1,690**	**2,113**
Net income from investment contracts	—	—	—	—
Net interest income from funds withheld and contract deposits	—	—	–14	–15
Net investment income	**242**	**277**	**1,676**	**2,098**
of which share of profit or loss of equity-accounted associates and joint ventures	2	5	—	3
10. a. Other income	136	165	239	215
b. Other expenses	127	126	325	272
Other income/expenses	**9**	**39**	**–86**	**–57**
Profit before goodwill impairments	**11**	**109**	**180**	**137**
11. Goodwill impairments	—	—	—	—
Operating profit/loss (EBIT)	**11**	**109**	**180**	**137**
12. Financing costs	9	9	9	9
13. Taxes on income	18	9	63	17
Net income	**–16**	**91**	**108**	**111**
of which attributable to non-controlling interests	—	—	6	9
attributable to shareholders of Talanx AG	–16	91	102	102

1) With the exception of the Retail Germany Division and the Reinsurance Division, the statements of income of the other divisions are the same as those of the reportable segments.
2) Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Retail International		Reinsurance		Corporate Operations		Consolidation		Total	
2018	2017 2)	2018	2017	2018	2017	2018	2017	2018	2017 2)
5,552	5,461	19,176	17,791	53	29	−662	−776	34,885	33,060
—	1	503	631	53	29	−662	−776	—	—
5,552	5,460	18,673	17,160	—	—	—	—	34,885	33,060
153	280	—	—	—	—	—	—	1,006	1,172
425	429	1,779	1,697	16	7	−634	−720	3,848	3,669
−167	−188	−128	−438	−6	—	−37	−10	−479	−831
−9	−15	−20	25	−3	—	−33	−10	−22	−30
4,816	**4,579**	**17,289**	**15,631**	**34**	**22**	**−32**	**−56**	**29,574**	**27,418**
3,894	3,661	14,376	13,640	35	14	−500	−451	26,746	26,188
297	265	1,756	1,447	3	—	−487	−461	3,229	2,918
3,597	**3,396**	**12,620**	**12,193**	**32**	**14**	**−13**	**10**	**23,517**	**23,270**
1,180	1,170	4,927	4,151	8	4	−190	−230	8,217	7,242
89	81	211	227	1	—	−179	−209	610	554
1,091	**1,089**	**4,716**	**3,924**	**7**	**4**	**−11**	**−21**	**7,607**	**6,688**
40	30	1	1	—	—	−4	45	66	126
77	71	37	7	—	—	−12	—	163	132
−37	**−41**	**−36**	**−6**	**—**	**—**	**8**	**45**	**−97**	**−6**
91	**53**	**−83**	**−492**	**−5**	**4**	**—**	**—**	**−1,647**	**−2,546**
385	397	1,711	1,832	13	12	−62	−54	4,455	4,960
61	63	363	272	93	90	−114	−111	879	697
324	**334**	**1,348**	**1,560**	**−80**	**−78**	**52**	**57**	**3,576**	**4,263**
−1	−4	—	—	—	—	—	—	−1	−4
−2	−1	208	235	—	—	—	—	192	219
321	**329**	**1,556**	**1,795**	**−80**	**−78**	**52**	**57**	**3,767**	**4,478**
—	—	5	16	—	—	—	—	7	24
105	102	1,099	1,006	800	767	−746	−728	1,633	1,527
249	246	946	939	715	705	−641	−634	1,721	1,654
−144	**−144**	**153**	**67**	**85**	**62**	**−105**	**−94**	**−88**	**−127**
268	**238**	**1,626**	**1,370**	**—**	**−12**	**−53**	**−37**	**2,032**	**1,805**
—	—	—	—	—	—	—	—	—	—
268	**238**	**1,626**	**1,370**	**—**	**−12**	**−53**	**−37**	**2,032**	**1,805**
4	6	94	80	102	86	−48	−41	170	149
71	69	374	247	−22	43	−1	2	503	387
193	**163**	**1,158**	**1,043**	**−80**	**−141**	**−4**	**2**	**1,359**	**1,269**
32	26	618	563	—	—	—	—	656	598
161	137	540	480	−80	−141	−4	2	703	671

CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE REPORTABLE SEGMENTS RETAIL GERMANY – PROPERTY/CASUALTY AND LIFE, AS WELL AS PROPERTY/CASUALTY AND LIFE/HEALTH REINSURANCE FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2018

EUR MILLION

	Retail Germany – Property/Casualty		Retail Germany – Life		Property/Casualty Reinsurance		Life/Health Reinsurance	
	2018	2017	2018	2017	2018	2017	2018	2017
1. Gross written premiums including premiums from unit-linked life and annuity insurance	1,564	1,525	4,516	4,576	11,976	10,711	7,200	7,080
of which attributable to other segments	—	—	59	59	354	482	149	149
with third parties	1,564	1,525	4,457	4,517	11,622	10,229	7,051	6,931
2. Savings elements of premiums from unit-linked life and annuity insurance	—	—	853	892	—	—	—	—
3. Ceded written premiums	86	82	235	177	1,108	1,107	671	590
4. Change in gross unearned premiumse	–28	–39	–47	–108	–83	–422	–45	–16
5. Change in ceded unearned premiums	–3	–7	2	2	–20	24	—	1
Net premiums earned	**1,453**	1,411	**3,379**	3,397	**10,805**	9,158	**6,484**	6,473
6. Claims and claims expenses (gross)	951	922	4,177	4,723	8,328	7,440	6,048	6,200
Reinsurers' share	39	13	86	69	1,100	914	656	533
Claims and claims expenses (net)	**912**	909	**4,091**	4,654	**7,228**	6,526	**5,392**	5,667
7. Acquisition costs and administrative expenses (gross)	545	543	828	693	3,402	2,812	1,525	1,339
Reinsurers' share	24	22	120	78	166	180	45	47
Net acquisition and administrative expenses	**521**	521	**708**	615	**3,236**	2,632	**1,480**	1,292
8. Other technical income	2	3	24	27	1	1	—	—
Other technical expenses	11	5	25	38	9	—	28	7
Other technical result	**–9**	–2	**–1**	–11	**–8**	1	**–28**	–7
Net technical result	**11**	–21	**–1,421**	–1,883	**333**	1	**–416**	–493
9. a. Investment income	113	111	1,899	2,321	1,297	1,437	414	395
b. Investment expenses	23	19	299	300	268	220	95	52
Net income from assets under own management	**90**	92	**1,600**	2,021	**1,029**	1,217	**319**	343
Gains or losses from investment contracts	—	—	—	—	—	—	—	—
Net interest income from funds withheld and contract deposits	–1	–1	–13	–14	36	18	172	217
Net investment income	**89**	91	**1,587**	2,007	**1,065**	1,235	**491**	560
of which share of profit or loss of equity-accounted associates and joint ventures	—	1	—	2	2	12	3	4
10. a. Other income	60	56	179	159	371	292	728	714
b. Other expensesn	91	74	234	198	405	387	541	552
Other income/expenses	**–31**	–18	**–55**	–39	**–34**	–95	**187**	162
Profit before goodwill impairments	**69**	52	**111**	85	**1,364**	1,141	**262**	229
11. Goodwill impairments	—	—	—	—	—	—	—	—
Operating profit/loss (EBIT)	**69**	52	**111**	85	**1,364**	1,141	**262**	229

GROSS WRITTEN PREMIUMS, ASSETS UNDER OWN MANAGEMENT AND NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN [1]

EUR MILLION

	2018	2017
Germany	28,816	28,103
United Kingdom	7,264	7,366
Central and Eastern Europe (CEE), including Turkey	4,505	4,446
Rest of Europe	38,643	37,468
USA	17,876	16,958
Rest of North America	2,725	2,666
Latin America	3,360	2,979
Asia and Australia	8,365	7,476
Africa	314	419
Total	**111,868**	**107,881**

1) 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 [1]

EUR MILLION

	2018	2017
Germany	4,054	4,059
United Kingdom	99	103
Rest of Europe	269	334
USA	625	601
Rest of North America	244	115
Latin America	180	170
Asia and Australia	3	3
Africa	6	9
Total	**5,480**	**5,394**

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

GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN (BY DOMICILE OF CUSTOMER) [1]

EUR MILLION

	Primary insurance		Reinsurance		Total	
	2018	2017	2018	2017	2018	2017
Germany	7,651	7,660	918	898	8,569	8,558
United Kingdom	233	213	2,560	2,456	2,793	2,669
Central and Eastern Europe (CEE), including Turkey	2,391	2,373	488	560	2,879	2,933
Rest of Europe	2,960	2,816	2,613	2,337	5,573	5,153
USA	579	568	5,681	5,258	6,260	5,826
Rest of North America	60	46	795	681	855	727
Latin America	1,893	1,875	877	943	2,770	2,818
Asia and Australia	400	310	4,217	3,531	4,617	3,841
Africa	45	39	524	496	569	535
Total	**16,212**	**15,900**	**18,673**	**17,160**	**34,885**	**33,060**

1) 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

GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE [1]

EUR MILLION

	2018	2017
Property/casualty primary insurance	10,006	9,625
Primary life insurance	6,206	6,275
Property/Casualty Reinsurance	11,622	10,229
Life/Health Reinsurance	7,051	6,931
Total	**34,885**	**33,060**

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

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

CONSOLIDATION

CONSOLIDATION PRINCIPLES

The annual financial statements included in the consolidated financial statements are subject to standardised accounting policies. For subsidiaries with differing reporting dates that are more than three months prior to the Group reporting date, interim financial statements were prepared for the purposes of the consolidated financial statements. Internal Group balances and transactions are eliminated.

Subsidiaries are all entities that are controlled by the Group. The Group controls an entity if the Group directly or indirectly has decision-making powers over a Group company from voting rights or other rights and is thereby exposed, or has rights, to variable returns from the Group Company and has the ability to affect those returns through its decision-making powers over the investee. All of these criteria must be met. The Group holds the majority of voting rights in all of its subsidiaries. When assessing whether control exists, potential voting rights are considered if they are substantive. A separate audit of the principal-agent relationship is carried out in particular on investment funds — both for investment funds managed by the Group and also funds managed by third parties where the Group holds an interest. In this audit, an analysis of the decision-making processes is used to check whether the control of the decisive business activities lies with the fund management or the investors. Apart from the level of variability of the fee of the fund management, in particular substantial rights for dismissing the management or for initiating the liquidation of the fund and the role of the investors in various entities and committees of the investment fund are taken into account.

The Group accounts for **business combinations** using the purchase method. Subsidiaries are to be consolidated once control passes to the Group and are deconsolidated as soon as control ends. The acquisition costs correspond to the fair value of the assets acquired and liabilities arising or assumed at the transaction date. Assets, liabilities and contingent liabilities that can be identified in a business combination are measured in the course of initial consolidation at their acquisition date fair values. Any positive difference arising when the acquisition costs are eliminated against the fair value of the net assets is recognised as goodwill in intangible assets. Non-controlling interests in acquired companies are generally reported based on the proportionate interest in the net assets of the acquired companies.

Companies over which the Group is able to exercise significant influence are generally accounted for as **associates** using the equity method in accordance with IAS 28 and initially recognised at cost, including transaction costs. Based on the assumption that a significant influence exists if a company belonging to the Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights, an individual analysis of the actual possibilities of influence of the Group is carried out for every material holding.

A **joint venture** is an arrangement of which the Group has joint control, giving it rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities. These entities are always accounted for using the equity method.

Equity method accounting ends when the Group ceases to have significant influence or joint control. For further information, please see our disclosures in the "Accounting policies" section.

Structured entities as defined in IFRS 12 are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. In the Group, the requirement to consolidate structured entities is examined in the course of an analysis that covers both transactions in which the Group initiates a structured entity, either by itself or together with third parties, and transactions in which it enters into a contractual relationship, either by itself or with third parties, with an existing structured entity. The decision whether or not to consolidate depends on the circumstances and is reviewed at least each year.

BASIS OF CONSOLIDATION

Only subsidiaries, associates and joint ventures that are insignificant both individually and in the aggregate for the net assets, financial position and results of operations of the Group are exempted from consolidation or application of the equity method. The Group assesses whether a Group entity is insignificant by comparing its total assets and net income with the corresponding average figures for the Group as a whole over the last three years. For this reason, 26 (32) subsidiaries whose business purpose is primarily the rendering of services for insurance companies within the Group were not consolidated in the reporting period. A further 11 (ten) associates and five (three) joint ventures were not accounted for using the equity method due to insignificance. Altogether, the total assets of these entities amount to less than 1% of the average total assets of the Group over the last three years; the net income of these companies amounts altogether to less than 2% of the average net income of the Group over the last three years. In subsequent periods, the entities not included in the basis of consolidation on grounds of insignificance are examined at each reporting date to establish whether they should be fully consolidated or accounted for using the equity method in light of a reassessment of their materiality.

For information on the composition of the Group, including the complete list of all shareholdings, please consult the separate section of these notes on pages 245ff. Information on associates and joint ventures can be found in Note 5.

BASIS OF CONSOLIDATION

	2018	2017
Number of consolidated subsidiaries		
Domestic [1]	88	79
Foreign [2]	140	136
Subtotal	**228**	**215**
Number of consolidated investment funds (subsidiaries) [3]		
Domestic	19	19
Foreign	4	7
Subtotal	**23**	**26**
Number of consolidated structured entities		
Domestic	—	—
Foreign	3	2
Subtotal	**3**	**2**
Total number of consolidated entities		
Domestic	107	98
Foreign	147	145
Total	**254**	**243**
Number of equity-accounted associates and joint ventures		
Domestic	3	3
Foreign [4), 5)]	5	5
Total	**8**	**8**

1) Consists of: 86 (77) individual entities and two (two) entities consolidated in one (one) subgroup.
2) Consists of: 64 (60) individual entities and 76 (76) entities consolidated in four (four) subgroups.
3) Control is exercised through voting or similar rights, so these investment funds do not constitute structured entities
4) Consists of three (four) individual entities and two (one) equity-accounted investments included in a subgroup.
5) Includes one (one) foreign joint venture.

DISCLOSURES ON THE NATURE AND EXTENT OF SIGNIFICANT RESTRICTIONS

Statutory, contractual or regulatory restrictions, as well as protective rights of non-controlling interests, can restrict the Group's ability to access or use the assets, to transfer them to or from other entities in the Group without restriction, and to settle the liabilities of the Group. The following significant restrictions applied to the following subsidiaries with non-controlling interests at the reporting date because of protective rights in favour of those shareholders.

SIGNIFICANT RESTRICTIONS APPLYING TO MATERIAL SUBSIDIARIES

Company	Nature and extent of significant restrictions
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A. and Towarzystwo Ubezpieczeń na Życie WARTA S. A., both Warsaw, Poland	Under the existing consortium agreement with a minority shareholder, a dividend or a capital decrease may only be resolved with that shareholder's approval. In addition, the consortium agreement specifies that the shares held by the Group are subject to a restriction on disposal.
E+S Rückversicherung AG, Hannover	The sale or transfer of shares of E+S Rückversicherung AG is subject to endorsement and must be approved by the company's supervisory board. The supervisory board has the absolute right to issue or deny approval without being obliged to give reasons in the event of denial.

Other restrictions on transferring assets between Group companies may arise from local minimum capital and solvency requirements and, to a lesser extent, from currency restrictions in certain countries.

The Group has established trust accounts and other collateral to US cedants in the amount of EUR 6,592 (5,734) million in order to secure our technical liabilities. Securities held in the trust accounts are recognised as investments available for sale. The amount includes the equivalent of EUR 2,043 (1,635) million provided by investors to secure possible technical liabilities from ILS transactions. Additional blocked custody accounts and other trust accounts in favour of reinsurers and cedants, generally outside the US, in the amount of EUR 3,337 (3,623) million were also established In certain countries, collateral for liabilities to credit institutions of EUR 647 (508) million was also provided in connection with real estate companies and real estate transactions. For further information, please refer to our disclosures in the "Credit risk", "Risks from investments" subsection of the "Risk report" section in the Group management report.

DISCLOSURES ON SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Interests in the equity of subsidiaries that are attributable to non-controlling interests are reported separately in equity. They amounted to EUR 5,548 (5,411) million at the reporting date.

SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS [1]

EUR MILLION

	Subgroup Hannover Rück SE [2]		Towarzystwo Ubezpieczeń i Reasekuracji WARTA S. A.	
	2018	2017	2018	2017
Domicile/country of formation	Hannover, Germany	Hannover, Germany	Warsaw, Poland	Warsaw, Poland
Non-controlling interests	49.78%	49.78%	24.26%	24.26%
Investments	53,062	50,960	2,236	2,015
Reinsurance recoverables on technical provisions	3,095	2,715	210	184
Accounts receivable on insurance business	3,976	3,821	251	290
Total assets	**64,508**	**61,197**	**2,962**	**2,749**
Subordinated liabilities	1,493	1,492	—	—
Technical provisions	41,686	41,292	2,078	1,880
Other provisions	606	679	20	19
Equity	**9,542**	**9,287**	**635**	**619**
of which non-controlling interests [3]	5,256	5,123	154	150
Total debt	**54,966**	**51,910**	**2,327**	**2,130**
Gross written premiums	19,176	17,791	1,295	1,189
Net premiums earned	17,289	15,632	1,209	1,052
Underwriting result	–51	–489	81	50
Net investment income	1,530	1,774	59	59
Operating profit/loss (EBIT)	1,597	1,364	127	98
Net income	**1,146**	**1,045**	**105**	**81**
of which non-controlling interests [3]	618	564	25	20
Other comprehensive income	**–230**	**–853**	**–12**	**43**
Total comprehensive income	**916**	**192**	**93**	**124**
of which non-controlling interests [3]	491	126	23	30
Cash flows from operating activities	2,225	1,694	338	387
Cash flows from investing activities	–2,075	–942	–288	–276
Cash flows from financing activities	150	–690	–77	–59
Cash and cash equivalents at the end of the reporting period	**1,073**	**836**	**12**	**36**
Dividends paid to non-controlling interests during the year [4]	**300**	**300**	**19**	**14**

1) All amounts relate to financial information before consolidation
2) Information according to Hannover Rück SE subgroup.
3) The non-controlling interests in equity, net income and total comprehensive income of the Hannover Rück SE subgroup are based on the proportionate indirect share.
4) Contained in cash flows from financing activities.

SIGNIFICANT ADDITIONS AND DISPOSALS OF CONSOLIDATED SUBSIDIARIES AS WELL AS OTHER CHANGES UNDER COMPANY LAW

ADDITIONS AND DISPOSALS

Effective 11 January 2018, the Hannover Re subgroup acquired all shares in The Omaha Indemnity Company, Madison, USA, through its wholly owned subsidiary Hannover Finance, Inc., Wilmington, USA. The company has since been renamed Glencar Insurance Company, Orlando, USA. The purchase price of the shares was EUR 21 million. Its operations were included in the consolidated financial statements in the first quarter. In the context of purchase price allocation, goodwill of EUR 2 million arose from the calculation of the fair value of the assets acquired and liabilities assumed for first-time consolidation.

By way of purchase agreement dated 27 June 2017, Saint Honore Iberia S. L., Madrid, Spain (Retail International segment), acquired 91.34% of the shares in the insurance company Generali Colombia Generales S. A., Bogota, Colombia, and 99.88% of the shares in Generali Colombia Vida Compañia de Seguros S. A., Bogota, Colombia. This acquisition aimed to further expand presence in the strategic Latin America target region. Based on the agreements entered into, the Group has recognised the acquisition as at 3 April 2018 (date of initial consolidation). On being acquired, the companies were renamed HDI Seguros Generales S. A. and HDI Seguros de Vida S. A. The purchase price (EUR 27 million) was settled entirely in cash, with EUR 22 million relating to the acquisition of HDI Generales S. A. and EUR 5 million to HDI Seguros de Vida S. A.

Goodwill of EUR 10 million arose from the transaction. This goodwill essentially reflects the growth potential of entering the Colombian market. It is not deductible for tax purposes.

Acquisition-related costs (EUR 0.7 million) are reported in “Other income/expenses”.

The amount reported for accounts receivable corresponds to their fair value. Further credit losses are not expected. The acquired intangible assets essentially include distribution networks, customer relationships and operating licences. No material contingent liabilities were identified that are to be recognised in accordance with IFRS 3.23 or any that were not recognised because their fair value could not be measured reliably. No contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

FAIR VALUES OF ACQUIRED ASSETS AND ASSUMED LIABILITIES OF HDI SEGUROS GENERALES S. A. AND HDI SEGUROS DE VIDA S. A. AS AT 3 APRIL 2018

EUR MILLION

	HDI Seguros Generales S. A.	HDI Seguros de Vida S. A.
Intangible assets	6	1
Investments	39 [1]	6
Reinsurance recoverables on technical provisions	18	2
Accounts receivable on insurance business [2]	10	3
Cash at banks, cheques and cash-in-hand	3	1
Deferred tax assets	1	—
Other assets	7	5
Total assets	**84**	**18**
Technical provisions	50	8
Other provisions	4	1
Other liabilities	13	4
of which tax liabilities	—	—
of which insurance-related	8	2
Total liabilities	**67**	**13**
Acquired net assets (before consolidation)	**17**	**5**

[1] Also includes the carrying amounts for the participating interest in HDI Seguros de Vida S. A. of EUR 4 million.
[2] The gross amount of the accounts receivable is EUR 14 million.

The companies’ gross premiums of EUR 60 million and net income of EUR 954 thousand were included in the financial statements. If the group had already been acquired as at 1 January 2018, the gross premiums and net income for the period to be included would have amounted to EUR 80 million and EUR 701 thousand respectively.

By way of purchase agreement dated 22 January 2018, HDI International AG (previously Talanx International AG), Hannover, Germany (Retail International Segment), acquired 99.44% of the shares in the property insurer Liberty Sigorta A. Ş., Istanbul, Turkey. This acquisition aimed at expanding presence in the Turkish market. Based on the agreements entered into, the Group has recognised the acquisition as at 3 May 2018 (date of initial consolidation). The purchase price (EUR 4 million) was settled entirely in cash.

The goodwill (EUR 18 million) reflects the synergies anticipated from the merger with HDI Sigorta A. Ş., Istanbul, Turkey, on 31 October 2018, for example the potential for the future use of tax loss carryforwards. It is not deductible for tax purposes. The remaining minority shareholders’ shares were acquired as part of the merger by means of a squeeze-out.

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

FAIR VALUES OF ACQUIRED ASSETS AND ASSUMED LIABILITIES OF LIBERTY SIGORTA A. Ş. AS AT 3 MAY 2018

EUR MILLION

	Liberty Sigorta A. Ş.
Intangible assets	2
Investments	36
Reinsurance recoverables on technical provisions	5
Accounts receivable on insurance business [1]	15
Cash at banks, cheques and cash-in-hand	1
Other assets	4
Total assets	**63**
Technical provisions	44
Other provisions	29
Other liabilities	4
of which tax liabilities	—
of which insurance-related	3
Total liabilities	**77**
Acquired net assets (before consolidation)	**–14**

[1] The gross amount of the accounts receivable is EUR 16 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 are to be recognised in accordance with IFRS 3.23 or any that were not recognised because their fair value could not be measured reliably. No contingent consideration, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

The company's gross premiums before the merger of EUR 7 million and net income of EUR –3 million were included in the financial statements. If the group had already been acquired as at 1 January 2018, the gross premiums and net income for the period to be included would have amounted to EUR 21 million and EUR –8 million respectively.

HDI International AG sold its shares (100%) in ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg (Retail International segment) on 2 October 2018. For more details, please see the section "Non-current assets held for sale and disposal groups".

In January 2019, various Group companies at division level and Group service companies were renamed in order to further refine the long-standing "HDI" Group brand within the context of new market strategies. Please see the description in the list of shareholdings in the Notes.

DISCLOSURES ON CONSOLIDATED STRUCTURED ENTITIES

Kaith Re Ltd., LI RE and Kubera Insurance (SAC) Ltd. (all Hamilton, Bermuda) were consolidated as at the reporting date.

Kaith Re Ltd. is a "segregated accounts company" (SAC) whose sole purpose is to securitise reinsurance risks in investment products. In the course of this transformation, the risk is transferred in its entirety to the relevant investor in all cases. SACs have also segregated accounts in addition to their general account; these segregated accounts are legally entirely separate in terms of liability from each other and from the general account and are used for the above-mentioned securitisation transactions for the investors.

Kubera Insurance (SAC) Ltd is also a SAC whose purpose is to establish segregated accounts which are provided to companies outside the Group for structured financial transactions.

In accordance with IFRS 10, we classify the general account and segregated accounts as separate entities to which the principles of "silo accounting" are applied. In line with this concept, Hannover Rück SE is required to consolidate Kaith Re Ltd.'s general account and is contractually obliged to pay the costs of external service providers, to be covered from the funds in the general account. Each individual segregated account must be examined separately by the parties involved (investors) in terms of the requirement to consolidate and must be consolidated depending on the contractual arrangements in each case.

LI RE is a segregated account of Kaith Re Ltd. whose purpose – as in the case of all of Kaith Re Ltd.'s segregated accounts – is to securitise underwriting risks. In contrast to the other segregated accounts, Leine Investment SICAV-SIF, Luxembourg, is LI RE's sole investor and risk taker.

At the reporting date, the Group had not provided any financial or other support for a consolidated structured entity. The Group does not intend to provide financial or other support to one or more of these entities without a contractual obligation to do so.

DISCLOSURES ON UNCONSOLIDATED STRUCTURED ENTITIES

The unconsolidated structured entities comprise the following types of transactions:

UNCONSOLIDATED STRUCTURED ENTITIES DEPENDING ON THE NATURE OF THE ENTITY, INCLUDING PRESENTATION OF LOSS EXPOSURE

Nature and purpose of the business relationship or investment
Investments including investments in CAT bonds (ILS)
Investments: As part of its asset management activities, the Group is invested in various funds, which themselves transact certain types of equity and debt investments, and whose fund/corporate management has been outsourced to a fund manager. The investments consist of special funds, private equity funds, fixed income funds, collateralised debt obligations, real estate funds, index funds and other retail funds. However, in some cases, Talanx companies also act as fund managers (as an agent) in order to collect management fees on behalf of the investors. Material risks consist of the risk of loss of capital invested that is typical for funds. The maximum loss exposure corresponds to the carrying amounts. With regard to the fund management for non-Group investors, the loss exposure is limited to any default on the future administration fees. The volume of assets managed for non-Group investors stands at EUR 12.4 (12.9) billion and the generated commissions total EUR 105 (86) million.
Leine Investment SICAV-SIF: Through investments in CAT bonds, Hannover Rück SE is invested via its subsidiary Leine Investment SICAV-SIF, Luxembourg, in a number of structured entities that issue these bonds to securitise catastrophe risks. Leine Investment General Partner S. à. r. l. is the managing partner of the asset management company Leine Investment SICAV-SIF, whose purpose consists of the development, holding and management of a portfolio of insurance-linked securities (CAT bonds), including for investors outside the Group. A stock of such securities is also held in Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover. The volume of these transactions results from the carrying amount of the relevant investments and amounted to EUR 86 (56) million at the reporting date. The maximum loss exposure corresponds to the carrying amounts.
Unit-linked life insurance contracts
There are unit-linked life insurance contracts at the reporting date resulting from the life insurance business of Group companies. In this form of investment, all risks and returns are attributable to the policyholder, meaning that the Group has no obligations or risk exposures. The investments and the related obligations to the policyholders are classified as silos in accordance with IFRS 10.B76 ff. for which the policyholder makes the investment decision; there is therefore no requirement to consolidate them.
Collateralised fronting (ILS)
As part of its extended insurance-linked securities (ILS) activities, Hannover Rück SE has entered into collateralised fronting arrangements, under which risks assumed from ceding companies are passed on to institutional investors outside the Group using structured entities. The purpose of such transactions is to directly transfer clients' business. The volume of the transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 6,131 (5,235) million at the reporting date. A portion of the reinsurance layer is funded and collateralised by contractually defined investments in the form of cash and cash equivalents, a further portion remains uncollateralised or is collateralised by less liquid securities. The maximum loss exposure of these transactions is defined as the uncollateralised reinsurance layer and the credit risk of the collateralisations, and amounted to EUR 3,063 (2,775) million at the reporting date. However, this does not correspond to the economic loss exposure measured in accordance with recognised actuarial methods. The worst-case modelled expected loss in 10,000 years is a maximum of EUR 50 (50) million.
Retrocessions and securitisation of reinsurance risks
The securitisation of reinsurance risks is largely performed using structured entities. "K Cession": Through its "K" transactions, Hannover Rück SE secured underwriting capacity for catastrophe risks on the capital market. The "K Cession", which was placed with institutional investors from North America, Europe and Asia, involves a quota share cession on its worldwide natural catastrophe business as well as aviation and marine risks. From the total volume of the "K Cession", an amount converted as at the reporting date of EUR 389 (349) million was securitised through structured entities. The transaction has an indefinite term and can be called annually by the investors. Segregated accounts of Kaith Re Ltd. are being used as a transformer in relation to part of this transaction. Hannover Rück SE also uses further segregated accounts of Kaith Re Ltd. and other structured entities outside the Group for various retrocessions both of its traditional cover and also its ILS cover that are both passed on to institutional investors in the form of securitised transactions. The volume of these transactions is measured by reference to the reinsurance layer of the underlying retrocession agreements and amounted to EUR 2,992 (2,635) million at the reporting date. The structured entities are in all cases fully funded by contractually defined investments in the form of cash and cash equivalents. As the entire reinsurance layer of the structured entities is thus fully collateralised in each case, there is no underwriting loss exposure for Hannover Rück SE in this respect.
"Unterstützungskassen" (provident funds)
"Unterstützungskassen" are provident funds with legal capacity that assume responsibility for performing a benefit commitment for an employer. The Group's relationship with these entities is based on the support it provides to establish these entities and the insurance business it concludes. As the Group cannot direct the relevant activities of the "Unterstützungskassen" and has no rights to variable returns from them, there is no requirement for the Group to consolidate these entities. These entities do not result in assets, liabilities or non-performance risk for the Group.

BUSINESS RELATIONSHIPS AND CARRYING AMOUNTS OF THE ASSETS AND LIABILITIES OF UNCONSOLIDATED STRUCTURED ENTITIES

EUR MILLION

	31.12.2018				31.12.2017			
Type of unconsolidated structured entity	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks	General investment activity/ investments	Unit-linked life insurance contracts	Investments in CAT bonds (ILS)	Retrocession: securitisations of reinsurance risks
ASSETS								
Loans and receivables	4	—	—	—	7	—	—	—
Other financial instruments – financial assets available for sale	4,375	—	—	—	4,361	—	—	—
Other financial instruments – financial instruments at fair value through profit or loss	290	—	86	—	219	—	56	—
Investment contracts	426	—	—	—	470	—	—	—
Other investments	2,607	—	—	—	2,275	—	—	—
Investments for the benefit of life insurance policyholders who bear the investment risk	—	9,990	—	—	—	11,133	—	—
Reinsurance recoverables on technical provisions	—	—	—	1,179	—	—	—	679
Accounts receivable on insurance business	—	—	—	23	—	—	—	40
Total asset items	**7,702**	**9,990**	**86**	**1,202**	**7,332**	**11,133**	**56**	**719**
EQUITY AND LIABILITIES								
Technical provisions for life insurance policies where the investment risk is borne by the policyholders	—	9,990	—	—	—	11,133	—	—
Other liabilities – reinsurance payables	—	—	—	320	—	—	—	231
Total equity and liabilities	**—**	**9,990**	**—**	**320**	**—**	**11,133**	**—**	**231**

Where they result from general investment activities or investments in CAT bonds, income and expenses from business relationships with unconsolidated structured entities are reported in "Net investment income"; if they are attributable to retrocessions and securitisations, they are reported in the technical account.

In December 2018, Kubera Insurance (SAC) Ltd set up its first segregated account not owned by a Group company. With effect from 31 December 2018, the segregated account concluded an agreement with a life insurance company outside the Group for the acquisition of a reinsurance portfolio which is partially retroceded. As part of this retrocession, the Group concluded a stop loss agreement with the segregated account via its wholly owned subsidiary Hannover Life Reassurance Company of America (Bermuda) Ltd to hedge against peak risks.

At the reporting date, Group companies had not provided any financial or other support for these unconsolidated structured entities. There are currently no intentions to provide financial or other support without a contractual obligation to do so. Commitments that we do not classify as support, such as outstanding capital commitments with respect to existing investment exposures, are presented in the "Other disclosures" section ("Contingencies and other financial commitments").

NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

HDI SEGUROS S. A., SAN ISIDRO, PERU (RETAIL INTERNATIONAL SEGMENT)

The Group is planning to sell its 100% interest in HDI Seguros S. A., SAN ISIDRO, Peru through HDI International AG, Hannover, for a figure at the lower end of the single-digit million euro range. The disposal group contains assets of EUR 9 million and liabilities of EUR 6 million. The main carrying amounts for the disposal group relate to capital investments, accounts receivable on insurance business and deferred tax assets (each EUR 2 million), technical provisions (EUR 4 million) and liabilities totalling EUR 2 million. The transaction is expected to be completed in the first half of 2019. A small gain on disposal is expected. The Group plans to use the sale to optimise its portfolio in South America.

ASPECTA ASSURANCE INTERNATIONAL LUXEMBOURG, LUXEMBOURG, LUXEMBOURG (RETAIL INTERNATIONAL SEGMENT)

On 26 January 2018, the Group signed an agreement to sell its 100% interest in ASPECTA Assurance International Luxembourg S. A., Luxembourg, Luxembourg, through HDI International AG, Hannover, for a price in the low eight-figure range. It had already been categorised as a disposal group in accordance with IFRS 5 on 31 December 2017. The transaction was completed on 2 October 2018 with a gain on disposal at the lower end of the million euro range (in “Other income/expenses”). The disposal group contained assets of EUR 402 (357) million and liabilities of EUR 385 (340) million. The main carrying amounts for the disposal group related to investments for the benefit of life insurance policyholders who bear the investment risk and technical provisions in the area of life insurance where the investment risk is borne by policyholders (each EUR 242 [258] million), reinsurance recoverables on technical provisions (EUR 44 [47] million) and liabilities of EUR 45 (48) million. The sale allowed the Group to refine its strategic focus.

INDAQUA INDÚSTRIA E GESTÃO DE ÁGUAS S. A., MATOSINHOS, PORTUGAL (PRO RATA: RETAIL GERMANY – PROPERTY/CASUALTY AND LIFE AS WELL AS INDUSTRIAL LINES SEGMENTS)

As at 31 December 2017, the Group reported its associate, INDAQUA Indústria e Gestão de Águas S. A., Matosinhos, Portugal, and shareholder loans to be repaid, as a disposal group with a carrying amount of EUR 61 million. The transaction closed on 22 February 2018 with a low, seven-figure gain on disposal after taxes, which has been recognised under “Other income/expenses”.

REAL ESTATE

We report these property holdings as held for sale in the amount of EUR 6 (0) million as at the reporting date.

NOTES TO THE CONSOLIDATED BALANCE SHEET — ASSETS

(1) GOODWILL

GOODWILL BY SEGMENT

EUR MILLION

	Industrial Lines	Retail Germany – Property/ Casualty	Retail Germany – Life	Retail International	Property/ Casualty Reinsurance	Corporate Operations	2018	2017
Gross carrying amount as at 31.12. of the previous year	**159**	**325**	**202**	**656**	**33**	**3**	**1,378**	**1,359**
Currency translation as at 1.1. of the financial year	—	—	—	–24	–1	—	–25	5
Gross carrying amount after currency translation as at 1.1. of the financial year	159	325	202	632	32	3	1,353	1,364
Additions due to business combinations	—	—	—	28	2	—	30	14
Disposals	—	—	—	—	—	—	—	—
Exchange rate changes	—	—	—	–5	—	—	–5	—
Gross carrying amount as at 31.12. of the financial year	**159**	**325**	**202**	**655**	**34**	**3**	**1,378**	**1,378**
Accumulated impairment losses as at 31.12. of the previous year	**5**	**77**	**202**	**33**	**—**	**3**	**320**	**320**
Currency translation as at 1.1. of the financial year	—	—	—	—	—	—	—	—
Accumulated impairment losses after currency translation as at 1 January of the financial year	5	77	202	33	—	3	320	320
Impairments	—	—	—	—	—	—	—	—
Accumulated impairment losses as at 31.12. of the financial year	**5**	**77**	**202**	**33**	**—**	**3**	**320**	**320**
Carrying amount as at 31.12. of the previous year	154	248	—	623	33	—	1,058	1,039
Carrying amount as at 31.12. of the financial year	**154**	**248**	**—**	**622**	**34**	**—**	**1,058**	**1,058**

IMPAIRMENT TEST

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs in accordance with IFRS 3 in conjunction with IAS 36. It is allocated to those CGUs or groups of CGUs that are expected to derive economic benefits in the form of cash flows from the business combination that gave rise to the goodwill. Each CGU to which goodwill is allocated represents the lowest organisational level at which goodwill is monitored for internal management purposes.

The Group has therefore allocated all goodwill to CGUs or groups of CGUs. In the case of the Industrial Lines, Retail Germany – Property/Casualty and Property/Casualty Reinsurance segments, the CGUs correspond to the segments of the same name in accordance with IFRS 8. In the Retail International segment, each foreign market essentially represents a separate CGU, although the lowest goodwill monitoring level corresponds to the geographical regions, which represent corresponding groups of CGUs.

CGUs TO WHICH GOODWILL IS ALLOCATED

EUR MILLION (MEASURED AT RATE ON REPORTING DATE)

	31.12.2018	31.12.2017
Industrial Lines segment	154	154
Retail Germany – Property/Casualty segment	248	248
Retail International segment		
Latin America	208	212
Europe	414	411
Property/Casualty Reinsurance segment	34	33

The Group tests goodwill for impairment in the fourth quarter of each year, based on data as at 30 September of that year. As at the reporting date, there was no evidence of impairment for any of the CGUs or groups of CGUs, so that it was not necessary to carry out an unscheduled impairment test.

In order to establish whether an impairment loss needs to be recognised, the carrying amount of the CGU or the group of CGUs, including its allocated goodwill, is compared with its recoverable amount. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income. Recoverable amount is the higher of fair value less costs of disposal and value in use. With the exception of the two reinsurance segments, the recoverable amount for all CGUs or groups of CGUs is always measured on the basis of value in use, which is calculated by the Group using a recognised valuation technique, specifically the discounted cash flow method. If CGUs or groups of CGUs comprise more than one Group company, a sum-of-the-parts approach is used. Recoverable amount for the reinsurance segment is measured on the basis of fair value less costs to sell (Level 1 of the fair value hierarchy).

Material assumptions for determining the recoverable amount (Value in use)

When it comes to measuring the value of the property/casualty insurers and the life insurers using the discounted cash flow method, the present value of future cash flows is calculated based on the projected income statements approved by the management of the companies concerned. The projections are prepared on a standalone basis, based on a going concern assumption that the entity will continue to operate a generally unchanged concept.As a rule, they project after-tax net income for the subsequent five years and, starting in the sixth year, extrapolate to perpetuity. The constant growth rates shown below – based on conservative assumptions – are used to extrapolate cash flows beyond the period of detailed planning.

The bancassurance property insurers are measured at the present value of future cash flows, whereby only the future earnings until the end of the relevant cooperation period are factored into the calculation. This is followed by assumed, linearly decreasing earnings over three years and notional liquidation proceeds.

In connection with the forecasting of future company-specific cash flows for individual CGUs or groups of CGUs, macroeconomic assumptions were made with respect to economic growth, inflation, interest rate trends and the market environment that correspond to the economic forecasts for the countries of the units to be measured and conform to market expectations and sector forecasts.

The combined ratio is an indicator of business performance in the area of property/casualty insurance, and results from projected premium development and expenses. It therefore expresses the overall assumptions made with regard to the premium, claim and cost performance. In planning the premiums and expenses, estimates are made in particular of the growth opportunities in the market environment as well as the trends in claims and costs in the context of planned measures at the company level. The projection of the investment income is carried out in relation to the respective asset portfolio, including the respective term structure and currency distribution, and based on the assumptions regarding the interest-rate performance. The net return on investment therefore varies widely by CGUs or group of CGU, depending on the interest-rate level of the currency area in question. In the field of life insurance, the assumption regarding the interest-rate performance represents the essential planning assumption.

The essential assumptions shown above result from the aggregation of the individual company plans of the companies in a CGU or a group of CGUs. The values assigned to the material parameters are arrived at from past experience and future expectations. The values assigned to the assumptions regarding the interest-rate performance per country are defined as standard for the whole Group and are derived from publicly available information sources. Any present values calculated in local currency are translated at the exchange rate as at the reporting date.

The discounted cash flow method is always applied to the evaluation of the life insurance companies (relevant only for the "Europe" group of CGUs). In order to take the particular characteristics of the life insurance business into account, the conventional appraisal-value method is also used to check the plausibility of any impairment if a determined MCEV value (including value of new business) is available. In the year under review, the application of the appraisal-value method for plausibility purposes – with the exception of an Italian life insurance company within the "Europe" group of CGUs – did not lead to any further application cases.

The discount factor (capitalisation rate) for the Group companies is calculated on the basis of the capital asset pricing model. The assumptions underlying the calculation of the capitalisation rate, including the risk-free base interest rate, the market risk premium and the beta factor, are determined on the basis of publicly available information and/or capital market data. The constant, long-term growth rates used are arrived at from past experience and future expectations, and do not exceed long-term average growth rates for the respective markets in which the companies operate.

CAPITALISATION RATES AND LONG-TERM GROWTH RATES

%

	Capitalisation rate		Long-term growth rate	
	2018 [1]	2017 [1]	2018 [1]	2017 [1]
Industrial Lines				
Eurozone	6.00–7.00	6.25–6.38	1.00	1.00
Other countries	8.00–16.00	7.75–15.00	1.00–4.00	1.00–4.00
Retail Germany – Property/Casualty	5.20–6.00	5.20–6.25	0.00–1.00	0.00–1.00
Retail International				
Europe				
Poland	8.25	8.25	2.00	2.00
Italy	7.24	7.21	1.00	1.00
Other countries	6.00–23.50	6.25–15.00	0.00–8.00	0.00–4.00
Latin America				
Chile	10.00	10.00	2.00	2.00
Mexico	13.00	12.00	4.00	4.00
Other countries	12.00–26.00	12.00–19.00	4.00–7.40	2.00–4.00

[1] The figures relate to the reference date of the regular impairment test, namely 30 September of a financial year.

Impairment losses in the reporting period

As in the prior year, there was no need to recognise goodwill impairment losses in the financial year.

Sensitivity analyses

The Group performed sensitivity analyses with respect to the most important parameters when calculating the recoverable amounts for all CGUs or groups of CGUs to which goodwill is allocated.

In order to cover key risks when calculating value in use, such as underwriting risk (combined ratio), interest rate parameters (interest rate risk), currency parameters (foreign exchange risk) and equity parameters (equity risk), a variety of conceivable scenarios complete with the relevant parameter changes were defined and studied in detail. In each case, one of the parameters was changed (all other things being equal) when calculating the value in use, whereas the other assumptions (in the medium-term planning and in the extrapolation) were left unchanged, and the resulting change in fair value was calculated. The calculations are based on value in use calculated when the impairment test is performed.

The calculations concerning the conceivable changes of parameters did not lead to any potential impairment.

(2) OTHER INTANGIBLE ASSETS

CHANGES IN OTHER INTANGIBLE ASSETS

EUR MILLION

	Finite useful life					Indefinite useful life		
	Insurance-related intangible assets	Software Purchased	Software Developed	Acquired distribution networks and customer relationships	Other	Acquired brand names	2018	2017
Gross carrying amount as at 31.12. of the previous year	2,342	521	39	161	133	39	3,235	3,174
Change in basis of consolidation (additions)								
Business combinations	2	—	—	2	7	—	11	85
Additions	—	41	2	—	38	—	81	69
Disposals	—	2	—	—	12	—	14	92
Reclassifications	—	19	—	—	–19	—	—	5
Disposal groups in accordance with IFRS 5	—	—	—	—	—	—	—	–2
Exchange rate changes	–1	–4	—	–4	–4	–1	–14	–4
Gross carrying amount as at 31.12. of the financial year	2,343	575	41	159	143	38	3,299	3,235
Accumulated depreciation and impairment losses as at 31.12. of the previous year	1,773	351	33	119	20	2	2,298	2,271
Change in basis of consolidation (additions)								
Business combinations	—	1	—	—	3	—	4	1
Disposals	—	2	—	—	2	—	4	81
Reversals of impairment losses	—	—	—	—	—	—	—	7
Amortisation/impairment losses								
Amortisation	57	48	2	6	3	—	116	65
Impairment losses	—	—	—	—	—	—	—	45
Disposal groups in accordance with IFRS 5	—	—	—	—	—	—	—	–2
Exchange rate changes	–2	–3	—	–3	–2	—	–10	6
Accumulated depreciation and impairment losses as at 31.12. of the financial year	1,828	395	35	122	22	2	2,404	2,298
Carrying amount as at 31.12. of the previous year	569	170	6	42	113	37	937	903
Carrying amount as at 31.12. of the financial year	515	180	6	37	121	36	895	937

Insurance-related intangible assets (= PVFP) consist of a shareholders' portion and a policyholders' portion. Only amortisation of the shareholders' portion reduces future earnings. The PVFP in favour of policyholders is recognised by life insurance companies that are required to enable their policyholders to participate in all results by establishing a provision for deferred premium refunds.

PVFP FOR PRIMARY LIFE INSURANCE COMPANIES

EUR MILLION

	31.12.2018	31.12.2017
Shareholders' portion	188	206
Policyholders' portion	284	295
Carrying amount	472	501

The amortisation of/impairment losses on the PVFP totalling EUR 57 (57) million are attributable as follows: EUR 45 (30) million to the shareholders' portion and EUR 12 (27) million to the policyholders' portion. These amounts are essentially attributable to the following segments as follows: Retail Germany – Life EUR 23 (45) million, Life/Health Reinsurance EUR 26 (4) million and Retail International EUR 8 (8) million.

PVFP BY TERM

EUR MILLION

	Term				
	Up to 10 years	Up to 20 years	Up to 30 years	Over 30 years	Total
Shareholders' portion	36	105	47	43	**231**
of which investment contracts	11	—	—	—	**11**
Policyholders' portion	59	78	77	70	**284**
Carrying amount as at 31.12.2018	95	183	124	113	**515**

The acquired brand names worth EUR 36 (37) million (essentially "WARTA" [EUR 30 million]) are indefinite-lived intangible assets since, based on an analysis of all relevant factors (including anticipated use, control, dependence on other assets), there is no foreseeable limitation on the period during which the asset can be expected to generate net cash flows.

(3) INVESTMENT PROPERTY

INVESTMENT PROPERTY

EUR MILLION

	2018	2017
Gross carrying amount as at 31.12. of the previous year	**3,120**	**2,738**
Change in basis of consolidation (additions)		
Business combinations	—	—
Additions	234	543
Disposals	28	92
Disposal groups in accordance with IFRS 5	—	—
Reclassification	–6	27
Exchange rate changes	37	–96
Gross carrying amount as at 31.12. of the financial year	**3,357**	**3,120**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**321**	**258**
Disposals	6	15
Reversal after impairment	6	2
Depreciation and impairment losses		
Amortisation	57	52
Impairment losses	4	16
Disposal groups in accordance with IFRS 5	—	—
Reclassification	–2	20
Exchange rate changes	4	–8
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**372**	**321**
Carrying amount as at 31.12. of the previous year	2,799	2,480
Carrying amount as at 31.12. of the financial year	**2,985**	**2,799**

Additions in the reporting period were attributable in particular to the Property/Casualty Reinsurance (EUR 117 million), Retail Germany – Life (EUR 64 million) and Industrial Lines (EUR 52 million) segments.

The fair value of investment property amounted to EUR 3,662 (3,232) million as at the reporting date. EUR 10 (14) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 3,652 (3,218) million to Level 3. Fair values are largely determined internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The directly attributable operating expenses in respect of properties rented out (including repairs and maintenance) totalled EUR 75 (65) million.Operating expenses of EUR 5 (5) million were incurred on properties with which no rental income is generated.

In the case of investment property, there were restrictions on disposal and guarantee assets in the amount of EUR 853 (829) million as at 31 December 2018. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 472 (359) million as at the reporting date.

(4) SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

EUR MILLION

	2018	2017
Affiliated companies	48	44
Participating interests	158	134
Carrying amount as at 31.12. of the financial year	**206**	**178**

(5) SHARES IN ASSOCIATES AND JOINT VENTURES

This balance sheet item covers the investments in associates and joint ventures that are measured using the equity method on the basis of the share of equity attributable to the Group. Financial information on associates and joint arrangements is disclosed in aggregated form in each case, as none of these entities is individually material to the Group within the meaning of IFRS 12.21.

SHARES IN ASSOCIATES AND JOINT VENTURES

EUR MILLION

	2018	2017
Carrying amount as at 31.12. of the previous year	**242**	290
Change in basis of consolidation	–1	—
Additions	41	1
Disposals	—	—
Disposal groups in accordance with IFRS 5	—	–48
Depreciation and impairment losses	—	—
Adjustment recognised in profit or loss	–14	9
Adjustment recognised outside profit or loss	–7	–2
Exchange rate changes	4	–8
Carrying amount as at 31.12. of the financial year	**265**	242

The goodwill of all companies measured using the equity method amounted to EUR 91 (78) million at the year-end. As in the prior year, no shares of losses were recognised in the financial year.

For further information on the Group's interest in associates and joint ventures, and on the equity and net income or loss for the year of these entities, please refer to the list of shareholdings on pages 245ff.

There were no obligations from contingent liabilities of associates and joint ventures at the reporting date.

SHARES IN ASSOCIATES

EUR MILLION

	2018	2017
Carrying amount as at 31.12. of the financial year	**258**	236
Profit from continuing operations	22	60
Profit after tax from discontinued operations	—	—
Other comprehensive income	–23	–7
Total comprehensive income	**–1**	53

SHARES IN JOINT VENTURES

EUR MILLION

	2018	2017
Carrying amount as at 31.12. of the financial year	**7**	6
Profit from continuing operations	1	1
Profit after tax from discontinued operations	—	—
Other comprehensive income	5	6
Total comprehensive income	**6**	7

(6) LOANS AND RECEIVABLES

LOANS AND RECEIVABLES

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Mortgage loans	331	347	44	25	375	372
Loans and prepayments on insurance policies	129	134	—	—	129	134
Loans and receivables due from government or quasi-governmental entities [1]	10,830	10,880	1,154	1,170	11,984	12,050
Corporate bonds	4,385	4,596	366	493	4,751	5,089
Covered bonds/asset-backed securities	13,469	12,936	2,245	2,572	15,714	15,508
Total	**29,144**	**28,893**	**3,809**	**4,260**	**32,953**	**33,153**

[1] Loans and receivables due from government or quasi-governmental entities include securities of EUR 3,161 (3,372) 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 13,465 (12,930) million, which corresponds to 99% (99%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due within one year	1,628	1,417	1,689	1,452
More than one year, up to two years	1,362	1,355	1,430	1,428
More than two years, up to three years	1,050	1,325	1,124	1,440
More than three years, up to four years	932	1,031	1,027	1,136
More than four years, up to five years	927	902	1,039	1,012
More than five years, up to ten years	7,723	6,741	9,016	7,997
More than ten years	15,522	16,122	17,628	18,688
Total	**29,144**	**28,893**	**32,953**	**33,153**

RATING STRUCTURE OF LOANS AND RECEIVABLES

IN MIO. EUR

	Amortised cost	
	31.12.2018	31.12.2017
AAA	17,223	16,108
AA	5,599	6,194
A	3,220	2,727
BBB or lower	2,333	3,090
Not rated	769	774
Total	**29,144**	**28,893**

The rating categories are based on the classifications used by the leading international rating agencies. Unrated loans and receivables consist principally of mortgage loans and policy loans.

(7) FINANCIAL ASSETS HELD TO MATURITY

FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Government debt securities of EU member states	131	163	13	12	144	175
Other foreign government debt securities	69	84	1	3	70	87
Debt securities issued by quasi-governmental entities [1]	24	47	2	3	26	50
Corporate bonds	24	69	1	2	25	71
Covered bonds/asset-backed securities	161	191	13	20	174	211
Total	**409**	**554**	**30**	**40**	**439**	**594**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 0 (16) 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 160 (191) million, which corresponds to 100% (100%) of the total amount.

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due within one year	91	182	92	186
More than one year, up to two years	42	48	45	50
More than two years, up to three years	138	52	151	57
More than three years, up to four years	52	138	58	157
More than four years, up to five years	52	54	55	60
More than five years, up to ten years	20	65	21	66
More than ten years	14	15	17	18
Total	**409**	**554**	**439**	**594**

RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

	Amortised cost	
	31.12.2018	31.12.2017
AAA	169	202
AA	38	79
A	132	155
BBB or lower	70	118
Not rated	—	—
Total	**409**	**554**

The rating categories are based on the classifications used by the leading international rating agencies.

(8) FINANCIAL ASSETS AVAILABLE FOR SALE

FINANCIAL ASSETS AVAILABLE FOR SALE

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Fixed-income securities						
Government debt securities of EU member states	11,673	9,796	749	1,005	12,422	10,801
US treasury notes	7,747	7,064	–104	–79	7,643	6,985
Other foreign government debt securities	2,717	2,290	–13	15	2,704	2,305
Debt securities issued by quasi-governmental entities [1]	10,960	10,328	599	686	11,559	11,014
Corporate bonds	23,131	22,509	190	1,107	23,321	23,616
Investment funds	1,626	1,610	48	97	1,674	1,707
Covered bonds/asset-backed securities	10,598	9,763	210	437	10,808	10,200
Profit participation certificates	36	54	–2	—	34	54
Total fixed-income securities	**68,488**	**63,414**	**1,677**	**3,268**	**70,165**	**66,682**
Variable-yield securities						
Equities	331	384	40	100	371	484
Investment funds	1,212	1,072	136	147	1,348	1,219
Profit participation certificates	77	70	3	—	80	70
Total variable-yield securities	**1,620**	**1,526**	**179**	**247**	**1,799**	**1,773**
Total securities	**70,108**	**64,940**	**1,856**	**3,515**	**71,964**	**68,455**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 3,499 (3,377) 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 9,168 (8,679) million, which corresponds to 85% (85%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value		Amortised cost	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due within one year	5,811	4,671	5,805	4,661
More than one year, up to two years	4,660	3,745	4,615	3,708
More than two years, up to three years	4,755	4,823	4,732	4,708
More than three years, up to four years	4,966	5,355	4,893	5,263
More than four years, up to five years	5,890	5,180	5,792	4,987
More than five years, up to ten years	21,281	22,557	20,964	21,563
More than ten years	22,802	20,351	21,687	18,524
Total	**70,165**	**66,682**	**68,488**	**63,414**

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
AAA	25,617	22,693
AA	15,178	14,151
A	10,980	11,198
BBB or lower	17,225	17,575
Not rated	1,165	1,065
Total	**70,165**	66,682

The rating categories are based on the classifications used by the leading international rating agencies.

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
Fixed-income securities		
Government debt securities of EU member states	146	46
Other foreign government debt securities	368	199
Debt securities issued by quasi-governmental entities [1]	1	1
Corporate bonds	484	544
Investment funds	259	211
Covered bonds/asset-backed securities	4	4
Profit participation certificates	82	67
Total fixed-income securities	**1,344**	**1,072**
Investment funds (variable-yield securities)	37	14
Other variable-yield securities	89	51
Total financial assets classified at fair value through profit or loss	**1,470**	**1,137**
Investment funds (variable-yield securities)	131	148
Derivatives	239	149
Total financial assets held for trading	**370**	**297**
Total	**1,840**	**1,434**

[1] Debt securities issued by quasi-governmental entities include securities of EUR 0 (1) 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 4 (4) million, which corresponds to 100% (100%) of the total amount.

CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
Due within one year	498	306
More than one year, up to two years	185	102
More than two years, up to three years	44	92
More than three years, up to four years	107	81
More than four years, up to five years	40	23
More than five years, up to ten years	192	212
More than ten years	278	256
Total	**1,344**	**1,072**

RATING STRUCTURE OF FIXED-INCOME SECURITIES

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
AAA	58	3
AA	273	—
A	292	199
BBB or lower	120	329
Not rated	601	541
Total	**1,344**	**1,072**

The rating categories are based on the classifications used by the leading international rating agencies.

Financial assets classified at fair value through profit or loss (with no trading intention) include structured products for which the fair value option under IAS 39 was exercised. The carrying amount of these financial assets represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to changes in the credit risk of the financial assets was EUR 1 (1) million in the reporting period and EUR 2 (2) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

(10) OTHER INVESTMENTS

CLASSIFICATION OF OTHER INVESTMENTS

EUR MILLION

	Carrying amount	
	31.12.2018	31.12.2017
Loans and receivables	183	124
Financial assets available for sale	4,310	4,614
Financial assets at fair value through profit or loss	44	38
Non-current assets from infrastructure investments	518	550
Total	**5,055**	**5,326**

The fair value of loans and receivables corresponds largely to their carrying amount.

FINANCIAL ASSETS AVAILABLE FOR SALE

EUR MILLION

	Amortised cost		Unrealised gains/losses		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Investments in partnerships	2,016	1,837	528	507	2,544	2,344
Other participating interests	235	213	20	20	255	233
Other short-term investments	1,511	2,037	—	—	1,511	2,037
Total	**3,762**	**4,087**	**548**	**527**	**4,310**	**4,614**

Short-term investments consist predominantly of overnight money and time deposits with a maturity of up to one year. The fair value of these deposits therefore corresponds largely to their carrying amount.

RATING STRUCTURE OF OTHER SHORT-TERM INVESTMENTS

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
AAA	—	—
AA	148	221
A	618	1,086
BBB or lower	553	464
Not rated	192	266
Total	**1,511**	**2,037**

Financial assets at fair value through profit or loss essentially relate to purchased life insurance policies.

"Non-current assets from infrastructure investments" relate to wind farm assets. There are no restrictions on disposal of the assets, which have not been pledged as collateral.

INFRASTRUCTURE INVESTMENTS

EUR MILLION

	2018	2017
Gross carrying amount as at 31.12. of the previous year	**626**	596
Change in basis of consolidation	—	24
Additions	—	6
Disposals	—	—
Reclassification	—	—
Exchange rate changes	—	—
Gross carrying amount as at 31.12. of the financial year	**626**	626
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**76**	43
Change in basis of consolidation	—	—
Disposals	—	—
Reversal after impairment	—	—
Depreciation and impairment losses		
Amortisation	32	33
Impairment losses	—	—
Reclassification	—	—
Exchange rate changes	—	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**108**	76
Carrying amount as at 31.12. of the previous year	550	553
Carrying amount as at 31.12. of the financial year	**518**	550

"Non-current assets from infrastructure investments" include assets under construction.

(11) INVESTMENTS UNDER INVESTMENT CONTRACTS

CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS

EUR MILLION

	Carrying amount	
	31.12.2018	31.12.2017
Loans and receivables	44	53
Financial assets classified at fair value through profit or loss	996	1,056
Derivatives	2	4
Total	**1,042**	1,113

LOANS AND RECEIVABLES

CONTRACTUAL MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due within one year	6	14	6	14
More than one year, up to two years	—	—	—	—
More than two years, up to three years	38	—	38	—
More than three years, up to four years	—	39	—	39
More than four years, up to five years	—	—	—	—
More than five years, up to ten years	—	—	—	—
Total	**44**	53	**44**	53

RATING STRUCTURE

EUR MILLION

	Amortised cost	
	31.12.2018	31.12.2017
AAA	—	—
AA	—	—
A	—	—
BBB or lower	44	52
Not rated	—	1
Total	**44**	53

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

CONTRACTUAL MATURITIES

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
Due within one year	43	34
More than one year, up to two years	26	11
More than two years, up to three years	29	19
More than three years, up to four years	27	32
More than four years, up to five years	31	27
More than five years, up to ten years	264	298
More than ten years	578	639
Total	**998**	1,060

RATING STRUCTURE

EUR MILLION

	Fair value	
	31.12.2018	31.12.2017
AAA	6	7
AA	12	19
A	141	131
BBB or lower	612	725
Not rated	227	178
Total	**998**	**1,060**

The carrying amount of financial assets classified at fair value through profit or loss represents the maximum credit exposure, in contrast to a purely economic perspective. The amount relating to the change in fair value that is attributable to the change in credit risk is insignificant. There are no credit derivatives or similar hedging instruments for these securities.

(12) FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

FAIR VALUE HIERARCHY

For the purposes of the disclosures required by IFRS 13, both financial instruments that are accounted for at fair value and those assets and liabilities that are recognised at amortised cost, but for which fair value must be disclosed in the annual financial report (financial instruments not measured at fair value), must be assigned to a three-level fair value hierarchy.

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

If inputs from different levels are used to measure a financial instrument, the lowest level input that is significant to the measurement is used to categorise the fair value measurement in its entirety.

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

As at the reporting date, we allocate around 4% (5%) of the financial instruments at fair value to Level 1 of the fair value hierarchy, 90% (89%) to Level 2 and 6% (6%) to Level 3.

Credit default swaps of EUR 28 million were reclassified from Level 1 to Level 2 in the financial year (2017: no transfers between Level 1 and 2).

There were no liabilities issued with an inseparable third-party credit enhancement within the meaning of IFRS 13.98 as at the reporting date (2017: EUR 0 million). The credit enhancements are not reflected in the measurement of the fair value.

FAIR VALUE HIERARCHY — FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

EUR MILLION

Carrying amount of financial instruments recognised at fair value by class	Level 1	Level 2	Level 3 [1]	Carrying amount
31.12.2018				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	68	70,092	5	70,165
Variable-yield securities	622	83	1,094	1,799
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	127	1,256	87	1,470
Held for trading, derivatives	—	107	132	239
Other financial assets held for trading	131	—	—	131
Other investments	1,498	13	2,843	4,354
Other assets, derivative financial instruments (hedging instruments)	—	52	—	52
Investment contracts				
Financial assets classified at fair value through profit or loss	794	2	200	996
Derivatives	—	—	2	2
Total amount of financial assets measured at fair value	**3,240**	**71,605**	**4,363**	**79,208**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	—	88	82	170
Negative fair values under derivatives	—	—	—	—
Other liabilities (investment contracts)				
Financial assets classified at fair value through profit or loss	266	530	200	996
Derivatives	—	—	2	2
Total amount of financial liabilities measured at fair value	**266**	**618**	**284**	**1,168**
31.12.2017				
Financial assets measured at fair value				
Financial assets available for sale				
Fixed-income securities	78	66,600	4	66,682
Variable-yield securities	742	68	963	1,773
Financial assets at fair value through profit or loss				
Financial assets classified at fair value through profit or loss	65	1,000	72	1,137
Held for trading, derivatives	27	73	49	149
Other financial assets held for trading	148	—	—	148
Other investments	2,013	24	2,615	4,652
Other assets, derivative financial instruments	—	198	—	198
Investment contracts				
Financial assets classified at fair value through profit or loss	848	2	206	1,056
Derivatives	—	—	4	4
Total amount of financial assets measured at fair value	**3,921**	**67,965**	**3,913**	**75,799**
Financial liabilities measured at fair value				
Other liabilities (negative fair values from derivative financial instruments)				
Negative fair values from derivatives	4	79	244	327
Negative fair values under derivatives	—	8	—	8
Other liabilities (investment contracts)				
Financial assets classified at fair value through profit or loss	257	594	206	1,057
Derivatives	—	—	4	4
Total amount of financial liabilities measured at fair value	**261**	**681**	**454**	**1,396**

[1] 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 31 December of the financial year.

RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL ASSETS) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2018

EUR MILLION

	Available-for-sale FI/ fixed-income securities	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	Held for trading, derivatives	Other investments	Investment contracts/FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2018								
Opening balance at 1.1.2018	**4**	**963**	**72**	**49**	**2,615**	**206**	**4**	**3,913**
Income and expenses								
recognised in the statement of income	—	–15	8	29	–44	7	–2	–17
recognised in other comprehensive income	—	10	—	—	–7	—	—	3
Transfers into Level 3	—	—	—	—	—	—	—	—
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	1	222	22	103	679	13	1	1,041
Disposals								
Sales	—	117	1	49	463	21	1	652
Repayments/redemptions	—	—	14	—	5	—	—	19
Exchange rate changes	—	31	—	—	68	–5	—	94
Ending balance at 31.12.2018	**5**	**1,094**	**87**	**132**	**2,843**	**200**	**2**	**4,363**
2017								
Opening balance at 1.1.2017	—	907	55	—	2,459	187	3	3,611
Income and expenses								
recognised in the statement of income	—	–21	8	2	–36	16	2	–29
recognised in other comprehensive income	—	–1	—	—	88	—	—	87
Transfers into Level 3	—	39[2]	—	—	—	—	—	39
Transfers out of Level 3	—	—	—	—	—	—	—	—
Additions								
Purchases	4	209	22	66	587	15	1	904
Disposals								
Sales	—	148	6	18	318	23	2	515
Repayments/redemptions	—	—	7	—	—	—	—	7
Exchange rate changes	—	–22	—	–1	–165	11	—	–177
Ending balance at 31.12.2017	4	963	72	49	2,615	206	4	3,913

1) The term “financial instruments” is abbreviated to FI in the following.
2) Trading in an active market discontinued.

RECONCILIATION OF FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) INCLUDED IN LEVEL 3 AT THE BEGINNING OF THE REPORTING PERIOD TO CARRYING AMOUNTS AS AT 31 DECEMBER 2018

EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2018				
Opening balance at 1.1.2018	**244**	**206**	**4**	**454**
Income and expenses				
recognised in the statement of income	5	–7	2	—
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	31	13	1	45
Disposals				
Sales	188	21	1	210
Repayments/redemptions	—	—	—	—
Exchange rate changes	—	–5	—	–5
Ending balance at 31.12.2018	**82**	**200**	**2**	**284**
2017				
Opening balance at 1.1.2017	**221**	**187**	**3**	**411**
Income and expenses				
recognised in the statement of income	27	–16	–2	9
recognised in other comprehensive income	—	—	—	—
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Additions				
Purchases	69	15	1	85
Disposals				
Sales	—	23	2	25
Repayments/redemptions	—	—	—	—
Exchange rate changes	–19	11	—	–8
Ending balance at 31.12.2017	**244**	**206**	**4**	**454**

1) 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[1] (FINANCIAL ASSETS) MEASURED AT FAIR VALUE

EUR MILLION

	Available-for-sale FI/ variable-yield securities	FI classified at fair value through profit or loss	Held for trading, derivatives	Other investments	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial assets measured at fair value
2018							
Gains and losses in financial year 2018							
Investment income	—	8	29	1	25	1	64
Investment expenses	–15	—	—	–45	–18	–3	–81
of which attributable to financial instruments included in the portfolio as at 31.12.2018							
Investment income [2]	—	5	29	1	25	1	61
Investment expenses [3]	–15	—	—	–45	–18	–3	–81
2017							
Gains and losses in financial year 2017							
Investment income	—	8	3	2	35	35	83
Investment expenses	–21	—	–1	–38	–19	–33	–112
of which attributable to financial instruments included in the portfolio as at 31.12.2017							
Investment income [2]	—	5	3	1	35	35	79
Investment expenses [3]	–21	—	–1	–38	–19	–33	–112

[1] The term "financial instruments" is abbreviated to FI in the following.
[2] Of which EUR 61 (79) million attributable to unrealised gains.
[3] Of which EUR 25 (53) million attributable to unrealised losses.

EFFECT ON PROFIT OR LOSS OF LEVEL 3 FINANCIAL INSTRUMENTS[1] (FINANCIAL LIABILITIES) MEASURED AT FAIR VALUE

EUR MILLION

	Other liabilities/ negative fair values from derivatives	Investment contracts/ FI classified at fair value through profit or loss	Investment contracts/ derivatives	Total amount of financial liabilities measured at fair value
2018				
Gains and losses in financial year 2018				
Investment income	6	18	3	27
Investment expenses	—	–25	–1	–26
Financing costs	–1	—	—	–1
of which attributable to financial instruments included in the portfolio as at 31.12.2018				
Investment income [2]	6	18	3	27
Investment expenses [3]	—	–25	–1	–26
Financing costs [4]	–1	—	—	–1
2017				
Gains and losses in financial year 2017				
Investment income	30	19	33	82
Investment expenses	—	–35	–35	–70
Financing costs	–3	—	—	–3
of which attributable to financial instruments included in the portfolio as at 31.12.2017				
Investment income [2]	30	19	33	82
Investment expenses [3]	—	–35	–35	–70
Financing costs [4]	–3	—	—	–3

[1] The term "financial instruments" is abbreviated to FI in the following.
[2] Of which EUR 27 (82) million attributable to unrealised gains.
[3] Of which EUR 26 (70) million attributable to unrealised losses.
[4] Of which EUR 1 (3) million attributable to unrealised losses.

ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS

EUR MILLION

	Fair value 31.12.2018	Fair value 31.12.2017	Valuation technique	Unobservable inputs	Fluctuation (weighted average)
CDOs/CLOs [1]	62	35	Present value method	Prepayment speed, risk premiums Default rates Recovery rates Redemptions	n. a. [4]
Unlisted equities, real estate and bond funds [2]	1,630	1,655	NAV method [3]	n. a.	n. a.
Private equity funds/ private equity real estate funds [2]	2,116	1,755	NAV method [3]	n. a.	n. a.
Written put options for minority interests [2]	57	58	Discounted NAV [3]	n. a.	n. a.
Unlisted bond funds [2]	46	59	NAV method [3]	n. a.	n. a.
Insurance contracts [1]	284	320	Present value method	Fair values of CAT bonds, yield curve	n. a. [4]
Investment contracts	404	420	—	—	—
Unlisted bonds	16	19	Present value method	New evaluation rate Yield curve	2.9% (2.9%) n. a.
Interest swaps	32	46	Present value method	Yield curve	n. a.

[1] These financial instruments are classified in Level 3, since unobservable inputs were used to measure them.
[2] 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.
[3] NAV: net asset value – alternative inputs within the meaning of IFRS 13 cannot be reasonably established.
[4] 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 4.6 (4.4) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 3.8 (3.5) 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 202 (210) 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 284 (320) 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. The use of alternative inputs and assumptions had no material effect on the consolidated financial statements. For the remaining Level 3 financial instruments with a volume of EUR 110 (100) million, the effects of alternative inputs and assumptions are immaterial.

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.

BREAKDOWN OF FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE WITH FAIR VALUES DISCLOSED IN THE NOTES

FAIR VALUE HIERARCHY — FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

EUR MILLION

Fair values of financial instruments not recognised at fair value, by balance sheet item	Level 1	Level 2	Level 3 [1]	Fair value
31.12.2018				
Financial assets not measured at fair value				
Loans and receivables	35	31,585	1,333	32,953
Financial assets held to maturity	—	439	—	439
Other investments	21	8	154	183
Investment contracts — loans and receivables	1	43	—	44
Total financial assets not measured at fair value	**57**	**32,075**	**1,487**	**33,619**
Financial liabilities not measured at fair value				
Subordinated liabilities	683	2,212	1	2,896
Notes payable	14	2,250	88	2,352
Other commitments under investment contracts	—	56	—	56
Total financial assets not measured at fair value	**697**	**4,518**	**89**	**5,304**
31.12.2017				
Financial assets not measured at fair value				
Loans and receivables	—	32,017	1,136	33,153
Financial assets held to maturity	—	594	—	594
Other investments	12	8	104	124
Investment contracts — loans and receivables	1	52	—	53
Total financial assets not measured at fair value	**13**	**32,671**	**1,240**	**33,924**
Financial liabilities not measured at fair value				
Subordinated liabilities	739	2,378	1	3,118
Notes payable	—	1,459	116	1,575
Other commitments under investment contracts	—	69	—	69
Total financial assets not measured at fair value	**739**	**3,906**	**117**	**4,762**

[1] Categorisation in Level 3 does not represent any indication of quality. No conclusions may be drawn as to the credit quality of the issuers.

(13) DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

DERIVATIVES

We use derivative financial instruments to hedge against interest rate, currency and other market risks and, to a limited extent, also to optimise income and realise intentions to buy and sell. In this context, the applicable regulatory requirements and the standards set out in the Group's internal investment guidelines are strictly observed, and prime-rated counterparties are always selected.

In addition, embedded derivatives in structured products and insurance contracts are separated from the host contracts and recognised separately at fair value where this is required by IAS 39 or IFRS 4.

Derivative financial instruments are initially measured at the fair value attributable to them at the transaction date. Thereafter, they are measured at the fair value applicable at each reporting date. For information on the valuation techniques used, see the "Fair value measurement" subsection in the "Accounting policies", pages 153ff.

The method for recognising gains and losses depends on whether the derivative financial instrument is used as a hedging instrument in hedge accounting in accordance with IAS 39 and, if it is, on the nature of the hedged item/risk. In the case of derivatives that are not used as hedging instruments, changes in value are recognised as income or expenses in "Net investment income". This approach also applies to separated embedded derivatives associated with structured financial instruments and insurance contracts. With regard to hedging instruments, the Group divides the derivatives into fair value hedges and cash flow hedges according to their particular purpose.

DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM

EUR MILLION

	Hedging instrument under IAS 39	31.12.2018	31.12.2017
Balance sheet item (positive fair values)			
Financial assets at fair value through profit or loss, financial assets held for trading (derivatives)	No	239	149
Investment contracts, financial assets held for trading (derivatives)	No	2	4
Other assets, derivative financial instruments (hedging instruments)	Yes	52	198
Balance sheet item (negative fair values)			
Other liabilities:			
Liabilities from derivatives	No	–170	–327
Liabilities from derivatives (hedging instruments)	Yes	—	–8
Investment contracts, derivatives	No	–2	–4
Total		**121**	**12**

Derivative financial instruments – excluding hedging instruments – generated an unrealised gain of EUR 22 (50) million in the financial year.The loss realised on positions closed out in 2018 amounted to EUR 81 (–29) million.

The fair values of our open derivative positions at the reporting date, including their associated notional amounts, are disclosed in the table "Maturities of derivative financial instruments", classified by risk type and maturity. Positive and negative fair values are offset in the table. This shows that open positions from derivatives amounted to EUR 121 (12) million at the reporting date, corresponding to 0.1% (0.0%) of total assets.

DISCLOSURES ON OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The Group enters into derivatives transactions on the basis of standardised master agreements that contain master netting arrangements. The netting arrangements described in table "Netting arrangements" do not generally meet the criteria for offsetting in the balance sheet because the Group has no enforceable right of set-off relating to the recognised amounts at the present time. The right of set-off is generally enforceable only when certain defined future events occur. Depending on the counterparty, collateral pledged or received is taken into account up to the amount of the related net liability or net asset.

HEDGE ACCOUNTING

The Group uses hedge accounting to compensate for changes in an underlying transaction's fair value or cash flows that are caused by changes in market prices by entering into a hedging instrument (derivative) whose changes in fair value or cash flows approximately offset those of the hedged item. Hedging is carried out for individual transactions (micro hedges). When a hedge is entered into, we document the hedging relationship between the hedged item and the hedging instrument, the risk management objective and the underlying hedging strategy. In addition, at the inception of the hedging relationship, we document our assessment of the extent to which the hedging instruments will be highly effective in offsetting the changes in the fair value or cash flows of the hedged items. There is documented evidence of the effectiveness of the hedges.

MATURITIES OF DERIVATIVE FINANCIAL INSTRUMENTS

EUR MILLION

	Due within one year	More than one year, up to five years	More than five years, up to ten years	More than 10 years	Others	31.12.2018	31.12.2017
Interest rate hedges							
Fair value	24	43	–5	1	—	63	193
Notional amount	171	364	189	116	—	840	1,223
Currency hedges							
Fair value	9	–3	—	—	—	6	—
Notional amount	1,153	12	—	—	—	1,165	867
Equity and index hedges							
Fair value	4	6	–56	—	—	–46	–43
Notional amount	320	66	–70	—	—	316	1,024
Derivatives associated with insurance contracts [1)]							
Fair value	25	39	9	–41	63	95	–172
Credit risk							
Fair value	—	1	2	—	—	3	—
Notional amount	—	384	189	—	—	573	—
Other risks							
Fair value	—	—	—	—	—	—	34
Notional amount	—	—	—	—	—	—	970
Total hedges							
Fair value	**62**	**86**	**–50**	**–40**	**63**	**121**	12
Notional amount	**1,644**	**826**	**308**	**116**	**—**	**2,894**	4,084

[1)] Financial instruments relate to embedded derivatives mainly in connection with reinsurance business, which are required by IFRS 4 to be separated from the underlying insurance contract and recognised separately. Due to the characteristics of these derivatives, it is not reasonably possible to disclose the notional amounts, and this information has therefore been omitted. These derivatives are recognised at fair value.

NETTING ARRANGEMENTS

EUR MILLION

	Fair value	Netting arrangement	Cash collateral received/provided	Other collateral received/provided	Net amount
31.12.2018					
Derivatives (positive fair values)	111	12	3	92	4
Derivatives (negative fair values)	35	13	8	9	5
31.12.2017					
Derivatives (positive fair values)	255	13	3	180	59
Derivatives (negative fair values)	31	12	11	5	3

Fair value hedges

In order to partially hedge the changes in the fair value resulting from the interest rate-change and spread risk in fixed-income securities, the Group has designated forward sales as hedging derivatives. Due to the comparable risks involved in the designated underlying transactions and the hedging derivatives, the latter qualify to be recognised in the balance sheet as fair value hedges. Any changes in the fair value of the hedge derivatives are recognised through profit or loss in the net investment income with the changes in the fair value of the underlying transactions (forward prices) that can be allocated to the hedged risk.

With regard to the fair value hedges, losses were recognised through profit or loss in the reporting period in the amount of EUR 7 million (gains of EUR 4 million) from the hedge derivatives, but there were gains of EUR 7 million (losses of EUR 4 million) from the underlying transactions. These hedges did not involve any material ineffectiveness.

All remaining forward purchases fell due in the reporting period. There are no further fair value hedges at the reporting date.

Cash flow hedges

The Group hedged interest rate risk exposures in highly probable **future transactions**. To do so, it recognised hedges combining forward securities transactions (forward purchases) and planned securities purchases. Forward purchases are used to hedge the risk that future returns on firmly committed reinvestments may be low due to falling interest rates. The underlying transaction for the hedging instruments is the future investment at the returns/prices applicable at the time. In accordance with IAS 39, hedging forecast transactions is accounted for as a cash flow hedge.

To **hedge against price risks** in connection with the stock appreciation rights granted under its share award plan, Hannover Rück SE has been purchasing hedging instruments in the form of equity swaps (cash flow hedges) since 2014.

The effective portion of hedging instruments measured at fair value is recognised in equity in the reserve for cash flow hedges, net of deferred taxes and any policyholder participation. By contrast, the ineffective portion of such changes in fair value is recognised directly in “Net investment income” in the statement of income in cases where the hedged items are financial instruments (hedges of forecast transactions). If the hedged items are not financial instruments, the ineffective portion is recognised in “Other income/expenses” (hedges of price risks in connection with stock appreciation rights granted). If hedged transactions result in the recognition of financial assets, the amounts recognised in equity are amortised over the life of the acquired asset.

The following table presents changes in the reserve for cash flow hedges (before taxes and policyholder participation).

CHANGES IN THE RESERVE FOR CASH FLOW HEDGES

EUR MILLION

	2018	2017
Carrying amount as at 31.12. of the previous year (before taxes)	429	506
Additions (hedges of forecast transactions)	—	1
Additions (hedges of price risks)	1	2
Additions (hedges of currency risks relating to long-term investments)	3	2
Reversals into the statement of income (hedges of forecast transactions)	–104	–18
Reversals into the statement of income (hedges of price risks)	—	–4
Reversals into the statement of income (exercising of forward sales)	–50	–60
Carrying amount as at 31.12. of the financial year (before taxes)	**279**	**429**

The reserve for cash flow hedges changed by EUR –150 (–77) million before taxes and by EUR –146 (–75) million after taxes in the reporting period. A total amount of EUR 31 (18) million was amortised in the statement of income in 2018 in connection with forward purchases falling due, an amount of EUR 73 (—) million was amortised in connection with forward purchases terminated early and an amount of EUR 50 (60) was amortised in connection with the exercising of forward sales, realising gains (in "Net investment income").

The amount of EUR 1 (1) million was recognised in income in the reporting period owing to the ineffectiveness of cash flow hedges (in "Net investment income").

The expected cash flows from cash flow hedges were as follows; see table "Cash flows of hedged forecast transactions".

CASH FLOWS OF HEDGED FORECAST TRANSACTIONS

EUR MILLION

	31.12.2018	31.12.2017
Cash flows of hedged items	–123	–483
Due within one year	–60	–15
More than one year, up to five years	–63	–468
More than five years, up to ten years	—	—

There were no forecast transactions in 2018 that had been previously included in a hedging relationship that is no longer likely to occur in the future.

Hedges of a net investment in a foreign business

As at the reporting date, the Group held derivative financial instruments in the area of reinsurance, in the form of currency forwards that were concluded as hedges of currency risks relating to long-term investments in foreign businesses.

There was no material ineffectiveness resulting from hedges for currency risks relating to long-term investments in the reporting period or the previous year.

Fair values of hedging instruments

At the reporting date, the fair values of derivative financial instruments designated in connection with hedge accounting were as follows:

HEDGING INSTRUMENTS

EUR MILLION

	31.12.2018	31.12.2017
Fair value hedges		
Forward sales	—	–6
Cash flow hedges		
Forward securities transactions	47	199
Equity swaps	1	–1
	48	198
Hedges of currency risks relating to long-term investments		
Currency forwards	4	–2
Total	**52**	**190**

In the reporting period, the net gains or losses on hedging derivatives recognised in the statement of income amounted to EUR 148 (87) million and related to the amortisation of equity amounts totalling EUR 154 (82) million, changes in fair value recognised in income as a result of ineffectiveness (EUR 1 [1] million) and changes in fair value from fair value hedges of EUR –7 (4) million, respectively.

DERIVATIVES ASSOCIATED WITH INSURANCE CONTRACTS

A number of contracts in the Life/Health Reinsurance segment have characteristics requiring application of the IFRS 4 requirements governing embedded derivatives. According to these requirements, certain derivatives embedded in reinsurance contracts must be separated from the host insurance contract and recognised separately in accordance with IAS 39 in "Net investment income". Fluctuations in the fair value of the derivative components must be recognised in income in the following periods

In connection with the recognition of reinsurance contracts involving modified coinsurance and coinsurance funds withheld ("ModCo"), 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 contracts. Consequently, embedded derivatives result exclusively from the credit risk of the underlying securities portfolio. Hannover Rück SE uses information available at the measurement date to measure the fair values of derivatives embedded in ModCo contracts based on a credit spread method, under which the derivative has a value of zero on the date when the contract is entered into and then fluctuates over time depending on how the credit spread changes for the securities. The derivative had a positive fair value of EUR 14 (25) million at the reporting date. Over the course of the year, the derivative's fair value changed by EUR 12 (4) million before taxes, resulting in an expense.

A derivative financial instrument was also unbundled from another, similarly structured transaction. This led to the disclosure of a positive value in the amount of EUR 5 (7) million. In the financial year, the value performance of this derivative led to an improvement in earnings of EUR 3 (4) million.

A number of transactions underwritten in the previous year for the Life/Health Reinsurance segment involved Hannover Rück SE companies offering their contract partners coverage for risks associated with possible future payment obligations under hedging instruments. These transactions are also required to be classified as derivative financial instruments. The payment obligations result from contractually defined events and relate to changes in an underlying group of primary insurance contracts with statutory reserving requirements. In accordance with IAS 39, the contracts are classified and recognised as free-standing credit derivatives. These derivative financial instruments were initially recognised outside profit or loss because receivables were recognised in the same amount. At the reporting date, the fair value of these instruments amounted to EUR 53 (165) million and is reported in "Other liabilities". Changes in fair value in subsequent periods depend on risk trends and led to an improvement in earnings of EUR 33 (30) million in the financial year.

A retrocession agreement was in place in the Life/Health Reinsurance, whereby the premiums were deposited with Hannover Re and invested in a structured bond. The retrocessionaire had issued a guarantee for the fair value. This guarantee had to be decoupled from the retrocession agreement in accordance with the provisions of IFRS 4 and was recognised as a derivative financial instrument at fair value. The derivative was recognised with a positive fair value of EUR 23 (2) million at the reporting date. Over the course of the year, the change in the fair value of the derivative led to earnings of EUR 20 million (expense of EUR 7 million). In contrast, the performance of the structured bond, which was also valued at the fair value, led to an expense (earnings) in the same amount.

A reinsurance contract was concluded in the Life/Health Reinsurance segment and included a financing component under which the amount and timing of cancellation rates are dependent on cancellation rates in an underlying primary insurance portfolio. This contract and a corresponding retrocession agreement, which had to be classified as financial instrument under IAS 39, resulted in the disclosure of EUR 25 (20) million in "Other liabilities" and other "Financial assets at fair value through profit or loss" of EUR 79 (49) million. In the financial year, these contracts resulted in an improvement in earnings of EUR 2 (2) million overall.

At the end of the past financial year, index-based coverage of longevity risks was concluded. The resulting derivative was recognised in other liabilities with a negative fair value of EUR 46 (53) million at the reporting date. Over the course of the year, the change in the fair value of the derivative resulted in earnings of EUR 7 (—) million.

Overall, application of the requirements governing the accounting for insurance derivatives at the reporting date led to recognition of assets in the amount of EUR 174 (86) million and of liabilities associated with derivatives resulting from technical items in the amount of EUR 76 (245) million. Increases in earnings of EUR 62 (40) million and decreases in earnings of EUR 15 (9) million were recorded in the reporting period from all insurance derivatives required to be measured separately.

FINANCIAL GUARANTEE CONTRACTS

Structured transactions were entered into in the Life/Health Reinsurance segment in order to finance statutory reserves ("Triple X" or "AXXX" reserves) for US cedants. These structures required the use of a special purpose entity in each case. The special purpose entities carry extreme mortality risks securitised by cedants above a contractually defined retention ratio and transfer these risks by way of a fixed/variable-rate swap to a Group company of Hannover Rück SE. The total amount of the contractually agreed capacities of the transactions is equivalent to EUR 3,269 (3,229) million, of which the equivalent of EUR 2,623 (2,526) million had been underwritten at the reporting date. The variable payments to the special purpose entities guaranteed by companies of Hannover Rück SE cover their payment obligations. For some of the transactions, payments resulting from swaps in the event of a claim are reimbursed by the cedants' parent companies by way of compensation agreements. In this case, reimbursement claims under the compensation agreements are capitalised separately from and up to the amount of the provision.

Under IAS 39, these transactions are recognised at fair value as financial guarantee contracts. To do this, Hannover Rück SE uses the net method, under which the present value of the agreed fixed swap premiums is netted with the present value of the guarantee commitment. The fair value on initial recognition therefore amounted to zero. The higher of adjusted historical cost and the amount carried as a provision on the liabilities side in accordance with IAS 37 is recognised at the time when utilisation is considered probable. This was not the case as at the reporting date.

(14) ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

EUR MILLION

	2018	2017
Accounts receivable on direct written insurance business	2,773	2,597
of which		
from policyholders	1,737	1,657
from insurance intermediaries	1,036	940
Accounts receivable from reinsurance business	4,478	4,029
Carrying amount as at 31.12. of the financial year	**7,251**	**6,626**

ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE

EUR MILLION

	> 3 months < 1 year	> 1 year
31.12.2018		
Accounts receivable from policyholders	437	205
Accounts receivable from insurance intermediaries	88	72
Accounts receivable from reinsurance business	350	337
Total	**875**	**614**
31.12.2017		
Accounts receivable from policyholders	234	129
Accounts receivable from insurance intermediaries	180	41
Accounts receivable from reinsurance business	579	251
Total	**993**	**421**

Past due accounts receivable on insurance business are receivables that were not paid by the due date and were still outstanding as at the reporting date.

In the case of primary insurance companies, accounts receivable on insurance business from policyholders and insurance intermediaries that were more than 90 days past due amounted to a total of EUR 802 (584) million, of which EUR 277 (170) million was more than one year past due. This means that accounts receivable more than one year past due accounted for 10% (6.6%) of total accounts receivable. The combined average default rate in the past three years was 0.8% (0.9%). The default rate in 2018 was 0.5% (1.0%).

Accounts receivable from reinsurance business more than 90 days past due amounted to a total of EUR 687 (830) million, of which EUR 337 (251) million was more than one year past due; accounts receivable more than one year past due therefore accounted for 7.5% (6.2%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.2% (0.4%).

Impaired accounts receivable relate to the following items:

INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS

EUR MILLION

	Risk provision	of which attributable to 2018/2017	Carrying amount after risk provision
31.12.2018			
Accounts receivable from policyholders	72	5	1,737
Accounts receivable from insurance intermediaries	23	–	1,036
Accounts receivable from reinsurance business	40	12	4,478
Total	**135**	**17**	**7,251**
31.12.2017			
Accounts receivable from policyholders	67	10	1,657
Accounts receivable from insurance intermediaries	23	–8	940
Accounts receivable from reinsurance business	28	–28	4,029
Total	**118**	**–26**	**6,626**

Impairments of accounts receivable on insurance business that we recognise in separate allowance accounts changed as follows in the reporting period:

IMPAIRMENTS OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS

EUR MILLION

	2018	2017
Accumulated impairments as at 31.12. of the previous year	118	144
Changes in basis of consolidation	1	–
Impairments in financial year	51	15
Reversals of impairment losses	33	36
Exchange rate changes	–3	1
Other changes	1	–6
Accumulated impairments as at 31.12. of the financial year	**135**	**118**

The credit risk associated with accounts receivable on insurance business was generally measured on the basis of individual analyses. Impairments were not recognised to the extent that the credit risk exposure of the assets was reduced by collateral (e.g. letters of credit, cash deposits, securities accounts). Impaired accounts receivable accounted for 1.8% (1.7%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 487 (559) million (after deduction of impairments). A total of 75% (78%) of these accounts receivable had a rating of category A or better at the reporting date. A total of 46% (52%) of the total accounts receivable amounting to EUR 4.5 (4.0) billion had a rating of category A or better.

IMPAIRMENT RATES

%

	31.12.2018	31.12.2017
Accounts receivable from policyholders	4.0	3.9
Accounts receivable from insurance intermediaries	2.1	2.4
Accounts receivable from reinsurance business	0.9	0.7

ANNUAL DEFAULT RATES

%

	31.12.2018	31.12.2017
Accounts receivable from policyholders	1.0	1.8
Accounts receivable from insurance intermediaries	0.1	0.1
Accounts receivable from reinsurance business	0.1	0.5

(15) DEFERRED ACQUISITION COSTS

DEFERRED ACQUISITION COSTS

EUR MILLION

	Gross business	Reinsurers' share	Net business	Gross business	Reinsurers' share	Net business
	2018			2017		
Carrying amount as at 31.12. of the previous year	**5,505**	**173**	**5,332**	**5,512**	**206**	**5,306**
Change in basis of consolidation	—	—	—	—	—	—
Portfolio entries/withdrawals	–64	—	–64	–24	–7	–17
Additions	1,217	76	1,141	1,139	208	931
Amortised acquisition costs	1,116	79	1,037	947	228	719
Currency adjustments	–17	–3	–14	–175	–6	–169
Other changes	—	—	—	—	—	—
Carrying amount as at 31.12. of the financial year	**5,525**	**167**	**5,358**	**5,505**	**173**	**5,332**

(16) OTHER ASSETS

OTHER ASSETS

EUR MILLION

	2018	2017
Real estate held and used	541	600
Tax assets	513	383
Operating and office equipment	154	130
Interest and rent due	15	13
Derivative financial instruments – hedging instruments, hedge accounting	52	198
Miscellaneous assets	1,182	1,458
Carrying amount as at 31.12. of the financial year	**2,457**	**2,782**

The fair value of real estate held and used amounted to EUR 662 (724) million as at the reporting date. EUR 134 (121) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 528 (603) million to Level 3. These fair values were essentially calculated using the German income approach (discounted cash flow method).

In the case of real estate held and used, there were restrictions on disposal and guarantee assets in the amount of EUR 254 (307) million as at 31 December 2018. The expenditures capitalised for property, plant and equipment under construction amounted to EUR 2 (2) million as at the reporting date.

CHANGES IN REAL ESTATE HELD AND USED

EUR MILLION

	2018	2017
Gross carrying amount as at 31.12. of the previous year	**829**	**817**
Change in basis of consolidation (additions)		
Business combinations	7	—
Additions	9	19
Disposals	114	4
Reclassifications	6	–3
Exchange rate changes	–2	—
Gross carrying amount as at 31.12. of the financial year	**735**	**829**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**229**	**213**
Disposals	55	2
Depreciation and impairment losses		
Amortisation	15	15
Impairment losses	4	4
Reversal after impairment	2	1
Reclassifications	3	—
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**194**	**229**
Carrying amount as at 31.12. of the previous year	600	604
Carrying amount as at 31.12. of the financial year	**541**	**600**

CHANGES IN OPERATING AND OFFICE EQUIPMENT

EUR MILLION

	2018	2017
Gross carrying amount as at 31.12. of the previous year	**463**	**479**
Change in basis of consolidation (additions)		
Business combinations	5	3
Additions	65	42
Disposals	32	23
Reclassifications	–1	–28
Exchange rate changes	–3	–10
Gross carrying amount as at 31.12. of the financial year	**497**	**463**
Accumulated depreciation and impairment losses as at 31.12. of the previous year	**333**	**338**
Change in basis of consolidation (additions)		
Business combinations	3	—
Disposals	28	20
Depreciation and impairment losses		
Amortisation	37	42
Reclassifications	—	–20
Exchange rate changes	–2	–7
Accumulated depreciation and impairment losses as at 31.12. of the financial year	**343**	**333**
Carrying amount as at 31.12. of the previous year	130	141
Carrying amount as at 31.12. of the financial year	**154**	**130**

MISCELLANEOUS ASSETS

EUR MILLION

	31.12.2018	31.12.2017
Trade accounts receivable	103	102
Receivables relating to investments	94	115
Receivables from non-Group-led business	356	370
Other tangible assets	12	14
Claims under pension liability insurance/ surrender values	113	109
Prepaid insurance benefits	100	138
Deferred income	102	84
Other miscellaneous assets	302	526
Total	**1,182**	**1,458**

NOTES TO THE CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

(17) EQUITY

CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS

COMPOSITION OF EQUITY

EUR MILLION

	31.12.2018	31.12.2017 [1]
Subscribed capital	316	316
Capital reserve	1,373	1,373
Retained earnings	6,578	6,263
Other reserves	–257	190
Group net income	703	671
Non-controlling interests in equity	5,548	5,411
Total	**14,261**	**14,224**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Retained earnings include equalisation reserves of EUR 1,740 (1,804) million (after deferred taxes).

Other reserves include gains and losses from currency translation amounting to EUR –204 (–270) million.

UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES

EUR MILLION

	31.12.2018	31.12.2017
From available-for-sale investments	1,956	3,217
From cash flow hedges	262	402
From the measurement of associates using the equity method	2	2
Other changes	–933	–900
less/plus		
Policyholder participation/shadow accounting [1]	–1,454	–2,180
Deferred taxes recognised directly in equity	114	–81
Non-controlling interests in equity	272	411
Total	**219**	**871**

[1] Includes provisions recognised directly in equity for deferred premium refunds.

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

RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN EQUITY

EUR MILLION

	31.12.2018	31.12.2017
Unrealised gains and losses on investments	356	664
Share of net income	656	598
Other equity	4,536	4,149
Total	**5,548**	**5,411**

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 details of equity, please see the "Consolidated statement of changes in equity".

CONTINGENT CAPITAL

On 11 May 2017, the Annual General Meeting resolved to contingently increase the share capital by up to EUR 126 million by issuing up to 101,119,057 new no-par value shares (Contingent Capital I). The contingent capital increase is designed to grant no-par value shares to holders of registered bonds that Talanx AG or a subordinate Group company within the meaning of section 18 of the German Stock Corporation Act (AktG) will issue by 10 May 2022 in exchange for cash, in order to satisfy the contingent conversion obligation, on the basis of the authorisation of the Board of Management by the resolution adopted by the Annual General Meeting on the same date.

The same Annual General Meeting resolved to contingently increase the share capital by up to EUR 32 million by issuing up to 25,279,760 new no-par value shares (Contingent Capital II). The contingent capital increase is designed to grant no-par value shares to holders of bonds (convertible bonds and bonds with warrants) and participating bonds and profit participation rights with conversion rights or warrants or (contingent) conversion obligations that Talanx AG or its subordinate Group companies within the meaning of section 18 of the AktG will issue between 11 May 2017 and 10 May 2022 on the basis of the authorising resolution adopted by the Annual General Meeting on the same date.

The amendments to the Articles of Association took effect on its entry in the commercial register on 14 June 2017.

AUTHORISED CAPITAL

On 11 May 2017, the Annual General Meeting resolved to renew the authorised capital in accordance with article 7(1) of Talanx AG's Articles of Association and to insert a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital on one or more occasions until 10 May 2022 by a maximum of EUR 158 million by issuing new no-par value registered shares in exchange for cash or non-cash contributions. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash capital increases if their disapplication is in the Company's overriding interest. Excluding pre-emptive rights, the total shares issuable on the basis of this authorisation may not exceed 20% of the share capital. The amendment to the Articles of Association took effect on its entry in the commercial register on 14 June 2017.

CAPITAL MANAGEMENT

The primary objective of capital management in the Talanx Group is to ensure the Group's financial strength and bolster capital efficiency. For detailed information on the capital management we refer to the disclosures to asset liability management in "Financial position" subsection in the "Net assets and financial position" section in the management report.

(18) SUBORDINATED LIABILITIES

In order to optimise the Group's capital structure and to ensure the liquidity (solvency) required by regulators, various Group companies have in the past issued long-term subordinated debt instruments that in some cases are listed on exchanges.

COMPOSITION OF LONG-TERM SUBORDINATED DEBT

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating [2]	Issue	31.12.2018	31.12.2017
Talanx AG	750	Fixed (2.25%)	2017/2047	(—; BBB) [3]	These guaranteed subordinated bonds were issued in 2017 on the European capital market. They can be called for the first time in 2027 under normal conditions.	750	750
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.75%), then floating rate	2010/2040	(aa–; A)	These guaranteed subordinated bonds were issued in 2010 on the European capital market. They can be called for the first time after ten years under normal conditions.	499	499
Hannover Finance (Luxembourg) S. A.	500	Fixed (5.0%), then floating rate	2012/2043	(aa–; A)	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market.They can be called for the first time after ten years under normal conditions.	498	498
Hannover Rück SE [1]	450	Fixed (3.375%), then floating rate	2014/ no final maturity	(a+; A)	These guaranteed subordinated bonds were issued in 2014 on the European capital market. They can be called for the first time in 2025 under normal conditions.	446	445
Talanx Finanz (Luxemburg) S. A.	500	Fixed (8.37%), then floating rate	2012/2042	(bbb+; BBB) [3]	These guaranteed subordinated bonds in the amount of EUR 500 million were issued in 2012 on the European capital market.They can be called for the first time after ten years under normal conditions.	500	500
HDI Assicurazioni S. p. A.	27	Fixed (5.5%)	2016/2026	(—; —)	Subordinated loans	27	27
HDI Assicurazioni S. p. A. (formerly CBA Vita S. p. A.)	14	Fixed (4.15%)	2010/2020	(—; —)	These subordinated bonds in the amount of EUR 15 million were issued in 2010 on the European capital market; securities with a nominal value of EUR 1.5 million have already been repurchased.	14	14
HDI Global SE	3	Fixed (4.25%), then floating rate	No final maturity	(—; —)	Subordinated loans The loan can be called annually from 12 August 2021.	3	3
Magyar Posta Életbiztosító Zrt.	1	Fixed (7.57%)	2015/2045	(—; —)	Subordinated loans, callable for the first time after ten years.	1	1
Total						**2,738**	**2,737**

[1] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 50 million (consolidated in the consolidated financial statements).
[2] (Debt rating A. M. Best; debt rating S&P).
[3] S&P upgraded its rating to "A–" on 7 January 2019 and A. M. Best increased its rating for Talanx Finanz's subordinated bonds to "a" on 4 January 2019. This was a result of Talanx AG being granted a reinsurance license (see "Ratings of the Group" in the "Net assets and financial position" section of the management report).

FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST

EUR MILLION

	31.12.2018	31.12.2017
Amortised cost	2,738	2,737
Unrealised gains/losses	158	381
Fair value	2,896	3,118

The fair value of issued liabilities is generally based on quoted prices in active markets. If such price information is not available, fair value is measured on the basis of the recognised effective interest rate method or estimated, e.g. using other financial assets with similar rating, duration and yield characteristics. The effective interest rate method is always based on current market interest rates in the relevant fixed rate maturity ranges.

The net expenses of EUR –131 (–115) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 130 (114) million and amortisation expenses (EUR 1 [1] million).

SUBORDINATED LIABILITIES: MATURITIES

EUR MILLION

	31.12.2018	31.12.2017
Due within one year	—	—
More than one year, up to five years	14	14
More than five years, up to ten years	27	28
More than ten years, up to 20 years	—	—
More than 20 years	2,248	2,247
Without fixed maturity	449	448
Total	**2,738**	**2,737**

(19) UNEARNED PREMIUM RESERVE

UNEARNED PREMIUM RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2018			2017		
Balance at 31.12. of the previous year	**8,116**	**664**	**7,452**	7,686	683	7,003
Change in basis of consolidation	46	8	38	—	—	—
Portfolio entries/withdrawals	6	—	6	3	—	3
Additions	2,745	448	2,297	3,730	886	2,844
Reversals	2,267	427	1,840	2,899	857	2,042
Reclassifications	—	—	—	1	1	—
Disposal groups in accordance with IFRS 5	–2	—	–2	—	—	—
Exchange rate changes	–54	–9	–45	–405	–49	–356
Balance at 31.12. of the financial year	**8,590**	**684**	**7,906**	8,116	664	7,452

The unearned premium reserve covers that portion of gross written premiums that is required to be attributed as income to the following financial year(s) for a certain period after the reporting date. Since the unearned premium reserve essentially does not involve future cash flows that affect liquidity, we have elected to dispense with information about maturities.

(20) BENEFIT RESERVE

BENEFIT RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2018			2017		
Balance at 31.12. of the previous year	**54,596**	**1,291**	**53,305**	**54,782**	**1,560**	**53,222**
Portfolio entries/withdrawals	494	–2	496	–636	–153	–483
Additions	4,422	–71	4,493	4,689	54	4,635
Reversals	3,317	37	3,280	3,504	50	3,454
Reclassifications	—	—	—	–1	–1	—
Disposal groups in accordance with IFRS 5	—	—	—	–22	–1	–21
Exchange rate changes	39	28	11	–712	–118	–594
Balance at 31.12. of the financial year	**56,234**	**1,209**	**55,025**	**54,596**	**1,291**	**53,305**

IFRS 4 requires disclosures that help explain the amount and timing of future cash flows from insurance contracts. The following table shows the benefit reserve classified by expected maturities. In connection with the analysis of maturities, we directly deducted deposits provided for the purpose of hedging this reserve, since cash inflows and outflows from these deposits are attributable directly to cedants.

BENEFIT RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2018			2017		
Due within one year	3,131	62	3,069	2,527	136	2,391
More than one year, up to five years	10,442	628	9,814	10,618	833	9,785
More than five years, up to ten years	13,942	226	13,716	12,879	124	12,755
More than ten years, up to 20 years	13,861	202	13,659	13,064	95	12,969
More than 20 years	10,776	89	10,687	10,660	100	10,560
Deposits	4,082	2	4,080	4,848	3	4,845
Total	**56,234**	**1,209**	**55,025**	**54,596**	**1,291**	**53,305**

(21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2018			2017 [1]		
Balance at 31.12. of the previous year	**42,578**	**5,384**	**37,194**	**41,873**	**5,348**	**36,525**
Adjusted in accordance with IAS 8	—	—	—	46	—	46
Change in basis of consolidation	57	17	40	164	42	122
Portfolio entries/withdrawals	–8	–3	–5	2	—	2
Plus						
claims and claims expenses incurred (net); financial year	17,904	3,337	14,567	18,223	2,527	15,696
claims and claims expenses incurred (net); previous year	4,273	–72	4,345	2,743	327	2,416
Total claims expenses	22,177	3,265	18,912	20,966	2,854	18,112
Minus						
claims and claims expenses incurred (net); financial year	7,059	399	6,660	6,427	723	5,704
claims and claims expenses incurred (net); previous year	12,193	2,007	10,186	11,612	1,821	9,791
Total claims and claims expenses incurred	19,252	2,406	16,846	18,039	2,544	15,495
Other changes	–2	–9	7	–5	–43	38
Exchange rate changes	337	36	301	–2,429	–273	–2,156
Balance at 31.12. of the financial year	**45,887**	**6,284**	**39,603**	**42,578**	**5,384**	**37,194**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.

RUN-OFF OF THE NET LOSS RESERVE

As loss reserves are inevitably based to some degree on estimates, they will always feature some residual uncertainty. The difference between last year’s estimate and the current appraisal of the reserve is expressed in the net run-off result. In addition, in the case of reinsurance contracts whose terms do not correspond to a calendar year or that were entered into on an underwriting-year basis, it is often impossible to allocate claims expenses precisely to the financial year or the previous year.

The loss run-off triangles returned by the reporting units were presented as adjusted for currency effects resulting from translation of the respective transaction currency into the local currency. The foreign currency run-off triangles returned by the reporting units are translated into euro at the closing rate for the reporting period to allow run-off results to be presented on a currency-adjusted basis. In cases where the original loss estimate corresponds to the actual final loss in the local currency, steps are taken to avoid a purely indexed run-off result being returned, including after the figure has been translated into the Group reporting currency (euro).

The following tables present the net loss reserves for insurance claims that have not yet been run off for the years 2008 to 2018 for our main property/casualty insurance companies in the primary insurance segments, including Corporate Operations, and in the Group’s Property/Casualty Reinsurance segment (“run-off triangle”). The charts show the run-off of the net loss reserves established at each reporting date for the current and preceding occurrence years. It is not the run-off of the reserve for individual occurrence years that is presented, but rather the run-off of the reserve recognised annually as at the reporting date.

The net loss reserve and its run-off are presented for primary insurance segments, including Corporate Operations, and the Property/Casualty Reinsurance segment after allowance for consolidation effects for each area presented, but before elimination of intragroup relationships between primary insurance segments, including Corporate Operations, and reinsurance. The values reported for the 2008 financial year also include values for previous years that are no longer shown separately in the run-off triangle. The published run-off results reflect the changes in the final losses for the individual run-off years that crystallised in financial year 2018.

Net loss reserves in the Group amount to a total of EUR 39.6 (37.2) billion. Of these, EUR 11.6 (10.6) billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 23.0 (21.6) billion to the Property/Casualty Reinsurance segment. The remaining EUR 5.0 (5.0) billion is attributable to the Life/Health Reinsurance segment (EUR 4.0 [4.0] billion) and life primary insurance business (EUR 1.0 [1.0] billion).

NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

NET LOSS RESERVE [1] AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

EUR MILLION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Loss and loss adjustment expense reserve	**6,247**	**6,338**	**6,845**	**6,904**	**7,052**	**7,783**	**8,406**	**8,691**	**8,910**	**9,497**	**10,390**
Cumulative payments for the specific year and previous years											
One year later	947	1,157	1,321	1,514	1,139	1,687	1,790	1,931	1,966	2,095	
Two years later	1,536	1,765	2,126	1,849	1,922	2,432	2,651	2,884	2,866		
Three years later	1,979	2,381	2,239	2,385	2,420	2,990	3,269	3,471			
Four years later	2,479	2,401	2,628	2,768	2,859	3,434	3,685				
Five years later	2,448	2,742	2,947	3,131	3,196	3,766					
Six years later	2,734	3,003	3,246	3,403	3,467						
Seven years later	2,955	3,256	3,468	3,623							
Eight years later	3,171	3,449	3,652								
Nine years later	3,341	3,608									
Ten years later	3,472										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	6,247	6,338	6,845	6,904	7,052	7,783	8,406	8,691	8,910	9,497	10,390
One year later	5,747	6,179	6,494	6,537	6,721	7,507	7,936	8,378	8,611	9,407	
Two years later	5,166	5,887	6,254	6,363	6,625	7,086	7,671	8,110	8,539		
Three years later	5,384	5,693	6,180	6,312	6,365	6,994	7,437	8,123			
Four years later	5,269	5,716	6,066	6,097	6,292	6,779	7,476				
Five years later	5,408	5,627	5,864	6,082	6,046	6,858					
Six years later	5,307	5,449	5,869	5,843	6,149						
Seven years later	5,132	5,499	5,660	5,949							
Eight years later	5,189	5,302	5,758								
Nine years later	5,004	5,402									
Ten years later	5,089										
Change year-on-year											
of the final loss reserve [2] = A run-off result	**–85**	**–15**	**2**	**–8**	**3**	**24**	**40**	**26**	**85**	**18**	
%	**–1**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1**	**—**	

1) Figures are given net because this provides more meaningful information regarding the final impact on Group net income.
2) Calculate the difference for 2008 (EUR 5,004 million minus EUR 5,089 million = EUR 85 million). This figure is recorded and then updated in each subsequent period, e.g. in 2009, with the change from e.g. 2008 to 2009 being carried forward. Hence, in 2009 the first step involves calculating the difference between the two amounts for 2009 and then subtracting the result from the value for 2008 (calculation for 2009: EUR 5,302 million less EUR 5,402 million = EUR –100 million, from which total the amount of EUR –85 million is subtracted, resulting in an amount of EUR –15 million for 2009). The process is then repeated for each subsequent year.

In the reporting period, the Group reported a positive run-off result of EUR 90 million in its primary insurance segments, including Corporate Operations, which represents the total run-off result of the individual balance-sheet years.

NET LOSS RESERVE AND ITS RUN-OFF IN THE PROPERTY/CASUALTY REINSURANCE SEGMENT

NET LOSS RESERVE[1] AND ITS RUN-OFF IN THE PROPERTY/CASUALTY REINSURANCE SEGMENT

EUR MILLION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Loss and loss adjustment expense reserve	**13,625**	**13,945**	**15,206**	**16,555**	**17,179**	**17,747**	**19,645**	**21,673**	**22,593**	**22,728**	**24,195**
Cumulative payments for the specific year and previous years											
One year later	2,959	2,756	2,446	3,128	2,899	3,186	3,509	3,268	3,733	4,430	
Two years later	4,602	3,985	4,085	4,857	4,518	4,989	5,252	5,175	5,800		
Three years later	5,363	4,806	5,074	5,788	5,715	6,106	6,518	6,535			
Four years later	5,951	5,452	5,723	6,724	6,565	7,099	7,511				
Five years later	6,433	5,958	6,483	7,443	7,356	7,911					
Six years later	6,763	6,460	7,026	8,037	7,995						
Seven years later	7,110	6,809	7,464	8,525							
Eight years later	7,373	7,137	7,849								
Nine years later	7,661	7,426									
Ten years later	7,899										
Loss and loss adjustment expense reserve (net) for the specific year and previous years, plus payments made to date into the original reserve											
At the end of the year	13,625	13,945	15,206	16,555	17,179	17,747	19,645	21,673	22,593	22,728	24,195
One year later	14,728	13,430	14,566	16,263	16,698	17,558	19,146	20,778	21,425	21,731	
Two years later	13,466	12,675	13,961	15,867	16,344	16,922	18,032	19,350	20,457		
Three years later	12,598	12,098	13,516	15,422	15,823	15,884	17,063	18,374			
Four years later	12,101	11,670	13,060	14,797	15,122	15,013	16,197				
Five years later	11,761	11,210	12,492	14,133	14,408	14,297					
Six years later	11,266	10,681	11,961	13,485	13,792						
Seven years later	10,778	10,313	11,361	12,896							
Eight years later	10,452	9,818	11,030								
Nine years later	10,026	9,576									
Ten years later	9,865										
Change year-on-year											
of the final loss reserve[2] = run-off result	**161**	**81**	**89**	**258**	**27**	**100**	**150**	**110**	**–8**	**29**	
%	1	1	1	2	—	1	1	1	—	—	

1) Figures are given net because this provides more meaningful information regarding the final impact on Group net income.

2) Calculate the difference for 2008 (EUR 10,026 million minus EUR 9,865 million = EUR 161 million). This figure is recorded and then updated in each subsequent period, e.g. in 2009, with the change from e.g. 2008 to 2009 being carried forward. Hence, in 2009 the first step involves calculating the difference between the two amounts for 2009 and then subtracting the result from the value for 2008 (calculation for 2009: EUR 9,818 million less EUR 9,576 million = EUR 242 million, from which total the amount of EUR 161 million is subtracted, resulting in an amount of EUR 81 million for 2009). The process is then repeated for each subsequent year.

In financial year 2018, Property/Casualty Reinsurance recorded a positive run-off result in the total amount of EUR 997 million, which represents the total run-off result of the individual balance-sheet years.

The carrying amount of the reinsurers' share of loss reserves amounts to EUR 6.3 (5.4) billion and includes accumulated specific valuation allowances of EUR 55 (45) million.

IFRS 4 requires disclosures that help explain the amount and timing of future cash flows from insurance contracts. The following table shows the loss reserve classified by expected maturities. In connection with the analysis of maturities, we directly deducted deposits provided for the purpose of hedging this reserve, since cash inflows and outflows from these deposits are attributable directly to cedants.

RESERVE DURATIONS

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	31.12.2018			31.12.2017 [1]		
Due within one year	13,475	1,989	11,486	12,476	1,734	10,742
More than one year, up to five years	17,072	2,526	14,546	16,520	2,164	14,356
More than five years, up to ten years	6,889	881	6,008	6,065	725	5,340
More than ten years, up to 20 years	4,312	545	3,767	3,634	478	3,156
More than 20 years	2,138	288	1,850	1,753	214	1,539
Deposits	2,001	55	1,946	2,130	69	2,061
Total	**45,887**	**6,284**	**39,603**	**42,578**	**5,384**	**37,194**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

(22) PROVISION FOR PREMIUM REFUNDS

PROVISION FOR PREMIUM REFUNDS

EUR MILLION

	Gross	Re	Net	Gross	Re	Net
	2018			2017		
Balance at 31.12. of the previous year	**6,199**	**2**	**6,197**	**5,765**	**5**	**5,760**
Change in basis of consolidation	−2	—	−2	—	—	—
Allocations/reversals (—)	317	4	313	1,204	—	1,204
Changes attributable to other comprehensive income from investments	−600	—	−600	−479	—	−479
Disposals						
Life insurance policies	206	—	206	280	—	280
Liability/casualty policies with a premium refund	5	—	5	8	3	5
Other changes	2	—	2	−3	—	−3
Exchange rate changes	−2	—	−2	—	—	—
Balance at 31.12. of the financial year	**5,703**	**6**	**5,697**	**6,199**	**2**	**6,197**

It is generally not possible to make a clear allocation to the individual insurance contracts and to the remaining maturities, so we have elected to dispense with information about maturities.

Of the gross provision for premium refunds, EUR 1,419 (1,335) million is attributable to obligations for surplus participation and EUR 4,284 (4,864) million to deferred premium refunds, including the shadow provision for premium refunds.

(23) PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

In general, Group companies have made benefit commitments to their employees based on defined contributions or defined benefits. The type of benefit commitment depends on the relevant pension plan. In terms of amounts paid, the majority of commitments are based on defined benefit pension plans.

These are primarily **final salary plans that depend on length of service** that are fully employer financed and provide retirement, disability and survivor benefits in the form of a monthly pension, as a rule without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on a percentage of the final salary.The calculation includes the number of service years completed at the time benefits become due, as well as the amount of salary at that time (where appropriate as an average over several years). In some cases, the relevant components of income below the contribution assessment ceiling for statutory pension insurance are weighted differently than those above the ceiling.

These pension plans are closed to new employees. Some existing commitments have been frozen at the levels acquired with salary trends. The plans are largely not funded by plan assets.

Plans based on annual pension modules involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension without a lump-sum option. Events that cause benefits to become due (e.g. retirement age, disability, death) closely follow the eligibility requirements for statutory pension insurance. The benefit amount is based on the sum of annual pension modules, which are derived from a transformation table. The level of employment, the amount of the relevant salary and, in some cases, the business result of the employer company making the commitment are taken into account. The relevant components of income below the contribution assessment ceiling for statutory pension insurance are weighted differently than those above the ceiling.

The most significant pension plan of this type in terms of volume is closed to new employees and is not funded by plan assets. However, pension liability insurance was taken out for a large sub-portfolio.

Contribution-based plans with guarantees involve fully employer-funded commitments for retirement, disability and survivor benefits in the form of a monthly pension from the "HDI Unterstützungskasse" (an occupational pension scheme). Instead of a retirement pension, a lump-sum payment of the pension capital can be demanded. This involves defined contribution benefit commitments within the meaning of German labour law that are classified economically as a defined benefit plan.

The pension amount paid by the employer to the "Unterstützungskasse" is used by the latter as a contribution toward taking out pension liability insurance that reflects the committed range of benefits (matching pension liability insurance). The committed benefits result from the rates under the pension liability insurance policy. The associated assets of the "Unterstützungskassen" are recognised as plan assets.

In addition, there are pension commitments in the event of death or survival upon reaching the retirement age that provide a lump-sum benefit from the one-time deferral of compensation by employees. In this case, the amount deferred is used as a one-time premium for a pension liability insurance policy. There is no right to choose the type of annuity. No plan assets are allocated to these commitments.

Employees also have the option of obtaining insurance-style pension commitments through deferred compensation. In economic terms, these are defined contribution plans for which provisions for pensions are not recognised.

The risks arising from future changes in pension liabilities consist of general actuarial risks such as interest rate risk, inflation risk and biometric risks. No unusual risks or material risk clusters are evident.

FUNDED STATUS OF PENSION PLANS

EUR MILLION

Type of plan	2018	2017
Final salary plans that depend on length of service		
▪ Plan assets	–61	–65
▪ Present value of defined benefit obligation	2,020	1,990
▪ Effect of the asset ceiling	—	—
Surplus (net asset)	—	—
Shortfall (net liability)	1,959	1,925
Plan based on pension modules		
▪ Plan assets	—	—
▪ Present value of defined benefit obligation	110	97
▪ Effect of the asset ceiling	—	—
Surplus (net asset)	—	—
Shortfall (net liability)	110	97
Contribution-based plans with guarantees		
▪ Plan assets	–175	–134
▪ Present value of defined benefit obligation	249	225
▪ Effect of the asset ceiling	1	2
Surplus (net asset)	—	—
Shortfall (net liability)	75	93
Balance at 31.12. of the financial year (net asset)	**—**	**—**
Balance at 31.12. of the financial year (net liability)	**2,144**	**2,115**

The change in the net liability and net asset for the Group's various defined benefit pension plans is shown in the following table. In addition to the main components – the defined benefit obligation (DBO) and plan assets – the change in the asset adjustment from the calculation of the asset ceiling for any asset resulting from a plan surplus must be reported. The recoverability of the economic benefit associated with any plan surplus is reviewed at the level of the individual pension plan, resulting in a reduction in the carrying amount for the net asset both as at 31 December 2018 and as at 31 December 2017.

CHANGE IN NET LIABILITY AND NET ASSET FOR THE VARIOUS DEFINED BENEFIT PENSION PLANS

EUR MILLION

	Defined benefit obligation		Fair value of plan assets		Asset adjustment	
	2018	2017	2018	2017	2018	2017
Balance at 1.1. of the financial year	**2,312**	2,354	**–199**	–172	**2**	1
Changes recognised in net income						
Current service cost	26	26	—	—	—	—
Past service cost and plan curtailments	—	1	—	—	—	—
Net interest component	41	38	–5	–4	—	—
Gain or loss from settlements	—	—	—	—	—	—
	67	65	**–5**	–4	**—**	—
Other comprehensive income						
Remeasurements						
Actuarial gains (–)/losses (+) from change in biometric assumptions	17	42	—	—	—	—
Actuarial gains (–)/losses (+) from change in financial assumptions	45	–67	—	—	—	—
Experience adjustments	–13	–1	—	—	—	—
Return on plan assets (excluding interest income)	—	—	–12	–13	—	—
Change from asset adjustment	—	—	—	—	–1	1
Exchange rate changes	–1	–3	—	—	—	—
	48	–29	**–12**	–13	**–1**	1
Other changes						
Employer contributions	—	—	–25	–14	—	—
Employee contributions and deferred compensation	9	—	—	—	—	—
Benefits paid during the year	–79	–78	4	4	—	—
Business combinations and disposals	30	—	—	—	—	—
Effect of plan settlements	–1	—	—	—	—	—
Exchange rate changes	–7	—	1	—	—	—
	–48	–78	**–20**	–10	**—**	—
Balance at 31.12. of the financial year	**2,379**	2,312	**–236**	–199	**1**	2

The structure of the investment portfolio underlying the plan assets was as follows:

PORTFOLIO STRUCTURE OF PLAN ASSETS

%

	2018	2017
Cash and cash equivalents	—	—
Equity instruments	3	4
Fixed-income securities	9	5
Real estate	2	2
Securities funds	14	21
Qualifying insurance contracts	72	68
Total	**100**	100

Since all equity instruments, fixed-income securities and securities funds are listed in an active market, market prices are available for them.

The fair value of plan assets does not include any amounts for own financial instruments.

The actual return on plan assets amounted to EUR 17 million in the reporting period. Income of EUR 18 million was recognised in the previous year.

Defined benefit obligations were measured on the basis of the following weighted assumptions:

ASSUMPTIONS FOR DEFINED BENEFIT OBLIGATIONS

WEIGHTED VALUATION PARAMETERS/ASSUMPTIONS, IN %

	2018	2017
Discount rate	1.8	1.7
Expected rate of salary increase [1]	2.5	2.5
Pension increase [1]	1.7	1.7

[1] If the portfolio in Germany makes up more than 90% of the total portfolio, the amount is disclosed in accordance with the parameters set for valuing domestic portfolios.

The 2018 G HEUBECK MORTALITY TABLES formed the basis for the biometric calculation of the German pension commitments, which were strengthened in accordance with the change in risk characteristics observed in the portfolio. This year's change from the "2005G" mortality tables to the "2018 G" mortality tables had no significant impact.

The duration of the defined benefit obligation is 16 (16) years.

SENSITIVITY ANALYSES

An increase or decrease in key actuarial assumptions would have the following effect on the present value of the defined benefit obligation as at 31 December 2018:

EFFECT OF CHANGE IN ACTUARIAL ASSUMPTIONS

EUR MILLION

	Effect on defined benefit obligation			
	Parameter increase		Parameter decrease	
	2018	2017	2018	2017
Discount rate (+/–0.5%)	–172	–170	195	192
Salary increase rate (+/–0.25%)	8	10	–8	–9
Pension adjustment rate (+/–0.25%)	63	63	–62	–60

A change in the underlying mortality rates and longevities is also possible. For the purposes of calculating longevity risk, the underlying mortality tables were adjusted by lowering mortalities by 10%. This extension in longevities would have led to the pension obligation being higher by EUR 83 (81) million as at the end of the financial year.

Sensitivities are calculated as the difference between pension obligations under changed actuarial assumptions and those under unchanged actuarial assumptions. The calculation was carried out separately for key parameters.

For financial year 2018, the Group anticipates employer contributions of EUR 18 (13) million, which will be paid into the defined benefit plans shown here.

The defined contribution plans are funded through external pension funds or similar institutions. In this case, fixed contributions (e.g. based on the relevant income) are paid to these institutions, and the beneficiary's claim is against those institutions.In effect, the employer has no further obligation beyond payment of the contributions. The expense recognised in the financial year for these commitments amounted to EUR 63 (73) million, of which EUR 0 (1) million was attributable to commitments to employees in key positions. The defined contribution plans consist mainly of state pension schemes.

(24) PROVISIONS FOR TAXES

BREAKDOWN OF PROVISIONS FOR TAXES

EUR MILLION

	31.12.2018	31.12.2017
Provisions for income tax	452	526
Other tax provisions	198	236
Total	**650**	**762**

(25) MISCELLANEOUS OTHER PROVISIONS

MISCELLANEOUS OTHER PROVISIONS IN THE AMOUNT LIKELY TO BE REQUIRED TO SETTLE THE OBLIGATIONS

EUR MILLION

	Restruc-turing	Assumption of third-party pension obligations in return for payment	Bonuses and incentives	Anniversary bonuses	Early retire-ment/ partial retirement	Other personnel expenses	Out-standing invoices	Other	Total
Carrying amount as at 31.12.2017	90	49	161	30	40	79	134	324	907
2018									
Change in basis of consolidation	—	—	—	—	—	1	—	5	**6**
Additions	7	1	100	1	9	80	692	127	**1,017**
Unwinding of discounts	—	—	—	—	—	—	—	1	**1**
Utilisation	8	1	85	2	12	71	672	131	**982**
Reversals	—	—	7	11	—	2	13	20	**53**
Change in fair value of plan assets	—	—	—	—	–1	—	—	—	**–1**
Other changes	–4	—	—	—	5	—	—	—	**1**
Exchange rate changes	—	—	–1	—	—	–2	–1	–5	**–9**
Carrying amount as at 31.12.2018	**85**	**49**	**168**	**18**	**41**	**85**	**140**	**301**	**887**

The provisions for restructuring disclosed in the financial statements refer essentially to restructuring measures for implementing the realignment of the Retail Germany Division. The provision amounted to EUR 82 (87) million at the reporting date. There was essentially utilisation of EUR 8 million and additions of EUR 6 million in the reporting period. There were no significant unwinding of discounts or reversals for the reporting period.

The remaining provisions (EUR 301 [324] million) cover a variety of items that cannot be assigned to the above categories. In particular, they relate to provisions for interest arrears on taxes amounting to EUR 78 (114) million, provisions for commissions amounting to EUR 57 (54) million and provisions for administrative expenses amounting to EUR 9 (8) million. This item also includes provisions for litigation expenses (see the “Litigation” section), for outstanding contributions to the “Unterstützungskasse” (provident fund) and for surcharges for non-employment of disabled persons.

DURATIONS OF MISCELLANEOUS OTHER PROVISIONS

EUR MILLION

	31.12.2018			
	Due within one year	Due between one and five years	More than 5 years	Total
Restructuring	31	54	—	**85**
Assumption of third-party pension obligations in return for payment [1)]	—	—	49	**49**
Bonuses and incentives	123	45	—	**168**
Anniversary bonuses [1)]	—	18	—	**18**
Early retirement/partial retirement [1)]	—	41	—	**41**
Other personnel expenses	71	14	—	**85**
Outstanding invoices	140	—	—	**140**
Other	198	94	9	**301**
Total	**563**	**266**	**58**	**887**
Total, previous year	564	250	93	907

1) Weighted average.

(26) NOTES PAYABLE AND LOANS

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

NOTES PAYABLE AND LOANS

EUR MILLION

	31.12.2018	31.12.2017
Talanx AG notes payable	1,065	1,065
Hannover Rück SE	743	—
Mortgage loans of Hannover Re Real Estate Holdings, Inc.	97	94
Mortgage loans of HR GLL Central Europe GmbH & Co. KG	169	102
Loans from infrastructure investments	102	110
Mortgage loans of Real Estate Asia Select Fund Limited	57	55
Inversiones HDI Limitada	12	5
Total	**2,245**	**1,431**

Hannover Rück SE placed a non-subordinated bond of EUR 750 million on the European capital market on 18 April 2018. The bond matures on 18 April 2028 and can be redeemed at any time from 18 January 2028 onwards, but no later than 18 April 2028. It carries a fixed coupon of 1.125% p.a.

The 2014 credit line was replaced in the fourth quarter by a new syndicated credit line which also has a volume of EUR 250 million, a term of five years and the option to extend for two additional years. As at 31 December 2018, the Group therefore had two syndicated variable-rate credit lines with a nominal value of EUR 250 million. The credit lines run until 2021 and, at the latest, 2023 respectively. They had not been drawn down at the reporting date.

Net expenses from notes payable and loans totalled EUR 50 (44) million and consisted of interest expenses relating to bonds from Talanx AG (EUR 30 [30] million) and Hannover Rück SE (EUR 6 [—] million), as well as net expenses from mortgage loans (EUR 10 [10] million) and loans from infrastructure investments (EUR 4 [4] million).

NOTES PAYABLE

EUR MILLION

	Nominal amount	Coupon	Maturity	Rating [1]	Issue	31.12.2018	31.12.2017
Talanx AG [2]	565	Fixed (3.125%)	2013/2023	(—; A–) [3]	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons.	565	565
Talanx AG	500	Fixed (2.5%)	2014/2026	(—; A–) [3]	These senior unsecured bonds have a fixed term and may be called only for extraordinary reasons.	500	500
Hannover Rück SE	750	Fixed (1.125%)	2018/2028	(—; AA–)	These senior unsecured bonds have a fixed term.	743	—
Total						**1,808**	**1,065**

1) (Debt rating A. M. Best; debt rating S&P).
2) At the reporting date, Group companies additionally held bonds with a nominal value of EUR 185 million.
3) S&P upgraded its rating to "A+" on 7 January 2019. This was a result of Talanx AG being granted a reinsurance license (see "Ratings of the Group" in the "Net assets and financial position" section of the management report).

FAIR VALUE OF NOTES PAYABLE AND LOANS

EUR MILLION

	31.12.2018	31.12.2017
Amortised cost	2,245	1,431
Unrealised gains/losses	107	144
Fair value	**2,352**	**1,575**

NOTES PAYABLE AND LOANS: MATURITIES

EUR MILLION

	31.12.2018	31.12.2017
Due within one year	86	89
More than one year, up to five years	819	174
More than five years, up to ten years	1,326	1,146
More than ten years, up to 20 years	14	22
More than 20 years	—	—
Total	**2,245**	**1,431**

(27) OTHER LIABILITIES

OTHER LIABILITIES

EUR MILLION

	2018	2017
Liabilities under direct written insurance business	1,843	1,986
of which to policyholders	1,201	1,245
of which to insurance intermediaries	642	741
Reinsurance payables	1,855	1,583
Trade accounts payable	166	294
Liabilities relating to investments	83	72
Liabilities relating to non-Group lead business	384	352
Liabilities from derivatives	170	335
of which negative fair values from derivative hedging instruments	—	8
Deferred income	41	46
Interest	86	78
Liabilities to social insurance institutions	17	18
Miscellaneous other liabilities	396	258
Total other liabilities (not including liabilities relating to investment contracts)	**5,041**	**5,022**
Other liabilities relating to investment contracts		
Other obligations measured at amortised cost	56	69
Financial assets classified at fair value through profit or loss	996	1,057
Derivatives	2	4
Other liabilities relating to relating to investment contracts	**1,054**	**1,130**
Carrying amount as at 31.12. of the financial year	**6,095**	**6,152**

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 31 (15) million relating to units in private equity funds that could not yet be recognised in income as at the reporting date.

Liabilities from derivatives in the amount of EUR 170 (335) million mainly consist of instruments used to hedge interest rate, currency and equity risks, as well as embedded derivatives separated from the host insurance contract and accounted for at fair value. Please refer to our disclosures in Note 13, "Derivative financial instruments and hedge accounting".

The following table shows the maturities of other liabilities, not including liabilities under the direct written insurance business and reinsurance payables, since the latter two liabilities are directly related to insurance contracts and thus cannot be considered separately.

OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS[1]): MATURITIES

EUR MILLION

	31.12.2018	31.12.2017
Due within one year	1,052	1,132
More than one year, up to five years	165	203
More than five years, up to ten years	80	65
More than ten years, up to 20 years	46	53
More than 20 years	—	—
Without fixed maturity	—	—
Total	**1,343**	**1,453**

[1] For reasons of materiality, undiscounted cash flows are not presented for liabilities from derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 21 [38] million; 1–5 years: EUR 29 [182] million; 5–10 years: EUR 74 [62] million; 10–20 years: EUR 46 [53] million; more than 20 years: EUR 0 [0] million).

LIABILITIES RELATING TO INVESTMENT CONTRACTS

Other liabilities relating to investment contracts are recognised on their addition at amortised cost or at the policyholder's account balance, less acquisition costs that can be directly attributed to the conclusion of the contract. These contracts are measured at amortised cost in subsequent periods.

OTHER OBLIGATIONS MEASURED AT AMORTISED COST: MATURITIES

EUR MILLION

	Amortised cost		Fair value	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Due within one year	18	29	18	29
More than one year, up to five years	38	39	38	39
More than five years, up to ten years	—	—	—	—
More than ten years, up to 20 years	—	—	—	—
Without fixed maturity	—	1	—	1
Total	**56**	**69**	**56**	**69**

The fair value of investment contracts is generally calculated using surrender values for policyholders and their account balances. See our remarks in the "Accounting policies" section.

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES[1]: MATURITIES

EUR MILLION

	31.12.2018	31.12.2017
Due within one year	6	6
More than one year, up to five years	48	50
More than five years, up to ten years	231	229
More than ten years, up to 20 years	74	71
More than 20 years	102	99
Without fixed maturity	537	606
Total	**998**	**1,061**

[1] For reasons of materiality, undiscounted cash flows are not presented for corresponding derivatives. Instead, the fair values (negative fair values) of the derivative financial instruments are taken into account (maturity of up to one year: EUR 0 [0] million; 1–5 years; EUR 2 [4] million; 5–10 years: EUR 0 [0] million; more than 10 years: EUR 0 [0] million).

The change in fair value attributable to changes in the credit risk of financial assets classified at fair value through profit or loss was insignificant.

(28) DEFERRED TAXES

CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

EUR MILLION

	Deferred tax assets 31.12.2018	Deferred tax liabilities 31.12.2018	Net balance as at 31.12.2018	Deferred tax assets 31.12.2017 [1]	Deferred tax liabilities 31.12.2017 [1]	Net balance as at 31.12.2017 [1]
Deferred tax assets and liabilities						
Other intangible assets (PVFP)	—	–57	–57	1	–69	–68
Investments	402	–400	2	249	–575	–326
Funds withheld by ceding companies/ funds withheld under reinsurance treaties	558	–178	380	29	–40	–11
Accounts receivable on insurance business	88	–124	–36	67	–85	–18
Deferred acquisition costs [2]	45	–398	–353	58	–388	–330
Equalisation reserves	—	–1,389	–1,389	—	–1,464	–1,464
Loss and loss adjustment expense reserves	501	–85	416	594	–129	465
Other technical provisions	334	–1,372	–1,038	281	–377	–96
Other provisions	408	–11	397	413	–7	406
Consolidation of intercompany balances	—	–28	–28	—	–20	–20
Others	420	–606	–186	150	–380	–230
Loss carryforwards	907	—	907	436	—	436
Impairments	–239	—	–239	–250	—	–250
Tax assets (liabilities) before offsetting	**3,424**	**–4,648**	**–1,224**	**2,028**	**–3,534**	**–1,506**
Recognised amounts set off	**–2,268**	**2,268**	**—**	**–1,425**	**1,425**	**—**
Tax assets (liabilities) after offsetting	**1,156**	**–2,380**	**–1,224**	**603**	**–2,109**	**–1,506**

[1] Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.
[2] Deferred taxes on deferred acquisition costs relate to the net amount, i.e. after allowance for reinsurers’ shares.

The (net) change of EUR 282 (76) million was recognised in the amount of EUR 298 (102) million in other comprehensive income, thereby reducing equity, and in the amount of EUR –10 (–5) million as expenses under profit and loss. The other changes resulted from changes in the basis of consolidation and from exchange differences on translating foreign operations.

NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

(29) NET PREMIUMS EARNED

NET PREMIUMS EARNED

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2018 [1]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,639	1,563	4,457	5,552	11,623	7,051	—	**34,885**
Savings elements of premiums from unit-linked life and annuity insurance	—	—	853	153	—	—	—	**1,006**
Ceded written premiums	1,666	40	116	294	1,105	612	15	**3,848**
Change in gross unearned premiums	–70	–28	–46	–167	–123	–45	—	**–479**
Change in ceded unearned premiums	7	–3	2	–1	–24	—	–3	**–22**
Net premiums earned	**2,896**	**1,498**	**3,440**	**4,939**	**10,419**	**6,394**	**–12**	**29,574**
2017 [1]								
Gross written premiums, including premiums from unit-linked life and annuity insurance	4,399	1,525	4,517	5,460	10,229	6,930	—	33,060
Savings elements of premiums from unit-linked life and annuity insurance	—	—	892	280	—	—	—	1,172
Ceded written premiums	1,627	39	58	315	1,093	531	6	3,669
Change in gross unearned premiums	–45	–39	–108	–188	–435	–16	—	–831
Change in ceded unearned premiums	–41	–6	1	–12	27	1	—	–30
Net premiums earned	2,768	1,453	3,458	4,689	8,674	6,382	–6	27,418

[1] After elimination of intragroup cross-segment transactions.

(30) NET INVESTMENT INCOME

NET INVESTMENT INCOME IN THE REPORTING PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2018 [1]								
Income from real estate	23	2	89	1	172	—	—	**287**
Dividends [2]	15	10	13	2	5	3	2	**50**
Current interest income	146	73	1,229	298	677	287	1	**2,711**
Other income	91	18	106	3	173	6	—	**397**
Ordinary investment income	**275**	**103**	**1,437**	**304**	**1,027**	**296**	**3**	**3,445**
Income from reversal of impairment losses	1	—	2	—	3	—	—	**6**
Realised gains on disposal of investments	112	4	423	68	235	51	—	**893**
Unrealised gains on investments	5	1	23	14	2	66	—	**111**
Investment income	**393**	**108**	**1,885**	**386**	**1,267**	**413**	**3**	**4,455**
Realised losses on disposal of investments	68	3	57	23	117	41	—	**309**
Unrealised losses on investments	21	3	48	14	1	36	—	**123**
Total	**89**	**6**	**105**	**37**	**118**	**77**	**—**	**432**
Depreciation of/impairment losses on investment property								
Amortisation	4	—	19	—	34	—	—	**57**
Impairment losses	—	—	4	—	—	—	—	**4**
Impairment losses on equity securities	11	—	9	4	—	—	—	**24**
Impairment losses on fixed-income securities	7	—	—	3	1	—	1	**12**
Impairment losses on long-term equity investments	—	—	1	—	—	—	—	**1**
Amortisation of/impairment losses on other investments								
Amortisation	6	4	22	—	—	—	—	**32**
Impairment losses	15	2	21	—	18	—	—	**56**
Investment management expenses	6	1	16	4	23	5	90	**145**
Other expenses	9	5	51	4	40	4	3	**116**
Other investment expenses/ impairment losses	**58**	**12**	**143**	**15**	**116**	**9**	**94**	**447**
Investment expenses	**147**	**18**	**248**	**52**	**234**	**86**	**94**	**879**
Net income from assets under own management	**246**	**90**	**1,637**	**334**	**1,033**	**327**	**–91**	**3,576**
Net income from investment contracts	**—**	**—**	**—**	**–1**	**—**	**—**	**—**	**–1**
Interest income from funds withheld and contract deposits	—	—	—	—	38	290	—	**328**
Interest expense from funds withheld and contract deposits	—	—	10	1	3	122	—	**136**
Net interest income from funds withheld and contract deposits	**—**	**—**	**–10**	**–1**	**35**	**168**	**—**	**192**
Net investment income	**246**	**90**	**1,627**	**332**	**1,068**	**495**	**–91**	**3,767**

[1] After elimination of intragroup cross-segment transactions.
[2] Income from investments in associates and joint ventures amounted to EUR 7 million and is reported in “Dividends”.

NET INVESTMENT INCOME IN THE PREVIOUS PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2017 [1]								
Income from real estate	23	4	100	2	171	—	—	**300**
Dividends [2]	18	1	11	1	35	4	2	**72**
Current interest income	164	75	1,256	294	630	265	—	**2,684**
Other income	53	14	77	2	192	4	—	**342**
Ordinary investment income	**258**	**94**	**1,444**	**299**	**1,028**	**273**	**2**	**3,398**
Income from reversal of impairment losses	1	—	1	—	1	—	—	**3**
Realised gains on disposal of investments	68	11	831	74	381	67	2	**1,434**
Unrealised gains on investments	10	2	32	24	2	55	—	**125**
Investment income	**337**	**107**	**2,308**	**397**	**1,412**	**395**	**4**	**4,960**
Realised losses on disposal of investments	25	2	75	17	55	15	—	**189**
Unrealised losses on investments	1	—	17	25	—	18	—	**61**
Total	**26**	**2**	**92**	**42**	**55**	**33**	**—**	**250**
Depreciation of/impairment losses on investment property								
Amortisation	3	—	18	—	31	—	—	**52**
Impairment losses	—	—	—	—	16	—	—	**16**
Impairment losses on equity securities	3	—	3	1	4	—	—	**11**
Impairment losses on fixed-income securities	—	—	32	1	—	—	—	**33**
Impairment losses on long-term equity investments	1	—	—	—	3	—	—	**4**
Amortisation of/impairment losses on other investments								
Amortisation	7	4	21	—	—	—	—	**32**
Impairment losses	6	4	24	—	19	—	—	**53**
Investment management expenses	5	1	16	5	21	5	89	**142**
Other expenses	6	3	47	6	36	5	1	**104**
Other investment expenses/ impairment losses	**31**	**12**	**161**	**13**	**130**	**10**	**90**	**447**
Investment expenses	**57**	**14**	**253**	**55**	**185**	**43**	**90**	**697**
Net income from assets under own management	**280**	**93**	**2,055**	**342**	**1,227**	**352**	**–86**	**4,263**
Net income from investment contracts	**—**	**—**	**—**	**–4**	**—**	**—**	**—**	**–4**
Interest income from funds withheld and contract deposits	—	—	—	—	19	349	—	**368**
Interest expense from funds withheld and contract deposits	—	—	11	—	2	136	—	**149**
Net interest income from funds withheld and contract deposits	**—**	**—**	**–11**	**—**	**17**	**213**	**—**	**219**
Net investment income	**280**	**93**	**2,044**	**338**	**1,244**	**565**	**–86**	**4,478**

[1] After elimination of intragroup cross-segment transactions.
[2] Income from investments in associates and joint ventures amounted to EUR 24 million and is reported in "Dividends".

Of the impairment losses totalling EUR 97 (117) million, EUR 12 (33) million was attributable to fixed-income securities, EUR 24 (11) million to equities, EUR 20 (37) million to real estate and real estate funds and EUR 41 (26) million to private equity capital. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 6 (3) million. EUR 6 (2) million of this amount was attributable to investment property.

Net income from the disposal of securities amounted to EUR 584 (1,245) million. This is principally attributable to the disposal of fixed income securities (EUR 337 [900] million).

Over and above this, the portfolio did not contain any other securities past due but not impaired at the reporting date because past due securities are written down immediately.

INTEREST INCOME FROM INVESTMENTS

EUR MILLION

	2018	2017
Loans and receivables	921	978
Financial assets held to maturity	22	29
Financial assets available for sale	1,651	1,558
Financial assets at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	43	60
Others	74	56
Loans and receivables – investment contracts	—	—
Financial instruments classified at fair value through profit or loss – investment contracts	5	6
Total	**2,716**	**2,687**

NET GAINS AND LOSSES ON INVESTMENTS

The net gains and losses on investments shown in the following table are based largely on the classes established by the Group.

After allowance for “Expenses for assets under own management” (EUR 145 [142] million) as well as for “Other expenses on assets under own management” (EUR 116 [104] million), “Net investment income” as at the reporting date amounted to EUR 3,767 (4,478) million in total.

NET GAINS AND LOSSES ON INVESTMENTS — REPORTING PERIOD

EUR MILLION

2018 [1]	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Write-downs	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total [3]
Shares in affiliated companies and participating interests	15	—	8	—	1	—	—	—	**22**
Loans and receivables	902	19	100	11	1	—	—	—	**1,009**
Financial assets held to maturity	18	4	—	—	—	—	—	—	**22**
Financial assets available for sale									
Fixed-income securities	1,605	46	479	179	11	—	—	—	**1,940**
Variable-yield securities	83	—	50	19	39	—	—	—	**75**
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	43	—	10	3	—	—	15	33	**32**
Variable-yield securities	3	—	1	3	—	—	2	16	**–13**
Financial assets held for trading									
Variable-yield securities	—	—	6	6	—	—	—	1	**–1**
Derivatives	11	—	140	73	—	—	67	44	**101**
Other investments, insofar as they are financial assets	454	1	61	1	73	—	2	4	**440**
Other [2]	241	—	38	14	61	6	25	25	**210**
Assets under own management	**3,375**	**70**	**893**	**309**	**186**	**6**	**111**	**123**	**3,837**
Loans and receivables (assets)	—	—	—	—	—	—	—	—	**—**
Financial assets classified at fair value through profit or loss	7	—	7	10	—	—	32	57	**–21**
Financial assets held for trading – (derivatives)	—	—	1	—	—	—	2	3	**—**
Other liabilities measured at amortised cost	–2	—	—	—	—	—	—	—	**–2**
Financial liabilities classified at fair value through profit or loss	—	—	—	—	—	—	30	10	**20**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	3	2	**1**
Other [4]	5	–4	—	—	—	—	—	—	**1**
Net income from investment contracts	**10**	**–4**	**8**	**10**	**—**	**—**	**67**	**72**	**–1**
Funds withheld by ceding companies/ funds withheld under reinsurance treaties	192	—	—	—	—	—	—	—	**192**
Total	**3,577**	**66**	**901**	**319**	**186**	**6**	**178**	**195**	**4,028**

[1] After elimination of intragroup cross-segment transactions.
[2] For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property and the income from infrastructure investments, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments.
[3] Excluding investment administration expenses and other expenses.
[4] "Other" contains income (EUR 13 million) and expenses (EUR 8 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 4 million.

NET GAINS AND LOSSES ON INVESTMENTS — PRIOR YEAR

EUR MILLION

	Ordinary investment income	Amortisation	Gains on disposal	Losses on disposal	Write-downs	Reversals of impairment losses	Unrealised gains	Unrealised losses	Total [3]
2017 [1]									
Shares in affiliated companies and participating interests	30	—	3	3	9	—	—	—	**21**
Loans and receivables	952	26	304	13	5	—	—	—	**1,264**
Financial assets held to maturity	24	5	—	—	—	—	—	—	**29**
Financial assets available for sale									
Fixed-income securities	1,583	–25	740	81	29	1	—	—	**2,189**
Variable-yield securities	140	—	297	11	31	—	—	—	**395**
Financial assets at fair value through profit or loss									
Financial assets classified at fair value through profit or loss									
Fixed-income securities	60	—	9	1	—	—	32	6	**94**
Variable-yield securities	1	—	1	1	—	—	5	1	**5**
Financial assets held for trading									
Variable-yield securities	—	—	6	2	—	—	—	4	**—**
Derivatives	8	—	38	42	—	—	36	19	**21**
Other investments, insofar as they are financial assets	390	1	21	5	59	—	3	17	**334**
Other [2]	203	—	15	30	68	2	49	14	**157**
Assets under own management	**3,391**	**7**	**1,434**	**189**	**201**	**3**	**125**	**61**	**4,509**
Loans and receivables (assets)	—	—	—	—	—	—	—	—	**—**
Financial assets classified at fair value through profit or loss	2	—	13	7	—	—	67	29	**46**
Financial assets held for trading – (derivatives)	—	—	2	1	—	—	35	33	**3**
Other liabilities measured at amortised cost	–3	—	—	—	—	—	—	—	**–3**
Financial liabilities classified at fair value through profit or loss	—	—	—	—	—	—	19	64	**–45**
Liabilities held for trading – (derivatives)	—	—	—	—	—	—	33	35	**–2**
Other [4]	3	–6	—	—	—	—	—	—	**–3**
Net income from investment contracts	**2**	**–6**	**15**	**8**	**—**	**—**	**154**	**161**	**–4**
Funds withheld by ceding companies/ funds withheld under reinsurance treaties	219	—	—	—	—	—	—	—	**219**
Total	**3,612**	**1**	**1,449**	**197**	**201**	**3**	**279**	**222**	**4,724**

[1] After elimination of intragroup cross-segment transactions.
[2] For the purposes of reconciliation to the consolidated statement of income, the "Other" item combines the gains on investment property and the income from infrastructure investments, associates and derivative financial instruments where the fair values are negative. Derivatives held for hedging purposes included in hedge accounting (see Note 13) are not included in the list if they do not relate to hedges of investments.
[3] Excluding investment administration expenses and other expenses.
[4] "Other" contains income (EUR 14 million) and expenses (EUR 11 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 6 million.

(31) CLAIMS AND CLAIMS EXPENSES

CLAIMS AND CLAIMS EXPENSES — REPORTING PERIOD

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2018 [1]								
Gross								
Claims and claims expenses paid	2,917	862	2,958	3,103	6,375	6,017	—	**22,232**
Change in loss and loss adjustment expense reserve	840	89	52	327	1,610	–2	5	**2,921**
Change in benefit reserve	—	–1	712	431	—	–20	—	**1,122**
Expenses for premium refunds	23	1	414	33	—	—	—	**471**
Total	**3,780**	**951**	**4,136**	**3,894**	**7,985**	**5,995**	**5**	**26,746**
Reinsurers' share								
Claims and claims expenses paid	932	13	73	164	576	719	—	**2,477**
Change in loss and loss adjustment expense reserve	306	11	–3	46	519	–25	3	**857**
Change in benefit reserve	—	—	–29	–2	—	–78	—	**–109**
Expenses for premium refunds	4	—	—	—	—	—	—	**4**
Total	**1,242**	**24**	**41**	**208**	**1,095**	**616**	**3**	**3,229**
Net								
Claims and claims expenses paid	1,985	849	2,885	2,939	5,799	5,298	—	**19,755**
Change in loss and loss adjustment expense reserve	534	78	55	281	1,091	23	2	**2,064**
Change in benefit reserve	—	–1	741	433	—	58	—	**1,231**
Expenses for premium refunds	19	1	414	33	—	—	—	**467**
Total	**2,538**	**927**	**4,095**	**3,686**	**6,890**	**5,379**	**2**	**23,517**

[1] After elimination of intragroup cross-segment transactions.

CLAIMS AND CLAIMS EXPENSES — PRIOR YEAR

EUR MILLION

	Industrial Lines	Retail Germany		Retail International [2]	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total [2]
		Property/ Casualty	Life					
2017 [1]								
Gross								
Claims and claims expenses paid	3,289	800	2,900	2,935	5,323	5,697	—	**20,944**
Change in loss and loss adjustment expense reserve	382	123	38	201	1,780	405	—	**2,929**
Change in benefit reserve	—	1	625	508	—	48	—	**1,182**
Expenses for premium refunds	—	–2	1,119	16	—	—	—	**1,133**
Total	**3,671**	**922**	**4,682**	**3,660**	**7,103**	**6,150**	**—**	**26,188**
Reinsurers' share								
Claims and claims expenses paid	1,237	11	75	210	591	483	—	**2,607**
Change in loss and loss adjustment expense reserve	46	–8	–6	–16	328	–34	—	**310**
Change in benefit reserve	—	—	–39	1	—	42	—	**4**
Expenses for premium refunds	–3	—	—	—	—	—	—	**–3**
Total	**1,280**	**3**	**30**	**195**	**919**	**491**	**—**	**2,918**
Net								
Claims and claims expenses paid	2,052	789	2,825	2,725	4,732	5,214	—	**18,337**
Change in loss and loss adjustment expense reserve	336	131	44	217	1,452	439	—	**2,619**
Change in benefit reserve	—	1	664	507	—	6	—	**1,178**
Expenses for premium refunds	3	–2	1,119	16	—	—	—	**1,136**
Total	**2,391**	**919**	**4,652**	**3,465**	**6,184**	**5,659**	**—**	**23,270**

[1] After elimination of intragroup cross-segment transactions.
[2] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

(32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

EUR MILLION

	Industrial Lines	Retail Germany		Retail International	Property/ Casualty Reinsurance	Life/Health Reinsurance	Corporate Operations	Total
		Property/ Casualty	Life					
2018 [1]								
Gross								
Acquisition costs and reinsurance commissions	575	322	615	1,018	3,144	1,328	—	**7,002**
Changes in deferred acquisition costs and in provisions for commissions	–5	–4	121	–50	–46	–91	—	**–75**
Total acquisition costs	**570**	**318**	**736**	**968**	**3,098**	**1,237**	**—**	**6,927**
Administrative expenses	344	227	82	212	206	217	2	**1,290**
Total acquisition costs and administrative expenses	**914**	**545**	**818**	**1,180**	**3,304**	**1,454**	**2**	**8,217**
Reinsurers' share								
Acquisition costs and reinsurance commissions	268	9	56	69	169	34	2	**607**
Changes in deferred acquisition costs and in provisions for commissions	–3	—	12	–3	–4	2	–1	**3**
Total acquisition costs	**265**	**9**	**68**	**66**	**165**	**36**	**1**	**610**
Net								
Acquisition costs and reinsurance commissions	307	313	559	949	2,975	1,294	–2	**6,395**
Changes in deferred acquisition costs and in provisions for commissions	–2	–4	109	–47	–42	–93	1	**–78**
Total acquisition costs	**305**	**309**	**668**	**902**	**2,933**	**1,201**	**–1**	**6,317**
Administrative expenses	344	227	82	212	206	217	2	**1,290**
Total acquisition costs and administrative expenses	**649**	**536**	**750**	**1,114**	**3,139**	**1,418**	**1**	**7,607**
2017 [1]								
Gross								
Acquisition costs and reinsurance commissions	549	311	623	973	2,619	1,062	—	**6,137**
Changes in deferred acquisition costs and in provisions for commissions	—	–1	–25	–8	–144	–10	—	**–188**
Total acquisition costs	**549**	**310**	**598**	**965**	**2,475**	**1,052**	**—**	**5,949**
Administrative expenses	356	234	86	205	200	211	1	**1,293**
Total acquisition costs and administrative expenses	**905**	**544**	**684**	**1,170**	**2,675**	**1,263**	**1**	**7,242**
Reinsurers' share								
Acquisition costs and reinsurance commissions	253	7	11	64	170	29	—	**534**
Changes in deferred acquisition costs and in provisions for commissions	–1	—	5	–2	9	9	—	**20**
Total acquisition costs	**252**	**7**	**16**	**62**	**179**	**38**	**—**	**554**
Net								
Acquisition costs and reinsurance commissions	296	304	612	909	2,449	1,033	—	**5,603**
Changes in deferred acquisition costs and in provisions for commissions	1	–1	–30	–6	–153	–19	—	**–208**
Total acquisition costs	**297**	**303**	**582**	**903**	**2,296**	**1,014**	**—**	**5,395**
Administrative expenses	356	234	86	205	200	211	1	**1,293**
Total acquisition costs and administrative expenses	**653**	**537**	**668**	**1,108**	**2,496**	**1,225**	**1**	**6,688**

[1] After elimination of intragroup cross-segment transactions.

(33) OTHER INCOME/EXPENSES

COMPOSITION OF OTHER INCOME/EXPENSES

EUR MILLION

	2018	2017
Other income		
Foreign exchange gains	857	773
Income from services, rents and commissions	346	284
Recoveries on receivables previously written off	20	39
Income from contracts recognised in accordance with the deposit accounting method	211	205
Income from the sale of property, plant and equipment	38	9
Income from the reversal of other non-technical provisions	28	26
Interest income [1]	51	61
Miscellaneous income	82	130
Total	**1,633**	**1,527**
Other expenses		
Foreign exchange losses	826	768
Other interest expenses [2]	65	74
Depreciation, amortisation and impairment losses [3]	99	127
Expenses for the company as a whole	331	276
Personnel expenses	77	53
Expenses for services and commissions	147	149
Expenses from contracts recognised in accordance with the deposit accounting method	6	12
Other taxes	68	63
Additions to restructuring provisions	7	—
Miscellaneous other expenses	95	132
Total	**1,721**	**1,654**
Other income/expenses	**–88**	**–127**

1) The “Interest income” is attributable to the segments as follows: Industrial Lines EUR 7 (9) million, Retail Germany – Property/Casualty EUR 0 (7) million, Retail Germany – Life EUR 6 (11) million, Retail International EUR 5 (5) million, Property/Casualty Reinsurance EUR 9 (3) million, Life/Health Reinsurance EUR 30 (33) million and Corporate Operations EUR 4 (0) million. Of this, EUR 10 (7) million is consolidated.

2) “Other interest expenses” is attributable to the segments as follows: Industrial Lines EUR 14 (11) million, Retail Germany – Property/Casualty EUR 1 (1) million, Retail Germany – Life EUR 10 (10) million, Retail International EUR 4 (2) million, Property/Casualty Reinsurance EUR 12 (18) million, Life/Health Reinsurance EUR 22 (23) million and Corporate Operations EUR 25 (27) million. Of this, EUR 23 (18) million is consolidated.

3) This figure includes depreciation and amortisation of EUR 51 (47) million. These amounts are essentially attributable to the segments Retail International EUR 19 (18) million, Property/Casualty Reinsurance EUR 21(18) million and Life/Health Reinsurance EUR 10 (9) million.

“Other income/expenses” do not in general include the personnel expenses incurred by our insurance companies, to the extent that these expenses are attributed to the functions by means of cost object accounting and allocated to investment expenses, claims and claims expenses, and acquisition costs and administrative expenses. This also applies to depreciation and amortisation of, and impairment losses on, intangible and other assets at our insurance companies.

(34) FINANCING COSTS

The financing costs of EUR 170 (149) million consist exclusively of interest expenses from borrowings that are not directly related to the operational insurance business. EUR 131 (115) million of these interest expenses is attributable to our issued subordinated liabilities and EUR 30 (30) to issued bonds of Talanx AG and EUR 6 (—) million to Hannover Rück SE.

(35) TAXES ON INCOME

This item includes both domestic income taxes and comparable taxes on income generated by foreign subsidiaries. The measurement of taxes on income includes the calculation of deferred taxes. The principles used to recognise deferred taxes are set out in the “Summary of significant accounting policies”. Deferred taxes are recognised in respect of retained earnings of significant affiliated companies in cases where a distribution is specifically planned.

TAXES ON INCOME – CURRENT AND DEFERRED

EUR MILLION

	2018	2017 [1]
Current taxes for the reporting period	532	434
Prior-period current taxes	–39	–52
Deferred taxes in respect of temporary differences	491	51
Deferred taxes in respect of loss carryforwards	–480	–9
Change in deferred taxes due to changes in tax rates	–1	–37
Reported tax expense	**503**	**387**

1) Adjusted in accordance with IAS 8, see “Accounting policies”, subsection “Changes in accounting policies and errors” in the Notes.

The sharp increase in deferred taxes from loss carryforwards and temporary differences are due primarily to the transfer of extensive portfolios of reinsurance contracts to US Group companies as part of restructuring the US mortality business.

Current and deferred taxes recognised in the financial year in other comprehensive income and directly in equity – resulting from items charged or credited to other comprehensive income – amounted to EUR 295 (102) million.

The following table presents a reconciliation of the expected expense for income taxes that would be incurred by applying the German income tax rate, based on pre-tax profit, to the actual tax expense:

RECONCILIATION BETWEEN EXPECTED TAX EXPENDITURE AND REPORTED TAX EXPENDITURE

EUR MILLION

	2018	2017 [1]
Profit before income taxes	1,862	1,656
Expected tax rate	32.2 %	32.2 %
Expected tax expense	600	533
Change in rates applicable to deferred taxes	–1	–37
Difference due to foreign tax rates	–97	–74
Non-deductible expenses	249	134
Tax-exempt income	–155	–149
Valuation allowances on deferred tax assets	–13	89
Prior-period tax expense	–23	–65
Others	–57	–44
Reported tax expense	**503**	**387**

[1] Adjusted in accordance with IAS 8, see "Accounting policies", subsection "Changes in accounting policies and errors" in the Notes.

Calculation of the expected tax expense is based on the German income tax rate of 32.2% (32.2%). This tax rate is made up of corporate income tax, including the solidarity surcharge, and a composite trade tax rate.

The tax ratio, i.e. the ratio of reported tax expense to pre-tax profit, was 27.01% (23.37)% in the reporting period. The tax rate corresponds to the average income tax burden of all Group companies. Income from the change in rates applicable to deferred tax of EUR 1 (37) million is attributable mainly to the reductions in local rates of tax in Brazil (prior year: in USA and France) that will apply in future and the associated revaluation of deferred tax liabilities.

No deferred taxes were recognised in respect of taxable temporary differences of EUR 153 (140) million (liabilities) in connection with shares of Group companies, as the Group is able to control their reversal and they will not reverse in the foreseeable future.

Unimpaired deferred tax assets on loss carryforwards totalling EUR 677 (200) million are expected to be realised in the amount of EUR 38 (27) million within one year and in the amount of EUR 639 (173) million after one year.

Current income taxes declined by EUR 2 (5) million in the reporting period because loss carryforwards were utilised for which no deferred tax assets had been recognised.

Impairment losses on deferred tax assets recognised in previous years led to a deferred tax expense of EUR 4 (11) million in the reporting period. On the other hand, the reversal of previous impairment losses resulted in deferred tax income of EUR 8 (6) million.

In the event of losses in the reporting period or in the previous year, a surplus of deferred tax assets over deferred tax liabilities is only recognised to the extent that there is compelling evidence that it is probable that the company in question will generate sufficient taxable profits in the future. Evidence of this was provided for deferred tax assets amounting to EUR 183 (94) million.

PERIOD IN WHICH NON-CAPITALISED LOSS CARRYFORWARDS MAY BE UTILISED

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 1,289 (1,308) million and gross deductible temporary differences of EUR 25 (48) million because their realisation is not sufficiently certain. The impaired deferred tax assets for these items total EUR 239 (250) million.

AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS AND TEMPORARY DIFFERENCES

EUR MILLION

	Due between one and five years	Six years, up to ten years	More than ten years	Indefinitely	Total	Due between one and five years	Six years, up to ten years	More than ten years	Indefinitely	Total
	2018					2017				
Loss carryforwards	—	5	—	1,284	1,289	—	—	—	1,308	1,308
Temporary differences	—	—	—	25	25	—	—	—	48	48
Total	**—**	**5**	**—**	**1,309**	**1,314**	**—**	**—**	**—**	**1,356**	**1,356**

OTHER DISCLOSURES

NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

NUMBER OF EMPLOYEES

AVERAGE ANNUAL NUMBER OF EMPLOYEES

	2018	2017
Industrial Lines	3,268	3,410
Retail Germany	4,392	4,665
Retail International	8,010	7,527
Reinsurance companies	3,272	3,089
Corporate Operations	2,731	2,725
Total excluding vocational trainees	**21,673**	**21,416**
Vocational trainees	549	502
Total	**22,222**	**21,918**

The Group's total workforce at the reporting date numbered 22,642 (22,059).

PERSONNEL EXPENSES

The personnel expenses set out in the following mainly comprise expenses for insurance operations, claims management (loss adjustment) and investment management.

BREAKDOWN OF PERSONNEL EXPENSES

EUR MILLION

	2018	2017
Wages and salaries	**1,250**	**1,241**
Social security contributions and other employee benefit costs		
Social security contributions	169	164
Post-employment benefit costs	81	74
Other employee benefit costs	23	24
	273	**262**
Total	**1,523**	**1,503**

RELATED PARTY DISCLOSURES

The related parties defined by IAS 24 "Related Party Disclosures" include parents and subsidiaries, subsidiaries of a common parent, associates, legal entities under the influence of management and the management of the company itself.

Related parties 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 parties after termination of their employment.

A person or a close member of that person's family is related to the reporting entity if that person has control or joint control of the reporting entity, has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity. Key management personnel 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 including structured entities are eliminated in the course of consolidation and hence not disclosed in the Notes. In addition, HDI V. a. G. conducts primary insurance business in the form of co-insurance, with the lead insurers being HDI Global SE (HG), Hanover, and HDI Versicherung AG (HV), Hannover. In accordance with the Articles of Association of HDI V. a. G., insurance business is split uniformly in the ratio 0.1% (HDI V. a. G.) to 99.9% (HG/HV).

On 21 October 2016, Talanx AG concluded a cooperation agreement with HDI Haftpflichtverband der Deutschen Industrie V. a. G. which allows Talanx AG to offer HDI subordinated bonds with a maturity of five years and a volume of up to EUR 500 million on a revolving basis. Talanx AG is obliged to convert these bonds into registered shares with voting rights in the event of an increase in capital with pre-emptive rights. With the conversion of these bonds, HDI Haftpflichtverband der Deutschen Industrie V. a. G. waives its pre-emptive rights resulting from the capital increase that led to the conversion. It does so for that number of new Talanx shares that corresponds to the number of Talanx shares that HDI Haftpflichtverband der Deutschen Industrie V. a. G. will receive in the course of the obligatory conversion of the bond – i.e. only to the extent to which new shares resulting from the capital increase are replaced by shares resulting from the conversion.

HDI Global SE sold real estate holdings to HDI V. a. G. at a selling price of EUR 83 million in the second half of 2018. HDI V. a. G. rents the real estate to HDI Service AG, Hannover. The basic lease term is 15 years on average. Rental income amounted to EUR 1.3 million in 2018.

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

For details of the remuneration received by members of the Board of Management and Supervisory Board of Talanx AG, please see "Corporate Governance" section in the remuneration report on page 89ff. and the "Remuneration of the governing bodies of the parent company" subsection in the Notes.

SHARE-BASED PAYMENTS

The following share-based payment schemes were operating within the Group in financial year 2018:

- Stock appreciation rights scheme (SAR) at Hannover Rück SE (operating since 2000, terminated successively from 2011 onwards and in the process of being wound up)
- Share award scheme (share-based payment in the form of virtual shares, operating since 2011)

These schemes and their effects on net income for the year and on the Group's net assets, financial position and results of operations are described in the following.

STOCK APPRECIATION RIGHTS SCHEME AT HANNOVER RÜCK SE

With the approval of the Supervisory Board, the Board of Management of Hannover Rück SE introduced a virtual stock option scheme with effect from 1 January 2000 that grants stock appreciation rights (SARs) to certain executives. The content of the stock option scheme is based solely on the terms and conditions for the grant of stock appreciation rights. All members of the Group's senior management are eligible for the award of stock appreciation rights. Exercising stock appreciation rights does not entitle the holder to demand delivery of Hannover Rück SE shares, but only to be paid a cash amount linked to the performance of Hannover Rück SE's shares.

The terms and conditions for the grant of stock appreciation rights have been revoked for all eligible executives. Stock appreciation rights that have already been allocated may be exercised until their expiration date.

Stock appreciation rights were first granted for financial year 2000 and, until the scheme was terminated, were awarded separately for each subsequent financial year (allocation year), provided that the performance criteria defined in the terms and conditions for the grant of stock appreciation rights were satisfied.

The term of the stock appreciation rights is ten years in each case, commencing at the end of the year in which they are awarded. Stock appreciation rights lapse if they are not exercised by the end of the ten-year period. Stock appreciation rights may only be exercised after a vesting period and then only within four exercise periods each year. Upon expiry of a four-year vesting period, a maximum of 60% of the SARs awarded for any allocation year may be exercised. The vesting period for each further 20% of the SARs awarded to an executive for that allocation year is an additional one year in each case. Each exercise period lasts for ten trading days, commencing on the sixth trading day after the date of publication of each quarterly report of Hannover Rück SE.

The amount paid out to the executive exercising a stock appreciation right is the difference between the strike price and the current quoted market price of Hannover Rück SE shares at the exercise date. In this context, the strike price corresponds to the arithmetic mean of the closing prices of Hannover Rück SE shares on all trading days of the first full calendar month of the allocation year in question. The current quoted market price of Hannover Rück SE shares at the date when stock appreciation rights are exercised is the arithmetic mean of the closing prices of Hannover Rück SE shares on the last 20 trading days prior to the first day of the exercise period.

The amount paid out is limited to a maximum calculated by dividing the total volume of remuneration to be granted in the allocation year by the total number of stock appreciation rights awarded in that year. If the holder's employment with the company is terminated by either party or by mutual agreement or ends upon expiry of a fixed term, the holder is entitled to exercise all of their stock appreciation rights in the first exercise period thereafter. Any stock appreciation rights not exercised within this period and any for which the vesting period has not yet expired will lapse. Retirement, incapacity or death of the executive does not constitute termination of employment for the purpose of exercising stock appreciation rights.

The allocations for the years 2009 to 2011 gave rise to the commitments in financial year 2018 shown in the table below. There are no commitments for years prior to 2009.

STOCK APPRECIATION RIGHTS AT HANNOVER RÜCK SE

	Allocation year		
	2011	2010	2009
Award date	15.3.2012	8.3.2011	15.3.2010
Term	10 years	10 years	10 years
Lock-up period	4 years	4 years	2 years
Strike price (in EUR)	40.87	33.05	22.70
Participants in year of issue	143	129	137
Number of rights granted	263,515	1,681,205	1,569,855
Fair value as at 31.12.2018 (in EUR)	32.21	8.92	8.76
Maximum value (in EUR)	32.21	8.92	8.76
Weighted exercise price (in EUR)	32.21	8.92	8.76
Number of rights as at 31.12.2018	13,561	70,266	5,050
Provision as at 31.12.2018 (in EUR million)	0.44	0.63	0.04
Amounts paid out in FY 2018 (in EUR million)	1.61	0.22	0.15
Expense in FY 2018 (in EUR million)	—	—	—

The accumulated stock appreciation rights are valued on the basis of the Black/Scholes option pricing model.

The calculations were based on the closing price of Hannover Re shares of EUR 118.80 as at 12 December 2018, an expected volatility of 19.74% (historical volatility on a five-year basis), an expected dividend yield of 4.21% and a risk-free interest rate of –0.68% for the 2009 allocation year, –0.62% for the 2010 allocation year and –0.53% for the 2011 allocation year.

In financial year 2018, the vesting period expired for 100% of the stock appreciation rights granted for the years 2009, 2010 and 2011. A total of 17,460 stock appreciation rights from the 2009 allocation year, 24,276 stock appreciation rights from the 2010 allocation year and 49,972 stock appreciation rights from the 2011 allocation year were exercised. The total amount paid out was EUR 2.0 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 1.1 (3.1) million for the 2018 financial year. No expense was recognised in the financial year (prior year: EUR 0.3 million).

SHARE AWARD SCHEME

Effective financial year 2011, a share award scheme was introduced for Talanx AG and the significant Group companies including Hannover Rück SE, initially for the members of the boards of management and subsequently for certain executives; this grants stock appreciation rights in the form of virtual shares, known as “share awards”. This share award scheme comes in two versions, which in turn vary in certain parts:

- Talanx share awards (for members of the boards of management of Talanx and of the significant Group companies and, with effect from the 2012 or 2015 financial year, for certain executives, other than Hannover Rück SE)
- Hannover Re share awards (for members of the Board of Management of Hannover Rück SE and, starting in financial year 2012, also for certain executives of Hannover Rück SE. This share award scheme replaces Hannover Rück’s terminated stock appreciation rights scheme.

The share awards do not entitle participants to demand actual shares, but only the payment of a cash amount subject to the following conditions.

The share award scheme is open to all persons contractually entitled to share awards and, in the case of members of boards of management, whose contract of service is still in force at the time of allocation of the share awards and will not end due to termination by either party or by mutual agreement before expiry of the lock-up period.

Share awards have been issued as from financial year 2011 for members of boards of management and as from financial year 2012 or 2015 for certain executives and thereafter separately for each subsequent financial year (allocation year). Share awards issued to eligible Board of Management members in financial year 2011 were paid out for the first time in financial year 2016. The first payment to some of the eligible executives was made in the 2017 financial year.

The total number of share awards granted depends on the value per share. The value per share is calculated as the unweighted arithmetic mean of the XETRA closing prices. To calculate this, the conditions for beneficiaries stipulate a period of five trading days before to five trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The Talanx share awards are based on the value per share of Talanx AG, while the Hannover Re share awards are based on the value per share of Hannover Rück SE. For Hannover Rück SE executives, the period stipulated is 20 trading days before until ten trading days after the meeting of the Supervisory Board that approves the consolidated financial statements for the previous financial year. The share values thus calculated also determine the payout value of the share awards as they come due. The total number of share awards to be allocated is arrived at by dividing the amount available for allocation of share awards to each beneficiary by the value per share, rounded up to the next full share. For the executives of the Talanx Group (excluding Hannover Rück SE), an additional virtual share is allocated for every four full shares. For members of the boards of management of Talanx AG and of significant Group companies as well as of Hannover Rück SE, 20% of the individual's defined variable remuneration is allocated in share awards, while for Group executives (including Hannover Rück SE) the figure is 30% to 40% depending on their management level.

The share awards are allocated automatically without the need for a declaration by either party. For each share award, the value of one share determined according to the above definition on the payout date is paid out after a lock-up period of four years. The value per share is calculated using the procedure described in the previous paragraph. This amount is paid by bank transfer in the month following the end of the period designated for calculating the value per share as described in the previous paragraphs. For Talanx Group executives who have participated in the allocation of share awards since 2015, the payout will take place after the expiry of the lock-up period in July until further notice.

If dividends were distributed to shareholders, an amount equal to the corresponding dividend is paid in addition to the payment of the value of the share awards. The amount of the dividend due equals the sum of all dividends distributed per share during the term of the share awards multiplied by the number of share awards paid out to each beneficiary at the payout date. If the share awards are paid out ahead of time, only the value of the dividends for the period up to the occurrence of the event triggering the early payout will be paid. Proportionate interests in dividends not yet distributed are not taken into account. For executives, the payout is carried out on the respective contractual terms or pro rata temporis in the event of a departure during the year.

If a beneficiary's term of office or service contract as a Member of the Board of Management ends, the beneficiary remains entitled to payment of the value of any share awards already granted at the time of expiry of the relevant lock-up period, unless that termination is based on the resignation of the beneficiary or on termination/dismissal for cause. In the event of the death of the beneficiary, the entitlement to share awards already allocated or still to be allocated passes to his or her heirs. For the executives (excluding Hannover Rück SE), non-forfeiture applies to the claims already acquired.

In principle, no share awards may be allocated to members of the boards of management after the beneficiary has left the company, except if the beneficiary has left the company due to non-reappointment, retirement or death, and then only in respect of entitlements to variable remuneration earned by the beneficiary in the last year – or part-year – of his or her activity.

The share award scheme is accounted for in the Group as a cash-settled share-based payment transaction as defined by IFRS 2. Due to the different calculation bases used for the Talanx share awards and the Hannover Re share awards, the further characteristics of the two versions are described separately in the following:

TALANX SHARE AWARDS

TALANX SHARE AWARDS

	2018	2017	
	Anticipated allocation in 2019 for 2018	Final allocation in 2018 for 2017	Anticipated allocation in 2018 for 2017
Measurement date	28.12.2018	16.3.2018	29.12.2017
Value per share award (in EUR)	29.80	35.19	34.07
Number allocated in year	209,435	181,360	192,950
of which: Talanx AG Board of Management	31,889	28,754	30,333
of which: Other boards of management	51,303	47,630	50,738
of which: Executives [1]	126,243	104,976	111,879

[1] A further group of persons is also registered among the executives (risk takers) who have been receiving share awards since the 2013 financial year. Slightly modified allocation schemes exist for these risk takers, which are not explained in detail for reasons of materiality.

INCREASES/DECREASES IN PROVISIONS FOR TALANX SHARE AWARDS

EUR THOUSAND

	Allocation year							
	2018	2017	2016	2015	2014	2013	2012	Total
Allocation 2012	—	—	—	—	—	—	469	469
Allocation 2013	—	—	—	—	—	851	801	1,652
Allocation 2014	—	—	—	—	893	838	667	2,398
Allocation 2015	—	—	—	3,979	624	744	722	6,069
Allocation 2016	—	—	3,706	1,224	555	703	770	6,958
Allocation 2017	—	5,266	1,016	1,060	611	746	234	8,933
Uptake 2017	—	—	—	—	—	—	3,663	3,663
Provision as at 31.12.2017	—	**5,266**	**4,722**	**6,263**	**2,683**	**3,882**	—	**22,816**
Allocation 2018	4,546	1	52	–58	126	216	—	4,883
Uptake/reversal 2018	—	138	—	—	—	4,098	—	4,236
Provision as at 31.12.2018	**4,546**	**5,129**	**4,774**	**6,205**	**2,809**	—	—	**23,463**

The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the relevant term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share award.

The allocation for the financial year recognised in personnel expenses amounted to EUR 4.9 (8.9) million. This consists of expenses for the share awards for 2018 financial year as well as the dividend claim and the additional earned share of share awards granted in previous financial years. The value of share awards is also affected by the share price. The total dividends included in personnel expenses for previous financial years amounted to EUR 0.9 (0.8) million. The dividends distributed are taken into account, expected dividend claims are not included. Dividend claims are recognised at their discounted value.

In the year under review, the 97,735 vested share awards for the Board of Management from 2013, each worth EUR 35.19 plus the dividend entitlement of EUR 5.10 each, were finally paid out to the eligible Members of the Board of Management.

3,976 share awards of executives for the 2013 financial year were paid out in 2018, with a value of EUR 35.19 each plus a dividend entitlement of EUR 5.10.

The additions to the provisions for the 2013 share awards is calculated on the basis of the difference between the share price on the last reporting date (EUR 34.07) and the price for the payment of share awards from March 2018 (EUR 35.19).

HANNOVER RE SHARE AWARDS

HANNOVER RE SHARE AWARDS

	2018	2017	
	Anticipated allocation in 2019 for 2018	Final allocation in 2018 for 2017	Anticipated allocation in 2018 for 2017
Measurement date for Board of Management	28.12.2018	16.3.2018	29.12.2017
Value per share award (in EUR)	117.70	111.65	104.90
Measurement date for Executives	28.12.2018	23.3.2018	29.12.2017
Value per share award (in EUR)	117.70	111.32	104.90
Number allocated in year	76,431	66,045	74,439
of which: Board of Management	9,010	9,060	9,537
of which: Executives	67,421	57,642	64,902
of which: other adjustments [1]	—	–657	—

[1] This figure reflects share awards that were originally accepted but that then expired.

INCREASES/DECREASES IN PROVISIONS FOR HANNOVER RE SHARE AWARDS

EUR THOUSAND

	Allocation year							
	2018	2017	2016	2015	2014	2013	2012	Total
Allocation 2012	—	—	—	—	—	—	1,839	1,839
Allocation 2013	—	—	—	—	—	1,426	1,442	2,868
Allocation 2014	—	—	—	—	1,534	2,364	2,549	6,447
Allocation 2015	—	—	—	1,658	3,102	4,288	5,020	14,068
Allocation 2016	—	—	1,918	2,429	1,920	2,177	2,133	10,577
Allocation 2017	—	1,559	2,127	2,284	2,409	2,861	881	12,121
Uptake 2017	—	—	—	—	—	—	13,864	13,864
Provision as at 31.12.2017	—	**1,559**	**4,045**	**6,371**	**8,965**	**13,116**	**—**	**34,056**
Allocation 2018	2,018	2,002	2,739	2,920	3,263	1,212	—	14,154
Uptake 2018	—	—	—	—	—	14,328	—	14,328
Provision as at 31.12.2018	**2,018**	**3,561**	**6,784**	**9,291**	**12,228**	**—**	**—**	**33,882**

The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the relevant term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share award.

The allocation for the financial year recognised in personnel expenses amounted to EUR 14.2 (12.1) million. This consists of expenses for the share awards for 2018 financial year as well as the dividend claim and the additional earned share of share awards granted in previous financial years. The value of share awards is also affected by the share price. The total dividends included in personnel expenses for previous financial years amounted to EUR 1.6 (2.0) million. The dividends distributed are taken into account, expected dividend claims are not included. Dividend claims are recognised at their discounted value.

In the year under review, the 16,631 vested share awards for the Board of Management from 2013, each worth EUR 111.65 plus the dividend entitlement of EUR 17.00 each, were finally paid out to the eligible Members of the Board of Management. The 94,988 share awards of executives for the financial year 2013 were paid out in 2018, with a value of EUR 111.32 each plus a dividend entitlement of EUR 17.00. The additions to the provisions for the 2013 share awards is calculated on the basis of the difference between the share price on the last reporting date (EUR 104.90) and the price for the payment of share awards from March 2018 (EUR 111.65 and EUR 111.32).

OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

As at the end of the reporting period, in the context of a securities lending transaction, the Group recognised securities that were lent to third parties in exchange for collateral in the form of securities. The loaned securities are still reported on the balance sheet as their significant risks and opportunities remain with the Group, while the securities received as collateral have not been recognised. The carrying amount of financial assets in the "financial assets available for sale" category on loans in securities lending transactions was EUR 288 (—) million as at the reporting date. The fair value is equivalent to the carrying amount. The components of these transactions recognised as income are shown under "Net investment income".

INFORMATION ON TEMPORARY EXEMPTION FROM IFRS 9

The table below shows the financial instruments carried as assets that are to be recognised in accordance with IFRS 9 in future and breaks these down these into a group that meets the cash flow criterion and other financial instruments. As well as financial instruments and investment contracts currently measured at fair value in profit or loss, this includes, in particular, equity instruments held and shares in investment funds that, due to their nature, do not meet the cash flow criterion set out in IFRS 9. The cash flow criterion is met if the financial instrument's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount (SPPI test).

FAIR VALUES OF FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

EUR MILLION

	Fair value 31.12.2018	Change in fair value during the reporting period
Financial instruments that meet the SPPI criterion [1]		
Loans and receivables	32,488	–221
Financial assets held to maturity	439	–7
Financial assets available for sale		
Fixed interest securities	67,164	–576
Available-for-sale securities	—	—
Financial assets classified at fair value through profit or loss	27	5
Other investments	294	3
Other assets	715	—
Non-current assets and assets of disposal groups classified as held for sale	1	—
Total	**101,128**	**–796**
All other financial instruments		
Loans and receivables	340	–16
Financial assets held to maturity	—	–1
Financial assets available for sale		
Fixed interest rate	3,001	–89
Non-fixed interest rate	1,799	–132
Financial assets classified at fair value through profit or loss		
Financial assets classified at fair value through profit or loss	1,443	–71
Derivatives held for trading	239	–20
Financial assets held for trading	131	–11
Other investments	4,243	–97
Other assets		
Derivative financial instruments (hedge accounting)	52	—
Remaining other assets	94	2
Investment contracts		
Loans and receivables	45	—
Financial assets classified at fair value through profit or loss	996	7
Derivatives	2	–2
Investments for the benefit of life insurance policyholders who bear the investment risk [2]	9,990	–966
Cash at banks and cash-in-hand	3,362	1
Total	**25,737**	**–1,395**

[1] Without trading portfolios or financial instruments evaluated at fair value.
[2] The changes in fair value are offset by changes in "Technical provisions for life insurance policies where the investment risk is borne by the policyholders".

DISCLOSURES ON DEFAULT RISKS FOR FINANCIAL INSTRUMENTS WITHIN THE SCOPE OF IFRS 9

EUR MILLION

Financial instruments that meet the cash flow criterion [1]	Carrying amount before impairment 31.12.2018
AAA	42,979
AA	19,560
A	13,743
BBB	16,839
BB or lower (higher than low default risk)	1,860
Not rated	
Low default risk	1,505
Higher than low default risk	833
Total	**97,319**

[1] Without trading portfolios or financial instruments evaluated at fair value.

The fair value for financial instruments that meet the cash flow criterion and have a higher than low default risk amounts to EUR 2,700 million.

LITIGATION

The usual business activities of Group companies may entail court and regulatory proceedings as well as arbitration proceedings. Depending on the probability of any resulting outflow of resources, and in line with the extent to which the amount of such an outflow can be reliably estimated, either a provision is recognised or a contingent commitment is disclosed (in the Notes). In accordance with the subject matter of the proceedings, these are usually technical provisions within the scope of IFRS 4 and, in exceptional cases, miscellaneous other provisions. Litigation costs (such as attorney's fees, court costs and other ancillary costs) are only recognised as a liability once a well-founded action becomes known. A contingent liability is recognised for litigation where utilisation is unlikely.

The Group uses a number of assessment criteria to estimate the amount and probability of any outflow of resources. These include the type of dispute concerned, the status of the proceedings, assessments by legal advisors, decisions by the courts or by arbitrators, expert opinions, and the Group's experiences of similar cases as well as lessons learned from other companies, to the extent that these are known.

With the exception of proceedings in the course of our standard insurance and reinsurance business, there was no litigation essentially impacting the Group's net assets, financial position and results of operations in the reporting period and at the reporting date, including that listed in the following.

Following the squeeze-out (transfer of minority shareholders' shares to the majority shareholder in return for a cash settlement) at Gerling-Konzern Allgemeine Versicherungs-AG, Cologne, that was resolved in September 2006 and became effective in May 2007, former minority shareholders instituted award proceedings to have the appropriateness of the settlement reviewed. The proceedings are pending before the Cologne Regional Court. The material risk is limited by the number of shares entitled to a settlement (approximately 10 million shares) and the difference between the settlement already paid and the enterprise value of Gerling-Konzern Allgemeine Versicherungs-AG, which can be determined as of the measurement date.

In our view, the provisions recognised for litigation risk in each case, and the contingent liabilities disclosed for litigation are sufficient to cover the expected expenses.

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

	2018	2017 [1]
Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million)	703	671
Weighted average number of ordinary shares outstanding	252,797,634	252,797,634
Basic earnings per share (in EUR)	2.78	2.65
Diluted earnings per share (in EUR)	2.78	2.65

[1] Adjusted in accordance with IAS 8, see "Accounting policies".

DIVIDEND PER SHARE AND APPROPRIATION OF DISTRIBUTABLE PROFITS

A dividend for financial year 2017 amounting to EUR 1.40 per share was paid in the reporting period, resulting in a total distribution of EUR 354 million. A proposal will be made to the General Meeting to be held on 9 May 2019 to distribute a dividend for the 2018 financial year in the amount of EUR 1.45 per share, resulting in a total distribution of EUR 366 million. The remainder of the distributable profit at Talanx AG (EUR 119 million) will become part of retained profits brought forward.

CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

As at the reporting date, there are outstanding capital commitments of EUR 2,363 (2,053) million for investment exposures. These essentially relate to funding commitments arising from investment commitments to private equity funds and venture capital firms that have not yet been met.

A number of Group companies are proportionately liable for any underfunding at Gerling Versorgungskasse in their capacity as sponsors of Gerling Versorgungskasse VVaG.

Several Group companies are members of the pharmaceutical risk reinsurance pool, the German nuclear reactor insurance pool and the traffic accident pool "Verkehrsopferhilfe e.V." In the event of one of the other pool members failing to meet its liabilities, the companies are obliged to assume that other member's share in line with their proportionate interest.

In addition, several Group companies belong to the Guarantee Fund for Life Insurance Undertakings in accordance with sections 221ff. of the Insurance Supervision Act (VAG) and there are existing funding commitments and contribution payments of EUR 624 (445) million.

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

The application of tax laws and regulations may be unresolved when tax items are accounted for. In calculating tax refund claims and tax liabilities, we have adopted the application that we believe to be most probable. However, the tax authorities may arrive at different views, which could give rise to additional tax liabilities in the future. In this context, the Group has contingent liabilities from taxes of EUR 92 (120) million.

REVENUE

Revenue from contracts with customers covered by IFRS 15 is predominantly recognised over a period of time and breaks down as follow:

REVENUE CATEGORY

EUR MILLION

	2018
Capital management services and commission [1]	227
Other insurance-related services [1]	111
Income from infrastructure investments [2]	58
Total revenue [3]	**396**

[1] Revenue predominantly recognised over a period of time.
[2] Revenue recognised over a period of time.
[3] Revenue is recognised in the income statement in the amount of EUR 325 million under "10.a. Other income", in the amount of EUR 58 million under "9.a Investment income" and in the amount of EUR 13 million in "Net income from investment contracts".

Revenue from **capital management services** provided (fund management), including related commission (EUR 200 million), is recognised in the reporting period in which the services are provided. Transaction prices are measured by the underlying percentage rates in conjunction with the fair value of the managed fund at the end of the month in question and do not include variable remuneration components. Revenue is recognised in accordance with the service rendered over a period of time after the period has ended, as the customer simultaneously receives and uses the benefit. Contracts with customers do not contain significant financing components. Further commission (EUR 27 million) includes finder's fees, performance fees and similar remuneration and is recognised predominantly over a period of time.

Other insurance-related services relate primarily to services performed over a period of time (EUR 73 million), in particular administrative services (EUR 27 million). Transaction prices here are generally measured on the basis of the framework rates and a percentage share of gross premiums. Income from the administrative services described here is earned in accordance with the contractual term over a period of three to four years and is predominantly recognised on a pro rata basis. In addition, other administrative activities are carried out for external entities, with claims processing services and a number of additional services provided to a limited extent.

Other insurance-related services recognised for a particular period of time and, to a limited extent, the sale of goods generated EUR 38 million in the financial year. The services primarily comprise management commission for work as lead manager (EUR 17 million).

Income from infrastructure investments includes electricity revenue generated by wind parks. The transaction price for the electricity used in the reporting period is determined by the feed-in tariff set out in the contract including the relevant minimum tariff under the German Renewable Energy Sources Act. Revenue is recognised on the basis of the amount of energy fed in during the reporting period. Contracts with customers do not contain significant financing components.

RENTS AND LEASES

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSEE

The Talanx Group uses leased properties and office facilities in many locations. These properties and facilities are generally rented on the basis of various long-term operating leases.

Outstanding commitments under non-cancellable contractual relationships amounted to EUR 591 (488) million at the reporting date.

FUTURE LEASE OBLIGATIONS

EUR MILLION

	2019	2020	2021	2022	2023	Subsequent years
Expenditure	81	60	52	41	39	318

Operating leases resulted in expenses of EUR 55 (71) million for minimum lease payments in the reporting period.

Finance lease expenses at the reporting date were minimal, amounting to EUR 5 (3) million.

LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of income due under non-cancellable leases in subsequent years is EUR 1.055 (932) million.

FUTURE RENTAL INCOME

EUR MILLION

	2019	2020	2021	2022	2023	Subsequent years
Income	191	183	167	147	124	243

Rental income resulted principally from property companies renting out properties in the Property/Casualty Reinsurance segment as well as from primary insurance companies renting out properties in Germany (mainly in the Retail Germany – Life segment).

REMUNERATION OF THE GOVERNING BODIES OF THE PARENT COMPANY

The Board of Management comprised 6 (6) active members at the reporting date.

The total remuneration of the Board of Management amounted to EUR 9,820 (10,359) thousand. In the context of the share-based payment system introduced in 2011, the Board of Management has entitlements for the reporting period to virtual shares with a fair value of EUR 950 (1,033) thousand, corresponding to 31,889 (30,333) shares, under the Talanx Share Award scheme and a fair value of EUR 229 (232) thousand, corresponding to 1,982 (2,171) shares, under the Hannover Re Share Award scheme.

Former members of the Board of Management and their surviving dependants received total remuneration of EUR 1,098 (765) thousand. An amount of EUR 31,517 (18,346) thousand was set aside to cover projected benefit obligations due to former members of the Board of Management and their surviving dependants.

The total remuneration paid to the Supervisory Board amounted to EUR 2,634 (2,410) thousand. There are no pension commitments to former members of the Supervisory Board or their surviving dependants.

No loans or advances were granted to Members of the Board of Management or Supervisory Board or their dependants in the year under review. No contingent liabilities existed in favour of this group of persons.

There are no outstanding balances relating to remuneration for the parent company's governing bodies as at the end of the year.

All other information on the remuneration of the Board of Management and Supervisory Board as well as the structure of the remuneration system is contained in the remuneration report starting on page 89ff. The information provided there also includes the individualised disclosure of the remuneration of the Board of Management and Supervisory Board and forms an integral part of the consolidated financial statements.

AUDITOR'S FEE

On the basis of a vote held at the Annual General Meeting on 8 May 2018, the Supervisory Board of Talanx AG appointed PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC GmbH) as Talanx AG's auditor for its consolidated financial statements within the meaning of section 318 HGB. The fees paid to PwC GmbH and worldwide member firms of the global PwC network that were recognised as expenses in the reporting period can be broken down as follows:

PWC/KPMG FEES

EUR MILLION

	2018		2017	
	PwC network worldwide	of which PwC GmbH	KPMG worldwide	of which KPMG AG
Financial statement audit services	15.9	7.3	19.0	9.3
Other assurance services	0.1	—	0.6	0.4
Tax advisory services	0.2	0.1	0.3	—
Other services	0.4	0.2	2.4	1.9
Total	**16.6**	**7.6**	**22.3**	**11.6**

PwC GmbH's fee for financial statement audit services primarily comprises the fees for auditing the consolidated financial statements including statutory extensions to the mandate, the audit review of the interim report and audits of the annual financial statements and solvency overviews of the subsidiaries included in the consolidated financial statements. The fees for other assurance services relate to legally or contractually stipulated audits. The fees for tax advisory services include in particular fees for tax return support services and tax advice on individual issues. The fees for other services cover IT-related advisory services, advisory services related to training on current developments in accounting and quality assurance support services.

The lead auditor responsible for performing the audit within the meaning of section 38(2) of the Professional Code of Conduct for German Public Auditors and Sworn Auditors is Mr Florian Möller. He was first responsible for the audit of the annual and consolidated financial statements as at 31 December 2016.

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

The declaration of conformity with the German Corporate Governance Code in accordance with section 161 of the German Stock Corporation Act (AktG) has been issued and made permanently available to shareholders on Talanx AG's website (http://www.talanx.com/corporate-governance) as described in the Board of Management's corporate governance declaration in the Group management report ("Corporate Governance" section).

On 7 November 2018, the Board of Management and Supervisory Board of our listed subsidiary Hannover Rück SE issued the declaration of conformity with the recommendations of the Government Commission on the German Corporate Governance Code required by section 161 of the AktG and made this declaration available to shareholders by publishing it in its annual report. The current and all previous declarations of conformity of Hannover Rück SE are published on the company's website (https://www.hannover-re.com/200801/declaration-of-conformity).

EVENTS AFTER THE END OF THE REPORTING PERIOD

With effect from 8 January 2019, Hannover Rück SE sold 50.22% of shares in HDI Global Specialty SE (previously International Insurance Company of Hannover SE, Property/Casualty Reinsurance segment) to HDI Global SE (Industrial Lines segment) in an intragroup transaction. For further information, please see the sections of the Group management report "Business development", under "Growth initiative in the specialty business", and "Forecast and report on opportunities", under "Focus and forecasts for the Talanx Group in financial year 2019".

LIST OF SHAREHOLDINGS

The following information is disclosed in the consolidated financial statements of Talanx AG in accordance with section 313(2) of the German Commercial Code (HGB) and IFRS 12.10 (a) (i).

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest [1)] in %
Domestic	
Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	100.00
Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg	100.00
Ampega Asset Management GmbH, Cologne (previously: Talanx Asset Management GmbH, Cologne) [3), 15)]	100.00
Ampega Investment GmbH, Cologne [15)]	100.00
Ampega-nl-Euro-DIM-Fonds, Cologne [16)]	100.00
Ampega-nl-Global-Fonds, Cologne [16)]	100.00
Ampega-nl-Rent-Fonds, Cologne [16)]	100.00
Ampega Real Estate GmbH, Cologne (previously: Talanx Immobilien Management GmbH, Cologne) [3), 15)]	100.00
Ampega-Vienna-Bonds-Master-Fonds-Deutschland, Cologne [16)]	100.00
E+S Rückversicherung AG, Hannover	64.79
EURO-Rent 3 Master, Cologne [16)]	100.00
FUNIS GmbH & Co. KG, Hannover	100.00
Gerling Immo Spezial 1, Cologne [16)]	100.00
GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne	100.00
GKL SPEZIAL RENTEN, Cologne [16)]	100.00
Hannover America Private Equity Partners II GmbH & Co. KG, Hannover	100.00
Hannover Beteiligungsgesellschaft mbH, Hannover	100.00
Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover	100.00
Hannover Life Re AG, Hannover [15)]	100.00
Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover	100.00
Hannover Re Euro RE Holdings GmbH, Hannover	100.00
Hannover Re Global Alternatives GmbH & Co. KG, Hannover	100.00
Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover [15)]	100.00
Hannover Rück SE, Hannover	50.22
HAPEP II Holding GmbH, Hannover	100.00
HAPEP II Komplementär GmbH, Hannover	100.00
HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne [4)]	100.00
HDI AI USD Beteiligungs-GmbH & Co. KG, Cologne [4)]	100.00
HDI Deutschland AG, Hannover (previously: Talanx Deutschland AG, Hannover) [3), 15)]	100.00
HDI Deutschland Bancassurance Communication Center GmbH, Hilden (previously: Talanx Deutschland Bancassurance Communication Center GmbH, Hilden) [3), 15)]	100.00
HDI Deutschland Bancassurance GmbH, Hilden (previously: Talanx Deutschland Bancassurance GmbH, Hilden) [3), 15)]	100.00
HDI Deutschland Bancassurance Kundenmangement GmbH & Co. KG, Hilden (previously: HDI-Gerling Friedrich Wilhelm GmbH & Co. KG, Cologne) [4)]	100.00
HDI Deutschland Bancassurance Kundenservice GmbH, Hilden (previously: Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden) [3), 15)]	100.00
HDI Direkt Service GmbH, Hannover [3), 15)]	100.00
HDI-Gerling Sach Industrials Master, Cologne [16)]	100.00
HDI Globale Equities, Cologne [16)]	100.00
HDI Global Network AG, Hannover [15)]	100.00
HDI Global SE Absolute Return, Cologne [16)]	100.00
HDI Global SE, Hannover [15)]	100.00
HDI Global Specialty Holding GmbH, Hannover [14)]	100.00
HDI Global Specialty SE, Hannover (previously: International Insurance Company of Hannover SE, Hannover) [15)]	100.00
HDI International AG, Hannover (previously: Talanx International AG, Hannover) [3), 15)]	100.00
HDI Kundenservice AG, Cologne [3), 15)]	100.00
HDI Lebensversicherung AG, Cologne	100.00
HDI Pensionskasse AG, Cologne	100.00
HDI Pensionsmanagement AG, Cologne (previously: Talanx Pensionsmanagement AG,Cologne) [3), 15]	100.00
HDI Risk Consulting GmbH, Hannover [3), 15)]	100.00
HDI Service AG, Hannover (previously: Talanx Service AG, Hannover) [3), 15)]	100.00
HDI Systeme AG, Hannover (previoulsy: Talanx Systeme AG, Hannover) [3), 15)]	100.00
HDI Versicherung AG, Hannover [15)]	100.00
HDI Vertriebs AG, Hannover [3), 15)]	100.00
HGLV-Financial, Cologne [16)]	100.00
HILSP Komplementär GmbH, Hannover	100.00
HLV Municipal Fonds, Cologne [16)]	100.00
HLV Real Assets GmbH & Co. KG, Köln [4)]	100,00
HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover [4)]	100.00
HPK Cologne offene Investment GmbH & Co. KG, Cologne	100.00
HR GLL Central Europe GmbH & Co. KG, Munich [7)]	99.99
HR GLL Central Europe Holding GmbH, Munich [11)]	100.00
HR Verwaltungs-GmbH, Hannover [6)]	100.00
HV Aktien, Cologne [16)]	100.00
Infrastruktur Ludwigsau GmbH & Co. KG, Cologne	100.00
IVEC Institutional Venture and Equity Capital GmbH, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 1, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 3, Cologne	100.00
Leben Köln offene Investment GmbH & Co. KG 5, Cologne	100.00
Lifestyle Protection AG, Hilden [15)]	100.00
Lifestyle Protection Lebensversicherung AG, Hilden [15)]	100.00
neue leben Holding AG, Hamburg	67.50
neue leben Lebensversicherung AG, Hamburg [15)]	100.00
neue leben Unfallversicherung AG, Hamburg [15)]	100.00
NL Leben offene Investment GmbH & Co. KG, Cologne	100.00
nl LV Municipal Fonds, Cologne [16)]	100.00
NL Master, Cologne [16)]	100.00
PB Leben offene Investment GmbH & Co. KG 2, Cologne	100.00
PB Leben offene Investment GmbH & Co. KG 3, Cologne	100.00

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest [1] in %
PB Lebensversicherung AG, Hilden [15]	100.00
PB Pensionsfonds AG, Hilden [15]	100.00
PB Versicherung AG, Hilden [15]	100.00
PBVL-Corporate, Cologne [16]	100.00
Riethorst Grundstückgesellschaft AG & Co. KG, Hannover [4]	100.00
TAL Aktien, Cologne [16]	100.00
Talanx Beteiligungs-GmbH & Co. KG, Hannover [4]	100.00
Talanx Deutschland Real Estate Value, Cologne [16]	100.00
Talanx Direct Infrastructure 1 GmbH, Cologne	100.00
Talanx Infrastructure France 1 GmbH, Cologne	100.00
Talanx Infrastructure France 2 GmbH, Cologne	100.00
Talanx Infrastructure Portugal 2 GmbH, Cologne	100.00
Talanx Infrastructure Portugal GmbH, Cologne	100.00
Talanx Reinsurance Broker GmbH, Hannover [3], [15]	100.00
TAL-Corp, Cologne [16]	100.00
TAM AI Komplementär GmbH, Cologne	100.00
TARGO Leben offene Investment GmbH & Co. KG, Cologne	100.00
TARGO Lebensversicherung AG, Hilden [15]	100.00
TARGO Versicherung AG, Hilden [15]	100.00
TD-BA Private Equity GmbH & Co. KG, Cologne [4]	100.00
TD-BA Private Equity Sub GmbH, Cologne	100.00
TD Real Assets GmbH & Co. KG, Cologne	100.00
TD-Sach Private Equity GmbH & Co. KG, Cologne [4]	100.00
Windfarm Bellheim GmbH & Co. KG, Cologne	100.00
Windpark Mittleres Mecklenburg GmbH & Co. KG, Cologne	100.00
Windpark Parchim GmbH & Co. KG, Cologne	100.00
Windpark Rehain GmbH & Co. KG, Cologne	100.00
Windpark Sandstruth GmbH & Co. KG, Cologne	100.00
Windpark Vier Fichten GmbH & Co. KG, Cologne	100.00
WP Berngerode GmbH & Co. KG, Cologne	100.00
WP Mörsdorf Nord GmbH & Co. KG, Cologne	100.00
Foreign	
101BOS LLC, Wilmington, USA [8]	100.00
111ORD, LLC, Wilmington, USA [8]	100.00
1225 West Washington, LLC, Wilmington, USA [8]	100.00
140EWR, LLC, Wilmington, USA [8]	100.00
1600FLL LLC, Wilmington, USA [8]	100.00
320AUS LLC, Wilminton, USA [8]	100.00
3290ATL LLC, Wilmington, USA [8]	100.00
3541 PRG s. r. o., Prague, Czech Republic [11]	100.00
402 Santa Monica Blvd, LLC, Wilmington, USA [8]	100.00
7550IAD LLC, Wilmington, USA [8]	100.00
92601 BTS s. r. o., Bratislava, Slovakia [11]	100.00
975 Carroll Square, LLC, Wilmington, USA [8]	100.00
Akvamarin Beta, s. r. o., Prague, Czech Republic [11]	100.00
APCL Corporate Director No.1 Limited, London, United Kingdom [10]	100.00
APCL Corporate Director No.2 Limited, London, United Kingdom [10]	100.00
Argenta Continuity Limited, London, United Kingdom [10]	100.00
Argenta General Partner Limited, Edinburgh, United Kingdom [10]	100.00
Argenta Holdings Limited, London, United Kingdom [7]	100.00
Argenta Insurance Research Limited, London, United Kingdom [5], [10]	100.00
Argenta LLP Services Limited, London, United Kingdom [10]	100.00
Argenta No.13 Limited, London, United Kingdom [10]	100.00
Argenta No.14 Limited, London, United Kingdom [10]	100.00
Argenta No.15 Limited, London, United Kingdom [10]	100.00
Argenta Private Capital Limited, London, United Kingdom [10]	100.00
Argenta Secretariat Limited, London, United Kingdom [10]	100.00
Argenta SLP Continuity Limited, Edinburgh, United Kingdom [10]	100.00
Argenta Syndicate Management Limited, United Kingdom [10]	100.00
Argenta Tax & Corporate Services Limited, London, United Kingdom [10]	100.00
Argenta Underwriting Asia Pte. Ltd., Singapore, Singapore [10]	100.00
Argenta Underwriting Labuan Ltd, Labuan, Malaysia [10]	100.00
Argenta Underwriting No.1 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.2 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.3 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.4 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.7 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.8 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.9 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.10 Limited, London, United Kingdom [10]	100.00
Argenta Underwriting No.11 Limited, London, United Kingdom [10]	100.00
Broadway 101, LLC, Wilmington, USA [8]	100.00
Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa [9]	90.00
Compass Insurance Company Ltd., Johannesburg, South Africa [9]	100.00
Construction Guarantee (Pty) Ltd., Johannesburg, South Africa [6], [9]	60.00
Ferme Eolienne des Mignaudieres SNC, Toulouse, France	100.00
Ferme Eolienne du Confolentais SNC, Toulouse, France	100.00
Film & Entertainment Underwriters SA (Pty) Ltd., Johannesburg, South Africa [9]	51.00
Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [9]	70.00
Fountain Continuity Limited, Edinburgh, United Kingdom [10]	100.00
FRACOM FCP, Paris, France [16]	100.00
Funderburk Lighthouse Limited, Grand Caymann, Cayman Islands	100.00
Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa [9]	100.00
Gente Compañia de Soluciones Profesionales de México, S. A. de C. V., León, Mexico	100.00
Glencar Insurance Company, Orlando, USA	100.00
Glencar Underwriting Managers, Inc., Chicago, USA	100.00
GLL HRE CORE Properties, L. P., Wilmington, USA [8]	99.90
Hannover Finance, Inc., Wilmington, USA	100.00
Hannover Finance (Luxembourg) S. A., Luxembourg, Luxembourg	100.00
Hannover Finance (UK) Ltd., London, United Kingdom	100.00
Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa [9]	100.00
Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda	100.00
Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda	100.00
Hannover Life Reassurance Company of America, Orlando, USA	100.00
Hannover Life Re of Australasia Ltd., Sydney, Australia	100.00
Hannover Re (Bermuda) Ltd., Hamilton, Bermuda	100.00
Hannover Reinsurance Africa Ltd., Johannesburg, South Africa [9]	100.00
Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa [7]	100.00
Hannover Re (Ireland) Designated Activity Company, Dublin, Ireland	100.00
Hannover Re Real Estate Holdings, Inc., Orlando, USA [7]	100.00

1. AFFILIATED COMPANIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest [1] in %
Foreign	
Hannover ReTakaful B.S.C. (c), Manama, Bahrain	100.00
Hannover Services (UK) Ltd., London, United Kingdom	100.00
HDI Assicurazioni S.p.A., Rome, Italy	100.00
HDI-Gerling de Mexico Seguros S.A., Mexico City, Mexico	100.00
HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands	100.00
HDI Global Insurance Company, Chicago, USA	100.00
HDI Global SA Ltd., Johannesburg, South Africa	100.00
HDI Global Seguros S.A., São Paulo, Brazil	100.00
HDI Immobiliare S.r.l., Rome, Italy	100.00
HDI Italy Municipal Fonds, Rome, Italy [16]	100.00
HDI Reinsurance (Ireland) SE, Dublin, Irland (previously: Talanx Reinsurance (Ireland) SE, Dublin, Ireland)	100.00
HDI Seguros de Garantía y Crédito S.A., Las Condes, Chile	99.85
HDI Seguros de Vida S.A., Bogotá, Colombia	99.87
HDI Seguros de Vida S.A., Las Condes, Chile	100.00
HDI Seguros S.A., Bogotá, Colombia	91.34
HDI Seguros S.A., Buenos Aires, Argentina	100.00
HDI Seguros S.A. de C.V., León, Mexico	99.76
HDI Seguros S.A., Las Condes, Chile	99.91
HDI Seguros S.A., Montevideo, Uruguay	100.00
HDI Seguros S.A., San Isidro, Peru	100.00
HDI Seguros S.A., São Paulo, Brazil	100.00
HDI Sigorta A.S., Istanbul, Turkey	100.00
HDI Specialty Insurance Company, Illinois, USA	100.00
HDI Versicherung AG (Austria), Vienna, Austria	100.00
Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [9]	90.00
HR GLL CDG Plaza S.r.l., Bucharest, Romania [11]	100.00
HR GLL Europe Holding S.à r.l., Luxemburg, Luxembourg [11]	100.00
HR GLL Griffin House SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [11]	100.00
HR GLL Liberty Corner SPÓLKA Z OGRANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland [11]	100.00
HR GLL Roosevelt Kft, Budapest, Hungary [11]	100.00
HR US Infra Debt LP, George Town, Cayman Islands	99.99
HR US Infra Equity LP, Wilmington, USA [8]	100.00
INCHIARO LIFE Designated Activity Company, Dublin, Ireland	100.00
InLinea S.p.A., Rome, Italy	100.00
Integra Insurance Solutions Limited, Bradford, United Kingdom	100.00
Inter Hannover (No. 1) Limited, London, United Kingdom	100.00
Inversiones HDI Limitada, Santiago, Chile	100.00
KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland [16]	100.00
Koln FI Multimercado Crédito Privado, São Paulo, Brazil [16]	100.00
Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa [9]	65.50
Le Chemin de La Milaine S.N.C, Lille, France	100.00
Leine Investment General Partner S.à r.l., Luxembourg, Luxembourg	100.00
Leine Investment SICAV-SIF, Luxembourg, Luxembourg	100.00
Le Louveng S.A.S., Lille, France	100.00
Le Souffle des Pellicornes S.N.C, Lille, France	100.00
Les Vents de Malet S.N.C, Lille, France	100.00
Lireas Holdings (Pty) Ltd., Johannesburg, South Africa [9]	70.00
M8 Property Trust, Sydney, Australia [12]	100.00
Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary	66.93
Magyar Posta Életbiztosító Zrt., Budapest, Hungary	66.93
Markham Real Estate Partners (KSW) Pty Limited, Sydney NSW, Australia [12]	100.00
MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa [9]	100.00
Mustela s.r.o., Prague, Czech Republic [11]	100.00
Names Taxation Service Limited, London, United Kingdom [10]	100.00
Nashville West, LLC, Wilmington, USA [8]	100.00
OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia	100.00
OOO Strakhovaya Kompaniya HDI Strakhovanie, Moscow, Russia	100.00
Orion No.1 Professional Investors Private Real Estate Investment LLC, Seoul, South Korea [12]	99.65
PAG Real Estate Asia Select Fund Limited, George Town, Cayman Islands [7]	100.00
Peace G.K., Tokyo, Japan [12]	99.00
Pipera Business Park S.r.l., Bucharest, Romania [11]	100.00
Protecciones Esenciales S.A., Buenos Aires, Argentina	100.00
Residual Services Corporate Director Limited, London, United Kingdom [10]	100.00
Residual Services Limited, London, United Kingdom [10]	100.00
River Terrace Parking, LLC, Wilmington, USA [8]	100.00
Saint Honoré Iberia S.L., Madrid, Spain	100.00
Sand Lake Re, Inc., Burlington, USA	100.00
Santander Auto S.A., Sao Paulo - Vila Olimpia, Brazil	50.00
SUM Holdings (Pty) Ltd., Johannesburg, South Africa [9]	100.00
Svedea AB, Stockholm, Sweden	53.00
Talanx Finanz (Luxemburg) S.A., Luxembourg, Luxembourg	100.00
Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa [9]	70.00
Towarzystwo Ubezpieczeń Europa S.A., Wrocław, Poland	50.00
Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., Warsaw, Poland	75.74
Towarzystwo Ubezpieczeń na Życie Europa S.A., Warsaw, Poland	100.00
Towarzystwo Ubezpieczeń na Życie "WARTA" S.A., Warsaw, Poland	100.00

2. AFFILIATED COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRSS DUE TO INSIGNIFICANCE

	Equity interest [1] in %
Domestic	
FVB Gesellschaft für Finanz- und Versorgungsberatung mbH, Osnabrück [15]	100.00
G-E Financial Analytics GmbH , Berlin	100.00
HDI Deutschland Bancassurance Kundenmanagement Komplementär GmbH, Hilden (previously: HG-FW Komplementär GmbH, Cologne)	100.00
HDI Global Underwriting Agency GmbH (previously: Nassau Assekuranzkontor GmbH, Cologne) [15]	100.00
HDI Schadenregulierung GmbH [15]	100.00
Infrastruktur Windpark Vier Fichten GbR	100.00
HEPEP IV Komplementär GmbH, Cologne	100.00
SSV Schadenschutzverband GmbH, Hannover [15]	100.00

2. AFFILIATED COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRSS DUE TO INSIGNIFICANCE

	Equity interest [1] in %
Foreign	
Desarrollo de Consultores Profesionales en Seguros S. A. de C. V., León, Guanajuato, Mexico	100.00
Hannover Mining Engineering Services LLC, Itasca, USA	100.00
Hannover Re Consulting Services India Private Limited, Mumbai, India	100.00
Hannover Re Risk Management Services India Private Limited, New Dehlhi, India	100.00
Hannover Re Services Italy S. r. l., Milan, Italy	100.00
Hannover Re Services Japan, Tokyo, Japan	100.00
Hannover Re Services USA, Inc., Itasca, USA	100.00
Hannover Risk Consultants B. V., Rotterdam, Netherlands	100.00
Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil	100.00
Hannover Services (México) S. A. de C. V., Mexico City, Mexico	100.00
HDI Global Network AG Escritório de Representação no Brasil Ltda, São Paulo, Brazil	100.00
H. J. Roelofs Assekuradeuren B. V., Rotterdam, Netherlands	100.00
HR Hannover Re, Correduría de Reaseguros, S. A., Madrid, Spain	100.00
International Mining Industry Underwriters Limited, London, United Kingdom [5]	100.00
Private Joint Stock Company "EUROPA.UA", Lwiw, Ukraine	100.00
Private Joint Stock Company "EUROPA.UA Service", Lwiw, Ukraine	100.00
Svedea Skadeservice AB, Stockholm, Sweden	100.00
U FOR LIFE SDN. BHD., Petaling Jaya, Malaysia	60.00

3. STRUCTURED ENTITIES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH IFRS 10

	Equity interest [1] in %
Kaith Re Ltd., Hamilton, Bermuda	88.00
Kubera Insurance (SAC) Ltd, Hamilton, Bermuda	100.00
LI RE, Hamilton, Bermuda	100.00

4. ASSOCIATES VALUED USING EQUITY METHOD IN THE CONSOLIDATED FINANCIAL STATEMENTS

	Equity interest [1] in %
Domestic	
HANNOVER Finanz GmbH, Hannover	27.78
neue leben Pensionsverwaltung AG, Hamburg	49.00
WeHaCo Unternehmensbeteiligungs-GmbH, Hannover	40.00
Foreign	
Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa [9]	32.67
ITAS Vita S. p. A., Trento, Italy	27.10
Petro Vietnam Insurance Holdings, Cau Giay, Vietnam	47.31
Pineapple Tech (Pty) Ltd, Johannesburg, South Africa [9]	25.00

5. ASSOCIATES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS USING THE EQUITY METHOD DUE TO INSIGNIFICANCE

	Equity interest [1] in %
Domestic	
caplantic GmbH, Hannover	45.00
Elinvar GmbH, Berlin	37.50
VOV GmbH, Cologne	35.25
Foreign	
Escala Braga - Sociedade Gestora de Edifício, S. A., Braga, Portugal	49.00
Escala Vila Franca - Sociedade Gestora de Edifício, S. A., Linhó, Portugal	49.00
Escala Parque - Gestão de Estacionamento, S. A., Linhó, Portugal	49.00
Monument Insurance Group Limited, Hamilton, Bermuda	20.00
PNH Parque – Do Novo Hospital, S. A., Linhó, Portugal	49.00
Reaseguradora del Ecuador S. A., Guayaquil, Ecuador	30.00
Sureify Labs, Inc., Wilmington, USA	20.66
Trinity Underwriting Managers Limited, Toronto, Canada	20.00

6. JOINT VENTURES INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS USING THE EQUITY METHOD

	Equity interest [1] in %
Magma HDI General Insurance Company Ltd., Kolkata, India	25.50

7. JOINT VENTURES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS DUE TO INSIGNIFICANCE

	Equity interest [1] in %
Domestic	
Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt [6]	50.00
Finance-Gate Software GmbH, Berlin	40.00
Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover	50.00
Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover	50.00
Foreign	
C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia	25.10

8. PARTICIPATING INTERESTS

	Equity interest [1] in %		Equity [2] in thousand	Earnings before profit transfer [2] in thousand
Domestic				
ELEMENT Insurance AG, Berlin	3.05	EUR	7,527	–3,370
FinLeap GmbH, Berlin	9.49	EUR	40,297	–5,934
IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Fürstenfeldbruck	37.50	EUR	18,371	11,408
Internationale Schule Hannover Region GmbH, Hannover	15.72	EUR	4,402	193
Nürnberger Beteiligungs-AG, Nuremberg	2.33	EUR	667,338	63,059
OVB Holding AG, Köln	0.70	EUR	89,233	173,020
Perseus Technologies GmbH, Berlin	12.82	EUR	669	–1,354
RW Holding AG, Düsseldorf	0.54	EUR	391,526	–33,430
xbAV Beratungssoftware GmbH, Munich	5.02	EUR	166	–112
Foreign				
B3i Services AG, Zürich, Schweiz [13]	7.94	CHF	—	—
Centaur Animal Health, Inc., Olathe, USA	7.56	USD	1,968	150
Credit Suisse (Lux) Gas TransitSwitzerland SCS, Luxembourg, Luxembourg	60.15	EUR	124,980	–6,597
Inlife Holding (Liechtenstein) AG, Triesen, Liechtenstein	15.00	CHF	3,803	1,996
Kopano Ventures (Pty) Ltd, Johannesburg, South Africa [14]	6.59	ZAR	772	–3,881
Liberty Life Insurance Public Company Ltd, Nicosia, Cyprus	3.30	EUR	8,222	331
Life Invest Holding AG, Zurich, Switzerland	15.00	CHF	43,631	15,583
Meribel Topco Ltd., St. Helier, Jersey [14]	20.11	EUR	–4,775	–162
Qinematic AB, Lidingö, Sweden	10.71	SEK	1,818	–1,262
Somerset Reinsurance Ltd., Hamilton, Bermuda	16.90	USD	411,713	9,247
The Sociotech Institute Proprietary Limited, Cape Town, South Africa [14]	5.48	ZAR	4,866	–2,332

9. INVESTMENTS IN LARGE CORPORATIONS EXCEEDING 5% OF THE VOTING RIGHTS

	Equity interest [1] in %		Equity [2] in thousand	Earnings before profit transfer [2] in thousand
Domestic				
Extremus Versicherungs-AG, Cologne	13.00	EUR	63,940	2,700
MLP AG, Wiesloch	9.48	EUR	375,556	21,867
M 31 Beteiligungsgesellschaft mbH & Co. Energie KG, Düsseldorf	8.90	EUR	1,089,549	71,306
Foreign				
Acte Vie S. A. Schiltigheim, France	9.38	EUR	9,453	194

1) The equity interest is determined by adding up all directly and indirectly held interests in accordance with section 16(2) and section 16(4) of the German Stock Corporation Act (AktG).
2) The figures correspond to the local GAAP or IFRS annual financial statements of the companies; differing currencies are indicated.
3) The exemptions permitted under section 264(3) of the German Commercial Code (HGB) were applied.
4) The exemption provision permitted under section 264b of the German Commercial Code (HGB) was applied.
5) Company is inactive and does not prepare annual financial statements.
6) Company is in liquidation.
7) Company prepares its own subgroup financial statements.
8) Included in the subgroup financial statements of Hannover Re Real Estate Holdings, Inc.
9) Included in the subgroup financial statements of Hannover Reinsurance Group Africa (Pty) Ltd.
10) Included in the subgroup financial statements of Agenta Holdings Limited.
11) Included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG.
12) Included in the subgroup financial statements of PAG Real Estate Asia Select Fund Limited.
13) Company was formed in the reporting period – no annual report/annual financial statements available yet.
14) Figures as at 2018 financial year-end, provisional/unaudited.
15) A profit/loss transfer agreement is in force.
16) Investment funds.

SIGNIFICANT BRANCHES OF THE GROUP

We define the branch of a Group company as a part of the business without legal capacity, separated from the Group company in terms of space and organisation, which operates under instructions internally and acts autonomously in the market.

The companies in the Talanx Group listed in the following table maintain branches which we consider significant for understanding the Group's situation.

SIGNIFICANT BRANCHES OF THE GROUP

		Gross written premiums [1] in thousand
Hannover Rück SE		
Hannover Re UK Life Branch, London, United Kingdom	EUR	307,867
Hannover Rück SE India Branch, Mumbai, India	EUR	104,217
Hannover Rück SE Canadian Branch, Toronto, Kanada	EUR	247,225
Hannover Rück SE Korea Branch, Seoul, South Korea	EUR	47,822
Hannover Rück SE Shanghai Branch, Shanghai, China	EUR	1,193,529
Hannover Rück SE Succursale Française, Paris, France	EUR	783,872
Hannover Rück SE Hong Kong Branch, Wanchai, Hongkong	EUR	291,101
Hannover Rück SE Tyskland Filial, Stockholm, Sweden	EUR	253,390
Hannover Rueck SE Australian Branch, Sydney, Australia	EUR	489,319
Hannover Rueck SE Bahrain Branch, Manama, Bahrain	EUR	101,820
Hannover Rueck SE Malaysian Branch, Kuala Lumpur, Malaysia	EUR	397,170
HDI Global SE		
HDI Global SE – Branch for Belgium, Brussels, Belgium	EUR	226,506
HDI Global SE – Direction pour la France, Paris, France	EUR	414,077
HDI Global SE – Niederlassung Schweiz, Zurich, Switzerland	EUR	316,849
HDI Global SE – the Netherlands, Amsterdam, Netherlands	EUR	206,633
HDI Global SE – UK, London, United Kingdom	EUR	266,545
HDI Lebensversicherung AG		
HDI Lebensversicherung AG – Austria Branch, Vienna, Austria	EUR	682,548
HDI Versicherung AG (Austria)		
HDI Versicherung AG (Austria) – Czech Republic Branch	EUR	13,679
HDI Global Specialty SE		
HDI Global Specialty SE, Australian Branch, Sydney, Australia	EUR	81,407
HDI Global Specialty SE, Canadian Branch, Toronto, Canada	EUR	62,858
HDI Global Specialty SE, Italian Branch, Milan, Italy [2]	EUR	—
HDI Global Specialty SE, Scandinavian Branch, Stockholm, Sweden	EUR	230,861
HDI Global Specialty SE, UK Branch, London, United Kingdom	EUR	373,283
HDI Global Specialty SE, UK Branch, London, United Kingdom	EUR	368,196

[1] Figures before consolidation.
[2] Branch is in liquidation.

Furthermore, other companies in the Talanx Group maintain additional branches, which must be classified as insignificant individually and in total for the Group.

Prepared and hence authorised for publication on
27 February 2019 in Hannover.

Board of Management

Torsten Leue,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Sven Fokkema

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

INDEPENDENT AUDITORS' REPORT

To Talanx AG, Hannover

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

AUDIT OPINION

We have assessed the consolidated financial statements of Talanx AG, Hannover, and its subsidiaries (the Group). These statements consist of the consolidated balance sheet as at 31 December 2018, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement for the financial year from 1 January to 31 December 2018 and the accompanying Notes including a summary of significant accounting policies. We have also assessed Talanx AG's Group management report, which is combined with the company management report, for the financial year from 1 January to 31 December 2018. In accordance with German statutory requirements, we did not audit the parts of the Group management report listed in the "Other information" section of our auditor's report.

In our opinion, which is based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, as well as the additional German statutory requirements in accordance with section 315e(1). of the HGB and give a true and fair view of the net assets and financial position of the Group as at 31 December 2018 and its results of operations for the financial year from 1 January to 31 December 2018 in accordance with those requirements
- the accompanying Group management report provides a true and fair view of the Group's position overall. In all material respects, this Group management report is consistent with the consolidated financial statements, complies with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the expected development of the Group. Our audit opinion on the Group management report does not include the contents of the sections of the Group management report listed in the "Other information" section.

In accordance with section 322(3) sentence 1 of the HGB, we declare that our audit has not led to any reservations as to the correctness of the consolidated financial statements and the Group management report.

BASIS FOR THE AUDIT OPINION

We carried out our audit of the consolidated financial statements and Group management report in accordance with section 317 of the HGB and EU Regulation (No 537/2014; hereinafter referred to as "EU-APrVO") and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibility in accordance with these requirements and guidelines is described further in the "Auditors' responsibility for the audit of the consolidated financial statements and Group management report" section of our report. We are independent from the Group companies, in agreement with the requirements under European and German commercial and occupational law and have fulfilled our other professional duties which are generally accepted in Germany in accordance with these requirements. In accordance with article 10(2f) of the EU-APrVO, we also declare that we have not provided any prohibited non-audit services in accordance with article 5(1) of the EU-APrVO. We believe that the evidence we gathered in the audit provides a sufficient and reasonable basis for our opinion on the consolidated financial statements and Group management report.

PARTICULARLY IMPORTANT FACTS FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Particularly important facts are facts which we judged to be of the highest importance for the audit of the consolidated financial statements for the financial year from 1 January to 31 December 2018. These facts were taken into consideration as a whole during our audit of the consolidated financial statements and when forming our opinion; we do not submit a separate opinion on these facts. The following description follows the order of balance sheet items as they appear in the consolidated financial statements.

In our opinion, the following facts were of the highest importance for our audit:

❶ Fair value measurement of certain financial instruments

❷ Valuation of loss and loss adjustment expense reserves

❸ Valuation of the benefit reserve

We have presented these key facts for the audit in the following structure:

① Facts and problem

② Audit approach and findings

③ Reference to further information

The key facts for the audit are described below:

❶ Fair value measurement of certain financial instruments

① Financial instruments of EUR 122,831 million (75% of total equity and liabilities) are recognised in the consolidated financial statements.

Of these financial instruments, financial assets of EUR 79,208 million are measured at fair value. The fair values of these financial instruments in the amount of EUR 75,968 million are in turn calculated using third party valuation models or on the basis of indications of value. Valuing financial instruments, the fair values of which must be measured using third party valuation models or indications of value, involves a degree of uncertainty, as the latest market data and comparative figures are not always available for the valuation and so estimates and inputs are also used that are not currently observable on the market. This particularly concerns over-the-counter securities, other loans and derivatives.

Financial instruments valued using models are subject to a higher valuation risk on account of a lower degree of objectivity and the underlying judgements, estimates and assumptions of legal representatives. This fact was particularly important when conducting our audit as the estimates and assumptions applied, in particular those relating to interest rates and cash flows, as well as the valuation techniques applied, can have a material effect on the valuation of these financial instruments and on the Group's financial position and as it necessitates extensive notes on valuation techniques and margins of discretion.

② As part of our audit, we analysed financial instruments valued using models or on the basis of third-party indications of value, with a focus on valuation uncertainties. We assessed the adequacy and effectiveness of checks in place to value these financial instruments and to validate models. In connection with this, we also took into account the integrity of the underlying data and the process for determining assumptions and estimates used in the valuation.

Supported by our in-house financial mathematics specialists, we also assessed the adequacy of the impairment test methods employed by legal representatives and the inputs used for this test. We compared the methods and assumptions used to calculate adjustments in the financial year with recognised practices and industry standards and evaluated to what extent these are suitable for proper balance sheet recognition.

On the basis of the audit procedures, we ascertained that the methods and assumptions used by the legal representatives to value certain financial instruments (valued using models and on the basis of third-party indications of value) are, as a whole, suitable and that the information and data in the Notes are adequate.

③ Company disclosures on the valuation of financial instruments can be found in the "Accounting policies" section of the Notes under "Investments". In addition, further disclosures on the items are made in Notes 4 to 16. Statements on the risks arising from financial instruments are made in the risk report for the Group management report in the section "Risks from investments".

❷ Valuation of loss and loss adjustment expense reserves

① Technical provisions ("loss reserves") of EUR 45,887 million (28% of total equity and liabilities) are recognised in the company's consolidated financial statements under the balance sheet item "loss and loss adjustment expense reserve".

The loss and loss adjustment expense reserve in property/casualty insurance represents the company's expectations for future known and unknown claims payments and associated expenses. The company applies actuarial and statistical methods to estimate this obligation. Valuing these reserves also requires the company's legal representatives to exercise a significant degree of discretion regarding assumptions made such as inflation, the pattern of claims processing and regulatory changes. In general, there is a particularly high degree of uncertainty when estimating product lines with low loss frequencies, high single losses or long claims processing periods.

On account of these reserves' significance in terms of volume for the Group's financial position, the considerable margins of discretion exercised by the legal representatives and the associated uncertainty with regard to estimates, it was particularly important in our audit to measure technical provisions in property/casualty insurance.

② When auditing the loss and loss adjustment expense reserve, we reviewed and assessed the adequacy of the selection of actuarial methods at the company, the procedures including controls established to calculate assumptions and the use of estimates to measure certain technical provisions in property/casualty insurance.

With the support of our in-house valuation experts in the area of property/casualty insurance, we compared the actuarial methods and key assumptions used with general recognised actuarial practices and industry standards and evaluated to what extent these are suitable for the purposes of valuation. As part of our audit, we also assessed the plausibility and integrity of data and assumptions used for valuation and reproduced claims processes. In addition, we recalculated reserves for selected product lines, in particular product lines with large or increased estimation uncertainty in terms of volume. For these product lines, we then compared these recalculated reserves with the reserves determined by the company and evaluated any discrepancies. In addition, we examined whether any adjustments made to estimates in loss reserves at a Group level had been suitably documented and justified.

On the basis of our audit procedures, we ascertained that the estimates and assumptions made by the legal representatives when valuing technical provisions in property/casualty insurance are, as a whole, suitable.

③ Company disclosures on the valuation of the loss and loss adjustment expense reserve for property/casualty insurance can be found in the "Accounting policies" section of the Notes under "Technical provisions". Note 21 of the Notes also includes further details on the loss and loss adjustment expense reserve. Risk information is given in the Group management report's risk report in the section "Underwriting risks in property/casualty insurance".

❸ Valuation of the benefit reserve

① Technical provisions of EUR 56,234 million (35% of total equity and liabilities) are recognised in the company's consolidated financial statements under the balance sheet item "benefit reserve".

The benefit reserve contains technical provisions for future commitments arising from guaranteed claims of policyholders in life insurance. The benefit reserve is measured using complex actuarial methods and models on the basis of a wider-ranging process aimed at calculating assumptions about future developments relating to the insurance portfolios to be valued. The methods applied and the actuarial assumptions calculated in connection with interest, investment income, biometric variables and cost assumptions, as well as future actions of policyholders, can have a material effect on the valuation of this technical provision.

On account of the significance in terms of volume for the Group's financial position and the complex nature of determining the underlying assumptions by the legal representatives, the valuation of this technical provision was particularly important in our audit.

② As part of our audit, we reviewed and assessed the adequacy of selected actuarial methods, the procedures including controls in place for calculating assumptions and preparing estimates for measuring certain technical provisions.

With the support of our in-house valuation experts, we compared the actuarial methods and key assumptions used with general recognised actuarial practices and industry standards and evaluated to what extent these are suitable for the purposes of valuation. One focal point of our audit was assessing to what extent the liability adequacy test had been properly implemented. As part of our audit, we also assess the plausibility and integrity of data and assumptions used by the legal representatives for the valuation.

On the basis of our audit procedures, we ascertained that the methods and assumptions applied by the legal representatives when valuing the benefit reserve are, as a whole, suitable.

③ Company disclosures on the valuation of the benefit reserve can be found in the "Accounting policies" section of the Notes under "Technical provisions". The information in the Notes also includes further details on the benefit reserve under Note 20. Risk information is given in the combined management report's risk report in the section "Technical risks, life".

OTHER INFORMATION

The legal representatives are responsible for other information. Other information comprises the following parts of the Group management report, which have not been audited for content:

- the Declaration on Corporate Governance in accordance with section 289f of the HGB and section 315d of the HGB which can be found in the "corporate governance" section of the Group management report
- the corporate governance report in accordance with no. 3.10 of the German Corporate Governance Code
- the consolidated non-financial statement in accordance with section 315b(1) of the HGB which can be found in the "consolidated non-financial statement" section of the Group management report

Other information also includes other parts of the Group Annual Report – without additional cross references to external information – excluding the audited consolidated financial statements, the audited Group management report and our auditors' report.

Our audit opinion on the consolidated financial statements and Group management report does not extend to other information and we therefore do not issue either an audit opinion or any other form of audit conclusion to that end.

In conjunction with our audit, we are responsible for reading other information and appraising whether it

- deviates significantly from the consolidated financial statements, Group management report or the knowledge we gain during our audit or
- appears to be materially misrepresented in any other way.

LEGAL REPRESENTATIVES' AND SUPERVISORY BOARD'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

The legal representatives are responsible for preparing the consolidated financial statements, which comply in all material respects with IFRSs, as adopted by the EU, as well as the additional German statutory requirements in accordance with section 315e(1) of the HGB, and ensuring that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with those requirements. Furthermore, the legal representatives are responsible for the internal checks which they have deemed necessary in order to prepare consolidated financial statements that contain no material – deliberate or accidental – misrepresentations.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for specifying any relevant facts related to the Group continuing as a going concern. Furthermore, they are responsible for ensuring accounts are drawn up on a going concern basis, unless there is an intention to liquidate the Group or discontinue business operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the Group management report, which provides a true and fair view of the Group's position overall and complies in all material aspects with the consolidated financial statements, is in accordance with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the future development of the Group. In addition, the legal representatives are responsible for any precautions and measures (systems) they deem necessary for preparing a Group management report in accordance with German statutory requirements and providing sufficient and reasonable evidence for the statements made in the Group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process as it prepares the consolidated financial statements and the Group management report.

AUDITORS' RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND GROUP MANAGEMENT REPORT

We aim to ascertain with reasonable assurance whether the consolidated financial statements as a whole contain any material – deliberate or accidental – misrepresentations and whether the Group management report provides a true and fair view of the Group's position overall and complies in all material aspects with the consolidated financial statements and any findings made during the audit, is in accordance with the German statutory requirements and provides a true and fair description of the opportunities and risks associated with the future development of the Group. We also aim to produce an auditors' report which contains our audit opinion on the consolidated financial statements and Group management report.

Reasonable assurance represents a high degree of certainty but is no guarantee that an audit carried out in accordance with section 317 of the HGB, the EU-APrVO, the generally accepted German standards for the audit of financial statements promulgated by the IDW will always discover any material misrepresentation. Misrepresentations may be the result of violations or inaccuracies and are deemed to be material if they could reasonably be expected to influence, individually or collectively, the economic decisions of users made on the basis of these consolidated financial statements and the Group management report.

We exercise reasonable discretion and maintain a critical approach during audits. In addition,

- we identify and assess the risks of material – deliberate or accidental – misrepresentations in the consolidated financial statements and Group management report, plan and carry out audit procedures in response to these risks and gather sufficient and reasonable evidence to serve as a basis for our audit opinion. There is a greater risk that we will not discover material misrepresentations associated with violations as opposed to inaccuracies as violations may involve fraudulent collaboration, fabrication, deliberate omissions, misleading representation or bypassing internal checks.
- we gain an understanding of the relevant internal systems of control for auditing the consolidated financial statements and the relevant precautions and measures for auditing the Group management report in order to plan audit procedures which are adequate for the current circumstances but where the objective is not to issue an audit opinion on the efficacy of these systems.
- we assess the adequacy of the accounting policies used by the legal representatives and evaluate how reasonable their estimated values and related data are.
- we draw conclusions about the adequacy of the going concern accounting approach used by the legal representatives and, on the basis of the evidence gathered in the audit, whether there is significant uncertainty surrounding events or circumstances that could raise significant doubts about the Group's ability to continue as a going concern. If we conclude that there is significant uncertainty, we are required to draw attention in the auditors' report to the corresponding data contained in the consolidated financial statements and the Group management report or, if this data is inadequate, to modify our audit opinion accordingly. We draw our conclusions based on the evidence obtained during the audit up to the date of our auditors' report. However, future events or circumstances may lead to a situation where the Group can no longer continue as a going concern.
- we assess the overall presentation, structure and contents of the consolidated financial statements including the data contained therein.We also assess whether the consolidated financial statements represent the underlying transactions and events in such a way that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the IFRSs, as adopted by the EU, and the additional German statutory requirements in accordance with section 315e(1) of the HGB.

- we gather sufficient and reasonable evidence for the company's accounting information or operating activities within the Group in order to issue an audit opinion on the consolidated financial statements and Group management report. We are responsible for leading, supervising and carrying out the audit of the consolidated financial statements. We accept sole responsibility for our audit opinion.
- we assess how far the Group management report is consistent with the consolidated financial statements, whether it has been produced in accordance with the relevant legislation and the view it gives of the Group's position.
- we carry out audit procedures on the forecasts represented in the Group management report by the legal representatives. Based on sufficient and reasonable evidence gathered in the audit, we retrace in particular the significant assumptions on which the legal representatives based the forecasts and assess whether the forecasts were adequately derived from these assumptions. We do not issue an independent audit opinion on the forecasts or the assumptions they are based on. There is a considerable and unavoidable risk that future events may differ significantly from the forecasts.

We discuss a range of relevant matters with those responsible for supervision including the planned scope and schedule of the audit as well as significant audit findings, including any weaknesses in the internal control system that we identify during our audit.

We issue a declaration to those responsible for supervision that we have complied with the relevant independence criteria and discuss with them all relationships and other matters that may reasonably be assumed to affect our independence and any related preventive measures adopted.

From all the matters we discussed with those responsible for supervision, we determine which were the most important in terms of the audit of the consolidated financial statements for the current reporting period and thereby define which are particularly important from an audit perspective. We describe these matters in the auditors' report, unless any laws or other legislation preclude their public disclosure.

OTHER STATUTORY AND LEGAL REQUIREMENTS

OTHER DATA IN ACCORDANCE WITH ARTICLE 10 EU-APrVO

We were elected as auditors of the consolidated financial statements by the Annual General Meeting of 8 May 2018. We were instructed by the Supervisory Board on 20 June 2018. We have been the auditor for the consolidated financial statements of Talanx AG, Hannover, every year since the 2018 financial year.

We declare that the audit opinion provided in this auditors' report is consistent with the supplementary report to the Audit Committee in accordance with article 11 of the EU-APrVO (audit report).

RESPONSIBLE AUDITORS

The auditor responsible for the audit is Florian Möller.

Hannover, 8 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Florian Möller	ppa. Christoph Czupalla
Public auditor	Public auditor

INDEPENDENT AUDITORS' LIMITED ASSURANCE ENGAGEMENT

ON NON-FINANCIAL REPORTING

To Talanx AG, Hannover

We conducted a limited assurance engagement on the non-financial statement in accordance with section 315b of the HGB for Talanx AG, Hannover (hereinafter the "Company"), included in the "consolidated non-financial statement" section of the Group management report, for the period from 1 January 2018 to 31 December 2018 (hereinafter the "non-financial statement").

RESPONSIBILITY OF THE LEGAL REPRESENTATIVES

The Company's legal representatives are responsible for preparing the non-financial statement in accordance with sections 315b and 315c in conjunction with 289c to 289e of the HGB.

This responsibility of the Company's legal representatives includes selecting and applying suitable methods for non-financial reporting and making assumptions and estimates regarding non-financial information that are appropriate under the given circumstances. Furthermore, the legal representatives are responsible for the internal checks which they have deemed necessary in order to prepare a non-financial statement that contains no material – deliberate or accidental – misrepresentations.

INDEPENDENCE AND QUALITY ASSURANCE OF THE AUDIT COMPANY

We observed the requirements relating to independence under German occupational law and other ethical requirements.

Our auditing company applies national statutory regulations and professional proclamations – in particular the Professional Code for German Public Auditors and German Chartered Auditors (Berufssatzung für Wirtschaftsprüfer und vereidigte Buchprüfer - BS WP/vBP) and the quality assurance standard 1 "requirements regarding quality assurance in audit firms" ("Anforderungen an die Qualitätssicherung in der Wirtschaftsprüferpraxis") set out by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer – IDW) – and therefore has a comprehensive system of quality control including documented regulations and measures relating to compliance with ethical requirements, professional standards and key statutory and other legal requirements.

AUDITOR'S RESPONSIBILITY

Our responsibility is to issue an audit opinion in a limited assurance engagement regarding the information in the non-financial statement on the basis of our audit.

Our responsibility does not extend to assessing external documentation or expert opinions referenced in the non-financial statement.

We conducted our audit with due regard to the International Standard on Assurance Engagements (ISAE) 3000 (revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the IAASB. This Standard requires that we plan and conduct the audit in such a way that we can assess, with limited assurance, whether any facts have come to our attention that cause us to believe that the Company's non-financial statement for the period 1 January 2018 to 31 December 2018 was not prepared, in all material respects, in accordance with sections 315b and 315c in conjunction with 289c to 289e of the HGB. The audit procedures for a limited assurance engagement are more limited than those of a reasonable assurance engagement, and so significantly less assurance is obtained. The audit procedures are selected at the reasonable discretion of the auditor.

Our audit included the following audit procedures and other activities:

- gaining an insight into the structure of the sustainability organisation and materiality analysis performed
- consulting management personnel and relevant employees involved in preparing the non-financial statement about the preparation process, the internal control system for this process and the information in the non-financial statement
- identifying potential risks of material misrepresentations in the non-financial statement
- analytical assessment of information in the non-financial statement
- comparison of information against the corresponding data in Talanx AG's consolidated financial statements and Group management report
- assessing the presentation of the information

AUDIT OPINION

Our audit procedures and the evidence gathered during the audit did not bring any facts to our attention that cause us to believe that the Company's non-financial statement for the period 1 January 2018 to 31 December 2018 was not prepared, in all material respects, in accordance with sections 315b and 315c in conjunction with 289c to 289e of the HGB.

PURPOSE OF THE ASSURANCE ENGAGEMENT

This assurance engagement is issued on the basis of an agreement concluded with the Company. The audit was conducted on behalf of the Company and the assurance engagement is intended only to inform the Company of the audit result.

The assurance report is not intended for third parties to use as a basis for making (assets) decisions. We are responsible only towards the Company. We do not assume any responsibility towards third parties.

Frankfurt, 8 March 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Nicolette Behncke
German Public Auditor

ppa. Juliane v. Clausbruch

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the Group management report, which is combined with the management report of Talanx AG, 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.

Hannover, 27 February 2019

Board of Management

Torsten Leue,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Sven Fokkema

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

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Further Information

GLOSSARY AND DEFINITIONS OF KEY FIGURES

ACCUMULATION RISK
The underwriting risk that a single trigger event (e.g. an earthquake or hurricane) can lead to a cluster of claims within a > portfolio.

ACQUISITION COSTS, DEFERRED
The costs/expenses incurred by an insurance company when insurance policies are taken out or renewed (e.g. new business commission, costs of proposal assessment or underwriting). Capitalising acquisition costs spreads them over the policy period.

ADMINISTRATIVE EXPENSES
The costs of ongoing administration connected with the production of insurance coverage.

ANNUAL PREMIUM EQUIVALENT – APE
The industry standard for measuring new business income in life insurance.

ASSET MANAGEMENT
The administration and management of investments based on risk and return criteria.

ASSETS UNDER OWN MANAGEMENT
Investments that do not originate from either investment contracts or funds withheld by ceding companies in the insurance business. They are generally acquired or sold independently by Group companies at their own risk and are managed either by the company or by an investment company on the company's behalf.

ASSOCIATE
A company that is not consolidated (or proportionately consolidated), but is normally included in the consolidated financial statements using the > equity method. A company that is included in the consolidated financial statements exercises significant influence over the associate's operating or financial policies.

B2B
The exchange of goods, services and information between companies.

BANCASSURANCE
A partnership between a bank/postal service partner and an insurance company for the purpose of selling insurance products through the banking/postal service partner's branches. The linkage between insurer and bank often takes the form of a capital investment or a long-term strategic cooperation between the two partners.

BASIC OWN FUNDS
Excess of assets over liabilities less the amount recognised for own shares in the solvency balance sheet and the subordinated liabilities, as defined in section 89(3) of the German Insurance Supervision Act (VAG).

BENEFIT RESERVE
A value for future liabilities arrived at using mathematical methods (present value of future liabilities less value of future premiums received), especially in life and health insurance.

BIOMETRIC PRODUCTS
Insurance products that do not have a savings portion, for which events associated with fundamental changes in biologically determined living conditions (death, occurrence of the need for care, occupational disability or invalidity) trigger the benefit obligation.

CAPITAL-EFFICIENT PRODUCTS
The premiums paid in are guaranteed as a maximum upon expiry of the insurance policy, irrespective of the capital market. During the term, surpluses increase the assets. The maturity of the premium guarantee reduces the risk capital that the life insurer must back.

CARRYING AMOUNT PER SHARE
This key figure indicates the amount of equity per share attributable to shareholders.

CATASTROPHE BOND (ALSO: CAT BOND)
An instrument used to transfer catastrophe risks held by an insurer or reinsurer to the capital markets.

CEDANT (ALSO: CEDING COMPANY)
A primary insurer or reinsurer that passes on (cedes) portions of its insured risks to a reinsurer in exchange for a premium.

CESSIONARY
The reinsurer of a primary insurer.

CHAIN LADDER METHOD
A standard actuarial method used to estimate the provisions required for future claims expenditures. It assumes that the claims amount increases by the same factor in all occurrence years. With this method, the expected total claims are determined exclusively on the basis of historical data on the settlement of losses in the insurer's portfolio.

COINSURANCE FUNDS WITHHELD TREATY
A type of coinsurance contract under which the ceding company retains a portion of the original premium that is at least equal to the ceded reserves. As with a > modified coinsurance (ModCo) treaty, interest payments to the reinsurer represent the amount invested in the underlying securities portfolio.

COMBINED RATIO
The sum of the > loss ratio and the > expense ratio (net), after allowance for interest income on funds withheld and contract deposits, as a proportion of net premiums earned. To calculate the combined ratio, claims and claims expenses including interest income on funds withheld and contract deposits are taken into account. This ratio is used by both property/casualty insurers and property/casualty reinsurers.

COMMISSION
The remuneration paid by a primary insurer to agents, brokers and other professional intermediaries.

DECISION-MAKING POWERS
The Group is exposed, or has rights, to variable returns from an involvement and has the ability to affect the amount of the returns (e.g. the relevant activities) due to substantive rights.

DEPOSIT ACCOUNTING
An accounting method for recognising short-term and long-term insurance and reinsurance contracts that do not transfer any significant underwriting risk.

DERIVATIVE (DERIVATIVE FINANCIAL INSTRUMENT)
Financial products that are derived from underlying primary instruments such as equities, fixed-income securities and foreign exchange instruments. The fair value of derivatives is measured by reference to the underlying security or reference asset, among other factors. Derivatives include > swaps, options and futures.

DIRECT INSURER
> primary insurer

DURATION
A ratio in mathematical finance that represents the average capital commitment period of an investment in bonds or their interest rate sensitivity. The "Macaulay duration" is the capital-weighted mean number of years over which a bond will generate payments. The "modified duration", on the other hand, shows the change in present value of a bond in the event of a change in interest rates, and as such expresses the interest rate risk associated with a particular financial instrument. The "effective duration" depicts the sensitivity of the value of in-force business to small parallel shifts in the (credit risk-free) yield curve.

EARNED PREMIUMS
Proportion of written premiums attributable to insurance cover in the financial year.

EARNINGS PER SHARE, DILUTED
A ratio calculated by dividing Group net income attributable to the shareholders of Talanx AG by the average weighted number of shares outstanding. Diluted earnings per share reflect exercised or as yet unexercised pre-emptive rights when calculating the number of shares.

EBIT
Earnings before interest and taxes; at the Talanx Group, this is identical to > operating profit/loss.

EQUALISATION RESERVE
A reserve that is recognised in order to offset significant fluctuations in the loss experience of individual lines over a number of years. Under IFRSs, it is reported as a component of equity.

EQUITY METHOD
An accounting method used to measure equity investments (> associate) in the consolidated financial statements under which the carrying amount of the investment in the consolidated balance sheet is adjusted to reflect changes in the investor's share of the investee's equity.

EXPENDITURES ON INSURANCE BUSINESS (ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES)
Total commissions, selling expenses, personnel expenses, non-personnel operating expenses and ongoing administrative expenses.

EXPENSE RATIO
The ratio of acquisition costs and administrative expenses (net) to net premiums earned.

EXPOSURE
The level of danger inherent in a risk or portfolio of risks.

EXTRAORDINARY INVESTMENT INCOME
Income from realised and unrealised gains and losses, including impairment losses/write-downs and their reversal.

FACULTATIVE REINSURANCE
Participation by the reinsurer in a separate individual risk assumed by the primary insurer. Contrast with: > obligatory reinsurance.

FAIR VALUE
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FOR OWN ACCOUNT (ALSO: NET)
In insurance: after deduction of > passive reinsurance.

FUNDS HELD BY CEDING COMPANIES/ FUNDS HELD UNDER REINSURANCE TREATIES
Collateral provided to cover insurance liabilities that an insurer retains from the cash funds it has to pay to a reinsurer under a reinsurance treaty. In this case, the insurer reports funds held under a reinsurance treaty, while the reinsurer reports funds held by a ceding company. Interest is payable/receivable on these funds.

GOODWILL
The amount that a purchaser is prepared to pay – in light of future profit expectations – above and beyond the value of all tangible and intangible assets after deducting liabilities.

GROSS
In insurance: before deduction of > passive reinsurance.

HARD MARKET
A market phase during which premium levels are typically high. Contrast with: > soft market.

HYBRID CAPITAL
Subordinated debt and profit participation rights that combine characteristics of both debt and equity.

IMPAIRMENT
A write-down (impairment loss) that is recognised if the present value of the estimated future cash flows of an asset falls below its carrying amount.

INCURRED BUT NOT REPORTED – IBNR
A reserve for losses that have already occurred but have not yet been reported.

INSURANCE-LINKED SECURITIES – ILS
Financial instruments used to securitise risks under which the payment of interest and/or the repayment of the principal depends upon the occurrence and magnitude of an insured event.

INTERNATIONAL FINANCIAL REPORTING STANDARDS – IFRSs
Internationally recognised accounting standards, previously known as IASs (International Accounting Standards); these accounting standards have been applied at Talanx since 2004.

INVESTMENT GRADE
A rating of BBB or better awarded to an issuer on account of its low credit risk.

INVESTMENTS UNDER INVESTMENT CONTRACTS
Investment contracts with no discretionary surplus participation that do not involve any significant underwriting risk and are recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

LAPSE RATE FOR LIFE INSURANCE PRODUCTS
The ratio of the sum of cancelled policies and other premature withdrawals to the average business in force (index published by the German Insurance Association/GDV).

LARGE LOSS (ALSO: MAJOR LOSS)
A claim that is of exceptional size compared with the average claim for the risk group in question and that exceeds a defined loss amount. Since 2012, the Talanx Group has defined large losses as natural catastrophes and other large losses for which the portion held by the Talanx Group exceeds EUR 10 million (gross).

LETTER OF CREDIT – LOC
A form of bank guarantee. In the USA, for example, it is a common method of furnishing collateral in the reinsurance business.

LIFE INSURANCE
Collective term covering those types of insurance that are concerned in the broader sense with the risks associated with the uncertainties of life expectancy and life planning. These include insurance relating to death, disability and retirement provision, as well as marriage and education.

LIFE/HEALTH INSURANCE (ALSO: PERSONAL LINES)
Lines of business concerned with the insurance of persons, specifically life, annuity, health and personal accident insurance.

LOSS RATIO
The net loss ratio based on amounts reported in the financial statements: the ratio of claims and claims expenses (net), one element of which is the net other technical result, including amortisation of the shareholders' portion of the PVFP – to net premiums earned. > PVFP

LOSS RATIO FOR PROPERTY/CASUALTY INSURANCE PRODUCTS
a) Gross: the ratio of the sum of claims expenditures (gross) and the gross other technical result to gross premiums earned.
b) Net: the ratio of the sum of claims expenditures (net) and the net other technical result to net premiums earned.

MATCHING CURRENCY COVER(AGE)
Cover for technical liabilities denominated in foreign currencies by means of corresponding investments in the same currency in order to avoid exchange rate risk.

MODIFIED COINSURANCE (MODCO) TREATY
A type of reinsurance treaty under which the ceding company retains the assets that secure the reinsured reserves in a separate account, thereby creating an obligation to make payments to the reinsurer at a later date. The payments include a proportionate share of the gross premiums and the income from the securities.

MORBIDITY
A measure of the incidence of disease relative to a given population group.

MORTALITY
A measure of the incidence of death within a given time interval relative to the total population.

NET
In insurance: after deduction of > passive reinsurance.

NET EXPENDITURE ON INSURANCE CLAIMS
The total amount of claims paid and provisions for loss events that have occurred during the financial year, plus net income or expenses from adjusting provisions for loss events from previous years, in each case after deduction of own reinsurance amounts.

NET INCOME
EBIT less financing costs and taxes on income.

NET RETURN ON INVESTMENTS
The ratio of net investment income, not including interest income on funds withheld and contract deposits, or income from > investments under investment contracts, to average assets under own management.

NET TECHNICAL EXPENSES
Claims and claims expenses, acquisition costs and administrative expenses and other technical expenses, in each case net of reinsurance recoverables.

NEW BUSINESS MARGIN (LIFE)
The ratio of the value of new business to the present value of new business premiums excluding non-controlling interests.

NON-PROPORTIONAL REINSURANCE
A reinsurance treaty under which the reinsurer assumes the loss expenditure or sum insured in excess of a defined amount. Contrast with: > proportional reinsurance.

OBLIGATORY REINSURANCE
A reinsurance treaty under which the reinsurer participates in an aggregate, precisely defined insurance portfolio of a > cedant. Contrast with: > facultative reinsurance.

OPERATING PROFIT/LOSS (EBIT)
Sum of net investment income, underwriting result and other income and expenses including goodwill impairments before interest for other debt borrowed for financing purposes (financing costs) and before taxes (taxes on income).

OTC
Over the counter. In the case of securities: not traded on an exchange.

OTHER OPERATING EXPENSES AND WRITE-DOWNS
Expenses for ordinary activities, e.g. personnel and non-personnel operating expenses, depreciation, amortisation and write-downs, realised losses on investments, currency translation losses and the cost of services.

OTHER OPERATING INCOME
Income from ordinary activities, such as realised gains on investments or currency translation gains.

PASSIVE REINSURANCE
Existing reinsurance programmes of > primary insurers that protect them against underwriting risks.

PERSONAL LINES
> Life/health insurance

POLICYHOLDERS' SURPLUS
The total amount of
a) equity excluding non-controlling interests, comprising share capital, capital reserves, retained earnings and other comprehensive income,
b) non-controlling interests and
c) hybrid capital that combines characteristics of both debt and equity and comprises subordinated liabilities.

PORTFOLIO
a) All risks assumed by a > primary insurer or > reinsurer in their entirety or in a defined sub-segment.
b) A group of investments classified according to specific criteria.

PREMIUM
The remuneration agreed for the risks accepted by the insurer.

PRESENT VALUE OF FUTURE PROFITS – PVFP
An intangible asset that primarily arises from the acquisition of life and health insurance companies or individual portfolios. The present value of expected future profits from the acquired portfolio is capitalised and is normally then amortised. Impairment losses are recognised on the basis of annual impairment tests.

PRIMARY (ALSO: DIRECT) INSURER
A company that accepts risks in exchange for an insurance premium and that has a direct contractual relationship with the policyholder (private individual, company, organisation).

PROPERTY/CASUALTY INSURANCE
All insurance classes with the exception of life insurance and health insurance: all lines in which the insured event does not trigger payment of an agreed fixed amount. Instead, the incurred loss is compensated.

PROPORTIONAL REINSURANCE
Reinsurance treaties under which shares of a risk or portfolio are reinsured at the same terms as the original insurance. Premiums and losses are shared proportionately, i.e. on a pro rata basis. Contrast with: > non-proportional reinsurance.

QUOTA SHARE REINSURANCE
A form of reinsurance under which the percentage share of the written risk and the premium are contractually agreed.

RATE
The percentage (normally applied to the subject premium) of a reinsured portfolio that is payable to the reinsurer under a > non-proportional reinsurance treaty as the reinsurance premium.

REINSURER
A company that accepts risks or portfolio segments from a > primary insurer or another reinsurer in exchange for an agreed premium.

RENEWAL
In the case of contractual relationships with insurers that are maintained over long periods of time, the contract terms and conditions are normally modified annually in the course of renewal negotiations, following which the contracts are renewed.

RETAIL BUSINESS
a) In general: business with private (retail) customers.
b) Ampega: business involving investment funds that are designed essentially for private, non-institutional investors, but are also open to investments by Group companies.

RETENTION
That portion of the accepted risks that an insurer/a reinsurer does not reinsure, i.e. that it carries > net. The ratio of net written premiums to gross written premiums (excluding savings elements of premiums under unit-linked life and annuity insurance policies).

RETROCESSION
Ceding by a reinsurer of its risks or portions of them to other reinsurers.

SILO
A part of the business that is separate from other assets and liabilities (e.g. an investment fund), and for which all rights and obligations accrue exclusively to the investors in this part of this business.

SOFT MARKET
A market phase referring to an oversupply of insurance, resulting in premiums that do not reflect the risk. Contrast with: > hard market.

SOLVENCY
The amount of free uncommitted own funds needed to ensure that liabilities under insurance policies can be met at all times.

SOLVENCY II
A project initiated by the European Commission to reform and harmonise the European insurance supervision framework, and in particular the solvency rules governing the level of own funds to be maintained by insurance companies.

SPECIALTY LINES
Specialty insurance for niche business such as non-standard motor covers, fine arts insurance, etc.

STRESS TEST
A form of scenario analysis that enables quantitative assessments to be made about the loss potential of > portfolios in the event of extreme market volatility.

STRUCTURED ENTERPRISE
An enterprise that is organised in such a way that voting or similar rights are not the dominant factor in deciding who controls the enterprise. This is the case, for example, when voting rights relate to administrative tasks only and contractual agreements are used to determine the direction of the relevant activities (e.g. certain investment funds).

SURPLUS PARTICIPATION
Legally required participation (recalculated each year) by policyholders in the surpluses generated by life insurers.

SURVIVAL RATIO
This reflects the ratio of loss reserves to claims paid under a policy or several policies in a financial year.

TECHNICAL RESULT
> Underwriting result

UNDERWRITING
The process of examining and assessing (re)insurance risks in order to determine an appropriate premium for the risk in question. The purpose of underwriting is to diversify the underwriting risk in such a way that it is fair and equitable for the (re)insured and at the same time profitable for the (re)insurer.

UNDERWRITING RESULT (ALSO: TECHNICAL RESULT)
The balance of income and expenses allocated to the insurance business: the balance of > net premiums earned and claims and claims expenses (net), acquisition costs and administrative expenses (net), and the net other technical result, including amortisation of the shareholders' portion of the > PVFP

UNEARNED PREMIUM RESERVE
Premiums written in a financial year that will be allocated to the following period in accordance with the matching principle.

UNIT-LINKED LIFE INSURANCE
Life insurance under which the level of benefits depends on the performance of an investment fund allocated to the policy in question.

VALUE AT RISK
A risk measure for determining potential losses that will not be exceeded for a certain probability in a given period.

VALUE OF NEW BUSINESS (LIFE)
The present value of future net income excluding non-controlling interests, generated from the new business portfolios for the current year. It is calculated on the basis of the same operational assumptions as are used to determine the Solvency II own funds as at the end of the financial year.

INDEX OF KEY TERMS

CONTACT INFORMATION

Talanx AG
HDI-Platz 1
30659 Hannover
Germany
Telephone +49 511 3747-0
Telefax +49 511 3747-2525
www.talanx.com

Group Communications
Andreas Krosta
Telephone +49 511 3747-2020
Telefax +49 511 3747-2025
andreas.krosta@talanx.com

Investor Relations
Carsten Werle
Telephone +49 511 3747-2231
Telefax +49 511 3747-2286
carsten.werle@talanx.com

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FINANCIAL CALENDAR 2019

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Annual General Meeting

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12 August
Interim Report as at 30 June 2019

11 November
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20 November
Capital Markets Day

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Talanx AG
HDI-Platz 1
30659 Hannover
Germany
Telephone +49 511 3747-0
Telefax +49 511 3747-2525
www.talanx.com

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