2015

# PERFORMANCE AND RESULTS

Group Annual Report 2015

talanx.

Insurance. Investments.

# FINANCIAL HIGHLIGHTS

GROSS WRITTEN PREMIUMS

EUR 31.8 BILLION

GROSS PREMIUM GROWTH (ADJUSTED FOR EXCHANGE RATE EFFECTS)

+4.8%

2015

NET RETURN ON INVESTMENT

3.6%

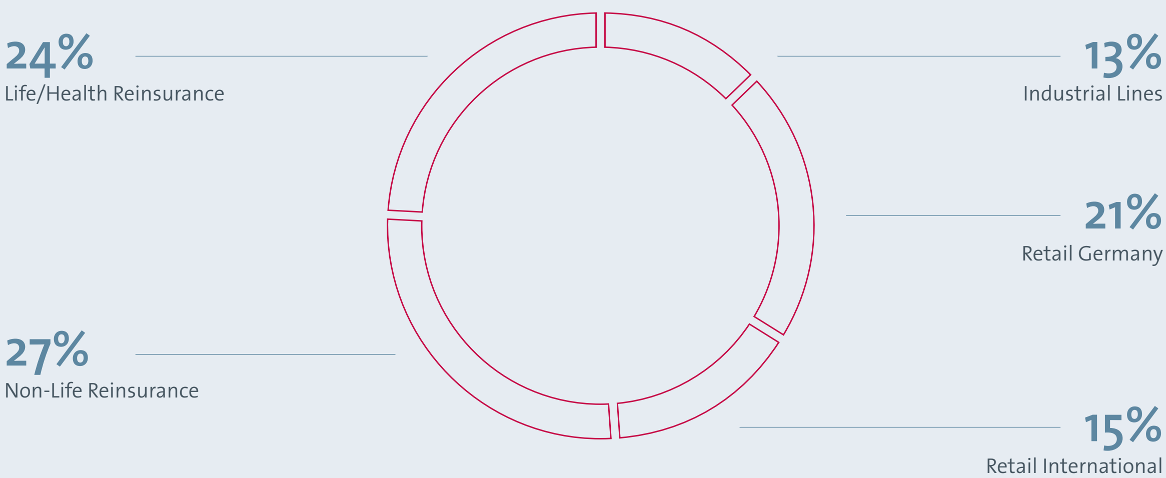
OPERATING PROFIT (EBIT)

EUR 2.2 BILLION

PROPOSED DIVIDEND PER SHARE

EUR 1.30

SEGMENTAL BREAKDOWN OF GROSS PREMIUMS



# THE TALANX GROUP AT A GLANCE

1 GROUP KEY FIGURES

| | UNIT | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|
| **Gross written premiums** | EUR MILLION | **31,799** | **28,994** | **28,151** | **26,659** | **23,682** |
| by region | | | | | | |
| Germany | % | 29 | 32 | 33 | 35 | 38 |
| United Kingdom | % | 9 | 9 | 10 | 11 | 11 |
| Central and Eastern Europe (CEE), including Turkey | % | 8 | 8 | 9 | 6 | 3 |
| Rest of Europe | % | 14 | 15 | 15 | 15 | 16 |
| USA | % | 14 | 12 | 13 | 13 | 12 |
| Rest of North America | % | 3 | 3 | 2 | 2 | 2 |
| Latin America | % | 8 | 7 | 7 | 7 | 7 |
| Asia and Australia | % | 13 | 12 | 9 | 9 | 9 |
| Africa | % | 2 | 2 | 2 | 2 | 2 |
| **Net premiums earned** | EUR MILLION | **25,937** | **23,844** | **23,113** | **21,999** | **19,456** |
| **Underwriting result** | EUR MILLION | **–1,370** | **–2,058** | **–1,619** | **–1,447** | **–1,690** |
| **Net investment income** | EUR MILLION | **3,933** | **4,144** | **3,792** | **3,795** | **3,262** |
| **Net return on investment** [1] | % | **3.6** | **4.1** | **4.0** | **4.3** | **4.0** |
| **Operating profit/loss (EBIT)** | EUR MILLION | **2,182** | **1,892** | **1,766** | **1,748** | **1,238** |
| **Net income (after financing costs and taxes)** | EUR MILLION | **1,409** | **1,368** | **1,252** | **1,144** | **892** |
| of which attributable to shareholders of Talanx AG | EUR MILLION | 734 | 769 | 732 | 626 | 515 |
| **Return on equity** [2] | % | **9.0** | **10.2** | **10.2** | **10.0** | **10.0** |
| **Earnings per share** | | | | | | |
| Basic earnings per share | EUR | 2.90 | 3.04 | 2.90 | 2.86 | 2.48 |
| Diluted earnings per share | EUR | 2.90 | 3.04 | 2.90 | 2.86 | 2.48 |
| **Combined ratio in property/casualty primary insurance and Non-Life Reinsurance** [3] | % | **96.0** | **97.9** | **97.1** | **96.4** | **101.0** |
| Combined ratio of property/casualty primary insurers [4] | % | 98.0 | 101.7 | 99.6 | 97.1 | 96.6 |
| Combined ratio of Non-Life Reinsurance | % | 94.5 | 94.7 | 94.9 | 95.8 | 104.2 |
| **EBIT margin primary insurance and reinsurance** | | | | | | |
| EBIT margin primary insurance [4] | % | 3.8 | 2.4 | 4.4 | 4.8 | 5.6 |
| EBIT margin Non-Life Reinsurance | % | 17.2 | 17.4 | 16.0 | 16.5 | 10.7 |
| EBIT margin Life/Health Reinsurance | % | 6.3 | 5.0 | 2.6 | 5.0 | 4.5 |
| **Policyholders' surplus** | EUR MILLION | **15,374** | **15,561** | **14,231** | **14,416** | **11,306** |
| Equity attributable to shareholders of Talanx AG | EUR MILLION | 8,282 | 7,998 | 7,127 | 7,153 | 5,407 |
| Non-controlling interests | EUR MILLION | 5,149 | 4,902 | 3,997 | 4,156 | 3,284 |
| Hybrid capital | EUR MILLION | 1,943 | 2,661 | 3,107 | 3,107 | 2,615 |
| **Assets under own management** | EUR MILLION | **100,777** | **96,410** | **86,310** | **84,052** | **75,750** |
| **Total investments** | EUR MILLION | **115,611** | **112,879** | **100,962** | **98,948** | **87,467** |
| **Total assets** | EUR MILLION | **152,760** | **147,298** | **132,793** | **130,350** | **115,277** |
| **Carrying amount per share** | EUR | **32.76** | **31.64** | **28.19** | **28.31** | **25.99** |
| **Share price at year end** | EUR | **28.55** | **25.27** | **24.65** | **21.48** | **—** |
| **Market capitalisation of Talanx AG at year end** | EUR MILLION | **7,217** | **6,388** | **6,231** | **5,426** | **—** |
| **Employees** | FULL-TIME EQUIVALENTS | **20,334** | **19,819** | **20,004** | **20,887** | **17,061** |

[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 adjusted for interest income on funds withheld and contract deposits, before elimination of intragroup cross-segment transactions
[4] Excluding figures from the Corporate Operations segment

# CONTENTS



1

## COMBINED MANAGEMENT REPORT

2

## CONSOLIDATED FINANCIAL STATEMENTS



## NOTES



3

## FURTHER INFORMATION

»

**The result of the past financial year has once again validated our strategy to internationalise and diversify which we have adopted over recent years.**

«

**HERBERT K HAAS**
Chairman

*Dear shareholders,*
*Ladies and gentlemen,*

In financial year 2015 the Talanx Group once again found itself facing a very challenging environment. The prolonged period of extremely low interest rates in Europe, high volatility in global financial markets, increasing and tighter regulation worldwide, the geopolitical crises and the movement of refugees these triggered, strong competitive pressure and changing customer needs all combined to influence how we do business.

In light of these circumstances, our Group net income of EUR 734 million was a good outcome. Once adjusted by the impairment in full of goodwill in the German life business, which amounted to EUR 155 million, the Group net income of EUR 889 million even set a company record. This success was built on strong growth in gross premiums by some 10% to around EUR 32 billion in conjunction with improvements in the technical account of our divisions. The net investment income with a net return on investment of 3.6%, which was very encouraging given the low interest rate environment, also contributed to this successful performance. The result of the past financial year has once again validated our strategy to internationalise and diversify which we have adopted over recent years.

The committed and skilled work of our employees played a major role in this success, and on behalf of the Board of Management, I would like to extend my sincere thanks to our entire workforce for their great dedication to our Group. Likewise, on behalf of all our employees, I would like to thank our customers for their loyalty.

You – our valued shareholders – should again also share in these positive results: the Board of Management and Supervisory Board of Talanx AG will be proposing a dividend of EUR 1.30 per share to the General Meeting, an increase of 5 cents or approximately 4%. This translates to an attractive dividend yield of4.6% based on the average closing price of the Talanx share in calendar year 2015. This proposal underscores our objective to distribute a stable and reliable dividend to our shareholders. Since the IPO in 2012 we have been able to increase this distribution annually. Cumulatively over the past four years, the dividend per share has increased by 25 cents or around 24%.

There were no major natural disasters in 2015. The largest single loss for the Group was the explosion in the Chinese port of Tianjin, representing a burden of EUR 154 million. Overall we recorded major losses in the amount of EUR 922 million, after the previous year's figure of EUR 782 million. Despite the increase, however, these were still below the expected major-loss burden of EUR 980 million.

Overall, the Talanx Group continued with its internationalisation policy in 2015. By 2019, at least 65% of premiums in the Industrial Lines Division will be generated abroad. Currently this figure is already 60%. To enable further expansion, our local presence is also being built up with new offices in Australia, Italy, Switzerland and France. Against the backdrop of this increasing global presence, HDI-Gerling Industrie Versicherung AG was renamed HDI Global SE.

**In the current financial year it is now a case of implementing these measures consistently, one step at a time.**

The division is focussing particularly on improving the underwriting results in the fire, transport and motor insurance business. In addition, industrial insurance is also automating and digitising in areas where efficiency gains can be realised and greater customer benefits can be generated.

The Retail International Division completed the takeover of the Chilean insurance group Inversiones Magallanes. With the purchase, Talanx has also become a leading insurer in Chile. The Group additionally strengthened its position with the acquisition of the insurance companies of the Italian banking group Gruppo Banca Sella in the bancassurance business in Italy. The Gruppo Banca Sella has been a banking partner of the Italian HDI Assicurazioni S.p.A. in the property/casualty business for eight years already. With this targeted acquisition, this cooperation now extends to the life business also.

Talanx is recording encouraging growth in all core markets of our international business with private and corporate clients. The companies in Brazil, Mexico, Poland and Turkey are posting very successful business development despite adverse market conditions. Overall, this division has developed in the past number of years both through organic and focussed non-organic growth into an important pillar of the Group.

With its investment, growth and efficiency-boosting programme, Retail Germany laid the groundwork in 2015 for a sustainable improvement in earnings. The division decided to replace traditional life insurance products with modern classic products. Further-reaching measures will significantly raise the level of automation at Talanx Deutschland AG; the division is also investing in digitisation. Up to and including 2020, the cost basis should reduce annually by around EUR 240 million. In the property/casualty insurance lines of the division, the measures launched in 2013 to adjust premiums in line with risks have been continued consistently. At the same time, there was a particular focus on stopping the portfolio erosion suffered in these lines and on returning them to growth.

The low interest-rate level in Europe presents us – as an institutional investor – with the challenge of achieving adequate net returns on investment for our stakeholders at an acceptable level of investment risk. Against this background, we are increasingly adding corporate bonds with good credit ratings to our investment portfolio. In addition, we have expanded our investments in infrastructure projects considerably. At the end of financial year 2015 these amounted to EUR 1.13 billion. Since we have in the interim built up a team with experience in this form of investment and the yields in this asset class are still adequate, the volume here could increase to around EUR 2 billion.

In financial year 2015 we did a lot of very important, strategic groundwork, particularly in the Industrial Lines and Retail Germany Divisions, and elaborated the measures that need to be implemented. In the current financial year it is now a case of implementing these measures consistently, one step at a time. We are convinced that with this we are on the right path towards increasing the value of your Group sustainably and in the long term.

We thank you for your confidence in us.

Yours faithfully,

Herbert K Haas

# BOARD OF MANAGEMENT

FROM LEFT: DR CHRISTIAN HINSCH (DEPUTY CHAIRMAN),
DR IMMO QUERNER, TORSTEN LEUE, HERBERT K HAAS (CHAIRMAN),
ULRICH WALLIN, DR JAN WICKE

# BOARD OF MANAGEMENT

**Herbert K Haas**
*Chairman*
Burgwedel
Chairman of the Board of Management,
HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover

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

**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
- Facility Management
- Human Resources
- Procurement
- Reinsurance Captive
- Reinsurance Procurement

**Torsten Leue**
Hannover
Chairman of the Board of Management,
Talanx International AG, Hannover

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 and Taxes
- Collections
- Controlling
- Finance/Participating Interests/ Real Estate
- Investments
- Risk Management
- Treasury

**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,
Talanx Deutschland AG, Hannover

Responsible on the Talanx Board of Management for:
- Retail Germany Division
- Group Business Organisation

# SUPERVISORY BOARD

## COMPOSITION AS AT 31 DECEMBER 2015

Wolf-Dieter Baumgartl
*Chairman*
Berg
Former Chairman of the Board of Management,
Talanx AG

Ralf Rieger*
*Deputy Chairman*
Raesfeld
Employee,
HDI Vertriebs AG

Prof Dr Eckhard Rohkamm
*Deputy Chairman*
Hamburg
Former Chairman of the Board of Management,
ThyssenKrupp Technologies AG

Antonia Aschendorf
Hamburg
Lawyer,
Member of the Board of Management,
APRAXA eG

Karsten Faber*
Hannover
Managing Director
Hannover Rück SE,
E+S Rückversicherung AG

Jutta Hammer*
Bergisch Gladbach
Employee
HDI Kundenservice AG

Dr Hermann Jung
Heidenheim
Member of the Board of Management,
Voith GmbH

Dr Thomas Lindner
Albstadt
Chairman of the Board of Management,
Groz-Beckert KG

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

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

Jutta Mück*
Oberhausen
Employee,
HDI Global SE

Otto Müller*
Hannover
Employee,
Hannover Rück SE

Katja Sachtleben-Reimann*
Hannover
Employee,
Talanx Service AG

Dr Erhard Schipporeit
Hannover
Former Member of the Board of Management,
E.ON AG

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

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

* 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 2015

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

- Wolf-Dieter Baumgartl, *Chairman*
- Dr Thomas Lindner
- Otto Müller
- Ralf Rieger
- Prof Dr Eckhard Rohkamm
- Dr Erhard Schipporeit

### Personnel Committee

- Wolf-Dieter Baumgartl, *Chairman*
- Prof Dr Eckhard Rohkamm
- Katja Sachtleben-Reimann
- Norbert Steiner

### Standing Committee

- Wolf-Dieter Baumgartl, *Chairman*
- Ralf Rieger
- Prof Dr Eckhard Rohkamm
- Prof Dr Jens Schubert

### Nomination Committee

- Wolf-Dieter Baumgartl, *Chairman*
- Dr Thomas Lindner
- Dirk Lohmann

## 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 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 2015. We considered the economic situation, risk position and strategic development of Talanx AG and its major subsidiaries in both Germany and foreign core markets at length. 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.

We held four ordinary meetings of the Supervisory Board in the year under review – on 21 March, 8 May, 11 August and 11 November 2015. 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 Nomination Committee and the Standing Committee formed in accordance with the requirements of the German Co-determination Act (MitbestG) were not required to meet in 2015. The full Supervisory Board was briefed on the work of the various committees. In addition, we received written and oral reports from the Board of Management on business operations and the position of the Company and the Group, based on the quarterly 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. 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, including the risk situation and risk management, major capital expenditure projects and fundamental issues of corporate policy. We were also informed of transactions that – 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 major losses, the status of major lawsuits and other material developments within the Company and the Group, and in the regulatory environment (Solvency II, fit and proper requirements). As in the previous year, we again arranged to be informed continuously about the status of the approval process for the internal model. At our meetings we considered at length the reports provided by the Board of Management and put forward suggestions and proposed improvements. All meetings of the Supervisory Board were attended by all the members.

## 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 strategic position and the business case of the Retail Germany Division; the challenges facing the German life insurance business due to the ongoing period of low interest rates and specifically the strategic concept for HDI Lebensversicherung AG; moreover, the situation in the German property insurance business, specifically the future positioning of HDI Versicherung AG; potential acquisition projects abroad; and our planning for 2016. We were informed of, and developed an understanding of, the reasons for divergences between actual and planned business developments for the preceding quarters.

We also arranged for a survey of the current IT landscape. The Board of Management also explained to the Supervisory Board the business model of Talanx Reinsurance (Dublin) and the change of the legal form and name of HDI-Gerling Industrie Versicherung AG to HDI Global SE.

Risk management within the Group was another focus of our deliberations, as in past years. The risk reports by the Board of Management were discussed at each Supervisory Board meeting. We had the background to the report on the Own Risk and Solvency Assessment (ORSA) explained and discussed the value of this report for the future work of the Supervisory Board. In addition, we considered a number of acquisition projects, called for reports on the cost situation compared with competitors and noted divestments in countries in which continued involvement raised doubts from an economic perspective. Furthermore, the implementation of the law governing the equal participation of men and women in managerial roles in the private and public sectors was discussed and a corresponding resolution was passed. The Supervisory Board approved the conclusion of a control and profit/loss transfer agreement and the amendment of intercompany agreements in the Retail Germany Division.

According to the normal cycle, the Supervisory Board discussed questions relating to the reappointment of Members of the Board of Management. It also resolved to extend the terms of office on the Board of Management of Dr Querner and Dr Hinsch, which were due to expire in 2016.

In keeping with section 87(1) of the AktG, the full Supervisory Board addressed the setting of divisional targets for 2016 and the determination of the bonuses for the Members of the Board of Management, and also consulted external sources in its assessment of the appropriateness and structure of the remuneration of the Board of Management. The fixed remuneration of two Members of the Board of Management was also reviewed, with horizontal and vertical aspects of remuneration and remuneration concepts being used for comparison and guidance purposes. The appropriateness of the remuneration system for Group senior executives was discussed at the Supervisory Board meetings on 21 March 2015 and 8 May 2015.

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.

## 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 six 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 by the full Supervisory Board, the Finance and Audit Committee also carried out in-depth reviews of the Company's and Group's quarterly financial statements and of the results of the review 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 profitability trends at the individual Group companies as at 31 December 2014. We concerned ourselves with the risk reports on a routine basis and commissioned an analysis of the status of risk management in the Talanx Group. The committee also received the annual reports of the four key functions (Risk Management, Insurance Mathematics, 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 by the full Supervisory Board, in particular on reappointments, the Personnel Committee discussed the short- and medium- to long-term personnel planning for the Board of Management and set interim personal targets for the individual Members of the Board of Management for financial year 2016. In the course of defining the Board of Management bonuses, reviewing the fixed remuneration and setting the divisional targets for 2016 for the Members of the Board of Management responsible for the respective areas, recommendations were also given to the full Supervisory Board.

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board again paid great attention to the subject of corporate governance. For example, it focussed on the latest amendments to the German Corporate Governance Code (the Code) in the version dated 5 May 2015, and in this context specified a general limit for the length of service on the Supervisory Board. Moreover, the Corporate Governance principles of Talanx AG were revised, discussed accordingly by the Supervisory Board and then passed. In addition, the Supervisory Board received a report on the structure of remuneration systems in accordance with section 3(5) of the Remuneration Regulation for Insurance Companies, as well as the risk reports. In 2015, the Company offered an internal training event to all Members of the Supervisory Board. A majority of the members used the opportunity to find out more about the regulatory requirements arising in general and for the Supervisory Board in particular from the new laws and regulations passed in the context of Solvency II, and to 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 5.2(2) 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 ("IFRSs") as adopted by the European Union, and the corresponding management reports were audited in collaboration with the accounting services of KPMG AG, Wirtschaftsprüfungsgesellschaft, Hannover. The auditors were appointed by the General Meeting. The Finance and Audit Committee issued the detailed audit mandate and determined that, in addition to the usual audit tasks, special attention in the consolidated financial statements should be given to examining the measurement of the deferred acquisition costs (DAC), the present value of future profits (PVFP) and the value of business acquired (VOBA) in light of the low interest-rate issue in the life insurance business; reviewing deposit accounting in the Group's Polish subsidiaries and in Life/Health Reinsurance; and auditing Inter Hannover, a subsidiary of Hannover Re. 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 KPMG 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 17 March 2016 and at the Supervisory Board meeting on 18 March 2016. 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 KPMG Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Hannover, 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 SUPERVISORY BOARD AND BOARD OF MANAGEMENT

The composition of the Supervisory Board, its committees and the Board of Management did not change in the year under review.

## 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 contributed to the pleasing results of the Company and the Group once again.

Hannover, 18 March 2016

For the Supervisory Board
Wolf-Dieter Baumgartl
(Chairman)

# OUR SHARES

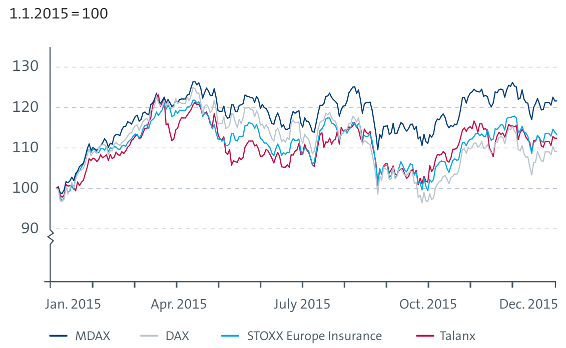
## CAPITAL MARKET ENVIRONMENT

In the year under review, the capital market environment continued to be dominated by international political conflicts and a simultaneously moderate level of economic development in parts of the Eurozone. The ECB continued its expansive monetary policy unchanged. In the USA, on the other hand, December 2015 saw the first increase in prime rates since 2006, albeit from a very low interest rate level. The yields on government bonds in the Eurozone were around the same level as in the previous year, accompanied by an increase in risk surcharges on spread securities. Over the course of the reporting period, the equity markets recorded predominantly double-digit gains, associated however with appreciably increasing volatility. The DAX closed 2015 up 9.6%, while the MDAX closed with a significant increase of 22.7%, supported in particular by the expectation that capital market interest rates would remain low and that the euro would weaken against most major international currencies, for example the US dollar. Equity prices in the insurance sector also experienced above-average growth. In the financial year just closed, the STOXX Europe 600 Insurance index rose against the year-end figures for 2014 by 14.0% (basis 2014: 250.55).

## OUR SHARE PRICE PERFORMANCE

The Talanx share price increased 13.0% (XETRA closing price 2014: EUR 25.27), registering a double-digit percentage increase. Including the dividend of EUR 1.25 distributed in May 2015, overall performance for 2015 was 17.9%, thus outperforming the German benchmark index, the DAX, while the more export-oriented securities of the MDAX profited disproportionately throughout the year from the weakness of the euro. The share price climbed appreciably in the first quarter of the year and by the middle of March had reached a new record high of EUR 31.40, based on the XETRA daily closing price. This level could not be sustained however over the year and the share price – also determined by the dividend payout of EUR 1.25 – declined slightly again by the end of the year in an overall market shaped by high volatility. The year-end closing price for 2015 was EUR 28.55 (XETRA).

2 TALANX SHARE PERFORMANCE INDEX COMPARISONS




## INDEX MEMBERSHIP AND STOCK EXCHANGES

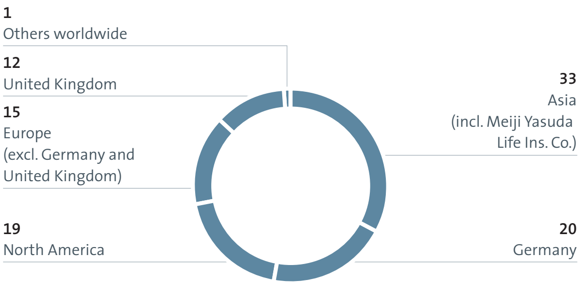
Talanx shares have been listed on the Frankfurt Stock Exchange (Prime Standard) and on the Hannover Stock Exchange, and have been included in the MDAX, Germany's second most important benchmark index, since 2012. This makes them attractive to index-oriented investors and contributes to a good presence in the media and thus in the public eye generally.

Talanx shares have also been listed on the Warsaw Stock Exchange since April 2014. This listing reflects the significance of the Polish insurance market – Talanx's second core market – and has also allowed Polish investors, and Polish pension funds in particular, to trade Talanx AG shares on their national stock exchange.

In July of the year under review, long-term shareholder of Talanx AG, Meiji Yasuda Life Insurance Company, announced that it had reduced its share of Talanx AG to below the 5.0% of share capital threshold. Consequently, the share of Talanx AG's free float increased in the year just ended – in accordance with the definition of the German Stock Exchange – to 21% (end of 2014: 14.5%). Happily, the shares of Talanx AG's minority interest shareholders meanwhile are very much internationally distributed. German investors account for only around 20% of the minority shares. Almost a fifth of shares in the free float are held in North America. The large share of Asian minority shareholders is due primarily to the shareholding of Meiji Yasuda, which holds between 3% and 5% of the Talanx shares according to the voting rights notification.

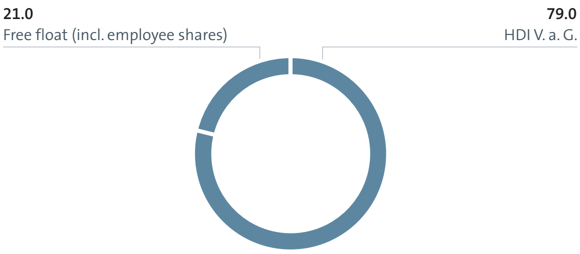
3 **COMPOSITION OF MINORITY SHAREHOLDERS AS AT 31.12.2015**

%




4 **SHAREHOLDER STRUCTURE AS AT 31.12.2015**

%




## CAPITAL MARKET COMMUNICATION

The aim of our investor relations (IR) work in the year under review was again to further increase awareness of Talanx AG and its equity story in the capital markets, particularly abroad, and to strengthen our contacts with existing investors. Our ambition here was also to successively attract new investors for our shares. Shareholders, potential investors and other parties with an interest in our shares received regular accounts on our corporate development. In 2015, the Talanx AG Board of Management participated in twelve investor conferences in international financial centres such as New York, London, Frankfurt, Rome, Berlin and Munich. They also attended roadshows targeting investors in New York, Boston, Frankfurt, Paris, Dublin, Luxembourg and Copenhagen, among others. In addition, Talanx AG's IR managers took part in other investor conferences and roadshows in Germany and around the world. Overall, around 200 meetings with institutional investors were held in the year under review. Moreover, Investor Relations staff were actively involved in a number of major events with the aim of raising awareness of Talanx shares among retail clients.

In September 2015 Talanx invited analysts and investors to a Capital Markets Day held at the company headquarters in Hannover. There the Board of Management of the Talanx Group, along with other members of the upper management levels, provided a detailed insight into the Industrial Lines Division in particular and explained, among other things, the future strategic measures of the division and of the Talanx Group as a whole. The event was attended by some 25 analysts and investors and was also broadcast live on our IR website (a recording of it is still available there).

For November 2016, Talanx AG is inviting analysts and investors to another Capital Markets Day in Frankfurt. The focus of this event is provisionally the Retail Germany segment.

We are always available to answer enquiries from analysts, institutional investors and retail investors, either by telephone, e-mail or post. We have also set up an informative IR section on our website at www.talanx.com, which we are constantly expanding and updating.

Research reports issued by banks and brokerages constitute a 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, 20 (in the previous year: 21) analysts had recommended investment in the Talanx share.

## DIVIDEND POLICY

Dividend continuity is one of Talanx AG's goals. This means that the aim of achieving the payout rate announced during the IPO of 35% to 45% of consolidated net income, as defined by International Financial Reporting Standards (IFRSs), after tax and minority interests still holds good. Talanx distributed a dividend of EUR 1.25 for financial year 2014; this represents a payout rate of 41.1%.

The Board of Management and Supervisory Board will propose a dividend of EUR 1.30 per share to Talanx AG's General Meeting. Based on the annual average price of EUR 27.98, this results in a dividend yield of 4.6%. The payout rate, based on the IFRS earnings per share, is 44.8%, or 37.0% when adjusted for the impairment of goodwill of EUR 155 million in the Retail Germany Division.

The Annual General Meeting will be held on Wednesday, 11 May 2016 in the Kuppelsaal of the Hannover Congress Centrum (HCC).

5 **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 28.55 |
| Annual high [1] | EUR 31.40 |
| Annual low [1] | EUR 24.65 |
| 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 operates as a multi-brand provider in the insurance and financial services sector. It employed 21,965 people worldwide at the end of 2015. 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 company formed over 100 years ago, is the majority shareholder in Talanx AG and holds an interest of 79.0%. The previously largest minority shareholder, the strategic partner Meiji Yasuda Life Insurance Company, Japan, lowered its holding in Talanx during the year under review from 6.5% to below the threshold of 5.0% of the share capital. Including employee shares amounting to 0.1%, 21.0 (14.5)% of the shares are now held in free float.

The Group companies operate the insurance lines and classes specified in the Regulation on Reporting by Insurance Undertakings 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 around 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 Industrial Lines, for example, are product development, sales and underwriting, including the relevant technical supervision. The international orientation in Industrial Lines is being reinforced by the renaming as an SE: HDI-Gerling Industrie Versicherung AG is being renamed as HDI Global SE. Core processes in the retail segments include product development, rate setting, sales, as well as product management and marketing. Sales, product development and underwriting are also key processes 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

Primary and reinsurance companies, banks and asset management companies are subject across the world to complex legal regulations that regulate their business activities in order to protect their customers. In recent years, not least in light of the first financial crisis in the years 2007 to 2010, there has been a strong trend towards enhancing and consistently increasing the prudential requirements for supervised companies and therefore also insurance companies.

Both the insurance companies in the Talanx Group and also the Group's asset management company, Ampega Investment GmbH, have been confronted with this development. The companies in the Talanx Group regard compliance with the applicable law as a prerequisite for successful business in the long term. The companies devote an increasing amount of attention in particular to complying with the supervisory regulatory framework, and to continually adapting and developing their business and products to any changes. They have also set up appropriate mechanisms to identify and to assess future legal developments and their effects on their own business activities at an early stage and to make any necessary adjustments.

The long-awaited implementation of the EU Solvency II Directive in directly applicable German law has now been completed as at 1 January 2016. The revised German Insurance Supervision Act (VAG) has come into force. The European Commission's delegated acts that are also to be observed as from 1 January 2016 were published in the Official Journal of the European Union on 17 January 2015.

Solvency II has created a three-pillar approach, similar to the approach of Basel II for banks. The (quantitative) Pillar I contains detailed regulations about the necessary capital resources of insurance companies. In order to calculate their specific capital requirement, the companies can either use a statutory standard model or else their own internal model. The Talanx Group started developing its own internal Group model, tailored to the specific risk situation of the Talanx Group, as early as 2007 in close consultation with the Federal Financial Supervisory Authority (BaFin) and has long since implemented the model successfully in its risk management and economic enterprise management. The Federal Financial Supervisory Authority approved this Group model in November 2015 and therefore confirmed that the methods and procedures on which the model is based are compliant with Solvency II.

Pillar II deals with the qualitative risk management system and primarily contains requirements for the business organisation of the insurance company. Pillar III regulates the reporting obligations of insurance companies, and in particular reporting obligations to the supervisory authorities and the general public. In addition, the implementation of Solvency II has introduced changes in the area of the supervision of insurance groups, which will also impact upon the Talanx Group. For example, under the new supervisory law, there is a group supervision function in which BaFin, the national insurance supervision for the main parent company (and the Group supervisory authority), will work together with the national supervisory authorities of the respective foreign Group companies and the European Insurance and Occupational Pensions Authority (EIOPA) as a joint supervisory body.

In relation to the implementation of Solvency II, EIOPA is continuing to publish numerous consultation papers for guidelines and for implementing technical standards. The scope of these publications and their level of detail are resulting in a substantial and in some cases barely manageable proliferation of supervisory rules and regulations across the whole sector. The guidelines are aimed at the national supervisory authorities, who then decide using a "comply or explain" procedure which guidelines they want to implement at national level. The implementing and regulatory technical standards are proposed by EIOPA, formally adopted by the European Commission and enacted by way of a regulation or decision. As a result, they are directly binding.

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

## GROUP STRUCTURE

The Group comprises six segments. We did not change its structure in the year under review.

The Group has three primary insurance segments, each of which span the various lines of business: Industrial Lines, Retail Germany and Retail International. One Member of the Talanx Board of Management is responsible for each of these divisions. Industrial Lines operates worldwide; it is, as far as possible, independent of third parties and has the resources to lead international consortia. Companies offering insurance to retail clients and small and medium-sized companies in Germany are consolidated in the Retail Germany segment. The Retail International segment mainly focuses on the strategic core markets of Latin America – in Chile and Peru, the division is expanding its business with an acquisition – and Central and Eastern Europe including Turkey and Russia.

The Non-Life 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 Non-Life 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, mortality and morbidity.

The Corporate Operations segment includes Talanx AG, which primarily performs strategic duties and does not have any business activities of its own. The segment also includes the in-house service companies, as well as Talanx Reinsurance Broker, Talanx Reinsurance (Ireland) Limited and the Financial Services function, which is primarily concerned with managing the Group's investments in particular via Talanx Asset Management GmbH, Ampega Investment GmbH and Talanx Immobilien Management GmbH.

M1 **GROUP STRUCTURE**

## Talanx AG

| Geschäftsbereich Industrieversicherung *Industrial Lines Division* | Geschäftsbereich Privat- und Firmenversicherung Deutschland *Retail Germany Division* | Geschäftsbereich Privat- und Firmenversicherung International *Retail International Division* | Geschäftsbereich Rückversicherung *Reinsurance Division* — Schaden-Rückversicherung *Non-Life Reinsurance* / Personen-Rückversicherung *Life and Health Reinsurance* | Konzernfunktionen *Corporate Operations* |
|---|---|---|---|---|
| HDI Global SE[1] | Talanx Deutschland AG | Talanx International AG | Hannover Rück SE | Talanx Asset Management GmbH |
| HDI Versicherung AG (Austria) | HDI Versicherung AG | HDI Seguros S.A. (Argentina) | Hannover ReTakaful B.S.C. (c) (Bahrain) | Ampega Investment GmbH |
| HDI-Gerling Seguros Industriais S.A. (Brazil) | HDI Lebensversicherung AG | HDI Seguros S.A. (Brazil) | Hannover Re (Bermuda) Ltd. | Talanx Immobilien Management GmbH |
| HDI Global Network AG[2] | Talanx Pensionsmanagement AG | HDI Seguros S.A. (Chile) | E+S Rückversicherung AG | Talanx Service AG |
| HDI-Gerling de México Seguros S.A. | HDI Pensionskasse AG | Magyar Posta Biztosító Zrt. (Hungary) | Hannover Re (Ireland) Plc | Talanx Systeme AG |
| HDI-Gerling Verzekeringen N.V. (Netherlands) | neue leben Lebensversicherung AG | Magyar Posta Életbiztosító Zrt. (Hungary) | Hannover Reinsurance Africa Limited | Talanx Reinsurance Broker GmbH |
| HDI-Gerling Insurance of South Africa Ltd. | neue leben Unfallversicherung AG | HDI Assicurazioni S. p. A. (Italy) | International Insurance Company of Hannover SE | Talanx Reinsurance (Ireland) Ltd. |
| HDI Global Insurance Company (USA) | PB Lebensversicherung AG | HDI Seguros S.A. de C.V. (Mexico) | Hannover Life Re of Australasia Ltd | |
| | PB Versicherung AG | TUiR WARTA S.A. (Poland) | Hannover Life Reassurance Bermuda Ltd. | |
| | PB Pensionsfonds AG | TU na Życie WARTA S.A. (Poland) | Hannover Life Reassurance Africa Limited | |
| | TARGO Lebensversicherung AG | TU Europa S.A. (Poland) | Hannover Life Reassurance Company of America | |
| | TARGO Versicherung AG | TU na Życie Europa S.A. (Poland) | | |
| | | OOO Strakhovaya Kompaniya „CiV Life" (Russia) | | |
| | | OOO Strakhovaya Kompaniya „HDI Strakhovanie" (Russia) | | |
| | | HDI Sigorta A.Ş. (Turkey) | | |
| | | HDI Seguros S.A. (Uruguay) | | |

Nur die wesentlichen Beteiligungen
*Main participations only*

Stand / As at: 08.01.2016

[1] Vormals/formerly HDI-Gerling Industrie Versicherung AG
[2] Vormals/formerly HDI-Gerling Welt Service AG

# 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 successful partnerships with professional partners. 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 Talanx has sufficient independent risk capacities in all market phases to support its clients reliably and over the long term and to tap into promising markets. This approach safeguards our independence and enables us to sustainably grow the Group's success to the benefit of our investors, clients, employees and other stakeholders.

The Group parent is Talanx AG, a financial and management holding company. It ensures that the Group achieves its primary objective – sustainable, profitable growth. 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 primarily oriented towards the capital market, the high level of international product expertise, forward-looking underwriting policy and strong distribution resources of our operational companies 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 promotes a high level of cooperation, in particular with a wide range of partners and business models.

Lean, efficient and standardised business processes combined with a state-of-the-art and uniform IT structure are further key success factors in the context of the Group's strategy.

## TALANX'S STRATEGIC OBJECTIVES

The Group's policies and primary strategic objectives focus on reliable continuity, financial strength and sustainable profitable growth and are thus geared towards long-term value creation. This guiding principle is the basis for all other Group goals. To achieve these goals, the Talanx Group must have a strong capital basis that provides its clients with effective risk cover. Our aim is to serve the interests of our shareholders, clients, employees and other stakeholders to create the best possible benefit for all parties.

Our human resources strategy is described in detail in the "Other success factors" section on pages 61ff. and our risk management approach is described in the risk report on pages 92ff. These two aspects are therefore not discussed further at this point.

### PROFIT TARGET

The Talanx Group aims to achieve above-average profitability in the long term, measured in terms of our return on equity under IFRSs and benchmarked against Europe's 20 largest insurance groups. Our minimum target for Group net profit after tax and minority interests is an IFRS return on equity that is 750 basis points higher than the average risk-free interest rate. This is defined as the average market rate over the past five years for ten-year German government bonds.

The benchmarks we use to manage the operating divisions are derived from this profit target. We expect the sum of the profit targets of the individual divisions to be at least equal to the Group's defined target return on equity.

We aim to pay an attractive and competitive dividend to our shareholders, with a payout rate of 35% to 45% of Group net income in accordance with IFRSs.

### CAPITAL MANAGEMENT

Capital management at the Talanx Group aims to ensure an optimised capital structure that is commensurate with the associated risk, in order to reinforce the Group's financial strength.

This is achieved in two ways. Firstly, we use appropriate equity substitutes and financing instruments to optimise our capital structure and, secondly, we align the capital resources of the Talanx Group such that they meet or exceed the requirements of Standard & Poor's capital model for an "AA" rating. Capital resources in excess of this requirement are established only if they enable us to boost our earnings potential above and beyond the return we would gain from reinvested funds, e.g. by providing additional risk capacity and cover or because they allow us to achieve greater independence from the reinsurance and retrocession markets.

Capital resources are generally allocated to those areas that promise the highest risk-adjusted profit after tax over the medium term. In this context, we take into consideration the desired portfolio diversification, the required risk capital and the supervisory framework.

### GROWTH TARGET

The Talanx Group aims to generate sustainable, profitable growth that reflects our opportunity/risk profile and a diversified portfolio. We achieve this organically, by way of strategic and complementary acquisitions, and through partnerships.

We aim for above-average growth, especially in Industrial Lines and Retail International. In the longer term, we expect to generate half of gross premium income from industrial and retail primary insurance outside of Germany.

We are already recognised as a leading industrial insurer in Europe, and are expanding our global presence. Our efforts to expand activities in international retail insurance focus primarily on the markets in Central and Eastern Europe, including Turkey, and Latin America. In Retail Germany, we aim to improve our profitability and achieve targeted growth. 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.

This strategic framework is fleshed out by the individual divisions in terms of products, client groups, distribution channels and countries.

## ENTERPRISE MANAGEMENT

The Talanx Group has set itself a number of core tasks, which it aims to achieve on a sustained basis – providing reliable support to its clients, maintaining sufficient independent capacities in all market phases, developing new markets, and safeguarding and increasing the Group's intrinsic value for shareholders in the long term. At the same time, the regulatory environment, the capital markets and rating agencies are placing an increasingly wide range of demands on insurance groups. We have responded to the underlying situation – as determined by these internal and external factors – by defining the following goals:

- increase profitability and create value
- optimise the use of capital
- optimise the cost of capital
- invest in areas where we generate the highest risk-adjusted return over the long term
- seize strategic opportunities and, at the same time, remain aware of and manage the inherent risks

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 and mergers & acquisitions.

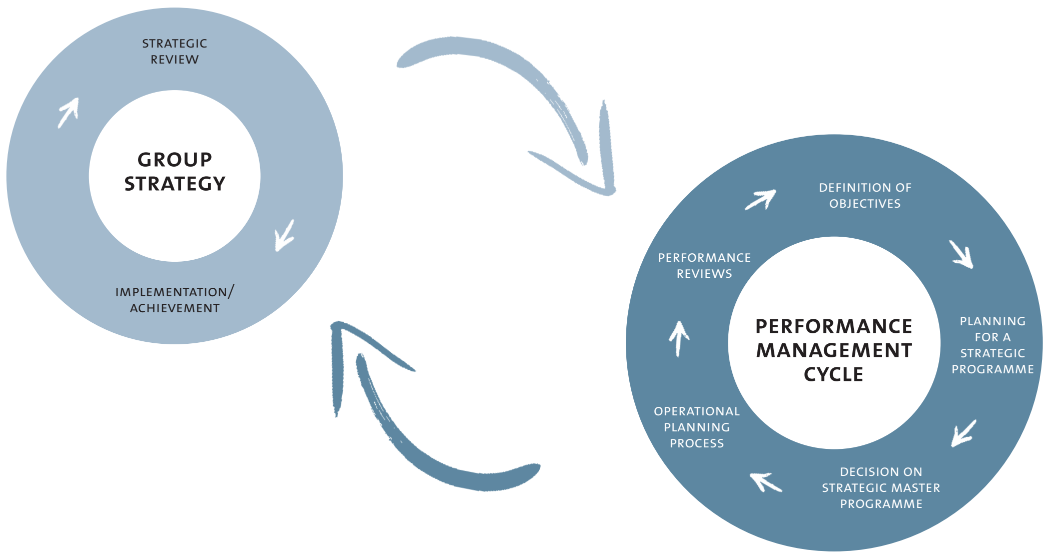
The dominant strategic goal of sustainable economic value creation is measured in the Group using the intrinsic value creation (IVC) strategic management metric, which we analyse as a five-year average over a multi-year period. This ensures that management decisions are not based on results for just one year, which could be too volatile. IVC measures the economic net income less the cost of capital (see figure M3 for calculation). In addition to net income for the year under IFRSs, economic net income takes into account other fair value adjustments both in investments and in technical provisions such as the change in the loss reserve discount in non-life insurance and the change in 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 into account the roll forward (i.e. the excess return over the risk-free rate) as cost of capital when calculating MCEV; this reflects expected changes in the value of in-force business.

## PERFORMANCE MANAGEMENT

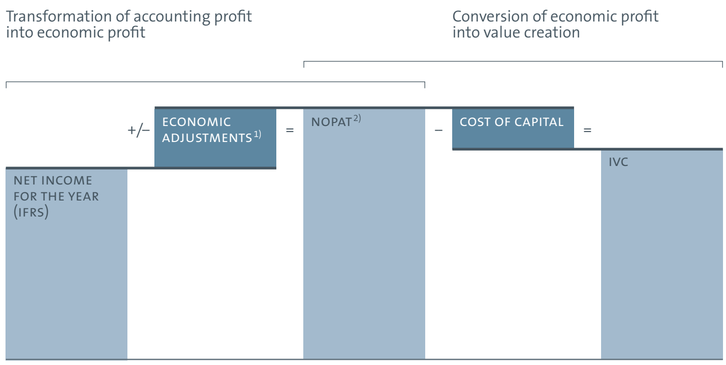
Performance management is at the heart of our central management system. Our systematic approach sets out a clear strategy for ensuring the Group's long-term viability and its implementation. This is key to efficient enterprise and group management. Since mismanagement is very often due to inadequate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

M2 PERFORMANCE MANAGEMENT CYCLE




M3 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

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 that are 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 mainly 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 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. This is done by the divisions using the operational management metrics shown in table M4.

The operational management metrics also undergo regular performance reviews in both internal and external reporting. The resulting findings in terms of strategy implementation and target achievement are, together with value-based adjustments to the IFRS figures, used in turn as forward-looking information in the strategy review process performed every few years.

**M4 OVERVIEW OF OPERATIONAL MANAGEMENT METRICS IN THE GROUP**

| Industrial Lines Group segment | Retail Germany Group segment | Retail International Group segment | Non-Life Reinsurance Group segment | Life/Health Reinsurance Group segment | Group |
|---|---|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects) | Gross premium growth | Gross premium growth (adjusted for exchange rate effects) | Gross premium growth (adjusted for exchange rate effects) | Gross premium growth (adjusted for exchange rate effects) | Gross premium growth (adjusted for exchange rate effects) |
| Retention | New business margin (life) [1] | Growth in value of new business (life) | — | Value of new business | Group net income |
| Combined ratio (net) | Combined ratio (net, property/casualty only) | Combined ratio (net, property/casualty only) | Combined ratio (net) | — | Return on equity |
| EBIT margin | EBIT margin | EBIT margin | EBIT margin | ■ EBIT margin, financial solutions/ longevity<br>■ EBIT margin, mortality/morbidity | Payout rate |
| Return on equity | Return on equity | Return on equity | Return on equity for the Reinsurance Division as a whole | | Net return on investment |

[1] No target has been defined for the new business margin in 2015 due to the changes in the law (Life Insurance Reform Act – LVRG) and persistently low interest rates

**Gross premium growth (adjusted for exchange rate effects)**
Change in gross written premiums compared with the previous year in % (adjusted for exchange rate effects)

**Retention**
Net premiums written/gross written premiums

**New business margin (life)**
Value of new business/present value of new business premiums

**Value of new business (life)**
The present value of future net income 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 embedded value as at the end of the financial year

**Growth in value of new business (life)**
Change in value of new business (life) excluding non-controlling interests compared with the previous year in %

**Combined ratio (net, property/casualty)**
Sum of the loss ratio and expense ratio (net) after adjustment for interest income on funds withheld and contract deposits/net premiums earned (property/casualty primary insurance and non-life reinsurance)

**EBIT margin**
Operating profit (EBIT)/net premiums earned

**Return on equity**
Net income (after financing costs and taxes) excluding non-controlling interests/average equity excluding non-controlling interests

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

**Payout rate**
Payout in the following year/Group net income for the year

**Net return on investment**
Net investment income excluding interest income on funds withheld and contract deposits and profit on investment contracts/average assets under own management

# RESEARCH AND DEVELOPMENT

As a holding company, Talanx AG 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. Talanx received approval for its internal Group risk model in accordance with Solvency II from the Federal Financial Supervisory Authority (BaFin) in November 2015 (see also pages 18ff. in the section "The Talanx Group, legal and regulatory environment" and pages 93ff. of the risk report). Our divisions analyse developments such as demographic trends, climate change and technical innovation, e.g. nanotechnology, and develop products tailored to our markets and clients.

# REPORT ON ECONOMIC POSITION

## MARKETS AND BUSINESS CLIMATE

### MACROECONOMIC DEVELOPMENT

In 2015, the global economy remained dominated by highly divergent trends. Although the industrialised nations continued to experience a moderate upswing and expansionary forces also increased in the Eurozone, the slowdown in the essential emerging markets weighed on the global upturn. The Eurozone registered a good performance in 2015 with improved economic data. The US economy once again recorded solid growth while the Chinese economy has cooled in comparison to the previous year.

The economy in the Eurozone experienced consistent, positive growth rates throughout the year and grew by 0.3% in the third quarter. Development was similar in the German economy, which also closed the year with growth of 0.3%. Spain impressed with high growth rates over all three quarters, while the Italian economy underwent a slight downturn over the course of the year. The economy in the United Kingdom grew at a stable rate in 2015, increasing by 0.4% in the third quarter. The Eurozone economy was buoyed in particular by the lower oil prices and weaker euro, which gave companies a distinct competitive boost. Consumer spending was a key growth driver. There was noticeable easing on the European job market, with the unemployment rate falling from 11.2% to 10.7% since the beginning of the year.

M5 CHANGE IN REAL GROSS DOMESTIC PRODUCT

% CHANGE RELATIVE TO PREVIOUS YEAR

| | 2015 [1] | 2014 |
|---|---|---|
| USA | +2.4 | +2.4 |
| Eurozone | +1.5 | +0.9 |
| Germany | +1.7 | +1.6 |
| United Kingdom | +2.4 | +2.9 |
| Japan | +0.6 | +0.0 |

[1] Bloomberg consensus forecasts, as at 18 January 2016; 2015: provisional figures

Following a small setback at the beginning of the year, the US economy underwent dynamic growth and recorded an annualised growth rate of 2.0% in the third quarter. The US job market once again experienced marked development. The unemployment rate fell at a continuous rate and reached 5.0% in November, its lowest rate since 2008. Low unemployment, a stable stock market and increasing property prices were also reflected in consumer confidence. Growth rates continued to cool in China. The high level of debt accrued during the strong credit growth in recent years remained a risk factor.

The major central banks continued to pursue very expansionary monetary policies until the fourth quarter. The ECB announced its monthly EUR 60 billion bond buying programme in January 2015, which was then launched in March. In December, the Federal Reserve moved away from its zero interest-rate policy by increasing its prime rate by 25 basis points.

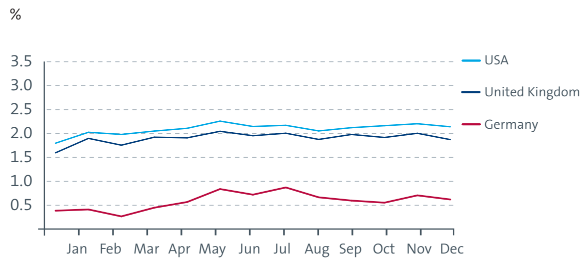
The global disinflationary trend continued in the course of 2015. Inflation rates fell well short of the targets set by the central banks, due among other things to lower energy prices. Throughout the course of the year, the inflation rate in the Eurozone fluctuated around the 0% mark, with inflation of 0.2% recorded for December. The United Kingdom was also unable to buck the global disinflationary trend, with inflation at 0.1% in December. Inflation rates in the USA remained low throughout the year, fluctuating around 0%. The first slight increase to inflation did not take place until December when it reached 0.5%.

### CAPITAL MARKETS

As discussed, development on the bond markets over the course of 2015 was largely influenced by the policies applied by the central banks. The following events also affected market development: The Swiss National Bank announced that it no longer wished to peg the exchange rate at CHF 1.20 per euro. The ECB announced its intention to purchase government bonds on a monthly basis from March 2015 to at least September 2016. At the beginning of March, the Austrian Financial Market Authority passed a debt moratorium for HETA, the successor company to Hypo Alpe Adria. German banks and insurance companies are particularly affected by this, to the tune of approximately EUR 7 billion.

The stark drop in crude oil prices triggered fears of a fall in global demand. In conjunction with the slowdown in China, this sparked another rush on top-rated government bonds. Greece remains an issue on the capital markets. Following a temporary agreement with the EU, it moved out of the spotlight in the third quarter despite the looming elections in September. Instead, this period was dominated by the depreciation of the renminbi and the stock market turbulence in China. The Federal Reserve was also affected by the negative environment and kept its interest rates unchanged in the September session.

M6 YIELDS ON 10-YEAR GOVERNMENT BONDS 2015




Idiosyncratic risks, such as the Volkswagen scandal and decreasing commodity prices, were the focus of the second half of the year. These were joined by the central banks' monetary policies and the Fed's decision to raise interest rates in December. The primary market – where securities are first issued – saw increased activity, though it failed to exceed the prior-year level. Demand for yield remained strong, with corporate bonds with longer maturities, issuers from the higher interest-bearing segment and subordinate bank issues doing particularly well. Covered bonds saw an average level of new issues. As in the previous year, net issuance in this area was slightly negative.

In the fourth quarter, the situation on the global stock markets was mixed. Hopes for an even more expansive monetary policy by the ECB, solid figures from the US economy, and the prospect of a moderate rate trajectory at the Federal Reserve helped to promote recovery at the start of the quarter. Over the course of the year, the DAX rose by 9.6% and the EURO STOXX 50 by 3.9%. The situation was slightly weaker for the S&P 500 at –0.7% over the trading year, while the Nikkei recorded growth of 9.1%.

## GERMAN INSURANCE INDUSTRY

### PROPERTY/CASUALTY INSURANCE

After strong premium growth in the previous year, the German insurance industry saw a repeat of this development in 2015, albeit at a somewhat lower level. During the period of consistently low interest rates, this indicates that property and casualty insurance providers are continuing with disciplined underwriting; growth can be traced back to increasing premiums.

The winter storms in the first half of the year, which had a particularly major impact in Northern Europe, also affected German property insurers. Property insurers' payments for the consequences of natural disasters worsened slightly in 2015 over the previous year. The highest level of damage caused by a single incident occurred during the winter storm Niklas, which accounted for a good third of all damage alone and was one of the top five worst winter storms in Germany since 1997. The net combined ratio for property and casualty insurance overall remained around the previous year's level.

### LIFE INSURANCE

After the positive trend in the previous year, premium income fell in the year under review. This was primarily caused by a sharp decline in the single premium business. Despite interest rates that declined for some time, the German insurance industry again achieved a total return that exceeded guaranteed returns in 2015.

## 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, premium growth in international property and casualty insurance in 2015 experienced a downturn. In the developed insurance markets, real growth was slightly below the prior-year level. Growth in the emerging markets remained considerably stronger, but declined compared with the previous year.

Despite a succession of natural disasters, loss expenditure was lower for insurers than in 2014, and was also significantly below the average for the past ten years. In contrast, man-made damages were higher than the previous year. The incident that caused the most amount of damage and Asia's most expensive insured loss in this category to date was the series of explosions at the port in the Chinese city of Tianjin. Persistently low interest rates continued to put strong pressure on insurers' net income. As a result, overall profitability in international property and casualty insurance deteriorated compared with the previous year.

In Western European markets, premium growth in property and casualty insurance fell slightly overall in 2015, even though some countries recorded moderate rises in premiums.

On the US market, premium growth started to rise again in the year under review following a slight fall in the previous year. Premiums declined in most areas of business insurance.

In Central and Eastern Europe, premiums in property and casualty insurance fell overall in the year under review, which can be traced back to a downturn in economic growth. The largest decrease was experienced in Russia as a result of the recession. In Poland, premiums fell for the fourth consecutive year, albeit to a lesser degree.

In Latin America, premiums fell slightly overall. This was mainly down to the stark fall in growth in Brazil and Venezuela as a result of the deepening economic downturn in both countries and could not be fully balanced out by improvements in Mexico, Argentina and Chile, or the consistent growth in Columbia and Peru.

Overall, premium growth in the emerging markets was mainly generated in Asia. In particular, China, India, Vietnam and the Philippines all recorded solid growth rates.

In 2015, non-life reinsurance recorded strong underwriting results. On the one hand, this is due to lower levels of loss from natural catastrophes than those forecast. On the other hand, the loss ratio from non-life reinsurance decreased, along with the reversal of unused loss reserves from previous years. Many events, such as the strong earthquake in Nepal in April, droughts, periods of extremely high temperatures, and wildfires in Asia, North Africa and the Middle East, affected regions with low insurance penetration, therefore causing large numbers of victims and humanitarian disasters but resulting in relatively low insurance losses.

## LIFE INSURANCE

Despite the challenging business environment marked by persistently low interest rates, ever-changing regulatory requirements and volatile financial markets, premium income on international life insurance markets has increased in comparison to 2014. While real premium growth slowed on established insurance markets in comparison to the previous year, it increased in emerging markets. Profitability in international life insurance also continued to improve in the year under review.

In Central and Eastern Europe, premium income was down compared with 2014. This was primarily down to falling levels in Russia, where an economic downturn, high inflation and reduced lending resulted in reduced growth. In contrast, premiums grew in Poland.

In Latin America, premium growth improved compared with 2014. This development reflected to some extent the strong growth in the area of unit-linked life insurance in Brazil at the beginning of the year, which then experienced a slump halfway through the year due to the deepening recession. Looking at other countries, accelerated growth in Mexico counterbalanced a large fall in premiums in Venezuela.

The highest level in premium growth was recorded by the emerging markets in Asia and China, in particular, which is the most important emerging market with almost half of all premium income. Following years of falling or stagnating development, India experienced accelerated growth, triggered by a boost in unit-linked products and improved performance in bancassurance.

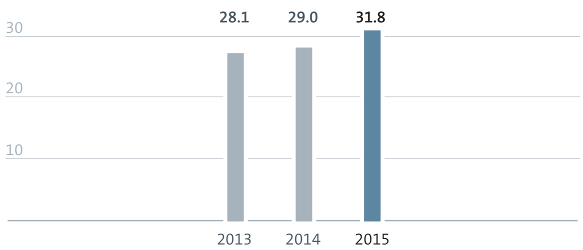
Premium income in traditional life and health reinsurance rose slightly compared with 2014. Similar to the primary area of insurance, growth in the emerging markets – particularly in Asia and Latin America – was significantly higher than in developed markets. In the latter, positive developments on the European reinsurance markets were counteracted by a slump in the USA.

# BUSINESS DEVELOPMENT

2015 was a successful year for the Talanx Group: we were able to continue to improve both the gross premiums and the operating profit year-on-year, achieving record values in the process. In the Retail Germany Division, the restructuring measures are starting to take effect. All divisions contributed to the good performance. Group net income remained at a high level thanks, inter alia, to the good results of the Reinsurance and Retail International Divisions.

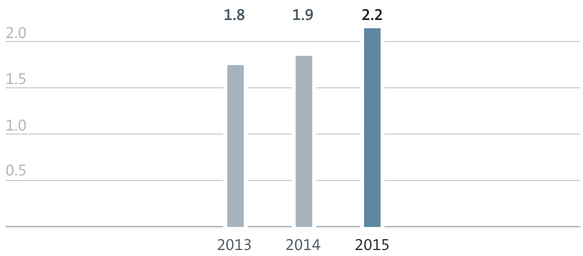
M7 GROSS WRITTEN PREMIUMS

EUR BILLION




M8 OPERATING PROFIT (EBIT)

EUR BILLION




## TALANX ACCELERATES FOREIGN GROWTH IN INDUSTRIAL INSURANCE AND RESTRUCTURES THE GERMAN FIRE INSURANCE BUSINESS

The Industrial Lines Division is continuing the profitable growth of its international business: by 2019 Talanx expects this division to represent around two thirds of the gross premiums abroad; domestically the division is improving its profitability through a comprehensive package of measures including a strictly income-oriented underwriting policy. In fire and motor insurance business it achieves first restructuring successes.

## INCREASE IN TALANX SHARE FREE FLOAT

Anchor shareholder, the Japanese Meiji Yasuda Life Insurance Company, reduced its share of Talanx from 6.5% to less than 5.0% of the share capital; in the long-term Meiji Yasuda wants to retain its investment in Talanx. The free float of the Talanx share increased as a result of this placement from 14.5% to 21.0%.

## TALANX REALIGNS ITS LIFE INSURANCE BUSINESS IN GERMANY

The Life Insurance and Property/Casualty lines will be separated organisationally, resulting in the goodwill attributable to the life insurance business being written off in full. Talanx is focussing on capital-efficient products; it intends to boost the sales of biometric and other risk insurance products and to invest in automation and digitisation.

## COOPERATION ON ALTERNATIVE INVESTMENTS

The Talanx Group, NORD/LB Norddeutsche Landesbank and Bankhaus Lampe are entering into a joint venture in the area of Alternative Investments. As part of this, Talanx will take a 45% stake in investment service provider Caplantic GmbH. The partners intend to develop Caplantic into one of Germany's leading providers of alternative asset management and financial solutions.

## PERFORMANCE OF THE GROUP

- At EUR 32 billion, gross written premiums exceed the EUR 30 billion mark for the first time
- Combined ratio up 1.9 percentage points to 96%, and below 100% in all segments
- Operating profit rises year on year by 15.3% to EUR 2.2 billion

M9 GROUP KEY FIGURES

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 31,799 | 28,994 | 28,151 |
| Net premiums earned | 25,937 | 23,844 | 23,113 |
| Underwriting result | –1,370 | –2,058 | –1,619 |
| Net investment income | 3,933 | 4,144 | 3,792 |
| Operating profit/loss (EBIT) | 2,182 | 1,892 | 1,766 |
| Combined ratio (net, property/ casualty only) in % | 96.0 | 97.9 | 97.1 |

M10 MANAGEMENT METRICS

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 4.8 | 3.6 | 7.8 |
| Group net income in EUR million | 734 | 769 | 732 |
| Return on equity | 9.0 | 10.2 | 10.2 |
| Payout rate[2] | 44.8 | 41.1 | 41.5 |
| Net return on investment | 3.6 | 4.1 | 4.0 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)
[2] In relation to the appropriation of distributable profits, see page 59

### PREMIUM VOLUME

The gross written premiums of the Group rose sharply to a new record of EUR 31.8 (29.0) billion. The Industrial Lines, Retail International and, in particular, Reinsurance Divisions all contributed to this growth of 9.7% (4.8% when adjusted for exchange rate effects). In Non-Life Reinsurance the gross written premiums increased by 18.2% and in Life/Health Reinsurance by 19.7%. Net premiums earned rose by 8.8% to EUR 25.9 (23.8) billion.

### UNDERWRITING RESULT

The underwriting result improved in all segments. In the Retail Germany Division, in particular, the result increased significantly by around 25% (EUR 490 million). At EUR 573 (426) million, the major-loss burden in reinsurance was higher than in the previous year, but remained below the budget of EUR 690 (670) million. At EUR 349 million, claims for major losses in primary insurance were above the major-loss budget of EUR 290 million. For the Group, this led overall to a major-loss burden of EUR 922 (782) million, which came in under the Group budget of EUR 980 million. The largest individual loss was the explosion in the Chinese port of Tianjin, with a burden of EUR 154 million. Group-wide, the underwriting result rose by 33.4% to EUR –1.4 (–2.1) billion. The combined ratio of the Group improved in comparison to the previous year with a slight decline in the cost ratio to 96.0% (97.9%).

### NET INVESTMENT INCOME

Overall, net investment income declined in the year under review by 5.1% to EUR 3.9 (4.1) billion. In the previous year the positive one-off effect of the disposal gain from the sale of the remaining shares in Swiss Life had influenced the net investment income. The increase in ordinary income, essentially from private equity and real estate, could not compensate for the decline in extraordinary income, particularly in the Retail Germany, Retail International and Corporate Operations segments. The net return on investment was 3.6%, and thus less than the previous year's figure (4.1%).

### OPERATING PROFIT AND GROUP NET INCOME

The operating profit/loss (EBIT) rose year on year by 15.3% to EUR 2.2 (1.9) billion, despite the impairment in full of goodwill in the German life business in the amount of EUR 155 million in the second quarter. The underwriting result, which significantly improved overall, was able to compensate for the impairment. In terms of operating profit, the Retail Germany Division stood out with a 102.6% improvement in its operating profit. Group net income was down by 4.6% year on year to EUR 734 (769) million. This is the second-best result in the company's history. Without the impairment of goodwill in the German life business, Talanx would have posted a record result of EUR 889 million. The return on equity remained on a level with the previous year at 9.0% (10.2%). The payout rate in the year under review is 44.8% of Group net income based on the proposal to the General Meeting.

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

**M11 MANAGEMENT METRICS FOR THE GROUP**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 4.8 | 1–3 |
| Group net income in EUR million | 734 | ≥700 |
| Return on equity | 9.0 | around 9 |
| Payout rate[2] | 44.8 | 35–45 |
| Net return on investment | 3.6 | > 3 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)
[2] In relation to the appropriation of distributable profits, see page 59

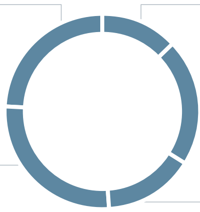
The gross premium growth achieved by the Group in the year under review amounted to 4.8%; after adjustment for exchange rate effects, this was well above the minimum target of 1% to 3% set for 2015. This was mainly due to the contribution made by the Retail International and Non-Life Reinsurance segments. At EUR 734 million, we achieved our target of posting a Group net income of at least EUR 700 million. All divisions contributed to this, in particular the Reinsurance Division (if the goodwill impairment is neutralised, the Group net income is even higher). For 2015 the forecast for the Group return on equity was around 9%, a target we hit precisely with 9.0%. The Board of Management and Supervisory Board are proposing the distribution of a dividend of EUR 1.30 per share to the General Meeting. The payout rate, based on the IFRS earnings per share, is 44.8%, or 37.0% when adjusted for the impairment of goodwill of EUR 155 million in the Retail Germany Division; consequently, in the fourth full year after the IPO, the payout rate is once again within the target range (35% – 45%). The net return on investment amounts to 3.6% and is thus more than 3% above the forecast issued for 2015.

## DEVELOPMENT OF THE DIVISIONS WITHIN THE GROUP

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

**M12 GROSS PREMIUMS BY SEGMENT**

%




## INDUSTRIAL LINES

- Growth in premiums, especially abroad
- Significantly improved underwriting result
- Restructuring successes evident in Germany

**M13 KEY FIGURES FOR THE INDUSTRIAL LINES SEGMENT**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 4,295 | 4,031 | 3,835 |
| Net premiums earned | 2,213 | 2,022 | 1,744 |
| Underwriting result | 18 | –61 | –42 |
| Net investment income | 206 | 268 | 240 |
| Operating profit/loss (EBIT) | 208 | 182 | 129 |

**M14 MANAGEMENT METRICS**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 2.5 | 5.9 | 8.6 |
| Retention | 51.8 | 50.9 | 44.5 |
| Combined ratio (net) | 99.2 | 103.0 | 102.4 |
| EBIT margin | 9.4 | 9.0 | 7.4 |
| Return on equity | 6.2 | 6.3 | 4.2 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)

## MARKET DEVELOPMENT

The environment for the Industrial Lines segment in our core market, Germany, remains highly competitive. While growth in the developed insurance markets declined, the emerging markets recorded much stronger growth. The ongoing government debt crisis in the Eurozone, geopolitical crises such as in Ukraine and the subdued recovery of the global economy continue to represent a challenging environment for insurance companies. Emerging market economies gained momentum again, although the trend in the various regions was mixed. As market penetration in Germany is already high, growth is primarily generated in our overseas branches and subsidiaries.

## PREMIUM VOLUME

Gross written premiums for the division amounted to EUR 4.3 (4.0) billion as at 31 December 2015, an increase of 6.5% (2.5% after adjustment for exchange rate effects). Buoyed by positive exchange rate effects, the international branches of HDI Global SE (formerly HDI-Gerling industrial insurance) and HDI Global Insurance Company (formerly HDI-Gerling America Insurance Company) in the USA were able to achieve a significant increase in premiums. The sustained growth is evident predominantly in the property lines.

The increase in the retention ratio in the division to 51.8% (50.9%) was caused, in particular, by the higher levies to the intragroup reinsurer Talanx Reinsurance Ltd. On the other hand, higher expenses for reinstatement premiums impacted on the retention ratio. Net premiums earned rose by 9.4% to EUR 2.2 (2.0) billion, driven by the growth in gross premiums and the increased retention.

## UNDERWRITING RESULT

The division's net underwriting result increased to EUR 18 (–61) million. The increased net premiums were able to compensate for the heavy major-loss burden here. At 22.7% (21.7%), the net expense ratio was higher year on year and was influenced by the higher reinstatement premiums recognised in the year under review, which negatively impacted net premiums. The loss ratio (net) fell significantly to 76.5% (81.2%). The combined ratio for the Industrial Lines division amounted to 99.2% (103.0%).

As the most significant company in the segment, HDI Global SE generated a net underwriting result of EUR 11 (–48) million. As in 2014, there was a high number of individual losses in the past financial year, particularly in fire insurance. The first restructuring successes in Germany were achieved both in the fire and motor insurance business.

## NET INVESTMENT INCOME

Net investment income decreased considerably due to the persistently low interest rates, falling 23.1% to EUR 206 (268) million. In the previous-year period, HDI Global SE was able to generate significantly higher net gains from the disposal of investments, despite the decline in fixed-income investments due to capital market conditions. The positive capital market trend was exploited to generate additional income at the beginning of the previous year and at the same time, to reduce portfolio risk. In the year under review, impairments charged on a bond issued by Heta Asset Resolution AG (previously Hypo Alpe Adria) negatively impacted net income by around EUR 5 million.

## OPERATING PROFIT AND GROUP NET INCOME

The division's operating profit rose to EUR 208 (182) million due to the developments described above and, in particular, to the improved underwriting result. Group net income – i.e. income attributable to shareholders of Talanx AG – increased to EUR 127 (121) million. Due to the increase in operating profit, the EBIT margin in the segment rose to 9.4% (9.0%), while the return on equity was just under last year's figure at 6.2% (6.3%).

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

**M15 MANAGEMENT METRICS FOR THE INDUSTRIAL LINES SEGMENT**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth (adjusted for exchange rate effects) [1] | 2.5 | 2 – 5 |
| Retention | 51.8 | > 50 |
| Combined ratio (net) | 99.2 | 96 – 98 |
| EBIT margin | 9.4 | 9 – 10 |
| Return on equity | 6.2 | around 7 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)

At 6.5% (2.5% after adjustment for exchange rate effects), gross premium growth met the forecast for 2015, thanks to the positive performance by HDI Global SE and the US subsidiary. The increase in retention to 51.8% is likewise in line with expectations and is influenced by the expenses for reinstatement premiums.

The combined ratio was higher than forecast due to the heavy major-loss burden in 2015, particularly as a result of individual losses. At 9.4%, the EBIT margin meets expectations, while the return on equity is slightly less than forecast.

## RETAIL GERMANY

- Limitation on the single premium business, life, introduction of "modern classic" at the year's end
- Ratio less than 100% thanks to improved portfolio quality
- Recognition of impairment losses on life insurance portfolios due to low interest rate levels

M16 **KEY FIGURES FOR THE RETAIL GERMANY SEGMENT**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 6,667 | 6,890 | 6,954 |
| Net premiums earned | 5,418 | 5,630 | 5,605 |
| Underwriting result | −1,463 | −1,953 | −1,515 |
| Net investment income | 1,731 | 1,899 | 1,786 |
| Operating profit/loss (EBIT) | 3 | −115 | 161 |

M17 **MANAGEMENT METRICS**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth | −3.2 | −0.9 | 1.8 |
| New business margin (life)[1] | n. a. | 0.0 | 2.5 |
| Combined ratio (net, property/casualty only) | 99.3 | 108.6 | 102.4 |
| EBIT margin | 0.1 | −2.0 | 2.9 |
| Return on equity | −2.7 | −2.9 | 3.0 |

[1] As a result of the changes in the law (LVRG) and persistently low interest rates, we are not providing a figure for the new business margin in 2015

### MARKET DEVELOPMENT

Low interest rates continued to put the German life insurance market under serious pressure in the reporting period. This caused market participants to distance themselves from traditional life insurance products with an interest yield guarantee and move towards offering new products with a premium guarantee. In property/casualty insurance, premium income rose in the motor insurance and comprehensive home-owners' insurance lines, as in the previous year.

### MEASURES TO SECURE THE DIVISION'S FUTURE

The Retail Germany division set itself the goal of stabilising the business in the area of property/casualty insurance and of sustainably improving its competitiveness. The focus for the implementation is on optimising business processes and increasing the service quality for customers and sales partners. This includes modernising IT, both in property and life insurance, digitisation and increasing the transparency of portfolio data and costs. In addition, a competitive costs situation is to be achieved.

### PREMIUM VOLUME AND NEW BUSINESS

In 2015 gross written premiums for the Retail Germany division – including the savings elements of premiums from unit-linked life insurance – were down year on year at EUR 6.7 (6.9) billion, due particularly to a deliberate limitation on the single premium business.

Premium income in property/casualty insurance declined by 2.5% to EUR 1.5 (1.5) billion. This was due above all to the premium adjustments in the motor insurance unit of HDI insurance, to make the portfolio more profitable. The number of contracts held by HDI insurance fell by 3.3%, while the portfolio income was down by only 1.0%. The overall share of the entire division accounted for by property/casualty insurers increased slightly to 22.5% (22.3%).

Gross written premiums for our life insurers – including savings elements of premiums from unit-linked life insurance – fell 3.4% to EUR 5.2 (5.4) billion due to a deliberate limitation of the single premium business.

The division's retention ratio rose slightly to 95.8% (95.3%). Allowing for savings elements under our unit-linked products and the change in the unearned premium reserve, the net premium earned was consequently down on the previous year, at EUR 5.4 (5.6) billion.

New business in life insurance products – measured using the annual premium equivalent (APE), the international standard – was at EUR 455 (470) million less than in the previous year due to the decline in the single premium business.

## UNDERWRITING RESULT

The underwriting result improved to EUR –1.5 (–2.0) billion. This item largely reflects policyholder participation in net investment income and the unwinding of discounts on technical provisions at the life insurance companies. These expenses are offset by investment income, which is not recognised in the underwriting result. In the previous year, impairment losses on acquired insurance portfolios (PVFP) had to be recognised due to falling interest rates on the capital market.

The underwriting result of our property insurance business was able to improve appreciably after the special burdens of the previous year were removed from the equation (additions to property loss reserves and the replacement of reinsurance cover at HDI insurance), and in particular through the improvement in portfolio quality. This lead to an equally appreciable improvement in the net combined ratio by 9.3 percentage points to 99.3%.

## NET INVESTMENT INCOME

Net investment income of the division declined by 8.8% to EUR 1.7 (1.9) billion. This was 95% determined by the life insurance companies. The deterioration in extraordinary investment income is largely due to a lower result of disposal. Ordinary investment income was up slightly year on year, as lower reinvestment returns were offset by an increase in the investment portfolio. Unrealised gains on investments were realised in order to finance the additional interest reserve and policyholder participation in the valuation reserves.

## OPERATING PROFIT AND GROUP NET INCOME

While in the previous year the life insurance companies were impacted by the need to recognise impairment losses on insurance portfolios acquired (PVFP), in this financial year persistently low interest rates necessitated the impairment in full of goodwill in the life business. In contrast, the results of the property insurance business along with the discontinuation of special burdens in the previous year were able to increase due particularly to the improvement in portfolio quality, such that overall an operating profit of EUR 3 (–115) million was achieved and the EBIT margin increased accordingly to 0.1% (–2.0%). After consideration of financing costs and tax income – goodwill impairment is not tax-deductible – Group net income improved to EUR –76 (–84) million. The return on equity in the financial year thus amounted to –2.7% (–2.9%).

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

M18 **MANAGEMENT METRICS FOR THE RETAIL GERMANY SEGMENT**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth | –3.2 | approx. –5 |
| Combined ratio (net, property/casualty only) | 99.3 | approx. 100 |
| EBIT margin | 0.1 | 2 – 3 |
| Return on equity | –2.7 | around 3 |

Gross premium income in the Retail Germany division declined slightly in 2015, due to the deliberate limitation on the single premium business, albeit by less than expected. In the property insurance business, an improvement in portfolio quality meant that a combined ratio of less than 100% could be achieved, thus remaining below the target of approximately 100%. Due to the persistently low interest rates, a complete impairment of goodwill was required in the life business during the second quarter, as part of the need to redefine the cash-generating units within the segment (see page 175). As a result of the associated sharp decline in results, both the EBIT margin and the return on equity fell short of the forecast figures.

## ADDITIONAL KEY FIGURES

**M19 THE RETAIL GERMANY SEGMENT AT A GLANCE**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Gross written premiums** | **6,667** | **6,890** | **6,954** |
| Property/casualty | 1,500 | 1,539 | 1,529 |
| Life | 5,167 | 5,351 | 5,425 |
| **Net premiums earned** | **5,418** | **5,630** | **5,605** |
| Property/casualty | 1,424 | 1,459 | 1,431 |
| Life | 3,994 | 4,171 | 4,174 |
| **Underwriting result** | **–1,463** | **–1,953** | **–1,515** |
| Property/casualty | 10 | –125 | –34 |
| Life | –1,473 | –1,828 | –1,481 |
| Other | — | — | — |
| **Net investment income** | **1,731** | **1,899** | **1,786** |
| Property/casualty | 108 | 106 | 112 |
| Life | 1,638 | 1,795 | 1,675 |
| Other | –15 | –2 | –1 |
| **New business measured in annual premium equivalent (life)** | **455** | **470** | **464** |
| Single premiums | 1,536 | 1,618 | 1,491 |
| Regular premiums | 301 | 308 | 315 |
| **New business by product in annual premium equivalent (life)** | **455** | **470** | **464** |
| Unit-linked life and annuity insurance | 125 | 138 | 149 |
| Traditional life and annuity insurance | 236 | 241 | 230 |
| Term life products | 88 | 83 | 81 |
| Other life products | 6 | 8 | 4 |

## RETAIL INTERNATIONAL

- Acquisition and integration of the Chilean Magallanes insurance group
- Contributions to property insurance up 11.4%
- Combined ratio of property insurance companies stable at a good level

**M20 KEY FIGURES FOR THE RETAIL INTERNATIONAL SEGMENT**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 4,643 | 4,454 | 4,220 |
| Net premiums earned | 3,706 | 3,735 | 3,513 |
| Underwriting result | –7 | –11 | 32 |
| Net investment income | 338 | 321 | 284 |
| Operating profit/loss (EBIT) | 217 | 208 | 185 |

**M21 MANAGEMENT METRICS**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects) [1] | 7.6 | 9.5 | 35.4 |
| Growth in value of new business (life) [2] | 1.5 | 36.6 | 45.8 |
| Combined ratio (net, property/ casualty only) | 96.3 | 96.4 | 95.8 |
| EBIT margin | 5.8 | 5.6 | 5.3 |
| Return on equity | 7.9 | 7.0 | 5.9 |

1) Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)
2) Excluding non-controlling interests; 2015: estimated figure, the final figure will be published in the 2016 Annual Report

The division's activities focus on two strategic target regions and on two high-growth core markets within each of these. In Latin America, the division is present in Brazil and Mexico, the two largest countries in terms of premium income. In Central and Eastern Europe, the division operates in Poland and Turkey, two of the three markets with the highest premium income.

The reporting period was dominated by the acquisition and integration of a majority interest in the Chilean Magallanes insurance group. The acquisition of a holding company, two property insurance companies and one life insurance company in Chile and one property insurer in Peru was completed on 13 February 2015. The Chilean insurance market is stable and offers significant opportunities. Thanks to this acquisition, the Talanx Group has risen to fourth place, as at 30 September 2015, in the Chilean property insurance market and second place in the motor insurance market. The merger of the holding companies Inversiones Magallanes S.A. and Inversiones HDI Ltda was completed in August 2015. The merger of the property insurance companies Aseguradora Magallanes S.A. and HDI Seguros S.A. is planned for the first half of 2016.

With the goal of expanding its business via banks in Italy, the division strengthened its position in the reporting period by acquiring the insurance companies of the Italian banking group Gruppo Banca Sella. Through the Italian subsidiary HDI life insurance, the Talanx Group acquired 100% of the shares of the life insurance company CBA Vita S.p.A. and its subsidiary Sella Life Ltd. and the remaining 49% of the property insurer InChiaro Assicurazioni S.p.A. The company now owns 100% of the shares in all three companies. Subject to approval by the authorities, the takeover is expected to be completed in the first half of 2016.

## MARKET DEVELOPMENT

For 2015 a negative trend is forecast for the property insurance market, for both of the division's target regions. The anticipated decline in premiums for 2015 in the property insurance market is 0.2% for Latin America (previous year: increase of 4.8%) and 4.4% for Central and Eastern Europe (previous year: approx. –2.5%) adjusted for inflation. In the life insurance market, a decline of approximately 1.8% is assumed for 2015 for Central and Eastern Europe, as in the previous year. In Latin America, the performance of premium income was particularly influenced by the widespread economic slowdown. Consequently for 2015, a drop-off in inflation-adjusted economic growth by 0.3% (previous year: rise of 1.3%) is expected, while the economy in Central and Eastern Europe will grow, adjusted for inflation, by 3.0% (previous year: +2.8%).

The year-on-year decline in premium income in the area of property insurance in Latin America was driven by, among other factors, the weakening of the Brazilian real. In Brazil, a decline in inflation-adjusted gross domestic product of 3.6% is forecast for 2015, while inflation rose to 10.7% by year's end. At the end of the third quarter 2015, premiums from motor insurance increased nominally by 3.9%, despite the significantly lower number of new vehicle registrations due predominantly to tariff increases, while in the same period the premium income from other property insurance rose 4.8%.

In Mexico, on the other hand, an increase in the inflation-adjusted gross domestic product of 2.3%, due particularly to positive momentum from the economic upturn in the neighbouring USA, and a decrease in inflation to 2.8% is forecast. Overall, premium income from property insurance rose as at 30 September 2015 by 18.0% after a decline of 1.2% in the previous-year period; this was driven by, among other factors, the positive development in motor insurance, where premium income climbed 9.1%.

In Central and Eastern Europe, on the other hand, the negative trend in premium income from property insurance could not be completely compensated for by the premium growth in Poland and Turkey. As at 30 September 2015, the Talanx Group was the second-largest operator in the Polish insurance market measured in terms of premium income. At this point, the property insurance premiums of the market were 2.4% higher than in the previous-year period (previous year: down 2.5%). In the area of motor insurance, price competition intensified. Nonetheless, motor insurance premiums were able to record an increase of 0.7% as at the end of the third quarter 2015 compared to the previous-year period. Premiums in life insurance fell 1.8% (previous year: –8.7%). Overall, a tougher regulatory framework including the wealth tax introduced for banks and insurance companies at the start of 2016 had a dampening effect on the performance of the business.

In Turkey, the insurance market saw positive development. As at 30 November 2015 the property insurance premiums had increased in comparison to the previous-year period by 10.3%, adjusted for inflation (nominal: 18.7%), which can be attributed in large part to the positive performance of motor insurance in combination with the increase in the number of insured vehicles.

## PREMIUM VOLUME

The division's gross written premiums (including premiums from unit-linked life and annuity insurance) rose by 4.2% year on year to EUR 4.6 (4.5) billion. Gross premiums (adjusted for exchange rate effects) increased by 7.6% compared with the previous-year period, mainly because the premium volumes in financial year 2015 included the new Chilean companies for the first time, in the amount of EUR 242 million. Overall, the share of gross written premiums from the strategic target regions of Latin America and Central and Eastern Europe increased in financial year 2015 to approximately 80% (75%).

Gross written premium growth was influenced by double-digit percentage growth in the property insurance business, where premiums rose by 11.4% (16.7% after adjustment for exchange rate effects) to EUR 3.2 billion. The Mexican company HDI Seguros S.A., TUiR WARTA S.A. and Turkish company HDI Sigorta, as well as the new Magallanes companies, made a particularly significant contribution to this increase. The life insurance business, which is strongly dependent on single-premium products, declined by 9.4% (9.5% when adjusted for exchange rate effects) compared with the previous-year period to EUR 1.4 billion. The positive performance of Polish life insurer TUnŻ WARTA S.A. was unable to offset the decline in sales of single-premium products via banks at Italian company HDI Assicurazioni. The increase in the value of new business (life) for financial year 2015 represents a preliminary figure based on the premium growth at Polish TUnŻ WARTA S.A. and the improved new business margin both at the Polish company TUnŻ WARTA S.A. and the Italian HDI Assicurazioni.

Of the premium volume generated in the Latin America target region, around 60% was attributable to the Brazilian company HDI Seguros S.A., which is mainly active in motor insurance. The company's written premiums reduced by 1.8% year on year to EUR 884 million, including exchange rate effects. After adjustment for exchange rate effects, premiums rose by 16.1%, which was due predominantly to a large number of new contracts. This lead to growth of 17.3% in the company's motor policy portfolio to a total of 1.9 million policies. As a result of strategic growth projects, the Mexican company HDI Seguros increased its gross written premiums by 38.0% compared with the previous-year quarter to EUR 264 million. This was thanks to an increase in new business both in the area of motor insurance and in other property insurance, where sales through agents performed particularly well. After adjustment for exchange rate effects, the premium growth was likewise 38.0%.

The share of the Polish companies in the gross written premiums of the division amounted to 34.2% (35.1%). TUiR WARTA S.A.'s premium volume from property insurance rose by 7.8% (7.8% after adjustment for exchange rate effects) to EUR 854 million, primarily thanks to the positive development of the other property insurance business. The motor insurance portfolio was able to remain largely stable despite the intensely competitive market environment. The life insurer TUnŻ WARTA S.A. increased the gross written premiums by 14.0% (13.9% after adjustment for exchange rate effects) to EUR 371 (325) million in particular by increasing single premium business from unit-linked life insurance due to new bank distribution cooperations. Combined premium income from life and property insurance at the TU Europa Group amounted to EUR 363 million compared with EUR 448 million in financial year 2014. The decline resulted from lower single premiums in life insurance as well as in property/casualty insurance.

The gross written premiums of Turkish property insurer HDI Sigorta rose by 15.0% to EUR 232 million including exchange rate effects; after adjustment for exchange rate effects, premiums rose by 19.9%. Written premiums in other property insurance increased by 18.8% in local currency, while the number of contracts increased by 8.1%. Premiums in motor insurance increased by 21.1% in local currency, attributable to the 24.2% increase in the average premium per policy.

The Italian company HDI Assicurazioni held its ground well in a still competitive and generally declining property insurance market. While premium income from property insurance was down by 2.2% year on year for the market as a whole as at 30 September 2015, the company increased its gross written premiums by 4.2% by the end of the financial year, whereby the 6.7% increase in the number of contracts more than compensated for the 5.3% decline in the average premium per policy. By contrast, life insurance premiums fell by 20.0% year on year, largely due to lower sales of single-premium products via banks.

### UNDERWRITING RESULT

The combined ratio of the property insurance companies improved by 0.1 percentage points year on year to 96.3%. This development was attributable to the 0.4 percentage point decline in the loss ratio, mainly due to TUiR WARTA S.A. and HDI Assicurazioni. At the same time, the cost ratio increased by 0.4 percentage points, due both to the performance of the acquisition cost ratio and to the administrative expense ratio. While the increase in the acquisition cost ratio to 24.9% resulted from the division's diversification strategy, the increase in the administrative expense ratio to 6.5% was influenced by the new Magallanes companies; if these were not taken into consideration, the administrative expense ratio would have fallen to 6.0%. Driven by the property insurance business, the underwriting result in the division improved overall to EUR –7 (–11) million.

### NET INVESTMENT INCOME

The division's net investment income amounted to EUR 338 million as at the end of financial year 2015, a year-on-year rise of 5.3%. The ordinary investment income climbed 4.8% compared with the same period of the previous year, in particular due to the larger investment portfolio. Nevertheless, the decline in interest rates, particularly in Poland and Italy which account for the highest investment volume in the division, led to a year-on-year decline of 0.3 percentage points in the average return on assets under own management, to 4.4%. Net investment income includes EUR 9 (10) million in net income from investment contracts. These are policies that provide insufficient risk cover to be classified as insurance contracts in accordance with IFRSs.

## OPERATING PROFIT AND GROUP NET INCOME

In financial year 2015, operating profit (EBIT) in the Retail International Division increased by 4.3% (9.7% after adjustment for exchange rate effects) compared with the prior-year period to EUR 217 million. This development was attributable both to the improved combined ratio of the property insurance companies and to higher net investment income compared with the previous year, and was reflected in a 0.2 percentage point increase in the EBIT margin to 5.8%. Group net income after minority interests rose by 21.3% (28.4% after adjustment for exchange rate effects) to EUR 148 (122) million. As a result of that, the return on equity increased by 0.9 percentage points to 7.9% compared to the same period in the previous year. The rise resulted predominantly from the increased group net income. In addition, a one-off tax income in connection with the merger of the acquired Magallanes companies had a positive impact (deferred tax income in the amount of EUR 18 million).

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

**M22 MANAGEMENT METRICS FOR THE RETAIL INTERNATIONAL SEGMENT**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 7.6 | 4–8 |
| Growth in value of new business (life)[2] | 1.5 | 5–10 |
| Combined ratio (net, property/casualty only) | 96.3 | around 96 |
| EBIT margin | 5.8 | ≥ 5 |
| Return on equity | 7.9 | > 6 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure).
[2] Excluding non-controlling interests; 2015: estimated figure, the final figure will be published in the 2016 Annual Report

The Retail International Division achieved gross premium growth of 7.6% (after adjustment for exchange rate effects) in financial year 2015, achieving the range of 4% to 8% published in the previous year's report on expected developments. The main reason for this was the fact that the new Chilean companies were being taken into consideration for the first time. The growth in the value of new business (life) underperformed expectations due to the lower than planned single premiums of the Polish TUiR WARTA S.A. The performance of the combined ratio of international property insurers was around that forecast. At 5.8%, the EBIT margin was 0.2 percentage points above the medium-term forecast due to the positive investment income trend. As Group net income was higher than forecast, the return on equity was also above the predicted range.

## ADDITIONAL KEY FIGURES

**M23 THE RETAIL INTERNATIONAL SEGMENT AT A GLANCE**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| **Gross written premiums** | **4,643** | **4,454** | **4,220** |
| Property/casualty | 3,248 | 2,915 | 2,804 |
| Life | 1,395 | 1,539 | 1,416 |
| **Net premiums earned** | **3,706** | **3,735** | **3,513** |
| Property/casualty | 2,591 | 2,367 | 2,332 |
| Life | 1,115 | 1,368 | 1,181 |
| **Underwriting result** | **–7** | **–11** | **32** |
| Property/casualty | 96 | 86 | 97 |
| Life | –103 | –97 | –65 |
| Other | — | — | — |
| **Net investment income** | **338** | **321** | **284** |
| Property/casualty | 191 | 187 | 161 |
| Life | 149 | 136 | 122 |
| Other | –2 | –2 | 1 |
| **New business measured in annual premium equivalent (life)** | **192** | **195** | **192** |
| Single premiums | 1,203 | 1,313 | 1,152 |
| Regular premiums | 72 | 64 | 77 |
| **New business by product in annual premium equivalent (life)** | **192** | **195** | **192** |
| Unit-linked life and annuity insurance | 25 | 15 | 26 |
| Traditional life and annuity insurance | 44 | 52 | 52 |
| Term life products | 71 | 68 | 77 |
| Other life products | 52 | 60 | 37 |

## NON-LIFE REINSURANCE

- Major-loss burden less than forecast at EUR 573 million
- Encouraging combined ratio of 94.5%
- At 8.1%, premium growth adjusted for exchange rate effects significantly above the medium-term target range

**M24 KEY FIGURES FOR THE NON-LIFE REINSURANCE SEGMENT**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 9,338 | 7,903 | 7,818 |
| Net premiums earned | 8,100 | 7,011 | 6,866 |
| Underwriting result | 427 | 349 | 332 |
| Net investment income | 966 | 867 | 811 |
| Operating profit/loss (EBIT) | 1,391 | 1,219 | 1,097 |

**M25 MANAGEMENT METRICS**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 8.1 | 1.2 | 3.5 |
| Combined ratio (net) | 94.5 | 94.7 | 94.9 |
| EBIT margin | 17.2 | 17.4 | 16.0 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)

**M26 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Return on equity | 16.1 | 15.8 | 15.9 |

### BUSINESS DEVELOPMENT

In financial year 2015, the Non-Life Reinsurance segment was once again marked by intense competition. Given the absence of market-changing major losses, our cedants' level of capitalisation remains high, meaning that some of our customers have passed on fewer risks to the reinsurance market. On the other hand, an increased demand for additional reinsurance was evident. In addition, capital inflows from the catastrophe bond market (ILS) – particularly in the US catastrophe business – led to further price erosion. However, over the course of the year, it became clear that the oversupply of reinsurance capacity was less than in the previous year. Above all, the recovering economy in the USA was able to send out a positive signal in the developed markets for premium development.

Given our profit-oriented underwriting policy we are well positioned for the challenging market conditions. We continue to expand our business only where the margins are risk-appropriate, while, on the other hand, reducing our market share in regions and business lines where prices are insufficient to meet our profitability requirements. This active cycle management strategy means that we are able to maintain the high rate quality of our portfolio, despite the soft market conditions.

We are largely satisfied with the results of the individual contract renewal rounds in the year under review. The highest volume of these are traditionally those renewed on 1 January – in 2015 almost two thirds of our contracts were renewed at this time. While rate reductions and in some cases worsened conditions were confirmed in many markets, rate increases were also achieved in contracts burdened by losses in 2014. This applies in particular to our domestic market. Rate trends in the aviation business were less favourable, despite significant losses. Rate increases were limited due to the continued high availability of insurance capacity; as a result, we scaled back our premium volume in this area. Overall we were able to keep our portfolio stable.

Contract renewals during the year continued to perform by and large in the same vein, with signs here and there of a stabilisation in reinsurance prices. Against this background, we were also pleased with the renewals round as at 1 June/1 July 2015. This is the time for, in particular, parts of the North America business, the area of agricultural risks as well as business from Latin America to be renewed. Here we were able to expand our business at adequate rates. The main renewal of the business in Australia was also due and this went very well for us, as we achieved a higher market share with customers of long standing. Overall, we were also able to profit in the year under review from their enduring customer relationships and their position as one of the world's leading and financially most powerful reinsurance groups.

## PREMIUM DEVELOPMENT

Against this backdrop, gross premiums rose sharply in the year under review by 18.2% to EUR 9.3 (7.9) billion. At constant exchange rates, growth would have amounted to 8.1%. With this we exceeded our forecast, which was based on a stable premium volume adjusted for exchange rate effects. The retention fell to 89.3% (90.6%). Net premiums earned increased by 15.5% to EUR 8.1 (7.0) billion; adjusted for exchange rate effects, growth would have amounted to 6.4%.

## EARNINGS DEVELOPMENT

As in previous years, the major loss burdens remained moderate: in 2015 the hurricane season in North America and the Caribbean was very uneventful. However, a higher number of natural disasters were recorded, for example the floods in England and Storm "Niklas" in Europe. In addition, there was a succession of man-made losses. The largest individual loss for the insurance industry and also for us was the devastating explosion in the port of the Chinese city of Tianjin in August 2015. For us, this resulted in a net loss burden in the amount of EUR 111 million.

These and other major losses lead to a net major-loss burden of EUR 573 (426) million. With that we were significantly above the value for the previous year, but still below our forecast figure of EUR 690 million. The combined ratio in the year under review was, at 94.5% (94.7%) better than the target value of 96%. The underwriting result increased again year on year to EUR 427 (349) million.

## OPERATING PROFIT AND NET INVESTMENT INCOME

Net investment income in the Non-Life Reinsurance segment rose by an encouraging 11.4% to EUR 966 (867) million. The operating profit (EBIT) set a new record in the year under review with EUR 1,391 (1,219) million. This means an increase of 14.1%. The EBIT margin stood at 17.2% (17.4%) and was therefore much higher than our target value of at least 10%. Group net income rose by 13.7% to EUR 456 (401) million. Overall, the return on equity in the Reinsurance Division was able to increase by 0.3 percentage points to 16.1% (15.8%).

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

**M27 MANAGEMENT METRICS FOR THE NON-LIFE REINSURANCE SEGMENT**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 8.1 | stable |
| Combined ratio (net) | 94.5 | < 96 |
| EBIT margin | 17.2 | ≥ 10 |

[1] Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)

**M28 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Return on equity | 16.1 | ≥ 11 |

In the year under review, the Non-Life Reinsurance segment generated gross premium growth adjusted for exchange rate effects of 8.1%, which far exceeds the forecast published in the previous year ("stable"). Due to the lower major loss burden, the combined ratio trend was encouraging, and the figure remained clearly below the level forecast for 2015. At 17.2%, the EBIT margin markedly outstripped the expected 10.0% due to the positive business development. The return on equity for the whole Reinsurance Division exceeded the forecast for 2015 by a good 4 percentage points.

## LIFE/HEALTH REINSURANCE

- Announced profitability increase achieved with higher Group net income
- Strengthening of the international network by establishing a branch in Toronto, Canada
- Establishment of an independent online sales platform for the direct sale of life insurance in Malaysia

**M29 KEY FIGURES FOR THE LIFE/HEALTH REINSURANCE SEGMENT**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross written premiums | 7,731 | 6,459 | 6,145 |
| Net premiums earned | 6,492 | 5,411 | 5,359 |
| Underwriting result | –351 | –384 | –422 |
| Net investment income | 709 | 613 | 611 |
| Operating profit/loss (EBIT) | 411 | 268 | 139 |

**M30 MANAGEMENT METRICS**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 9.5 | 4.9 | 5.1 |
| Value of new business[2] in EUR million | 273 | 225 | 155 |
| EBIT margin financial solutions/ longevity | 11.0 | 5.0 | 5.2 |
| EBIT margin mortality/morbidity | 3.6 | 4.8 | 1.2 |

1) Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)

2) Excluding non-controlling interests; 2015: estimated figure, the final figure will be published in the 2016 Annual Report.

**M31 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL**

%

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Return on equity | 16.1 | 15.8 | 15.9 |

### BUSINESS DEVELOPMENT

In the individual quarters of the year under review, the development of the results of the Life/Health Reinsurance business was volatile at times. This was due, among other things, to the different developments in the various markets.

In Europe, preparations for the introduction of Solvency II at the start of financial year 2016 had a significant impact on the insurance industry. The insurance companies have devoted a great deal of time and attention to the future capital and reporting requirements. In this context, we have, together with our primary insurance customers, already elaborated various options to create an optimal capital and solvency situation. Another important step in the year under review was our entry into the Canadian life reinsurance market with the establishment of a branch there. In addition to opening up new business potential, this also contributes to the further diversification of our business. The Asian and the Central and Eastern European markets are displaying a greater interest in automated underwriting systems as well as in innovative life insurance concepts.

### PREMIUM DEVELOPMENT

Overall, we are very pleased with our performance in the year under review. We were able to achieve gross premium income in the year under review of EUR 7.7 (6.5) billion. This is an increase of 19.7%. Adjusted for exchange rate fluctuations, growth stood at 9.5%. We thus significantly outperformed our comparable gross premium growth goal of between 5% and 7%. Retention likewise developed to plan and amounted to 84.2% (83.9%). The volume of net premiums amounted to EUR 6.5 (5.4) billion. The performance adjusted for exchange rate effects stood at 10.0%.

### OPERATING PROFIT AND NET INVESTMENT INCOME

Investment income in the Life/Health Reinsurance segment stood at EUR 709 (613) million. The investment result includes our assets under own management, on the one hand, and funds withheld by ceding companies on the other. The assets under own management contributed EUR 333 (257) million in the year under review. The funds withheld by ceding companies achieved a result of EUR 376 (356) million. Against a backdrop of persistently low interest rates on the capital markets, the slight increase in the result is to be highly prized and reflects a solid investment strategy.

The operating profit/loss (EBIT) in the Life/Health Reinsurance segment reached a very satisfying value of EUR 411 (268) million. The growth in earnings was supported by the encouraging performance of the financial solutions business. Overall, the excellent underlying result was influenced in part by positive one-off effects, such as the early termination of a contract in the first quarter of 2015 in the amount of EUR 39 million. On the other hand, however, there were also negative one-off effects as was the case in our branch in France. Against this backdrop, Group net income in the Life/Health Reinsurance segment rose by 40.2% to EUR 150 (107) million. Overall, the return on equity in the Reinsurance Division was able to increase by 0.3 percentage points to 16.1% (15.8%).

## COMPARISON OF ACTUAL BUSINESS DEVELOPMENT WITH THE FORECAST FOR 2015

**M32 MANAGEMENT METRICS FOR THE LIFE/HEALTH REINSURANCE SEGMENT**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Gross premium growth (adjusted for exchange rate effects)[1] | 9.5 | Slight increase |
| Value of new business[2] in EUR million | 273 | > 90 |
| EBIT margin financial solutions/longevity | 11.0 | 2 |
| EBIT margin mortality/morbidity | 3.6 | 6 |

1) Calculation method changed starting in 2015 to more accurately quantify exchange rate effects (with no impact on the forecast figure)
2) Excluding non-controlling interests; 2015: estimated figure, the final figure will be published in the 2016 Annual Report

**M33 RETURN ON EQUITY FOR THE REINSURANCE DIVISION OVERALL**

%

| | Actual figures for 2015 | Forecast for 2015 |
|---|---|---|
| Return on equity | 16.1 | ≥ 11 |

We were able to generate gross premium growth adjusted for currency effects of 9.5% in the Life/Health Reinsurance segment in the year under review, far exceeding our target for gross premium growth. Thanks to our cooperative relationships with our customers and our global presence, we were able to take advantage of sufficient opportunities for sustainable growth. The value of new business (excluding non-controlling interests) should exceed EUR 90 million in 2015; the preliminary value for 2015 was significantly higher at EUR 273 million. At 11.0%, the EBIT margin for the financial solutions/longevity business substantially exceeded the target of 2.0% due to the profitability of the underlying business, whereas at 3.6% the EBIT margin for the mortality/morbidity business fell short of the target figure of 6.0%. The return on equity for the whole Reinsurance Division exceeded the forecast for 2015 by a good 4 percentage points.

## CORPORATE OPERATIONS

- Group assets under own management up 4.5%
- Talanx, NORD/LB and Bankhaus Lampe cooperate on alternative investments
- Talanx Finanz (Luxemburg) S.A. repais subordinated bond early

The Talanx Group, NORD/LB Norddeutsche Landesbank and Bankhaus Lampe have entered into a joint venture in the area of Alternative Investments. As part of this, Talanx has taken a 45% stake in investment service provider Caplantic GmbH. The partners intend to develop Caplantic into one of Germany's leading providers of alternative asset management and financial solutions. The joint venture gives Talanx access to infrastructure loans and other alternative asset classes offered by the NORD/LB Group, as well as to the rating expertise of RSU Rating Service Unit GmbH & Co. KG, a wholly owned subsidiary of the German Landesbanks. Caplantic will also act as a service provider for the private equity activities of investment management at Talanx.

As at 30 June 2015, Talanx Finanz (Luxemburg) S.A. had repaid in full plus accrued interest the subordinated bond issued in 2005 and maturing in 2025. It did so at the first possible redemption date. The bond has a total nominal value of EUR 350 million with a coupon of 4.50% on the nominal value of EUR 1,000.

### REINSURANCE SPECIALISTS IN THE GROUP

Underwriting business written via our subsidiary Talanx Reinsurance (Ireland) Ltd. has been reported in the Corporate Operations segment since 2013. The aim of this in-house reinsurer is to increase retention and optimise capital utilisation. The in-house business written by Talanx Re (Ireland) is partly reallocated to the ceding segments in order to leverage diversification benefits there. Business including additional cross-segment diversification benefits is also reported in the Corporate Operations segment. Gross written premiums in this business amounted to EUR 35 (50) million in the year under review. They resulted from reinsurance cessions in the Industrial Lines, Retail Germany and Retail International segments. Talanx Re (Ireland) posted an operating profit of EUR 8 (4) million for this business in the Corporate Operations segment.

Talanx Reinsurance Broker GmbH is wholly owned by Talanx AG and handles all aspects of the reinsurance business process for Group cedants. In 2015, it again managed to obtain the reinsurance capacity required for all of the Group cedants that it manages on the global market. As part of our segment allocation, earnings are fully reallocated to the ceding segments as of 2015, while in 2014, EUR 2 million of the company's earnings remained in the Corporate Operations segment.

## INVESTMENT SPECIALISTS IN THE GROUP

In cooperation with its subsidiary Ampega Investment GmbH, Talanx Asset Management GmbH is chiefly responsible for handling the management and administration of the Group companies' investments and provides related services such as investment accounting and reporting. The total contribution to the segment's operating profit made by the two companies and Talanx Immobilien Management GmbH amounted to EUR 55 (40) million in financial year 2015.

As an investment company, Ampega Investment GmbH manages retail and special funds and provides financial portfolio management services for institutional clients. It focuses on portfolio management and the administration of investments for clients outside the Group. In 2015, the investment industry amassed investment capital to a never before seen level. Both public funds and special funds launched for institutional investors recorded strong sales results. The reason for the upturn is the ongoing period of low interest rates, which is making it more and more difficult to achieve adequate yields. Consequently both institutional investors such as insurance companies and pension funds, and also private investors are increasingly entrusting their money to investment companies for professional management in special and public funds.

The total volume of assets managed by Ampega rose in financial year 2015 by 15.4% to EUR 19.3 (16.7) billion. At EUR 9.5 (9.4) billion, approximately half of this total was managed on behalf of Group companies using special funds and direct investment mandates. Of the remainder, EUR 4.2 (3.1) billion was attributable to institutional third-party clients and EUR 5.5 (4.2) 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/LOSS

The operating profit in the Corporate Operations segment fell in financial year 2015 to EUR 13 (213) million, largely due to Talanx AG's sale of its remaining shares in Swiss Life Holding AG in the previous year. This transaction resulted in a pre-tax profit of EUR 214 million in financial year 2014.

Group net income attributable to shareholders of Talanx AG in financial year 2015 for this segment amounted to EUR –51 (132) million.

# NET ASSETS AND FINANCIAL POSITION

## NET ASSETS

- Total assets up EUR 5.5 billion to EUR 152.8 billion
- Investments account for 76% of total assets

### AMOUNT AND COMPOSITION OF ASSETS

The EUR 5.5 billion increase in our total assets to EUR 152.8 billion is primarily attributable to growth of EUR 3.4 billion in our investment portfolio, including investments for the benefit of life insurance policyholders who bear the investment risk. The growth in investments was largely the result of an increase in the portfolio of "Financial assets available for sale" (EUR +5.1 billion) and "Other financial assets" (EUR +1.0 billion). In contrast, holdings decreased in the "Funds withheld by ceding companies" (EUR –1.8 billion) and in the "Financial assets held to maturity" (EUR –1.2 billion). Further information can be found in the section entitled "Changes in investments" below. The increase in the investment portfolio, including investments for the benefit of life insurance policyholders who bear the investment risk, was primarily attributable to the Non-Life Reinsurance (EUR +1.8 billion) and the Retail Germany (EUR +1.7 billion) segments.

Recognised intangible assets of EUR 2.0 (2.1) billion include EUR 953 (1,006) million of other intangible assets (including PVFP). They also include recognised goodwill of EUR 1,037 (1,090) 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 policyholder's portion – are calculated as follows:

M34 NON-CONTROLLING INTERESTS AND POLICYHOLDERS' PORTION

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Other intangible assets before deducting non-controlling interests and the policyholders' portion, including deferred taxes** | **953** | **1,006** |
| of which attributable to: non-controlling interests | 124 | 132 |
| of which attributable to: policyholders' portion | 319 | 333 |
| of which attributable to: deferred taxes | 74 | 84 |
| **Other intangible assets after deducting non-controlling interests and the policyholders' portion, net of deferred taxes** | **436** | **457** |

"Technical provisions for life insurance policies where the investment risk is borne by the policyholders" increased by EUR 0.7 billion in line with the increase 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.

M35 ASSET STRUCTURE OVER A MULTI-YEAR PERIOD

EUR MILLION

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Intangible assets | 1,990 | 1% | 2,096 | 1% | 2,551 | 2% |
| Investments | 115,611 | 76% | 112,879 | 77% | 100,962 | 76% |
| Investments for the benefit of life insurance policyholders who bear the investment risk | 10,104 | 7% | 9,426 | 6% | 8,325 | 6% |
| Reinsurance recoverables on technical provisions | 8,372 | 5% | 7,370 | 5% | 6,604 | 5% |
| Accounts receivable on insurance business | 6,070 | 4% | 5,252 | 4% | 5,039 | 4% |
| Deferred acquisition costs | 5,078 | 3% | 4,645 | 3% | 4,513 | 3% |
| Cash at banks, cheques and cash-in-hand | 2,243 | 1% | 2,145 | 2% | 1,864 | 1% |
| Deferred tax assets | 736 | < 1% | 764 | < 1% | 485 | < 1% |
| Other assets | 2,537 | 2% | 2,699 | 2% | 2,202 | 2% |
| Non-current assets and assets of disposal groups classified as held for sale | 19 | < 1% | 22 | < 1% | 248 | < 1% |
| **Total assets** | **152,760** | **100%** | **147,298** | **100%** | **132,793** | **100%** |

"Non-current assets and assets of disposal groups classified as held for sale" comprise the associate C-QUADRAT Investment AG, Vienna, Austria,as at the reporting date. In the previous year, this item included the subsidiary HDI STRAKHUVANNYA, Kiev, Ukraine, which was deconsolidated in the year under review. In this area, HDI Zastrahovane AD, Sofia, Bulgaria, was also sold during the fourth quarter of the financial year. 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 and an extremely expansive monetary policy at the ECB. The key interest rate in the Eurozone remained at a historic low of 0.05%. Following the ECB announcement that it would buy government bonds and sub-sovereigns, the ten-year federal yield fell in the second quarter to 0.05%. The interest rate environment then experienced a sudden surge at the end of the second quarter. This led to a high for the ten-year federal yield of 1.05% on 10 June. However, it fell again to 0.60% by the end of the year. Market interest rates were volatile overall in 2015. For two- and five-year German government bonds, it was possible to observe a continuous decline of the already negative interest rates over the course of the year. The two-year German government bonds fell by approximately 26 basis points and stood at –0.38% and the five-year bonds fell by 5 basis points to –0.05%.

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 2014, the US dollar was at 1.21 to the euro. In the first half of the year, the rate fell with various fluctuations to USD 1.05. At the end of the second quarter, the rate stood at USD 1.11. By the end of the year, the exchange rate had fallen to USD 1.09 to the euro. At the end of the year, the US dollar-denominated investment portfolio amounted to EUR 20.0 billion and accounted for 20% of assets under own management.

Risk measurement and controlling are a very important part of our asset management. A robust and highly efficient interface between these core functions and portfolio management enables 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% of the securities are rated A or better. A broad-based system designed to limit accumulation risks resulted in a balanced mix of assets, which also helped reduce risk in the Eurozone crisis.

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.

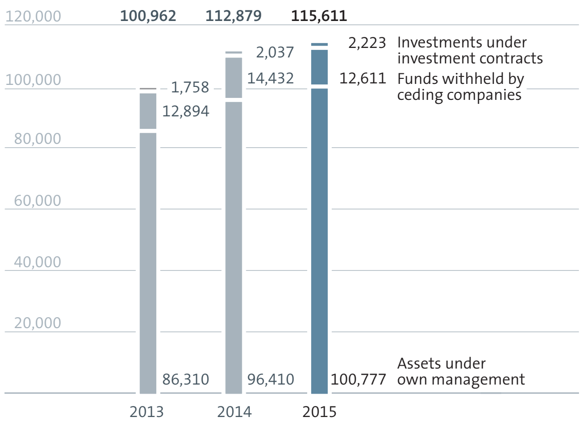
A further element are the investment guidelines at Group, segment and company level, which are subject to annual review and amended if necessary with regard to their appropriateness in light of regulatory and market restrictions.

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.

## CHANGES IN INVESTMENTS

M36 BREAKDOWN OF THE INVESTMENT PORTFOLIO

EUR MILLION

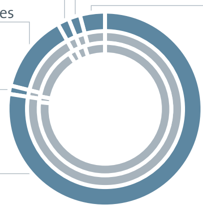



The total investment portfolio increased by 2.4% over the financial year to EUR 115.6 billion. The portfolio of investment contracts increased by 9.1% to EUR 2.2 billion and the portfolio of assets under own management rose by 4.5% to EUR 100.8 billion, while the funds withheld by ceding companies fell by 12.6% to EUR 12.6 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.

Fixed-income investments were again the most significant asset class in 2015. Most reinvestments were made in this class, reflecting the existing investment structure. Fixed-income securities accounted for 78% of the total investment portfolio and contributed EUR 2.9 billion to earnings, which was reinvested as far as possible in the year under review.

The equity allocation ratio after derivatives (equity ratio) was 1.2% at the end of the year. The equity exposures in the Reinsurance Division were increased moderately.

M37 **BREAKDOWN OF THE INVESTMENT PORTFOLIO**




M38 **BREAKDOWN OF ASSETS UNDER OWN MANAGEMENT BY ASSET CLASS**

EUR MILLION

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Investment property | 2,198 | 2% | 1,873 | 2% | 1,623 | 2% |
| Shares in affiliated companies and participating interests | 111 | < 1% | 112 | < 1% | 92 | < 1% |
| Investments in associates and joint ventures | 272 | < 1% | 262 | < 1% | 247 | < 1% |
| Loans and receivables | | | | | | |
| Loans incl. mortgage loans | 733 | 1% | 880 | 1% | 1,041 | 1% |
| Loans and receivables due from government or quasi-governmental entities, together with fixed-income securities | 29,021 | 29% | 29,673 | 31% | 31,190 | 36% |
| Financial assets held to maturity | 1,287 | 1% | 2,454 | 3% | 2,984 | 3% |
| Financial assets available for sale | | | | | | |
| Fixed-income securities | 59,396 | 59% | 54,900 | 57% | 43,531 | 50% |
| Variable-yield securities | 1,875 | 2% | 1,283 | 1% | 1,391 | 2% |
| Financial assets at fair value through profit or loss | | | | | | |
| Financial assets classified at fair value through profit or loss | | | | | | |
| Fixed-income securities | 807 | 1% | 850 | 1% | 797 | 1% |
| Variable-yield securities | 67 | < 1% | 95 | < 1% | 87 | < 1% |
| Financial assets held for trading | | | | | | |
| Fixed-income securities | 6 | < 1% | 6 | < 1% | 4 | < 1% |
| Variable-yield securities | 135 | < 1% | 108 | < 1% | 120 | < 1% |
| Derivatives [1] | 48 | < 1% | 80 | < 1% | 82 | < 1% |
| Other investments | 4,821 | 5% | 3,834 | 4% | 3,121 | 4% |
| **Assets under own management** | **100,777** | **100%** | **96,410** | **100%** | **86,310** | **100%** |

[1] Only derivatives with positive fair values

## FIXED-INCOME SECURITIES

The capital market was again dominated by the central banks in the 2015 financial year. In addition, geopolitical risks became a key focus for the bond markets.

The portfolio of fixed-income investments (excluding mortgage and policy loans) rose by EUR 2.6 billion in 2015, totalling EUR 90.5 billion at the end of the year. At 78% 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 mainly comprised the traditional asset classes of government bonds, corporate bonds and German covered bonds (Pfandbriefe). The Retail Germany segment sold bonds to realise gains, which were used to strengthen the mandatory additional interest reserve required by the HGB, and the policyholders' participation in the valuation reserves. The funds that were released were increasingly invested in long-term bonds. In particular, secured bonds with a good rating and government bonds were used to implement this strategy, which helped to increase the duration of the portfolio.

"Fixed-income securities available for sale", whose volatility impacts equity, increased further by EUR +4.5 billion to EUR 59.4 billion, or 66% of total investments in the fixed income portfolio. 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 fallen from EUR 4.6 billion to EUR 2.9 billion since the end of 2014 due to the slight increase in interest rates for long terms.

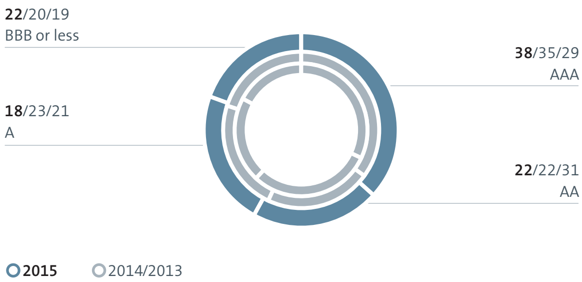
In the "Loans and receivables" category, investments were primarily held in government securities or securities with a similar level of security over the financial year. Our portfolio of government securities or securities with a similar credit quality in this portfolio category thus amounted to EUR 9.7 billion. German covered bonds (Pfandbriefe) still represent the largest item in the portfolio. Total holdings in the "Loans and receivables" category (including mortgage and policy loans) amounted to EUR 29.8 (30.6) billion at year-end, which represents 33% of total holdings in the asset class of fixed-income investments. Off-balance-sheet valuation reserves declined from EUR 5.9 billion to EUR 4.9 billion.

Group holdings in the "Financial assets held to maturity" category in 2015 totalled EUR 1.3 (2.5) billion. The intention and ability to hold these investments until maturity enables the companies to reduce volatility in their balance sheets caused by interest rate movements.

Investment in fixed-income securities continued to focus on government bonds with good ratings or securities from issuers with a similar credit quality in 2015. At the reporting date, holdings of AAA-rated bonds amounted to EUR 34.8 billion. This represents 38% (35%) of the total portfolio of fixed-income securities and loans.

M39 RATING OF FIXED-INCOME SECURITIES

%




The Group pursues a conservative investment policy. For instance, 78% of instruments in the fixed-income securities asset category have a minimum A rating. For further information on the credit quality of our investments, please refer to the risk report in the Group management report.

The Group has only a small portfolio of investments in countries with a rating lower than A–. On a fair value basis, this portfolio amounts to EUR 3.7 billion and therefore corresponds to a share of 3.7% (for further information, see the "Credit risk" section in the risk report).

### EQUITIES AND EQUITY FUNDS

The European stock markets started 2015 on an extremely positive note. The prices fell in the second quarter, particularly due to the debt crisis in Greece. In the third quarter, too, the equity markets declined because of negative market reports. The final quarter showed signs of a recovery but the trend could not establish itself in the second half of the quarter because of more negative market data. As a result, the DAX closed at 10,743 points, which corresponds to an increase of 9.6% since the start of the year for this index. The EURO STOXX 50 reached 3,268 points on 31 December, up 3.9% compared with the beginning of the year.

Net unrealised gains and losses on equity holdings within the Group (excluding "Other investments") increased by EUR 27 million to EUR 125 (98) million.

### REAL ESTATE INCLUDING SHARES IN REAL ESTATE FUNDS

Investment property totalled EUR 2.2 (1.9) billion at the reporting date. An additional EUR 724 (624) million is held in real estate funds, which are recognised as "Financial assets available for sale".

In light of the low interest rate environment, the German real estate market continues to be dominated by enormous pressure on private and institutional investors to invest, coupled with increasing transaction volumes and a lack of suitable properties. High market liquidity is leading to corresponding price effects, in particular for core properties.

Depreciation of EUR 39 million and impairment losses of EUR 8 million were recognised on investment property in the reporting period. The impairment losses on real estate funds stood at EUR 9 million. This was partially offset by reversals of impairment losses amounting to EUR 7 million.

The real estate ratio including investments in real estate funds amounted to 3% (2%).

### ALTERNATIVE INVESTMENTS

Holdings of alternative investments are still being expanded continuously. This asset class helps to improve returns and diversify the portfolio.

Talanx Asset Management holds a 45% interest in Caplantic GmbH, which is jointly managed with Nord/LB Norddeutsche Landesbank and Bankhaus Lampe. The aim of the investment is to develop the company into a leading provider of alternative asset management and financial solutions, giving it access to infrastructure loans and other alternative asset categories offered by the Nord/LB Group.

As the consortium leader of a group of institutional investors, in the year under review Talanx coordinated a bond in the volume of EUR 556 million to finance the offshore wind farm Gode Wind 1. Talanx is making a share of external funding available amounting to up to EUR 296 million of the total of EUR 556 million. Moreover, the Talanx Group has signed a contract to participate in the financing of a construction project for seven Irish court buildings in the amount of EUR 73 million. The acquisition of the securities as part of this transaction will be carried out in the first quarter of 2016. In addition, increased direct investments were made in infrastructure, for example with the acquisition of several wind farms in Germany and France and investment in a water company in Portugal (further information can be found in the Notes to the consolidated financial statements in the section "Consolidation"). For information on the performance of the technical property, plant and equipment from infrastructure investments, see our disclosures in the Notes to the consolidated balance sheet, Note 10 "Other investments".

## NET INVESTMENT INCOME

**M40 CHANGES IN NET INVESTMENT INCOME**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Ordinary investment income | 3,444 | 3,202 | 3,147 |
| of which current income from interest | 2,887 | 2,888 | 2,875 |
| of which gain/loss on investments in associates | 24 | 9 | 13 |
| Realised net gains on disposal of investments | 527 | 851 | 605 |
| Write-downs/reversals of write-downs of investments | –214 | –66 | –91 |
| Unrealised net gains/losses on investments | 20 | –4 | –22 |
| Other investment expenses | 231 | 207 | 194 |
| Income from assets under own management | 3,546 | 3,776 | 3,445 |
| Interest income on funds withheld and contract deposits | 378 | 358 | 334 |
| Income from investment contracts | 9 | 10 | 13 |
| **Total** | **3,933** | **4,144** | **3,792** |

Net investment income for the year under review was EUR 3.9 billion, down on the previous year. Current interest income remained constant at EUR 2.9 billion and still accounted for the majority of investment income. Realised gains on disposal of investments stood at EUR 527 million, and so were far below the previous year's value of EUR 851 million.

Ordinary investment income at year-end totalled EUR 3,444 (3,202) million. Falling interest rates on the capital markets led to an average coupon in the fixed-income securities portfolio of 3.4%, down slightly on the previous year (3.6%). The impact of the downward trend in interest rates was cushioned by increasing reinvestment in products with a correspondingly higher yield selected in accordance with our high-quality investment procedures. Derivative financial instruments (including forward purchases) were used to hedge reinvestment risk, in particular in the case of life insurers in our Retail Germany segment. Higher current income from real estate and private equity investments in the Non-Life Reinsurance segment also made an important contribution to the increase in ordinary income. Furthermore, the investment income includes a one-off effect in the Life/Health Reinsurance segment from the first quarter. A fee of EUR 39 million was payable due to a customer withdrawing from an individual US transaction (derivative financial instrument) in the financial solutions area.

Overall, total realised net gains on the disposal of investments in the financial year were well below the high prior-year figure, at EUR 527 (851) million. The positive net gains resulted from regular portfolio turnover in all segments, as well as from the requirement to realise unrealised gains in order to finance the additional interest reserve for life insurance and occupational pension plans required by the HGB. The realised net gains in the previous year included a one-time increase due to the sale of the shares in Swiss Life Holding AG in the amount of EUR 214 million (of which EUR 19 million was due to foreign exchange gains, which are recognised in "Other income/expenses").

On balance, write-downs required in the past financial year were higher than in 2014, totalling EUR 214 (66) million net of reversals of write-downs. Across the Group as a whole, impairments of fixed-income securities rose from EUR 16 million to EUR 62 million. Essentially, these impairments were due to fixed-income securities issued by HETA ASSET RESOLUTION AG (further information can be found in the disclosures on litigation in the Notes to the consolidated financial statements, in the "Other disclosures" section). Further impairments in the amount of EUR 53 (12) million were carried out in the equities and EUR 52 (17) million with regard to other investments. Moreover, depreciation on technical property, plant and equipment from the infrastructure investments was disclosed for the first time. These depreciations were offset by reversals of depreciation amounting to EUR 12 million in the last financial year. This includes EUR 7 million for real estate and EUR 5 million for fixed-income securities.

On balance, the unrealised net gain improved from EUR –4 million to EUR 20 million and was also influenced by the two reinsurance segments, where the unrealised net loss improved from EUR –33 million to EUR –1 million. This figure includes the unrealised net income from ModCo derivatives, which fell by EUR 19 million to EUR –26 (–7) million. This effect was overcompensated by the change in the fair values of the other portfolios valued through profit or loss.

Net interest income and expenses from funds withheld and contract deposits totalled EUR 378 (358) 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".

# FINANCIAL POSITION

## ANALYSIS OF CAPITAL STRUCTURE

- Equity increases by EUR 0.5 billion to EUR 13.4 billion
- Subordinated liabilities down EUR 0.7 billion
- Technical provisions up EUR 5.7 billion to EUR 106.8 billion

M41 **CAPITAL STRUCTURE OVER A MULTI-YEAR PERIOD**

EUR MILLION

| | 2015 | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| Equity | 13,431 | 9% | 12,900 | 9% | 11,124 | 9% |
| Subordinated liabilities | 1,943 | 1% | 2,661 | 2% | 3,107 | 2% |
| Technical provisions | 106,832 | 70% | 101,109 | 69% | 91,717 | 69% |
| Technical provisions for life insurance policies where the investment risk is borne by the policyholders | 10,104 | 7% | 9,426 | 6% | 8,325 | 6% |
| Other provisions | 3,516 | 2% | 3,708 | 2% | 3,087 | 2% |
| Liabilities | 14,636 | 10% | 15,228 | 10% | 13,446 | 11% |
| Deferred tax liabilities | 2,298 | 1% | 2,262 | 2% | 1,754 | 1% |
| Liabilities included in disposal groups classified as held for sale | — | < 1% | 4 | < 1% | 233 | < 1% |
| **Total equity and liabilities** | **152,760** | **100%** | **147,298** | **100%** | **132,793** | **100%** |

## CURRENCY EFFECTS

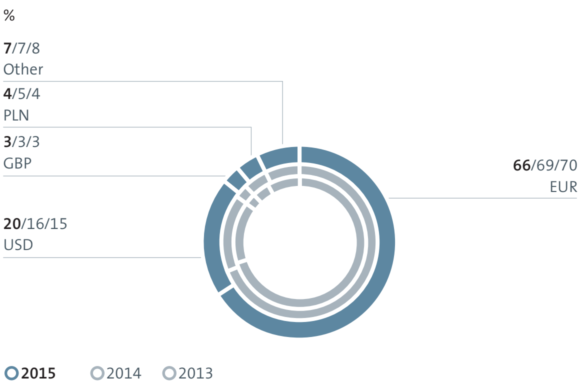
In light of the international nature of the various insurers in the Group and as a result of our business model, there are currency-related interdependencies between the net assets and the financial position.

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 (20%) of the Talanx Group's foreign currency portfolio. Sizeable positions are also held in sterling and Australian dollars, totalling 5% of all investments.

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

M42 **INVESTMENTS**



## CHANGES IN TECHNICAL PROVISIONS

The rise in overall liabilities from EUR 134.4 billion to EUR 139.3 billion was essentially due to the increase in the technical reserves by EUR 5.7 billion to EUR 106.8 billion.

EUR 0.8 billion of this increase related to the unearned premium reserve, under which portions of premiums for subsequent insurance periods that are not yet due are reported. There was also a rise in the benefit reserve (+4% or EUR 2.2 billion) and in the loss and loss adjustment expense reserve (+8% or EUR 3.1 billion). Overall, the technical liabilities are dominated by the benefit reserve (EUR 54.8 [52.7] billion) and the loss and loss adjustment expense reserve (EUR 40.4 [37.2] billion).

The ratio of net provisions (that is, deducting the shares of the reinsurers in these liabilities) in the insurance business to total investments – including funds withheld by ceding companies but excluding investments under investment contracts – was 87.1% (84.8%) at the reporting date. Investments thus exceeded provisions by EUR 14.6 (16.8) billion.

Provisions remain at the Group's disposal for the remaining maturities in each case. Further information can be found in the Notes to the consolidated balance sheet (Notes 19 to 23).

## 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 from page 103ff.

The Macaulay duration of the Group's total fixed-income securities investment portfolio was 7.7 (7.7) across all segments in the year under review. Duration management within the individual segments is guided by the requirements of the respective underwriting business, as described above. For example, the modified asset duration of 10.8 years in the Retail Germany Division is relatively long compared with that of the Industrial Lines Division (4.3 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 Talanx 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 "Derivative financial instruments and hedge accounting".

## CAPITAL MANAGEMENT

**M43 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. We differentiate between the following capital concepts: basic own funds and solvency capital required. The term "basic own funds" refers to the economic capital available in a business unit. They 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. The loss reserves in the solvency balance sheet take a loss reserve discount and a risk margin into account in accordance with Solvency II.

Solvency capital required is the amount of capital required under supervisory law to operate the insurance business. It is calculated with a confidence level of 99.5% for a one-year period according to Solvency II. The capital required for this purpose is calculated on the basis of the approved, partial, internal capital model. The approved internal model or the standard model are applied at the Group or company level.

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

The overall objective of capital management in the Talanx Group – an optimised capital structure for the Group that is appropriate to the risks – is explicitly anchored in our strategy (page 21f.). Except in those cases in which the legal requirements and the rating agencies' capital requirements that must also be satisfied have been met, the Group therefore systematically allocates capital in accordance with risk/return considerations and Talanx's target portfolio. To this end, and in the interests of diversification, investments are channelled into preferred growth markets and business segments.

A central task of capital management is therefore to identify capital that exceeds or, alternatively, falls short of required risk-based capital at the defined confidence level. The SCR, which is the difference between value at risk (the estimated maximum loss that will not be exceeded within a certain holding period for a given probability) and the expected value of the forecasting distribution, is used in this context as a risk measurement parameter. In the event of over- or undercapitalisation, the next step is to take appropriate corrective action to rectify or at least alleviate it. 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 appropriate capital adequacy and taking diversification effects into consideration. We are putting this aim into practice, for example, by developing our own Group reinsurance unit in Ireland. By ceding insurance risks internally, the Group is able to optimise its capital requirements and at the same time, the Group's own reinsurance arm can optimise its capital utilisation through diversification.

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

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 returns on invested capital 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 and efficiently.

The Group capital management steering function thus enables us to:

- create transparency as to the capital actually available
- determine the amount of risk-based capital required
- optimise the capital structure, implement financing measures and support all structural changes that have implications for capital requirements

## EQUITY

### EQUITY RATIO AND RETURN ON EQUITY

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

**M44 EQUITY RATIO**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total equity | 13,431 | 12,900 | 11,124 |
| of which non-controlling interests | 5,149 | 4,902 | 3,997 |
| Total assets | 152,760 | 147,298 | 132,793 |
| Equity ratio | 8.8% | 8.8% | 8.4% |

Allowing for other equity components recognised by regulators such as subordinated liabilities, the modified equity ratio was as follows:

**M45 OTHER EQUITY COMPONENTS AND MODIFIED EQUITY RATIO**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Other equity components | 1,228 | 1,228 | 1,332 |
| Modified equity ratio | 9.6% | 9.6% | 9.4% |

**M46 RETURN ON EQUITY**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Group net income [1] | 734 | 769 | 732 |
| Return on equity [2] | 9.0% | 10.2% | 10.2% |

[1] Net income after non-controlling interests

[2] Ratio of net income excluding non-controlling interests to average equity excluding non-controlling interests

Information on developments in the current financial year can be found in the section of the management report entitled "Report on economic position".

### CHANGES IN EQUITY

Equity rose by EUR 531 million – an increase of 4.1% – to EUR 13,431 (12,900) million in the reporting period just ended.

The Group's portion (equity excluding non-controlling interests) amounted to EUR 8,282 (7,998) million. On the one hand, the increase of EUR 284 million (+3.6%) relates to the net income for the period, EUR 734 million of which is attributable to our shareholders and was allocated in full to retained earnings. On the other hand, the reduction of the other comprehensive income (other reserves) compared to 31 December 2014 by EUR 130 million to EUR 489 million and the dividend payment in the amount of EUR 316 million to the shareholders of Talanx AG in May of the reporting period had the opposite effect.

The change in "Other reserves" (EUR –130 million) is mainly due to two partially offsetting effects. On the one hand, the significant EUR 1,095 million decrease in unrealised gains on investments to EUR 2,443 (3,538) million was the prime cause of the reduction of other reserves and resulted from losses on corporate and government bonds as a result of increased interest rates. On the other hand, the increase in the other changes in equity by EUR 887 million to EUR –2,367 (–3,254) million cushioned this effect to a large extent. EUR 693 million and thus an essential part of this change was attributable to policyholder participations/shadow accounting (in particular policyholder participations in losses on investments) and EUR 189 million was attributable to technical gains or losses from provisions for pensions (mainly caused by the slight increase in interest rates at the end of the reporting period). Accumulated currency translation gains/losses improved by EUR +90 million from EUR –33 million to EUR 57 million due to exchange rate changes for foreign currencies against the euro in the year under review. The increase here was primarily due to the depreciation of the euro against the US dollar and was partly braked especially by the appreciation of the euro against the Brazilian real. The cash flow hedge reserves stood at EUR 356 (368) million and did not change noticeably in the reporting period (EUR –12 million).

Non-controlling interests rose by EUR 247 million – or 5.0% – to EUR 5.1 billion. Non-controlling interests in net income for the reporting period were EUR 675 (599) million. The dividend payment to non-Group shareholders totalling EUR 337 (246) million was mainly due to the Hannover Re Group.

M47 **EQUITY BY SEGMENT[1] INCLUDING NON-CONTROLLING INTERESTS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 | 31.12.2013 |
|---|---|---|---|
| **Segment** | | | |
| Industrial Lines | 2,099 | 1,959 | 1,870 |
| of which non-controlling interests | — | — | — |
| Retail Germany | 2,590 | 3,231 | 2,596 |
| of which non-controlling interests | 46 | 67 | 61 |
| Retail International | 2,201 | 2,037 | 1,948 |
| of which non-controlling interests | 244 | 249 | 237 |
| Reinsurance | 8,760 | 8,240 | 6,519 |
| of which non-controlling interests | 4,862 | 4,604 | 3,717 |
| Corporate Operations | –2,195 | –2,531 | –1,799 |
| of which non-controlling interests | — | — | — |
| Consolidation | –24 | –36 | –10 |
| of which non-controlling interests | –3 | –18 | –18 |
| **Total equity** | **13,431** | **12,900** | **11,124** |
| Group equity | 8,282 | 7,998 | 7,127 |
| Non-controlling interest in equity | 5,149 | 4,902 | 3,997 |

1) Equity per segment is defined as the difference between the assets and liabilities of each segment

Note: To simplify the presentation, the non-controlling interests for the Reinsurance Division are derived from Group non-controlling interests in Hannover Rück SE; for this purpose, the two reinsurance segments have been combined

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 1,069 (1,239) million, notes payable in the amount of EUR 1,065 (1,065) million and provisions for taxes of EUR 112 (147) million. These liabilities are offset on Talanx AG's balance sheet by liquid assets and, above all, by the carrying amounts of its investments in subsidiaries, which are eliminated against the proportionate equity of the subsidiaries in the consolidated financial statements.

## UNRECOGNISED VALUATION RESERVES

The unrecognised valuation reserves shown in the following table do not take technical liabilities into account. Valuation reserves amount to EUR 4.9 (5.9) million 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", "Other assets", "Subordinated liabilities", "Notes payable and loans" and "Investments and liabilities under investment contracts".

M48 **EQUITY AND UNRECOGNISED VALUATION RESERVES NOT RECOGNISED IN THE BALANCE SHEET**

EUR BILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Group equity | 13.4 | 12.9 | 11.1 |
| Unrecognised valuation reserves before taxes including shares of policyholders and non-controlling interests | 4.9 | 5.8 | 2.9 |

## GROUP SOLVENCY

As an insurance holding company, Talanx AG is subject to the supervisory provisions of section 1b of the Insurance Supervision Act (VAG). The Talanx Group is supervised at Group level by the Federal Financial Supervisory Authority (BaFin). The parent company HDI V. a. G. supplies supplementary information to BaFin for this purpose in accordance with the adjusted solvency rules. This has been carried out for the last time in accordance with the Solvency I group solvency regulations, which will be superseded by Solvency II as from 2016.

Solvency refers to the ability of an insurer to meet obligations assumed under its contracts at all times. In particular, this entails fulfilling defined minimum capital requirements. The aim of the adjusted solvency rules is to prevent multiple use of equity to cover risks from underwriting business at different levels in the Group hierarchy. Adjusted solvency is calculated on the basis of the IFRS consolidated financial statements by comparing minimum equity required for the volume of business transacted (required solvency margin) with eligible equity actually available (actual solvency margin). In order to determine eligible capital, adjustments are made to IFRS equity; in particular, eligible elements of subordinated liabilities and the valuation reserves not included in equity are added in, and intangible assets are deducted. The Talanx Group's eligible capital is more than double the legal requirement.

M49 **DERIVED SOLVENCY[1]**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Eligible Group capital | 9,712 | 9,328 | 8,167 |
| Solvency ratio | 219.1% | 228.2% | 210.2% |

1) Calculated pro rata for Talanx from the HDI Group's adjusted solvency

The decrease in the adjusted solvency ratio from 228.2% to 219.1% in 2015 is partly due to the rise in eligible capital of EUR 384 million, and partly to an increase in the solvency margin by EUR 347 million. The increase in Group capital is largely due to the rise in Group equity, taking into account Group net income (EUR 734 million), as well as dividend payments, which had an offsetting effect (EUR 316 million). In addition, the decrease in unrealised gains from loans and receivables by EUR 120 million had a negative effect on eligible capital. The increase in the solvency margin was based on EUR 190 million from the reinsurance business and EUR 157 million from the primary insurance business.

## 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. As at the reporting date, the Group had two syndicated variable-rate credit lines with a nominal value of EUR 1.25 billion which, in the same way as the previous year, were not utilised. 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.

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 can be found in the "Other disclosures – Contingent liabilities and other financial commitments" section in the Notes.

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 (in short: "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".

M50 CHANGES IN STRATEGIC DEBT

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Subordinated bonds of Hannover Finance (Luxembourg) S.A. | 996 | 1,493 | 2,237 |
| Subordinated bonds of HDI Global SE (formerly HDI-Gerling Industrie Versicherung AG) | — | — | 144 |
| Subordinated bonds of HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG) | — | 110 | 112 |
| Subordinated bonds of Talanx Finanz (Luxemburg) S.A. | 500 | 612 | 612 |
| Subordinated bond of Hannover Rück SE | 444 | 444 | — |
| Bank borrowings of Talanx AG | — | — | 150 |
| Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando | 207 | 183 | 150 |
| Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich | 101 | 101 | 77 |
| Notes payable of Talanx AG | 1,065 | 1,065 | 565 |
| Loans from infrastructure investments | 68 | — | — |
| Other | 2 | 2 | 2 |
| **Total** | **3,383** | **4,010** | **4,049** |

Further information on borrowing and changes to it can be found in the Notes to the consolidated balance sheet, Note 18, "Subordinated liabilities", Note 26, "Notes payable and loans" and in the analysis of the consolidated cash flow statement.

## ANALYSIS OF THE 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.

**M51 SUMMARY OF CASH FLOWS**

EUR MILLION

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash flows from operating activities | 6,107 | 5,827 | 5,897 |
| Cash flows from investing activities | –4,481 | –4,733 | –5,633 |
| Cash flows from financing activities | –1,585 | –856 | –433 |
| Net change in cash and cash equivalents | 41 | 238 | –169 |

Cash inflows from operating activities, which also include inflows from investment income, increased year on year from EUR 5,827 million to EUR 6,107 million. The calculation essentially adjusts net income (EUR 1,409 [1,368] million) to reflect the decline in "Changes in technical provisions" of EUR 0.9 billion and the decrease in "Changes in funds withheld and in accounts receivable and payable" of EUR 1.5 billion.

Cash outflows from investing activities reflect the payments made for investments. As in the previous year, outflows from the purchase of investments exceeded inflows from sales and maturities by EUR 2,565 (2,941) million. In terms of real estate, cash outflows for new investments also exceeded cash inflows from property sales. Net cash outflow from property sales and new investments (including property companies) was EUR 317 (237) million. Cash outflows from investing activities totalled EUR 4,481 (4,733) million in the reporting period, lower than the previous year.

In the cash flows from financing activities, the dividend payments increased in the year under review by EUR 104 million to EUR 653 (549) million. The "Net changes attributable to other financing activities" (EUR –932 [–307] million) in the year under review were largely attributable to the repayments of a bond issued by Hannover Finance (Luxembourg) S.A. (nominal amount EUR 500 million), of the bond issued by HDI Lebensversicherung AG (outstanding nominal amount EUR 110 million) and of a bond issued by Talanx Finanz (Luxembourg) S.A. (nominal amount EUR 209 million, of which EUR 96 million has been allocated within the Group) within subordinated liabilities. Further information can be found in the Notes to the consolidated balance sheet, Note 18 "Subordinated liabilities". This item also includes interest payments in the amount of EUR 186 (213) million. The net cash outflows from financing activities increased by EUR 729 million year-on-year to EUR 1,585 (856) million.

Compared with the previous year, cash and cash equivalents, which include cash at banks, cheques and cash-in-hand, increased by EUR 91 million in total to EUR 2.2 billion. This increase was essentially due to currency effects (EUR 56 million) and changes in the cash flows (EUR 41 million). The cash and cash equivalents at the end of the reporting period contained EUR 0 (7) million for disposal groups in accordance with IFRS 5.

## RATINGS OF THE GROUP

In the year under review, the Talanx Group and its companies were again awarded very good ratings from the international rating agencies Standard & Poor's (S&P) and A.M. Best. Generally, two different ratings are awarded – 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.

**M52 FINANCIAL STRENGTH RATINGS OF THE TALANX GROUP AND ITS SUBGROUPS**

| | Standard & Poor's | | A. M. Best | |
|---|---|---|---|---|
| | Rating | Outlook | Rating | Outlook |
| Talanx Group[1] | — | — | A | Stable |
| Talanx primary insurance group[2] | A+ | Stable | — | — |
| Hannover Re subgroup[3] | AA– | Stable | A+ | Stable |

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

S&P maintained its rating for the Hannover Re subgroup and the Talanx primary insurance group, and continued to assess the outlook for both as stable. The financial strength rating of A+ for the primary insurance group was confirmed, thereby attesting to the group's particularly good financial risk profile. S&P also confirmed Hannover Re's rating of AA–, which is an extremely strong assessment when compared to competitors. In the components of the results, the business risk profile was noted as particularly outstanding. It is particularly encouraging that risk management was assessed as "strong" for primary insurance and "very strong" for Hannover Re. The S&P financial strength ratings for the individual subsidiaries remained stable in the year under review, and were therefore unchanged. Our Mexican subsidiary, HDI Seguros S.A. de C.V., was given a financial strength rating for the first time: it was awarded a local rating of mxAAA with a stable outlook by Standard & Poor's in

September of the year under review. In accordance with the Group methodology, HDI Seguros is therefore assessed as being strategically important within the Talanx Group. On the global rating scale, this rating would correspond to at least BBB+.

A.M. Best awarded the primary insurance companies in the Talanx Group a financial strength rating of A (excellent) with a stable outlook; there were no noteworthy changes in the year under review. Hannover Re's financial stability was assessed as A+ (superior), likewise with a stable outlook. A.M. Best justified the continuing high ratings for the subgroups on the grounds of their healthy earnings situation, excellent capitalisation and very good risk management culture.

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).

### ISSUER CREDIT RATINGS

M53 **ISSUER CREDIT RATINGS**

| | Standard & Poor's | | A.M. Best | |
|---|---|---|---|---|
| | Rating | Outlook | Rating | Outlook |
| Talanx AG | A– | Stable | a– | Stable |
| Hannover Rück SE | AA– | Stable | aa– | Stable |

Both rating agencies gave the ability to pay of Talanx AG a positive assessment. In the year under review, S&P confirmed Talanx AG's issuer credit rating of A– with a stable outlook; this is the third highest category on the S&P rating scale. A.M. Best awarded an issuer credit rating of a–, stable, which is also the third highest category on its issuer credit rating scale. In comparison to the financial strength ratings awarded to the subsidiaries, Talanx AG's rating was slightly lower; this is due to the customary "rating markdown" that is applied to holding companies. As a result, in accordance with the general analytical criteria used by rating agencies, companies that exercise a purely holding function with no operational activities of their own receive a lower financial strength rating than a comparable insurance undertaking.

Various ratings also exist for the subordinated liabilities issued by Group companies (issue ratings). They are set out in the disclosures on the consolidated balance sheet in Note 18 "Subordinated liabilities".

# TALANX AG (CONDENSED VERSION IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE [HGB])

This subsection provides information on the development of Talanx AG to supplement our report on the Talanx Group. Talanx AG is the Talanx Group parent. It serves as the financial and management holding company for the Group, which has its own companies, branches and cooperative ventures throughout the world. The companies belonging to the Talanx Group operate chiefly in the areas of primary insurance and reinsurance, but are also active in the investment sector, principally in Germany.

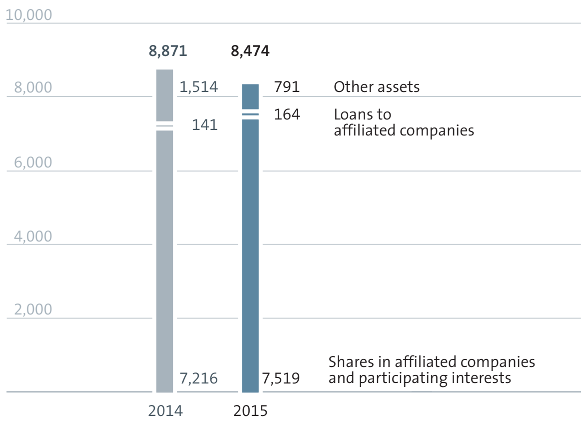
In contrast to the consolidated financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union as at 31 December 2015, Talanx AG's annual financial statements are prepared in accordance with German GAAP as set out in the German Commercial Code (HGB).

Talanx AG is a listed company and pays dividends to its shareholders from its German GAAP profit. A significant operational management metric for Talanx AG is therefore net income for the year as calculated in accordance with German GAAP.

## NET ASSETS

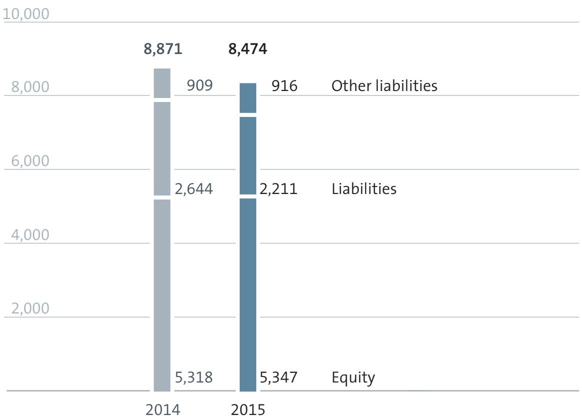
M54 **BALANCE SHEET STRUCTURE — ASSETS**

EUR MILLION



M55 **BALANCE SHEET STRUCTURE — LIABILITIES**

EUR MILLION




As in past years, Talanx AG's balance sheet continues to be shaped by its function as a holding company: on the assets side, it is dominated by its euro-denominated investments in subsidiaries. Total assets decreased by 4.5% to EUR 8,474 (8,871) million. The carrying amount of shares in affiliated companies and participating interests rose by 4.2% to EUR 7,519 (7,216) million and the loans to affiliated companies increased by 16.3% to EUR 164 (141) million. The receivables from affiliated companies fell by 40.2% to EUR 415 (694) million. Bank balances likewise fell, by 43.1% to EUR 216 (380) million. Other assets decreased, due inter alia to the decline in fixed-interest securities held in current assets, by 63.6% to EUR 160 (440) million.

At the reporting date, Talanx AG had entered into firm agreements with two banking syndicates, in each case for a floating-rate euro-denominated syndicated line of credit that can be drawn down as required. The floating rate is linked to EURIBOR plus a premium. Neither of these had been drawn down as at 31 December 2015. The nominal amounts of the credit lines available at the reporting date were EUR 550 million and EUR 700 million respectively, meaning that a total of EUR 1,250 million was unused.

Talanx AG's capital structure and the composition of its liabilities are shaped by the fact that it is a holding company. Equity amounted to EUR 5,347 (5,318) million. The increase of EUR 29 million was entirely due to the distributable profit.

Liabilities totalled EUR 2,211 (2,644) million; the key items included were EUR 1,124 (1,557) million in liabilities to affiliated companies and EUR 1,065 (1,065) million in liabilities relating to bonds. The main reason for the decrease in liabilities to affiliated companies was lower liabilities arising from profit/loss transfer agreements with subsidiaries in the amount of EUR 260 (483) million compared to the previous year.

The rise in other liabilities by 0.8% to EUR 916 (909) million was due largely to a – primarily interest-rate-induced – increase in provisions for pensions to EUR 697 (649) million, while provisions for taxes fell by 23.8% to EUR 112 (147) million.

## FINANCIAL POSITION

The level of liquidity needed to meet current payment obligations is assured by means of ongoing liquidity planning. This is carried out by Accounting at least once a month. Regular liquidity planning and an investment strategy that is also geared to liquidity requirements mean that we can ensure that Talanx AG is able to meet its payment obligations at all times.

Talanx AG obtains its cash funds principally from profit or loss transfer agreements with affiliated companies, income from long-term equity investments and interest income on loans. In the course of liquidity planning, the forecast cash flows from profit or loss transfers are regularly coordinated with Group Controlling as part of the continuous updates to projections. The Company primarily has to fund interest and principal repayments on its liabilities, as well as dividend payments. On account of its status as a holding company, activities connected with the acquisition or disposal of businesses may give rise to short-term cash flows in the form of outflows or inflows.

When selecting lenders, the Company pays close attention to their long-term reliability and capital strength, as it always has done in the past. Continuous monitoring of lenders' capital strength – a task performed centrally by Talanx Asset Management GmbH – is given a high priority.

## RESULTS OF OPERATIONS

M56 STATEMENT OF INCOME (GERMAN GAAP)

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Net income from long-term equity investments and other operating income** | **541** | 637 |
| Impairment losses | 1 | 8 |
| Other operating expenses | 112 | 105 |
| **Operating result** | **428** | 524 |
| Net interest income | –104 | –125 |
| **Result from ordinary activities** | **324** | 399 |
| Extraordinary result | –14 | –14 |
| Tax income (– = income) | –35 | –13 |
| **Net income for the financial year** | **345** | 398 |

We analyse the development of our business performance in a summary presentation that reflects our role as a holding company. Talanx AG's annual financial statements are prepared in euros. As the income received from subsidiaries also includes income from long-term equity investments denominated in foreign currencies, its results are indirectly affected by exchange rate fluctuations. A weaker euro tends to lead to higher net income from long-term equity investments. A change in interest rates can also affect Talanx AG's result.

Net income from long-term equity investments, which consists of income from long-term equity investments and income and expenses relating to profits transferred by our subsidiaries and the absorption of any losses of subsidiaries, amounted to EUR 129 (–4) million in the financial year. This increase resulted primarily from the lower absorption of the loss incurred by Talanx Deutschland AG of EUR –260 (–483) million on impairments of the carrying amounts of long-term equity investments both in the current and the previous financial year. Moreover in the previous year, the sale of a participating interest by Talanx Finanz (Luxemburg) S.A. generated extraordinary income from investments.

Other operating income fell to EUR 412 (641) million. The disposal gains on shares in affiliated companies included in that figure decreased to EUR 386 (600) million. In addition, the current financial year includes income from disposing of loans to affiliated companies in the amount of EUR 6 million, while in the previous year a refund from an affiliated company in the amount of EUR 20 million was taken into consideration. This item also includes income from intragroup services, which was somewhat lower than in the previous year.

Impairment losses fell to EUR 1 (8) million, in particular due to lower impairments on financial assets and securities held in current assets.

Other operating expenses increased to EUR 112 (105) million. This was due in particular to the interest-rate-induced adjustment to provisions for pensions.

Net interest income improved to EUR –104 (–125) million. The interest and similar expenses reduced to EUR 121 (153) million, in particular due to the early repayment of internal Talanx bearer bonds with a volume of EUR 155 million in the previous year as well as due to the low interest expenses for tax liabilities. Other interest and similar income reduced to EUR 5 (18) million, in particular due to lower interest income on tax credits. Income from other securities and loans rose to EUR 13 (10) million, in particular through loans granted to affiliated companies in the financial year.

The extraordinary result includes an extraordinary expense of EUR 14 million relating to a proportional addition to the provision for pensions under the German Accounting Law Modernisation Act (BilMoG).

Tax income in the reporting period amounted to EUR –35 (–13) million, in particular as a result of the adjustment of tax provisions for the previous years. Tax income in 2014 resulted in particular from an external tax audit of the years 2002 to 2005.

Net income for the financial year fell year-on-year to EUR 345 (398) million. After addition of retained profits brought forward from the previous year of EUR 390 (308) million, distributable profit totalled EUR 735 (706) million.

### APPROPRIATION OF DISTRIBUTABLE PROFIT

The Board of Management and Supervisory Board will propose to the General Meeting that Talanx AG's distributable profit of EUR 734,966,586.10, as reported as at 31 December 2015, should be appropriated as follows:

- Distribution of a dividend of EUR 1.30 for each no-par value share bearing dividend rights: EUR 328.636.924.20
- Retained profits brought forward: EUR 406.329.661.90

## TARGET FIGURES IN ACCORDANCE WITH SECTIONS 76(4) AND 111(5) OF THE AKTG

With respect to the target figures for the proportion of women on the Board of Management and in the two management levels below the Board of Management of Talanx AG in accordance with sections 76(4), 111(5) of the German Stock Corporation Act (AktG), please refer to our disclosures in the "Declaration on Corporate Governance in accordance with section 289a of the German Commercial Code (HGB)" in the section "Corporate Governance", contained in this report.

## REMUNERATION REPORT

Talanx AG's remuneration system is consistent with the remuneration system for the Talanx Group, as described in detail in the Talanx Group report. The amounts disclosed there in the remuneration report reflect the remuneration of the Board of Management in respect of activities undertaken on behalf of the Talanx Group in the financial year. As well as remuneration elements arising from activities on behalf of Talanx AG, the amounts disclosed include remuneration components awarded in respect of activities on behalf of the Talanx Group's consolidated companies.

## RISK REPORT

As the holding company of an insurance and financial services group whose companies are predominantly active in the insurance sector, Talanx AG's business development is primarily exposed to the same risk sources as that of the Talanx Group. Talanx AG's result, and with it the risk, is determined in large part by income from long-term equity investments and profit transfers by the individual companies. In principle, Talanx AG shares the risks of long-term equity investments and subsidiaries in proportion to the interest it holds in each case. The risk exposures of the subsidiaries and of Talanx AG itself are described in the Group risk report.

## REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

As Talanx AG is closely integrated with the Group companies and occupies a correspondingly important position in the Group as its holding company, the statements made in the Group's report on expected developments and on opportunities also reflect expectations for the parent company, Talanx AG. The change in the reference period for determining discount rates for pension obligations (change in the average from seven to ten years) passed by the Bundestag (lower house of German parliament) on 18 February 2016 could lead in 2016 to a tangible increase in net income for the year compared to 2015.

# OVERALL ASSESSMENT OF THE ECONOMIC SITUATION

Considering the overall economic environment and challenging specific conditions prevailing in the industry, the management of Talanx AG assesses the business performance in the year under review as successful. Once again, gross premiums, EBIT and Group equity all surpassed the previous year's figures; only Group net income was slightly down year on year, despite being the second-best result in the Company's history. If not for the impairment in full of goodwill in the German life insurance business Talanx AG would have posted a record result. The contributions of our divisions to this result varied, but all divisions improved in operating terms.

Except for the Retail Germany Division, all divisions contributed to gross premium growth, albeit to different degrees. Generally, the operating profit in the divisions was slightly above that for the previous year; the Retail Germany Division recorded a positive EBIT again after the markedly negative result of the previous year. The expense ratio was within the expected range despite a high claims burden, particularly in the Industrial Lines and Non-Life Reinsurance segments. The Group return on equity hit our minimum target mark precisely, although there were differences between the individual divisions as to how the target was met.

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. However, the consolidation of the low interest rate environment – which is also motivated by the policies of the central banks – will continue to have a negative impact, in particular on life insurance activities in Germany.

# OTHER SUCCESS FACTORS

## EMPLOYEES

The aim of our human resources work is to ensure sustainable, profitable growth for our company. We can achieve this by having the right people in the right place and by assigning them the right tasks. We continually support and facilitate our employees. The principles of values-based leadership and a culture of working together are at the core of all our business activities. Effective, efficient HR processes and services are essential if we are to attract the next generation of top talent and meet the challenges posed by demographic change. HR support, HR marketing, initial professional training and employee development are key components of our Group-wide human resources work. Our employees are noted for their high levels of professionalism and dedication, their creativity and flexibility, and their values-based approach.

### THE TALANX VALUES — THE BASIS OF OUR CORPORATE CULTURE

The Talanx Values lie at the heart of our corporate culture and are put into practice day after day. They are a key component of the Talanx mission statement and provide the framework for Group-wide cooperation. They ensure the long-term success of our Company by creating a common understanding and offering direction and guidance, including for our business processes and human resources tools.

M57 THE TALANX GROUP'S VALUES

- Entrepreneurial mindset and action within the Group context
- Results and performance orientation
- Mutual trust and open communication
- Comprehensive customer orientation

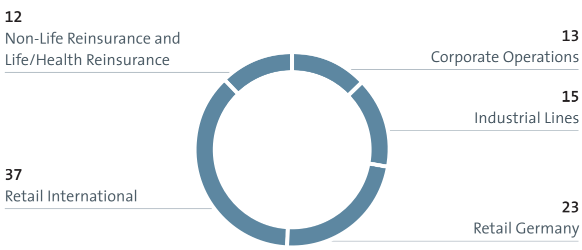
After the successful initiation of a Group-wide discussion about the meaning of the Talanx Values in the form of series of workshops, various subsequent activities were organised in the year under review. These activities are making a contribution to improving the quality of teamwork within the Group, by effectively promoting mutual understanding and a team spirit for the long term. Moreover, a Talanx Values award will be presented for the first time in the summer of 2016 to honour displays of exemplary commitment, where one or more of our Talanx Values have been implemented particularly successfully and brought to life.

### KEY HUMAN RESOURCES FIGURES

At the end of 2015, 21,965 (21,371) people were employed by the Talanx Group, 8,096 (7,588) of them in the Retail International Division. At 37% (35%), this division accounted for the largest proportion of employees in the Group. The influx in the Retail International Segment is primarily due to the acquisition of the Magallanes Group, Chile.

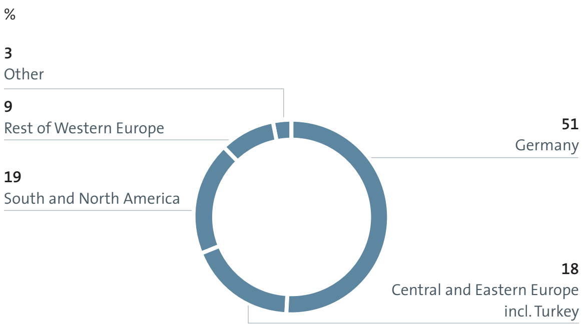
M58 EMPLOYEES BY DIVISION

%



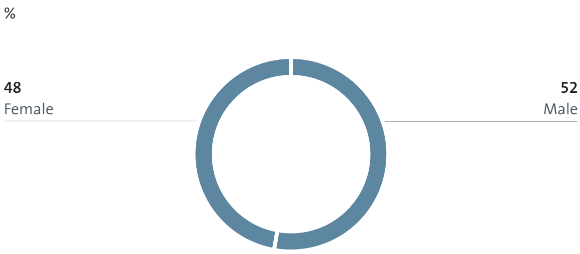

Our employees are located in over 40 countries and on five continents across the world. A good three-quarters of our 11,178 (11,142) staff in Germany work in the federal states of North Rhine-Westphalia and Lower Saxony; in addition, the Talanx Group has 10,787 (10,229) employees in other countries.

M59 **EMPLOYEES BY REGION**

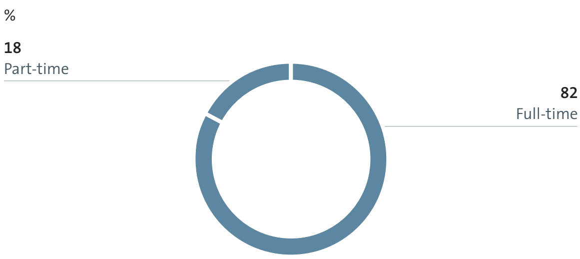



The proportion of female employees in Germany was 48% (47%), while 18% (17%) of employees worked part-time. Both these figures thus remained at the same level as in previous years. 33% (32%) of employees in Germany not subject to collective wage agreements were women. Women accounted for 18% (18%) of positions at senior executive level.

M60 **MALE/FEMALE EMPLOYEES IN GERMANY**




M61 **FULL-TIME/PART-TIME EMPLOYEES IN GERMANY**




## MAKING CONSCIOUS USE OF DIVERSITY

The diversity of our employees is part of our corporate identity. On all continents and in the various companies, our employees contribute their individual talents to securing our business success and the satisfaction of our clients. It lies in the nature of our international business that we combine a balanced, multi-brand strategy with a wide variety of different business cultures under the umbrella of a single Group – and that we serve a broad range of customer groups in various regions and business areas.

Talanx employs women and men of all ages from the widest possible variety of national, ethnic and religious backgrounds as well as people with and without disabilities. We promote a corporate culture of respect, appreciation and mutual acceptance. The Group Board of Management signed the Diversity Charter in 2013 as a public declaration of its commitment to recognising, including and valuing diversity in its corporate culture. Our aim is not just to create a working atmosphere characterised by openness and integration, but also to make active and conscious use of diversity in order to maintain and increase our company's performance and competitiveness.

Therefore, for us diversity management means consciously promoting employee diversity in order to release its full power. It also means creating conditions that enable everyone to fully develop their individual potential, talents and abilities, irrespective of their particular background, age, experience or personal situation. Within this, we pay particular attention to the areas of demographics, gender and migration. Creating suitable conditions also involves providing flexible models for working hours and actively supporting childcare after employees return from parental leave, among other elements.

## WOMEN AT TALANX

Continuously increasing the proportion of women in management positions is a key concern for the Talanx Group.

We aim to appoint female employees to at least 25% of vacant management positions on all hierarchical levels in Germany in future. A Group-wide mentoring programme is used to support female employees with the potential to take on more advanced tasks and roles. In addition, the Frauen@Talanx network exists as a forum with the aim of actively promoting a corporate culture that supports women in their professional and personal development.

## EMPLOYEE DEVELOPMENT AT TALANX – GROWING TALENT FROM WITHIN

### INITIAL PROFESSIONAL TRAINING

Initial professional training is particularly important for securing new talent. This is particularly reflected in the number of vocational trainees who are taken on permanently after completing their courses, which has consistently remained at over 90% for years. The Talanx Group had 401 (405) vocational trainees in the primary insurance area in Germany as at 31 December 2015. The Group views vocational training leading to commercial qualifications in insurance and finance as particularly important. Factors such as practical orientation and self-reliant work as part of a team are a key part of this training, which spans all Group companies. Trainees have a wide range of career options after completing their courses.

In addition to these vocational qualifications in insurance and finance, an alternative route to successfully attracting new talent is the dual-track degree programme. A Bachelor of Arts course covers business studies with a specialism in insurance, while a Bachelor of Science covers business computing. The business studies degree offers the option of specialising in either industrial insurance or retail insurance sales. The cooperation agreements with the universities of applied science that offer these courses were extended in line with this. To support the Group's internationalisation, students were again offered the option of work experience placements at foreign subsidiaries or branches in 2015.

Talanx's vocational training courses have won German insurance industry training awards six times since 2005. Talanx is the only company to have submitted at least one entry every year since this training award was introduced, and these have mainly concerned projects supporting social welfare organisations. Our training focuses not only on professional and methodological expertise, but also to a large extent on social skills. In 2015, Talanx was honoured for its project "TalApp – more than just training" with the InnoWard 2015 from the German Insurance Association for Vocational Education and Training (BWV). The project was awarded second place in the category "Initial Professional Training". "TalApp" is an internal training network covering the whole of Germany that was developed in house – by vocational trainees for vocational trainees.

### HUMAN RESOURCES MARKETING

The aim of human resources marketing is to recruit qualified, motivated employees for the Group by presenting Talanx as an attractive employer. We continue to take part in careers fairs and events for students and graduates that attract our target group. In addition, we maintain contact with students by holding special days for participants in the Talanx Talent Network and for recipients of our Talanx Foundation and "Deutschlandstipendien" scholarships. Moreover, editorial articles, experience reports and interviews with employees from all areas of the Company help to give the target audience in university and career magazines a better insight into the various career fields and prospects.

The main starting point for our applicants and potential applicants is the careers page of the Talanx Group. An additional milestone on the path towards a modern and dynamic external appearance has been put in place with the comprehensive relaunch of the career area at the end of 2015. The main focus of this update to our website was on the improved visibility of the Group as a multi-brand supplier, the presence of our own employees and, for the first time, the use of brief video clips with employee portraits as an example of the different career paths within the Talanx Group and its companies.

### CAREER DEVELOPMENT FOR MANAGEMENT TRAINEES AND MANAGERS

Our strategic employee development activities also continued successfully. Employees and managers are systematically trained to equip them for their current and future responsibilities through various training courses and employee development programmes. As part of our management training activities, we offer a development programme for specific divisions and a cross-divisional potential development programme that allows top performers and talented individuals to develop their potential. Building on this, when employees first assume a management role, they receive support in the form of programmes that focus on leadership and teamwork. Development programmes for new managers and for specialist staff, as well as the development programme leading to project manager qualifications, are all recognised, sought-after options that attract large numbers of participants.

Managers with the potential to take on additional duties can participate in the management development programme. This programme was repeated in the year under review with participants from Germany and other countries. An international exchange is encouraged in a purposeful way in joint events. The measures emphasise and support the Talanx Group's strategy of filling the majority of management positions internally. This in turn demonstrates the importance of ongoing internal employee development to ensure over the long term that the necessary skills and expertise are available in times of change.

We constantly adapt our entire range of training and continuous professional development courses to current and future requirements, and also organise a wide variety of insurance and specialist seminars, as well as courses to teach specific methodological and behavioural skills, management training, and IT and language courses.

## Talanx Corporate Academy – a key strategy development tool

The Talanx Corporate Academy has been successfully established as a key tool in implementing strategy and developing corporate culture within the Group. It provides information on strategically relevant topics through a programme for top-level managers in all Group divisions that offers high-quality content with a practical focus. As a catalyst for change and a platform for exchanging knowledge and experience, and involving a large number of participants, the Talanx Corporate Academy played an important role in promoting cooperation between the divisions and Corporate Operations in the year under review. Among other things, the Talanx Corporate Academy formulated the Talanx Values as a result of discussions with senior management around the world. The Talanx Corporate Academy won the InnoWard from the German Insurance Association for Vocational Education and Training (BWV) in 2014. In 2015, strategically relevant topics from previous years were explored again: the current programme entitled "The Learning Organisation" ("Die Lernende Organisation") started in November.

## 360° feedback for managers

A distinct, constructive feedback culture raises individual and team performance, improves the quality of management and teamwork and strengthens the Group's competitiveness overall. One component of this feedback culture is the 360° feedback system, a tool that gives managers feedback about their management style and teamwork from their superiors, management peers and employees. Specific improvement steps are then identified in discussion with the stakeholders on the basis of the feedback. As a result, this method offers the people giving feedback a useful opportunity to actively influence the quality of management and teamwork.

## Employee development in the divisions

As part of our systematic support for young talent, the Industrial Lines Division continued to run its established trainee programmes for account managers and underwriters in the various industrial insurance lines. These courses, which usually last one year, convey a solid understanding of the various fields of work involved in industrial insurance. As in the past, the aim here is to develop our specialists from within our own ranks as far as possible.

We continued to run the "management workshop" as a support tool for all managers during our realignment of the Retail Germany Division. This annual cycle of events discusses strategic issues and develops specific measures to be implemented based on these discussions. The Retail Germany Division's goal with the "management workshop" was to firmly establish continuous and systematic support in processes of change and to provide a collective understanding of how managers should behave while this was going on. In 2015, this further training programme again focused, among other things, on encouraging managers to contemplate their own roles. The "management workshop" was extended to include Talanx Service AG and Talanx Systeme AG in 2015.

The Reinsurance Division conducted an international, Group-wide employee survey for the first time in 2015. The focal points of the survey were the issues of familiarity and the degree of implementation of the values and managerial principles, the sense of bonding and motivation of the employees and the quality of the (international) cooperation. All in all, there was a good level of participation of just under 70% of all the surveyed employees and a very high degree of overall satisfaction. It was particularly pleasing to see the high level of motivation and commitment of the employees expressed in the survey. The introduction of a modern learning management system was another focal point of activities. With this system, it is now possible to present the seminar offerings from the human resources and IT segments clearly to all the employees in the form of a standardised further training catalogue and to run all the booking, approval and administration processes over a single system. The learning management system also acts as a platform for running the e-learning programmes which have been used successfully for several years in a blended learning format in the international basic training of new employees. The activities for recruiting new employees have been given a particularly fresh new look. The careers section of the website now appears in a contemporary and fresh design, together with newly improved content. A target group-oriented human resources marketing video and four testimonials have been added as new elements, which communicate to the target groups of applicants the important information they need in a clear and attractive way.

### THANKS TO GROUP EMPLOYEES AND REPRESENTATIVE BODIES

The Board of Management would like to express its appreciation to all employees for their continued high level of personal dedication and their valuable contribution to the Group's business results. The Board of Management also wishes to thank the Group Employee Council and all the other employee representative bodies for their highly productive and constructive working relationship.

## SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

The Talanx Group incorporates environmental, social and governance considerations into its business operations. As an internationally operating insurance group and an investor with a long-term orientation, we are committed to responsible enterprise management that is geared to sustainable value creation. Our customers, too, for the most part enter into long-term relationships with us. We therefore act with a forward-looking perspective in order to be able to deliver on the promise to perform that we have given our customers – going forward just as we have in the past.

In the previous year, Talanx developed a sustainability strategy and a sustainability management system derived from the Group's overarching strategy, and linked to its mission statement and its values. They also take the requirements and interests of our stakeholders into account, which we determined with a stakeholders survey among our customers and business partners, investors and employees, among others. In addition to raising the level of sustainability within the enterprise, these steps also serve to develop our sustainability reporting process, which is based on the Global Reporting Initiative's (GRI) recognised guidelines. You can also find further information on the company website.

### ACTION FIELDS OF THE SUSTAINABILITY STRATEGY

Along with the higher-order areas of strategy and governance and dialogue and reporting, the Talanx Group aspires to report on and set and achieve goals in the following action fields.

The action field of compliance and transparency encompasses – as a cross-sectional function – compliance with statutory and legal requirements as well as with our own Code of Conduct right across the entire Group and all action fields. This foundation for legally correct, responsible and ethical action at Talanx is crucial to maintaining trust in the Group and its competitiveness. Along with topics such as money-laundering and anti-corruption, it includes further issues such as data privacy and tax compliance. The Talanx Group intends to ensure transparency with regard to these and other aspects.

By means of the action field of day-to-day operations and purchasing we are seeking to organise our day-to-day business and purchasing activities with an eye to sustainability considerations. This includes, for example, the careful use of resources, the purchasing of environmentally friendly products, the observance of employee and human rights – not only within our organisation but also along the supply chain – and the reduction of the $CO_2$ emissions that we cause directly and indirectly. The Group also strives to motivate its employees to conserve resources and practice sustainability in their daily activities, e.g. on business trips.

The action field of work and employees reflects our desire to take into consideration the interests of our more than 20,000 members of staff worldwide and to be perceived as an attractive employer and training company. The Talanx Group dedicates itself to the ongoing training and development of its employees and promotes diversity and equal opportunities, inter alia through our targeted actions designed to increase the proportion of women in managerial positions.

Investments and products: The commitment to sustainability in business operations has special relevance within the Talanx Group to investing activities and insurance products. By leveraging our business activities we can tap into considerable potential to contribute to sustainable development. We therefore strive to respect sustainability considerations on a long-term basis when it comes to our investments, insurance products and services, with aspects such as transparency as well as the provision of clearly comprehensible information and fair advice playing a central role here.

With our action field of corporate citizenship we tackle an important element of our social responsibility by working for the common good and supporting charitable projects and initiatives. Currently, the Talanx Group – and especially its foundation created for this purpose – is actively involved in the areas of education and training, both in Hannover and at other locations. Building on these activities, Talanx wants to develop a citizenship strategy as guidance for our social engagement.

The Talanx Group is already actively contributing to sustainability in a number of areas such as investment and in the course of its corporate social responsibility activities.

### SUSTAINABILITY OF INVESTMENT

The Retail Germany Division offers an actively managed portfolio focused on sustainability in all its current fund policies. This portfolio from the "ISP product family" covers sustainable and ecological investments that do not simply focus on generating the highest possible yield, but also take ethical, social and ecological factors into account when selecting investments. The basic principle is that sustainable development can only be achieved if environmental, economic and social objectives are accorded equal importance and are pursued simultaneously. The target funds in this internal insurance fund are classified and selected with the help of independent research agencies such as Feri EuroRating Service AG, Morningstar Deutschland GmbH and oekom research AG.

Ampega Investment, the Talanx asset management company, offers retail investment funds for which sustainability is also an important investment criterion. It offers various sustainable investments, including the Ampega Responsibility Fund and the terrAssisi Renten I AMI and terrAssisi Aktien I AMI investment funds. These funds invest in target funds or enterprises and issuers that incorporate not only economic but also environmental and social criteria into their long-term corporate strategies, and that are considered pioneers in assuming responsibility for a sustainable future. The analysis of securities according to sustainability criteria is carried out by independent research agencies such as oekom research AG.

### SOCIAL RESPONSIBILITY

Our social commitment is multi-faceted. Some divisions sponsor their own projects, while individual employees are also involved in numerous voluntary activities. At Group level, we mainly devoted our efforts to "education and training". At the core is the Talanx Foundation, which awards up to 15 scholarships per semester to talented students in insurance-related disciplines throughout Germany. In addition, our "Deutschlandstipendien" scholarships are again providing support for students at the Leibniz University of Hannover and for two students at the University of Applied Sciences and Arts in Hannover. As well as financial support, we organise regular events and workshops within the Company for scholarship students. The topics covered range from specialist lectures to training courses in key skills.

Talanx also supports the Enactus international student network in various ways. Enactus is a non-profit organisation active at over 1,600 universities in nearly 40 countries worldwide. Through practical projects of their own choosing, students help both disadvantaged people and organisations to improve their situation and to achieve lasting stability through their own efforts. The students independently plan and implement social, ecological, charitable and cultural projects. Goal orientation, budget planning and measuring success are integral components of all Enactus projects. In addition to financial assistance, Talanx offers students professional support with their work. Employees are involved in projects as "business advisors" and enhance the quality of the work through their expert knowledge, experience and contacts.

## MARKETING AND ADVERTISING, SALES

The multi-brand principle pursued within the Talanx Group is reflected in the wide range of communication channels used by the Group's subsidiaries to address their specific customer segments through tailored marketing and advertising for a variety of brands. The Group's primary insurers, such as the HDI insurers, engage directly with the general public via TV commercials, advertising campaigns, sponsorship and other activities. Our Reinsurance Division (Hannover Re) and asset management operations (Ampega) focus on their particular target groups. In turn, Talanx AG's communication activities are primarily targeted at the broader financial community and the financial press.

The distribution channels employed by the Group's companies are highly diverse, ranging from our own tied agents' organisation and local representation via branch offices and sales outlets, through the use of brokers and independent agents, to highly specialised alliances with banks. See the sections on the various Group segments for further information.

# OTHER REPORTS AND DECLARATIONS

## CORPORATE GOVERNANCE

### DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT

#### DECLARATION ON CORPORATE GOVERNANCE IN ACCORDANCE WITH SECTION 289A 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 the 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 company management. 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 not and are not complied with and why ("comply or explain").

I German Corporate Governance Code 2015

The Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that Talanx AG, in its implementation of the German Corporate Governance Code in the version dated 5 May 2015, departed from the recommendations of the Code for 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 lock-up 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 lock-up period, the equivalent value of the share awards is paid out to Members of the Board of Management. The amount paid out is determined based on the price of Talanx shares on the payout date, plus an amount equal to the total dividends per share distributed during the lock-up period. This means that the share awards are aligned with the economic performance of Talanx shares.

The amount of variable remuneration resulting from the grant of the share awards is therefore limited at the time of allocation of share awards, but not 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 grant 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 the contract of service without cause is only possible by mutual agreement. Even if the Supervisory Board sets a severance cap when signing or renewing a Board of Management contract, this does not rule out the possibility of negotiations extending to the severance cap if a Member of the Board of Management leaves. In addition, the scope for negotiations on such a departure could be restricted if a severance cap was agreed, which can be particularly disadvantageous in cases where there is ambiguity about the existence of a cause for dismissal. 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.

3. Section 5.2(2) 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. Although other members of the Finance and Audit Committee have specialist knowledge of and experience in the application of accounting principles and internal control procedures, the current Chairman of the Committee is the only person who has spent his whole career in the insurance sector. He can look back on 29 years on the boards of management of insurance and insurance holding companies, including 20 years as Chairman of the Board of Management, where he shared direct responsibility for the earnings of the companies concerned and for the presentation of this information in the financial statements. In his double role as Chairman of the Finance and Audit Committee and the full Supervisory Board, he coordinates the work of both committees and can therefore optimise the efficiency of their activities. His position does not lead to a concentration of power on either the Finance and Audit Committee or the full Supervisory Board, as he only has one vote in each of these, 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 interests of the Company to depart from the recommendation in section 5.2(2) of the Code.

#### II German Corporate Governance Code 2014

Additionally, the Board of Management and Supervisory Board declare in accordance with section 161 of the AktG that, since the last declaration of conformity dated 25 February 2015 was issued, Talanx AG has continued to depart from the following recommendations in the version of the Code dated 24 June 2014:

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

The reasons for the departure from section 4.2.3(2) are explained in section I.1. above.

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

The reasons for the departure from section 4.2.3(4) of the Code are explained in section I.2. above.

**3. Section 5.2(2) of the Code (chairmanship of the Audit Committee)**

The reasons for the departure from section 5.2(2) of the Code are explained in section I.3. above.

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

Hannover, 29 February 2016

| | |
|---|---|
| On behalf of the<br>Board of Management | On behalf of the<br>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

In accordance with the law governing the equal participation of women and men in both the private and public sectors, the Supervisory Board of Talanx AG was obliged to define by 30 September 2015 the desired target proportion of women on the Board of Management of the Company in the period up to 30 June 2017. Following thorough discussions, the Supervisory Board resolved, taking into account the terms of the current Board of Management mandates and contracts of service, to expect to keep the defined proportion of women on the Board of Management of Talanx AG at zero for the aforementioned period – without any prejudice for other decisions as and when required. In the event of a new appointment to the Board of Management as and when required that is not foreseeable at present, the Supervisory Board shall give preference to a female candidate in the event of equivalent personal and specialist qualifications. The female quota on the Supervisory Board of Talanx AG is defined at 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.

Moreover, in accordance with the above-mentioned law, the Board of Management was obliged to define the proportion of women on the two management levels below the Board of Management at Talanx AG. A quota of 9.1% was defined for the first management level, and 28.6% was defined for the second management level.

## CORPORATE GOVERNANCE REPORT IN ACCORDANCE WITH SECTION 3.10 OF THE GERMAN CORPORATE GOVERNANCE CODE (CODE)

### HOW WE DEFINE CORPORATE GOVERNANCE

The Board of Management and the Supervisory Board define good corporate governance as responsible enterprise management and supervision 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 (http://www.talanx.com/investor-relations/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 Talanx AG's public image.

## CORPORATE GOVERNANCE AT TALANX

Good corporate governance is indispensable if Talanx AG is to achieve its goal of sustainably enhancing its 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 the companies represented in the DAX and MDAX.

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 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 terms of appointment of the individual members should be chosen so that they end no later than the month in which the member concerned turns 65.

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 individual 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

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.

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 9f. 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. It deals with issues concerning the requisite independence of the auditors, the engagement of the auditors, the audit's areas of emphasis and the auditors' fees. The FAC receives direct reports from the Board of Management and also from the heads of the four key functions (Compliance, Risk Management, Insurance Mathematics, 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 General Meeting.

To ensure that candidates fulfil the relevant selection criteria, the Nomination Committee 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, of Group companies or of the Talanx Group.

Further details on the activities of the Supervisory Board committees are given in the report of the Supervisory Board on page 11f. of this Annual Report.

Care is taken when selecting candidates who are to be proposed to the 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, four women appear on the Supervisory Board. One of them is also a Member of the Personnel Committee. 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 next period of office beginning in 2018 – or 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. The Supervisory Board currently meets this target. Employee representatives on the Supervisory Board are not taken into account here. A shareholder representative on the Supervisory Board holds a 25.93% stake in a company that has a business relationship with Talanx AG and Hannover Rück SE (see page 90 of the Annual Report).

## REMUNERATION OF THE BOARD OF MANAGEMENT AND SUPERVISORY BOARD

The remuneration report beginning on page 74ff. 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.

## DIRECTORS' DEALINGS

Members of the Board of Management and Supervisory Board, authorised representatives of Talanx AG and related parties are legally obliged to disclose the acquisition or disposal of shares in Talanx AG or of related financial instruments if the value of the transactions in a single calendar year amounts to or exceeds EUR 5,000. Talanx AG not only ensures that it makes the relevant publications and disclosures required in accordance with section 15a(4) of the Securities Trading Act (WpHG), but also publishes directors' dealings on its website.

## SHAREHOLDINGS OF THE BOARD OF MANAGEMENT AND 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 2015.

## 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 at Talanx. A dedicated Compliance department was set up in 2011 to successively expand and enhance the existing Group-wide 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, and additional compliance officers responsible for the individual divisions. An exception to this is the Hannover Re subgroup, which has its own compliance organisation that liaises closely with Talanx's Compliance department.

A code of conduct serves as the lynchpin 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 code is supplemented by a set of more concrete compliance guidelines, which give employees in Germany and abroad guidance on how to behave correctly and appropriately in their business dealings.

Another element in ensuring Group-wide compliance is a whistleblower system that can be contacted from anywhere in the world via the internet, 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. This enables the Compliance function to take action, limit any damage and avoid further harm. The Group is a member of the CCO Forum, which was established in January 2015 and is composed of the Chief Compliance Officers of international insurance companies. In addition to identifying common positions, the work of the Forum also offers an opportunity to identify developments in the regulatory area of compliance at an early stage and examine them appropriately.

The Board of Management submitted the compliance report for the 2015 calendar year, which sets out Talanx's structure and its wide range of activities in this area, to the Finance and Audit Committee before the annual financial statements were adopted.

### RISK MONITORING AND MANAGEMENT

Talanx AG's Group-wide risk management system is based on its risk strategy, which in turn is derived from its corporate strategy. One core component is systematic and comprehensive tracking of all risks that from today's perspective could conceivably jeopardise the Company's profitability and continued existence. Further details of this are given in the risk report starting on page 92ff. of this Annual Report.

## 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 "Equity".

### RESTRICTIONS ON VOTING RIGHTS AND THE TRANSFER OF SHARES

If employees have acquired discounted employee shares as part of the employee share programme, these are subject to a lock-up period that ends on 30 November 2017. As a matter of principle, employees may not dispose of the shares transferred to them before expiry of the lock-up period.

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

HDI V. a. G., Riethorst 2, 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 315(4) No. 5 of the German Commercial Code (HGB).

### STATUTORY PROVISIONS AND PROVISIONS OF THE ARTICLES OF 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 General Meeting resolves amendments to the Articles of Association (section 179 of the AktG). Unless otherwise mandated by law, resolutions of the 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 General Meeting of the Company authorised the Board of Management on 29 September 2012 in accordance with section 71(1) No. 8 of the AktG to acquire own shares under certain conditions for a period of five years, i.e. up to 28 September 2017.

On 15 May 2012, the General Meeting authorised the Board of Management, subject to the approval of the Supervisory Board, to issue registered bonds on one or more occasions until 14 May 2017, 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. In the Extraordinary General Meeting on 28 August 2012, the Board of Management was authorised, subject to the approval of the Supervisory Board, to issue both convertible bonds, bonds with warrants, income bonds and profit participation rights on one or more occasions until 27 August 2017, and to grant the holders or creditors of these bonds and rights options or conversion rights. On 29 September 2012, the Extraordinary General Meeting resolved to cancel the authorised capital under article 7(1) of Talanx AG's Articles of Association, as authorised by the General Meeting on 21 November 2011, and to replace it with a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital in the period up to 28 September 2017 on one or more occasions by a maximum of EUR 146 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, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases, provided that the notional amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash 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 1 October 2012. When the greenshoe option was exercised on 8 October 2012 in the course of the IPO, authorised capital was reduced to EUR 143 million in accordance with the Articles of Association. In the course of the employee share programme, authorised capital was reduced by EUR 0.2 million. After its partial utilisation, the authorised capital amounts to EUR 142,307,260, of which a further EUR 785,060 can be used for employee shares.

### 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.

The cooperation agreements with Deutsche Postbank AG dated 18 July 2007 all 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 2015 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 2015 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 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.

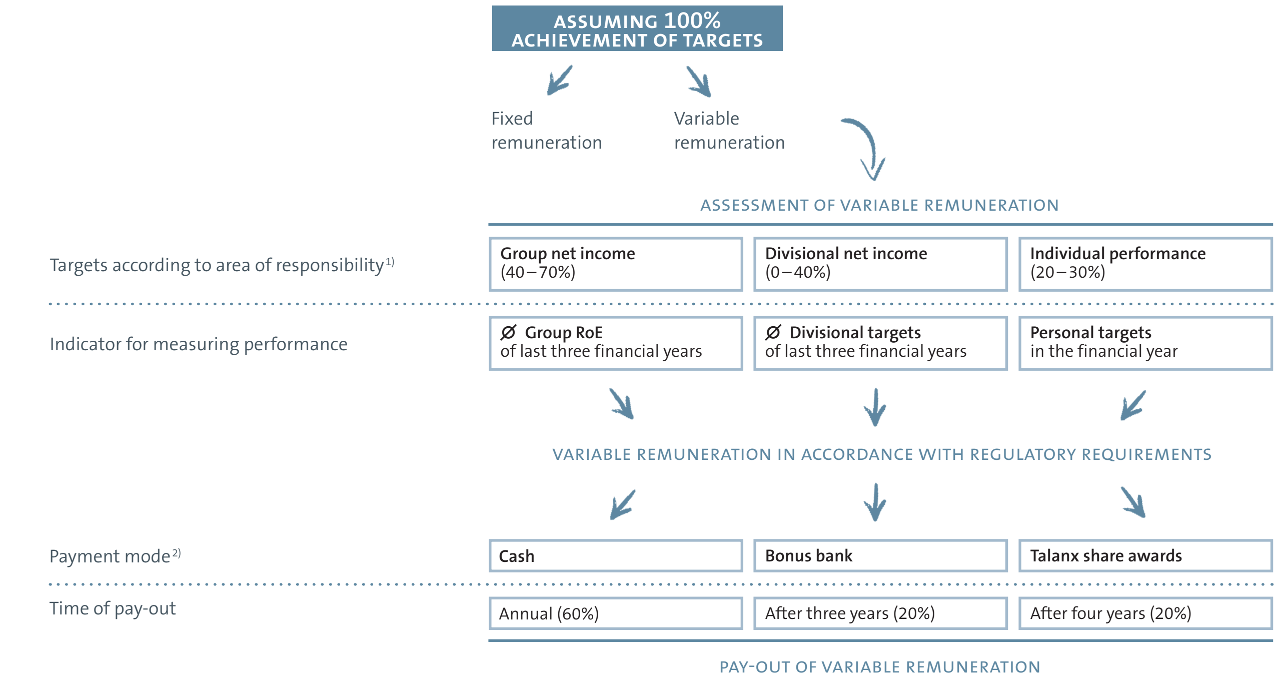
### REMUNERATION OF THE BOARD OF MANAGEMENT

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

#### 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.

M62 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

Overall, the remuneration has been designed in such a way as to make allowance for both positive and negative developments, is in line with the market and competitive, and promotes 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 50% to 70% 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 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 five-year average of the risk-free interest rate has been 1.8% since the 2014 financial year. The Group bonus is capped at twice the amount granted if the basis of calculation is reached, while the maximum penalty is –100%. The rules governing the Group bonus may be adjusted if the risk-free interest rate changes to such an extent that a deviation of at least 1 percentage point from the underlying benchmark arises. The 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.

### 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 since the 2013 financial year: gross premium growth, the change in the 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. Since 2015, the bonus has been 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 a personal basis. If the defined targets are exceeded or not met, the amount will be adjusted upwards or downwards. 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 section 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.

**M63 BASIS OF ASSESSMENT/PRECONDITIONS FOR PAYMENT OF VARIABLE REMUNERATION**

| Remuneration component | Basis of assessment/parameters | Preconditions for payment |
|---|---|---|
| **Group bonus** | | |
| *Proportion of variable remuneration*<br>Chairman of the Board of Management and Chief Financial Officer: 70%<br>Deputy Chairman: 50%<br>Head of division: 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<br>■ Basis of calculation: RoE of 10% + risk-free interest rate (= 100%)<br>■ Max. cap: 200%<br>■ Min. cap: –100% (penalty)<br>■ Calculation of remuneration may be amended if the risk-free interest rate changes by one percentage point or more<br>■ Calculation of RoE: Group net income in accordance with IFRSs (excluding non-controlling interests) / arithmetic mean of Group equity in accordance with IFRSs (excluding non-controlling interests) at the start and end of the financial year | ■ Average RoE over three years > risk-free interest rate |
| **Divisional bonus** | | |
| *Proportion of variable remuneration*<br>Deputy Chairman: 30%<br>Head of division: 0% or 40% | ■ Gross premium growth, net combined ratio in property/casualty insurance/value of new business in life insurance, EBIT margin, return on equity, profit transferred/dividend paid; each in comparison to target (three-year average)<br>■ 100% = targets achieved in full<br>■ Max. cap: 200%<br>■ Min. cap: –100% (penalty) | ■ Achievement of three-year targets<br>■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved |
| **Individual bonus** | | |
| *Proportion of variable remuneration*<br>Chairman of the Board of Management and Chief Financial Officer: 30%<br>Deputy Chairman and Head of division: 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<br>■ 100% = targets achieved in full<br>■ Max. cap: 200%<br>■ Min. cap: EUR 0 | ■ Achievement of annual targets<br>■ Amount determined by Supervisory Board after due assessment of extent to which targets were achieved |

**M64 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<br>■ 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<br>■ Amounts due for disbursement for which there is no positive bonus bank balance lapse<br>■ Bonus bank entitlements are forfeited in special cases: resignation without cause; offer to extend contract on same terms rejected<br>■ No interest paid on positive balance | ■ Automatic allocation of virtual Talanx share awards equivalent to 20% of variable remuneration<br>■ Payment after expiry of four-year lock-up period at the value calculated at the payout date (for IPO special remuneration, the lock-up period is three years)<br>■ 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<br>■ Sum of all dividends distributed per share during the lock-up period paid out in addition<br>■ 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 vesting 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.

One Member of the Board of Management is also allocated virtual share awards, the total number of which depends on the value per share of Hannover Re at the time of allocation. The value per share of Hannover Re is the unweighted arithmetic mean of the XETRA closing prices of Hannover 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 Hannover Rück SE for the financial year just ended (cap). In this case, the value of one Hannover 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 vesting period of four years. The Board Member is not entitled to receive actual shares.

Under the remuneration model applicable until 31 December 2010, the Board Member in question 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 will remain in force until all awarded stock appreciation rights have been exercised or have lapsed. The detailed terms and conditions are explained in the section of the Notes to the consolidated financial statements entitled "Share-based payment".

### 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 vesting period for the bonus bank or share awards expires 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 Members 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 "Corporate Governance" section on page 67 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 9,788 (10,097) thousand. The following table shows a breakdown of the remuneration into the components set out in GAS 17.

M65 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 [1,9] | | |
|---|---|---|---|---|---|---|
| | | | | Short-term | | Medium-term |
| | | I | II | III | IV | V |
| Name | | Fixed remuneration | Non-cash benefits/ fringe benefits | Variable remuneration payable | of which remuneration from memberships of Group supervisory bodies [2] | Allocated to bonus bank [3] |
| Herbert K Haas | 2015 | 765 | 21 | 742 | 279 | 248 |
| | 2014 | 765 | 21 | 620 | 271 | 206 |
| Dr Christian Hinsch | 2015 | 540 | 15 | 463 | 43 | 155 |
| | 2014 | 540 | 15 | 463 | 8 | 154 |
| Torsten Leue [8] | 2015 | 633 | 113 | 551 | — | 184 |
| | 2014 | 600 | 113 | 572 | — | 190 |
| Dr Thomas Noth (until 31 March 2014) | 2015 | — | — | — | — | — |
| | 2014 | 233 | 6 | 94 | — | 31 |
| Dr Immo Querner | 2015 | 582 | 19 | 476 | 118 | 158 |
| | 2014 | 582 | 19 | 475 | 111 | 159 |
| Dr Heinz-Peter Roß (until 30 June 2014) | 2015 | — | — | — | — | — |
| | 2014 | 280 | — | 161 | 15 | 54 |
| Ulrich Wallin | 2015 | 596 | 15 | 839 | — | 280 |
| | 2014 | 570 | 13 | 841 | — | 281 |
| Dr Jan Wicke (since 1 May 2014) | 2015 | 630 | 31 | 425 | 8 | 141 |
| | 2014 | 420 | 20 | 314 | 1 | 105 |
| **Total** | 2015 | **3,746** | **214** | **3,496** | **448** | **1,166** |
| | 2014 | **3,990** | **207** | **3,540** | **406** | **1,180** |

1) No governing body resolution regarding the amount of performance-related remuneration for 2015 had been taken as at the 2015 reporting date. The amounts are recognised on the basis of estimates and the corresponding provisions approved by the Personnel Committee.
2) Remuneration for supervisory board offices at affiliated companies offset against the variable remuneration payable for 2015
3) The figure shown represents the nominal amount; payment will be made in full or in part from 2019 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 2020 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 28.55 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 2016.
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 105.65 per share). The actual number of Hannover Re share awards will be calculated on the basis of the arithmetic 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 2016.
8) For Mr Leue, non-cash benefits and fringe benefits include the non-performance-related additional payment made together with the fixed remuneration for the month of December.
9) Payments for performance-related remuneration in 2014 exceeded the provisions recognised for this by a total of EUR 276 (156) thousand. The total amount recognised for performance-related remuneration in 2015 and the number of share awards for 2015 were increased accordingly.

| Performance-related remuneration [1),9)] | | | | |
|---|---|---|---|---|
| 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),9)] |
| 248 | — | 2,024 | 8,687 | — |
| 206 | — | 1,818 | 8,163 | — |
| 155 | — | 1,328 | 5,429 | — |
| 154 | — | 1,326 | 6,154 | — |
| 184 | — | 1,665 | 6,445 | — |
| 190 | — | 1,665 | 7,132 | — |
| — | — | — | — | — |
| 31 | — | 395 | 1,219 | — |
| 158 | — | 1,393 | 5,534 | — |
| 159 | — | 1,394 | 6,003 | — |
| — | — | — | — | — |
| 54 | — | 549 | 2,086 | — |
| 63 | 217 | 2,010 | 2,207 | 2,054 |
| 55 | 226 | 1,986 | 2,129 | 2,842 |
| 141 | — | 1,368 | 4,939 | — |
| 105 | — | 964 | 4,144 | — |
| **949** | **217** | **9,788** | **33,241** | **2,054** |
| **954** | **226** | **10,097** | **37,030** | **2,842** |

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.

**M66 TOTAL EXPENSE IN CONNECTION WITH SHARE-BASED REMUNERATION FOR THE 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 |
|---|---|---|---|---|---|---|---|---|
| Herbert K Haas | 2015 | 106 | — | 535 | — | — | — | **641** |
| | 2014 | 67 | — | 376 | — | — | — | 443 |
| Dr Christian Hinsch | 2015 | 42 | — | 239 | — | — | — | **281** |
| | 2014 | 60 | — | 247 | — | — | — | 307 |
| Torsten Leue | 2015 | 34 | — | 293 | — | — | — | **327** |
| | 2014 | 34 | — | 134 | — | — | — | 168 |
| Dr Thomas Noth (until 31 March 2014) | 2015 | — | — | — | — | — | — | **—** |
| | 2014 | 31 | — | 120 | — | — | — | 151 |
| Dr Immo Querner | 2015 | 29 | — | 228 | — | — | — | **257** |
| | 2014 | 65 | — | 271 | — | — | — | 336 |
| Dr Heinz-Peter Roß (until 30 June 2014) | 2015 | — | — | — | — | — | — | **—** |
| | 2014 | 53 | — | 210 | — | — | — | 263 |
| Ulrich Wallin | 2015 | 21 | 80 | 147 | 633 | –339 | 380 | **922** |
| | 2014 | 15 | 58 | 18 | 271 | 85 | 73 | 520 |
| Dr Jan Wicke (since 1 May 2014) | 2015 | 32 | — | 24 | — | — | — | **56** |
| | 2014 | 14 | — | — | — | — | — | 14 |
| **Total** | 2015 | **264** | **80** | **1,466** | **633** | **–339** | **380** | **2,484** |
| | 2014 | 339 | 58 | 1,376 | 271 | 85 | 73 | 2,202 |

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 increase in the price of Talanx shares, the dividend resolved for Talanx AG for 2014 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 2014 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 five 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 particular 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 as from the 2011 financial year in connection with the new remuneration structure.

The contract of one Member 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 this contract amounts to 25% of the Board Member's pensionable income (fixed annual remuneration as at 1 May of each year).

In the defined benefit and defined contribution contracts, 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 or, 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).

### PENSIONS PAID

Pension commitments for active Members of the Board of Management totalled EUR 1,531 (1,633) thousand. The service cost (and/or annual funding contribution) for active Members of the Board of Management amounted to EUR 1,594 (1,203) thousand. Individualised disclosures are presented and explained in the following table.

M67 **PENSION BENEFIT ENTITLEMENTS OF ACTIVE MEMBERS OF THE BOARD OF MANAGEMENT**

EUR THOUSAND

| Name | | Pension commitment[1] | Present value of DBO[2] | Cost of post-employment benefits[3] |
|---|---|---|---|---|
| Herbert K Haas | 2015 | 410 | 9,563 | 344 |
| | 2014 | 410 | 10,727 | 241 |
| Dr Christian Hinsch | 2015 | 311 | 6,601 | 258 |
| | 2014 | 311 | 7,624 | 181 |
| Torsten Leue | 2015 | 250 | 1,734 | 448 |
| | 2014 | 235 | 1,870 | 257 |
| Dr Thomas Noth (until 31 March 2014) | 2015 | — | — | — |
| | 2014 | — | — | — |
| Dr Immo Querner | 2015 | 217 | 2,952 | 219 |
| | 2014 | 202 | 3,841 | 129 |
| Dr Heinz-Peter Roß (until 30 June 2014) | 2015 | — | — | — |
| | 2014 | 132 | 4,176 | 159 |
| Ulrich Wallin | 2015 | 229 | 4,533 | 167 |
| | 2014 | 229 | 5,160 | 114 |
| Dr Jan Wicke[4] (since 1 May 2014) | 2015 | 114 | — | 158 |
| | 2014 | 114 | 84 | 122 |
| **Total** | 2015 | **1,531** | **25,383** | **1,594** |
| | 2014 | 1,633 | 33,398 | 1,203 |

1) Value of the agreed annual pension (achievable annual pension) 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) A defined contribution commitment has been entered into. The figure shown is the funding contribution.

Total payments made to former Members of the Board of Management and their surviving dependants, for which there were 7 (7) commitments in force in the year under review, amounted to EUR 750 (749) thousand. Provisions recognised for pension obligations towards this group of people totalled EUR 17,937 (21,217) 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.

M68 **VALUE OF BENEFITS GRANTED FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (FIRST BULLET POINT) OF THE GERMAN CORPORATE GOVERNANCE 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 | Multi-year variable remuneration (total of VI+VII+VIII) | Bonus bank (3 years) | Talanx share awards (4 years) | Hannover Re share awards (4 years) | **Total (III+IV+V)** | Pension expense | **Total remuneration** |
| Herbert K Haas *Chairman of the Board of Management* | 2015 | 765 | 21 | **786** | 797 | 531 | 266 | 266 | — | **2,114** | 344 | **2,458** |
| | (min.)[2] | 765 | 21 | **786** | — | –741 | –741 | — | — | **45** | 344 | **389** |
| | (max.)[3] | 765 | 21 | **786** | 1,593 | 1,062 | 531 | 531 | — | **3,441** | 344 | **3,785** |
| | 2014[1] | 765 | 21 | **786** | 797 | 531 | 266 | 266 | — | **2,114** | 241 | **2,355** |
| Dr Christian Hinsch *Deputy Chairman of the Board of Management* | 2015 | 540 | 15 | **555** | 559 | 373 | 186 | 186 | — | **1,487** | 258 | **1,745** |
| | (min.)[2] | 540 | 15 | **555** | — | –492 | –492 | — | — | **63** | 258 | **321** |
| | (max.)[3] | 540 | 15 | **555** | 1,118 | 746 | 373 | 373 | — | **2,419** | 258 | **2,677** |
| | 2014[1] | 540 | 15 | **555** | 559 | 373 | 186 | 186 | — | **1,487** | 181 | **1,668** |
| Torsten Leue *Head of Division* | 2015 | 633 | 113 | **746** | 508 | 338 | 169 | 169 | — | **1,592** | 448 | **2,040** |
| | (min.)[2] | 633 | 113 | **746** | — | –526 | –526 | — | — | **220** | 448 | **668** |
| | (max.)[3] | 633 | 113 | **746** | 1,015 | 677 | 338 | 338 | — | **2,438** | 448 | **2,886** |
| | 2014[1] | 600 | 113 | **713** | 508 | 338 | 169 | 169 | — | **1,559** | 257 | **1,816** |
| Dr Thomas Noth *Chief Information Officer* (until 31 March 2014) | 2015 | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | (min.)[2] | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | (max.)[3] | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | 2014[1] | 233 | 6 | **239** | 100 | 67 | 33 | 33 | — | **406** | — | **406** |
| Dr Immo Querner *Chief Financial Officer* | 2015 | 582 | 19 | **601** | 491 | 327 | 164 | 164 | — | **1,419** | 219 | **1,638** |
| | (min.)[2] | 582 | 19 | **601** | — | –469 | –469 | — | — | **132** | 219 | **351** |
| | (max.)[3] | 582 | 19 | **601** | 981 | 654 | 327 | 327 | — | **2,236** | 219 | **2,455** |
| | 2014[1] | 582 | 19 | **601** | 491 | 327 | 164 | 164 | — | **1,419** | 129 | **1,548** |
| Dr Heinz-Peter Roß *Head of Division* (until 30 June 2014) | 2015 | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | (min.)[2] | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | (max.)[3] | — | — | **—** | — | — | — | — | — | **—** | — | **—** |
| | 2014[1] | 280 | — | **280** | 254 | 169 | 85 | 85 | — | **703** | 159 | **862** |
| Ulrich Wallin *Head of Division* | 2015 | 596 | 15 | **611** | 684 | 456 | 228 | 60 | 168 | **1,751** | 167 | **1,918** |
| | (min.)[2] | 596 | 15 | **611** | — | –754 | –754 | — | — | **–143** | 167 | **24** |
| | (max.)[3] | 596 | 15 | **611** | 1,368 | 912 | 456 | 120 | 336 | **2,891** | 167 | **3,058** |
| | 2014[1] | 570 | 13 | **583** | 660 | 440 | 220 | 60 | 160 | **1,683** | 114 | **1,797** |
| Dr Jan Wicke *Head of Division* (since 1 May 2014) | 2015 | 630 | 31 | **661** | 510 | 340 | 170 | 170 | — | **1,511** | 158 | **1,669** |
| | (min.)[2] | 630 | 31 | **661** | — | –106 | –106 | — | — | **555** | 158 | **713** |
| | (max.)[3] | 630 | 31 | **661** | 1,020 | 680 | 340 | 340 | — | **2,361** | 158 | **2,519** |
| | 2014[1] | 420 | 20 | **440** | 340 | 227 | 113 | 113 | — | **1,007** | 122 | **1,129** |

1) Target value (value given 100% target achievement)
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

M69 **BENEFITS RECEIVED IN OR FOR THE YEAR UNDER REVIEW IN ACCORDANCE WITH SECTION 4.2.5(3) (SECOND BULLET POINT) OF THE GERMAN CORPORATE GOVERNANCE CODE**

EUR THOUSAND

| | | Fixed remuneration | Fringe benefits | Total | One-year variable remuneration[1] |
|---|---|---|---|---|---|
| Herbert K Haas<br>*Chairman*<br>*of the Board of Management* | 2015 | 765 | 21 | 786 | 704 |
| | 2014 | 765 | 21 | 786 | 758 |
| Dr Christian Hinsch<br>*Deputy Chairman*<br>*of the Board of Management* | 2015 | 540 | 15 | 555 | 498 |
| | 2014 | 540 | 15 | 555 | 491 |
| Torsten Leue<br>*Head of Division* | 2015 | 633 | 113 | 746 | 559 |
| | 2014 | 600 | 113 | 713 | 542 |
| Dr Thomas Noth<br>*Chief Information Officer*<br>(until 31 March 2014) | 2015 | — | — | — | — |
| | 2014 | 233 | 6 | 239 | 200 |
| Dr Immo Querner<br>*Chief Financial Officer* | 2015 | 582 | 19 | 601 | 483 |
| | 2014 | 582 | 19 | 601 | 454 |
| Dr Heinz-Peter Roß<br>*Head of Division*<br>(until 30 June 2014) | 2015 | — | — | — | — |
| | 2014 | 280 | — | 280 | 445 |
| Ulrich Wallin<br>*Head of Division* | 2015 | 596 | 15 | 611 | 833 |
| | 2014 | 570 | 13 | 583 | 770 |
| Dr Jan Wicke<br>*Head of Division*<br>(since 1 May 2014) | 2015 | 630 | 31 | 661 | 325 |
| | 2014 | 420 | 20 | 440 | — |

1) Benefits received in the year under review (basis: provisions)
2) Benefits received in accordance with German tax law
3) 2015, the equivalent value of the Talanx share awards (incl. dividends) which had been granted to the Members of the Board of Management as a special remuneration in connection with the IPO of the Company 2012 was paid out. Moreover, the equivalent value of the share awards is paid out four years after they are granted.
4) E.g. claw-backs

## REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is governed by article 13 of the Articles of Association of Talanx AG. It is set by the General Meeting of Talanx AG. By resolution of the General Meeting of Talanx AG on 4 June 2010, Members of the Supervisory Board receive, in addition to reimbursement of their expenses, 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 received 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 interests, falls short of the minimum return in accordance with

| Benefits received | | | | | | | |
|---|---|---|---|---|---|---|---|
| Multi-year variable remuneration [2] | | | | | | | |
| Bonus bank (3 years) | Talanx share awards (3 or 4 years) [3] | Hannover Re share awards (4 years) | Hannover Re stock appreciation rights (10 years) | Other [4] | **Total** | Pension expense | **Total remuneration** |
| 242 | 450 | — | — | — | **2,182** | 344 | **2,526** |
| — | — | — | — | — | 1,544 | 241 | 1,785 |
| 161 | 270 | — | — | — | **1,484** | 258 | **1,742** |
| — | — | — | — | — | 1,046 | 181 | 1,227 |
| 141 | 225 | — | — | — | **1,671** | 448 | **2,119** |
| — | — | — | — | — | 1,255 | 257 | 1,512 |
| — | — | — | — | — | **—** | — | **—** |
| — | — | — | — | — | 439 | — | 439 |
| 145 | 360 | — | — | — | **1,589** | 219 | **1,808** |
| — | — | — | — | — | 1,055 | 129 | 1,184 |
| — | — | — | — | — | **—** | — | **—** |
| — | — | — | — | — | 725 | 159 | 884 |
| 280 | 225 | — | 380 | — | **1,949** | 167 | **2,116** |
| — | — | — | 73 | — | 1,353 | 114 | 1,467 |
| — | — | — | — | — | **986** | 158 | **1,144** |
| — | — | — | — | — | 440 | 122 | 562 |

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 2,414 (2,412) thousand. The details are given in the following table.

M70 **INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS**[1]

EUR THOUSAND

| Name | Function | Type of remuneration | 2015[2] | 2014[2] |
|---|---|---|---|---|
| Wolf-Dieter Baumgartl[3] | ■ Chairman of the<br>▪ Supervisory Board<br>▪ Personnel Committee<br>▪ Finance and Audit Committee<br>▪ Nomination Committee<br>▪ Standing Committee | Basic remuneration | 188 | 183 |
| | | Variable remuneration | 142 | 143 |
| | | Remuneration for committee activities | 123 | 123 |
| | | Attendance allowances | 23 | 23 |
| | | | **476** | **472** |
| Ralf Rieger[3] | ■ Deputy Chairman of the Supervisory Board<br>■ Member of the<br>▪ Finance and Audit Committee | Basic remuneration | 101 | 101 |
| | | Variable remuneration | 61 | 60 |
| | | Remuneration for committee activities | 25 | 25 |
| | | Attendance allowances | 6 | 10 |
| | | | **193** | **196** |
| Prof Dr Eckhard Rohkamm | ■ Deputy Chairman of the Supervisory Board<br>■ Member of the<br>▪ Personnel Committee<br>▪ Finance and Audit Committee<br>▪ Standing Committee | Basic remuneration | 75 | 75 |
| | | Variable remuneration | 61 | 60 |
| | | Remuneration for committee activities | 50 | 50 |
| | | Attendance allowances | 11 | 12 |
| | | | **197** | **197** |
| Antonia Aschendorf | ■ Member of the Supervisory Board | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 41 |
| | | Attendance allowances | 4 | 5 |
| | | | **95** | **96** |
| Karsten Faber | ■ Member of the Supervisory Board | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 41 |
| | | Attendance allowances | 4 | 5 |
| | | | **95** | **96** |
| Jutta Hammer[3] | ■ Member of the Supervisory Board | Basic remuneration | 70 | 70 |
| | | Variable remuneration | 41 | 41 |
| | | Attendance allowances | 4 | 5 |
| | | | **115** | **116** |
| Gerald Herrmann | ■ Member of the Supervisory Board (until 8 May 2014) ) | Basic remuneration | — | 18 |
| | | Variable remuneration | — | 16 |
| | | Attendance allowances | — | 1 |
| | | | **—** | **35** |
| Dr Herrmann Jung | ■ Member of the Supervisory Board | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 40 |
| | | Attendance allowances | 4 | 5 |
| | | | **95** | **95** |
| Dr Thomas Lindner | ■ Member of the<br>▪ Supervisory Board<br>▪ Finance and Audit Committee<br>▪ Nomination Committee | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 41 |
| | | Remuneration for committee activities | 25 | 25 |
| | | Attendance allowances | 9 | 10 |
| | | | **125** | **126** |
| Dirk Lohmann | ■ Member of the<br>▪ Supervisory Board<br>▪ Nomination Committee | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 40 |
| | | Attendance allowances | 5 | 5 |
| | | | **96** | **95** |
| Christoph Meister | ■ Member of the Supervisory Board (since 8 May 2014) | Basic remuneration | 50 | 32 |
| | | Variable remuneration | 40 | 24 |
| | | Attendance allowances | 4 | 3 |
| | | | **94** | **59** |
| Jutta Mück[3] | ■ Member of the Supervisory Board | Basic remuneration | 60 | 60 |
| | | Variable remuneration | 41 | 41 |
| | | Attendance allowances | 6 | 7 |
| | | | **107** | **108** |

M70 INDIVIDUAL REMUNERATION OF SUPERVISORY BOARD MEMBERS[1]

EUR THOUSAND

| Name | Function | Type of remuneration | 2015[2] | 2014[2] |
|---|---|---|---|---|
| Otto Müller[3] | ■ Member of the<br>▪ Supervisory Board<br>▪ Finance and Audit Committee (since 8 May 2014) | Basic remuneration | 80 | 80 |
| | | Variable remuneration | 67 | 67 |
| | | Remuneration for committee activities | 25 | 16 |
| | | Attendance allowances | 12 | 12 |
| | | | **184** | **175** |
| Katja Sachtleben-Reimann[3] | ■ Member of the<br>▪ Supervisory Board<br>▪ Standing Committee (until 8 May 2014)<br>▪ Personnel Committee (since 8 May 2014) | Basic remuneration | 50 | 52 |
| | | Variable remuneration | 41 | 41 |
| | | Remuneration for committee activities | 25 | 16 |
| | | Attendance allowances | 7 | 8 |
| | | | **123** | **117** |
| Dr Erhard Schipporeit[3] | ■ Member of the<br>▪ Supervisory Board<br>▪ Finance and Audit Committee | Basic remuneration | 80 | 80 |
| | | Variable remuneration | 67 | 68 |
| | | Remuneration for committee activities | 40 | 40 |
| | | Attendance allowances | 15 | 15 |
| | | | **202** | **203** |
| Prof Dr Jens Schubert | ■ Member of the<br>▪ Supervisory Board<br>▪ Standing Committee (since 8 May 2014 in both cases) | Basic remuneration | 50 | 32 |
| | | Variable remuneration | 40 | 24 |
| | | Attendance allowances | 4 | 4 |
| | | | **94** | **60** |
| Norbert Steiner | ■ Member of the<br>▪ Supervisory Board<br>▪ Personnel Committee | Basic remuneration | 50 | 50 |
| | | Variable remuneration | 41 | 40 |
| | | Remuneration for committee activities | 25 | 25 |
| | | Attendance allowances | 7 | 6 |
| | | | **123** | **121** |
| Prof Dr Ulrike Wendeling-Schröder | ■ Member of the<br>▪ Supervisory Board<br>▪ Personnel Committee (until 8 May 2014 in both cases) | Basic remuneration | — | 18 |
| | | Variable remuneration | — | 16 |
| | | Remuneration for committee activities | — | 9 |
| | | Attendance allowances | — | 2 |
| | | | **—** | **45** |
| **Total**[4] | | | **2,414** | **2,412** |

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. The figures given for the variable remuneration represent the provisions recognised for this item 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 2014 remuneration exceeded provisions by a total of EUR 22 (48) thousand. The total amount of 2015 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.

As at the reporting date, a mortgage loan for a Member of the Supervisory Board in the amount of EUR 3 (18) thousand existed at HDI Lebensversicherung AG. EUR 15 (16) thousand was repaid in the year under review. The remaining term of the loan is three months and the agreed nominal interest rate is 4.2% (effective rate of 4.3%). No other 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.

One Member of the Supervisory Board is Managing Director and Chairman of the Administrative Board of Secquaero Advisors AG, Zurich, and holds an equity interest of 25.93% in this company. Secquaero Advisors AG provided a variety of advisory services to Hannover Rück SE in the year under review and received EUR 205 thousand in fees for 2015 in connection with this.

There were no other 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:

M71 MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

EUR THOUSAND

| | 2015 | 2014 |
|---|---|---|
| Salaries and other short-term remuneration | 9,870 | 10,149 |
| Other long-term benefits [1] | 1,166 | 1,180 |
| Awards of shares and other equity-based remuneration [2] | 1,166 | 1,180 |
| Cost of post-employment benefits [3] | 1,594 | 1,203 |
| **Total** | **13,796** | **13,712** |

[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 2014, which was paid out in July 2015, stood at 24.5%.

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 area, a uniform remuneration system has been in place for all Group managers worldwide since 1 January 2012. Remuneration for managers below the level of the Board of Management consists of a fixed annual salary and a variable component, which in turn comprises a short-term variable component, an annual cash bonus, and a long-term share-based payment, the share award programme. In the front office areas, variable remuneration is measured on the basis of Group net income, divisional targets and personal targets, which are given weightings of 20%, 40% and 40% respectively. For managers in the service sector, 40% of variable remuneration is based on Group net income and 60% on achieving personal targets. Divisional targets and personal targets, and the extent to which they have been met, are agreed in the management by objectives process.

# 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

Our risk strategy forms the basis for the Group-wide implementation of our risk management activities. Together with value-based management, it forms an integral component of our business activities and is also reflected in the detailed strategies for the various divisions. It is derived from our Group strategy and formulates the objectives of our risk management or of the Board of Management.

As an international insurance and financial services group, we consciously and in a controlled manner enter into a wide range of risks that are inextricably linked with our business activities and the corresponding opportunities.

We define risk holistically. For us, "risk" means the full spectrum of positive and negative changes in planned or expected figures over the time horizon in each case. Of particular importance in risk management are those negative changes where we see the possibility of significant and sustained failure to meet an explicit or implied target.

The key benchmark in our risk management activities is the protection of the Group's economic capital. This requires conscious risk handling, taking into account risk materiality and the legal framework. The risk strategy defined by the Talanx Board of Management in accord with the business strategy sets out our basic stance on identifying and handling risks and opportunities.

Our primary aim is to use the risk budget to ensure compliance with the strategically defined risk position. This is measured by the following three statements.

- There is a probability of 90% that we will achieve positive net income in accordance with IFRSs
- 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 should be limited to a maximum of 50% of the total risk capital requirement

As a secondary capitalisation requirement, Talanx targets a capital adequacy ratio that corresponds to the AA category in the S&P capital model. It must also fulfil regulatory requirements.

The principles set out in the Group strategy are reflected in our risk strategy measures and the risk management activities derived from them. Our risk management function supports, monitors and reports on the achievement of these strategic objectives.

Our risk budget is a key tool in strategic risk management. It sets out the maximum risk potential the Group may utilise, based on its risk-bearing capacity and strategically defined risk position, and therefore reflects the Talanx Board of Management's risk appetite.

The risk budget is allocated to the Group's individual divisions as part of strategic programme planning for the coming year and represents the maximum risk capital available to the divisions. In addition, Talanx's system of limits and thresholds specifies limits and thresholds for the capital adequacy ratio both at Group level and in the divisions that reflect the targeted rating under the S&P system and the related confidence level.

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.

## MAPPING OF THE RISK CATEGORIES IN TERM

In order to determine the solvency capital requirement (SCR) using an internal Group model (Talanx Enterprise Risk Model, or "TERM") for all risks with the exception of operational risk following the entering into force of Solvency II at the beginning of 2016, the Group, or rather HDI V. a. G. as the ultimate parent company, requested approval for TERM as the partial internal model to replace the standardised approach on behalf of the Group and key subsidiaries. This was approved by the Federal Financial Supervisory Authority (BaFin) in a letter dated 19 November 2015. The subgroup model of Hannover Re was approved in a letter dated 30 July 2015. At present, the standard formula is used as the basis for determining the SCR for regulatory purposes for operational risks only.

The idea underlying TERM is that, for each consolidated company, a solvency balance sheet is prepared as at the reporting date based on market-consistent values. This balance sheet is projected 10,000 times over a one-year period so as to obtain a distribution function of the own funds or shareholders' net assets (SNAs) contained in the market-consistent balance sheet as well as the other own funds amounts relevant in accordance with Solvency II.

The Group definition of SNAs after non-controlling interests is the basic own funds attributable to each respective shareholder, excluding subordinated debt and after non-controlling interests. The Group's non-life insurers measure their individual assets and liabilities at fair value at the reporting date; in the case of the life insurers, the SNAs correspond to the MCEV.

The internal model maps all material risk categories (that can be measured with mathematical methods) of the Group for the purposes of economic management. Like market risk, natural disaster risk, and premium and reserving risk, diversification also has a significant impact on the Group's SCR. By diversification, we mean both diversification between the risk categories and diversification between the companies included in the Group. In this case, diversification is not an explicitly determined model input, but a model output resulting from the common behaviour of the sources of risk. It is calculated on the basis of carefully selected parameters following the principle of due caution.

In addition to the economic view used for management purposes, the concept underlying TERM also allows the regulatory view required by the supervisory authorities to be mapped. Under supervisory law, it is assumed that the Group is a legal entity up to and including the group parent which fully consolidates the entities belonging to it, i.e. before taking into account any non-controlling interests. In contrast to the economic view, TERM reflects the SCR for operational risk under the standard formula. Disclosable own funds after adding qualifying subordinated capital, surplus funds and, if applicable, items permitted under the Solvency II transitional provisions are subject to restrictions on the right of disposal (in particular non-controlling interests).

The results of the model run as at 31 December 2015 are not yet available. It is planned to publish them on Talanx website soon after their completion in the second quarter of 2016.

## KEY ROLES AND TASKS WITHIN RISK MANAGEMENT

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

M72 **GROUP RISK MANAGEMENT SYSTEM**

| Management element | Key tasks within the framework of the corporate management of risks |
|---|---|
| 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<br>■ Definition of the risk strategy<br>■ Responsibility for proper functioning of risk management<br>■ Model changes |
| Executive Risk Committee (ERC) | ■ Manages, coordinates and prioritises Group-wide risk issues<br>■ Adjusts limits within fixed materiality thresholds<br>■ Approves 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<br>■ 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:<br>■ 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<br>■ Monitoring of management measures within the Group with respect to risks that could threaten the Group's continued existence |
| Chief Risk Officer | ■ Responsible for holistic monitoring across divisions (systematic identification and assessment, control/monitoring and reporting) of all risks that are material from a Group perspective<br>■ Chairman of the Risk Committee<br>■ Option to take part in meetings of the Board of Management when there are items on the agenda relating to risk |
| Central Risk Management | ■ Group-wide risk monitoring function<br>■ Methodological expertise, including the following:<br>■ Development of processes/procedures for risk assessment, management and analysis<br>■ Risk limitation and reporting<br>■ Overarching risk monitoring and risk capital quantification<br>■ Validation of the Group model |
| Local Risk Management | ■ Risk monitoring function in the divisions<br>■ Observance of the centrally defined guidelines, methods and procedures, limit systems and thresholds that serve as the framework for local implementation, monitoring and reporting |
| Compliance | ■ Analysis of compliance risk, based on the early identification, assessment and communication of relevant changes in the legal framework<br>■ Establishment and enhancement of suitable structures for ensuring compliance with applicable legal norms and Group rules |
| Actuarial Function | ■ Coordinates and comments on calculations of underwriting provisions<br>■ Ensures that the calculations and the assumptions and methods used are appropriate |
| Internal Auditing | ■ Process-independent review of the Group's functional areas |

With these roles, the Group has also established the key functions named explicitly in the German Insurance Supervision Act, namely Compliance, Auditing, Risk Management and Actuarial Function. Tasks, processes and reporting obligations were stipulated for each of these functions, in order to establish an efficient and consistent Group (governance) system.

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

## RISK MANAGEMENT PROCESS

The Group and its divisions cover an extensive range of products, from insurance to financial and other services. In line with this, Talanx AG and its subsidiaries use a diverse range of procedures and tools to monitor and manage risk. The Group has adopted a central/local approach that entails a division of labour. Under its internal model (for Solvency II), responsibility also lies with the Group parent company in some cases. The divisions not only operate models that map the specific risks relating to risk takers, but also provide model components for the Group as a whole. Talanx thus gains comparative advantages in modelling risks. The models are upgraded and enhanced jointly by both levels, while the holding company ensures the methodological consistency. We carry out validation procedures and audits to ensure the adequacy of the models used and compliance with Group guidelines.

The overall risk management process encompasses the identification, evaluation, analysis, management and control of risks, the internal monitoring of those procedures and risk reporting.

We identify risks throughout the Group using key indicators and various risk surveys. Qualitative risks are gathered 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. To ensure that all risks are identified, they are coordinated using a comprehensive risk categorisation system that is specifically tailored to Talanx and used as the basis for risk identification. The applicable methods and procedures are documented and are subject to adequacy validation procedures and to audits by Group Auditing.

In addition to this software-based risk identification procedure, Group Risk Management conducts an intensive, institutionalised exchange at least every month to ensure a prompt response to any change in the risk or solvency situation. An escalation procedure has been established to notify Group Risk Management, among others, of significant changes in the risk position, ensuring immediate risk management at the level of Talanx AG.

Group Risk Management uses an internal risk capital model (TERM) for its risk evaluation and analysis. This derives the risk situation of the Talanx Group as a whole from the central and local risks that have been identified and measures the risks. Our main risk measurement activities have been based on the internal TERM model since 2012.

In principle, TERM takes all material, quantifiable risks for economic management into account (operational risks were modelled with the standard formula from the regulatory point of view). 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 published results of the internal model as at 31 December 2014 and the interim calculations for 2015 reveal that the Group has a sufficiently comfortable capital cushion.

Risks that could potentially threaten the Group's existence are restricted, managed and monitored with our central system of limits and thresholds.

In the area of risk monitoring, we make a distinction between independent monitoring that is integrated into particular processes and process-independent monitoring. Integrated independent monitoring is primarily the responsibility of the Risk Committee, the Chief Risk Officer (CRO) and the organisational units supporting the CRO. Process-independent monitoring is mainly performed by the Supervisory Board, the Compliance function and Group Auditing, which also regularly reviews the risk management system.

The purpose of our risk reporting is to provide systematic and timely information about risks and their potential effects, to strengthen the risk culture and to ensure effective internal communication about all material risks as a basis for decision-making. Regular reporting on risk management issues is intended to ensure that the Board of Management of Talanx AG is kept continuously informed of risks and can intervene as necessary to manage them; the Supervisory Board is also regularly advised of the risk situation. Material changes in the risk position must be reported to Talanx AG's Board of Management immediately.

Not only must the potential consequences of risks be documented, they must also be taken into account by Group companies during their annual planning, thus enabling them to factor in the risks of future development and appropriate countermeasures in a timely manner. The plans drawn up for all Group segments and the Group as a whole are discussed and approved by the Board of Management and Supervisory Board of Talanx AG. Talanx AG uses them as the basis for its own earnings forecasts. The objective of this planning process is to adjust not only for future developments but also for interdependencies between planning at the level of individual subsidiaries and at Talanx AG. Both operational and strategic considerations are taken into account during planning via the performance management cycle.

Our decision-making and monitoring processes serve not only to satisfy the extensive regulatory requirements placed on our reporting and notification systems but also extend to the preparation and examination of the annual and consolidated financial statements, the internal control system and the use of planning and financial control tools, and take advantage of the opportunities offered by the use of internal models.

The current assessment of the financial strength of the Talanx primary group by Standard & Poor's (S&P) resulted in A+ (strong, stable outlook), while A.M. Best gave a rating of A (excellent, stable outlook). The risk management was assessed as "strong" by S&P. The internal capital model was also examined during this analysis. As a result of this examination, S&P took the results of the internal capital model of the Group into account when determining the rating target capital.

Our investment management companies Talanx Asset Management GmbH and Ampega Investment GmbH undergo regular audits in accordance with international audit standard ISAE 3402 (International Standards for Assurance Engagements; previously: SAS 70). This provides proof of an adequately configured control system and its effective implementation. The audit was successfully carried out again in 2015.

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

Risk management at the Group is characterised by its organisational structure which includes both central and local elements. Responsibilities are split between local risk management at the level of the divisions and central risk management at Group level.

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 management and corporate structure. Important cross-divisional key functions in accounting are managed centrally
- The functions performed by the main areas involved in the financial reporting process, Finance and Accounting and Controlling, are clearly separated. Areas of responsibility have been assigned unambiguously (separation of functions)
- The departments and units involved in the financial reporting process have appropriate resources at their disposal from both a quantitative and a qualitative point of view
- The financial systems used are protected against unauthorised access by appropriate IT measures. Where possible, standard software is used for the relevant systems
- An adequate system of guidelines (e.g. accounting policies, work procedures) has been set up and is updated on an ongoing basis
- Controls have been implemented in the accounting-related processes and workflows. Bookkeeping data that are received or forwarded are checked for completeness and correctness by the members of staff responsible. The principle of dual control is consistently applied. In addition, a database-driven tool is used to perform automatic plausibility checks
- Controls and work procedures in the accounting-related internal control and risk management system are reviewed as and when required and at least once a year for appropriateness and to determine whether any adjustments are necessary

The processes involved in the organisation and performance of consolidation and the preparation of the consolidated financial statements of Talanx AG, including the Group management report, together with associated checks, are detailed in the overarching ICS documentation, which is also regularly reviewed and optimised from a compliance perspective.

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.

The Group's internal IFRS accounting policies are collected in an accounting manual, which is available to all Group companies in electronic form and provided to all employees directly or indirectly involved in the preparation of the consolidated financial statements. 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. To ensure compliance with the rules contained in the manual, the employees of Group Accounting provide support for the local accounting units at subsidiaries.

Talanx AG's consolidated financial statements are prepared at the parent company's headquarters in Hannover on the basis of the IFRS packages requested and received from the subsidiaries included in consolidation. The subsidiaries themselves are responsible for compliance with Group-wide accounting policies and for the proper, timely operation of their financial reporting processes and systems; as a matter of principle, Talanx Asset Management GmbH manages the investments of the German and the majority of non-German subsidiaries on a centralised basis.

The companies included in the consolidated financial statements use a web-based application for reporting. The items contained in the balance sheet, statement of income, statement of comprehensive income, cash flow statement, statement of changes in equity and Notes as well as data with a bearing on consolidation are stored in a database and uploaded to the consolidation system for processing via interfaces. Intragroup transactions are verified through prior reconciliation processes and consolidated 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 independent auditor audits Talanx AG's consolidated financial statements as at the reporting date and also reviews the Group's quarterly financial statements for 2015 and the IFRS packages from consolidated companies.

## RISKS ASSOCIATED WITH FUTURE DEVELOPMENT

The Group's risk situation can be broken down into the risk categories described below, which are based on German Accounting Standards GAS 20 and embedded in the Group's risk strategy:

- underwriting risks
- default risks
- market risks
- operational risks
- strategic risks
- reputational risks
- emerging risks
- model risks
- other risks

Identified risks are reviewed for materiality on the basis of quantitative and qualitative criteria stipulated by the Board of Management, and handled accordingly.

The results of the Market Consistent Embedded Value (MCEV) calculations and the risk assessment using our internal risk capital model, TERM, as at the end of 2015 will become available in the first half of 2016 and will be published on the Group's website soon after their completion.

### MATERIAL UNDERWRITING RISKS

Underwriting risks in property/casualty insurance are considered separately from those in life insurance, because of the considerable differences between the risks in the two lines.

#### UNDERWRITING RISKS IN PROPERTY/CASUALTY INSURANCE

Underwriting risks in the property/casualty business (primary insurance and reinsurance) derive principally from the premium/loss risk and reserving risk.

##### Premium/loss risk

Premium/loss risk arises because insurance premiums that are fixed in advance are used to make claims payments at some stage in the future, although the amount of the latter is initially unknown. The actual claims experience may therefore differ from the expected claims experience. This may be attributed to two factors, the risk of random fluctuation and the risk of error.

The risk of random fluctuation refers to the fact that both the number and the size of claims are subject to random factors, and expected claims payments may therefore be exceeded. This risk cannot be ruled out even if the claims spread is known. The risk of error describes the risk of the actual claims spread diverging from the assumed claims spread. A distinction is made here between diagnostic risk and forecasting risk. Diagnostic risk refers to the possibility that the actual situation may be misinterpreted on the basis of the available data. This is particularly likely to occur if data regarding claims from previous insurance periods are incomplete. Forecasting risk refers to the risk that the probability distribution of total claims may change unexpectedly after the estimate is made, for example due to a higher inflation rate.

The Group primarily manages and reduces the various components of premium/loss 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 loss triangles, see Note 21 "Loss and loss adjustment expense reserve". The reinsurers' credit ratings are given in the "Default risk" section.

We address the premium/loss 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.

**M73 RETENTION RATIO IN PROPERTY/CASUALTY INSURANCE BY SEGMENT**

%

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Industrial Lines | 51.8 | 50.9 | 44.5 | 45.6 | 44.1 | 46.1 | 43.7 | n. a. | n. a. | n. a. |
| Retail Germany | 95.6 | 95.6 | 94.9 | 94.6 | 92.9 | 91.6 | 85.6 | n. a. | n. a. | n. a. |
| Retail International | 87.3 | 88.9 | 88.5 | 88.5 | 88.7 | 92.4 | 86.9 | n. a. | n. a. | n. a. |
| Primary indemnity insurance[1] | n. a. | n. a. | n. a. | n. a. | n. a. | n. a. | n. a. | 66.7 | 61.2 | 61.6 |
| Non-life Reinsurance | 89.3 | 90.6 | 89.9 | 90.2 | 91.3 | 88.9 | 94.1 | 89.0 | 82.2 | 82.0 |
| **Total property/casualty insurance** | **80.7** | **81.0** | **79.3** | **79.8** | **79.8** | **78.9** | **78.7** | **76.9** | **71.4** | **73.0** |

[1] In 2010, the Group adapted its segment reporting in line with IFRS 8 "Operating Segments" following the implementation of a corporate reorganisation by customer group in its primary insurance business. Due to cost/benefit considerations, however, the reporting for periods prior to 2009 has not been retrospectively adjusted

**M74 NET LOSS RATIO BY SEGMENT**

%

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Industrial Lines | 76.5 | 81.2 | 81.8 | 75.2 | 66.8 | 82.0 | 68.6 | n. a. | n. a. | n. a. |
| Retail Germany | 64.2 | 74.1 | 67.0 | 65.2 | 67.5 | 69.4 | 62.5 | n. a. | n. a. | n. a. |
| Retail International | 64.9 | 65.3 | 66.3 | 68.9 | 70.4 | 75.6 | 71.6 | n. a. | n. a. | n. a. |
| Primary indemnity insurance[1] | n. a. | n. a. | n. a. | n. a. | n. a. | n. a. | n. a. | 69.1 | 73.5 | 73.7 |
| Non-life Reinsurance | 69.3 | 68.9 | 70.3 | 70.7 | 78.8 | 72.0 | 72.8 | 70.5 | 73.6 | 71.3 |
| **Total property/casualty insurance** | **69.1** | **70.8** | **70.8** | **70.3** | **74.4** | **73.6** | **70.5** | **69.9** | **73.6** | **72.2** |

[1] In 2010, the Group adapted its segment reporting in line with IFRS 8 "Operating Segments" following the implementation of a corporate reorganisation by customer group in its primary insurance business. Due to cost/benefit considerations, however, the reporting for periods prior to 2009 has not been retrospectively adjusted

The previous year's rise in the loss ratio in the Retail Germany segment was due largely to additions to property loss reserves and the replacement of reinsurance cover at HDI Versicherung AG; consequently without these effects the loss ratio fell sharply by 9.9 percentage points to 64.2% in the year under review. In 2015 the technical result increased significantly due to the improvement in portfolio quality. Despite a high major-loss burden of EUR 316 (331) million, the loss ratio in the Industrial Lines segment improved by 4.7 percentage points to 76.5%, which is essentially attributable to the higher net premiums. In the Retail International segment, the ratio declined by 0.4 percentage points. In this case, low loss expenditure at the property/casualty insurers in Poland and Italy had a particularly positive impact. Running counter to this, the loss ratio in the Non-Life Reinsurance segment rose by 0.4%.

The loss ratio dropped overall in comparison to the previous year by 1.7 percentage points to 69.1%. The moderate loss ratios in past years also reflect our cautious underwriting policy and our successful active claims management.

Major losses are losses that exceed a defined amount or meet other criteria and therefore are of particular significance in property/casualty insurance. The table below shows the major losses (net) in the financial year in millions of euros, broken down into natural disasters and other major losses, and also as a percentage of the Group's combined ratio:

M75 MAJOR LOSSES (NET) IN THE FINANCIAL YEAR [1]

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| EUR MILLION | | | |
| Major losses (net) | 922 | 782 | 838 |
| of which natural disasters | 276 | 268 | 563 |
| of which other major losses | 646 | 514 | 275 |
| % | | | |
| Combined ratio in property/casualty primary insurance and reinsurance | 96.0 | 97.9 | 97.1 |
| of which major losses (net) | 6.4 | 6.1 | 6.8 |

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

Underwriting risks may arise if incorrect assumptions used in calculations, inadequate accumulation control or errors of judgement in estimating future claims result in material cash flows diverging from the expectations on which the calculation of the premium was based. In this context, risks arising from natural hazards are particularly significant for the Group. Climate change in particular can lead to frequent, severe weather events (e.g. floods or storms) and corresponding losses. Under industrial property insurance policies, major one-off loss events can trigger large claims. To limit these risks, we continually monitor the claims experience to identify any departures from expectations and, if necessary, revise our calculations. For example, Group companies have an opportunity to adjust prices to the actual risk situation each time policies are renewed. They also manage these risks through their underwriting policy. Here, too, underwriting exclusions and limits apply that serve as criteria for risk selection. Retentions also apply in some lines. Carefully selected reinsurance cover reduces peak exposures caused by substantial individual and accumulation risks.

Comprehensive scenario analyses are performed for the Hannover Re Group in particular, in order to identify accumulation risks associated with natural hazards – particularly those for net account – at an early stage. These analyses determine the maximum exposure that Hannover Re should accept for such risks and the retrocession cover needed. Retrocession – i.e. passing on risks to other carefully selected reinsurers of long-standing credit quality – is another key tool for limiting underwriting risks.

### Reserving risk

The second underwriting risk in the property/casualty business, reserving risk, refers to the possibility that technical provisions may not be sufficient to pay in full claims that have not yet been settled or reported but have already occurred. This could result in a need to recognise additional provisions. The companies belonging to the Group manage this risk by measuring their provisions conservatively, taking into account not only the claims information provided by their clients but also insights from their own claims investigations and experience. In addition, an IBNR (incurred but not reported) reserve is recognised for claims that have probably already occurred but have not yet been reported (or not yet reported in their full amount).

Additionally, to minimise reserving risk, the level of reserves is regularly reviewed, including by external actuaries, and external reserving reports are commissioned.

To ensure that benefit commitments can be met at all times, appropriate reserves are recognised and their adequacy continually analysed using actuarial methods. This also provides an insight into the quality of the underwritten risks, their distribution across individual classes with different risk exposures, and expected future claims expenses. In addition, our portfolios are subject to active claims management. Analyses of the distribution of the size and frequency of claims allow risks to be managed in a targeted manner.

Loss reserves are calculated using actuarial methods and where necessary supplemented with additional reserves based on the Group's own actuarial claims estimates and the IBNR reserve for claims that have already occurred but have not yet been reported. In light of the long run-off period, IBNR reserves that are calculated differently depending on the risk class and region are recognised for liability claims in particular.

Adequately calculating loss reserves for asbestos-related claims and environmental damage is a highly complex matter, as in some cases several years or even decades may pass between the damage being caused and the claim being reported. The Group's exposure to asbestos-related claims and environmental damage is relatively minor, however.

The adequacy of these reserves 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 Non-Life Reinsurance segment was 26.9 (28.2) years; reserves for asbestos-related claims and environmental damage amounted to EUR 239 (223) million.

Licensed scientific simulation models, supplemented by the expertise of the relevant functions, are used to consistently estimate the significant catastrophe risks for the Group arising from natural hazards (earthquakes, storms, flooding). The risk to the portfolio is also calculated under various scenarios in the form of probability distributions. Monitoring of the portfolio's exposure to natural hazards (accumulation control) is rounded by realistic extreme loss scenarios. The adequacy of the estimates and the simulation models used as a whole is examined by way of a comprehensive and independent validation process. This means that a validation procedure is carried out by the independent risk control function independently of the units assuming the risk.

The "Concentration risk" section below presents estimates of the net burden under selected relevant accumulation scenarios for natural hazards.

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, Note 21 "Loss and loss adjustment expense reserve"). In addition, the quality of our own actuarial calculations of the adequacy of reserves is verified annually by external actuarial and audit firms.

Our subsidiary Hannover Rück SE hedges certain inflation risks – like various other Group companies – by holding inflation-linked bonds in its portfolio. These bonds hedge a portion of the loss reserves against inflation risks. 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.

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 Non-Life Reinsurance would reduce net income after taxes by EUR 491 (441) million.

### Interest rate risk in property/casualty insurance

The annuity reserve requires particular consideration here. We also monitor interest rate trends for this partial reserve as discounting can result in interest rate risk. A fall in actuarial interest rates could have a negative effect on earnings owing to the need to establish a reserve.

### 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 disaster risks and man-made disasters.

We analyse extreme scenarios and accumulations that could lead to large losses. As part of Solvency II, a uniform global event set has been developed to analyse accumulation risks associated with natural hazards.

Based on the figures calculated most recently, the estimates of the Group's net burden under the following accumulation scenarios of natural hazards is as follows:

M76 ACCUMULATION SCENARIOS, INCLUDING NON-CONTROLLING INTERESTS, BEFORE TAXES[1]

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| 200-year loss event – Atlantic hurricane | 1,399 | 1,253 |
| 200-year loss event – US/Canadian earthquake | 1,358 | 983 |
| 200-year loss event – European earthquake | 916 | 977 |
| 200-year loss event – Japanese earthquake | 740 | 805 |
| 200-year loss event – Asia-Pacific earthquake[2] | 739 | 707 |
| 200-year loss event – Central and South-American earthquake[3] | 660 | 920 |
| 200-year loss event – European storm (winter storm) | 640 | 803 |

[1] Actual trends in natural hazards may differ from model assumptions
[1] Japanese earthquake is not included
[1] Summary of the earthquake scenarios in Central and South America as well as model update (only Chile was shown in the previous year)

Other accumulation scenarios are also regularly tested. In addition, carefully and individually selected reinsurance cover is taken out to protect against peak exposures from accumulation risks. This enables us to effectively limit large individual losses and the impact of accumulation events and thus make them possible to plan for.

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):

M77 LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE[1]

EUR MILLION

| | Gross | Re | Net[2] |
|---|---|---|---|
| **31.12.2015** | | | |
| Germany | 9,114 | 1,654 | 7,460 |
| United Kingdom | 3,944 | 605 | 3,339 |
| Central and Eastern Europe (CEE), including Turkey | 1,648 | 96 | 1,552 |
| Rest of Europe | 7,807 | 1,429 | 6,378 |
| USA | 7,783 | 581 | 7,202 |
| Rest of North America | 1,003 | 560 | 443 |
| Latin America | 1,493 | 137 | 1,356 |
| Asia and Australia | 2,723 | 118 | 2,605 |
| Africa | 246 | 11 | 235 |
| **Total** | **35,761** | **5,191** | **30,570** |
| **31.12.2014** | | | |
| Germany | 8,732 | 1,592 | 7,140 |
| United Kingdom | 4,255 | 566 | 3,689 |
| Central and Eastern Europe (CEE), including Turkey | 1,568 | 82 | 1,486 |
| Rest of Europe | 7,462 | 1,333 | 6,129 |
| USA | 6,312 | 556 | 5,756 |
| Rest of North America | 1,034 | 529 | 505 |
| Latin America | 1,221 | 74 | 1,147 |
| Asia and Australia | 2,311 | 116 | 2,195 |
| Africa | 215 | 10 | 205 |
| **Total** | **33,110** | **4,858** | **28,252** |

[1] After elimination of intragroup cross-segment transactions
[2] After adjustment for the reinsurers' share of these reserves

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:

M78 **PREMIUMS BY TYPE AND CLASS OF INSURANCE**[1]

EUR MILLION

| | Gross written premiums | Net premiums written |
|---|---|---|
| **31.12.2015** | | |
| Property/casualty primary insurance | | |
| Motor insurance | 3,386 | 3,192 |
| Property insurance | 2,621 | 1,383 |
| Liability insurance | 1,712 | 1,007 |
| Accident insurance | 360 | 313 |
| Transport | 505 | 332 |
| Other property/casualty insurance | 492 | 297 |
| Non-life Reinsurance | 9,338 | 8,342 |
| **Total** | **18,414** | **14,866** |
| **31.12.2014** | | |
| Property/casualty primary insurance | | |
| Motor insurance | 3,198 | 3,025 |
| Property insurance | 2,396 | 1,314 |
| Liability insurance | 1,642 | 865 |
| Accident insurance | 320 | 272 |
| Transport | 510 | 339 |
| Other property/casualty insurance | 469 | 341 |
| Non-life Reinsurance | 7,903 | 7,164 |
| **Total** | **16,438** | **13,320** |

[1] Before elimination of intragroup cross-segment transactions

## UNDERWRITING RISKS IN LIFE INSURANCE

In primary life insurance, the insurance policy commits the insurer to pay either a lump sum or a regularly recurring benefit. The premium is calculated on the basis of an actuarial interest rate and a number of biometric factors such as the age of the insured at policy inception, the policy period and the size of the sum insured. The main insured events are the death of the insured person or maturity of the policy (survival).

Typical risks in life insurance are associated with the fact that policies grant guaranteed long-term benefits. Whereas the premium for a given benefit is fixed at the inception of the policy for the entire policy period, the underlying parameters (interest rate levels, biometric assumptions) may change. This applies to an even greater extent to the legal framework, defined not only by the legislators but also by the courts, underlying the contractual relationship. Changes that can aggravate the risk in this regard are discussed under "Material operational risks".

### Biometric risk, lapse risk and interest guarantee risk

Biometric actuarial assumptions such as mortality, longevity and morbidity are established at the inception of a contract for calculating premiums and reserves. Over time, however, these assumptions may prove to be no longer accurate, and additional expenditures 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 policyholders draw benefits for longer than the calculated period.

Due to the above-mentioned risks, the actuarial bases for calculation and our expectations may prove to be inadequate. Our life insurers use various tools to counter this possibility.

- 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 sufficient allowance for the risks of error, random fluctuation and change
- Life insurance policies are mainly long-term contracts with a discretionary 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
- We regularly review the lapse behaviour of our policyholders and trends in lapse activity in our insurance portfolio
- 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; these are calculated, among other things, 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 intermediaries may default in the event of cancellation and therefore are selected 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. In this context, we are monitoring trends resulting from the financial market crisis and the situation in the insurance sector critically. The general market environment is challenging, particularly in the area of retirement products, and there is a trend towards a decline in new business. Cost control and a focus on variable sales costs by using distribution channels such as brokers are used to limit this risk.

In life insurance, a 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. Whereas, under unit-linked policies, the investment risk is borne by the customers, the insurer under traditional policies promises a guaranteed return on the savings elements of the premium.

The most significant risk in German 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 from 4% to 1.25% per annum. Taking into account the additional interest reserve, the average guaranteed interest rate for the German life insurance companies in the Group and for HDI Pensionskasse AG as at 31 December 2015 was 2.61% (2.82%).

The fact that interest rates have been low for several years and are currently extremely low – due among other things to the economic crisis and sovereign debt crisis in the Eurozone and the associated low interest rate policy – increases the interest guarantee risk significantly. If interest rates remain low or fall even further, this will heighten even more the already considerable reinvestment risk for life insurance companies offering traditional guarantee products, as it will then become increasingly difficult to generate the guaranteed return. This will be the case even though the Group mitigates this interest guarantee risk primarily by means of interest rate hedges and by extending durations on the assets side, along with the addition of moderate volumes of higher-yield securities including selected GIIPS issues.

The Group accounts for interest guarantee risk primarily through regular analysis of its assets and liabilities, by constantly monitoring its investment portfolios and the capital markets, and by taking appropriate countermeasures. Interest rate hedging instruments such as forward purchases are also used to a certain extent. Contractual provisions have been used to reduce the interest guarantee risk for a large portion of our life insurance portfolio. At least the surplus participations paid in addition to the guaranteed interest rate can be adjusted to reflect the situation on the capital market.

Legislators and the courts have further extended the contractual interest guarantee for customers through various laws, statutory instruments and rulings. For example, new rules in favour of the customer now govern both the surrender value of a traditional life insurance policy when the policy is terminated prematurely and the minimum benefits when a policy terminates on schedule (Insurance Contracts Act [VVG], Life Insurance Reform Act [LVRG]).

Life insurers are exposed to interest rate risk in two ways. Life insurance policies have very long terms in some cases. Due to the limited supply 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 may regularly have a shorter term than those on the liabilities side (duration or asset-liability mismatch). This gives rise to interest rate risk, which may have a negative impact on the Group companies concerned and therefore on the Group if interest rates remain low or fall further.

However, traditional life insurance policies are also exposed to risks in the event of a rapid, considerable rise in interest rates. This is due, firstly, to the rules governing guaranteed surrender values when insurance policies are terminated prematurely. A rapid rise in interest rate levels may lead to unrealised losses on fixed-income securities, for example. If contracts were to be terminated prematurely, policyholders would be entitled to the guaranteed surrender values in full but, under the law in force, would not share in any unrealised losses incurred. Instead, when the investments were sold, the unrealised losses would have to be borne exclusively by the life insurers. In theory, it might be possible that the fair value of the investments in certain interest rate increase scenarios would not cover the guaranteed surrender values. In addition, the change in the distribution of acquisition costs introduced by the amended Insurance Contracts Act leads to higher surrender values in the initial phase. From 2015 onwards, this effect has been exacerbated even further by the LVRG.

Secondly, in the event of a rapid rise in interest rates, risks result from the accounting treatment under the German Commercial Code (HGB) that applies to benefit obligations and their amount. In HGB accounting, the recognition of benefit obligations to policyholders is governed mainly by the Regulation on the Principles Underlying the Calculation of the Premium Reserve (DeckRV). Since 2011, it has been necessary to recognise an additional interest reserve (ZZR) for rate generations with an actuarial interest rate that exceeds the market reference interest rate formed from a moving average. The expenses incurred in recognising the additional interest reserve require large investment returns, which in some cases can only be provided by releasing valuation reserves. In the event of a rapid rise in interest rates, there is a risk that, due to the moving average used for the reference interest rate, it will still be necessary to allocate large amounts to the additional interest reserve but that it will not be possible to release any further valuation reserves. To reduce the resulting risk of a substantial loss of own funds, the introduction of the LVRG has opened up the option of also using profits on risk and expenses to make allocations to the additional interest reserve.

The continuation of low interest rates over the longer term, the associated financing of the additional interest reserve, the simultaneous distribution of valuation reserves and the maintenance of an adequate solvency ratio will, taken together, put a considerable strain on German life insurance companies, pension funds and occupational pension scheme providers and thus also represent a significant risk for the Group.

The biometric risks described above are especially important in life and health reinsurance; this applies in particular to catastrophe risks, such as in the event of pandemics. In our life and 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 used and assumptions made (e.g. the use of mortality and morbidity tables, and assumptions regarding the lapse rate). 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 revised annually. Specific underwriting guidelines give due consideration to the particular features of individual markets. By monitoring compliance with these 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 (e.g. of lapse risks) are performed whenever new business activities are launched or international portfolios acquired. The interest guarantee risk that is so important in primary life insurance is of little relevance in life and health reinsurance, owing to the structure of the contracts.

The retention ratio expresses the volume of reinsurance cover relative to gross written premiums and shows the proportion of underwritten risks retained by ourselves.

**M79 RETENTION RATIO IN LIFE/HEALTH INSURANCE BY SEGMENT**

%

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retail Germany | 95.8 | 95.2 | 93.9 | 94.4 | 93.6 | 92.9 | 90.4 | n. a. | n. a. | n. a. |
| Retail International | 97.2 | 98.0 | 95.8 | 89.7 | 82.8 | 84.1 | 83.3 | n. a. | n. a. | n. a. |
| Life/health primary insurance[1)] | n. a. | n. a. | n. a. | n. a. | n. a. | n. a. | n. a | 87.9 | 86.9 | 86.0 |
| Life/Health Reinsurance | 84.2 | 83.9 | 87.7 | 89.3 | 91.0 | 91.7 | 90.7 | 89.3 | 90.8 | 85.4 |
| **Total life/health insurance** | **89.1** | **89.6** | **90.9** | **91.3** | **91.8** | **91.8** | **90.1** | **88.4** | **88.5** | **85.8** |

1) In 2010, the Group adapted its segment reporting in line with IFRS 8 "Operating Segments" following the implementation of a corporate reorganisation by customer group in its primary insurance business. Due to cost/benefit considerations, however, the reporting for periods prior to 2009 has not been retrospectively adjusted

## Sensitivity Analysis

A key risk management tool in the areas of primary life insurance and life/health reinsurance is the monitoring of the market consistent embedded value (MCEV). This is the present value of future shareholder income plus equity minus the cost of the capital of life/health primary insurance and reinsurance business after making sufficient allowance for all risks underlying this business. The embedded value is market-consistent in that it is determined by means of a capital market valuation that meets certain requirements for efficient market instruments: it is arbitrage-free and risk-neutral, and the modelling of financial instruments provides current market prices. Sensitivity analyses highlight areas where the Group is exposed and provide pointers as to which areas to focus on from a risk management perspective.

The MCEV is calculated on the basis of models that naturally cannot fully replicate reality and are based on assumptions. The stochastic economic scenarios for the primary insurers were prepared by an external financial consultancy and calibrated using market data at the measurement date. The operating assumptions, for example for biometric factors, lapse rates and costs, are best-estimate assumptions by the companies at the measurement date based on past, present and expected future experience. In this respect, the risk management tools are themselves subject to risks associated with modelling and assumptions. Our Group calculates the MCEV in accordance with industry conventions. When discounting liabilities over 20 years, an extrapolation to an ultimate forward rate of 4.2% after a further 40 years is used for the calculation in accordance with the EIOPA procedure.

The MCEV is calculated for our large primary life insurers and for the life/health reinsurance business of Hannover Rück SE. Sensitivity analyses highlight areas where the Group's life insurers and therefore the Group are exposed in life/health insurance as a whole. Moreover, these analyses provide pointers as to which areas to focus on from a risk management perspective. In the course of the analyses, consideration is given to sensitivities to mortality rates, lapse rates, administrative expenses, interest rates and equity prices.

In the reinsurance business, the sensitivities of the MCEV are determined by underwriting risk. While changes in assumptions regarding mortality/morbidity, lapse rates or costs have a strong impact on the MCEV, the effect of changes in economic conditions is small. By contrast, the MCEV in the primary insurance business is mainly affected by economic conditions. The main driver is the change in interest rates; underwriting risks have less of an impact on the MCEV of the primary insurance business. Below, we provide only qualitative information on the relevant sensitivities and their effects on the MCEV in accordance with IFRS 4.

### Sensitivities to mortality rates

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 the MCEV.

### Sensitivities to lapse rates

Under contracts with a surrender option, the recognised benefit reserve is at least as high as the related surrender value and therefore the economic impact of lapse behaviour tends to be determined more by the size of the cancellation charges and other product features. A higher-than-expected lapse rate would to some extent have a negative impact on the MCEV.

### Sensitivities to administrative expenses

Higher-than-expected administrative expenses would reduce the MCEV.

### Sensitivities to interest rates and equity prices

In primary life insurance, the obligation to generate minimum returns to cover contractually guaranteed benefits gives rise to considerable interest guarantee risk. Fixed-income investments usually have a shorter duration than liabilities under insurance contracts (duration mismatch).

Technical provisions are classified by expected maturity, and investments by the remaining term of the contract. This includes a duration (Macaulay duration) of 9.6 (9.5) for recognised liabilities of the entire Group and 7.7 (7.7) years for fixed-income securities (including interest rate derivatives).

This gives rise to reinvestment risk on credit balances already accumulated and investment risk on future premiums. If investment income over the remaining duration of the liabilities falls short of the interest receivable under the guarantees, this leads to a corresponding reduction in income, and the MCEV falls.

Because of the way life insurance contracts are structured, interest guarantee risk affects German life insurers in particular and therefore the Group as well. For the German life insurance companies in the Group and HDI Pensionskasse AG, the average guaranteed interest rate – weighted by the companies' gross provisions – was 2.61% (2.82%) in 2015.

As some life insurance contracts have long terms, the MCEV is also 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 then actually obtainable in the market, the MCEV underestimates 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 MCEVs underestimate liabilities to policyholders and interest rate sensitivity.

A decline in equity prices would also have a negative impact on the MCEV, although this is very minor, as the equity allocation is currently small.

With respect to the result of the MCEV calculations at the end of 2015, it is anticipated that the slight interest rate increase will be offset overall by a widening of the credit spreads. As the modelling and calculations have not yet been completed at the time of preparation, it is not currently possible to measure the effects and the other developments based on new business, portfolio developments, model changes, etc. conclusively. The 2015 MCEV report will be published on Talanx website in the second quarter of 2016.

### Concentration Risk

In life insurance, concentration risk is dominated by interest guarantee risk. For further information, please refer to the Notes on "Sensitivities to interest rates and equity prices" in the "Sensitivity analysis" section.

For information on geographical concentration, please refer to the following table, which illustrates the distribution of the benefit reserve by region on both a gross and a net basis (after adjustment for the reinsurers' share of these reserves) for life/health insurance.

M80 **BENEFIT RESERVE BY REGION** [1]

EUR MILLION

| | Gross | Re | Net |
|---|---|---|---|
| **31.12.2015** | | | |
| Germany | 40,006 | 437 | 39,569 |
| United Kingdom | 4,776 | — | 4,776 |
| Central and Eastern Europe (CEE), including Turkey | 1,182 | — | 1,182 |
| Rest of Europe | 3,274 | 109 | 3,165 |
| USA | 3,081 | 144 | 2,937 |
| Rest of North America | 88 | 5 | 83 |
| Latin America | 21 | — | 21 |
| Asia and Australia | 2,274 | 1,105 | 1,169 |
| Africa | 46 | — | 46 |
| **Total** | **54,748** | **1,800** | **52,948** |
| 31.12.2014 | | | |
| Germany | 38,770 | 509 | 38,261 |
| United Kingdom | 5,324 | 12 | 5,312 |
| Central and Eastern Europe (CEE), including Turkey | 1,166 | — | 1,166 |
| Rest of Europe | 2,911 | 99 | 2,812 |
| USA | 2,807 | 126 | 2,681 |
| Rest of North America | 86 | 1 | 85 |
| Latin America | 17 | — | 17 |
| Asia and Australia | 1,452 | 438 | 1,014 |
| Africa | 49 | — | 49 |
| **Total** | **52,582** | **1,185** | **51,397** |

[1] After elimination of intragroup cross-segment transactions

### Derivatives embedded in life insurance contracts and not recognised separately

The insurance products offered by primary life insurers may include the following significant options on the part of policyholders if agreed when the contract was entered into:

Minimum return/guaranteed interest rate: this entails a potential risk if current interest rates are significantly lower than the discount rate used to calculate the insurance benefits. In this case, the interest income that is generated may not be sufficient to cover the interest cost. This option is taken into account in the adequacy test required by IFRS 4.

Surrender option and premium waiver: there is a potential risk, firstly, that the insurance benefit will have to be paid in cash to the policyholder as a result of the policy being surrendered and, secondly, that there will be no further cash inflows as a result of premiums being waived and therefore ceasing to be paid. Allowance is made for this risk through appropriate liquidity planning.

Increase in the insured benefit without another medical examination – usually using the actuarial assumptions with regard to biometric factors and the guaranteed return applicable at the time (index-linked adjustment, options to increase insurance cover in the event of certain changes in a person's situation in life): this entails a potential risk that policyholders may be able to obtain insurance at a lower premium than that appropriate to their health risk, as possible surcharges may not be charged.

Option under deferred annuity policies to take the insurance benefit as a one-time payment (lump-sum option) instead of drawing a pension: this entails a potential risk that an unexpectedly large number of policyholders will exercise their option at an interest rate significantly higher than the discount rate used to calculate the annuities. However, the exercise of the option does not result in direct interest rate or market sensitivity, as existing insurance components are affected to a significant extent by personal factors. This option is taken into account in the adequacy test required by IFRS 4.

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.

Other embedded derivatives are economically insignificant.

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, Note 13 "Derivative financial instruments and hedge accounting".

## DEFAULT RISK

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. The default risk on these receivables is constantly monitored as part of our risk management activities. The receivables are large in number, each of a relatively small amount and due from a diverse array of debtors. In general, they are due from policyholders who do not have a rating. Only corporate clients of a certain size or above have external credit ratings. Insurance intermediaries are either individual brokers or brokerages, which, likewise, do not usually have a rating. The individual Group companies operate an effective dunning process aimed at reducing outstanding receivables that result from arrears or defaults on premiums paid by policyholders directly or through intermediaries. Intermediaries are also subject to credit checks.

Credit risk also arises in the primary insurance business on accounts receivable from reinsurers and in the reinsurance business on receivables from retrocessionaires, as gross written business is not always fully retained but (retro-)ceded again as necessary. In reinsurance ceded, we ensure that reinsurers are financially extremely 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. A rating information system accessible throughout the Group ensures the consistent and uniform use of rating information as at a specific reporting date. To limit concentrations, an upper limit is set for each reinsurance group's share of the loss reserves. To avoid or limit default risk on reinsurance business, cession limits are stipulated for individual reinsurance partners and if necessary suitable measures taken to collateralise any receivables or other contractual obligations these reinsurance partners may have.

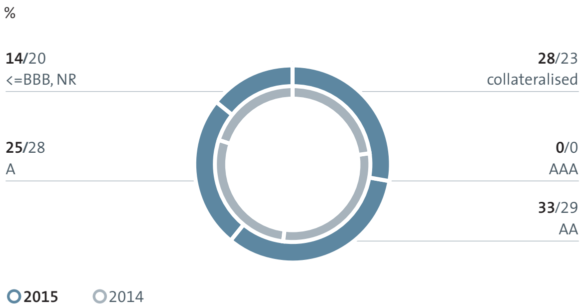
Outstanding receivables more than 90 days past due at the reporting date and the average default rate over the last three years are shown in the Notes. Please refer to our disclosures in Note 14 "Accounts receivable on insurance business".

In primary insurance and in particular at the Group's own reinsurance broker Talanx Reinsurance Broker GmbH, contractual reinsurance cessions are managed in accordance with operational security and placement guidelines. In addition to traditional retrocession in Non-Life Reinsurance, Hannover Rück SE also transfers risks to the capital market.

Claims resulting from reinsurance ceded, i.e. where we pass on risks assumed by ourselves – the reinsurers' share – amounted to EUR 8.4 (7.4) billion.

The reinsurance recoverables on technical provisions are secured by collateral received, such as deposits and letters of credit, in the amount of EUR 2.3 (1.7) billion. We are also the reinsurer for most of our retrocessionaires (particularly in the Non-Life Reinsurance segment), meaning that there is usually some potential for offsetting defaults against our own liabilities. An amount of EUR 6.2 (5.7) billion remains after deducting collateral received. The rating structure here is as follows:

M81 **REINSURANCE RECOVERABLES ON TECHNICAL PROVISIONS BY RATING**




Within the unsecured portion, 81% (74%) 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 –764 (–396) million in the year under review.

## MARKET RISKS

The main risks here are market risk, credit risk and liquidity risk, with market risk comprising the risk arising from changes in interest rates, changes in the spreads for bonds launched by issuers that pose a credit risk, currency risk and risks arising from changes in quoted prices. Market risks constitute an important risk category for the Group.

In the interests of policyholders in particular and with a view to accommodating future capital market requirements, our investment policy is essentially 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)

An essential component of risk management for investments is the principle of the separation of functions between Portfolio Management, Settlement and Risk Controlling. Risk Controlling is also organisationally separate from Portfolio Management and is responsible primarily for monitoring all risk limits and for valuing financial products. Management and control mechanisms are geared closely to the standards promulgated by the Federal Financial Supervisory Authority (BaFin) and the various local regulators.

Detailed investment guidelines are in force for individual companies, compliance with which is constantly monitored. These investment guidelines define the framework for the investment strategy and are guided in the year under review by the principles set out in section 54 of the Insurance Supervision Act (VAG), with the aim of achieving the greatest possible level of security and profitability while ensuring liquidity at all times and preserving an appropriate mix and spread within the portfolio. The Risk Controlling department at Talanx Asset Management GmbH and the CFOs of the individual companies monitor the ratios and limits set out in these guidelines. Any significant modification of the investment guidelines and/or investment policy requires the approval of the board of management of the company concerned and must be brought to the attention of its supervisory board.

The structure of the investment portfolios under own management (excluding funds withheld by ceding companies) is regularly examined in order to review the strategic asset allocation. Talanx's system of limits and thresholds applies the following parameters to significant asset classes on a fair value basis:

M82 **WEIGHTING OF SIGNIFICANT ASSET CLASSES**

%

| | Value specified in investment guidelines | Position as at 31.12.2015 | Position as at 31.12.2014 |
|---|---|---|---|
| Bonds (direct holdings and investment funds) | At least 50 | 90 | 91 |
| Listed equities (direct holdings and investment funds) | At most 25 | 1 | 1 |
| Real estate (direct holdings and investment funds) | At most 7.5 | 3 | 3 |

The limit for real estate was raised by 2.5 percentage points in 2014 to 7.5%. The limits differ between the divisions of the Primary Group and the reinsurance business. The specified values shown relate to the Primary Group and the utilisation rates to the Group. The percentages for bonds, equities and real estate as at 31 December 2015 were within the defined limits.

## MARKET RISK

Market risk arises from potential losses due to adverse changes in market prices and may be attributable to changes in interest rates, equity prices and exchange rates. These can lead to impairments or result in losses being realised when financial instruments are sold.

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. Credit spread risk should also be mentioned. This refers to the difference in the interest rates for a bond entailing a risk and a risk-free bond of the same quality. As with changes in pure market yields, changes in these spreads, which are observable on the market, result in changes in the market prices of the corresponding securities. A drop in interest rates can also lead to lower investment income. For information on the resulting interest guarantee risk in life insurance, see "Material underwriting risks".

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. We manage currency risk by ensuring that matching currency cover is maintained. Risk is limited by investing capital wherever possible in those currencies in which the obligations under our insurance contracts must be met. By systematically pursuing the principle of matching currency cover, we are also able to reduce foreign currency risk within the Group significantly.

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

M83 **INVESTMENTS**

%

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| EUR | 66 | 69 |
| USD | 20 | 16 |
| GBP | 3 | 3 |
| PLN | 4 | 5 |
| Other | 7 | 7 |
| **Total** | **100** | **100** |

Investments in alternative asset classes such as private equity funds and infrastructure investments are limited using a conservative set of rules and regularly monitored.

Real estate risks may result from unfavourable changes in the value of real estate held 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 (such as a real estate crash). In the case of direct investments in real estate, the yield and other key performance indicators (e.g. vacancies and arrears) are measured regularly at the level of individual properties and the portfolio as a whole. As with private equity funds, risk management for indirect real estate investments is based on regular monitoring of the funds' development and performance.

Market risk is primarily 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 level. Exceeding these limits (breaches) triggers predefined escalation processes.

One important element in which market risk is monitored and managed is by 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 (ALM VaR). The ALM VaR is based on historical market data and represents a model-based forecast of the maximum expected loss within a given holding period (e.g. ten days) that will not be exceeded for a given probability. 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. Investment portfolio data are used as the inputs to the calculation and are updated on a daily basis. In addition to these data, the calculations use replicating portfolios for the forecast cash flows from technical liabilities in the form of payment obligations (short positions) so that dependencies between investments and insurance benefits as well as any duration gap in the investment can be taken into account and monitored. A duration gap is a mismatch in the fixed-interest period between assets and liabilities.

The historical market data for the ALM VaR model used cover 521 weeks. On this basis, 520 weekly changes are calculated for the relevant market inputs, such as equity prices, exchange rates, commodity prices and interest rates, and then used to calculate the ALM VaR. The time series used as the basis for calculating the risk inputs are updated monthly, with the market inputs for the oldest four weeks being deleted and replaced with those for the last four weeks. In other words, the model is recalibrated monthly based on the updated market data.

The model used is a multi-factor model based on a multitude of representative time series such as interest rates, exchange rates and equity indices, from which all risk-related factors can be ascertained by means of a principal component analysis. Correlations between the time series are factored into the risk factor weightings and cumulative and diversification effects thus taken into account in the risk assessment. The individual components of the portfolio are analysed by regressing them against these factors. The factor loadings calculated in the process establish a correlation between movements in the factors, which were inferred from movements in the representative time series, and movements in the securities. Risks associated with the securities are inferred by simulating trends in the factors. The risk associated with derivatives such as options is inferred by performing a comprehensive remeasurement during risk simulation, a process that also takes into account non-linear correlations between option prices and price movements in the underlying instruments.

The ALM VaR is calculated using normal market scenarios derived from the past.

As at 31 December 2015, the ALM VaR was EUR 1,453 (1,433) million, or 1.4% (1.4%) of the investments under consideration. In comparison to the previous year, the ALM-VaR ratio fell only marginally.

Alongside long-term monitoring of the risk-bearing capacity of the market risks associated with the investments, a version of the model is used to identify risks at an early stage in which only the last 180 weekly returns 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 a 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.

M84 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] | 31.12.2015 Change in the portfolio on a fair value basis[2] | 31.12.2014 Change in the portfolio on a fair value basis[2] |
|---|---|---|---|---|---|---|
| **Equities**[3] | | | | | | |
| | Equity prices | +20% | 71 | 188 | 259 | 149 |
| | Equity prices | +10% | 36 | 94 | 130 | 75 |
| | Equity prices | –10% | –36 | –94 | –130 | –75 |
| | Equity prices | –20% | –71 | –188 | –259 | –149 |
| **Fixed-income securities** | | | | | | |
| | Increase in yield | +200 bps | –244 | –6,825 | –12,291 | –12,006 |
| | Increase in yield | +100 bps | –137 | –3,656 | –6,639 | –6,494 |
| | Decrease in yield | –100 bps | 165 | 4,006 | 7,126 | 6,946 |
| | Decrease in yield | –200 bps | 359 | 8,446 | 15,053 | 14,673 |
| **Exchange rate-sensitive investments** | | | | | | |
| | Appreciation of the EUR[4] | +10% | –3,192 | –117 | –3,309 | –2,843 |
| | against USD | | –1,982 | –19 | –2,001 | –1,614 |
| | against GBP | | –347 | — | –347 | –322 |
| | against PLN | | –217 | — | –217 | –253 |
| | against other currencies | | –646 | –98 | –744 | –654 |
| | Depreciation of the EUR[4] | –10% | 3,192 | 117 | 3,309 | 2,843 |
| | against USD | | 1,982 | 19 | 2,001 | 1,614 |
| | against GBP | | 347 | — | 347 | 322 |
| | against PLN | | 217 | — | 217 | 253 |
| | against other currencies | | 646 | 98 | 744 | 654 |

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. In addition, Hannover Re has used inflation swaps to hedge part of the inflation risk arising from the technical loss reserves.

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. Derivative positions and transactions are specified in detail in the reporting. The risk of financial default by the counterparties concerned arising from the use of OTC derivatives is reduced by netting and by means of collateral agreements.

Further information on the use of derivative financial instruments can be found in Note 13 "Derivative financial instruments and hedge accounting" under "Notes to the consolidated balance sheet – Assets".

## CREDIT RISK

Counterparty credit risk refers to a potential deterioration in the financial situation 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.

Counterparty credit risk on investments within the Group comprises the following risks:

- issuer risk (default risk, migration risk)
- counterparty risk (replacement and settlement risk)
- concentration risk

Counterparty credit risk is primarily 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. Exceeding these limits (breaches) triggers predefined escalation processes. The 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 or, in individual cases, from a different rating agency. New investments are mainly restricted to investment-grade positions. An early warning system based on market information (in particular on credit spreads and equity prices) has been put in place to spot initial signs of crisis at companies early on and to identify potential migration risks. 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 "Derivative financial instruments and hedge accounting"). We also use credit default swaps to hedge credit risk.

We use the following principal risk components to characterise counterparty credit risk within the Group at individual counterparty level:

- Probability of default (PD) is based on the internal rating and describes the probability that a debtor will default within a defined period
- Loss given default (LGD) indicates the expected loss in the event that a counterparty defaults on an investment. It is issue-specific and is affected by the nature and volume of the collateral and the seniority of the receivables
- Exposure at default (EAD) indicates the expected amount of the receivable at the time of default
- Changes in credit spreads when the objectively assessed credit standing remains unchanged

We calculate an expected loss for the exposure, taking into account the ratings, the assigned probability of default and the loss given default, and at portfolio level we also calculate an unexpected loss (that is, a possible deviation from the expected loss) and a credit VaR. As well as specific features for individual credit risk assessment, the credit VaR also takes into account portfolio concentrations (sectors, countries, groups of debtors) and correlations between the individual levels. The credit VaR indicates the maximum decline in the value of the investment portfolio due to credit risk within a period of one year that will not be exceeded for a defined probability. The confidence level of the credit VaR is 99.5%.

This risk assessment procedure ensures that higher-risk positions are actually assigned a significantly higher risk than lower-risk positions after taking into account clustering effects. 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 2015, the credit VaR for the Group as a whole was EUR 4,755 (4,231) million, or 4.6% (4.2%) of the assets under own management. Year-on-year, the credit VaR ratio of 4.2% increased by 0.4 percentage points. The internal risk calculations capture all investments exposed to credit risk, including government bonds which according to the standard model in Solvency II are considered risk-free.

The absolute rise in the credit VaR is primarily attributable to growth in investments and fair value gains. In addition, risks were selectively entered into at marginally higher credit spreads and the proportion of investments in infrastructure was increased, which due to their relatively long terms were taken into consideration in the credit VaR with slightly above-average risk weighting factors.

The relative changes observable in the credit VaR stress test largely correspond to the 2014 figures.

**M85 CREDIT VAR STRESS TEST**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Rating downgrade by 1 notch | 5,782 (+22%) | 5,132 (+21%) |
| Rating downgrade by 2 notches | 6,987 (+47%) | 6,238 (+47%) |
| Increase in LGD by 10 percentage points | 5,455 (+15%) | 4,933 (+17%) |

The table shows the sensitivity of the credit portfolio to certain credit scenarios, measured in terms of the credit VaR. 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. Sensitivities are calculated by keeping all other inputs unchanged.

Furthermore, a broad mix and spread of asset classes is maintained in order to minimise concentration risk. Concentration risk is limited by Talanx's system of limits and thresholds and by its investment guidelines and is continuously monitored. The aim here is to avoid risks relating to individual debtors that could endanger the Group's continued existence. In addition, investments in higher-risk assets are only permitted to a limited extent. The measurement and monitoring mechanisms outlined correlate with our conservative and broadly diversified investment strategy.

Thus, 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 3.7 billion on a fair value basis, or 3.7%.

**M86 EXPOSURE TO BONDS WITH A RATING OF LESS THAN A–**

EUR MILLION

| | Rating | Government bonds | Semi-government bonds | Financial bonds | Industrial bonds | Covered bonds | Other | Total |
|---|---|---|---|---|---|---|---|---|
| **31.12.2015** | | | | | | | | |
| Italy | BBB | 1,769 | — | 604 | 613 | 327 | — | **3,313** |
| Spain | BBB+ | 779 | 531 | 230 | 411 | 226 | — | **2,177** |
| Hungary | BB+ | 298 | — | 9 | 8 | 7 | — | **322** |
| South Africa | BBB– | 142 | 9 | 25 | 37 | — | 8 | **221** |
| Russia | BB+ | 75 | — | 125 | 120 | — | — | **320** |
| Brazil | BB+ | 143 | 3 | 109 | 326 | — | 13 | **594** |
| Mexico | BBB+ | 120 | 5 | 16 | 328 | — | — | **469** |
| Portugal | BB+ | 39 | — | 3 | 38 | 17 | — | **97** |
| Turkey | BBB– | 33 | — | 35 | 2 | — | — | **70** |
| Others BBB+ | | 23 | — | 41 | 62 | — | — | **126** |
| Others BBB | | 72 | 60 | 47 | 31 | — | — | **210** |
| Others <BBB | | 219 | 49 | 199 | 226 | — | 326 | **1,019** |
| **Total** | | **3,712** | **657** | **1,443** | **2,202** | **577** | **347** | **8,938** |

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.

Investments are serviced regularly by the debtors. Collateral is in place in particular for covered bonds/asset-backed securities and for mortgage loans secured by a charge on the property.

Within the Group, financial assets totalling EUR 749 (713) million serve as collateral for liabilities and contingent liabilities. Of this amount, carrying amounts of EUR 90 (79) million secure existing derivatives transactions for which own investments are held in blocked custody accounts. We have received collateral with a fair value of EUR 21 (13) million for existing derivative transactions. 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 593 (574) million.

Further information on collateral pledged by the Group or received in the course of business can be found under "Contingent liabilities and other financial commitments" in the "Other disclosures" section.

With the exception of mortgage loans, the portfolio did not contain any past due investments that were not impaired at the reporting date because past due securities are written down immediately. Arrears on mortgage loans amount to EUR 1 (2) million in total. This figure includes receivables of EUR 1 (1) million that are more than twelve months past due. As these receivables are adequately secured by charges on property, they were not written down for impairment. Under the contractual provisions, the collateral may only be realised in the event of non-performance. For information on impairment losses charged on investments in the year under review, please refer to Note 30, page 225.

Credit rating structure of the investments: as at the end of the reporting period 95% (95%) of our investments in fixed-income securities were issued by debtors with an investment-grade rating (i.e. a rating from AAA to BBB), 78% (81%) had a rating of category A and better. On acquisition, promissory note loans and registered debt securities are assigned an internal rating derived as far as possible from the issuer's rating. Approximately 53% (57%) of the short-term investments, mainly in overnight money, time deposits and money-market securities with a term of up to one year (balance sheet item: Other investments), are rated A or above.

The rating structures of our fixed-income securities, broken down by balance sheet item, and of the investment contracts and short-term investments are 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. For example, 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.

As a rule, the Group generates significant liquidity positions on an ongoing basis because premium income normally accrues well before claims are paid and other benefits rendered.

We counteract liquidity risk 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 technical payment obligations is based, among other things, on the expected due dates, after allowance for the run-off pattern of reserves.

As an aid to monitoring liquidity risk, each class of security is assigned a liquidity code that indicates how easily the security can be converted into cash at market prices. Risk Controlling at Talanx Asset Management GmbH reviews these codes regularly. Plausibility checks are carried out, taking into account market data and an assessment by Portfolio Management, and the codes are modified if appropriate. The data are then included in the standardised portfolio reporting provided to the CFOs of the insurance companies.

The operational insurance companies are responsible for managing liquidity risk. To do this, they use appropriate systems that reflect the specific features of the Group's different business models. This gives us maximum flexibility in overall liquidity management.

Specific minimum limits are in place at individual Group companies for holdings of highly liquid securities, as well as maximum limits for holdings of low-liquidity securities. Minimum limits in particular are based on the timeframe for technical payment obligations. For example, owing to the shorter terms of their technical payment obligations, the Group's property/casualty insurers generally have higher minimum limits for holdings of highly liquid securities than life insurers, for which the terms of technical payment obligations are usually longer. If risk limits are exceeded, this is immediately reported to the CFOs and to Portfolio Management.

To cushion any short-term liquidity requirements that occur in the Group, Talanx AG holds a minimum level of liquidity, which is placed in money market investments for selected credit institutes. A further component of liquidity management is the availability of a sufficiently large credit line. Talanx AG holds liquid assets, which – if required – can be sold, and it currently maintains two syndicated credit lines with a volume of EUR 1,250 million in total. Moreover, Talanx AG secures the Group's access to long and, if required, also short-term external financing sources. This access is contingent on various factors, such as the general capital market conditions and the Group's own credit rating. Talanx AG's financing options take the form of equity and external funding. Equity can be generated by issuing registered shares. External funding is procured by issuing senior and subordinated bonds with different terms.

The financial crisis has led to a contraction in bank lending and possible associated problems with raising cash. Further concerns have arisen in the banking sector, not only with regard to potential losses on bonds and loans to the GIIPS countries, but also owing to much stricter regulatory requirements for risk capital, which are forcing banks to raise substantial amounts of fresh capital and/or to shorten their balance sheets. A cut-back in lending by banks could also affect Talanx AG and constitute a liquidity risk.

However, due to its business model, liquidity risk is in principle of less significance to the Group compared with the banking industry, because regular premium payments and interest income from investments, together with its liquidity-conscious investment policy, generally provide it continuously with an adequate supply of liquid funds. Unused lines of credit are also available. Nevertheless, liquidity risks could arise, particularly as a consequence of illiquid capital markets and – in the life insurance sector – due to an increase in the lapse rate among policyholders, if this makes it necessary to liquidate a large volume of additional investments at short notice.

For a description of the investments, the main gross provisions (benefit reserve, loss and loss adjustment expense reserve) and the reinsurers' shares (classified by expected or contractual maturity), please refer to the disclosures on the relevant balance sheet items in the Notes.

Property/casualty insurance: 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, as at the reporting date in each case.

The cash inflows shown below for indemnity insurance are all positive.

M87 CASH FLOWS AND LIQUID FUNDS FROM INSURANCE BUSINESS[1]

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Gross written premiums including premiums from unit-linked life and annuity insurance | 17,731 | 15,845 |
| Claims and claims expenses paid (gross) | –10,348 | –9,391 |
| Acquisition costs and reinsurance commissions paid plus administrative expenses | –4,485 | –4,087 |
| **Liquid funds** | **2,898** | **2,367** |

[1] After elimination of intragroup cross-segment transactions

Life/health insurance: 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 risks at the level of Talanx AG can arise, generally due to mismatches between incoming and outgoing payments, for two reasons: the refinancing of liabilities to third parties as they fall due and the need for capital at subsidiaries. A particular risk with regard to refinancing is that it will only be possible to obtain liquid funds at higher interest rates or to sell assets only at a substantial discount.

To manage its liquidity, Talanx AG must ensure its solvency at all times during normal operations and in potential crisis situations. It monitors its liquidity position on a daily basis and draws up 12-month liquidity plans and three-year liquidity forecasts, which are presented to the Group Board of Management at regular intervals. Talanx AG holds a high level of liquidity reserves and liquid assets as well as confirmed bank lines of credit to deal with unexpected liquidity requirements.

Other financial arrangements: In addition to the assets available to cover provisions and liabilities, the Group also has the following lines of credit at its disposal that can be drawn upon as required:

As at 31 December 2015, the Group had two syndicated variable-rate credit lines with a nominal value of EUR 1.25 billion. As in the previous year, these were not drawn down as at the reporting date. The existing syndicated credit lines can be terminated by the lenders if there is a change of control, i.e. if a person or persons acting in concert, other than HDI Haftpflichtverband der Deutschen Industrie V. a. G., gains direct or indirect control over more than 50% of the voting rights or share capital of Talanx AG.

Hannover Rück SE has facilities for letters of credit (LoC) in place at various credit institutions. A syndicated facility agreed in 2011 for the equivalent of EUR 915 (823) million was ended in January 2016 and partially refinanced through bilateral credit agreements.

LoC facilities are also in place with credit institutions on a bilateral basis for the equivalent of EUR 2.6 (2.6) billion. The durations vary and run until 2022 at the latest. For information on the letters of credit, please refer to our disclosures under "Contingent liabilities and other financial commitments" in the "Other disclosures" section, page 242.

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 significant events, such as a significant rating downgrade, occur.

In addition, Talanx AG holds liquid assets that can be sold if necessary.

## MATERIAL OPERATIONAL RISKS

We define operational risks as risks arising from internal processes and events triggered by employee-related, system-induced or external factors. This also includes legal and compliance risks. Strategic risk and reputational risk do not fall into this risk category.

The companies in the Group identify and assess their operational risks on the basis of a structured, regular individual risk survey in the risk capture system, in combination with quarterly instruments such as risk meetings. The risk managers for the functions at division and Group level are responsible for identifying and assessing risks. They report and assess their operational risks, including related risk mitigation measures. Operational risks are primarily managed and monitored using appropriate processes and procedures forming part of the internal control system. Relevant risks are included in risk reporting.

Multifaceted, cause-based risk management and an efficient internal control system minimise risks associated with business activities in general, members of staff or technical systems. The Compliance function is responsible for making sure on an ongoing basis that there are rigorous concepts in place for ensuring compliance with the law and with regulations that are applicable within the Group. Auditing performs a controlling function as part of its role as a third line of defence.

Legal risks may arise in connection with contractual agreements and the broader legal environment, especially with respect to business-specific uncertainties in the areas of commercial and tax law as they relate to an international life/health and non-life (re-)insurer. Primary insurers and reinsurers are also dependent on the general political and economic conditions in the markets on which they operate. Legal risk represents a significant risk for the Talanx Group in the area of life insurance in particular. Statutory reforms, e.g. in connection with IFRSs and Solvency II, are identified at an early stage in order to enable us to fulfil stricter requirements. In addition, developments in supreme court rulings in particular and changes in the law that could affect Group companies are closely monitored by the Group's in-house legal team.

Examples: A number of countries are planning or have already introduced a financial transaction tax as a means of recovering at least part of the cost of the banking crisis. In February 2013, the European Commission presented a proposal for a directive on a financial transaction tax. As agreement could not be reached on its introduction throughout the EU, Germany and ten other EU member states decided in 2014 that they would introduce a financial transaction tax through enhanced cooperation, starting in 2016. The tax is to be phased in successively, with only trading in equities and some derivatives likely to be taxed to begin with. As there is still no agreement in place, however, it is unclear whether the tax will actually be introduced at the beginning of 2016. Possible modifications to the financial transaction tax at later stages, in particular the inclusion of pension products and related investments, are also unclear. There is a risk of such a tax also affecting our Group. Calculations by the German Insurance Association (GDV) assume an annual charge of around ten basis points on the investments concerned, based on minimum tax rates.

Furthermore, the revision of the flat-rate approach to measuring loss provisions may result in tax risks for the Group. The Federal Ministry of Finance has extended the previous regulation, which was limited to financial years ending before 1 January 2014, by a further two years in the first instance. The expiration of the flat-rate arrangement involves a risk of an increase in gains for the companies in the Talanx Group only from a tax perspective.

There are also proceedings pending before the courts that could have implications for the entire German insurance industry, and hence also for the Group, once a final and non-contestable outcome is reached. This applies in particular to the area of life insurance.

On 19 December 2013, the European Court of Justice clarified a legal issue in connection with the policy model that applied to insurance contracts from 1994 to 2007. The court ruled that the statutory period that applied at the time (section 5a(2) sentence 4 of the old version of the Insurance Contracts Act [VVG]) – after the expiry of which policyholders could no longer revoke the insurance policy – was incompatible with EU law (see Talanx's 2013 Group Annual Report for details). As one of the legal consequences of this ruling, the German Federal Court of Justice ruled on 7 May 2014 and confirmed in its judgement of 17 December 2014 that life insurance policyholders can still exercise their right of objection after the expiry of the one-year period set out in section 5a(2) sentence 4 of the old version of the VVG in these cases in which insufficient information had been provided on the right of objection, or in which no consumer information or insurance terms and conditions were provided. However, in a further ruling handed down on 16 July 2014, the Federal Court of Justice clarified that policyholders who were properly advised when they entered into contracts based on the policy model and who had performed the contract for years do not have a right of objection and therefore do not have a right of restitution either. On 15 April 2015, the Federal Court of Justice ruled on the previously open, contested question of when the statute of limitations starts to run on claims for restitution resulting from a right of objection in the policy model in accordance with the old version of section 5a of the VVG. It agreed with the view that the three-year statute of limitations for the claim for restitution only starts to run as of the year in which the right of objection is exercised. By adopting this view, the Federal Court of Justice again rejected views that the statute of limitations begins/began to run on payment of the premium concerned, or at the latest with the Court's clarification of the previously uncertain legal position on 7 May 2014.

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

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

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

In addition, the adoption of the Life Insurance Reform Act (LVRG) has brought some adverse changes for the insurance industry as well as some relief with regard to granting a share of the valuation reserves. Implementing the requirements of the LVRG is a key priority.

Under the VVG, policyholders as defined in accordance with section 153 III of the VVG are entitled to a share of the valuation reserves as well as the surplus paid on an ongoing/annual basis and the surplus paid upon termination of the policy, unless an exclusion applies. The majority of life insurers grant a minimum share in the valuation reserves, which becomes due upon termination of the policy irrespective of the actual amount of the valuation reserves. If the valuation reserves are relatively high, customers receive a share in valuation reserves in addition to the minimum share upon termination of the policy. If the valuation reserves are low, only the minimum share may be paid. This practice has been heavily criticised by consumer protection groups and customers, as a result of which court rulings or regulators responding to this criticism may require additional payments to be made. The probability of this risk occurring is currently considered to be low. The German Federal Government's response to a minor interpellation from the Greens Party also shows that the Group's legal view is well founded and, in the event of a legal dispute, a valid one. The risk in this case relates to valuation reserves that have already been allocated. The potential loss will not increase significantly due to the adoption of the LVRG. A decision by the Federal Court of Justice on 11 February 2015 (file reference: IV ZR 213/14) relating to a similar proceeding involving a competitor supports the Group's practice of fulfilling claims to the surplus participation.

In response to the financial crisis, the EU created the basis for shareholder and creditor participation in the recapitalisation of banks in need of restructuring (bail-in rules) in the form of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD). Austria was the first member state to transpose the EU directive for banks (only) into national law with the Austrian Federal Act on the Recovery and Resolution of Banks (BaSAG). On this basis, the Austrian Financial Market Authority (FMA) imposed a payment moratorium on Heta Asset Resolution ("Heta") on 1 March 2015. However, Heta did not have a banking licence, nor had it participated in ECB stress testing as at this date. As a result, there are serious doubts as to the lawfulness of the FMA's approach for this reason alone. The application – for the first time – of these bail-in rules prevented a "classic" insolvency of Heta and therefore also a recourse to the guarantor, the Austrian federal state of Kärnten. The move impacted net income for the period attributable to shareholders of Talanx AG by an amount in the single-digit millions of euros as at the 2015 year end. Furthermore, there is considerable uncertainty and a lack of clarity about how the European Bank Recovery and Resolution Directive (BRRD) will be implemented in national law. Various proposals are being discussed in the individual member states. A standardised implementation is also conceivable in light of the desired harmonisation (banking union). The implementation will therefore not take place as of 1 January 2016 in several states.

Following the squeeze-out at Gerling-Konzern Allgemeine Versicherungs-AG that was resolved in September 2006 and became effective in May 2007, former minority interest shareholders instituted award proceedings to have the appropriateness of the settlement reviewed. The proceedings are pending before the Cologne Regional Court. The material financial 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. The Group considers the probability of the risk occurring and a payment being made in excess of the provisions already recognised to be small.

Further potential developments in supreme court rulings and changes in the law that could affect Group companies are being closely monitored for the management by in-house lawyers. Irrespective of the question of whether they are legally binding, individual court rulings can lead to reputational risks.

Like the entire insurance industry, the Group is facing fundamental changes resulting from reforms of regulatory standards, especially in the context of the IFRSs and Solvency II. We are tracking these accounting and regulatory changes closely, have identified the more exacting requirements that they entail, and have enhanced our risk management and governance structure in line with this, in order to satisfy the more complex and extensive standards that will apply in future. The Group's central Legal department and its Compliance function are supervising this process closely with the aim of ensuring that legal requirements for risk management and the business organisation are interpreted consistently throughout the Group.

The economic and sovereign debt crisis and the prospect of new regulatory requirements are increasingly driving a trend towards more exacting capital requirements on the part of supervisory authorities. This could also affect Group companies and require capitalisation measures to be taken. For example, the Financial Stability Board (FSB) has published a list of global systemically important insurance companies. These insurance companies are subject to "tighter regulation" and had to draw up restructuring and liquidation plans by the end of 2014. Additional capital reserves for systemically relevant risks are also planned. The FSB has not classified the Group as a global systemically important insurer. If this were to change, unplanned costs could arise for the Group. There are no reinsurance companies on the FSB's list as yet. A decision on their systemic importance is expected to be made soon. Irrespective of the issue of global systematic importance, the FSB and the IAIS (International Association of Insurance Supervisors) are working on insurance capital standards for international insurers. This may result in discrepancies for the Group versus the solvency requirements inferred from Solvency II. At present, the IAIS is developing a set of comprehensive assessment criteria. The efforts of the ESRB (European Systemic Risk Board) also seem to be pointing towards a tightening of the solvency requirements: it recently published its report on systemic risks in the insurance industry.

Along with legal risks, other significant operational risks for the Group include data systems failure and data security. Ensuring the availability of applications and protecting the confidentiality and integrity of data are of vital importance to the Group. Since information is increasingly shared electronically worldwide, data interchange is also vulnerable to computer viruses (cyber risk). Targeted investments in the security and availability of our information technology preserve and enhance the existing high level of security.

The Talanx Group and IBM Deutschland GmbH have signed a contract for the operation of the data centre of the Primary Group in Germany. The consolidation of the data centres will help to improve the operational stability of the IT infrastructure, will allow greater flexibility and is an important step towards reducing the infrastructure costs of the Group. The migration to the new environment is due to be completed by the end of 2017. Any risks relating to this transition are being monitored closely.

Operational risks may also arise in the area of human resources, for example due to a shortage of the qualified experts and managers needed to run an increasingly complex business with a strong client focus and to implement important projects. The Group therefore attaches great importance to training and continuous professional development. Personalised development plans and appropriate skills enhancement opportunities enable staff to keep abreast of the latest market requirements. In addition, state-of-the-art management tools and – where permissible under collective wage agreements – appropriate incentive schemes (both monetary and non-monetary) foster strong employee motivation. At Talanx, internal schedules of responsibilities and workflows and regular specialist checks and internal audits counter the risk of staff committing fraudulent acts to the detriment of the Company.

The work situation in the Operational Property area in recent months, stretching back to 2014, was marked by severe backlogs (processes above and beyond the service level). With the help of the "Immediate measures" project initiated in September 2014, it was possible to completely resolve the backlog by 30 October 2015. In this way, Operational Property created a positive initial situation before the beginning of the motor treaty renewal period in the fourth quarter, allowing it to secure a stable working situation and appropriate telephone availability in the months with traditionally high mail traffic volumes from November 2015 to April 2016 (motor year-end business and its effects).

We mitigate the risk of business interruptions caused by problems with the building infrastructure by complying with safety and maintenance standards and fire protection measures. In addition, emergency plans enable us to resume normal operations as quickly as possible in the event of an interruption. We have set up task forces both at the level of Talanx and at individual Group companies in order to manage and coordinate measures to restore normal operations.

Risks arising from outsourced functions or services are in principle incorporated into the risk management process. They are identified, assessed, managed and monitored, and are included in risk reporting, even if the service is only provided internally within the Group. We also conduct initial risk analyses before outsourcing activities/areas.

Sales-related risks can arise in relation to the general market environment (the economy, inflation, biometrics, etc.) and the situation in the insurance sector (competition, the needs of customers, intermediaries and employees, etc.). On the marketing side, the Group generally works together not only with its own field sales force but also with external intermediaries, brokers and partners. In this respect there is, of course, always a risk that marketing agreements may be impacted by external influences, with corresponding potential for the loss of new business and the erosion of in-force portfolios.

## EMERGING RISKS

The defining trait of emerging risks (such as those in the field of nanotechnology or in connection with climate change) is that their risk content cannot yet be reliably assessed – especially as regards their impact on our in-force portfolio. Such risks evolve gradually from weak signals to unmistakable trends. It is therefore vital to recognise them at an early stage and then assess their relevance. We have developed an efficient cross-divisional early detection process and ensured that this is integrated with our risk management activities, thus making it possible to identify any measures required (e.g. ongoing observation and evaluation, exclusions in insurance contracts or designing new [re-]insurance products).

## STRATEGIC RISKS

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

Reputational risks are risks associated with possible damage to the Company's reputation as a consequence of unfavourable public perception (e.g. among clients, business partners or government agencies). These may result, for example, from the inadequate implementation of legal requirements or from delays or errors in the publication of the Company's figures. 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.

## MODEL 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. In this context, the term "model" encompasses quantitative methods, processes and procedures that use statistical, economic, financial or mathematical theories, techniques and premises to process inputs (including qualitative data/expert estimates) so as to produce quantitative estimates.

Particularly with regard to expert inputs, sensitivity analyses quantify the inherent model risk and provide an indication of the robustness of the SCR.

When applying models, judgements are made to a certain extent by management and inputs used that are based on estimates and assumptions that are included in the model calculations and may subsequently differ from actual events. In addition, in some of our measurements, we rely on estimates of future model calculations, as certain calculations cannot be completed until after the consolidated balance sheet has been prepared. To this end, model adjustment guidelines were agreed with BaFin during the course of the application procedure, which stipulate the changes that a company can make to the model. The goal of the model adjustment process is a controllable, continuous improvement.

The "full fair value" principle set out in Solvency II leads to severe fluctuations in German life insurers' capital requirements for long-term guarantees. Long-term guarantees must be taken into account when calculating the market price of underwriting commitments and must be backed by equity. Persistently low interest rates are exacerbating the situation, as life insurers face the ever greater challenge of generating the contractually agreed return for commitments with high interest guarantees. Further exacerbated by the uncertainties involved in ensuring that reporting of long-term guarantee commitments is consistent with the market in accordance with Solvency II, a situation in which life insurers may therefore require additional equity or may need to reduce their net risk in the near future cannot be ruled out.

## OTHER MATERIAL RISKS

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 Group uses appropriate tools in Controlling, Group Auditing and Risk Management to counter risks arising from earnings developments at subsidiaries. Our standardised reporting system regularly provides decision-makers with up-to-date information about the Group and business trends at all major subsidiaries, enabling them to intervene at any time to manage risks. The Group reduces risks associated with a lack of earnings stability in the investment portfolio or with imbalances in the business for the various risk sources primarily by means of segmental and regional diversification, by adopting appropriate strategies for minimising and passing on risk, and by investing systematically in high-growth markets and in product and portfolio segments that stabilise earnings. Risks at subsidiaries that could lead to the realisation of investment risks at Talanx AG are identified, monitored and managed in the subsidiaries' risk management systems.

We counter the risk of asset erosion or inadequate profitability at acquisitions by conducting intensive due diligence audits in cooperation with Risk Management and independent professional consultants and auditors, and by closely monitoring their business development. M&A guidelines set out the process for mergers and acquisitions, along with interfaces and responsibilities. In addition, Talanx pays close attention to risks deriving from acquisition financing and subsidiaries' capital requirements, and tracks the latters' anticipated profitability and ability to pay dividends. It monitors financing risk by regularly updating liquidity calculations and forecasts and by defining priorities for allocating funds.

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. Talanx conducts regular reviews of the adequacy of its actuarial assumptions to counteract the risk of possible inadequate allocations to pension provisions (e.g. due to changes in mortality, inflation and interest rate changes).

## SUMMARY OF THE OVERALL 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. However, if risks were to occur cumulatively, this could result in the need to adjust certain intangible assets and carrying amounts. For example, a prolonged period of low interest rates could have a material adverse effect on earnings and solvency in parts of the life insurance business due to increased interest guarantee and reinvestment risk. In particular, it poses a risk to the Group's life insurers and occupational pension scheme providers, which may have to recognise additional provisions for interest payments in the HGB financial statements.

In abstract terms at least, there is still considerable uncertainty as to whether risks associated with the sovereign debt crisis could crystallise in future and have a lasting impact on the Group's net assets, financial position or results of operations. Furthermore, as explained, ongoing developments in the legal framework governing our business activities are highly uncertain. As interpretations of the legal situation have changed over time, we face a degree of uncertainty over how regulatory requirements (Solvency II) will be interpreted in practice in future.

The Group satisfies all currently applicable regulatory solvency requirements; see "Group solvency" in the "Net assets and financial position" section of the report on economic position.

# REPORT ON EXPECTED DEVELOPMENT AND OPPORTUNITIES

## ECONOMIC ENVIRONMENT

The mixed performance by the global economy is set to continue in the coming quarters. The USA is currently on a stable path of growth. Its strong economic performance can be seen particularly in the strong labour market and on the real estate market. Combined with improved conditions on the labour market, this shall give a further long-term boost to consumer spending. In parallel with the increase in assets and lower inflation rates, there has been a significant rise in disposable household income in the US and a noticeable decline in debt service payments. Private consumption is expected to be an important growth driver in the USA over the coming quarters.

The economic recovery in the Eurozone should continue in the coming quarters. In addition to the ECB's expansive monetary policy, the low euro rate is also expected to have a positive effect. The recent positive developments on the job market are expected to continue; in conjunction with low inflation, this will increase real earnings and, thus, boost spending. Reduced commodity prices will also have a positive impact on consumer spending over the next few months. The recent negative trend among emerging markets has continued to accelerate. We believe that they are facing both structural and cyclical challenges. Nevertheless, growth rates are likely to remain extremely mixed in the future. The structural problems in China, including the high level of debt, will probably have effects on the economy.

The divergence in economic growth between the industrialised nations and the emerging markets is increasingly leading to the decoupling of the economies in question and hence of the associated inflation and interest rate cycles. In the USA, a wage-price spiral is likely to cause inflation, which will make a continued "return to normal" for monetary policy necessary. In contrast, the ECB is expected to continue its very expansionary monetary policy due to low inflation rates, high unemployment in some markets and mixed, at times very moderate, growth rates. Inflation rates in the Eurozone may remain very low over the coming months.

## CAPITAL MARKETS

A generally low interest rate environment is expected to remain unchanged in the medium term in view of the low inflation forecasts, the sustained geopolitical risks and the increasingly expansionary monetary policy announced by the ECB in December 2015. This expansive monetary policy is not expected to end in the year under review. German government bonds with maturities of up to approximately eight years recorded a new low in the fourth quarter. The Federal Reserve increased the prime rate in December 2015. The Federal Reserve deems an interest rate of 1.375% to be appropriate by the end of 2016, so a further three to four hikes can be expected over 2016.

Legal and political pressure on rating agencies is expected to lead to a continuation of cautious rating procedures even in the future and in cases of doubt, to lower ratings. Despite the agreement reached in July 2015, the Greek issue may become critical again during the year under review, along with the weakness in growth in China with negative effects for the emerging markets. Over the fourth quarter of 2015, there were significantly higher levels of activity on the primary market, with issuers focusing particularly on subordinated bonds. We assume that the volume of new issues will remain stable in 2016 when compared to 2015.

Prices on the European and US stock markets are currently relatively high. Growth in profits may have further room for recovery in Europe. At the same time, the low commodity prices have probably yet to be fully factored in here, which could lead to an additional rise in profits. Overall, we expect neutral to below-average performance on the global stock markets by the end of the year.

## FUTURE STATE OF THE INDUSTRY

Our forecasts for the insurance industry are based for the most part on studies by reinsurance company Swiss Re and rating agency Fitch Ratings.

### GERMAN INSURANCE INDUSTRY

In light of the persistent economic risk factors – which will also continue into 2016 – forecasts are generally subject to caveats. Assuming that macroeconomic conditions do not deteriorate significantly, the insurance industry will achieve largely constant premium volumes year on year according to the German Insurance Association (GDV).

Property and casualty insurance in Germany is expected to see an increase in premium income in 2016. However, premium growth is likely to decline further compared with the level recorded in the year under review. This projection reflects the expected growth in motor insurance – the key driver of positive premium growth in recent years.

Following the decrease in premium volume – in particular in the single premium business – for German life insurers in the year under review, the GDV expects a further slight decline in premiums for 2016. Persistently low interest rates and their negative impact on total returns are likely to continue to have an adverse effect on German life insurers' profitability in 2016.

### INTERNATIONAL INSURANCE MARKETS

In international property and casualty insurance, we expect low real growth in premium income in 2016. While only a slight slowdown in premium growth is likely in the developed economies, we expect significant growth in the emerging markets. In light of the expected slight fall in premiums in developed markets and a limited improvement to economic development, we assume that profitability will fall slightly in 2016.

For both the Eurozone and the USA, we estimate that premium growth will continue to rise on account of the positive economic outlook for 2016; however, growth may still be slightly lower than the previous year. In Central and Eastern Europe, we anticipate that the decline in premium growth in 2015 will be followed by slow recovery in 2016 as a result of improved economic development.

Following a subdued 2015, we also anticipate a slight recovery in premium growth for Latin America, but at a lower rate. The unfavourable economic developments in Brazil and the transition to a Solvency-II-based framework in Mexico will contribute to the slower growth. We also reckon with strong premium growth continuing in the Asian emerging markets in 2016, particularly in China, India and South-East Asia.

We expect a further increase in real premium growth in the international life insurance markets, both in the developed and in the emerging markets. However, the challenges posed by consistently low interest rates, volatile financial markets, increasingly stringent regulatory requirements, and moderate global growth forecasts will continue to put pressure on their profitability.

We expect premium growth to rise in Central and Eastern Europe as a result of reinvigorated economic development. In some EU member states in particular, the outlook is positive thanks to a more upbeat consumer climate, lower inflation and more favourable labour market conditions. Following the positive development in Latin America in 2015, we expect real premium growth to continue its recovery in 2016, provided that the recession in core countries, such as Brazil and Argentina, subsides. In Asia, we predict strong premium growth to continue, particularly in China.

## FOCUS AND FORECASTS FOR THE TALANX GROUP IN FINANCIAL YEAR 2016

Our expectations for the Group and its divisions for the current year are set out below. It is still extremely challenging to make earnings and other forecasts with any certainty, because it remains difficult to assess further developments in key underlying conditions such as the sovereign debt and financial markets crises and, above all, the ongoing low interest rate situation.

In the Industrial Lines Division we want to continue our strictly income-oriented underwriting policy in the domestic market and to expand our profitable business abroad. In the Retail Germany Division, we are continuing our programme to sustainably improve competitiveness which we launched in 2015. In the Retail

International Division the primary focus is on the successful integration of the life insurance companies, CBA Vita S.p.A. and its subsidiary Sella Life Ltd. which were acquired in November 2015. The regulatory challenges in Poland continue to be a challenge. In Non-Life Reinsurance, we expect premium volumes to be down slightly based on steady exchange rates. This assumption is based on, among other things, our selective underwriting policy which is to underwrite, for the most part, only business that meets our margin requirements. For Life/Health Reinsurance, we also see good business opportunities in the current year.

M88 **FOCUS OF THE TALANX GROUP'S PRINCIPAL DIVISIONS TAKING INTO ACCOUNT ECONOMIC CONDITIONS**

| Group segment | Our mission and strategic tasks |
|---|---|
| Industrial Lines | ■ International market growth<br>■ Become a global player<br>■ Structural increase in retention<br>■ Enhance profitability in Germany |
| Retail Germany | ■ Enhance customer benefit through innovative, needs-based products and services<br>■ Increase efficiency and improve cost structure<br>■ Increase profitability |
| Retail International | ■ Profitable growth in strategic target markets<br>■ Optimise business in existing markets |
| Non-Life Reinsurance | ■ Slight fall in premium volumes<br>■ Continue to pursue selective underwriting approach |
| Life/Health Reinsurance | ■ Slight increase in gross premiums<br>■ Expand our service offering |

## ANTICIPATED FINANCIAL DEVELOPMENT OF THE GROUP

We are making the following assumptions:

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

### TALANX GROUP

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

### INDUSTRIAL LINES

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

### RETAIL GERMANY

We anticipate that gross written premiums in the Retail Germany Group segment will erode by approximately 3% to 5% in 2016, due in particular to policies maturing as well as what is likely to be more subdued new business as a result of the transition of the product portfolio from traditional guarantee products to modern, capital-efficient products. The first successes of this product transition are reflected in the expectation of a new business margin of around 1% for 2016. The combined ratio is expected to be slightly above 100%, due to the investment phase of the divisional programme. Assuming that there is no further decline in interest rates, we expect an EBIT margin of 1% to 2% for 2016. As a result, the return on equity should be in the region of 2% in 2016.

### RETAIL INTERNATIONAL

In the Retail International Group segment we are aiming for growth in gross written premiums of around 10% in 2016, assuming that there are no unforeseen exchange rate fluctuations. The acquisition of the Italian life insurance companies CBA Vita S.p.A. and its subsidiary Sella Life Ltd. is also taken into consideration here. We anticipate that growth in the value of new business is likely to be between 5% and 10% in 2016 and that the combined ratio will probably be around 96%. We expect an EBIT margin of around 6%. In addition, we anticipate the return on equity for 2016 to be in the region of 6%.

### NON-LIFE REINSURANCE

In Non-Life Reinsurance, we expect premium volumes to be down slightly based on steady exchange rates. This assumption is based, on the one hand, on our selective underwriting policy, whereby we only, by and large, underwrite business that meets our margin requirements, and on the other, on the fact that in 2016 high-volume quota share arrangements will be discontinued, which were still in strong demand from Chinese cedants in the year under review. For the renewal rounds during the year, we are nonetheless anticipating good results once more, thanks to our good ratings and long years of stable customer relationships. Even if it is to be expected that the market conditions in Non-Life Reinsurance will remain soft, we still expect an underwriting result in the general region of that achieved in financial year 2015. The prerequisite for this is that the major-loss burden remains within the scope of our expectations. Our goal for the combined ratio continues to be a figure below 96%. The EBIT margin for Non-Life Reinsurance should amount to at least 10%.

### LIFE/HEALTH REINSURANCE

For Life/Health Reinsurance, we also see good business opportunities in the current year. Our aim remains to offer our customers a comprehensive reinsurance service in addition to the traditional risk coverage. We expect slight growth in gross premiums in Life/Health Reinsurance, after adjustment for exchange rate effects. However it must be taken into consideration here that changes in individual contracts involving very strong premiums have a significant impact on the premium volume, which can be both positive and premium-reducing. The value of new business (excluding non-controlling interests) should be above EUR 110 million. Our EBIT margin targets for the financial solutions and the longevity business (2%) and for the mortality and morbidity business (6%) remain unchanged.

### REINSURANCE DIVISION OVERALL

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

## OVERALL ASSESSMENT BY THE BOARD OF MANAGEMENT

Talanx AG's Board of Management aims for reliable continuity, a stable and high return on equity, financial strength and sustainable, profitable growth, and as such focuses the Talanx Group on 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. Our aim is to serve the interests of our shareholders, clients, employees and other stakeholders to create the best possible benefit for all parties. We have therefore deliberately designed our organisational structure to meet the needs of our customers – our guide in creating a lean and efficient structure. The core objective is to generate profitable growth, with the aim of further developing our individual strengths and pooling forces within the Group.

The Talanx Group is actively responding to the challenges of a globalised world. It has set itself the goal of achieving above-average success in generating business, particularly outside of Germany. Strategic cooperation agreements and acquisitions of companies with strong sales forces in our defined regions of Latin America and Central and Eastern Europe are expected to help expand the Group's international reach. Industrial Lines offers a global service to industrial groups and SMEs, while simultaneously gaining new customers on local markets outside Germany. The foreign companies making up Talanx International conduct business with local retail and commercial customers. Reinsurance is by definition an international business and the global diversification of large-scale, complex risks in order to make them acceptable is a basic tool.

## 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 basic 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, the annual performance management cycle begins with Group management evaluating the strategic targets and specific strategic core issues identified 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 form 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

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 in the German government's coalition agreement. 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, wind farms and water companies, 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 has severely shaken clients' trust in banks. Policyholders are also experiencing significant and prolonged pressure and uncertainty as a result of current low interest rates and capital market volatility. 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. Traditional German life insurance, which gives guarantees for the entire term of the policy, is being put to the test. Given the high own funds requirements under Solvency II for this product category, we believe it makes sense in principle to express these guarantees in a more capital efficient manner in the future and to develop products in the future in line with this.

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, return on investment 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 segment so as to future-proof the Group and improve its competitiveness, and to 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 only be successful when our clients are fully satisfied, and to this end we are working on making it as simple as possible for both 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. We are working on ways to make more systematic 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 aim to encourage this kind of culture.

Should we succeed in restructuring our internal processes faster than currently expected, this could impact positively on our premium growth and results of operations, and could lead to us exceeding our forecasts.

Digitisation: Hardly any other development has changed the insurance industry as profoundly as digitisation. 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 segment are to be made more efficient and the rate of black box processing increased. Furthermore, the process and IT landscape in the industrial insurance segment is to be harmonised across borders. In this way we intend to be a global leader in the provision of industrial insurance. Digitisation offers numerous opportunities. It makes processing insurance claims much faster, more cost-effective and much less complicated. Furthermore, digitisation enables the purposeful evaluation of large amounts of data. As a result, more appropriate prices can be set and customers can be addressed in a targeted fashion. Above all, however, digitisation offers us the opportunity, as a large internationally active Group, to profit from scale effects.

Should we be able to implement the digitisation projects in the Group 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.

### 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, 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 conclude exclusive long-term cooperation agreements with the partners, 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 supporting sales materials.

Our companies in Poland also market their established products via sales cooperation agreements, but use a number of different banks and are not fully integrated with their partners' market presence.

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: The growth of the online economy means that companies are increasingly suffering massive losses as a result of cyber attacks. Most notably, espionage activities by intelligence services have demonstrated recently that manufacturing industry in particular is not immune to risks from cybercrime, 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 cybercrime 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.

## 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 2015

N1 **CONSOLIDATED BALANCE SHEET — ASSETS**

EUR MILLION

| | Note | | 31.12.2015 | | 31.12.2014 |
|---|---|---|---|---|---|
| A. Intangible assets | | | | | |
| a. Goodwill | 1 | | 1,037 | | 1,090 |
| b. Other intangible assets | 2 | | 953 | | 1,006 |
| | | | | **1,990** | 2,096 |
| B. Investments | | | | | |
| a. Investment property | 3 | | 2,198 | | 1,873 |
| b. Shares in affiliated companies and participating interests | 4 | | 111 | | 112 |
| c. Investments in associates and joint ventures | 5 | | 272 | | 262 |
| d. Loans and receivables | 6/12 | | 29,754 | | 30,553 |
| e. Other financial instruments | | | | | |
| i. Held to maturity | 7/12 | 1,287 | | | 2,454 |
| ii. Available for sale | 8/12 | 61,271 | | | 56,183 |
| iii. At fair value through profit or loss | 9/12/13 | 1,063 | | | 1,139 |
| f. Other investments | 10/12 | 4,821 | | | 3,834 |
| **Assets under own management** | | | **100,777** | | **96,410** |
| g. Assets under investment contracts | 11/12/13 | | 2,223 | | 2,037 |
| h. Funds withheld by ceding companies | | | 12,611 | | 14,432 |
| **Investments** | | | | **115,611** | **112,879** |
| C. Investments for the benefit of life insurance policyholders who bear the investment risk | | | | 10,104 | 9,426 |
| D. Reinsurance recoverables on technical provisions | | | | 8,372 | 7,370 |
| E. Accounts receivable on insurance business | 14 | | | 6,070 | 5,252 |
| F. Deferred acquisition costs | 15 | | | 5,078 | 4,645 |
| G. Cash at banks, cheques and cash-in-hand | | | | 2,243 | 2,145 |
| H. Deferred tax assets | 28 | | | 736 | 764 |
| I. Other assets | 12/13/16 | | | 2,537 | 2,699 |
| J. Non-current assets and assets of disposal groups classified as held for sale [1] | | | | 19 | 22 |
| **Total assets** | | | | **152,760** | **147,298** |

[1] For further information see "Non-current assets held for sale and disposal groups" in the Notes

N2 **CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES**

EUR MILLION

| | Note | | | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|
| A. Equity | 17 | | | | |
| a. Subscribed capital | | 316 | | | 316 |
| Nominal value: 316 (previous year: 316)<br>Contingent capital: 104 (previous year: 104) | | | | | |
| b. Reserves | | 7,966 | | | 7,682 |
| **Equity excluding non-controlling interests** | | | **8,282** | | **7,998** |
| c. Non-controlling interests | | | 5,149 | | 4,902 |
| **Total equity** | | | | **13,431** | **12,900** |
| B. Subordinated liabilities | 12/18 | | 1,943 | | 2,661 |
| C. Technical provisions | | | | | |
| a. Unearned premium reserve | 19 | 7,081 | | | 6,316 |
| b. Benefit reserve | 20 | 54,845 | | | 52,679 |
| c. Loss and loss adjustment expense reserve | 21 | 40,392 | | | 37,256 |
| d. Provision for premium refunds | 22 | 4,138 | | | 4,484 |
| e. Other technical provisions | | 376 | | | 374 |
| | | | **106,832** | | **101,109** |
| D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders | | | 10,104 | | 9,426 |
| E. Other provisions | | | | | |
| a. Provisions for pensions and other post-employment benefits | 23 | 1,945 | | | 2,251 |
| b. Provisions for taxes | 24 | 721 | | | 722 |
| c. Miscellaneous other provisions | 25 | 850 | | | 735 |
| | | | **3,516** | | **3,708** |
| F. Liabilities | | | | | |
| a. Notes payable and loans | 12/26 | 1,441 | | | 1,349 |
| b. Funds withheld under reinsurance treaties | | 5,351 | | | 6,253 |
| c. Other liabilities | 12/13/27 | 7,844 | | | 7,626 |
| | | | **14,636** | | **15,228** |
| G. Deferred tax liabilities | 28 | | 2,298 | | 2,262 |
| H. Liabilities included in disposal groups classified as held for sale [1] | | | — | | 4 |
| **Total liabilities/provisions** | | | | **139,329** | **134,398** |
| **Total equity and liabilities** | | | | **152,760** | **147,298** |

[1] 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 2015

N3 **CONSOLIDATED STATEMENT OF INCOME**

EUR MILLION

| | Note | 2015 | | | 2014 |
|---|---|---|---|---|---|
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance | | | 31,799 | | 28,994 |
| 2. Savings elements of premiums from unit-linked life and annuity insurance | | | 1,189 | | 1,091 |
| 3. Ceded written premiums | | | 4,099 | | 3,612 |
| 4. Change in gross unearned premiums | | | –560 | | –449 |
| 5. Change in ceded unearned premiums | | | 14 | | –2 |
| **Net premiums earned** | 29 | | | **25,937** | **23,844** |
| 6. Claims and claims expenses (gross) | 31 | | 24,281 | | 22,702 |
| Reinsurers' share | | | 2,835 | | 2,678 |
| **Claims and claims expenses (net)** | | | | **21,446** | **20,024** |
| 7. Acquisition costs and administrative expenses (gross) | 32 | | 6,337 | | 6,157 |
| Reinsurers' share | | | 514 | | 536 |
| **Acquisition costs and administrative expenses (net)** | | | | **5,823** | **5,621** |
| 8. Other technical income | | | 73 | | 43 |
| Other technical expenses | | | 111 | | 300 |
| **Other technical result** | | | | **–38** | **–257** |
| **Net technical result** | | | | **–1,370** | **–2,058** |
| 9. a. Investment income | 30 | 4,327 | | | 4,263 |
| b. Investment expenses | 30 | 781 | | | 487 |
| **Net income from assets under own management** | | | 3,546 | | **3,776** |
| Net income from investment contracts | 30 | | 9 | | 10 |
| Net interest income from funds withheld and contract deposits | 30 | | 378 | | 358 |
| **Net investment income** | | | | **3,933** | **4,144** |
| of which share of profit or loss of equity-accounted associates and joint ventures | | | | 24 | 9 |
| 10. a. Other income | 33 | | 1,170 | | 1,100 |
| b. Other expenses | 33 | | 1,396 | | 1,294 |
| **Other income/expenses** | | | | **–226** | **–194** |
| **Profit before goodwill impairments** | | | | **2,337** | **1,892** |
| 11. Goodwill impairments | | | | 155 | — |
| **Operating profit (EBIT)** | | | | **2,182** | **1,892** |
| 12. Financing costs | 34 | | | 161 | 183 |
| 13. Taxes on income | 35 | | | 612 | 341 |
| **Net income** | | | | **1,409** | **1,368** |
| of which attributable to non-controlling interests | | | | 675 | 599 |
| of which attributable to shareholders of Talanx AG | | | | 734 | 769 |
| **Earnings per share** | | | | | |
| Basic earnings per share (in EUR) | | | | 2.90 | 3.04 |
| Diluted earnings per share (in EUR) | | | | 2.90 | 3.04 |

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 2015

N4 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Net income** | **1,409** | **1,368** |
| **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 | 279 | –576 |
| Tax income (expense) | –81 | 172 |
| | **198** | **–404** |
| Changes in policyholder participation/shadow accounting | | |
| Gains (losses) recognised in other comprehensive income for the period | –14 | 28 |
| Tax income (expense) | — | — |
| | **–14** | **28** |
| | | |
| **Total items that will not be reclassified to profit or loss, net of tax** | **184** | **–376** |
| **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 | –1,269 | 3,888 |
| Reclassified to profit or loss | –409 | –636 |
| Tax income (expense) | 268 | –473 |
| | **–1,410** | **2,779** |
| Exchange differences on translating foreign operations | | |
| Gains (losses) recognised in other comprehensive income for the period | 258 | 429 |
| Reclassified to profit or loss | — | –2 |
| Tax income (expense) | –15 | –35 |
| | **243** | **392** |
| Changes in policyholder participation/shadow accounting | | |
| Gains (losses) recognised in other comprehensive income for the period | 781 | –2,219 |
| Tax income (expense) | –19 | 45 |
| | **762** | **–2,174** |
| Changes from cash flow hedges | | |
| Gains (losses) recognised in other comprehensive income for the period | 6 | 384 |
| Reclassified to profit or loss | –11 | 1 |
| Tax income (expense) | –2 | –14 |
| | **–7** | **371** |
| Changes from equity method measurement | | |
| Gains (losses) recognised in other comprehensive income for the period | 6 | 11 |
| Reclassified to profit or loss | — | — |
| Tax income (expense) | — | — |
| | **6** | **11** |
| Other changes | | |
| Gains (losses) recognised in other comprehensive income for the period | — | — |
| Reclassified to profit or loss | — | — |
| Tax income (expense) | — | — |
| | | |
| **Total items that may be reclassified subsequently to profit or loss, net of tax** | **–406** | **1,379** |
| **Other comprehensive income for the period, net of tax** | **–222** | **1,003** |
| **Total comprehensive income for the period** | **1,187** | **2,371** |
| of which attributable to non-controlling interests | 583 | 1,173 |
| of which attributable to shareholders of Talanx AG | 604 | 1,198 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

N5 **CHANGES IN EQUITY**

EUR MILLION

| | Subscribed capital | Capital reserves | Retained earnings |
|---|---|---|---|
| 2014 | | | |
| **Balance at 1.1.2014** | 316 | 1,373 | 5,250 |
| Changes in ownership interest without a change in control | — | — | −1 |
| Other changes in basis of consolidation | — | — | 1 |
| Net income | — | — | 769 |
| **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 exchange differences on translating foreign operations | — | — | — |
| of which change from cash flow hedges | — | — | — |
| of which change from equity method measurement | — | — | — |
| of which other changes [1] | — | — | — |
| **Total comprehensive income** | — | — | 769 |
| Dividends to shareholders | — | — | −303 |
| Other changes outside profit or loss | — | — | −26 [2] |
| **Balance at 31.12.2014** | 316 | 1,373 | 5,690 |
| **2015** | | | |
| **Balance at 1.1.2015** | **316** | **1,373** | **5,690** |
| Changes in ownership interest without a change in control | — | — | −1 |
| Other changes in basis of consolidation | — | — | — |
| Net income | — | — | 734 |
| **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 exchange differences on translating foreign operations | — | — | — |
| of which change from cash flow hedges | — | — | — |
| of which change from equity method measurement | — | — | — |
| of which other changes [1] | — | — | — |
| **Total comprehensive income** | — | — | **734** |
| Dividends to shareholders | — | — | −316 |
| Other changes outside profit or loss | — | — | −3 |
| **Balance at 31.12.2015** | **316** | **1,373** | **6,104** |

[1] "Other changes" consist of policyholder participation/shadow accounting as well as miscellaneous other changes

[2] The decrease in retained earnings is attributable to the subsequent purchase cost recognised in connection with the acquisition of non-controlling interests in a company that was completed in prior years; in accordance with IFRS 10.23, this is classified as an equity transaction

| Other reserves | | | | | | |
|---|---|---|---|---|---|---|
| Unrealised gains/losses on investments | Currency translation gains/losses | Other changes in equity | BMeasurement gains/losses on cash flow hedges | Equity attributable to shareholders of Talanx AG | Non-controlling interests | Total equity |
| | | | | | | |
| 1,269 | –209 | –906 | 34 | 7,127 | 3,997 | 11,124 |
| 2 | — | — | — | 1 | –21 | –20 |
| — | — | — | — | 1 | –1 | — |
| — | — | — | — | 769 | 599 | 1,368 |
| 2,267 | 176 | –2,348 | 334 | 429 | 574 | 1,003 |
| — | — | –357 | — | –357 | –19 | –376 |
| — | — | –381 | — | –381 | –23 | –404 |
| — | — | 24 | — | 24 | 4 | 28 |
| 2,267 | 176 | –1,991 | 334 | 786 | 593 | 1,379 |
| 2,267 | — | — | — | 2,267 | 512 | 2,779 |
| — | 176 | — | — | 176 | 216 | 392 |
| — | — | — | 334 | 334 | 37 | 371 |
| — | — | 6 | — | 6 | 5 | 11 |
| — | — | –1,997 | — | –1,997 | –177 | –2,174 |
| 2,267 | 176 | –2,348 | 334 | 1,198 | 1,173 | 2,371 |
| — | — | — | — | –303 | –246 | –549 |
| — | — | — | — | –26 | — | –26 |
| 3,538 | –33 | –3,254 | 368 | 7,998 | 4,902 | 12,900 |
| 3,538 | –33 | –3,254 | 368 | 7,998 | 4,902 | 12,900 |
| — | — | — | — | –1 | –2 | –3 |
| — | — | — | — | — | — | — |
| — | — | — | — | 734 | 675 | 1,409 |
| –1,095 | 90 | 887 | –12 | –130 | –92 | –222 |
| — | — | 177 | — | 177 | 7 | 184 |
| — | — | 189 | — | 189 | 9 | 198 |
| — | — | –12 | — | –12 | –2 | –14 |
| –1,095 | 90 | 710 | –12 | –307 | –99 | –406 |
| –1,095 | — | — | — | –1,095 | –315 | –1,410 |
| — | 90 | — | — | 90 | 153 | 243 |
| — | — | — | –12 | –12 | 5 | –7 |
| — | — | 5 | — | 5 | 1 | 6 |
| — | — | 705 | — | 705 | 57 | 762 |
| –1,095 | 90 | 887 | –12 | 604 | 583 | 1,187 |
| — | — | — | — | –316 | –337 | –653 |
| — | — | — | — | –3 | 3 | — |
| 2,443 | 57 | –2,367 | 356 | 8,282 | 5,149 | 13,431 |

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 2015

N6 **CONSOLIDATED CASH FLOW STATEMENT**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| I. 1. Net income | 1,409 | 1,368 |
| I. 2. Changes in technical provisions | 3,306 | 4,236 |
| I. 3. Changes in deferred acquisition costs | –353 | –120 |
| I. 4. Changes in funds withheld and in accounts receivable and payable | 1,098 | –363 |
| I. 5. Changes in other receivables and liabilities | 69 | 464 |
| I. 6. Changes in investments and liabilities under investment contracts | 3 | 3 |
| I. 7. Changes in financial assets held for trading | –7 | 44 |
| I. 8. Gains/losses on disposal of investments and property, plant and equipment | –554 | –860 |
| I. 9. Other non-cash expenses and income (including income tax expense/income) | 1,136 | 1,055 |
| **I. Cash flows from operating activities [1]** | **6,107** | **5,827** |
| II. 1. Cash inflow from the sale of consolidated companies | 10 | — |
| II. 2. Cash outflow from the purchase of consolidated companies | –234 | –13 |
| II. 3. Cash inflow from the sale of real estate | 50 | 67 |
| II. 4. Cash outflow from the purchase of real estate | –367 | –304 |
| II. 5. Cash inflow from the sale and maturity of financial instruments | 21,990 | 24,591 |
| II. 6. Cash outflow from the purchase of financial instruments | –24,555 | –27,532 |
| II. 7. Changes in investments for the benefit of life insurance policyholders who bear the investment risk | –672 | –905 |
| II. 8. Changes in other investments | –730 | –463 |
| II. 9. Cash outflows from the acquisition of tangible and intangible assets | –113 | –198 |
| II. 10. Cash inflows from the sale of tangible and intangible assets | 140 | 24 |
| **II. Cash flows from investing activities** | **–4,481** | **–4,733** |
| III. 1. Cash inflow from capital increases | — | — |
| III. 2. Cash outflow from capital reductions | — | — |
| III. 3. Dividends paid | –653 | –549 |
| III. 4. Net changes attributable to other financing activities | –932 | –307 |
| **III. Cash flows from financing activities** | **–1,585** | **–856** |
| **Net change in cash and cash equivalents (I. + II. + III.)** | **41** | **238** |
| **Cash and cash equivalents at the beginning of the reporting period** | **2,152** | **1,859** |
| **Effect of exchange rate changes on cash and cash equivalents** | **56** | **59** |
| **Effect of changes in the basis of consolidation on cash and cash equivalents [2]** | **–6** | **–4** |
| **Cash and cash equivalents at the end of the reporting period [3]** | **2,243** | **2,152** |
| **Additional information** | | |
| Taxes paid [1] | 388 | 222 |
| Interest paid [4] | 387 | 374 |
| Dividends received [1] | 220 | 120 |
| Interest received [1] | 3,608 | 3,452 |

[1] "Income taxes paid" as well as "Dividends received" and "Interest received" are allocated to "Cash flows from operating activities". "Dividends received" also comprise dividend-equivalent distributions from investment funds and private equity companies, resulting in differences to the amounts disclosed in Note 30 "Net investment income"
[2] This item relates primarily to changes in the basis of consolidation, excluding disposals and acquisitions
[3] "Cash and cash equivalents at the end of the reporting period" also include changes in the portfolio of disclosed disposal groups in the amount of EUR 0 (7) million
[4] EUR 186 (213) million of interest paid is attributable to "Cash flows from financing activities" and EUR 201 (161) million to "Cash flows from operating activities"

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## GENERAL INFORMATION

The consolidated financial statements include Talanx AG, based in Hannover, Germany, and its subsidiaries (referred to together as the Talanx Group). The Group, which is active in roughly 150 countries worldwide through Group companies and cooperation arrangements, offers insurance services in non-life 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.

Talanx AG, whose majority shareholder with 79.0% is HDI Haftpflichtverband der Deutschen Industrie V. a. G., Hannover (HDI V. a. G.), is the parent company of all Group companies belonging to HDI V. a. G. The company is entered in the commercial register of the Local Court in Hannover under the number HR Hannover B 52546 with its registered address at "Riethorst 2, 30659 Hannover". 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 IFRSS

On the basis of section 315a(1) of the HGB, the consolidated financial statements of Talanx AG were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU). The requirements of German commercial law set out in section 315a(1) of the HGB were observed in full. The consolidated financial statements reflect all IFRSs effective as at 31 December 2015 that were required to be applied for financial year 2015 and had been adopted by the EU.

In accordance with IFRS 4 "Insurance Contracts", insurance-specific transactions for which 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. 2 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. 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 euros (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 new or revised IFRSs as of 1 January 2015:

- IFRIC 21 "Levies": provides guidance on when to recognise a liability for a levy imposed by a government
- Amendments in the context of the annual improvements (2011–2013 cycle): amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40

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

### STANDARDS, INTERPRETATIONS AND REVISIONS TO ISSUED STANDARDS THAT WERE NOT YET EFFECTIVE IN 2015 AND THAT WERE NOT APPLIED BY THE GROUP PRIOR TO THEIR EFFECTIVE DATE.

#### A) ALREADY ENDORSED BY THE EU

The following revisions to standards and interpretations have been published by the IASB and have already been adopted by the EU. They will not have any material effect on the consolidated financial statements:

N7 **APPLICATION OF NEW STANDARDS – ENDORSED**

| Standard | Title of the standard/interpretation/amendment | First application [1] |
|---|---|---|
| IAS 19 "Employee Benefits" | Defined Benefit Plans: Employee Contributions | 1.2.2015 |
| Amendments in the context of the annual improvements (2010–2012 cycle) | Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38 | 1.2.2015 |
| IFRS 11 "Joint Arrangements" | Accounting for Acquisitions of Interests in Joint Operations | 1.1.2016 |
| IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" | Clarification of Acceptable Methods of Depreciation and Amortisation | 1.1.2016 |
| IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" | Agriculture: Bearer Plants | 1.1.2016 |
| IAS 27 "Separate Financial Statements" | Equity Method in Separate Financial Statements | 1.1.2016 |
| IAS 1 "Presentation of Financial Statements" | Disclosure Initiative | 1.1.2016 |
| Amendments in the context of the annual improvements (2012–2014 cycle) | Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 | 1.1.2016 |

[1] Effective for annual periods beginning on or after the date stated

## B) NOT YET ENDORSED BY THE EU

The IASB issued the amendment to IAS 7 "Statement of Cash Flows" on 29 January 2016. This amendment requires companies to make disclosures about changes to any financial assets and liabilities where incoming and outgoing payments are shown under the cash flows from financing activities in the statement of cash flows. The standard will be effective as from 1 January 2017. Voluntary early application is permitted. The effects of this amendment on the consolidated financial statements are still being examined.

On 13 January 2016, the IASB published the new requirements governing lease accounting in IFRS 16 "Leases". The material amendments relate primarily to the accounting at the lessee. In principle, the lessee shall recognise a lease liability for all leases in future. At the same time, he must capitalise a right-of-use for the underlying asset. IFRS 16 will supersede the previous standard on lease accounting (IAS 17) and the related interpretations (IFRIC 4, SIC-15 and SIC-27). The standard will be effective as from 1 January 2019. Voluntary early application is permitted, but only insofar as IFRS 15 "Revenue from Contracts with Customers" is applied at the same time. The effects of the new standard on the consolidated financial statements are still being examined.

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 annual periods beginning on or after 1 January 2018. Earlier application is permissible. The Group is currently examining the effects of IFRS 9 on the consolidated financial statements. However, it is already evident that the new requirements will affect the accounting for financial assets in the Group, among other things. In December 2015, the IASB also published proposed amendments to IFRS 4 "Insurance Contracts", with regard to delayed application of the requirements of IFRS 9 for insurance activities. This is not a question of a complete overhaul of the accounting system, but a transitional provision: the intention is to give insurers a deferral for the accounting of their financial instruments on the assets side until 2021 at the latest, as the accounting for the technical provisions on the liabilities side is currently undergoing a complete revision.

The IASB issued its new requirements governing revenue recognition in IFRS 15 "Revenue from Contracts with Customers" on 28 May 2014. IFRS 15 establishes a comprehensive framework to determine how, how much and when revenue is recognised. It replaces the existing guidance on revenue recognition, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programmes". The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permissible, but not planned. The Group is currently still at an extremely early stage of the introduction of IFRS 15. The new standard does not apply to insurance contracts. We cannot currently foresee any potential effects on Group companies that recognise revenue not related to insurance business.

In addition to the above-mentioned, published accounting standards, the IASB published the following amendments to standards.

N8 **APPLICATION OF NEW STANDARDS – NOT YET ENDORSED**

| Standard | Title of the standard/interpretation/amendment | First application [1] |
|---|---|---|
| IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" | Investment Entities: Applying the Consolidation Exception | 1.1.2016 |
| IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | Deferred indefinitely |
| IAS 12 "Income Taxes" | Recognition of Deferred Tax Assets for Unrealised Losses | 1.1.2017 |

[1] Effective for annual periods beginning on or after the date stated

It is anticipated that the implementation of these amendments will have no material effect on the net assets, financial position and results of operations of the Group.

## ACCOUNTING POLICIES

The annual financial statements of subsidiaries and structured entities included in the Group are governed by uniform accounting policies whose application is based on the principle of consistency. The following section describes the accounting policies applied, any significant amendments made to estimates in 2015, and the use of significant management judgement and estimates. Newly applicable accounting standards in financial year 2015 are described in the "Basis of preparation and application of IFRSs" section, while consolidation principles are described in the "Consolidation" section (pages 137f. and 162ff.).

### CHANGES IN ESTIMATES DURING THE REPORTING PERIOD

Effective as of the first quarter of 2015, Hannover Rück SE extended its estimation methods to a further subportfolio. The extension covers intraperiod estimation variables from as yet unsettled reinsurance contracts and their deferral and has helped to improve estimation accuracy. It involves a change to an accounting estimate that, in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors", had to be applied prospectively in the reporting period without adjusting the comparative information for previous periods. Retaining the inputs and methods used until 31 December 2014 would have reduced gross premiums by EUR 90 million, net premiums earned by EUR 29 million and operating profit by EUR 15 million in the reporting period. The effects that this adjustment would have in future periods could not be established without undue cost or effort.

### 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 in part on historical experience as well as on other factors, including expectations of future events that currently appear reasonable. The processes in place both at the Group level and at the level of the subsidiaries are geared towards calculating the carrying amounts as reliably as possible, taking all relevant information into account. Additionally, uniform Group accounting policies ensure that the standards laid down by the Group are applied in a consistent and appropriate manner.

Information about management judgements and estimation uncertainties that may entail a significant risk that a material adjustment will be necessary in the financial year ending 31 December 2016 is particularly relevant for the following items and is stated in the relevant disclosures in the Notes and/or in the relevant sections in the "Summary of significant accounting policies":

- Goodwill (Note 1 – impairment testing and sensitivity analyses with respect to the most important parameters)
- Fair value and impairments of financial instruments (Note 12 "Fair value hierarchy for financial instruments" – 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 "Deferred taxes" and 35 "Taxes on income" 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 best estimate of the amount required to settle the obligation 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 the area of primary life insurance and Life/Health Reinsurance, the determination of provisions 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 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 – weighted actuarial assumptions and sensitivity analyses in the event of discrepancies)
- Miscellaneous other provisions (Note 25 and descriptions in "Accounting policies" and, with regard to the accounting for litigation, in the "Litigation" section of the "Other disclosures" section of the notes to the consolidated financial statements)

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ACCOUNTING FOR INSURANCE CONTRACTS

IFRS 4 "Insurance Contracts" contains basic principles – but no more far-reaching measurement requirements – for the accounting for insurance and reinsurance contracts that an entity enters into as an insurer. For this reason, all insurance contracts are accounted for in accordance with the relevant requirements of US GAAP as at the date of initial application of IFRSs 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]). The insurance business is classified into insurance contracts and investment contracts. An insurance contract is a contract under which the Group accepts significant insurance risk from policyholders. Investment contracts, i.e. contracts that have no significant insurance risk and do not contain discretionary participation features, are accounted for as financial instruments in accordance with IAS 39. Investment contracts that contain discretionary participation features are recognised in accordance with US GAAP.

### ASSETS

#### Intangible assets

Goodwill resulting from business combinations is tested for impairment at least once a year, and it is measured at initial cost less accumulated impairment losses. Goodwill may not be amortised, nor are reversals of impairment losses permitted. Minor amounts of goodwill are recognised as profit or loss in the year they arise. For the purposes of impairment testing in accordance with IAS 36 "Impairment of Assets", goodwill must be allocated to cash-generating units (CGUs) (see Note 1, "Goodwill", on page 175ff.). A CGU cannot be larger than an operating segment. In order to determine possible impairment, the recoverable amount of a CGU/groups of CGUs – defined as the higher of value in use and fair value less costs of disposal – is established and compared with the carrying amounts of that CGU/groups of CGUs in the Group, including goodwill. If the carrying amounts exceed the recoverable amount, a goodwill impairment is recognised in the statement of income.

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 (only for life insurance contracts). 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 (Note 2, "Other intangible assets" page 180ff. contains a breakdown by remaining duration of the underlying insurance contracts acquired). 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. 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. We report amortisation of the PVFP from investment contracts in "Net investment income" (under "Net income from investment contracts").

Purchased intangible assets with a finite useful life as well as internally developed software are recognised at cost less accumulated amortisation and accumulated impairment losses. They are amortised over their estimated useful life. In the case of software (straight-line amortisation), this generally amounts to three to 10 years. For the most part, we amortise acquired sales networks and customer relationships over an estimated useful life of 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 under "Other expenses" in "Other income/expenses". Reversals of impairment losses are reported in "Other income".

## Investments

Investment property is recognised at cost less accumulated depreciation and accumulated impairment losses. 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").

Value-enhancing expenditures that constitute subsequent acquisition or production cost are capitalised and can extend the useful life in certain cases.

The Investments in associates and joint ventures item consists solely of material associates and joint ventures measured using the equity method on the basis of the share of their equity attributable to the Group. The share of these companies' income/expenses attributable to the Group is included in the profit or loss of the share in the change in equity not affecting net income in "Other comprehensive income". Where necessary, the accounting policies of these investees are adjusted to ensure the uniform application of accounting policies in the Group. The Group tests for impairment at each reporting date. If impairment is identified, the difference between the carrying amount and recoverable amount is recognised as an impairment loss in "Net investment income". Further information can be found in "Consolidation principles" in the "Consolidation" section.

In accordance with IAS 39, financial assets and liabilities, including derivative 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, depending on the purpose determined for them (see above). 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 of non-derivative financial instruments with fixed or determinable payments that are not listed in an active market and are not intended to be sold in the near term. They consist primarily of fixed-income securities in the form of promissory note loans, registered bonds and mortgage loans. They are measured at amortised cost using the effective interest rate method. Individual receivables are tested for impairment at the reporting date. An impairment loss is recognised if the loan or receivable is no longer expected to be repaid in full or at all (see also our disclosures in the "Impairment" subsection of this section). 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 comprise financial instruments with fixed or determinable payments and fixed maturities that are not classified as loans or receivables. 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.

The trading portfolios (financial instruments held for trading) contain all fixed-income and variable-yield securities that the Group has acquired for trading purposes with the aim of generating short-term gains. Also recognised in this item are 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 under IAS 39. These relate to structured financial instruments – whose fair value can be reliably established – that are required to be separated into their constituent parts (underlying plus one or more embedded derivatives) on classification in the other categories. The Group only uses the fair value option for selected parts of the investment portfolio.

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 fair value, 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.

Derivatives that are designated as hedging instruments in hedges accounted for in accordance with IAS 39 (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 asset, or a highly probable forecasted transaction (cash flow hedges). Further information is provided in Note 13, "Derivative financial instruments and hedge accounting".

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, i.e. it is an exit price. 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 is used. Financial liabilities are measured at the ask price at the reporting date. Securities for which no current market price is available 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, "Fair value hierarchy".

N9 **VALUATION MODELS USED TO MEASURE 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, Black-Karasinski, Libor market model, etc. |
| ABS/MBS for which no market prices are available | Theoretical price | Prepayment speed, incurred losses, default probabilities, recovery rates | Present value method |
| CDOs/CLOs | Theoretical price | Prepayment speed, risk premiums, default rates, recovery rates, redemptions | Present value method |
| **Equities and funds** | | | |
| Unlisted equities | Theoretical price | Cost, cash flows, EBIT multiples, expert opinions, carrying amount where applicable | NAV-method[1] |
| Unlisted equity, real estate and bond funds | Theoretical price | Audited net asset value (NAV)[1] | NAV-method[1] |
| **Other investments** | | | |
| Private equity funds/private equity real estate funds | Theoretical price | Audited net asset value (NAV)[1] | NAV-method[1] |
| **Derivative financial instruments** | | | |
| Listed equity options | Listed price | — | — |
| Equity and index futures | Listed price | — | — |
| Interest rate and bond futures | Listed price | — | — |
| Plain vanilla interest rate swaps | Theoretical price | Yield curve | Present value method |
| Currency forwards | Theoretical price | Yield curve, spot and forward rates | Interest parity model |
| OTC equity options, OTC equity index options | Theoretical price | Listed price of the underlying, implied volatilities, money market rate, dividend yield | Black-Scholes |
| FX options | Theoretical price | Spot rates, exchange rates, implied volatilities | Garman/Kohlhagen |
| Interest rate futures (forward purchases) | Theoretical price | Yield curve | Present value method |
| Inflation swaps | Theoretical price | Inflation swap rates (consumer price index), historical index fixings, yield curve | Present value method with seasonality adjustment |
| Swaptions | Theoretical price | Yield curve, implied volatilities | Black76 |
| Credit default swaps | Theoretical price | Yield curves, recovery rates | ISDA model |
| Insurance underwriting derivatives | Theoretical price | Fair values of CAT bonds, yield curve | Present value method |
| **Other** | | | **Present value method** |
| Real estate | Theoretical value | Location, year of construction, rental space, type of use, term of leases, amount of rent | Extended discounted cash flow method |
| Investment of equity in infrastructure | a) Outgoing payments (construction phase); b) Theoretical price (in operation) | Amortised costs, derived cash flow, yield curve | a) Net payments; b) Present value method |
| Investment of borrowing in infrastructure | 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. On this subject, IAS 39.59 lists examples of objective evidence that a financial asset is impaired.

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 order to account for the specific character of these funds (in this case, initially negative trends in yield and liquidity as a result of the "J curve" effect during the investment period of the funds), we wait two years before recognising an impairment loss on net asset value, as an approximation of fair value, in cases where there has been a significant or prolonged decline in value.

Indicators for determining whether fixed-income securities and loans 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. 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 debt instruments are recognised in profit or loss up to the amount of amortised cost. Reversals of impairment losses on equity instruments, on the other hand, are recognised in "Other comprehensive income".

Financial assets and liabilities are only offset and the net amount recognised if there is a corresponding legally enforceable right to set off the amounts (reciprocity, similarity and maturity of the asset and liability) or this has been expressly agreed by contract, i.e. the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Securities loaned under securities lending transactions continue to be recognised, since the principal opportunities and risks resulting from such securities still remain within the Group.

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. The disclosures on "financial assets available for sale" apply, with the necessary modifications. 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. Loans included in this item are recognised at amortised cost. Non-current assets from infrastructure investments (primarily from consolidated wind farm project companies) are accounted for at cost less accumulated depreciation and impairment losses. 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 "Other liabilities". 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 participation feature are recognised as financial instruments in accordance with IAS 39. In this connection, deposit liabilities in the amount of the relevant financial instruments are reported instead of premiums. Financial assets arising from investment contracts are reported in a separate "Investments under investment contracts" line item under "Investments", while financial liabilities (i.e. investment contracts with policyholders) are recognised in the "Other liabilities" liability item. Our disclosures on the recognition of financial assets and liabilities (see above) 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". The resulting cash flows are reported in the cash flow statement under "Cash flows from operating activities".

### 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. The assets are managed and invested separately from other investments. 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

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. Impairment losses are recognised for groups of similar receivables if the receivables have not been individually impaired or no impairment can be determined for individual receivables. We use allowance accounts for impairment losses on accounts receivable on insurance business. 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 Non-Life 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 the area of primary life insurance, including Life/Health Reinsurance, deferred acquisition costs are calculated on the basis of the contract duration, anticipated surrenders, lapse expectations and anticipated interest income. The amortisation amount generally depends on the gross margins for the respective contracts that were calculated for the corresponding year of the contract duration. 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. A discount rate based on the interest rate for medium-term government bonds is applied to such contracts. In the case of annuity contracts with a single premium payment, these values refer to the anticipated contract or annuity payment period. The deferred acquisition costs are regularly tested for impairment using an adequacy test. The actuarial bases are also subject to ongoing review and adjusted if necessary.

### Deferred tax assets

IAS 12 "Income Taxes" requires deferred tax assets to be 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 31.6%, unless they can be allocated to specific companies.

Deferred tax assets are set off against deferred tax liabilities if there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority on either (i) the same taxable entity or (ii) different taxable entities.

We always account for other assets using the amortised cost. Derivatives used as hedging instruments in hedge accounting are recognised at their fair value if they have a positive fair value. 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 in accordance with IFRS 5

Non-current assets held for sale (or groups of assets and liabilities held for sale) are classified as held for sale in accordance with IFRS 5 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 of carrying amount and fair value less costs to sell and are recognised separately in the balance sheet. Depreciation and amortisation 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. If the impairment losses to be recognised for a disposal group exceed the carrying amount of the corresponding non-current assets, the Group examines whether there is a need to recognise a provision.

## CASH FLOW STATEMENT

The cash flow statement is presented using the indirect method for cash flows from operating activities. Cash funds are limited to cash and cash equivalents and generally correspond to the balance sheet item "Cash at banks, cheques and cash-in-hand". The effects of exchange rate changes on cash and cash equivalents and the effects of changes in the basis of consolidation are reported separately in the cash flow statement. The acquisition of new subsidiaries is shown in the line "Cash outflow from the purchase of consolidated companies". The total amount of the purchase prices paid less cash and cash equivalents acquired is presented here.

## 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. Costs directly associated with the issuance of new shares are recognised in the capital reserves, net of taxes, as a deduction from issue proceeds.

In addition to allocations from net income, retained earnings consist of reinvested profits that Group companies and consolidated structured entities 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. Various derivatives were used as hedging instruments in connection with cash flow hedges in the reporting period. The effective portion of changes in the value of these derivatives is recognised in a separate reserve account in equity.

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 a separate component 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. Reinsurance recoverables on technical provisions are calculated and recognised on the basis of the individual reinsurance contracts. Measurement of technical provisions is based on US GAAP (SFAS 60, SFAS 97 and SFAS 120).

In the case of short-duration insurance contracts, those portions of premiums already collected that are attributable to future risk periods are deferred on a time-proportion basis and recognised in "Unearned premium reserves". These premiums are recognised as earned – and thus recognised as income – over the duration of the insurance contracts in proportion to the amount of insurance cover provided or as they fall due. 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 reserve is recognised on a best estimate basis in the amount likely to be required to settle the claims. Receivables arising from subrogation, salvage and claim sharing agreements are taken into account when making the best estimate. In order to assess the ultimate liability, anticipated ultimate loss ratios are calculated for all lines of Non-Life Reinsurance as well as property primary insurance using actuarial methods such as the chain ladder method. In such cases, the development of all claims in an occurrence year until completion of the run-off is projected on the basis of statistical triangles. It is generally assumed that the future rate of inflation of the loss run-off will be similar to the average rate of past inflation contained in the data. 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. Therefore, the realistically estimated future settlement amount (best estimate) is recognised, which is generally calculated on the basis of information provided by cedants. This estimate draws on past experience and assumptions as to future developments, taking account of market information. The amount of provisions and their allocation to occurrence years are determined using recognised forecasting methods based on non-life actuarial principles. 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 here. 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 best 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 GAAP annual financial statements (provision for deferred premium refunds, shadow provision for premium refunds) that will have a bearing on future surplus participation calculations.

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 – when determining income trends, for example. This may affect deferred acquisition costs, PVFP, provisions for terminal bonuses for policyholders, provisions for deferred costs 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. These provisions are reported separately. See our disclosures on the asset item "Investments for the benefit of life insurance policyholders who bear the investment risk" on page 145.

### Other provisions

**Provisions for pensions and other post-employment benefits:** Group companies make defined benefit pension commitments to their employees. The nature and amount of pension commitments depend on the terms of the pension plan in effect at the time the commitment was made. They are based principally on length of service and salary level. In addition, various German companies have long offered the opportunity to obtain pension commitments through deferred compensation. The employee-funded commitments included in the provisions for accrued pension rights are insured under pension liability insurance contracts with various insurance companies, mainly within the Group.

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.

Liabilities under defined benefit pension plans are calculated separately for each plan according to actuarial principles. Pension liabilities are measured in accordance with IAS 19 "Employee Benefits" 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 prime-rated corporate bonds whose currency and duration match the pension liabilities.

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.

Partial retirement obligations are recognised at their present value in accordance with actuarial principles. Under the "block model", a provision for outstanding settlement amounts is recognised during the working phase in the amount of the unremunerated portion of the service rendered. Bonus payments are attributed over the periods of service until the end of the employee's working phase. The liability item is then reversed during the periods in which the employee is remunerated without having to work, in accordance with the partial retirement arrangements. In calculating the net liability, the fair value of the plan assets is deducted from the liability recognised for the partial retirement obligation.

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 their account balances. In addition, the Group uses the fair value option for a selected portion of the portfolio in order to eliminate or significantly reduce accounting mismatches relating to assets from investment contracts that cover liabilities. The impact on earnings resulting from the measurement of these liabilities is recognised in "Net income from investment contracts".

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. Deferred tax liabilities may not be recognised for the initial recognition of goodwill.

## FINANCIAL INSTRUMENTS DISCLOSURES

The following table presents a reconciliation of the classes of financial instruments formed in the Group in accordance with IFRS 7 to the balance sheet line items and provides information about the corresponding measurement basis. The grouping of our financial instruments into classes is based on the requirements of our portfolios; the level of detail of the classes disclosed may vary depending on the information required to be disclosed.

N10 **CLASSES OF FINANCIAL INSTRUMENTS, BALANCE SHEET ITEMS AND MEASUREMENT BASES**

| Classes of financial instruments | Measurement basis |
|---|---|
| **Financial instruments from investments** | |
| Shares in affiliated companies and participating interests | Amortised cost |
| Loans and receivables | Amortised cost |
| Financial instruments held to maturity | Amortised cost |
| Financial assets available for sale:<br>■ Fixed-income securities<br>■ Variable-yield securities | Fair value |
| Financial instruments at fair value through profit or loss:<br>■ Financial instruments classified at fair value through profit or loss<br>■ Financial assets held for trading | Fair value |
| Other investments | Fair value or amortised cost[1] |
| Investment contracts – loans and receivables | Amortised cost |
| Investment contracts:<br>■ Financial assets available for sale<br>■ Financial instruments classified at fair value through profit or loss<br>■ Financial assets held for trading (derivatives) | Fair value |
| **Other financial instruments** | |
| Other assets – derivatives (hedging instruments with positive fair values) | Fair value |
| Subordinated liabilities | Amortised cost |
| Notes payable and loans | Amortised cost |
| Other liabilities – derivatives | Fair value |
| Other liabilities – derivatives (hedging instruments with negative fair values) | Fair value |
| Other liabilities – investment contracts (other commitments) | Amortised cost |
| Other liabilities – investment contracts:<br>■ Financial instruments classified at fair value through profit or loss<br>■ Derivatives | Fair value |

[1] For a separate presentation of financial instruments measured at amortised cost or at fair value, see Note 10, "Other investments" on page 188

## 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.

Deducting ceded written premiums produces the net 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. Earned premiums consist of the portion of written premiums that will be deferred in accordance with the terms of the insurance contracts. 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 in accordance with the German Commercial Code (HGB), 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. Please refer to our disclosures on the corresponding technical liability items.

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.

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 consolidated financial statements are prepared in euros, which is the parent company's functional currency.

Transactions in foreign currencies are generally translated into the functional currency of the unit 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" in the statement of income. Currency translation differences relating to non-monetary assets whose changes in fair value are recognised in profit or loss are recognised together with those fair value changes as gains or losses from fair value measurement in the statement of income. 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.

The foreign Group companies' statements of income prepared in national currencies are translated into euros at average exchange rates and taken over into the consolidated financial statements. Foreign currency items in the balance sheets of the individual companies, including goodwill, are translated and then taken over into the consolidated financial statements at the middle rates at the reporting date. 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. If the gain or loss from the sale of a foreign subsidiary is recognised, a reclassification that is recognised in profit or loss is carried out.

N11 EXCHANGE RATES FOR OUR KEY FOREIGN CURRENCIES

| EUR 1 corresponds to | | Balance sheet (reporting date) | | Statement of income (average) | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| AUD | Australia | 1.4981 | 1.4879 | 1.4840 | 1.4789 |
| BRL | Brazil | 4.2314 | 3.2324 | 3.6913 | 3.1215 |
| CAD | Canada | 1.5158 | 1.4131 | 1.4241 | 1.4652 |
| CNY | China | 7.0970 | 7.5533 | 6.9934 | 8.1675 |
| GBP | United Kingdom | 0.7381 | 0.7825 | 0.7289 | 0.8059 |
| MXN | Mexico | 18.8613 | 17.9228 | 17.6792 | 17.6771 |
| PLN | Poland | 4.2392 | 4.3071 | 4.1914 | 4.1935 |
| USD | USA | 1.0927 | 1.2155 | 1.1128 | 1.3256 |
| ZAR | South Africa | 16.8447 | 14.1409 | 14.2609 | 14.3566 |

# 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 decides on the allocation of resources to them. The Group classifies its business activities into the areas of insurance and Corporate Operations. Insurance activities are further subdivided into five reportable segments. However, in view of the different product types, risks and capital allocations involved, these are classified initially into primary insurance and reinsurance.

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

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

The major products and services from which these reportable segments generate income are described in the following.

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

Retail Germany: This reportable segment manages insurance activities serving German retail and commercial customers that span the various lines of business, including our Germany-wide bancassurance business activities – i.e. insurance products sold over the counter at banks. In the area of life insurance, this segment also provides cross-border insurance services in Austria. The segment’s products range from property/casualty insurance through all lines of life insurance and occupational pension insurance, down to all-round solutions for small and medium-sized companies and self-employed professionals. 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, direct sales and partnerships with banks.

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

Non-Life Reinsurance[1]: 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 catastrophe business.

Life/Health Reinsurance[1]: 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 five operating segments, the Corporate Operations segment encompasses management and other functional activities that support the business conducted by the Group; these mainly relate to asset management and, in the primary insurance sector, the run-off and placement of portions of reinsurance cessions (Talanx Reinsurance Broker GmbH, Hannover) including intragroup reinsurance (Talanx Reinsurance Ltd., Dublin), as well as Group financing. Asset management by Ampega Investment GmbH, Cologne, for non-Group private and institutional investors is also shown in this segment. This segment also includes centralised service companies that provide specific billable services – such as IT, collection, personnel and accounting services – mainly to the Group's primary insurers based in Germany. A portion of the in-house business written by Talanx Reinsurance Ltd. and the operating profit of Talanx Reinsurance Broker GmbH are reallocated to the ceding segments in the course of segment allocation.

## MEASUREMENT BASES FOR THE PERFORMANCE OF THE REPORTABLE SEGMENTS

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

Depending upon the nature and time frame of the commercial activities, various management metrics and performance indicators are used to assess the financial 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).

## CHANGE IN THE SEGMENT STATEMENT OF INCOME

For reasons of clarity, we disclose the segment statement of income in the reporting period without any "of which" notes, with the exception of the item: "Share of profit or loss of equity-accounted associates and joint ventures". This changed level of itemisation matches our internal reporting. The segment-specific disclosures required by IFRS 8 can be found in the corresponding comments in the section "Notes to the consolidated statement of income".

[1] See our remarks at the beginning of this section for an explanation of the difference between the segment results of the Talanx Group and the Hannover Re Group

N12 SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2015

EUR MILLION

| Assets | Industrial Lines | | Retail Germany | | Retail International | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| A. Intangible assets | | | | | | |
| a. Goodwill | 153 | 153 | 248 | 403 | 618 | 518 |
| b. Other intangible assets | 7 | 14 | 554 | 601 | 186 | 193 |
| | **160** | **167** | **802** | **1,004** | **804** | **711** |
| B. Investments | | | | | | |
| a. Investment property | 52 | 32 | 824 | 847 | 19 | 16 |
| b. Shares in affiliated companies and participating interests | 13 | 18 | 18 | 17 | 2 | — |
| c. Investments in associates and joint ventures | 130 | 126 | 65 | 36 | — | — |
| d. Loans and receivables | 1,208 | 1,564 | 24,797 | 25,113 | 867 | 861 |
| e. Other financial instruments | | | | | | |
| i. Held to maturity | 81 | 79 | 170 | 170 | 323 | 358 |
| ii. Available for sale | 5,312 | 4,852 | 19,942 | 18,907 | 5,475 | 4,858 |
| iii. At fair value through profit or loss | 92 | 132 | 295 | 279 | 527 | 597 |
| f. Other investments | 666 | 466 | 1,238 | 857 | 569 | 681 |
| **Assets under own management** | **7,554** | **7,269** | **47,349** | **46,226** | **7,782** | **7,371** |
| g. Investments under investment contracts | — | — | — | — | 2,223 | 2,037 |
| h. Funds withheld by ceding companies | 19 | 22 | 15 | 21 | — | — |
| **Investments** | **7,573** | **7,291** | **47,364** | **46,247** | **10,005** | **9,408** |
| C. Investments for the benefit of life insurance policyholders who bear the investment risk | — | — | 9,323 | 8,718 | 781 | 708 |
| D. Reinsurance recoverables on technical provisions | 5,292 | 5,034 | 2,313 | 2,524 | 893 | 765 |
| E. Accounts receivable on insurance business | 1,267 | 1,214 | 400 | 315 | 1,004 | 865 |
| F. Deferred acquisition costs | 42 | 20 | 2,123 | 1,960 | 602 | 521 |
| G. Cash at banks, cheques and cash-in-hand | 391 | 324 | 539 | 661 | 373 | 302 |
| H. Deferred tax assets | 233 | 175 | 60 | 97 | 71 | 94 |
| I. Other assets | 410 | 450 | 1,207 | 1,616 | 477 | 510 |
| J. Non-current assets and assets of disposal groups classified as held for sale[1] | — | 8 | — | 3 | — | 12 |
| **Total assets** | **15,368** | **14,683** | **64,131** | **63,145** | **15,010** | **13,896** |

[1] For further information see "Assets held for sale and disposal groups" in the Notes

| | Non-Life Reinsurance | | Life/Health Reinsurance | | Corporate Operations | | Consolidation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| | | | | | | | | | | |
| | 18 | 16 | — | — | — | — | — | — | 1,037 | 1,090 |
| | 34 | 26 | 92 | 94 | 80 | 78 | — | — | 953 | 1,006 |
| | **52** | **42** | **92** | **94** | **80** | **78** | **—** | **—** | **1,990** | **2,096** |
| | | | | | | | | | | |
| | 1,301 | 976 | 2 | 2 | — | — | — | — | 2,198 | 1,873 |
| | 58 | 56 | — | — | 20 | 21 | — | — | 111 | 112 |
| | 99 | 132 | 29 | 23 | — | 15 | –51 | –70 | 272 | 262 |
| | 2,807 | 2,912 | 63 | 76 | 12 | 27 | — | — | 29,754 | 30,553 |
| | | | | | | | | | | |
| | 844 | 1,961 | 164 | 179 | 1 | 4 | –296 | –297 | 1,287 | 2,454 |
| | 22,842 | 20,532 | 7,598 | 6,639 | 102 | 395 | — | — | 61,271 | 56,183 |
| | 111 | 77 | 38 | 54 | — | — | — | — | 1,063 | 1,139 |
| | 2,132 | 1,694 | 923 | 438 | 334 | 476 | –1,041 | –778 | 4,821 | 3,834 |
| | **30,194** | **28,340** | **8,817** | **7,411** | **469** | **938** | **–1,388** | **–1,145** | **100,777** | **96,410** |
| | — | — | — | — | — | — | — | — | 2,223 | 2,037 |
| | 1,285 | 1,124 | 12,705 | 14,794 | 1 | 1 | –1,414 | –1,530 | 12,611 | 14,432 |
| | **31,479** | **29,464** | **21,522** | **22,205** | **470** | **939** | **–2,802** | **–2,675** | **115,611** | **112,879** |
| | — | — | — | — | — | — | — | — | 10,104 | 9,426 |
| | 1,240 | 1,201 | 1,696 | 1,008 | — | — | –3,062 | –3,162 | 8,372 | 7,370 |
| | 2,168 | 1,494 | 1,498 | 1,620 | 7 | 22 | –274 | –278 | 6,070 | 5,252 |
| | 696 | 597 | 1,399 | 1,317 | 1 | 2 | 215 | 228 | 5,078 | 4,645 |
| | 615 | 587 | 177 | 186 | 148 | 85 | — | — | 2,243 | 2,145 |
| | 55 | 52 | 78 | 70 | 239 | 276 | — | — | 736 | 764 |
| | 1,162 | 1,306 | 261 | 271 | 660 | 494 | –1,640 | –1,948 | 2,537 | 2,699 |
| | — | — | — | — | 19 | — | — | –1 | 19 | 22 |
| | | | | | | | | | | |
| | **37,467** | **34,743** | **26,723** | **26,771** | **1,624** | **1,896** | **–7,563** | **–7,836** | **152,760** | **147,298** |

N13 **SEGMENT REPORTING. BALANCE SHEET AS AT 31 DECEMBER 2015**

EUR MILLION

| Equity and Liabilities | Industrial Lines | | Retail Germany | | Retail International | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| B. Subordinated liabilities | 200 | 200 | 161 | 161 | 3 | 2 |
| C. Technical provisions | | | | | | |
| a. Unearned premium reserve | 1,062 | 1,022 | 988 | 937 | 2,053 | 1,799 |
| b. Benefit reserve | — | — | 39,212 | 37,894 | 3,603 | 3,233 |
| c. Loss and loss adjustment expense reserve | 9,571 | 9,148 | 2,990 | 2,883 | 2,588 | 2,347 |
| d. Provision for premium refunds | 10 | 8 | 3,930 | 4,245 | 198 | 231 |
| e. Other technical provisions | 39 | 37 | 4 | 8 | 10 | 7 |
| | **10,682** | **10,215** | **47,124** | **45,967** | **8,452** | **7,617** |
| D. Technical provisions for life insurance policies where the investment risk is borne by the policyholders | — | — | 9,323 | 8,718 | 781 | 708 |
| E. Other provisions | | | | | | |
| a. Provisions for pensions and other post-employment benefits | 553 | 636 | 117 | 138 | 19 | 19 |
| b. Provisions for taxes | 125 | 107 | 120 | 104 | 88 | 98 |
| c. Miscellaneous other provisions | 87 | 79 | 304 | 240 | 87 | 73 |
| | **765** | **822** | **541** | **482** | **194** | **190** |
| F. Liabilities | | | | | | |
| a. Notes payable and loans | 17 | — | 50 | — | — | — |
| b. Funds withheld under reinsurance treaties | 39 | 39 | 1,858 | 2,026 | 177 | 185 |
| c. Other liabilities | 1,273 | 1,274 | 2,207 | 2,232 | 3,118 | 3,011 |
| | **1,329** | **1,313** | **4,115** | **4,258** | **3,295** | **3,196** |
| G. Deferred tax liabilities | 293 | 174 | 277 | 328 | 84 | 136 |
| H. Liabilities included in disposal groups classified as held for sale [1] | — | — | — | — | — | 10 |
| **Total liabilities/provisions** | **13,269** | **12,724** | **61,541** | **59,914** | **12,809** | **11,859** |

| | Non-Life Reinsurance | | Life/Health Reinsurance | | Corporate Operations | | Consolidation | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| | 1,490 | 1,986 | 71 | 64 | 530 | 642 | −512 | −394 | 1,943 | 2,661 |
| | | | | | | | | | | |
| | 3,019 | 2,627 | 140 | 122 | 2 | 8 | −183 | −199 | 7,081 | 6,316 |
| | — | — | 12,207 | 11,757 | — | — | −177 | −205 | 54,845 | 52,679 |
| | 22,823 | 20,798 | 3,734 | 3,316 | 27 | 37 | −1,341 | −1,273 | 40,392 | 37,256 |
| | — | — | — | — | — | — | — | — | 4,138 | 4,484 |
| | 120 | 158 | 206 | 166 | — | — | −3 | −2 | 376 | 374 |
| | **25,962** | **23,583** | **16,287** | **15,361** | **29** | **45** | **−1,704** | **−1,679** | **106,832** | **101,109** |
| | — | — | — | — | — | — | — | — | 10,104 | 9,426 |
| | | | | | | | | | | |
| | 114 | 128 | 37 | 44 | 1,105 | 1,286 | — | — | 1,945 | 2,251 |
| | 247 | 241 | 24 | 19 | 117 | 153 | — | — | 721 | 722 |
| | 125 | 94 | 67 | 61 | 181 | 189 | −1 | −1 | 850 | 735 |
| | **486** | **463** | **128** | **124** | **1,403** | **1,628** | **−1** | **−1** | **3,516** | **3,708** |
| | | | | | | | | | | |
| | 308 | 284 | 382 | 236 | 1,483 | 1,496 | −799 | −667 | 1,441 | 1,349 |
| | 430 | 446 | 5,518 | 6,443 | — | — | −2,671 | −2,886 | 5,351 | 6,253 |
| | 923 | 643 | 1,813 | 2,037 | 373 | 612 | −1,863 | −2,183 | 7,844 | 7,626 |
| | **1,661** | **1,373** | **7,713** | **8,716** | **1,856** | **2,108** | **−5,333** | **−5,736** | **14,636** | **15,228** |
| | 1,332 | 1,282 | 300 | 322 | 1 | 4 | 11 | 16 | 2,298 | 2,262 |
| | — | — | — | — | — | — | — | −6 | — | 4 |
| | | | | | | | | | | |
| | **30,931** | **28,687** | **24,499** | **24,587** | **3,819** | **4,427** | **−7,539** | **−7,800** | **139,329** | **134,398** |
| **Equity** [2] | | | | | | | | | **13,431** | **12,900** |
| **Total equity and liabilities** | | | | | | | | | **152,760** | **147,298** |

[1] For further information see “Assets held for sale and disposal groups” in the Notes
[2] Equity attributable to Group shareholders and non-controlling interests

**N14 SEGMENT REPORTING. STATEMENT OF INCOME FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2015**

EUR MILLION

| | Industrial Lines | | Retail Germany | | Retail International | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 1. Gross written premiums including premiums from unit-linked life and annuity insurance | 4,295 | 4,031 | 6,667 | 6,890 | 4,643 | 4,454 |
| 2. Savings elements of premiums from unit-linked life and annuity insurance | — | — | 945 | 947 | 244 | 144 |
| 3. Ceded written premiums | 2,069 | 1,979 | 243 | 278 | 443 | 352 |
| 4. Change in gross unearned premiums | 4 | –48 | –51 | –49 | –234 | –237 |
| 5. Change in ceded unearned premiums | 17 | –18 | 10 | –14 | 16 | –14 |
| **Net premiums earned** | **2,213** | **2,022** | **5,418** | **5,630** | **3,706** | **3,735** |
| 6. Claims and claims expenses (gross) | 3,255 | 3,165 | 5,987 | 6,245 | 3,054 | 2,994 |
| Reinsurers' share | 1,558 | 1,531 | 93 | 118 | 372 | 241 |
| **Claims and claims expenses (net)** | **1,697** | **1,634** | **5,894** | **6,127** | **2,682** | **2,753** |
| 7. Acquisition costs and administrative expenses (gross) | 819 | 767 | 1,110 | 1,377 | 1,071 | 1,025 |
| Reinsurers' share | 318 | 327 | 119 | 125 | 79 | 80 |
| **Acquisition costs and administrative expenses (net)** | **501** | **440** | **991** | **1,252** | **992** | **945** |
| 8. Other technical income | 7 | 8 | 46 | 16 | 20 | 17 |
| Other technical expenses | 4 | 17 | 42 | 220 | 59 | 65 |
| **Other technical result** | **3** | **–9** | **4** | **–204** | **–39** | **–48** |
| **Net technical result** | **18** | **–61** | **–1,463** | **–1,953** | **–7** | **–11** |
| 9. a. Investment income | 315 | 317 | 2,062 | 2,111 | 439 | 369 |
| b. Investment expenses | 109 | 49 | 314 | 195 | 109 | 57 |
| **Net income from assets under own management** | **206** | **268** | **1,748** | **1,916** | **330** | **312** |
| Net income from investment contracts | — | — | — | — | 9 | 10 |
| Net interest income from funds withheld and contract deposits | — | — | –17 | –17 | –1 | –1 |
| **Net investment income** | **206** | **268** | **1,731** | **1,899** | **338** | **321** |
| of which share of profit or loss of equity-accounted associates and joint ventures | 5 | 6 | 8 | 5 | — | — |
| 10. a. Other income | 121 | 147 | 231 | 227 | 135 | 167 |
| b. Other expenses | 137 | 172 | 341 | 288 | 249 | 269 |
| **Other income/expenses** | **–16** | **–25** | **–110** | **–61** | **–114** | **–102** |
| **Profit before goodwill impairments** | **208** | **182** | **158** | **–115** | **217** | **208** |
| 11. Goodwill impairments | — | — | 155 | — | — | — |
| **Operating profit/loss (EBIT)** | **208** | **182** | **3** | **–115** | **217** | **208** |
| 12. Financing costs | 9 | 7 | 10 | 12 | –2 | 6 |
| 13. Taxes on income | 72 | 54 | 66 | –41 | 43 | 50 |
| **Net income** | **127** | **121** | **–73** | **–86** | **176** | **152** |
| of which attributable to non-controlling interests | — | — | 3 | –2 | 28 | 30 |
| of which attributable to shareholders of Talanx AG | 127 | 121 | –76 | –84 | 148 | 122 |

| Non-Life Reinsurance | | Life/Health Reinsurance | | Corporate Operations | | Consolidation | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| 9,338 | 7,903 | 7,731 | 6,459 | 35 | 50 | –910 | –793 | 31,799 | 28,994 |
| — | — | — | — | — | — | — | — | 1,189 | 1,091 |
| 996 | 739 | 1,225 | 1,042 | 8 | 8 | –885 | –786 | 4,099 | 3,612 |
| –245 | –150 | –14 | –6 | 7 | — | –27 | 41 | –560 | –449 |
| –3 | 3 | — | — | — | — | –26 | 41 | 14 | –2 |
| **8,100** | **7,011** | **6,492** | **5,411** | **34** | **42** | **–26** | **–7** | **25,937** | **23,844** |
| 5,977 | 5,159 | 6,642 | 5,547 | 22 | 29 | –656 | –437 | 24,281 | 22,702 |
| 361 | 331 | 1,082 | 882 | — | –1 | –631 | –424 | 2,835 | 2,678 |
| **5,616** | **4,828** | **5,560** | **4,665** | **22** | **30** | **–25** | **–13** | **21,446** | **20,024** |
| 2,248 | 1,953 | 1,348 | 1,228 | 6 | 9 | –265 | –202 | 6,337 | 6,157 |
| 192 | 123 | 76 | 106 | — | — | –270 | –225 | 514 | 536 |
| **2,056** | **1,830** | **1,272** | **1,122** | **6** | **9** | **5** | **23** | **5,823** | **5,621** |
| 1 | 1 | — | — | — | — | –1 | 1 | 73 | 43 |
| 2 | 5 | 11 | 8 | — | 2 | –7 | –17 | 111 | 300 |
| **–1** | **–4** | **–11** | **–8** | **—** | **–2** | **6** | **18** | **–38** | **–257** |
| **427** | **349** | **–351** | **–384** | **6** | **1** | **—** | **1** | **–1,370** | **–2,058** |
| 1,126 | 999 | 424 | 307 | 17 | 215 | –56 | –55 | 4,327 | 4,263 |
| 180 | 152 | 91 | 50 | 87 | 81 | –109 | –97 | 781 | 487 |
| **946** | **847** | **333** | **257** | **–70** | **134** | **53** | **42** | **3,546** | **3,776** |
| — | — | — | — | — | — | — | — | 9 | 10 |
| 20 | 20 | 376 | 356 | — | — | — | — | 378 | 358 |
| **966** | **867** | **709** | **613** | **–70** | **134** | **53** | **42** | **3,933** | **4,144** |
| 15 | 7 | 4 | –6 | 7 | 4 | –15 | –7 | 24 | 9 |
| 345 | 262 | 258 | 214 | 767 | 816 | –687 | –733 | 1,170 | 1,100 |
| 347 | 259 | 205 | 175 | 690 | 738 | –573 | –607 | 1,396 | 1,294 |
| **–2** | **3** | **53** | **39** | **77** | **78** | **–114** | **–126** | **–226** | **–194** |
| **1,391** | **1,219** | **411** | **268** | **13** | **213** | **–61** | **–83** | **2,337** | **1,892** |
| — | — | — | — | — | — | — | — | 155 | — |
| **1,391** | **1,219** | **411** | **268** | **13** | **213** | **–61** | **–83** | **2,182** | **1,892** |
| 85 | 96 | 4 | 3 | 89 | 101 | –34 | –42 | 161 | 183 |
| 350 | 263 | 109 | 45 | –25 | –20 | –3 | –10 | 612 | 341 |
| **956** | **860** | **298** | **220** | **–51** | **132** | **–24** | **–31** | **1,409** | **1,368** |
| 500 | 459 | 148 | 113 | — | — | –4 | –1 | 675 | 599 |
| 456 | 401 | 150 | 107 | –51 | 132 | –20 | –30 | 734 | 769 |

## INVESTMENTS (EXCLUDING FUNDS WITHHELD BY CEDING COMPANIES AND EXCLUDING INVESTMENTS UNDER INVESTMENT CONTRACTS) BY GEOGRAPHICAL ORIGIN[1]

N15 ASSETS UNDER OWN MANAGEMENT BY GEOGRAPHICAL ORIGIN

EUR BILLION

| | 2015 | 2014 |
|---|---|---|
| Germany | 27,588 | 28,181 |
| United Kingdom | 6,695 | 6,183 |
| Central and Eastern Europe (CEE), including Turkey | 3,842 | 4,069 |
| Rest of Europe | 35,785 | 35,416 |
| USA | 14,960 | 11,911 |
| Rest of North America | 2,237 | 1,601 |
| Latin America | 2,935 | 2,670 |
| Asia and Australia | 6,425 | 6,052 |
| Africa | 310 | 327 |
| **Total** | **100,777** | **96,410** |

[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

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

N16 NON-CURRENT ASSETS BY GEOGRAPHICAL ORIGIN

EUR BILLION

| | 2015 | 2014 |
|---|---|---|
| Germany | 3,656 | 3,835 |
| United Kingdom | 2 | 3 |
| Central and Eastern Europe (CEE), including Turkey | — | — |
| Rest of Europe | 391 | 425 |
| USA | 570 | 331 |
| Rest of North America | — | — |
| Latin America | 168 | 32 |
| Asia and Australia | 1 | 2 |
| Africa | 12 | 7 |
| **Total** | **4,800** | **4,635** |

## GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN (BY DOMICILE OF CUSTOMER)[1)]

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

N17 **GROSS WRITTEN PREMIUMS BY GEOGRAPHICAL ORIGIN**

EUR MILLION

| | Primary Insurance | Reinsurance | Total |
|---|---|---|---|
| **2015** | | | |
| Germany | 8,248 | 993 | **9,241** |
| United Kingdom | 191 | 2,760 | **2,951** |
| Central and Eastern Europe (CEE), including Turkey | 2,181 | 286 | **2,467** |
| Rest of Europe | 2,295 | 2,098 | **4,393** |
| USA | 531 | 4,070 | **4,601** |
| Rest of North America | 47 | 772 | **819** |
| Latin America | 1,673 | 890 | **2,563** |
| Asia and Australia | 254 | 3,958 | **4,212** |
| Africa | 48 | 504 | **552** |
| **Total** | **15,468** | **16,331** | **31,799** |
| 2014 | | | |
| Germany | 8,460 | 874 | **9,334** |
| United Kingdom | 153 | 2,488 | **2,641** |
| Central and Eastern Europe (CEE), including Turkey | 2,177 | 221 | **2,398** |
| Rest of Europe | 2,461 | 1,969 | **4,430** |
| USA | 400 | 3,091 | **3,491** |
| Rest of North America | 35 | 694 | **729** |
| Latin America | 1,289 | 820 | **2,109** |
| Asia and Australia | 230 | 3,136 | **3,366** |
| Africa | 45 | 451 | **496** |
| **Total** | **15,250** | **13,744** | **28,994** |

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[1)]

N18 **GROSS WRITTEN PREMIUMS BY TYPE AND CLASS OF INSURANCE**

EUR BILLION

| | 2015 | 2014 |
|---|---|---|
| Property/casualty primary insurance | 8,973 | 8,404 |
| Primary life insurance | 6,495 | 6,846 |
| Non-life Reinsurance | 8,759 | 7,441 |
| Life/Health Reinsurance | 7,572 | 6,303 |
| **Total** | **31,799** | **28,994** |

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

# CONSOLIDATION

## CONSOLIDATION PRINCIPLES

The consolidated financial statements have been prepared in compliance with uniform Group accounting policies. Most of the annual financial statements included in the consolidated financial statements were prepared as at a 31 December reporting date. In accordance with IFRS 10, the preparation of interim financial statements for Group companies with differing financial years was not required because their reporting dates are no more than three months prior to the Group reporting date. The effects of significant transactions between the non-standard reporting dates and the Group reporting date were taken into account.

Subsidiaries are entities that are controlled by the Group. The Group controls an entity if the Group directly or indirectly has power over a Group company from voting rights or other rights and is thereby exposed, or has rights, to positive and negative variable returns from the Group company and has the ability to affect those returns through its power over the investee. All of these criteria must be met. Other factors may also result in control, for example a principal-agent relationship. In this case, a party with decision-making rights acts as the Group's agent, although it does not control the investee because it merely exercises decision-making rights that have delegated by the Group (the principal). 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.

Acquired subsidiaries are accounted for using the purchase method as soon as the Group has obtained control. The acquisition costs correspond to the fair value of the assets acquired and liabilities arising or assumed at the transaction date. Acquisition-related costs are recognised as an expense. 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. If the acquisition costs are less than the identified net assets, the difference is recognised directly in the statement of income.

Non-controlling interests in acquired companies are generally reported based on the proportionate interest in the net assets of the acquired companies. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as an equity transaction.

If the Group loses control of a subsidiary, the subsidiary's assets and liabilities and all related non-controlling interests and other components of equity are derecognised. Any gain or loss arising is recognised in "Other income/expenses" in the statement of income. Any investment retained in the former subsidiary is measured at fair value when control is lost.

All intragroup receivables and liabilities as well as income, expenses and intercompany profits and losses resulting from intragroup transactions are eliminated as part of the consolidation of intercompany balances, income and expenses, and profits or losses. Transactions between disposal groups and the Group's continuing operations are also eliminated.

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. A significant influence is presumed to exist if a company belonging to the Group directly or indirectly holds at least 20% – but no more than 50% – of the voting rights.

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 accounted for using the equity method in accordance with IFRS 11.

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 same way as for subsidiaries, IFRS 10, in combination with IFRS 12, requires relationships with structured entities to be examined to determine whether those entities must be consolidated. In the Group, the requirement to consolidate structured entities is examined in the course of an analysis that covers both transactions in which the Groups initiate 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. 2 (3) structured entities were consolidated as at the reporting date. The list of all consolidated structured entities is a component of the list of shareholdings.

## BASIS OF CONSOLIDATION

All material subsidiaries that are directly or indirectly controlled by Talanx AG are included in the consolidated financial statements. These include material structured entities. Material associates and joint ventures are consolidated using the equity method.

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, 39 (37) 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 8 (7) associates and 2 (2) 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 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 page 236ff. Information on associates and joint ventures is contained in Note 5 "Investments in associates and joint ventures" in the "Notes to the consolidated balance sheet" section.

N19 BASIS OF CONSOLIDATION

| | 2015 | 2014 |
|---|---|---|
| **Number of consolidated subsidiaries** | | |
| Domestic[1] | 87 | 81 |
| Foreign[2] | 104 | 97 |
| **Subtotal** | **191** | **178** |
| **Number of consolidated investment funds (subsidiaries)[3]** | | |
| Domestic | 17 | 15 |
| Foreign | 11 | 13 |
| **Subtotal** | **28** | **28** |
| **Number of consolidated structured entities** | | |
| Domestic | — | — |
| Foreign | 2 | 3 |
| **Subtotal** | **2** | **3** |
| **Total number of consolidated entities** | | |
| Domestic | 104 | 96 |
| Foreign | 117 | 113 |
| **Total** | **221** | **209** |
| **Number of equity-accounted associates and joint ventures** | | |
| Domestic | 3 | 3 |
| Foreign[4), 5)] | 9 | 11 |
| **Total** | **12** | **14** |

[1] Consists of: 85 (79) individual entities and two (two) entities consolidated in one (one) subgroup
[2] Consists of: 57 (54) individual entities and 47 (43) 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 six (six) individual entities and three (five) 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 (as defined in IFRS 12.13) applied to the following subsidiaries with non-controlling interests at the reporting date because of protective rights in favour of those shareholders.

**N20 SIGNIFICANT RESTRICTIONS APPLYING TO MATERIAL SUBSIDIARIES**

| Company | Nature and extent of significant restrictions |
|---|---|
| neue leben Lebensversicherung AG, Hamburg | In certain circumstances, the sale of the shares held by the Group may require the approval of the general meeting of neue leben Holding AG, Hamburg, and hence also the approval of the minority shareholders. |
| Towarzystwo Ubezpieczeń Europa S.A. and Towarzystwo Ubezpieczeń na Życie Europa S.A., both Wroclaw, 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. |
| 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. |

The provisions of national company law or regulatory requirements may restrict the Group's ability in certain countries to transfer assets between Group companies. These restrictions result largely from local minimum capital adequacy and solvency requirements and, to a lesser extent, from exchange controls.

To secure our technical liabilities and as collateral for liabilities arising from existing derivative transactions, the Group has established blocked custody accounts and trust accounts in certain countries, and has pledged assets in favour of non-Group third parties for liabilities associated with real estate transactions, which is standard practice for such transactions. For further information, please refer to our disclosures in "Contingent liabilities and other financial commitments" in the "Other disclosures" section in the notes to the consolidated financial statements.

## DISCLOSURES ON SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

Interests in the equity of subsidiaries that are attributable to non-controlling interest shareholders are reported separately in equity. They amounted to EUR 5,149 (4,902) million at the reporting date.

**N21 SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS[1)]**

EUR MILLION

| | Hannover Rück SE subgroup[2)] | | Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A. | | Towarzystwo Ubezpieczeń Europa S.A.[3)] | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Domicile/country of formation | Hannover/ Germany | Hannover/ Germany | Warsaw/ Poland | Warsaw/ Poland | Wroclaw/ Poland | Wroclaw/ Poland |
| Non-controlling interests | 49.78% | 49.78% | 24.26% | 24.26% | 50.00% | 50.00% |
| | | | | | | |
| Investments | 53,337 | 52,147 | 1,685 | 1,727 | 302 | 302 |
| Reinsurance recoverables on technical provisions | 2,935 | 2,207 | 268 | 195 | 2 | 2 |
| Accounts receivable on insurance business | 3,666 | 3,114 | 307 | 257 | 33 | 49 |
| **Total assets** | **63,215** | **60,458** | **2,477** | **2,375** | **589** | **581** |
| Subordinated liabilities | 1,490 | 1,986 | — | — | — | — |
| Technical provisions | 42,248 | 38,942 | 1,592 | 1,459 | 307 | 279 |
| Other provisions | 614 | 586 | 17 | 30 | 8 | 5 |
| **Equity** | **8,777** | **8,253** | **581** | **593** | **231** | **241** |
| of which non-controlling interests[4)] | 4,862 | 4,604 | 141 | 144 | 77 | 81 |
| **Total debt** | **54,438** | **52,205** | **1,896** | **1,782** | **358** | **340** |
| | | | | | | |
| Gross written premiums | 17,069 | 14,362 | 854 | 792 | 152 | 216 |
| Net premiums earned | 14,593 | 12,423 | 716 | 692 | 121 | 117 |
| Underwriting result | 94 | –24 | 26 | 27 | 19 | 22 |
| Net investment income | 1,665 | 1,472 | 53 | 57 | 2 | 4 |
| Operating profit/loss (EBIT) | 1,755 | 1,466 | 72 | 74 | 17 | 20 |
| **Net income** | **1,215** | **1,065** | **62** | **64** | **20** | **32** |
| of which non-controlling interests[4)] | 648 | 572 | 15 | 16 | 7 | 11 |
| **Other comprehensive income** | **–132** | **1,083** | **–8** | **8** | **1** | **–3** |
| **Total comprehensive income** | **1,083** | **2,148** | **54** | **72** | **21** | **29** |
| of which non-controlling interests[4)] | 560 | 1,133 | 13 | 17 | 7 | 10 |
| | | | | | | |
| Cash flows from operating activities | 3,105 | 1,931 | 21 | 196 | 38 | 39 |
| Cash flows from investing activities attributable to operating activities | –2,048 | –1,195 | 42 | –133 | –1 | –33 |
| Cash flows from financing activities | –1,055 | –648 | –67 | –58 | –31 | –8 |
| **Cash and cash equivalents at the end of the reporting period** | **793** | **773** | **12** | **11** | **2** | **1** |
| **Dividends paid to non-controlling interests during the year[5)]** | **255** | **222** | **16** | **14** | **15** | **4** |

1) All amounts relate to financial information before consolidation
2) Information according to Hannover Rück SE subgroup
3) The "notional" share (16.54%) is attributed to the Group for accounting purposes by modelling a written put option on shares of non-controlling interest shareholders using the anticipated acquisition method (the acquisition is thus depicted in the amount of 66.54% for accounting purposes)
4) 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
5) 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

Compass Insurance Company Ltd, Johannesburg, South Africa, which is part of Hannover Reinsurance Group Africa (Pty) Ltd. (HRGSA), domiciled in Johannesburg and a subgroup of the Hannover Re Group, acquired 60% of the shares and therefore a controlling interest of Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg ("CIA"), effective 1 January 2015 by way of a business acquisition achieved in stages, in order to hedge the insurance portfolio that it brokers. CIA had already been included in the HRGSA subgroup financial statements using the equity method, because 40% of the shares were held by Lireas Holdings (Pty) Ltd., Johannesburg. The converted purchase price stood at EUR 4 million and includes contingent purchase price payments. In the context of the initial consolidation, intangible assets in the form of customer relations with a value of EUR 5 million were identified. The goodwill arising from this business acquisition is EUR 1 million. In a similar transaction with effect from 28 November 2015, Lireas Holdings (Pty) Ltd. took control of Firedart Engineering Underwriting Managers Proprietary Limited ("Firedart"), Johannesburg, which had previously been consolidated using the equity method, by increasing its holding from 16.2% to a total of 70%. The converted purchase price stood at EUR 200 thousand. In the context of the initial consolidation, intangible assets in the form of customer relations with a value of EUR 1 million were identified. The goodwill arising from this business acquisition is provisionally EUR 0.3 million.

On 23 December 2014, the Group signed purchase agreements for two wind farm projects based in Toulouse, France – Ferme Eolienne du Confolentais S.A.R.L. and Ferme Eolienne des Mignaudières S.A.R.L. The acquisition was subject to conditions precedent, which were met on 10 February 2015 (acquisition date). The companies are wind farm special purpose vehicles. TD Real Assets GmbH & Co. KG, Cologne (Retail Germany segment), indirectly acquired all the shares of Ferme Eolienne du Confolentais S.A.R.L., and HDI AI EUR Beteiligungs-GmbH & Co. KG (formerly HG-I Alternative Investments Beteiligungs-GmbH & Co. KG), Cologne (Industrial Lines segment) indirectly acquired all the shares of Ferme Eolienne des Mignaudières S.A.R.L. The purchase price for the companies was EUR 1 million in each case. The total assets of the companies acquired amounting to EUR 8 million in each case are largely attributable to technical equipment for the wind farms, which is financed by equity and loans. No major intangible assets or goodwill exist. No contingent liabilities, contingent considerations or separate transactions within the meaning of IFRS 3 were identified. Both companies were initially consolidated in the first quarter of 2015. The total planned investment volume amounts to approximately EUR 47 million. The legal form of both of the companies acquired was changed to that of a French general partnership (SNC) effective 10 February 2015.

By way of a purchase agreement dated 17 December 2014, Inversiones HDI Limitada, Santiago, Chile (Retail International segment) acquired 99.9959% of the shares of Inversiones Magallanes S.A. effective 13 February 2015 via a tender procedure. Based on the agreements entered into, the Group has therefore recognised the acquisition as at the date of initial consolidation (13 February 2015). The Group's share of the voting rights corresponds to the shares held. The necessary approval was received from the Chilean supervisory body SVS (Superintendencia Valores y Seguros) on 9 April 2015.

The group consists of the holding company Inversiones Magallanes S.A., Santiago, Chile, and three operating insurance companies: Aseguradora Magallanes S.A., Santiago, Chile (property/casualty business), HDI Seguros de Garantía y Crédito S.A. (formerly Aseguradora Magallanes de Garantía y Crédito S.A.), Santiago, Chile (credit/surety business) and HDI Seguros de Vida S.A. (formerly Aseguradora Magallanes de Vida S.A.), Santiago, Chile (life insurance business). In addition, a start-up in Peru focusing on the property/casualty business – HDI Seguros S.A. (formerly Aseguradora Magallanes del Perú S.A.), Lima, Peru – was part of the transaction. Following completion of the transaction, the Group holds the following shares of the companies in the Magallanes group:

- Inversiones Magallanes S.A. – 99.9%
- Aseguradora Magallanes S.A. – 99.8%
- HDI Seguros de Garantía y Crédito S.A. – 99.8%
- HDI Seguros de Vida S.A. – 100%
- HDI Seguros S.A. (Peru) – 100%

The purchase price for the Magallanes group, which was settled entirely in cash, amounted to the equivalent of EUR 193 million at the closing rate on 13 February 2015. However, thanks to a favourable currency hedge, Talanx International AG effectively only invested EUR 180 million as a capital increase at Inversiones HDI Limitada, Chile, to acquire the Magallanes group. Inversiones HDI Limitada took roughly a further EUR 3 million from its own funds.

The goodwill resulting from the acquisition amounts to EUR 122 million. In addition to considerable synergies and expected cross-selling effects, this also reflects the expected growth, mainly in the motor insurance business. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (EUR 0.6 million) are reported in "Other income/expenses". As a result of the merger completed on 25 August 2015 of the holding companies Inversiones Magallanes S.A. and Inversiones HDI Ltda. as well as of the planned merger of the property insurance companies Aseguradora Magallanes S.A. and HDI Seguros S.A. (Chile), partial amounts from unrealised gains from initial consolidation have also already been realised for tax purposes and are available as tax-deductible writedowns in future periods.

N22 ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE MAGALLANES GROUP AS AT 13 FEBRUARY 2015 IN ACCORDANCE WITH IFRSS

EUR MILLION

| | Acquisition-date fair value |
|---|---|
| Intangible assets | 13 |
| Investments | 93 |
| Reinsurance recoverables on technical provisions | 99 |
| Accounts receivable on insurance business [1] | 150 |
| Cash at banks, cheques and cash-in-hand | 10 |
| Deferred tax assets | 2 |
| Other assets | 25 |
| **Total assets** | **392** |
| | |
| Technical provisions | 249 |
| Other provisions | 3 |
| Other liabilities | 69 |
| of which tax liabilities | 6 |
| of which insurance-related | 54 |
| **Total liabilities** | **321** |
| **Net assets acquired** | **71** |

[1] Gross accounts receivable on insurance business before impairment losses amount to EUR 152 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 as well as brand names. No material contingent liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent considerations, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

The company's gross premiums of EUR 242 million and net income of EUR 8 million were included in the financial statements. If the group had already been acquired as at 1 January 2015, the gross premiums and net income to be included would have amounted to EUR 265 million and EUR 8 million, respectively.

As part of the "wpd" wind farm project, the Group acquired WP Sandstruth GmbH, Bremen, and Windpark Vier Fichten GmbH, Bremen, as well as wpd Windparks Mittleres Mecklenburg GmbH, Bremen, which is the sole limited partner of Windpark Dalwitz GmbH & Co. KG, Bremen, by way of purchase agreements dated 23 March 2015. The companies are wind farm special purpose vehicles. The completion of the acquisition of the three wind farms was subject to conditions precedent, which were met on 1 April 2015 (acquisition date). TD Real Assets GmbH & Co. KG, Cologne, acquired 100% of the shares of WP Sandstruth GmbH and wpd Windparks Mittleres Mecklenburg GmbH and HDI AI EUR Beteiligungs-GmbH & Co. KG purchased 100% of the shares of Windpark Vier Fichten GmbH. Talanx Direct Infrastructure 1 GmbH, Cologne, is the new general partner of Windpark Dalwitz GmbH & Co. KG. The Group's share of the voting rights corresponds to the shares held.

The purchase price for the complete wind farm project, which was settled entirely in cash, amounted to EUR 44 million and is split across the following individual transactions:

- wpd Windparks Mittleres Mecklenburg GmbH including indirect acquisition of Windpark Dalwitz GmbH & Co. KG – EUR 26 million
- WP Sandstruth GmbH – EUR 9 million
- Windpark Vier Fichten GmbH – EUR 9 million

No goodwill arose from the acquisition. Acquisition-related costs (EUR 0.5 million) are reported in "Other income/expenses".

N23 ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE "WPD" WIND FARM PROJECT AS AT 1 APRIL 2015 IN ACCORDANCE WITH IFRSS

EUR MILLION

| | Acquisition-date fair value |
|---|---|
| Intangible assets[1] | 1 |
| Investments[1] | 118 |
| Cash at banks, cheques and cash-in-hand | 8 |
| Other assets | 7 |
| **Total assets** | **134** |
| | |
| Other provisions | 1 |
| Notes payable and loans | 79 |
| Other liabilities | 1 |
| Deferred tax liabilities | 9 |
| **Total liabilities** | **90** |
| **Net assets acquired** | **44** |

[1] Due to new findings, the Group adjusted the disclosure of capital investments in the amount of EUR 32 million, resulting in neither profit nor loss, during the "measurement period" in accordance with IFRS 3; the balance-sheet item of intangible assets was reduced in the same amount

The amount recognised for accounts receivable (EUR 7 million: "Other assets" item) corresponds to their fair value. No credit losses are expected. No material contingent liabilities were identified that would have to be recognised under IFRS 3.23. In addition, no contingent liabilities were identified that were not recognised because their fair value could not be measured reliably. No contingent considerations, indemnification assets or separate transactions within the meaning of IFRS 3 were recognised.

The companies' revenue (included in investment income) of EUR 11 million and profit of EUR –0.4 million were included in the financial statements. If the companies had already been acquired as at 1 January 2015, the revenue to be included would have amounted to EUR 15 million and the profit to be included would have amounted to EUR 1 million.

By way of a purchase agreement dated 4 September 2014, the Group acquired the wind farm special purpose vehicle Windfarm Bellheim GmbH & Co. KG, Aurich. The acquisition was subject to conditions precedent, which were met on 10 April 2015 on its entry in the commercial register. TD Real Assets GmbH & Co. KG, Cologne, acquired 85% of the company's limited partner shares and HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne, acquired 15%. Talanx Direct Infrastructure 1 GmbH, Cologne, is the new general partner. The purchase price for the company was EUR 10 thousand. The total assets of the company acquired (EUR 32 million) largely comprise technical equipment for the wind farm, which is financed by equity and loans. No major intangible assets or goodwill exist.

The American subgroup Hannover Re Real Estate Holdings, Inc., in which Hannover Rück SE owns a holding of 95.1%, acquired 100% of the shares of three property companies in the second and fourth quarters of 2015 via the subsidiary GLL HRE Core Properties, LP, Wilmington. The business purpose of each of the companies is to maintain and manage a real estate property. This real estate was purchased on 1 and 24 July and 23 November 2015 for a total converted purchase price of EUR 207 million. No contingent liabilities or contingent considerations in the meaning of IFRS 3 were identified.

With effect from 3 July 2015, Hannover Reinsurance Africa Ltd., Johannesburg, South Africa, a subsidiary of the Hannover Rück SE subgroup Hannover Reinsurance Group Africa (Pty) Ltd., acquired further shares in Lireas Holdings (Pty) Ltd., also Johannesburg, for a converted purchase price of EUR 3 million from a third party outside the Group. In the course of share stocking by 19.0% without changing the control status, Hannover Reinsurance Africa Limited held 70.0% of the shares of Lireas Holdings upon completion of the transaction. The effects arising from the change in the participation ratio were registered in the consolidated financial statements in accordance with IFRS 10 as an equity transaction.

HDI Global SE (formerly: HDI-Gerling Industrie Versicherung AG) sold its shares (100%) in HDI-Gerling Assurances S.A., Luxembourg, Luxembourg to Baloise (Luxemburg) Holding S.A., Luxembourg, Luxembourg; the transfer of the shares was completed on 3 September 2015. The deconsolidation led to a profit of EUR 0.2 million, which is disclosed under "Other income/expenses". In determining the profit, a withdrawing goodwill of EUR 0.4 million relating to the divestment of the company ("Industrial Lines" cash-generating unit) was taken into account.

By way of purchase agreements dated 4 August 2015, the Group acquired the three wind farm special purpose vehicles Les Vents de Malet SAS, Lille, France, Le Souffle des Pellicornes SAS, Lille, France, and Le Chemin de La Milaine SAS, Lille, France, as part of the "RP Global" project. The acquisition was subject to conditions precedent, which were met on 9 September 2015 (acquisition date). HDI AI EUR Beteiligungs-GmbH & Co. KG, Cologne, indirectly acquired all shares of Le Souffle des Pellicornes SAS and TD Real Assets GmbH & Co. KG, Cologne, indirectly acquired all shares of Les Vents de Malet SAS and Le Chemin de La Milaine SAS. The Group's share of the voting rights corresponds to the shares held.

The purchase price for the complete wind farm project, which was settled entirely in cash, amounted to EUR 25 million and is split across the following individual transactions:

- Le Souffle des Pellicornes SAS – EUR 7 million
- Les Vents de Malet SAS – EUR 9 million
- Le Chemin de La Milaine SAS – EUR 9 million

No goodwill arose from the acquisition. This transaction does not result in any tax-deductible goodwill in the tax accounts (share deal). Acquisition-related costs (< EUR 0.5 million) are reported in "Other income/expenses". The companies were initially incorporated on a provisional basis. The provisional fair values of the assets and liabilities acquired in this transaction must be analysed within twelve months of the date of initial consolidation and may need to be adjusted in some cases.

N24 ACQUIRED ASSETS AND ASSUMED LIABILITIES OF THE "RP GLOBAL" WIND FARM PROJECT AS AT 9 SEPTEMBER 2015 IN ACCORDANCE WITH IFRSS (PROVISIONAL)

EUR MILLION

| | Acquisition-date fair value |
|---|---|
| Investments | 57 |
| **Total assets** | **57** |
| | |
| Notes payable and loans | 18 |
| Deferred tax liabilities | 14 |
| **Total liabilities** | **32** |
| **Net assets acquired** | **25** |

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

As the wind farms are still under construction, no material turnover or annual profit has been generated since 1 January 2015.

100% of the shares of a new property company were acquired in the 2015 financial year via HR GLL Central Europe GmbH & Co. KG, Munich, a subsidiary of Hannover Re Euro RE Holdings GmbH, Hannover. The business purpose of the company is to maintain and manage a real estate property. This real estate was purchased on 30 October 2015 for a purchase price of EUR 104 million. No contingent liabilities or contingent considerations in the meaning of IFRS 3 were identified.

In the fourth quarter of 2015, we deconsolidated the companies HDI STRAKHUVANNYA, Kiev, Ukraine and HDI Zastrahovane AD, Sofia, Bulgaria (both in the Retail International segment). For details, please refer to the section "Non-current assets held for sale and disposal groups".

### MATERIAL CHANGES OF NAME

The conversion of HDI-Gerling Industrie Versicherung AG, Hannover, into a Societas Europaea (SE) under the new name HDI Global SE came into effect upon its entry into the commercial register on 8 January 2016. In the interests of a uniform market appearance, the domestic and foreign subsidiaries of HDI Global SE were renamed accordingly.

## DISCLOSURES ON CONSOLIDATED STRUCTURED ENTITIES

The following structured entities were consolidated as at the reporting date:

- Kaith Re Ltd., Hamilton, Bermuda
- LI RE, Hamilton, Bermuda

Hannover Re PCC (Guernsey) Ltd., a "protected cell company" under the Protected Cell Companies Ordinance 1997 was liquidated with effect from 9 July 2015, following the full winding-up that was already completed in the previous year, and deleted from the Guernsey Commercial Register.

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 also have 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.

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. established effective 16 October 2014 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, Hannover Rück SE 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 Group uses other structured entities to conduct its business activities. These entities are not consolidated because the control criteria defined in IFRS 10 are not applicable. The unconsolidated structured entities comprise the following types of transactions:

**N25 UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE**

| Type of entity | 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 9.7 (7.3) billion and the generated commissions total EUR 72 (55) million.<br><br>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. The volume of these transactions results from the carrying amount of the relevant investments and amounted to EUR 108 (50) 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.<br><br>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.B76ff. for which the policyholder makes the investment decision; there is therefore no requirement to consolidate them. |

## N25 UNCONSOLIDATED STRUCTURED ENTITIES, INCLUDING PRESENTATION OF LOSS EXPOSURE

| Type of entity | Nature and purpose of the business relationship or investment |
|---|---|
| **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 4,701 (3,135) million at the reporting date. A portion of the reinsurance layer is funded by contractually defined investments in the form of cash and cash equivalents. In such cases, the liable capital is fully collateralised and there is thus no underwriting loss exposure for Hannover Rück SE. A further portion of the reinsurance layer of these transactions 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 2,780 (1,942) 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.<br><br>In 2012, Hannover Rück SE issued a CAT bond with the aim of transferring to the capital market peak natural catastrophe exposures deriving from European storm events. The term of the CAT bond, which has a nominal volume of EUR 100 million, runs until 31 March 2016. It was placed with institutional investors from Europe, North America and Asia by Eurus III Ltd., a special purpose entity domiciled in Hamilton, Bermuda, that was registered in August 2012 as a special purpose insurer under the Bermuda Insurance Act of 1978. The retrocessions concluded in connection with the transaction with Eurus III Ltd. protect Hannover Rück SE, E+S Rückversicherung AG and Hannover Re (Bermuda) Ltd. against the above catastrophe risks. The aforementioned transaction volume is measured by reference to the reinsurance layer of the reinsurance contract. The structured entity is fully funded by contractually defined investments in the form of cash and cash equivalents. As the maximum liability of the structured entity is thus fully collateralised, there is no underwriting loss exposure for Hannover Rück SE in this respect.<br><br>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 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. Of the total volume of the "K Cession" in an amount of EUR 362 million, EUR 304 (169) million were securitised through structured entities as at the reporting date. 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 1,873 (848) 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. |
| **Assumed life/health reinsurance business** | |
| | Some transactions in the Life/Health Reinsurance segment require the involvement as contractual partners of cedant special purpose entities established by parties outside the Group and from which companies of the Hannover Re Group assume certain technical and/or financial risks. As all the risks from assumed business are reflected in the Hannover Re Group's technical and non-technical account, it is irrelevant whether the active reinsurance business is assumed by structured or other entities. Although Hannover Rück SE is exposed to variable returns from the business relationships with these entities, they are not related to the purpose and structure of the structured entity in question. Rather, these business relationships correspond to regular cedant/reinsurer relationships and are therefore not the subject of this disclosure. Some of the transactions contain features that are required to be classified as financial guarantee contracts. For further information, please refer to our disclosures in Note 13, "Derivative financial instruments and hedge accounting". |
| **"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. |

The carrying amounts of the assets and liabilities of the aforementioned transactions with unconsolidated structured entities are composed of the following items at the reporting date.

**N26 BUSINESS RELATIONSHIPS WITH UNCONSOLIDATED STRUCTURED ENTITIES**

EUR MILLION

| | 31.12.2015 | | | | 31.12.2014 | | | |
|---|---|---|---|---|---|---|---|---|
| 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 | 17 | — | — | — | 21 | — | — | — |
| Other financial instruments – financial assets available for sale | 3,177 | — | — | — | 2,212 | — | — | — |
| Other financial instruments – financial instruments at fair value through profit or loss | 1,043 | — | 108 | — | 788 | — | 50 | — |
| Other investments | 1,551 | — | — | — | 1,741 | — | — | — |
| Investments for the benefit of life insurance policyholders who bear the investment risk | — | 10,104 | — | — | — | 9,426 | — | — |
| Reinsurance recoverables on technical provisions | — | — | — | 138 | — | — | — | 147 |
| Accounts receivable on insurance business | — | — | — | 30 | — | — | — | 13 |
| **Total asset items** | **5,788** | **10,104** | **108** | **168** | **4,762** | **9,426** | **50** | **160** |
| LIABILITIES | | | | | | | | |
| Technical provisions for life insurance policies where the investment risk is borne by the policyholders | — | 10,104 | — | — | — | 9,426 | — | — |
| Other liabilities – reinsurance payables | — | — | — | 32 | — | — | — | 29 |
| **Total liability items** | **—** | **10,104** | **—** | **32** | **—** | **9,426** | **—** | **29** |

Where they result from general investment activities or investments from 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.

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 to these entities 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 ("Contingent liabilities and other financial commitments").

## EQUITY-ACCOUNTED ASSOCIATES AND JOINT VENTURES

### SIGNIFICANT ADDITIONS AND DISPOSALS

Following the dividend proposal dated 25 March 2015 by ASPECTA Assurance International AG, Vaduz, Liechtenstein, which was previously included in the consolidated financial statements using the equity method, a call option held by the majority shareholder became exercisable. As a result, Hannover Re Group lost its significant influence over the company, so that it is no longer consolidated using the equity method. The company was reported under "Other participating interests" until the shares were returned to the majority shareholder on 4 May 2015.

On 1 October 2014, the Group signed a purchase agreement for 49.94% of the shares of the largest private water company in Portugal, Indaqua Indústria e Gustão de Águas S.A., Matosinhos, Portugal. The acquisition was subject to conditions precedent, which were met as at 16 April 2015 (acquisition date). The acquisition is being made via Talanx Infrastructure Portugal GmbH (formerly: INOS 14-003 GmbH), Munich, which was acquired separately for this purpose, and in which TD Real Assets GmbH & Co. KG acquired 70% of the shares and HDI AI EUR Beteiligungs-GmbH & Co. KG acquired 30%. The purchase price for the investment in the associate amounts to EUR 51 million.

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

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

On 15 January 2016, the Group signed a contract regarding the sale of the minority shareholding in C-QUADRAT Investment AG, Vienna, Austria. As at the reporting date, the associate was recognised as a non-current asset held for sale with a carrying amount of EUR 19 million. The transaction, which is subject to approval by the supervisory authorities, is expected to close in the current year 2016 with a disposal gain of around EUR 25 million after tax. The sale does not reflect a change in strategy by the Group, so the long-term cooperation with C-QUADRAT shall continue and expand further. A deed of trust is in place in the period between the agreement being signed and closing, but, during this period, both legal and economic ownership shall remain in the Group.

### HDI STRAKHUVANNYA, KIEV, UKRAINE (RETAIL INTERNATIONAL SEGMENT)

We classified HDI STRAKHUVANNYA, Kiev, Ukraine, as a disposal group in accordance with IFRS 5 as at 31 December 2014. By selling this company, the Group aims to streamline its portfolio in Eastern Europe. The sale of the shares has now been effected at a price in the low single-digit millions of euros on 19 February 2015. 10% of the shares of the company less one share were transferred to the buyer after payment of the full purchase price. The remaining shares are to be transferred to the buyer once the transaction has received the necessary antitrust and regulatory approval. Anti-trust approval has already been granted, regulatory approval is still pending. Due to its insignificance to the Group's net assets, financial position and results of operation, we deconsolidated the company in the fourth quarter of 2015. The divestment led to a loss of EUR 5 million, which is disclosed under "Other income/expenses". The disposal group contained assets of EUR 11 million and liabilities of EUR 4 million.

### HDI ZASTRAHOVANE AD, SOFIA, BULGARIA (RETAIL INTERNATIONAL SEGMENT)

In January 2015, the Group decided to sell HDI Zastrahovane AD, Sofia, Bulgaria, together with HDI STRAKHUVANNYA, Kiev, Ukraine. The sale was consistent with the move to streamline the investment portfolio in Eastern Europe. This transaction was completed in the fourth quarter of 2015 with a minor divestment loss, which the Group has disclosed under "Other income/expenses". The disposal group contained assets of EUR 18 million and liabilities of EUR 19 million.

### REAL ESTATE

As at the reporting date, there are no real estate portfolios classified as available for sale.

As at 31 December 2014, we classified real estate portfolios in the amount of EUR 11 million as held for sale. Of this amount, EUR 3 million was attributable to the Retail Germany segment, and EUR 8 million to the Industrial Lines segment. The fair value of the total portfolio (corresponding to the expected selling prices) amounted to EUR 11 million. Fair values were largely determined internally within the Group using discounted cash flow methods and, in individual cases, on the basis of external expert opinions. The purchase price is used in cases where a binding sale agreement has been entered into. Intentions to sell depended on specific factors associated with the real estate market and the properties themselves, taking into account current and future opportunity and risk profiles.

# NOTES TO THE CONSOLIDATED BALANCE SHEET — ASSETS

## (1) GOODWILL

N27 **SEGMENT BREAKDOWN OF GOODWILL**

EUR MILLION

| | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Corporate Operations | 2015 | 2014 |
|---|---|---|---|---|---|---|---|
| **Gross carrying amount as at 31.12. of the previous year** | **159** | **527** | **550** | **16** | **3** | **1,255** | **1,270** |
| Currency translation as at 1.1. of the financial year | — | — | –11 | 1 | — | –10 | –15 |
| Gross carrying amount after currency translation as at 1.1. of the financial year | 159 | 527 | 539 | 17 | 3 | 1,245 | 1,255 |
| Additions due to business combinations | — | — | 122 | 1 | — | 123 | — |
| Exchange rate changes | — | — | –11 | — | — | –11 | — |
| **Gross carrying amount as at 31.12. of the financial year** | **159** | **527** | **650** | **18** | **3** | **1,357** | **1,255** |
| **Accumulated impairment losses as at 31.12. of the previous year** | **5** | **124** | **33** | **—** | **3** | **165** | **165** |
| Currency translation as at 1.1. of the financial year | — | — | — | — | — | — | — |
| Accumulated impairment losses after currency translation as at 1.1. of the financial year | 5 | 124 | 33 | — | 3 | 165 | 165 |
| Impairments | — | 155 | — | — | — | 155 | — |
| **Accumulated impairment losses as at 31.12. of the financial year** | **5** | **279** | **33** | **—** | **3** | **320** | **165** |
| Carrying amount as at 31.12. of the previous year | 154 | 403 | 517 | 16 | — | 1,090 | 1,105 |
| **Carrying amount as at 31.12. of the financial year** | **154** | **248** | **617** | **18** | **—** | **1,037** | **1,090** |

As part of the realignment of its German life insurance business, Talanx Deutschland AG split the Board of Management responsibilities for the life insurance and property/casualty lines on 1 May 2015 to reflect the two lines. Monitoring of goodwill was modified in the second quarter of 2015 as a result of this reorganisation. Previously, the recoverability of goodwill was monitored at the level of the segment as a whole, which was identical to the CGU. Since the second quarter of 2015, it has been assessed on the basis of the two newly created Board of Management responsibilities – "Property/Casualty Germany" and "Life Germany" – at the level below Talanx Deutschland AG. This change in the way goodwill is monitored changed the composition of the former underlying "Retail Germany" CGU (corresponded to the "Retail Germany" segment) in the second quarter of 2015, resulting in the need to reallocate goodwill.

Before goodwill is reallocated, it must be tested for impairment on the basis of the "old" structure. Only after this has been completed can the goodwill be reallocated and tested for impairment separately for the "Property/Casualty Germany" and "Life Germany" CGUs. The impairment test in the second quarter of 2015 did not indicate that goodwill was impaired in the first step. In the second step, the goodwill of the old "Retail Germany" CGU amounting to EUR 403 million was allocated to the new "Property/Casualty Germany" (EUR 248 million) and "Life Germany" (EUR 155 million) CGUs, based on the relative values. The proportionately allocated goodwill of the "Life Germany" CGU amounting to EUR 155 million had to be written down in full in the second quarter of 2015 after being tested for impairment. The impairment loss was recognised accordingly in the second quarter of 2015 in profit or loss in the "Goodwill impairments" item.

The recoverable amount of the "Life Germany" CGU amounted at the time of the impairment test to EUR 888 million and was determined on the basis of value in use. To measure the value in use of the "Life Germany" CGU, we extrapolated the MCEV data from the MCEV reports as at 31 December 2014 with their documented interest rate sensitivities to reflect market interest rates at the time of the reorganisation. The interest rate swap curve used as a basis for calculating the estimated MCEV in 2014 was extrapolated beyond the market information that can be reliably estimated after 20 years to an ultimate forward rate of 4.2% reached after a total of 60 years; this was based on EIOPA requirements and is in line with standard market practice. Value in use was measured by adjusting market interest rates by –22 BP to reflect the documented MCEV interest rate sensitivities and the value of new business. The impairment loss in the second quarter of 2015 was therefore primarily attributable to the continued decline in interest rates up to the date of the impairment test in a persistently low interest-rate environment.

The reorganisation within Talanx Deutschland AG did not change either the cross-line management of the segment or internal reporting to the Group Board of Management of Talanx AG, so segment reporting for the Retail Germany Division was unchanged.

In October 2015, Talanx International AG decided to conduct the steering, planning, target setting and reporting within the Retail International Division in future on the level of the geographical regions "Europe", "Latin America" and "Others". This decision did not affect either the enterprise management of the segment overall or the composition of the CGUs in the division. Consequently, the reporting to the Talanx AG Group Board of Management also remains unchanged. However, the lowest level of goodwill monitoring has been transferred from the CGU level (foreign markets) to the level of the geographical regions, so goodwill must be tested for impairment at the level of the corresponding groups of CGUs – "Europe" and "Latin America" – and no longer at the level of the individual CGUs. The goodwill of each of the individual CGUs has been bundled at the new levels; the "Others" group of CGUs does not contain any goodwill. No need for an impairment loss has arisen either from the goodwill impairment test performed on the basis of the "old structure" prior to the reallocation of the goodwill or from the subsequent goodwill impairment test at the new lowest level of goodwill monitoring.

The reduction in goodwill by the impairment loss in the amount of EUR 155 million in the second quarter of 2015 was largely offset by the acquired goodwill from the acquisition of the Magallanes group in the first quarter of 2015 (see the "Consolidation" section) amounting to EUR 122 million.

## IMPAIRMENT TESTING

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. With regard to the Industrial Lines and Non-Life Reinsurance segments, the CGUs are the same as the segments with the same names within the meaning of IFRS 8. In the Retail Germany segment, the CGUs correspond to the Board of Management responsibilities (property/casualty and life) at the level below Talanx Deutschland AG. In the Retail International segment, every foreign market always represents its own, separate CGU, but the lowest goodwill monitoring level corresponds to the geographical regions, which represent corresponding groups of CGUs.

N28 CGUS TO WHICH GOODWILL IS ALLOCATED

EUR MILLION (MEASURED AT THE CLOSING RATE)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Industrial Lines segment | 154 | 154 |
| Retail Germany segment | — | 403 |
| Property/casualty Germany[1] | 248 | — |
| Retail International segment[2] | | |
| Latin America | 210 | — |
| Europe | 407 | — |
| Non-Life Reinsurance segment | 18 | 16 |

[1] No direct comparison with the previous year is possible due to the reallocation of goodwill following the reorganisation at Talanx Deutschland AG

[2] No direct comparison with the previous year is possible due to the change in the lowest goodwill monitoring level within the segment. In the previous year, the total goodwill of all CGUs to which goodwill is allocated, which was allocated to the two groups of CGUs in 2015, stood at EUR 517 million

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 were no indicators of a need for an impairment loss for any of the CGUs and/or groups of CGUs, except for the "Europe" group of CGUs. For the "Europe" group of CGUs, the impairment test was repeated as at the reference date of 31 December 2015 based on the circumstances, and indicated no need for an impairment loss.

In order to establish whether an impairment loss needs to be recognised, the carrying amount of the CGU or group of CGUs, including its allocated goodwill, is compared with its recoverable amount. The 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 or, for individual life insurance companies, MCEV. In individual cases, as currently for the Property/Casualty Germany CGU, the fair value less costs of disposal is also used. 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 of disposal (Level 1 of the fair value hierarchy).

## Essential assumptions for determining the recoverable amount

### Value in use

When it comes to measuring the value of the property/casualty and life insurers according to 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 stand-alone 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 the detailed planning.

The bancassurance property and life 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 an assumed constant earnings value 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. In this way, it expresses the assumptions made regarding the trends in premiums, as well as claims and costs, in a cumulative way. When planning premiums and expenses, estimates are made in particular of the growth opportunities in the market environment and the trends in claims and costs in the context of planned measures at the company level. The projection of the investment income is made with reference to the respective asset portfolio, including the relevant term structure and currency distribution, and is based on the assumptions made regarding the interest rate trends. The net return on investment therefore varies widely by CGU and/or group of CGUs, depending on the interest rate level of the currency area in question. In the area of life insurance, the assumption regarding the interest rate trends acts as the essential planning assumption.

The essential assumptions specified above result from the collation of the individual plans of the companies in a CGU or a group of CGUs. The figures allocated to the essential parameters are arrived at from past experience and future expectations. Values assigned to the assumptions about the interest rate trends per country are defined uniformly for the entire Group and are derived from publicly accessible information sources. Any present values calculated in local currency are translated at the exchange rate as at the reporting date.

When it comes to measuring the value of the life insurance companies (relevant only for the "Europe" group of CGUs), the discounted cash flow method is always used. In order to take the specific features of the life insurance business into account, the standard appraisal value method is also used, if an MCEV value is available, to check the plausibility of the impairment. The MCEV is a sector-specific valuation method used to determine the present value of portfolios of in-force insurance business. The value of the portfolio thus results from the difference between the present value of future profits and the sum total of capital costs, options and guarantees as well as remaining risks that cannot be hedged. The present value of profits is estimated from the portfolio, and options and guarantees are measured in line with market conditions in accordance with the standards developed by the CFO Forum (the CFO Forum is an international organisation of the Chief Financial Officers (CFOs) of large insurers and reinsurers) and in extensive compliance with the expected Solvency II requirements, i.e. similar to the way in which the value of financial derivatives is measured. To this end, technical liabilities are measured with the aid of replication portfolios (i.e. portfolios that replicate a portfolio's payout structure). This application of the appraisal value method for plausibility purposes led to no further instances of application in the reporting period, with the exception of an Italian life insurance company within the "Europe" group of CGUs.

The discount factor (capitalisation rate) for the Group companies is calculated on the basis of the capital asset pricing model. The assumptions on which the calculation of the capitalisation rate is based, including the risk-free base interest rate, the market risk premium and the beta factor, are determined using publicly accessible information and/or capital market data. The constant, long-term growth rates applied are arrived at from past experience and future expectations, and do not exceed long-term average growth rates for the markets in which each of the companies operate.

N29 CAPITALISATION RATES AND LONG-TERM GROWTH RATES[1)]

%

| | Capitalisation rate | Long-term growth rate |
|---|---|---|
| Industrial Lines | | |
| Eurozone | 6.50–6.68 | 1.00 |
| Other countries | 8.50–14.00 | 1.00–4.00 |
| Retail International | | |
| Europe | | |
| Poland | 8.50–10.70 | 2.00 |
| Italy | 7.12 | 1.00 |
| Other countries | 7.00–16.00 | 0.00–4.00 |
| Latin America | | |
| Chile | 10.50 | 2.00 |
| Mexico | 11.00 | 4.00 |
| Other countries | 9.50–31.00 | 2.00–4.00 |

1) For the "Europe" group of CGUs, the figures are given as at 31 December 2015, the time of the impairment test performed based on the circumstances. For all other CGUs or groups of CGUs, the figures refer to the date of the regular impairment test, 30 September 2015

### Fair value less costs of disposal

The recoverable amount of the "Property/Casualty Germany" CGU was calculated on the basis of the fair value less costs of disposal. The net assets of the company determined during the fair value measurement of its assets and liabilities are used to assess its fair value. With regard to the technical provisions that make up the majority of the liabilities, the reserving level and the discount rate represent the essential assumptions in determining the recoverable amount. Where the assets are concerned, which primarily consist of financial instruments at Level 2 of the fair value hierarchy, the essential assumptions are the issuer or credit risk and the interest rate trends. With regard to the individual, relevant valuation techniques (NAV method, extended discounted cash flow method and all those stated for fixed-income securities) and the underlying parameters, please refer to the explanations on valuation models used to measure fair value for financial instruments on page 143 in the "Accounting policies" section. The values assigned to the essential parameters are derived from experience and future expectations and are based on past values from internal and external sources. The fair value measurement of the CGU, based on the inputs to the valuation technique used, was classified overall to Level 3 of the fair value hierarchy.

For the Non-Life Reinsurance and Life/Health Reinsurance CGUs, which together correspond to the Hannover Re Group, reference is first made to the quoted market price of Hannover Rück SE shares as at the reporting date for the purposes of impairment testing. The market capitalisation of Hannover Rück SE is allocated to the two CGUs on the basis of the average operating margin over the past three years. The recoverable amount measured in this way is compared with the net carrying amount of the CGU, including the goodwill allocated to the CGU in question. Alternatively, if the price of Hannover Rück SE shares is significantly adversely affected in the short term at a reporting date by factors that do not reflect the sustainable profit potential of the Hannover Re Group, an income approach (discounted cash flow method) may be used instead.

### Impairment losses in the reporting period

Above and beyond the full impairment of the goodwill of the "Life Germany" CGU, which was implemented in the second quarter of 2015, no other impairments on goodwill were necessary at the reporting date.

### 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 parameter 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.

In the case of the Property/Casualty Germany CGU, for which the recoverable amount corresponds to the fair value less costs of disposal, sensitivity analyses were performed with regard to the technical risk (reserving level and/or combined ratio), the credit risk of the investments held and the interest rate risk. In each case, one parameter was changed (all other things being equal), and the resulting change in fair value was calculated.

Unless indicated otherwise in the following, the calculations concerning the conceivable changes of parameters did not lead to any potential impairment. For the "Latin America" and "Europe" groups of CGUs, the recoverable amount, determined as the value in use, exceeds the carrying amount by EUR 151 million or EUR 389 million respectively. The detailed planning was based on combined ratios of approximately 90%–100% for the essential companies in the respective group of CGUs, depending on the particular country. In the detailed planning, a change in the combined ratio for the "Latin America" group of CGUs by +2.35 percentage points and a change in the combined ratio of +2.43 percentage points or a reduction in the interest rates underlying the investment income by 97 basis points for the "Europe" group of CGUs would have caused the recoverable amount of the respective group of CGUs to approach its carrying amount. The detailed planning of the "Europe" group of CGUs is based on investment income resulting from interest rates of 0.7% to 8.7%, depending on the particular country and currency.

## (2) OTHER INTANGIBLE ASSETS

N30 **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 | 2015 | 2014 |
| **Gross carrying amount as at 31.12. of the previous year** | 2,409 | 405 | 115 | 128 | 50 | 32 | 3,139 | 3,271 |
| Change in basis of consolidation (additions) | | | | | | | | |
| Business combinations | — | — | — | 39 | 7 | 6 | 52 | — |
| Additions | 18 | 42 | 3 | — | 26 | — | 89 | 72 |
| Disposals | 45 | 37 | 1 | — | 5 | — | 88 | 190 |
| Reclassifications | — | 7 | — | –31 | –7 | — | –31 | — |
| Other changes | — | — | — | — | — | — | — | — |
| Exchange rate changes | 3 | –3 | — | 1 | –3 | — | –2 | –14 |
| **Gross carrying amount as at 31.12. of the financial year** | 2,385 | 414 | 117 | 137 | 68 | 38 | 3,159 | 3,139 |
| **Accumulated amortisation and impairment losses as at 31.12. of the previous year** | 1,643 | 271 | 106 | 95 | 18 | — | 2,133 | 1,825 |
| Change in basis of consolidation (additions) | | | | | | | | |
| Business combinations | — | — | — | — | — | — | — | — |
| Disposals | 45 | 35 | 1 | — | 1 | — | 82 | 165 |
| Amortisation/impairment losses | | | | | | | | |
| Amortisation | 23 | 43 | 5 | 11 | 5 | — | 87 | 231 |
| Impairment losses | 65 | — | — | 5 | — | — | 70 | 250 |
| Reclassifications | — | –1 | — | — | 1 | — | — | — |
| Other changes | — | — | — | — | — | — | — | — |
| Exchange rate changes | — | –1 | — | 1 | –2 | — | –2 | –8 |
| **Accumulated amortisation and impairment losses as at 31.12. of the financial year** | 1,686 | 277 | 110 | 112 | 21 | — | 2,206 | 2,133 |
| Carrying amount as at 31.12. of the previous year | 766 | 134 | 9 | 33 | 32 | 32 | 1,006 | 1,446 |
| **Carrying amount as at 31.12. of the financial year** | 699 | 137 | 7 | 25 | 47 | 38 | 953 | 1,006 |

The "insurance-related intangible assets" (= PVFP) result from the acquisition of insurance portfolios in previous years. The PVFP is composed of a shareholders' portion – on which deferred taxes are recognised – and a policyholders' portion. It is capitalised in order to spread the charge to Group equity required by IFRSs upon acquisition of an insurance portfolio in equal portions across future periods in line with the amortisation charges. 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.

N31 PVFP FOR PRIMARY LIFE INSURANCE COMPANIES

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Shareholders' portion | 298 | 342 |
| Policyholders' portion | 319 | 333 |
| **Carrying amount** | 617 | 675 |

The portion of impairment losses contained in the amortisation/impairment losses due to changes in the assumptions about long-term interest rates and as a result of impairment testing as at the reporting date stood at EUR 65 (250) million, of which EUR 23 (124) million was attributable to the shareholders' portion and EUR 42 (126) million to the policyholders' portion. This relates to the Retail Germany segment.

Of the amortisation of/impairment losses on insurance-related intangible assets totalling EUR 88 (406) million, an amount of EUR 56 (218) million was attributable to the shareholders' portion – including EUR 12 (10) million relating to investment contracts – and EUR 32 (188) million to the policyholders' portion. This relates primarily to the Retail Germany segment in the amount of EUR 63 (390) million, the Retail International segment in the amount of EUR 19 (13) million and Life/Health Reinsurance in the amount of EUR 5 (3) million.

We report the amortisation of the PVFP associated with investment contracts in "Net income from investment contracts" under "Net investment income". Impairment losses/amortisation of the shareholders' portion (less investment contracts) is reported in "Other technical expenses" in the statement of income.

N32 PVFP BY POLICY TERM

EUR MILLION

| | Term | | | | |
|---|---|---|---|---|---|
| | Up to 10 years | Up to 20 years | Up to 30 years | More than 30 years | **Total** |
| Shareholders' portion | 240 | 81 | 38 | 21 | **380** |
| of which investment contracts | 56 | 4 | — | — | **60** |
| Policyholders' portion | 146 | 90 | 53 | 30 | **319** |
| **Carrying amount as at 31.12.2015** | 386 | 171 | 91 | 51 | **699** |

The acquired brand names worth EUR 38 (32) million (essentially "WARTA" [EUR 31 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. The brand names were tested for impairment, and it was determined that there was no need for an impairment loss.

## (3) INVESTMENT PROPERTY

N33 **INVESTMENT PROPERTY**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Gross carrying amount as at 31.12. of the previous year** | **2,076** | **1,827** |
| Change in basis of consolidation (additions) | | |
| Business combinations | 5 | — |
| Additions | 356 | 292 |
| Disposals | 61 | 44 |
| Disposal groups in accordance with IFRS 5 | — | –37 |
| Reclassification | — | –4 |
| Exchange rate changes | 43 | 42 |
| **Gross carrying amount as at 31.12. of the financial year** | **2,419** | **2,076** |
| **Accumulated depreciation and impairment losses as at 31.12. of the previous year** | **203** | **204** |
| Disposals | 24 | 5 |
| Reversal after impairment | 7 | 11 |
| Depreciation and impairment losses | | |
| Depreciation | 39 | 34 |
| Impairment losses | 8 | 7 |
| Disposal groups in accordance with IFRS 5 | — | –27 |
| Reclassification | — | –1 |
| Exchange rate changes | 2 | 2 |
| **Accumulated amortisation and impairment losses as at 31.12. of the financial year** | **221** | **203** |
| Carrying amount as at 31.12. of the previous year | 1,873 | 1,623 |
| **Carrying amount as at 31.12. of the financial year** | **2,198** | **1,873** |

Additions in the reporting period were attributable in particular to the Non-Life Reinsurance (EUR 314 million), Industrial Lines (EUR 21 million) and Retail Germany (EUR 20 million) segments.

The fair value of investment property amounted to EUR 2,418 (2,051) million as at the reporting date. EUR 13 (8) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 2,405 (2,043) million to Level 3. Fair values are measured largely 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 64 (51) million. Operating expenses of EUR 5 (7) million were incurred on properties with which no rental income is generated.

With regard to investment property, there were restrictions on disposal and guarantee assets in the amount of EUR 785 (714) million as at 31 December 2015. Contractual obligations to buy, create or develop investment property as well as those for repairs, maintenance and improvements amounted to EUR 44 (43) million as at the reporting date.

## (4) SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS

N34 **SHARES IN AFFILIATED COMPANIES AND PARTICIPATING INTERESTS**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Affiliated companies | 31 | 27 |
| Participating interests | 80 | 85 |
| **Carrying amount as at 31.12. of the financial year** | **111** | **112** |

## (5) INVESTMENTS 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.

N35 **INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Carrying amount as at 31.12. of the previous year** | **262** | **247** |
| Change in basis of consolidation | –6 | — |
| Additions | 47 | 5 |
| Disposals | — | — |
| Disposal groups in accordance with IFRS 5 | –19 | — |
| Depreciation and impairment losses | 31 | — |
| Adjustment recognised in profit or loss | 12 | –1 |
| Adjustment recognised outside profit or loss | 6 | 10 |
| Exchange rate changes | 1 | 1 |
| **Carrying amount as at 31.12. of the financial year** | **272** | **262** |

The goodwill of all companies measured using the equity method amounted to EUR 126 (85) million at the year-end. Shares of losses totalling EUR 0 (0) million were not 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 page 245ff.

There were no obligations from contingent liabilities of associates and joint ventures at the reporting date.

N36 **INVESTMENTS IN ASSOCIATES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Carrying amount as at 31.12. of the financial year** | **264** | **240** |
| Profit from continuing operations | 56 | 34 |
| Profit after tax from discontinued operations | — | — |
| Other comprehensive income | 13 | 25 |
| **Total comprehensive income** | **69** | **59** |

N37 **INVESTMENTS IN JOINT VENTURES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Carrying amount as at 31.12. of the financial year** | **8** | **22** |
| Profit from continuing operations | –1 | — |
| Profit after tax from discontinued operations | — | — |
| Other comprehensive income | — | –1 |
| **Total comprehensive income** | **–1** | **–1** |

## (6) LOANS AND RECEIVABLES

**N38 LOANS AND RECEIVABLES**

EUR MILLION

| | Amortised cost | | Unrealised gains/losses | | Fair value | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Mortgage loans | 558 | 696 | 48 | 72 | 606 | 768 |
| Loans and prepayments on insurance policies | 175 | 184 | — | — | 175 | 184 |
| Loans and receivables due from government or quasi-governmental entities [1] | 9,692 | 9,783 | 1,513 | 1,751 | 11,205 | 11,534 |
| Corporate bonds | 5,862 | 6,287 | 436 | 591 | 6,298 | 6,878 |
| Covered bonds/asset-backed securities | 13,450 | 13,583 | 2,894 | 3,451 | 16,344 | 17,034 |
| Profit participation rights | 17 | 20 | 3 | 4 | 20 | 24 |
| **Total** | **29,754** | **30,553** | **4,894** | **5,869** | **34,648** | **36,422** |

[1] Loans and receivables due from government or quasi-governmental entities" include securities of EUR 3,241 (3,030) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of loans and receivables is measured at amortised cost.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 13,434 (13,563) million, which corresponds to 99% (99%) of the total amount.

**N39 CONTRACTUAL MATURITIES**

EUR MILLION

| | Amortised cost | | Fair value | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Due within one year | 2,650 | 2,720 | 2,721 | 2,821 |
| More than one year, up to two years | 1,904 | 2,031 | 1,990 | 2,106 |
| More than two years, up to three years | 1,101 | 1,865 | 1,188 | 2,000 |
| More than three years, up to four years | 1,429 | 1,107 | 1,598 | 1,224 |
| More than four years, up to five years | 1,520 | 1,431 | 1,742 | 1,636 |
| More than five years, up to ten years | 5,912 | 6,192 | 7,051 | 7,376 |
| More than ten years | 15,238 | 15,207 | 18,358 | 19,259 |
| **Total** | **29,754** | **30,553** | **34,648** | **36,422** |

**N40 RATING STRUCTURE OF LOANS AND RECEIVABLES**

EUR MILLION

| | Amortised cost | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | 14,601 | 13,564 |
| AA | 6,771 | 7,170 |
| A | 3,644 | 5,532 |
| BBB or lower | 3,658 | 3,028 |
| Not rated | 1,080 | 1,259 |
| **Total** | **29,754** | **30,553** |

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

N41 FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

| | Amortised cost | | Unrealised gains/losses | | Fair value | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Government debt securities of EU member states | 287 | 540 | 18 | 31 | 305 | 571 |
| US treasury notes | 83 | 257 | — | 3 | 83 | 260 |
| Other foreign government debt securities | 98 | 60 | — | — | 98 | 60 |
| Debt securities issued by quasi-governmental entities[1] | 236 | 445 | 8 | 17 | 244 | 462 |
| Corporate bonds | 142 | 346 | 4 | 8 | 146 | 354 |
| Covered bonds/asset-backed securities | 441 | 806 | 36 | 61 | 477 | 867 |
| **Total** | **1,287** | **2,454** | **66** | **120** | **1,353** | **2,574** |

[1] Debt securities issued by quasi-governmental entities" include securities of EUR 80 (130) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of financial assets held to maturity is measured at amortised cost.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 440 (805) million, which corresponds to 99% (99%) of the total amount.

N42 CONTRACTUAL MATURITIES

EUR MILLION

| | Amortised cost | | Fair value | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Due within one year | 622 | 1,196 | 629 | 1,218 |
| More than one year, up to two years | 211 | 619 | 216 | 642 |
| More than two years, up to three years | 142 | 162 | 148 | 169 |
| More than three years, up to four years | 49 | 153 | 54 | 162 |
| More than four years, up to five years | 41 | 52 | 48 | 58 |
| More than five years, up to ten years | 207 | 257 | 240 | 305 |
| More than ten years | 15 | 15 | 18 | 20 |
| **Total** | **1,287** | **2,454** | **1,353** | **2,574** |

N43 RATING STRUCTURE OF FINANCIAL ASSETS HELD TO MATURITY

EUR MILLION

| | Amortised cost | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | 605 | 1,114 |
| AA | 220 | 493 |
| A | 232 | 594 |
| BBB or lower | 230 | 233 |
| Not rated | — | 20 |
| **Total** | **1,287** | **2,454** |

The rating categories are based on the classifications used by the leading international rating agencies.

## (8) FINANCIAL ASSETS AVAILABLE FOR SALE

N44 **FINANCIAL ASSETS AVAILABLE FOR SALE**

EUR MILLION

| | Amortised cost | | Unrealised gains/losses | | Fair value | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| **Fixed-income securities** | | | | | | |
| Government debt securities of EU member states | 8,536 | 8,015 | 1,005 | 1,215 | 9,541 | 9,230 |
| US treasury notes | 5,450 | 2,699 | –19 | 32 | 5,431 | 2,731 |
| Other foreign government debt securities | 2,370 | 1,992 | –16 | –15 | 2,354 | 1,977 |
| Debt securities issued by quasi-governmental entities[1] | 8,033 | 7,458 | 798 | 1,012 | 8,831 | 8,470 |
| Corporate bonds | 22,694 | 21,214 | 490 | 1,383 | 23,184 | 22,597 |
| Investment funds | 664 | 665 | 84 | 89 | 748 | 754 |
| Covered bonds/asset-backed securities | 8,525 | 7,916 | 603 | 889 | 9,128 | 8,805 |
| Profit participation certificates | 178 | 331 | 1 | 5 | 179 | 336 |
| **Total fixed-income securities** | **56,450** | **50,290** | **2,946** | **4,610** | **59,396** | **54,900** |
| **Variable-yield securities** | | | | | | |
| Equities | 531 | 290 | 61 | 49 | 592 | 339 |
| Investment funds | 1,088 | 779 | 142 | 123 | 1,230 | 902 |
| Profit participation certificates | 52 | 42 | 1 | — | 53 | 42 |
| **Total variable-yield securities** | **1,671** | **1,111** | **204** | **172** | **1,875** | **1,283** |
| **Total securities** | **58,121** | **51,401** | **3,150** | **4,782** | **61,271** | **56,183** |

[1] Debt securities issued by quasi-governmental entities" include securities of EUR 2,702 (2,990) million that are guaranteed by the Federal Republic of Germany, other EU states or German federal states

The carrying amount of available-for-sale financial assets is measured at fair value. Unrealised gains/losses are recognised in "Other comprehensive income" and reported in "Other reserves" in equity.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 7,725 (7,489) million, which corresponds to 85% (85%) of the total amount.

N45 **CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES**

EUR MILLION

| | Fair value | | Amortised cost | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Due within one year | 2,943 | 3,482 | 2,927 | 3,456 |
| More than one year, up to two years | 4,700 | 3,448 | 4,654 | 3,382 |
| More than two years, up to three years | 5,098 | 3,867 | 5,019 | 3,765 |
| More than three years, up to four years | 3,880 | 4,386 | 3,767 | 4,257 |
| More than four years, up to five years | 5,613 | 3,974 | 5,425 | 3,805 |
| More than five years, up to ten years | 21,120 | 20,201 | 20,084 | 18,454 |
| More than ten years | 16,042 | 15,542 | 14,574 | 13,171 |
| **Total** | **59,396** | **54,900** | **56,450** | **50,290** |

N46 **RATING STRUCTURE OF FIXED-INCOME SECURITIES**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | 19,571 | 16,396 |
| AA | 12,759 | 11,786 |
| A | 12,225 | 14,083 |
| BBB or lower | 14,294 | 12,086 |
| Not rated | 547 | 549 |
| **Total** | **59,396** | **54,900** |

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

N47 **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| **Fixed-income securities** | | |
| Government debt securities of EU member states | 26 | 37 |
| Other foreign government debt securities | 76 | 49 |
| Debt securities issued by quasi-governmental entities [1] | — | 2 |
| Corporate bonds | 526 | 588 |
| Investment funds | 140 | 111 |
| Covered bonds/asset-backed securities | — | — |
| Profit participation certificates | 38 | 63 |
| Other | 1 | — |
| **Total fixed-income securities** | **807** | **850** |
| Investment funds (variable-yield securities) | 30 | 27 |
| Other variable-yield securities | 37 | 68 |
| **Total financial assets classified at fair value through profit or loss** | **874** | **945** |
| **Fixed-income securities** | | |
| Government debt securities of EU member states | 2 | — |
| Other foreign government debt securities | 1 | 2 |
| Corporate bonds | 3 | 4 |
| **Total fixed-income securities** | **6** | **6** |
| Investment funds (variable-yield securities) | 135 | 108 |
| Derivatives | 48 | 80 |
| **Total financial assets held for trading** | **189** | **194** |
| **Total** | **1,063** | **1,139** |

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

The carrying amount of financial assets at fair value through profit or loss is measured at fair value.

The "Covered bonds/asset-backed securities" item includes German covered bonds (Pfandbriefe) with a carrying amount of EUR 0 (0) million, which corresponds to —% (—%) of the total amount.

**N48 CONTRACTUAL MATURITIES OF FIXED-INCOME SECURITIES**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Due within one year | 118 | 130 |
| More than one year, up to two years | 115 | 122 |
| More than two years, up to three years | 145 | 107 |
| More than three years, up to four years | 65 | 80 |
| More than four years, up to five years | 43 | 49 |
| More than five years, up to ten years | 60 | 59 |
| More than ten years | 267 | 309 |
| Total | 813 | 856 |

**N49 RATING STRUCTURE OF FIXED-INCOME SECURITIES**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | — | — |
| AA | — | 1 |
| A | 186 | 221 |
| BBB or lower | 298 | 347 |
| Not rated | 329 | 287 |
| Total | 813 | 856 |

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 (0) million in the reporting period and EUR 2 (8) million on an accumulated basis. There are no credit derivatives or similar hedging instruments for these securities.

## (10) OTHER INVESTMENTS

**N50 CLASSIFICATION OF OTHER INVESTMENTS**

EUR MILLION

| | Carrying amounts | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Loans and receivables | 38 | 48 |
| Financial assets available for sale | 4,321 | 3,598 |
| Financial assets at fair value through profit or loss | 80 | 105 |
| Non-current assets from infrastructure investments | 382 | 83 |
| Total | 4,821 | 3,834 |

The carrying amount of loans and receivables is measured at amortised cost. The fair value of loans and receivables corresponds largely to their carrying amount.

**N51 FINANCIAL ASSETS AVAILABLE FOR SALE**

EUR MILLION

| | Amortised cost | | Unrealised gains/losses | | Fair value | |
|---|---|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Investments in partnerships | 1,378 | 1,008 | 500 | 474 | 1,878 | 1,482 |
| Other participating interests | 126 | 71 | 19 | 9 | 145 | 80 |
| Other short-term investments | 2,298 | 2,036 | — | — | 2,298 | 2,036 |
| Total | 3,802 | 3,115 | 519 | 483 | 4,321 | 3,598 |

The carrying amount of available-for-sale financial assets is measured at fair value. Unrealised gains/losses are recognised in "Other comprehensive income" and reported in "Other reserves" in equity. 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.

N52 RATING STRUCTURE OF OTHER SHORT-TERM INVESTMENTS

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | — | 2 |
| AA | 85 | 106 |
| A | 1,126 | 1,060 |
| BBB or lower | 558 | 657 |
| Not rated | 529 | 211 |
| **Total** | **2,298** | 2,036 |

Financial assets at fair value through profit or loss 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.

N53 INFRASTRUCTURE INVESTMENTS

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Gross carrying amount as at 31.12. of the previous year** | 60 | — |
| Change in basis of consolidation (additions) | | |
| Business combinations | 182 | 35 |
| Additions | 68 | 25 |
| Disposals | — | — |
| Reclassification | — | — |
| Exchange rate changes | — | — |
| **Gross carrying amount as at 31.12. of the financial year** | **310** | **60** |
| **Accumulated depreciation and impairment losses as at 31.12. of the previous year** | — | — |
| Disposals | — | — |
| Reversal after impairment | — | — |
| Depreciation and impairment losses | | |
| Depreciation | 12 | — |
| Impairment losses | — | — |
| Reclassification | — | — |
| Exchange rate changes | — | — |
| **Accumulated depreciation and impairment losses as at 31.12. of the financial year** | **12** | — |
| Carrying amount as at 31.12. of the previous year | 60 | — |
| **Carrying amount as at 31.12. of the financial year** | **298** | 60 |

"Non-current assets from infrastructure investments" also include assets under construction amounting to EUR 84 (23) million.

## (11) INVESTMENTS UNDER INVESTMENT CONTRACTS

N54 **CLASSIFICATION OF INVESTMENTS UNDER INVESTMENT CONTRACTS**

EUR MILLION

| | Carrying amounts | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Loans and receivables | 854 | 925 |
| Financial assets available for sale | — | 24 |
| Financial assets classified at fair value through profit or loss | 1,316 | 1,027 |
| Derivatives | 53 | 61 |
| **Total** | **2,223** | **2,037** |

## LOANS AND RECEIVABLES

N55 **CONTRACTUAL MATURITIES**

EUR MILLION

| | Amortised cost | | Fair value | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Due within one year | 118 | 160 | 118 | 161 |
| More than one year, up to two years | 208 | 86 | 208 | 86 |
| More than two years, up to three years | 124 | 207 | 124 | 207 |
| More than three years, up to four years | 33 | 114 | 33 | 114 |
| More than four years, up to five years | — | — | — | — |
| More than five years, up to ten years | 339 | 358 | 339 | 363 |
| More than five years, up to ten years | 32 | — | 32 | — |
| **Total** | **854** | **925** | **854** | **931** |

N56 **RATING STRUCTURE**

EUR MILLION

| | Amortised cost | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | — | — |
| AA | — | — |
| A | 27 | 16 |
| BBB or lower | 758 | 845 |
| Not rated | 69 | 64 |
| **Total** | **854** | **925** |

## FINANCIAL ASSETS AVAILABLE FOR SALE

N57 **CONTRACTUAL MATURITIES**

EUR MILLION

| | Fair value | | Amortised cost | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| More than one year, up to two years | — | — | — | — |
| More than two years, up to three years | — | — | — | — |
| More than three years, up to four years | — | 17 | — | 17 |
| More than four years, up to five years | — | — | — | — |
| More than five years, up to ten years | — | 7 | — | 7 |
| **Total** | **—** | **24** | **—** | **24** |

## FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES

N58 **CONTRACTUAL MATURITIES**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| Due within one year | 25 | 51 |
| More than one year, up to two years | 14 | 18 |
| More than two years, up to three years | 2 | 20 |
| More than three years, up to four years | 61 | 5 |
| More than four years, up to five years | 11 | 11 |
| More than five years, up to ten years | 219 | 99 |
| More than ten years | 1,037 | 884 |
| **Total** | **1,369** | **1,088** |

N59 **RATING STRUCTURE**

EUR MILLION

| | Fair value | |
|---|---|---|
| | 31.12.2015 | 31.12.2014 |
| AAA | 1 | 2 |
| AA | 21 | 18 |
| A | 151 | 177 |
| BBB or lower | 172 | 115 |
| Not rated | 1,024 | 776 |
| **Total** | **1,369** | **1,088** |

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 that 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

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

In total, 89% (90%) of financial instruments measured at fair value were allocated to Level 2 at the reporting date.

At the reporting date, the Group allocated 5% (4%) of financial instruments measured at fair value to Level 3.

In the past financial year, securities with a fair value of EUR 24 (20) million that had previously been allocated to Level 2 were allocated to Level 1. The reclassification had to be made mainly because of the increased market activity of the instruments. This reclassification mainly affected fixed-income securities classified as “available for sale”. The reclassification amount shown refers to the reported carrying amount of the investments at the beginning of the period.

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

N60 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 |
|---|---|---|---|---|
| **31.12.2015** | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets available for sale | | | | |
| Fixed-income securities | 87 | 59,309 | — | 59,396 |
| Variable-yield securities | 994 | 78 | 803 | 1,875 |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets classified at fair value through profit or loss | 60 | 770 | 44 | 874 |
| Financial assets held for trading | 143 | 43 | 3 | 189 |
| Other investments | 2,266 | 37 | 2,098 | 4,401 |
| Other assets, derivative financial instruments (hedging instruments) | — | 225 | — | 225 |
| Investment contracts | | | | |
| Financial assets classified at fair value through profit or loss | 396 | 739 | 181 | 1,316 |
| Financial assets available for sale | — | — | — | — |
| Derivatives | — | 48 | 5 | 53 |
| **Total financial assets measured at fair value** | **3,946** | **61,249** | **3,134** | **68,329** |
| **Financial liabilities measured at fair value** | | | | |
| Other liabilities (negative fair values from derivative financial instruments) | | | | |
| Negative fair values from derivatives | 6 | 16 | 208 | 230 |
| Negative fair values from hedging instruments | — | 11 | — | 11 |
| Other liabilities (investment contracts) | | | | |
| Financial liabilities classified at fair value through profit or loss | 416 | 731 | 181 | 1,328 |
| Derivatives | — | 48 | 5 | 53 |
| **Total amount of financial liabilities measured at fair value** | **422** | **806** | **394** | **1,622** |
| 31.12.2014 | | | | |
| **Financial assets measured at fair value** | | | | |
| Financial assets available for sale | | | | |
| Fixed-income securities | 77 | 54,823 | — | 54,900 |
| Variable-yield securities | 561 | 65 | 657 | 1,283 |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets classified at fair value through profit or loss | 94 | 814 | 37 | 945 |
| Financial assets held for trading | 119 | 69 | 6 | 194 |
| Other investments | 2,000 | 41 | 1,662 | 3,703 |
| Other assets, derivative financial instruments | — | 304 | — | 304 |
| Investment contracts | | | | |
| Financial assets classified at fair value through profit or loss | 326 | 543 | 158 | 1,027 |
| Financial assets available for sale | — | 24 | — | 24 |
| Derivatives | — | 56 | 5 | 61 |
| **Total financial assets measured at fair value** | **3,177** | **56,739** | **2,525** | **62,441** |
| **Financial liabilities measured at fair value** | | | | |
| Other liabilities (negative fair values from derivative financial instruments) | | | | |
| Negative fair values from derivatives | — | 111 | 189 | 300 |
| Negative fair values from hedging instruments | — | — | — | — |
| Other liabilities (investment contracts) | | | | |
| Financial liabilities classified at fair value through profit or loss | 385 | 537 | 158 | 1,080 |
| Derivatives | — | 55 | 5 | 60 |
| **Total amount of financial liabilities measured at fair value** | **385** | **703** | **352** | **1,440** |

[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.

N61 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 2015

EUR MILLION

| | Available-for-sale FI/ variable-yield securities | FI classified at fair value through profit or loss | FI held for trading | 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 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| **Opening balance at 1.1.2015** | **657** | **37** | **6** | **1,662** | **158** | **5** | **2,525** |
| Change in basis of consolidation | 68 | — | — | — | — | — | 68 |
| Income and expenses | | | | | | | |
| recognised in the statement of income | –42 | 2 | — | 29 | 9 | 1 | –1 |
| recognised in other comprehensive income | 4 | — | — | –24 | — | — | –20 |
| Transfers into Level 3 | — | 1 [2] | — | — | — | — | 1 |
| Transfers out of Level 3 | 2 [3] | — | — | — | — | — | 2 |
| Additions | | | | | | | |
| Purchases | 265 | 29 | 2 | 577 | 94 | 1 | 968 |
| Disposals | | | | | | | |
| Sales | 166 | 6 | 5 | 242 | 82 | 2 | 503 |
| Repayments/redemptions | — | 17 | — | — | — | — | 17 |
| Exchange rate changes | 19 | –2 | — | 96 | 2 | — | 115 |
| **Ending balance at 31.12.2015** | **803** | **44** | **3** | **2,098** | **181** | **5** | **3,134** |
| 2014 | | | | | | | |
| **Opening balance at 1.1.2014** | 523 | 24 | 2 | 1,265 | 89 | 10 | 1,913 |
| Change in basis of consolidation | — | — | — | — | — | — | — |
| Income and expenses | | | | | | | |
| recognised in the statement of income | –9 | 2 | — | –9 | 61 | 1 | 46 |
| recognised in other comprehensive income | 13 | — | — | 97 | — | — | 110 |
| Transfers into Level 3 | 3 [2] | — | — | 36 [2] | — | — | 39 |
| Transfers out of Level 3 | — | — | — | — | — | — | — |
| Additions | | | | | | | |
| Purchases | 186 | 26 | 4 | 363 | 26 | 2 | 607 |
| Disposals | | | | | | | |
| Sales | 76 | 1 | — | 186 | 13 | 8 | 284 |
| Repayments/redemptions | — | 14 | — | — | — | — | 14 |
| Exchange rate changes | 17 | — | — | 96 | –5 | — | 108 |
| **Ending balance at 31.12.2014** | 657 | 37 | 6 | 1,662 | 158 | 5 | 2,525 |

[1] The term “financial instruments” is abbreviated to “FI” in the following
[2] Trading in an active market discontinued
[3] Trading in an active market initiated

N62 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 2015

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 |
|---|---|---|---|---|
| **2015** | | | | |
| **Opening balance at 1.1.2015** | **189** | **158** | **5** | **352** |
| Income and expenses | | | | |
| recognised in the statement of income | 20 | –9 | –1 | 10 |
| recognised in other comprehensive income | — | — | — | — |
| Transfers into Level 3 | — | — | — | — |
| Transfers out of Level 3 | — | — | — | — |
| Additions | | | | |
| Purchases | 54 | 94 | 1 | 149 |
| Disposals | | | | |
| Sales | 31 | 82 | 2 | 115 |
| Repayments/redemptions | — | — | — | — |
| Exchange rate changes | 16 | 2 | — | 18 |
| **Ending balance at 31.12.2015** | **208** | **181** | **5** | **394** |
| 2014 | | | | |
| **Opening balance at 1.1.2014** | 117 | 89 | 10 | 216 |
| Income and expenses | | | | |
| recognised in the statement of income | –3 | –61 | –1 | –65 |
| recognised in other comprehensive income | — | — | — | — |
| Transfers into Level 3 | — | — | — | — |
| Transfers out of Level 3 | — | — | — | — |
| Additions | | | | |
| Purchases | 57 | 27 | 2 | 86 |
| Disposals | | | | |
| Sales | — | 14 | 8 | 22 |
| Repayments/redemptions | — | — | — | — |
| Exchange rate changes | 12 | –5 | — | 7 |
| **Ending balance at 31.12.2014** | 189 | 158 | 5 | 352 |

[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.

N63 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 | FI held for trading | 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 |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| **Gains and losses in financial year 2015** | | | | | | | |
| Investment income | — | 4 | 5 | 36 | 64 | 6 | 115 |
| Investment expenses | –42 | –2 | –5 | –7 | –55 | –5 | –116 |
| **of which attributable to financial instruments included in the portfolio as at 31.12.2015** | | | | | | | |
| Investment income[2] | — | 3 | 5 | 8 | 64 | 6 | 86 |
| Investment expenses[3] | –42 | –2 | –4 | –7 | –55 | –5 | –115 |
| 2014 | | | | | | | |
| **Gains and losses in financial year 2014** | | | | | | | |
| Investment income | — | 5 | 5 | 3 | 77 | 9 | 99 |
| Investment expenses | –9 | –3 | –5 | –12 | –16 | –8 | –53 |
| **of which attributable to financial instruments included in the portfolio as at 31.12.2014** | | | | | | | |
| Investment income[2] | — | 5 | 5 | 3 | 77 | 9 | 99 |
| Investment expenses[3] | –9 | –3 | –5 | –12 | –16 | –8 | –53 |

1) The term "financial instruments" is abbreviated to "FI" in the following
2) Of which EUR 86 (99) million attributable to unrealised gains
3) Of which EUR –65 (–37) million attributable to unrealised losses

N64 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 |
|---|---|---|---|---|
| **2015** | | | | |
| **Gains and losses in financial year 2015** | | | | |
| Investment income | 18 | 55 | 5 | 78 |
| Investment expenses | — | –64 | –6 | –70 |
| Financing costs | 2 | — | — | 2 |
| **of which attributable to financial instruments included in the portfolio as at 31.12.2015** | | | | |
| Investment income[2] | 18 | 55 | 5 | 78 |
| Investment expenses[3] | — | –64 | –6 | –70 |
| Financing costs[4] | 2 | — | — | 2 |
| 2014 | | | | |
| **Gains and losses in financial year 2014** | | | | |
| Investment income | 3 | 16 | 8 | 27 |
| Investment expenses | — | –77 | –9 | –86 |
| Financing costs | –6 | — | — | –6 |
| **of which attributable to financial instruments included in the portfolio as at 31.12.2014** | | | | |
| Investment income[2] | 3 | 16 | 8 | 27 |
| Investment expenses[3] | — | –77 | –9 | –86 |
| Financing costs | –6 | — | — | –6 |

1) The term "financial instruments" is abbreviated to "FI" in the following
2) Of which EUR 78 (27) million attributable to unrealised gains
3) Of which EUR –70 (–86) million attributable to unrealised losses
4) Of which EUR 2 (–6) million attributable to unrealised gains

N65 **ADDITIONAL INFORMATION ABOUT THE MEASUREMENT OF LEVEL 3 FINANCIAL INSTRUMENTS**

EUR MILLION

| | Fair value at 31.12.2015 | Fair value at 31.12.2014 | Valuation technique | Unobservable inputs | Fluctuation (weighted average) |
|---|---|---|---|---|---|
| CDOs/CLOs [1] | 28 | 27 | Present value method | Prepayment speed<br>Risk premiums<br>Default rates<br>Recovery rates<br>Redemptions | n. a. [4] |
| Unlisted equities, real estate and bond funds [2] | 947 | 706 | NAV method [3] | n. a. | n. a. |
| Private equity funds/private equity real estate funds [2] | 1,873 | 1,485 | NAV method [3] | n. a. | n. a. |
| Written put options for minority interests [2] | 51 | 52 | Discounted NAV [3] | Risk-free interest rate | 5.6% (5.6%) |
| Unlisted bond funds [2] | 18 | 33 | NAV method [3] | n. a. | n. a. |
| Insurance contracts [1] | 239 | 248 | Present value method | Fair values of CAT bonds, yield curve | n. a. [4] |
| Investment contracts | 372 | 326 | — | — | — |

[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 3.5 (2.9) billion at the reporting date, the Group generally measured financial instruments with a volume of EUR 2.9 (2.3) 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 186 (163) 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 underwriting contracts in the amount of EUR 239 (248) 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 28 (27) 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

N66 **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 |
|---|---|---|---|---|
| **31.12.2015** | | | | |
| **Financial assets not measured at fair value** | | | | |
| Loans and receivables | 100 | 34,415 | 133 | 34,648 |
| Financial assets held to maturity | — | 1,353 | — | 1,353 |
| Other investments | — | 24 | 14 | 38 |
| Investment contracts – loans and receivables | 781 | 73 | — | 854 |
| **Total financial assets not measured at fair value** | **881** | **35,865** | **147** | **36,893** |
| **Financial liabilities not measured at fair value** | | | | |
| Subordinated liabilities | — | 2,233 | 3 | 2,236 |
| Notes payable | — | 1,462 | 67 | 1,529 |
| Other commitments under investment contracts | 763 | 79 | — | 842 |
| **Total amount of financial liabilities not measured at fair value** | **763** | **3,774** | **70** | **4,607** |
| 31.12.2014 | | | | |
| **Financial assets not measured at fair value** | | | | |
| Loans and receivables | 122 | 35,468 | 832 | 36,422 |
| Financial assets held to maturity | — | 2,574 | — | 2,574 |
| Other investments | 46 | 2 | — | 48 |
| Investment contracts – loans and receivables | 734 | 197 | — | 931 |
| **Total financial assets not measured at fair value** | **902** | **38,241** | **832** | **39,975** |
| **Financial liabilities not measured at fair value** | | | | |
| Subordinated liabilities | 890 | 2,133 | — | 3,023 |
| Notes payable | — | 1,447 | — | 1,447 |
| Other commitments under investment contracts | 703 | 186 | — | 889 |
| **Total amount of financial liabilities not measured at fair value** | **1,593** | **3,766** | **—** | **5,359** |

[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 "Financial Instruments: Recognition and Measurement" or IFRS 4 "Insurance Contracts".

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 "Fair value measurement" in the "Accounting policies" section, page 142ff.

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.

N67 DERIVATIVE FINANCIAL INSTRUMENTS, BY BALANCE SHEET ITEM

EUR MILLION

| | Hedging instrumentin accordance with IAS 39 | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| Balance sheet item (positive fair values) | | | |
| Financial assets at fair value through profit or loss, financial assets held for trading (derivatives) | No | 48 | 80 |
| Investment contracts, financial assets held for trading (derivatives) | No | 53 | 61 |
| Other assets, derivative financial instruments (hedging instruments) | Yes | 225 | 304 |
| Balance sheet item (negative fair values) | | | |
| Other liabilities: | | | |
| Liabilities from derivatives | No | –230 | –300 |
| Liabilities from derivatives (hedging instruments) | Yes | –11 | — |
| Investment contracts, derivatives | No | –53 | –60 |
| **Total (net)** | | **32** | **85** |

Derivative financial instruments – excluding hedging instruments – generated an unrealised loss of EUR 22 (29) million in the financial year. The loss realised on positions closed out in 2015 amounted to EUR –36 (–10) million.

The fair values of our open derivative positions at the reporting date, including their associated notional amounts, are disclosed in table N68, 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 32 (85) million at the reporting date, corresponding to 0.02% (0.06%) of total assets.

In the reporting period, the Group held derivative financial instruments in connection with reinsurance business for the purposes of hedging inflation risk exposures in the loss reserves. In the second quarter of 2015, these derivative financial instruments with a total volume of EUR 68 million were divested, with due consideration of a negative currency effect of EUR 4 million. These derivative instruments were disclosed in the previous year in the amount of EUR 64 million under "Other liabilities".

## 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 N69 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.

**N68 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 ten years | Other | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|
| **Interest rate hedges** | | | | | | | |
| Fair value | –10 | 219 | — | — | — | 209 | 300 |
| Notional amount | 323 | 817 | 28 | — | — | 1,168 | 1,223 |
| **Currency hedges** | | | | | | | |
| Fair value | 9 | 2 | 1 | — | — | 12 | –21 |
| Notional amount | 734 | 34 | 6 | — | — | 774 | 1,116 |
| **Equity and index hedges** | | | | | | | |
| Fair value | 6 | 1 | –49 | — | — | –42 | –45 |
| Notional amount | 168 | 28 | –19 | — | — | 177 | 563 |
| **Inflation hedges** | | | | | | | |
| Fair value | — | — | — | — | — | — | –63 |
| Notional amount | — | — | — | — | — | — | 2,133 |
| **Derivatives associated with insurance contracts** [1] | | | | | | | |
| Fair value | –9 | –46 | –2 | — | –85 | –142 | –97 |
| **Other risks** | | | | | | | |
| Fair value | — | –3 | — | –4 | 2 | –5 | 11 |
| Notional amount | — | 143 | 57 | –4 | 2 | 198 | 375 |
| **Total hedges** | | | | | | | |
| **Fair value** | **–4** | **173** | **–50** | **–4** | **–83** | **32** | 85 |
| **Notional amount** | **1,225** | **1,022** | **72** | **–4** | **2** | **2,317** | 5,410 |

[1] Financial instruments relate exclusively to embedded derivatives 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

**N69 NETTING ARRANGEMENTS**

EUR MILLION

| | Fair value | Netting arrangement | Cash collateral received/provided | Other collateral received/provided | Net amount |
|---|---|---|---|---|---|
| **31.12.2015** | | | | | |
| Derivatives (positive fair values) | 246 | 13 | 2 | 169 | 62 |
| Derivatives (negative fair values) | 23 | 13 | 5 | 2 | 3 |
| 31.12.2014 | | | | | |
| Derivatives (positive fair values) | 324 | 4 | 280 | — | 40 |
| Derivatives (negative fair values) | 101 | 4 | 2 | 78 | 17 |

### Cash flow hedges

In 2015, the Group hedged interest rate risk exposures in highly probable forecast 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).

N70 **CHANGES IN THE RESERVE FOR CASH FLOW HEDGES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Carrying amount as at 31.12. of the previous year (before taxes) | 413 | 28 |
| Additions (hedges of forecast transactions) | –4 | 384 |
| Additions (hedges of price risks) | 6 | 1 |
| Additions (hedges of currency risks relating to long-term investments) | 4 | — |
| Reversals into the statement of income (hedges of forecast transactions) | –11 | — |
| **Carrying amount as at 31.12. of the financial year (before taxes)** | **408** | 413 |

The reserve for cash flow hedges changed by EUR –5 (385) million before taxes and by EUR –7 (371) million net of taxes in the reporting period. In connection with forward purchases falling due, an amount totalling EUR 11 (–1) million was amortised as an increase (as a decrease) in the statement of income in 2015 (in “Net investment income”).

The amount of EUR –4 (–2) 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 N72.

There were no forecast transactions in 2015 that had been previously included in a hedging relationship that is no longer likely to occur in the future.

### Hedging of a net investment in a foreign business

As at the reporting date, the Group held derivative financial instruments in connection with reinsurance business in the form of currency forwards that were concluded to hedge currency risks arising from long-term investments in foreign businesses.

The amount of EUR –1 (—) million was recognised in income in the reporting period owing to the ineffectiveness of currency risk hedges relating to long-term investments (in “Net investment income”).

### 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:

N71 **HEDGING INSTRUMENTS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| **Cash flow hedges** | | |
| Forward securities transactions (net) | 209 | 303 |
| Equity swaps | 2 | 1 |
| | 211 | 304 |
| **Hedges of currency risks relating to long-term investments** | | |
| Currency forwards | 3 | — |
| **Total** | **214** | 304 |

In the reporting period, the net gains or losses on hedging derivatives recognised in the statement of income amounted to EUR 6 (–3) million and related to the amortisation of equity amounts in connection with forward purchases falling due (EUR 11 [–1] million) and changes in fair value recognised in income as a result of ineffectiveness (EUR –5 [–2] million).

N72 **CASH FLOWS OF HEDGED FORECAST TRANSACTIONS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash flows of hedged items | −1,087 | −1,061 |
| Due within one year | −289 | −263 |
| More than one year, up to five years | −748 | −717 |
| More than five years, up to ten years | −50 | −81 |

## 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".

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 23 (45) million at the reporting date. Over the course of the year, the derivative's fair value changed by EUR 26 (7) million before taxes, resulting in an expense.

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 156 (137) 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 18 (6) million in the financial year.

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 25 (51) million and of liabilities associated with derivatives resulting from technical items in the amount of EUR 163 (142) million. Increases in earnings of EUR 19 (11) million and decreases in earnings of EUR 30 (8) 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 3,544 (3,079) million, of which the equivalent of EUR 2,483 (1,887) 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

N73 **ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Accounts receivable on direct written insurance business | 2,342 | 2,180 |
| of which | | |
| from policyholders | 1,415 | 1,206 |
| from insurance intermediaries | 927 | 974 |
| Accounts receivable from reinsurance business | 3,728 | 3,072 |
| **Carrying amount as at 31.12. of the financial year** | **6,070** | **5,252** |

N74 **ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS THAT WERE PAST DUE BUT NOT IMPAIRED AT THE REPORTING DATE**

EUR MILLION

| | > 3 months < 1 year | > 1 year |
|---|---|---|
| **31.12.2015** | | |
| Accounts receivable from policyholders | 148 | 58 |
| Accounts receivable from insurance intermediaries | 98 | 42 |
| Accounts receivable from reinsurance business | 335 | 406 |
| **Total** | **581** | **506** |
| **31.12.2014** | | |
| Accounts receivable from policyholders | 111 | 44 |
| Accounts receivable from insurance intermediaries | 69 | 27 |
| Accounts receivable from reinsurance business | 408 | 271 |
| **Total** | **588** | **342** |

Past due accounts receivable on insurance business relate to accounts receivable that were not paid by the due date and were still outstanding 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 346 (251) million, of which EUR 100 (71) million was more than one year past due. This means that accounts receivable more than one year past due accounted for 4.3% (3.3%) of total accounts receivable. The combined average default rate in the past three years was 1.0% (1.1%). The default rate in 2015 was 1.1% (1.2%).

Accounts receivable from reinsurance business more than 90 days past due amounted to a total of EUR 741 (679) million, of which EUR 406 (271) million was more than one year past due; accounts receivable more than one year past due therefore accounted for 10.9% (8.8%) of total accounts receivable. The average default rate on reinsurance business in the past three years was 0.7% (0.6%).

Impaired accounts receivable relate to the following items:

N75 **INDIVIDUALLY IMPAIRED ASSETS RESULTING FROM INSURANCE CONTRACTS**

EUR MILLION

| | Risk provision | of which attributable to 2015/2014 | Carrying amount after risk provision |
|---|---|---|---|
| **31.12.2015** | | | |
| Accounts receivable from policyholders | 56 | –3 | 1,415 |
| Accounts receivable from insurance intermediaries | 40 | 21 | 927 |
| Accounts receivable from reinsurance business | 46 | –23 | 3,728 |
| **Total** | **142** | **–5** | **6,070** |
| **31.12.2014** | | | |
| Accounts receivable from policyholders | 59 | –18 | 1,206 |
| Accounts receivable from insurance intermediaries | 19 | –4 | 974 |
| Accounts receivable from reinsurance business | 69 | 15 | 3,072 |
| **Total** | **147** | **–7** | **5,252** |

Impairments of accounts receivable on insurance business that we recognise in separate allowance accounts changed as follows in the reporting period:

N76 **IMPAIRMENTS OF ACCOUNTS RECEIVABLE ON INSURANCE BUSINESS**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Accumulated impairments as at 31.12. of the previous year | 147 | 154 |
| Change in basis of consolidation | 2 | — |
| Impairments in financial year | 35 | 27 |
| Reversals of impairment losses | 37 | 21 |
| Exchange rate changes | –4 | –2 |
| Other changes | –1 | –11 |
| **Accumulated impairments as at 31.12. of the financial year** | **142** | **147** |

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 2.3% (2.7%) of total accounts receivable.

Accounts receivable from passive reinsurance business in the three primary insurance segments amounted to EUR 510 (423) million (after deduction of impairments). 64% (56%) of these accounts receivable had a rating of category A or better at the reporting date. 44% (42%) of the total accounts receivable amounting to EUR 3.7 (3.1) billion had a rating of category A or better.

N77 **IMPAIRMENT RATES**

%

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Accounts receivable from policyholders | 3.8 | 4.6 |
| Accounts receivable from insurance intermediaries | 4.2 | 2.0 |
| Accounts receivable from reinsurance business | 1.2 | 2.2 |

N78 **ANNUAL DEFAULT RATES**

%

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Accounts receivable from policyholders | 1.2 | 1.2 |
| Accounts receivable from insurance intermediaries | 0.6 | 0.7 |
| Accounts receivable from reinsurance business | 0.6 | 1.3 |

## (15) DEFERRED ACQUISITION COSTS

N79 **DEFERRED ACQUISITION COSTS**

EUR MILLION

| | Gross business | Reinsurers' share | Net business | Gross business | Reinsurers' share | Net business |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| **Carrying amount as at 31.12. of the previous year** | **4,888** | **243** | **4,645** | **4,766** | **253** | **4,513** |
| Change in basis of consolidation | –1 | — | –1 | — | — | — |
| Portfolio entries/withdrawals | 1 | — | 1 | 1 | 1 | — |
| Additions | 1,187 | 152 | 1,035 | 884 | 59 | 825 |
| Amortised acquisition costs | 775 | 119 | 656 | 880 | 79 | 801 |
| Currency adjustments | 61 | 7 | 54 | 117 | 9 | 108 |
| Other changes | –2 | –2 | — | — | — | — |
| **Carrying amount as at 31.12. of the financial year** | **5,359** | **281** | **5,078** | **4,888** | **243** | **4,645** |

## (16) OTHER ASSETS

**N80 OTHER ASSETS**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Real estate held and used | 612 | 666 |
| Tax assets | 362 | 353 |
| Operating and office equipment | 156 | 174 |
| Interest and rent due | 11 | 9 |
| Derivative financial instruments – hedging instruments, hedge accounting | 225 | 304 |
| Miscellaneous assets | 1,171 | 1,193 |
| **Carrying amount as at 31.12. of the financial year** | **2,537** | 2,699 |

The fair value of real estate held and used amounted to EUR 702 (759) million as at the reporting date. EUR 132 (131) million of this amount is attributable to Level 2 of the fair value hierarchy and EUR 570 (628) million to Level 3. These fair values were mainly 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 497 (423) million as at 31 December 2015. The expenditures capitalised for property, plant and equipment under construction amounted to EUR 14 (2) million as at the reporting date. Contractual commitments to acquire property, plant and equipment totalled EUR 192 (108) million as at the reporting date.

**N81 CHANGES IN REAL ESTATE HELD AND USED**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Gross carrying amount as at 31.12. of the previous year** | **866** | 854 |
| Change in basis of consolidation (additions) | | |
| Business combinations | 6 | — |
| Additions | 12 | 12 |
| Disposals | 66 | — |
| Reclassifications | — | 2 |
| Exchange rate changes | –1 | –2 |
| **Gross carrying amount as at 31.12. of the financial year** | **817** | 866 |
| **Accumulated depreciation and impairment losses as at 31.12. of the previous year** | **200** | 179 |
| Disposals | 10 | — |
| Depreciation and impairment losses | | |
| Depreciation | 16 | 21 |
| Impairment losses | 1 | 2 |
| Reversal after impairment | 2 | 3 |
| Reclassifications | — | 1 |
| **Accumulated depreciation and impairment losses as at 31.12. of the financial year** | **205** | 200 |
| Carrying amount as at 31.12. of the previous year | 666 | 675 |
| **Carrying amount as at 31.12. of the financial year** | **612** | 666 |

**N82 CHANGES IN OPERATING AND OFFICE EQUIPMENT**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Gross carrying amount as at 31.12. of the previous year** | **464** | 427 |
| Change in basis of consolidation (additions) | | |
| Business combinations | 1 | — |
| Additions | 38 | 64 |
| Disposals | 36 | 33 |
| Reclassifications | — | 3 |
| Exchange rate changes | –2 | 3 |
| **Gross carrying amount as at 31.12. of the financial year** | **465** | 464 |
| **Accumulated depreciation and impairment losses as at 31.12. of the previous year** | **290** | 260 |
| Disposals | 33 | 21 |
| Depreciation and impairment losses | | |
| Depreciation | 52 | 45 |
| Reclassifications | — | 3 |
| Exchange rate changes | — | 3 |
| **Accumulated amortisation and impairment losses as at 31.12 of the financial year** | **309** | 290 |
| Carrying amount as at 31.12. of the previous year | 174 | 167 |
| **Carrying amount as at 31.12. of the financial year** | **156** | 174 |

**N83 MISCELLANEOUS ASSETS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Trade accounts receivable | 63 | 48 |
| Receivables relating to investments | 89 | 144 |
| Receivables from non-Group-led business | 147 | 140 |
| Other tangible assets | 12 | 76 |
| Receivables under pension liability insurance/surrender values | 107 | 101 |
| Prepaid insurance benefits | 129 | 114 |
| Prepaid expenses | 145 | 161 |
| Other miscellaneous assets | 479 | 409 |
| **Total** | **1,171** | 1,193 |

# NOTES TO THE CONSOLIDATED BALANCE SHEET — EQUITY AND LIABILITIES

## (17) EQUITY

### CHANGES IN EQUITY AND NON-CONTROLLING INTERESTS

N84 **COMPOSITION OF EQUITY**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Subscribed capital | 316 | 316 |
| Capital reserves | 1,373 | 1,373 |
| Retained earnings | 5,370 | 4,921 |
| Other reserves | 489 | 619 |
| Group net income | 734 | 769 |
| Non-controlling interests in equity | 5,149 | 4,902 |
| **Total** | **13,431** | **12,900** |

“Retained earnings” include equalisation reserves of EUR 1,684 (1,580) million (after deferred taxes).

“Other reserves” include gains and losses from currency translation amounting to EUR 57 (–33) million.

N85 **UNREALISED GAINS AND LOSSES INCLUDED IN OTHER RESERVES**[1]

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| From available-for-sale investments | 2,817 | 4,091 |
| From cash flow hedges | 368 | 379 |
| From the measurement of associates using the equity method | 10 | 5 |
| Other changes | –699 | –965 |
| less/plus | | |
| Policyholder participation/ shadow accounting[1] | –1,921 | –2,633 |
| Deferred taxes recognised directly in equity | –143 | –225 |
| Non-controlling interests in equity | 650 | 742 |
| Total | 1,082 | 1,394 |

[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.

N86 **RECONCILIATION ITEMS FOR NON-CONTROLLING INTERESTS IN EQUITY**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Unrealised gains and losses on investments | 575 | 890 |
| Share of net income | 675 | 599 |
| Other equity | 3,899 | 3,413 |
| **Total** | **5,149** | **4,902** |

The changes recognised in equity resulting from financial instruments classified in the Group as “Financial assets available for sale”, before allowances for policyholders, non-controlling interests and deferred taxes, were as follows:

N87 **EFFECT OF FAIR VALUE MEASUREMENT ON OTHER COMPREHENSIVE INCOME**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Allocation of gains/losses from fair value measurement of “Financial assets available for sale” (unrealised gains and losses) | –1,168 | 3,605 |
| Transfers of gains/losses from fair value measurement of “Financial assets available for sale” to net income | –550 | –381 |

### SUBSCRIBED CAPITAL

The share capital of Talanx AG is unchanged at EUR 316 million and is composed of 252,797,634 no-par value registered shares. The share capital is fully paid up.

For information on the composition of equity, see the “Consolidated statement of changes in equity”.

### CONTINGENT CAPITAL

On 15 May 2012, the General Meeting resolved to contingently increase the share capital by up to EUR 78 million by issuing up to 62,400,000 new no-par value shares (Contingent Capital II). The contingent capital increase is designed to grant no-par value shares to holders of bonds that Talanx AG or a subordinate Group company will issue by 14 May 2017 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 General Meeting on the same date. The amendment to Talanx AG’s Articles of Association took effect on its entry in the commercial register on 4 June 2012.

Furthermore, on 28 August 2012, the Extraordinary General Meeting resolved to contingently increase the share capital by up to EUR 26 million by issuing up to 20,800,000 new no-par value shares with a notional interest in the share capital of EUR 1.25 each (Contingent Capital III). The contingent capital increase is designed to grant no-par value shares to holders of convertible bonds, bonds with warrants, participating bonds with conversion rights or warrants, and profit participation rights with conversion rights or warrants, as well as measures in connection with the employee share programme, that, based on the authorisation resolved by the aforementioned meeting, Talanx AG or a subordinate Group company will issue by 27 August 2017 in exchange for cash in order to satisfy the contingent conversion obligation. The amendment to Talanx AG's Articles of Association took effect on its entry in the commercial register on 5 September 2012.

## AUTHORISED CAPITAL

On 29 September 2012, the Extraordinary General Meeting resolved to cancel the authorised capital under article 7(1) of Talanx AG's Articles of Association, as authorised by the General Meeting on 21 November 2011, and to replace it with a new article 7(1), which authorises the Board of Management, subject to the approval of the Supervisory Board, to increase the share capital in the period up to 28 September 2017 on one or more occasions by a maximum of EUR 146 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, shareholders' pre-emptive rights may be disapplied for certain listed purposes in the case of cash capital increases, provided that the notional amount of share capital attributable to the new shares does not exceed 10% of the share capital. Subject to the approval of the Supervisory Board, EUR 1 million of this may be used to issue employee shares. Subject to the approval of the Supervisory Board, pre-emptive rights may be disapplied for non-cash 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 1 October 2012.

When the greenshoe option was exercised on 8 October 2012 in the course of the IPO, authorised capital was reduced to EUR 143 million in accordance with the Articles of Association. In the course of the employee share programme, authorised capital was reduced by EUR 0.2 million. After its partial utilisation, the authorised capital amounts to EUR 142,307,260, of which a further EUR 785,060 can be used for employee shares.

## CAPITAL MANAGEMENT

IAS 1 "Presentation of Financial Statements" requires detailed disclosures in the Notes that enable readers of financial statements to understand the objectives, methods, and processes of capital management and that provide supplementary information on changes in Group equity.

In this context, see the following remarks as well as the information contained in the section "Net assets and financial position" in the management report.

Capital management takes into account the economic capital that is derived from the surplus of the assets over the liabilities in the solvency balance sheet of the Talanx Group, including any subordinated liabilities. An essential strategic target of the Group is to ensure an optimised capital structure that is commensurate with the associated risk, in order to reinforce the Group's financial strength.

This target is achieved by consistently aligning the capital resources of the Talanx Group with the following specific criteria:

- Firstly, the confidence level chosen (99.97% in relation to the economic capital) exceeds the regulatory level of solvency capital stipulated under Solvency II (99.5%). Secondly, the level of solvency capital at least satisfies the requirements of Standard & Poor's capital model for an "AA" rating. Capital resources in excess of this requirement are established only if they enable us to boost our earnings potential above and beyond the return we would gain from reinvested funds, e.g. by providing additional risk capacity and cover or because they allow us to achieve greater independence from the reinsurance and retrocession markets
- Through the use of suitable equity substitutes and financing instruments to optimise our capital structure

Capital resources are generally allocated to those areas that promise the highest risk-adjusted profit after tax over the medium term. In this context, we take into consideration the desired portfolio diversification, the required risk capital and the supervisory framework.

In terms of its capital resources, the Group satisfies the expectations of the agencies rating it. Some Group companies are also subject to additional national capital and solvency requirements. 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.

## (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.

**N88 COMPOSITION OF LONG-TERM SUBORDINATED DEBT**

EUR MILLION

| | Nominal amount | Coupon | Maturity | Rating[5] | Issue | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|
| Hannover Finance (Luxembourg) S.A. | 500 | Fixed (5%), then floating rate | 2005/ no final maturity | (a; A) | These guaranteed subordinated bonds were offered to the holders of debt issued in 2001 in part exchange for that debt. They may be called first on 1.6.2015 and at each coupon payment date thereafter. | — | 498 |
| Hannover Finance (Luxembourg) S.A. | 500 | Fixed (5.75%), then floating rate | 2010/2040 | (a+; A) | These guaranteed subordinated bonds were issued in 2010 on the European capital market. They cannot be called for ten years. | 499 | 498 |
| Hannover Finance (Luxembourg) S.A. | 500 | Fixed (5.0%), then floating rate | 2012/2043 | (a+; 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. | 497 | 497 |
| Hannover Rück SE[1] | 450 | Fixed (3.375%), then floating rate | 2014/ no final maturity | (a; A) | These subordinated bonds were issued in 2014 on the European capital market. They can be called for the first time in 2025 under normal conditions. | 444 | 444 |
| HDI Lebensversicherung AG (formerly HDI-Gerling Lebensversicherung AG)[2] | 110 | Fixed (6.75%) | 2005/ no final maturity | (—; A–) | These subordinated bonds are listed on the Euro MTF Market of the Luxembourg Stock Exchange and can be called for the first time by the issuer in 2015. | — | 110 |
| Talanx Finanz[3] | 113 | Fixed (4.5%) | 2005/2025 | (bbb+; BBB) | These guaranteed subordinated bonds were originally issued in an amount of EUR 350 million. They are listed on the Luxembourg Stock Exchange. | — | 112 |
| Talanx Finanz | 500 | Fixed (8.37%), then floating rate | 2012/2042 | (bbb+; BBB) | 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 |
| Open Life Towarzystwo Ubezpieczeń Życie S.A., Warsaw, Poland and Magyar Posta Életbiztosító Zrt., Budapest, Hungary[4] | 4 | Between 2.5% plus WIBOR 3M and 7.57% | Between 2018 and 2025 | (—; —) | Subordinated loans | 3 | 2 |
| **Total** | | | | | | **1,943** | 2,661 |

[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] At the repayment date, Group companies additionally held bonds with a nominal value of EUR 50 million (of which EUR 10 million was consolidated in the consolidated financial statements, with the remaining EUR 40 million being blocked)
[3] At the reporting date, Group companies additionally held bonds with a nominal value of EUR 96 million (consolidated in the consolidated financial statements)
[4] Not included in the calculation of Group solvency
[5] (Debt rating A.M. Best; debt rating S&P)

**N89 FAIR VALUES OF SUBORDINATED LIABILITIES MEASURED AT AMORTISED COST**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amortised cost | 1,943 | 2,661 |
| Unrealised gains/losses | 293 | 362 |
| Fair value | 2,236 | 3,023 |

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 (–153) million from subordinated liabilities in the reporting period consisted of interest expenses in the amount of EUR 128 (150) million and amortisation expenses (EUR 3 [3] million).

N90 **SUBORDINATED LIABILITIES: MATURITIES**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due within one year | | — |
| More than one year, up to five years | 2 | 2 |
| More than five years, up to ten years | — | 112 |
| More than ten years, up to 20 years | — | — |
| More than 20 years | 1,497 | 1,495 |
| Without fixed maturity | 444 | 1,052 |
| **Total** | **1,943** | **2,661** |

The subordinated bond issued in 2005 by Hannover Finance (Luxembourg) S.A. in the amount of EUR 500 million was called in the entire nominal amount by the issuer effective as at the first regular redemption date and repaid on 1 June 2015.

The subordinated bonds of HDI Lebensversicherung AG (nominal outstanding amount: EUR 120 million, of which EUR 10 million was issued internally in the Group) and of Talanx Finanz (Luxemburg) S.A. (nominal amount: EUR 209 million, of which EUR 96 million was issued internally in the Group), both of which were issued in 2005, were both repaid in full at the first redemption date on 30 June 2015.

## (19) UNEARNED PREMIUM RESERVE

N91 **UNEARNED PREMIUM RESERVE**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| **Balance at 31.12. of the previous year** | **6,316** | **662** | **5,654** | 5,678 | 635 | 5,043 |
| Change in basis of consolidation | 159 | 52 | 107 | — | — | — |
| Portfolio entries/withdrawals | 3 | — | 3 | 4 | — | 4 |
| Additions | 2,660 | 87 | 2,573 | 1,958 | 133 | 1,825 |
| Released | 2,096 | 97 | 1,999 | 1,509 | 131 | 1,378 |
| Reclassifications | — | –2 | 2 | — | — | — |
| Reclassification in accordance with IFRS 5 | — | — | — | –3 | — | –3 |
| Exchange rate changes | 39 | 4 | 35 | 188 | 25 | 163 |
| **Balance at 31.12. of the financial year** | **7,081** | **706** | **6,375** | 6,316 | 662 | 5,654 |

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

N92 **BENEFIT RESERVE**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| **Balance at 31.12. of the previous year** | **52,679** | **1,185** | **51,494** | **49,767** | **832** | **48,935** |
| Change in basis of consolidation | 1 | — | 1 | — | — | — |
| Portfolio entries/withdrawals | –690 | 244 | –934 | 121 | 83 | 38 |
| Additions | 5,419 | 424 | 4,995 | 5,711 | 222 | 5,489 |
| Released | 3,348 | 98 | 3,250 | 3,653 | 11 | 3,642 |
| Reclassification in accordance with IFRS 5 | — | — | — | –12 | — | –12 |
| Other changes | — | — | — | –1 | — | –1 |
| Exchange rate changes | 784 | 44 | 740 | 746 | 59 | 687 |
| **Balance at 31.12. of the financial year** | **54,845** | **1,799** | **53,046** | **52,679** | **1,185** | **51,494** |

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.

N93 **BENEFIT RESERVE**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| Due within one year | 3,451 | 484 | 2,967 | 3,266 | 53 | 3,213 |
| More than one year, up to five years | 10,849 | 906 | 9,943 | 10,258 | 491 | 9,767 |
| More than five years, up to ten years | 11,116 | 143 | 10,973 | 10,604 | 361 | 10,243 |
| More than ten years, up to 20 years | 12,861 | 146 | 12,715 | 11,794 | 152 | 11,642 |
| More than 20 years | 10,343 | 116 | 10,227 | 9,544 | 123 | 9,421 |
| Deposits | 6,225 | 4 | 6,221 | 7,213 | 5 | 7,208 |
| **Total** | **54,845** | **1,799** | **53,046** | **52,679** | **1,185** | **51,494** |

## (21) LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE

N94 **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVE**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| **Balance at 31.12. of the previous year** | **37,256** | **5,222** | **32,034** | **33,775** | **4,894** | **28,881** |
| Change in basis of consolidation | 78 | 39 | 39 | — | — | — |
| Portfolio entries/withdrawals | — | — | — | 2 | — | 2 |
| Plus claims and claims expenses incurred (net) | | | | | | |
| Financial year | 15,721 | 2,288 | 13,433 | 13,773 | 1,971 | 11,802 |
| Previous years | 2,735 | 126 | 2,609 | 2,902 | 491 | 2,411 |
| Total | 18,456 | 2,414 | 16,042 | 16,675 | 2,462 | 14,213 |
| Less claims and claims expenses paid (net) | | | | | | |
| Financial year | 6,060 | 809 | 5,251 | 5,371 | 692 | 4,679 |
| Previous years | 10,700 | 1,426 | 9,274 | 9,483 | 1,652 | 7,831 |
| Total | 16,760 | 2,235 | 14,525 | 14,854 | 2,344 | 12,510 |
| Other changes | –21 | –13 | –8 | –2 | –1 | –1 |
| Exchange rate changes | 1,383 | 135 | 1,248 | 1,660 | 211 | 1,449 |
| **Balance at 31.12. of the financial year** | **40,392** | **5,562** | **34,830** | **37,256** | **5,222** | **32,034** |

### 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 euros 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 (euros).

The following tables present the net loss reserves for the years 2005 to 2015 for our main property/casualty insurance companies in the primary insurance segments, including Corporate Operations, and in the Group's Non-Life 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 Non-Life 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 2005 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 2015.

Net loss reserves in the Group amount to a total of EUR 34.8 (32.0) billion. Of these, EUR 8.8 (8.5) billion is attributable to our property/casualty insurance companies in the primary insurance area, including Corporate Operations, and EUR 21.8 (19.7) billion to the Non-Life Reinsurance segment. The remaining EUR 4.2 (3.8) billion is attributable to the Life/Health Reinsurance segment (EUR 3.3 [2.9] billion) and primary life insurance business (EUR 0.9 [0.9] billion).

## NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS

N95 **NET LOSS RESERVE AND ITS RUN-OFF IN THE PRIMARY INSURANCE SEGMENTS, INCLUDING CORPORATE OPERATIONS**

EUR MILLION

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loss and loss adjustment expense reserve** | **5,928** | **6,015** | **6,374** | **6,280** | **6,378** | **6,898** | **6,972** | **7,129** | **7,873** | **8,506** | **8,813** |
| Cumulative payments for the specific year and previous years | | | | | | | | | | | |
| One year later | 1,146 | 977 | 1,366 | 953 | 1,169 | 1,334 | 1,530 | 1,165 | 1,724 | 1,819 | |
| Two years later | 1,699 | 1,669 | 1,697 | 1,547 | 1,782 | 2,143 | 1,877 | 1,966 | 2,479 | | |
| Three years later | 2,160 | 1,818 | 2,107 | 1,993 | 2,400 | 2,263 | 2,427 | 2,472 | | | |
| Four years later | 2,231 | 2,123 | 2,484 | 2,495 | 2,425 | 2,658 | 2,815 | | | | |
| Five years later | 2,492 | 2,447 | 2,924 | 2,468 | 2,771 | 2,981 | | | | | |
| Six years later | 2,741 | 2,841 | 2,850 | 2,757 | 3,034 | | | | | | |
| Seven years later | 3,052 | 2,747 | 3,103 | 2,980 | | | | | | | |
| Eight years later | 3,078 | 2,972 | 3,276 | | | | | | | | |
| Nine years later | 3,258 | 3,110 | | | | | | | | | |
| Ten years later | 3,361 | | | | | | | | | | |
| 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 | 5,928 | 6,015 | 6,374 | 6,280 | 6,378 | 6,898 | 6,972 | 7,129 | 7,873 | 8,506 | 8,813 |
| One year later | 5,298 | 5,547 | 6,038 | 5,779 | 6,225 | 6,548 | 6,603 | 6,798 | 7,604 | 8,040 | |
| Two years later | 5,337 | 5,292 | 5,282 | 5,187 | 5,996 | 6,315 | 6,428 | 6,674 | 7,245 | | |
| Three years later | 5,220 | 4,922 | 5,357 | 5,461 | 5,810 | 6,246 | 6,358 | 6,468 | | | |
| Four years later | 4,928 | 4,922 | 5,466 | 5,357 | 5,839 | 6,112 | 6,191 | | | | |
| Five years later | 4,903 | 5,022 | 5,383 | 5,501 | 5,729 | 5,952 | | | | | |
| Six years later | 5,027 | 4,987 | 5,507 | 5,380 | 5,591 | | | | | | |
| Seven years later | 5,009 | 5,025 | 5,414 | 5,245 | | | | | | | |
| Eight years later | 5,110 | 4,971 | 5,265 | | | | | | | | |
| Nine years later | 5,026 | 4,761 | | | | | | | | | |
| Ten years later | 4,851 | | | | | | | | | | |
| **Change year-on-year** | | | | | | | | | | | |
| **of the final loss reserve[1] = run-off result** | **175** | **35** | **–61** | **–14** | **3** | **22** | **7** | **39** | **153** | 107 | |
| % | 3 | 1 | –1 | — | — | — | — | 1 | 2 | 1 | |

1) Example: Calculate the difference for 2005 (EUR 5,026 million minus EUR 4,851 million = EUR 175 million). This figure is recorded and then updated in each subsequent period, e.g. in 2006, with the change from e.g. 2005 to 2006 being carried forward. Hence, in 2006 the first step involves calculating the difference between the two amounts for 2006 and then subtracting the result from the value for 2005 (calculation for 2006: EUR 4,971 million less EUR 4,761 million = EUR 210 million, from which the amount of EUR 175 million is subtracted, resulting in an amount of EUR 35 million for 2006). The process is then repeated for each subsequent year

In the reporting period, the Group reported a positive run-off result of EUR 466 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 NON-LIFE REINSURANCE SEGMENT

N96 **NET LOSS RESERVE AND ITS RUN-OFF IN THE NON-LIFE REINSURANCE SEGMENT**

EUR MILLION

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Loss and loss adjustment expense reserve** | **13,445** | **13,545** | **12,908** | **13,773** | **14,081** | **15,366** | **16,706** | **17,324** | **17,943** | **19,762** | **21,753** |
| Cumulative payments for the specific year and previous years | | | | | | | | | | | |
| One year later | 3,074 | 2,614 | 2,539 | 3,005 | 2,796 | 2,493 | 3,182 | 2,968 | 3,227 | 3,549 | |
| Two years later | 5,139 | 4,394 | 4,373 | 4,669 | 4,041 | 4,163 | 4,954 | 4,609 | 5,045 | | |
| Three years later | 6,319 | 5,754 | 5,510 | 5,438 | 4,874 | 5,173 | 5,900 | 5,818 | | | |
| Four years later | 7,470 | 6,573 | 6,065 | 6,033 | 5,531 | 5,831 | 6,846 | | | | |
| Five years later | 8,111 | 6,973 | 6,504 | 6,519 | 6,040 | 6,599 | | | | | |
| Six years later | 8,430 | 7,316 | 6,871 | 6,851 | 6,546 | | | | | | |
| Seven years later | 8,701 | 7,592 | 7,149 | 7,199 | | | | | | | |
| Eight years later | 8,931 | 7,820 | 7,441 | | | | | | | | |
| Nine years later | 9,116 | 8,056 | | | | | | | | | |
| Ten years later | 9,319 | | | | | | | | | | |
| 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 | 13,445 | 13,545 | 12,908 | 13,773 | 14,081 | 15,366 | 16,706 | 17,324 | 17,943 | 19,762 | 21,753 |
| One year later | 14,050 | 12,802 | 13,203 | 14,873 | 13,557 | 14,677 | 16,403 | 16,905 | 17,673 | 19,250 | |
| Two years later | 12,995 | 12,385 | 13,135 | 13,597 | 12,770 | 14,067 | 16,057 | 16,483 | 17,029 | | |
| Three years later | 12,463 | 12,306 | 12,646 | 12,695 | 12,178 | 13,650 | 15,560 | 15,966 | | | |
| Four years later | 12,473 | 11,877 | 11,750 | 12,190 | 11,757 | 13,166 | 14,939 | | | | |
| Five years later | 12,102 | 10,056 | 11,396 | 11,853 | 11,281 | 12,599 | | | | | |
| Six years later | 11,346 | 10,783 | 11,092 | 11,346 | 10,751 | | | | | | |
| Seven years later | 11,147 | 10,506 | 10,681 | 10,857 | | | | | | | |
| Eight years later | 10,933 | 10,187 | 10,262 | | | | | | | | |
| Nine years later | 10,706 | 9,772 | | | | | | | | | |
| Ten years later | 10,326 | | | | | | | | | | |
| **Change year-on-year** | | | | | | | | | | | |
| **of the final loss reserve[1) ] = run-off result** | **380** | **35** | **4** | **70** | **41** | **37** | **54** | **–104** | **127** | **–132** | |
| % | 3 | — | — | 1 | — | — | — | –1 | 1 | –1 | |

1) Example: Calculate the difference for 2005 (EUR 10,706 million minus EUR 10,326 million = EUR 380 million). This figure is recorded and then updated in each subsequent period, e.g. in 2006, with the change from e.g. 2005 to 2006 being carried forward. Hence, in 2006 the first step involves calculating the difference between the two amounts for 2006 and then subtracting the result from the value for 2005 (calculation for 2006: EUR 10,187 million less EUR 9,772 million = EUR 415 million, from which the amount of EUR 380 million is subtracted, resulting in an amount of EUR 35 million for 2006). The process is then repeated for each subsequent year

In financial year 2015, Non-Life Reinsurance recorded a positive run-off result in the total amount of EUR 512 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 5.6 (5.2) billion and includes accumulated specific valuation allowances of EUR 0.1 (0.2) 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.

**N97 RESERVE DURATIONS**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 31.12.2015 | | | 31.12.2014 | | |
| Due within one year | 11,911 | 2,427 | 9,484 | 11,840 | 2,288 | 9,552 |
| More than one year, up to five years | 15,828 | 1,719 | 14,109 | 13,869 | 1,602 | 12,267 |
| More than five years, up to ten years | 5,820 | 636 | 5,184 | 5,406 | 594 | 4,812 |
| More than ten years, up to 20 years | 3,644 | 407 | 3,237 | 3,404 | 359 | 3,045 |
| More than 20 years | 2,050 | 286 | 1,764 | 1,930 | 273 | 1,657 |
| Deposits | 1,139 | 87 | 1,052 | 807 | 106 | 701 |
| **Total** | **40,392** | **5,562** | **34,830** | **37,256** | **5,222** | **32,034** |

## (22) PROVISION FOR PREMIUM REFUNDS

**N98 PROVISION FOR PREMIUM REFUNDS**

EUR MILLION

| | Gross | Re | Net | Gross | Re | Net |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| **Balance at 31.12. of the previous year** | **4,484** | **1** | **4,483** | **2,178** | **2** | **2,176** |
| Portfolio entries/withdrawals | — | — | — | — | — | — |
| Allocations/reversals (–) recognised in profit or loss | 868 | — | 868 | 891 | — | 891 |
| Changes attributable to other comprehensive income from investments | –695 | — | –695 | 1,887 | — | 1,887 |
| Disposals | | | | | | |
| Life insurance policies | 468 | — | 468 | 472 | — | 472 |
| Liability/casualty policies with a premium refund | 4 | — | 4 | 1 | — | 1 |
| Other changes | –48 | –1 | –47 | 2 | –1 | 3 |
| Exchange rate changes | 1 | — | 1 | –1 | — | –1 |
| **Balance at 31.12. of the financial year** | **4,138** | — | **4,138** | **4,484** | **1** | **4,483** |

The provision for premium refunds covers the statutory and contractual claims of policyholders to surplus participation that has not yet been definitively allocated to individual insurance contracts and paid out as at the reporting date, as well as the provision for deferred premium refunds. The latter provision – the "shadow provision for premium refunds" – relates to portions attributable to policyholders from measurement differences between local GAAP and IFRSs that are allocated, net of deferred taxes, either to the statement of income as income or expenses or directly to equity (in "Other comprehensive income") (e.g. unrealised investment income in "Financial instruments available for sale").

Therefore, it is generally not possible to make a clear allocation to the individual insurance contracts and to the remaining maturities.

Of the gross provision for premium refunds, EUR 1,217 (1,271) million is attributable to obligations for surplus participation and EUR 2,921 (3,213) 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 subportfolio.

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. This pension plan is the only domestic, employer-funded plan that is open to new employees. 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 "HDI Unterstützungskasse" 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.

N99 **FUNDED STATUS OF PENSION PLANS**

EUR MILLION

| Type of plan | 2015 | 2014 |
|---|---|---|
| Final salary plans that depend on length of service | | |
| ■ Plan assets | –56 | –55 |
| ■ Present value of defined benefit obligation | 1,836 | 2,113 |
| ■ Effect of asset ceiling | — | — |
| surplus (net asset) | — | — |
| shortfall (net liability) | 1,780 | 2,058 |
| Plan based on pension modules | | |
| ■ Plan assets | –18 | –14 |
| ■ Present value of defined benefit obligation | 125 | 135 |
| ■ Effect of asset ceiling | 1 | — |
| surplus (net asset) | — | — |
| shortfall (net liability) | 108 | 121 |
| Contribution-based plans with guarantees | | |
| ■ Plan assets | –37 | –47 |
| ■ Present value of defined benefit obligation | 93 | 117 |
| ■ Effect of asset ceiling | 1 | 2 |
| surplus (net asset) | — | — |
| shortfall (net liability) | 57 | 72 |
| **Balance at 31.12. of the financial year (net asset)** | **—** | — |
| **Balance at 31.12. of the financial year (net liability)** | **1,945** | **2,251** |

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 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 2015 and as at 31 December 2014.

**N100 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 value adjustment | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Balance at 1.1. of the financial year** | 2,366 | 1,858 | –116 | –169 | 1 | 6 |
| **Changes recognised in net income** | | | | | | |
| Current service cost | 20 | 17 | — | — | — | — |
| Past service cost and plan curtailments | 2 | — | — | — | — | — |
| Net interest component | 38 | 63 | –3 | –7 | — | — |
| Gain or loss from settlements | — | 1 | — | — | — | — |
| | 60 | 81 | –3 | –7 | — | — |
| **Income and expenses recognised in other comprehensive income** | | | | | | |
| Remeasurements | | | | | | |
| Actuarial gains (–)/losses (+) from change in biometric assumptions | –1 | — | — | — | — | — |
| Actuarial gains (–)/losses (+) from change in financial assumptions | –271 | 624 | — | — | — | — |
| Experience adjustments | –10 | –10 | — | — | — | — |
| Return on plan assets (excluding interest income) | — | — | 2 | –32 | — | — |
| Change from asset adjustment | — | — | — | — | — | –5 |
| Exchange rate changes | 3 | 3 | –2 | –3 | — | — |
| | –279 | 617 | — | –35 | — | –5 |
| **Other changes** | | | | | | |
| Employer contributions | — | — | –10 | –16 | — | — |
| Employee contributions and deferred compensation | 1 | 1 | — | — | — | — |
| Benefits paid during the year | –91 | –71 | 18 | 3 | — | — |
| Business combinations and disposals | –2 | 1 | — | — | — | — |
| Effect of plan settlements | — | –121 | — | 108 | — | — |
| | –92 | –190 | 8 | 95 | — | — |
| **Balance at 31.12. of the financial year** | 2,055 | 2,366 | –111 | –116 | 1 | 1 |

The structure of the investment portfolio underlying the plan assets was as follows:

**N101 PORTFOLIO STRUCTURE OF PLAN ASSETS**

%

| | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | — | — |

**N101 PORTFOLIO STRUCTURE OF PLAN ASSETS**

%

| | 2015 | 2014 |
|---|---|---|
| Equity instruments | — | — |
| Fixed-income securities | 7 | 11 |
| Real estate | 4 | 3 |
| Securities funds | 39 | 31 |
| Qualifying insurance contracts | 50 | 55 |
| **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. Almost all of the assets in these investment categories are managed in a British pension scheme trust.

The fair value of plan assets does not include any amounts for own financial instruments.

The actual return on plan assets amounted to EUR 1 million in the reporting period. Income of EUR 38 million was recognised in the previous year.

Defined benefit obligations were measured on the basis of the following weighted assumptions:

**N102 ASSUMPTIONS FOR DEFINED BENEFIT OBLIGATIONS**

MEASUREMENT PARAMETERS/ASSUMPTIONS, WEIGHTED IN %

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 2.27 | 1.70 |
| Expected rate of salary increase | 2.50 | 2.76 |
| Pension increase | 1.90 | 2.13 |

The "2005G" mortality tables published by Dr Klaus Heubeck formed the basis for the biometric calculation of the German pension commitments.

The duration of the defined benefit obligation is 15 (17) 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 2015:

**N103 EFFECT OF CHANGE IN ACTUARIAL ASSUMPTIONS**

EUR MILLION

| | Effect on defined benefit obligation | | | |
|---|---|---|---|---|
| | Parameter increase | Parameter increase | Parameter decrease | Parameter decrease |
| | 2015 | 2014 | 2015 | 2014 |
| Discount rate (+/– 0.5%) | –148 | –184 | 165 | 208 |
| Salary increase rate (+/– 0.25%) | 9 | 12 | –9 | –12 |
| Pension adjustment rate (+/– 0.25%) | 57 | 67 | –59 | –74 |

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 70 (91) 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 2016, the Group anticipates employer contributions of EUR 6 (6) 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 20 (19) million, of which EUR 1 (1) million was attributable to commitments to employees in key positions. In addition, contributions in the amount of EUR 49 (54) million were paid to state pension plans.

## (24) PROVISIONS FOR TAXES

**N104 BREAKDOWN OF PROVISIONS FOR TAXES**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Provisions for income tax | 527 | 557 |
| Other tax provisions | 194 | 165 |
| **Total** | **721** | **722** |

## (25) MISCELLANEOUS OTHER PROVISIONS

**N105 MISCELLANEOUS OTHER PROVISIONS (EXPECTED SETTLEMENT AMOUNT)**

EUR MILLION

| | Restructuring | Assumption of third-party pension commitments in return for payment | Bonuses and incentives | Anniversary bonuses | Early retirement/partial retirement | Other personnel expenses | Outstanding invoices | Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Carrying amount as at 31.12.2014** | 38 | 51 | 120 | 28 | 48 | 89 | 110 | 251 | 735 |
| **2015** | | | | | | | | | |
| Change in basis of consolidation | — | — | — | — | — | 2 | 1 | 2 | **5** |
| Additions | 66 | 3 | 100 | 3 | 4 | 79 | 419 | 132 | **806** |
| Unwinding of discounts | 1 | — | — | — | — | — | — | 10 | **11** |
| Utilisation | 15 | 5 | 80 | 4 | 12 | 83 | 404 | 80 | **683** |
| Reversals | 2 | — | 1 | — | — | 1 | 11 | 16 | **31** |
| Change in fair value of plan assets | — | — | — | — | 3 | — | — | — | **3** |
| Other changes | 5 | — | 1 | — | — | –2 | 1 | 2 | **7** |
| Exchange rate changes | — | — | — | — | — | — | –2 | –1 | **–3** |
| **Carrying amount as at 31.12.2015** | **93** | **49** | **140** | **27** | **43** | **84** | **114** | **300** | **850** |

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 88 (26) million at the reporting date. EUR 64 million was added to this provision in the reporting period. Unwinding of discounts amounted to EUR –1 million and EUR 3 million was utilised.

The remaining provisions (EUR 300 [251] 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 117 (89) million, provisions for commissions amounting to EUR 48 (34) million, provisions for expected losses amounting to EUR 4 (14) million and provisions for administrative expenses amounting to EUR 11 (13) million. They also include 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.

**N106 DURATIONS OF MISCELLANEOUS OTHER PROVISIONS**

EUR MILLION

| | 31.12.2015 | | | |
|---|---|---|---|---|
| | Due within one year | Due between one and five years | Due after more than five years | Total |
| Restructuring | 29 | 64 | — | **93** |
| Assumption of third-party pension obligations in return for payment[1] | — | — | 49 | **49** |
| Bonuses and incentives | 104 | 36 | — | **140** |
| Anniversary bonuses[1] | — | — | 27 | **27** |
| Early retirement/partial retirement[1] | — | 43 | — | **43** |
| Other personnel expenses | 62 | 22 | — | **84** |
| Outstanding invoices | 114 | — | — | **114** |
| Other | 212 | 83 | 5 | **300** |
| **Total** | **521** | **248** | **81** | **850** |
| **Total previous year** | 467 | 187 | 81 | 735 |

[1] Weighted average

## (26) NOTES PAYABLE AND LOANS

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

**N107 NOTES PAYABLE AND LOANS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Talanx AG notes payable | 1,065 | 1,065 |
| Mortgage loans of Hannover Re Real Estate Holdings, Inc., Orlando | 207 | 183 |
| Mortgage loans of HR GLL Central Europe GmbH & Co. KG, Munich | 101 | 101 |
| Loans from infrastructure investments | 68 | — |
| **Total** | **1,441** | **1,349** |

Talanx AG entered into agreements on two syndicated, variable-rate credit lines with a total nominal value of EUR 1.2 billion and a term of five years in 2011, which were supplemented in 2012. One of these two credit lines from 2011 (EUR 500 million) was replaced in the first quarter of 2014 by a new credit line, again with a term of five years, at improved terms and with an increased volume of EUR 550 million. This means that there were credit lines with a total nominal value of EUR 1.25 billion as at 31 December 2015. They had not been drawn down at the reporting date.

Net expenses from notes payable and loans totalled EUR 42 (35) million and consisted of interest expenses relating to Talanx AG bonds (EUR 29 million) and net expenses from mortgage loans (EUR 12 million) and loans from infrastructure investments (EUR 2 million). They were offset by income from amortisations from mortgage loans in the amount of EUR 1 (1) million.

**N108 NOTES PAYABLE**

EUR MILLION

| | Nominal amount | Coupon | Maturity | Rating [1] | Issue | 31.12.2015 | 31.12.2014 |
|---|---|---|---|---|---|---|---|
| Talanx AG [2] | 565 | Fixed (3.125%) | 2013/2023 | (—; A–) | These senior unsecured bonds have a fixed term and may be only called for extraordinary reasons. | 565 | 565 |
| Talanx AG | 500 | Fixed (2.5%) | 2014/2026 | (—; A–) | These senior unsecured bonds have a fixed term and may be only called for extraordinary reasons. | 500 | 500 |
| **Total** | | | | | | **1,065** | **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

**N109 FAIR VALUE OF NOTES PAYABLE AND LOANS**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amortised cost | 1,441 | 1,349 |
| Unrealised gains/losses | 88 | 98 |
| Fair value | 1,529 | 1,447 |

**N110 NOTES PAYABLE AND LOANS: MATURITIES**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due within one year | 44 | 15 |
| More than one year, up to five years | 266 | 258 |
| More than five years, up to ten years | 612 | 576 |
| More than ten years, up to 20 years | 519 | 500 |
| More than 20 years | — | — |
| **Total** | **1,441** | **1,349** |

## (27) OTHER LIABILITIES

N111 **OTHER LIABILITIES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Liabilities under the direct written insurance business | 2,113 | 2,245 |
| of which to policyholders | 1,377 | 1,447 |
| of which to insurance intermediaries | 736 | 798 |
| Reinsurance payables | 2,080 | 1,627 |
| Trade accounts payable | 250 | 58 |
| Liabilities relating to investments | 341 | 366 |
| Liabilities relating to non-Group lead business | 83 | 142 |
| Liabilities from derivatives | 241 | 300 |
| of which negative fair values from derivative hedging instruments | 11 | — |
| Deferred income | 40 | 50 |
| Interest | 74 | 91 |
| Liabilities to social insurance institutions | 18 | 18 |
| Miscellaneous other liabilities | 381 | 700 |
| **Total other liabilities (not including liabilities relating to investment contracts)** | **5,621** | **5,597** |
| Other liabilities relating to investment contracts | | |
| Other liabilities measured at amortised cost | 842 | 889 |
| Financial assets classified at fair value through profit or loss | 1,328 | 1,080 |
| Derivatives | 53 | 60 |
| **Total other liabilities relating to investment contracts** | **2,223** | **2,029** |
| **Carrying amount as at 31.12. of the financial year** | **7,844** | **7,626** |

### OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)

Liabilities relating to investments include interim distributions of EUR 127 (115) 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 241 (300) 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.

N112 **OTHER LIABILITIES (NOT INCLUDING LIABILITIES RELATING TO INVESTMENT CONTRACTS)[1]: MATURITIES**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due within one year | 1,121 | 1,451 |
| More than one year, up to five years | 225 | 197 |
| More than five years, up to ten years | 74 | 76 |
| More than ten years, up to 20 years | 2 | — |
| More than 20 years | 6 | 1 |
| Without fixed maturity | — | — |
| **Total** | **1,428** | **1,725** |

[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 24 [114] million; one to five years: EUR 161 [134] million; five to ten years: EUR 52 [52] million; ten to 20 years: EUR 0 [0] million; more than 20 years: EUR 4 [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.

**N113 OTHER OBLIGATIONS MEASURED AT AMORTISED COST: MATURITIES**

EUR MILLION

| | Amortised cost | | Fair value | |
|---|---|---|---|---|
| | 31.12.2015 | 31.12.2014 | 31.12.2015 | 31.12.2014 |
| Due within one year | 106 | 144 | 106 | 144 |
| More than one year, up to five years | 365 | 391 | 365 | 391 |
| More than five years, up to ten years | 339 | 354 | 339 | 354 |
| More than ten years, up to 20 years | 27 | — | 27 | — |
| Without fixed maturity | 5 | — | 5 | — |
| **Total** | **842** | **889** | **842** | **889** |

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.

**N114 FINANCIAL LIABILITIES CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS AND DERIVATIVES[1]: MATURITIES**

EUR MILLION

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Due within one year | 28 | 103 |
| More than one year, up to five years | 81 | 49 |
| More than five years, up to ten years | 195 | 81 |
| More than ten years, up to 20 years | 112 | 205 |
| More than 20 years | 73 | 51 |
| Without fixed maturity | 892 | 651 |
| **Total** | **1,381** | **1,140** |

[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 4 [2] million; one to five years: EUR 8 [15] million; five to ten years: EUR 13 [15] million; more than ten years: EUR 28 [28] 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

**N115 CHANGE IN RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR**

EUR MILLION

| | Deferred tax assets at 31.12.2014 | Deferred tax liabilities at 31.12.2014 | Net balance at 31.12.2014 | Recognised in profit or loss | Recognised in other compre-hensive income | Business combi-nations/disposals | Other | Net balance at 31.12.2015 | Deferred tax assets at 31.12.2015 | Deferred tax liabilities at 31.12.2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Deferred tax assets and liabilities** | | | | | | | | | | |
| Other intangible assets (PVFP) | 1 | –99 | –98 | 20 | –6 | — | — | –84 | 2 | –86 |
| Investments | 96 | –786 | –690 | –37 | 287 | –16 | — | –456 | 204 | –660 |
| Funds withheld by ceding companies/funds withheld under reinsurance treaties | 621 | –478 | 143 | –468 | — | — | — | –325 | 567 | –892 |
| Accounts receivable on insurance business | 117 | –73 | 44 | –9 | — | 1 | — | 36 | 101 | –65 |
| Deferred acquisition costs[1] | 109 | –337 | –228 | –75 | –1 | — | — | –304 | 111 | –415 |
| Equalisation reserves | — | –1,351 | –1,351 | –121 | — | — | — | –1,472 | — | –1,472 |
| Benefit reserves | 189 | –184 | 5 | –29 | –12 | — | — | –36 | 318 | –354 |
| Loss and loss adjustment expense reserves | 486 | –80 | 406 | –78 | — | — | — | 328 | 646 | –318 |
| Premium refunds | 1 | –1 | — | –2 | — | — | — | –2 | — | –2 |
| Other technical provisions | 91 | –183 | –92 | 635 | — | 5 | — | 548 | 665 | –117 |
| Other provisions | 411 | –15 | 396 | –71 | –82 | 1 | — | 244 | 339 | –95 |
| Consolidation of intercompany balances | — | –15 | –15 | 1 | — | — | 3 | –11 | — | –11 |
| Other | 246 | –423 | –177 | –23 | –16 | –14 | –2 | –232 | 257 | –489 |
| Loss carryforwards | 273 | — | 273 | 35 | — | 1 | — | 309 | 309 | — |
| Impairments | –114 | — | –114 | 9 | — | — | — | –105 | –105 | — |
| **Tax assets (liabilities) before offsetting** | **2,527** | **–4,025** | **–1,498** | **–213** | **170** | **–22** | **1** | **–1,562** | **3,414** | **–4,976** |
| **Recognised amounts set off** | **–1,763** | **1,763** | **—** | | | | | **—** | **–2,678** | **2,678** |
| **Tax assets (liabilities) after offsetting** | **764** | **–2,262** | **–1,498** | | | | | **–1,562** | **736** | **–2,298** |

[1] Deferred taxes on deferred acquisition costs relate to the net amount, i.e. after allowance for reinsurers' shares

Of the net change in deferred tax assets and liabilities in the previous year, EUR 47 million was largely recognised as income in profit and loss and EUR 282 million in "Other comprehensive income", decreasing equity in "Other income/expenses".

# NOTES TO THE CONSOLIDATED STATEMENT OF INCOME

## (29) NET PREMIUMS EARNED

N116 **NET PREMIUMS EARNED**

EUR MILLION

| | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total |
|---|---|---|---|---|---|---|---|
| **2015 [1]** | | | | | | | |
| Gross written premiums, including premiums from unit-linked life and annuity insurance | 4,226 | 6,599 | 4,643 | 8,759 | 7,572 | — | **31,799** |
| Savings elements of premiums from unit-linked life and annuity insurance | — | 945 | 244 | — | — | — | **1,189** |
| Ceded written premiums | 1,550 | 83 | 318 | 985 | 1,156 | 7 | **4,099** |
| Change in gross unearned premiums | — | –51 | –234 | –261 | –14 | — | **–560** |
| Change in ceded unearned premiums | 3 | 7 | 7 | –3 | — | — | **14** |
| **Net premiums earned** | **2,673** | **5,513** | **3,840** | **7,516** | **6,402** | **–7** | **25,937** |
| 2014 [1] | | | | | | | |
| Gross written premiums, including premiums from unit-linked life and annuity insurance | 3,951 | 6,845 | 4,455 | 7,441 | 6,302 | — | **28,994** |
| Savings elements of premiums from unit-linked life and annuity insurance | — | 947 | 144 | — | — | — | **1,091** |
| Ceded written premiums | 1,548 | 114 | 218 | 727 | 998 | 7 | **3,612** |
| Change in gross unearned premiums | –44 | –49 | –238 | –114 | –4 | — | **–449** |
| Change in ceded unearned premiums | 13 | –13 | –6 | 4 | — | — | **–2** |
| **Net premiums earned** | **2,346** | **5,748** | **3,861** | **6,596** | **5,300** | **–7** | **23,844** |

[1] After elimination of intragroup cross-segment transactions

## (30) NET INVESTMENT INCOME

N117 **NET INVESTMENT INCOME IN THE REPORTING PERIOD**

EUR MILLION

| | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total |
|---|---|---|---|---|---|---|---|
| **2015 [1]** | | | | | | | |
| Income from real estate | 7 | 66 | 2 | 141 | — | — | **216** |
| Dividends [2] | 10 | 10 | 2 | 17 | 4 | 9 | **52** |
| Current interest income | 184 | 1,487 | 295 | 667 | 252 | 2 | **2,887** |
| Other income | 26 | 80 | — | 140 | 43 | — | **289** |
| **Ordinary investment income** | **227** | **1,643** | **299** | **965** | **299** | **11** | **3,444** |
| Income from reversal of impairment losses | 3 | 8 | — | 1 | — | — | **12** |
| Realised gains on disposal of investments | 74 | 376 | 90 | 142 | 93 | — | **775** |
| Unrealised gains on investments | 5 | 8 | 50 | 1 | 32 | — | **96** |
| **Investment income** | **309** | **2,035** | **439** | **1,109** | **424** | **11** | **4,327** |
| Realised losses on disposal of investments | 38 | 78 | 34 | 59 | 39 | — | **248** |
| Unrealised losses on investments | 8 | 21 | 15 | — | 32 | — | **76** |
| **Total** | **46** | **99** | **49** | **59** | **71** | **—** | **324** |
| Depreciation of/impairment losses on investment property | | | | | | | |
| Depreciation | 1 | 14 | — | 24 | — | — | **39** |
| Impairment losses | 1 | 3 | — | 4 | — | — | **8** |
| Impairment losses on equity securities | 8 | 9 | 34 | 2 | — | — | **53** |
| Impairment losses on fixed-income securities | 15 | 40 | 3 | 3 | — | 1 | **62** |
| Amortisation of/impairment losses on other investments | | | | | | | |
| Amortisation | 2 | 10 | — | — | — | — | **12** |
| Impairment losses | 20 | 24 | 1 | 7 | — | — | **52** |
| Investment management expenses | 5 | 16 | 4 | 19 | 5 | 86 | 135 |
| Other expenses | 4 | 46 | 11 | 28 | 7 | — | 96 |
| **Other investment expenses/impairment losses** | **56** | **162** | **53** | **87** | **12** | **87** | **457** |
| **Investment expenses** | **102** | **261** | **102** | **146** | **83** | **87** | **781** |
| **Net income from assets under own management** | **207** | **1,774** | **337** | **963** | **341** | **–76** | **3,546** |
| **Net income from investment contracts** | **—** | **—** | **9** | **—** | **—** | **—** | **9** |
| Interest income from funds withheld and contract deposits | — | — | — | 25 | 433 | — | **458** |
| Interest expense from funds withheld and contract deposits | — | 12 | — | 5 | 63 | — | **80** |
| **Net interest income from funds withheld and contract deposits** | **—** | **–12** | **—** | **20** | **370** | **—** | **378** |
| **Net investment income** | **207** | **1,762** | **346** | **983** | **711** | **–76** | **3,933** |

[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”

**N118 NET INVESTMENT INCOME IN THE PREVIOUS PERIOD**

EUR MILLION

| | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total |
|---|---|---|---|---|---|---|---|
| 2014[1] | | | | | | | |
| Income from real estate | 7 | 64 | 2 | 100 | — | — | **173** |
| Dividends[2] | 12 | 9 | 5 | 11 | –6 | 13 | **44** |
| Current interest income | 186 | 1,535 | 277 | 653 | 234 | 3 | **2,888** |
| Other income | 9 | 14 | 1 | 64 | 9 | — | **97** |
| **Ordinary investment income** | **214** | **1,622** | **285** | **828** | **237** | **16** | **3,202** |
| Income from reversal of impairment losses | 7 | 12 | 1 | — | — | — | **20** |
| Realised gains on disposal of investments | 76 | 429 | 58 | 150 | 58 | 195 | **966** |
| Unrealised gains on investments | 8 | 20 | 26 | 9 | 12 | — | **75** |
| **Investment income** | **305** | **2,083** | **370** | **987** | **307** | **211** | **4,263** |
| Realised losses on disposal of investments | 29 | 45 | 15 | 14 | 12 | — | **115** |
| Unrealised losses on investments | 3 | 3 | 19 | 33 | 21 | — | **79** |
| **Total** | **32** | **48** | **34** | **47** | **33** | **—** | **194** |
| Depreciation of/impairment losses on investment property | | | | | | | |
| Depreciation | 1 | 14 | — | 19 | — | — | **34** |
| Impairment losses | 1 | 5 | — | 1 | — | — | **7** |
| Impairment losses on equity securities | 1 | 7 | 2 | — | — | 2 | **12** |
| Impairment losses on fixed-income securities | — | 12 | 2 | 2 | — | — | **16** |
| Impairment losses on other investments | | | | | | | |
| Depreciation | — | — | — | — | — | — | — |
| Impairment losses | — | 9 | 2 | 6 | — | — | **17** |
| Investment management expenses | 5 | 15 | 5 | 17 | 3 | 78 | **123** |
| Other expenses | 2 | 34 | 9 | 33 | 6 | — | **84** |
| **Other investment expenses/impairment losses** | **10** | **96** | **20** | **78** | **9** | **80** | **293** |
| **Investment expenses** | **42** | **144** | **54** | **125** | **42** | **80** | **487** |
| **Net income from assets under own management** | **263** | **1,939** | **316** | **862** | **265** | **131** | **3,776** |
| **Net income from investment contracts** | **—** | **—** | **10** | **—** | **—** | **—** | **10** |
| Interest income from funds withheld and contract deposits | — | — | — | 24 | 456 | — | **480** |
| Interest expense from funds withheld and contract deposits | — | 13 | — | 4 | 105 | — | **122** |
| **Net interest income from funds withheld and contract deposits** | **—** | **–13** | **—** | **20** | **351** | **—** | **358** |
| **Net investment income** | **263** | **1,926** | **326** | **882** | **616** | **131** | **4,144** |

1) After elimination of intragroup cross-segment transactions
2) Income from investments in associates and joint ventures amounted to EUR 9 million in 2014 and is reported in "Dividends"

Of the impairment losses totalling EUR 175 (52) million, EUR 62 (16) million was attributable to fixed-income securities, EUR 53 (12) million to equities, EUR 17 (16) million to real estate and real estate funds and EUR 38 (6) million to private equity capital. Reversals of impairment losses on investments that had been written down in previous periods amounted to EUR 12 (20) million. EUR 5 (9) million of this amount was attributable to fixed-income securities. In addition, impairment losses of EUR 7 (11) million on investment property were reversed.

Net income from the disposal of securities amounted to EUR 527 (851) million. This is principally attributable to the disposal of portfolio securities as part of regular portfolio rebalancing. In addition, the sale of the shares in Swiss Life Holding AG in the previous year led to a one-time increase of positive net gains.

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.

N119 **INTEREST INCOME FROM INVESTMENTS**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Loans and receivables | 1,162 | 1,253 |
| Financial instruments held to maturity | 89 | 113 |
| Financial assets available for sale | 1,529 | 1,428 |
| Financial assets at fair value through profit or loss | | |
| Financial assets classified at fair value through profit or loss | 59 | 50 |
| Financial assets held for trading | — | — |
| Other | 47 | 47 |
| Loans and receivables – investment contracts | 18 | 21 |
| Financial instruments classified at fair value through profit or loss – investment contracts | 20 | 23 |
| Financial instruments available for sale – investment contracts | — | 1 |
| **Total** | **2,924** | **2,936** |

## 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 (see "Financial instruments disclosures" in the "Accounting policies" section on page 150ff.).

After allowance for "Investment management expenses" (EUR 135 [123] million) as well as for "Other expenses" for assets under own management (EUR 96 [84] million), "Net investment income" as at the reporting date amounted to EUR 3,933 (4,144) million in total.

**N120 NET GAINS AND LOSSES ON INVESTMENTS — REPORTING PERIOD**

EUR MILLION

| | Ordinary investment income | Amortisation | Gains on disposal | Losses on disposal | Write-downs | Reversals of impairment losses | Unrealised gains | Unrealised losses | Total [3] |
|---|---|---|---|---|---|---|---|---|---|
| **2015 [1]** | | | | | | | | | |
| Shares in affiliated companies and participating interests | 7 | — | 7 | 1 | 20 | — | — | — | **–7** |
| Loans and receivables | 1,095 | 67 | 84 | 5 | 47 | — | — | — | **1,194** |
| Financial instruments held to maturity | 86 | 3 | 1 | — | 2 | — | — | — | **88** |
| Financial assets available for sale | | | | | | | | | |
| Fixed-income securities | 1,598 | –69 | 512 | 68 | 13 | 5 | — | — | **1,965** |
| Variable-yield securities | 69 | — | 44 | 5 | 63 | — | — | — | **45** |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| Financial assets classified at fair value through profit or loss | | | | | | | | | |
| Fixed-income securities | 59 | — | 8 | 2 | — | — | 13 | 12 | **66** |
| Variable-yield securities | 1 | — | — | 1 | — | — | 5 | 2 | **3** |
| Financial assets held for trading | | | | | | | | | |
| Fixed-income securities | — | — | — | — | — | — | — | — | **—** |
| Variable-yield securities | — | — | 13 | 9 | — | — | — | 1 | **3** |
| Derivatives | 3 | — | 93 | 117 | — | — | 14 | 44 | **–51** |
| Other investments, insofar as they are financial assets | 292 | 1 | 2 | 18 | 19 | — | 35 | –1 | **294** |
| Other [2] | 232 | — | 11 | 22 | 62 | 7 | 29 | 18 | **177** |
| **Assets under own management** | **3,442** | **2** | **775** | **248** | **226** | **12** | **96** | **76** | **3,777** |
| Loans and receivables (assets) | 17 | 1 | — | — | — | — | — | — | **18** |
| Financial assets classified at fair value through profit or loss | 17 | — | 30 | 11 | — | — | 85 | 76 | **45** |
| Financial assets available for sale | — | — | — | — | — | — | — | — | **—** |
| Financial assets held for trading – (derivatives) | — | — | 2 | 3 | — | — | 14 | 21 | **–8** |
| Other liabilities measured at amortised cost | –41 | –1 | — | — | — | — | — | — | **–42** |
| Financial liabilities classified at fair value through profit or loss | 10 | — | — | — | — | — | 75 | 88 | **–3** |
| Liabilities held for trading – (derivatives) | — | — | — | — | — | — | 21 | 14 | **7** |
| Other [4] | 4 | –12 | — | — | — | — | — | — | **–8** |
| **Net income from investment contracts** | **7** | **–12** | **32** | **14** | **—** | **—** | **195** | **199** | **9** |
| Funds withheld by ceding companies/funds withheld under reinsurance treaties | 378 | — | — | — | — | — | — | — | **378** |
| **Total** | **3,827** | **–10** | **807** | **262** | **226** | **12** | **291** | **275** | **4,164** |

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 51 million) and expenses (EUR 47 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 12 million

N121 **NET GAINS AND LOSSES FROM INVESTMENTS — PREVIOUS 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] |
|---|---|---|---|---|---|---|---|---|---|
| **2014[1]** | | | | | | | | | |
| Shares in affiliated companies and participating interests | 4 | — | 2 | 3 | — | — | — | — | **3** |
| Loans and receivables | 1,166 | 87 | 174 | — | 9 | 6 | — | — | **1,424** |
| Financial instruments held to maturity | 112 | 1 | — | — | — | — | — | — | **113** |
| Financial assets available for sale | | | | | | | | | |
| Fixed-income securities | 1,476 | –48 | 449 | 25 | 6 | 3 | — | — | **1,849** |
| Variable-yield securities | 52 | — | 242 | 5 | 21 | — | — | — | **268** |
| Financial assets at fair value through profit or loss | | | | | | | | | |
| Financial assets classified at fair value through profit or loss | | | | | | | | | |
| Fixed-income securities | 50 | — | 17 | 6 | — | — | 30 | 7 | **84** |
| Variable-yield securities | 2 | — | — | 2 | — | — | 7 | 2 | **5** |
| Financial assets held for trading | | | | | | | | | |
| Fixed-income securities | — | — | — | — | — | — | — | — | **—** |
| Variable-yield securities | — | — | 8 | 4 | — | — | 1 | 2 | **3** |
| Derivatives | 6 | — | 55 | 67 | — | — | 15 | 16 | **–7** |
| Other investments, insofar as they are financial assets | 128 | — | 4 | 1 | 7 | — | 3 | 6 | **121** |
| Other[2] | 166 | — | 15 | 2 | 43 | 11 | 19 | 46 | **120** |
| **Assets under own management** | **3,162** | **40** | **966** | **115** | **86** | **20** | **75** | **79** | **3,983** |
| Loans and receivables (assets) | 20 | 1 | — | — | — | — | — | — | **21** |
| Financial assets classified at fair value through profit or loss | 20 | — | 11 | 2 | — | — | 104 | 27 | **106** |
| Financial assets available for sale | 1 | — | — | — | — | — | — | — | **1** |
| Financial assets held for trading – (derivatives) | — | — | 2 | 3 | — | — | 14 | 24 | **–11** |
| Other liabilities measured at amortised cost | –36 | –1 | — | — | — | — | — | — | **–37** |
| Financial liabilities classified at fair value through profit or loss | –25 | — | — | — | — | — | 23 | 102 | **–104** |
| Liabilities held for trading – (derivatives) | –1 | — | — | — | — | — | 24 | 13 | **10** |
| Other[4] | 34 | –10 | — | — | — | — | — | — | **24** |
| **Net income from investment contracts** | **13** | **–10** | **13** | **5** | **—** | **—** | **165** | **166** | **10** |
| Funds withheld by ceding companies/funds withheld under reinsurance treaties | 358 | — | — | — | — | — | — | — | **358** |
| **Total** | **3,533** | **30** | **979** | **120** | **86** | **20** | **240** | **245** | **4,351** |

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 84 million) and expenses (EUR 50 million) from the management of investment contracts. Amortisation of PVFP totalled EUR 10 million

## (31) CLAIMS AND CLAIMS EXPENSES

N122 **CLAIMS AND CLAIMS EXPENSES — REPORTING PERIOD**

EUR MILLION

| 2015[1] | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total |
|---|---|---|---|---|---|---|---|
| **Gross** | | | | | | | |
| Claims and claims expenses paid | 3,034 | 3,921 | 2,454 | 4,638 | 5,760 | — | **19,807** |
| Change in loss and loss adjustment expense reserve | 182 | 107 | 254 | 834 | 322 | — | **1,699** |
| Change in benefit reserve | — | 1,215 | 342 | — | 515 | — | **2,072** |
| Expenses for premium refunds | 5 | 695 | 3 | — | — | — | **703** |
| **Total** | **3,221** | **5,938** | **3,053** | **5,472** | **6,597** | **—** | **24,281** |
| **Reinsurers' share** | | | | | | | |
| Claims and claims expenses paid | 1,012 | 119 | 188 | 370 | 639 | — | **2,328** |
| Change in loss and loss adjustment expense reserve | 95 | 2 | 107 | –16 | –7 | — | **181** |
| Change in benefit reserve | — | –69 | –6 | — | 401 | — | **326** |
| Expenses for premium refunds | — | — | — | — | — | — | **—** |
| **Total** | **1,107** | **52** | **289** | **354** | **1,033** | **—** | **2,835** |
| **Net** | | | | | | | |
| Claims and claims expenses paid | 2,022 | 3,802 | 2,266 | 4,268 | 5,121 | — | **17,479** |
| Change in loss and loss adjustment expense reserve | 87 | 105 | 147 | 850 | 329 | — | **1,518** |
| Change in benefit reserve | — | 1,284 | 348 | — | 114 | — | **1,746** |
| Expenses for premium refunds | 5 | 695 | 3 | — | — | — | **703** |
| **Total** | **2,114** | **5,886** | **2,764** | **5,118** | **5,564** | **—** | **21,446** |

[1] After elimination of intragroup cross-segment transactions

**N123 CLAIMS AND CLAIMS EXPENSES — PREVIOUS YEAR**

EUR MILLION

| | Industrial Lines[1] | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | **Total** |
|---|---|---|---|---|---|---|---|
| 2014[1] | | | | | | | |
| **Gross** | | | | | | | |
| Claims and claims expenses paid | 2,696 | 4,144 | 2,014 | 4,214 | 4,967 | — | **18,035** |
| Change in loss and loss adjustment expense reserve | 442 | 182 | 241 | 636 | 321 | — | **1,822** |
| Change in benefit reserve | — | 1,059 | 737 | — | 216 | — | **2,012** |
| Expenses for premium refunds | 2 | 829 | 2 | — | — | — | **833** |
| **Total** | **3,140** | **6,214** | **2,994** | **4,850** | **5,504** | **—** | **22,702** |
| **Reinsurers' share** | | | | | | | |
| Claims and claims expenses paid | 1,054 | 60 | 107 | 524 | 601 | — | **2,346** |
| Change in loss and loss adjustment expense reserve | 185 | –22 | 78 | –194 | 74 | –1 | **120** |
| Change in benefit reserve | — | 35 | –1 | — | 177 | — | **211** |
| Expenses for premium refunds | — | — | 1 | — | — | — | **1** |
| **Total** | **1,239** | **73** | **185** | **330** | **852** | **–1** | **2,678** |
| **Net** | | | | | | | |
| Claims and claims expenses paid | 1,642 | 4,084 | 1,907 | 3,690 | 4,366 | — | **15,689** |
| Change in loss and loss adjustment expense reserve | 257 | 204 | 163 | 830 | 247 | 1 | **1,702** |
| Change in benefit reserve | — | 1,024 | 738 | — | 39 | — | **1,801** |
| Expenses for premium refunds | 2 | 829 | 1 | — | — | — | **832** |
| **Total** | **1,901** | **6,141** | **2,809** | **4,520** | **4,652** | **1** | **20,024** |

[1] After elimination of intragroup cross-segment transactions

## (32) ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

N124 ACQUISITION COSTS AND ADMINISTRATIVE EXPENSES

EUR MILLION

| | Industrial Lines | Retail Germany | Retail International | Non-Life Reinsurance | Life/Health Reinsurance | Corporate Operations | Total |
|---|---|---|---|---|---|---|---|
| **2015[1]** | | | | | | | |
| **Gross** | | | | | | | |
| Acquisition costs and reinsurance commissions | 540 | 918 | 974 | 1,952 | 1,130 | — | **5,514** |
| Changes in deferred acquisition costs and in provisions for commissions | –32 | –111 | –102 | –71 | –67 | — | **–383** |
| **Total acquisition costs** | **508** | **807** | **872** | **1,881** | **1,063** | **—** | **5,131** |
| Administrative expenses | 306 | 296 | 198 | 207 | 197 | 2 | **1,206** |
| **Total acquisition costs and administrative expenses** | **814** | **1,103** | **1,070** | **2,088** | **1,260** | **2** | **6,337** |
| **Reinsurers' share** | | | | | | | |
| Acquisition costs and reinsurance commissions | 194 | 12 | 58 | 191 | 90 | — | **545** |
| Changes in deferred acquisition costs and in provisions for commissions | –14 | 6 | –2 | — | –21 | — | **–31** |
| **Total acquisition costs** | **180** | **18** | **56** | **191** | **69** | **—** | **514** |
| **Net** | | | | | | | |
| Acquisition costs and reinsurance commissions | 346 | 906 | 916 | 1,761 | 1,040 | — | **4,969** |
| Changes in deferred acquisition costs and in provisions for commissions | –18 | –117 | –100 | –71 | –46 | — | **–352** |
| **Total acquisition costs** | **328** | **789** | **816** | **1,690** | **994** | **—** | **4,617** |
| Administrative expenses | 306 | 296 | 198 | 207 | 197 | 2 | **1,206** |
| **Total acquisition costs and administrative expenses** | **634** | **1,085** | **1,014** | **1,897** | **1,191** | **2** | **5,823** |
| **2014[1]** | | | | | | | |
| **Gross** | | | | | | | |
| Acquisition costs and reinsurance commissions | 498 | 908 | 955 | 1,708 | 1,070 | — | **5,139** |
| Changes in deferred acquisition costs and in provisions for commissions | –5 | 157 | –106 | –43 | –103 | — | **–100** |
| **Total acquisition costs** | **493** | **1,065** | **849** | **1,665** | **967** | **—** | **5,039** |
| Administrative expenses | 265 | 309 | 176 | 192 | 176 | — | **1,118** |
| **Total acquisition costs and administrative expenses** | **758** | **1,374** | **1,025** | **1,857** | **1,143** | **—** | **6,157** |
| **Reinsurers' share** | | | | | | | |
| Acquisition costs and reinsurance commissions | 226 | 12 | 35 | 122 | 121 | — | **516** |
| Changes in deferred acquisition costs and in provisions for commissions | 17 | 12 | 11 | –1 | –19 | — | **20** |
| **Total acquisition costs** | **243** | **24** | **46** | **121** | **102** | **—** | **536** |
| **Net** | | | | | | | |
| Acquisition costs and reinsurance commissions | 272 | 896 | 920 | 1,586 | 949 | — | **4,623** |
| Changes in deferred acquisition costs and in provisions for commissions | –22 | 145 | –117 | –42 | –84 | — | **–120** |
| **Total acquisition costs** | **250** | **1,041** | **803** | **1,544** | **865** | **—** | **4,503** |
| Administrative expenses | 265 | 309 | 176 | 192 | 176 | — | **1,118** |
| **Total acquisition costs and administrative expenses** | **515** | **1,350** | **979** | **1,736** | **1,041** | **—** | **5,621** |

[1] After elimination of intragroup cross-segment transactions

## (33) OTHER INCOME/EXPENSES

N125 **COMPOSITION OF OTHER INCOME/EXPENSES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Other income** | | |
| Foreign exchange gains | 579 | 522 |
| Income from services, rents and commissions | 248 | 239 |
| Recoveries on receivables previously written off | 27 | 26 |
| Income from contracts recognised in accordance with the deposit accounting method | 98 | 72 |
| Income from the sale of property, plant and equipment | 10 | — |
| Income from the reversal of other non-technical provisions | 26 | 44 |
| Interest income [1] | 72 | 62 |
| Miscellaneous income | 110 | 135 |
| **Total** | **1,170** | **1,100** |
| **Other expenses** | | |
| Foreign exchange losses | 440 | 389 |
| Other interest expenses [2] | 132 | 148 |
| Depreciation, amortisation and impairment losses [3] | 128 | 121 |
| Expenses for the company as a whole | 251 | 268 |
| Personnel expenses | 64 | 41 |
| Expenses for services and commissions | 115 | 117 |
| Expenses from contracts recognised in accordance with the deposit accounting method | 36 | 14 |
| Other taxes | 48 | 45 |
| Additions to restructuring provisions | 66 | 3 |
| Miscellaneous other expenses | 116 | 148 |
| **Total** | **1,396** | **1,294** |
| **Other income/expenses** | **–226** | **–194** |

1) "Interest income" is attributable to the various segments as follows: Industrial Lines EUR 5 (7) million, Retail Germany EUR 13 (15) million, Retail International EUR 7 (12) million, Non-Life Reinsurance EUR 21 (3) million, Life/Health Reinsurance EUR 24 (15) million, Corporate Operations EUR 3 (13) million. Of these amounts, EUR 1 (3) million was consolidated
2) "Other interest expenses" is attributable to the various segments as follows: Industrial Lines EUR 8 (29) million, Retail Germany EUR 20 (11) million, Retail International EUR 2 (3) million, Non-Life Reinsurance EUR 38 (20) million, Life/Health Reinsurance EUR 49 (45) million, Corporate Operations EUR 23 (49) million. Of these amounts, EUR 8 (9) million was consolidated
3) This figure includes depreciation and amortisation of EUR 55 (60) million. This is essentially attributable to the Retail International segment EUR 21 (24) million, Non-Life Reinsurance segment EUR 20 (20) million and Life/Health Reinsurance segment EUR 11 (10) 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 161 (183) million consist exclusively of interest expenses from borrowings that are not directly related to the operational insurance business. EUR 131 (153) million of these interest expenses is largely attributable to our issued subordinated liabilities and EUR 28 (23) million to issued bonds of Talanx AG.

## (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.

N126 **TAXES ON INCOME — CURRENT AND DEFERRED**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Current taxes for the reporting period | 432 | 438 |
| Prior-period current taxes | –33 | –49 |
| Deferred taxes in respect of temporary differences | 230 | –21 |
| Deferred taxes in respect of loss carryforwards | –41 | –28 |
| Change in deferred taxes due to changes in tax rates | 24 | 1 |
| **Reported tax expense** | **612** | **341** |

**N127 BREAKDOWN OF REPORTED DOMESTIC/FOREIGN TAX EXPENSE/INCOME**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Current taxes | 399 | 389 |
| Domestic | 232 | 248 |
| Foreign | 167 | 141 |
| Deferred taxes | 213 | –48 |
| Domestic | 266 | –10 |
| Foreign | –53 | –38 |
| **Total** | **612** | **341** |

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 151 (–305) 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:

**N128 RECONCILIATION OF EXPECTED AND REPORTED INCOME TAX EXPENSE**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Profit before income taxes | 2,021 | 1,709 |
| Expected tax rate | 31.6 % | 31.6 % |
| Expected tax expense | 639 | 540 |
| Change in rates applicable to deferred taxes | 24 | 1 |
| Difference due to foreign tax rates | –125 | –95 |
| Non-deductible expenses | 151 | 61 |
| Tax-exempt income | –94 | –109 |
| Valuation allowances on deferred tax assets | –8 | –17 |
| Prior-period tax expense | 11 | –52 |
| Other | 14 | 12 |
| **Reported tax expense** | **612** | **341** |

Calculation of the expected tax expense is based on the German income tax rate of 31.6% (31.6%). 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 30.28% (19.95%) in the reporting period. The tax rate corresponds to the average income tax burden of all Group companies.

No deferred taxes were recognised in respect of taxable temporary differences of EUR 138 (148) 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 221 (177) million are expected to be realised in the amount of EUR 48 (32) million within one year and in the amount of EUR 173 (145) million after one year.

Current income taxes declined by EUR 1 (13) 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 1 (4) million in the reporting period. On the other hand, the reversal of previous impairment losses resulted in deferred tax income of EUR 8 (23) 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 164 (252) million.

### AVAILABILITY OF UNRECOGNISED LOSS CARRYFORWARDS

An impairment loss was recognised on deferred tax assets in respect of gross loss carryforwards of EUR 346 (370) million and gross deductible temporary differences of EUR 79 (85) million, primarily in Turkey, because their realisation is not sufficiently certain. The impaired deferred tax assets for these items total EUR 105 (114) million.

N129 **AVAILABILITY OF IMPAIRED LOSS CARRYFORWARDS, TEMPORARY DIFFERENCES AND TAX CREDITS**

EUR MILLION

| | 2015 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | One year to five years | Six years to ten years | More than ten years | Unlimited | Total | One year to five years | Six years to ten years | More than ten years | Unlimited | Total |
| **Loss carryforwards** | | | | | | | | | | |
| of which domestic loss carryforwards | | | | | | | | | | |
| Corporate income tax | — | — | — | 59 | 59 | — | — | — | 56 | 56 |
| Trade tax | — | — | — | 26 | 26 | — | — | — | 24 | 24 |
| of which foreign loss carryforwards | | | | | | | | | | |
| Australia | — | — | — | 19 | 19 | — | — | — | 38 | 38 |
| United Kingdom | — | — | — | 19 | 19 | — | — | — | 17 | 17 |
| Luxembourg | — | — | — | 141 | 141 | — | — | — | 131 | 131 |
| Austria | — | — | — | 33 | 33 | — | — | — | 34 | 34 |
| South Africa | — | — | — | 25 | 25 | — | — | — | 29 | 29 |
| Other | 11 | — | 13 | — | 24 | 15 | 3 | 13 | 10 | 41 |
| **Total** | 11 | — | 13 | 322 | 346 | 15 | 3 | 13 | 339 | 370 |
| **Temporary differences** | — | — | — | 79 | 79 | — | — | — | 85 | 85 |
| **Tax credits** | — | — | — | — | — | — | — | — | — | — |
| **Total** | 11 | — | 13 | 401 | 425 | 15 | 3 | 13 | 424 | 455 |

# OTHER DISCLOSURES

## NUMBER OF EMPLOYEES AND PERSONNEL EXPENSES

### NUMBER OF EMPLOYEES

N130 **AVERAGE ANNUAL NUMBER OF EMPLOYEES**

| | 2015 | 2014 |
|---|---|---|
| Industrial Lines | 3,210 | 3,061 |
| Retail Germany | 4,976 | 5,082 |
| Retail International | 7,806 | 7,432 |
| Reinsurance companies | 2,553 | 2,475 |
| Corporate Operations | 2,779 | 2,836 |
| **Total excluding vocational trainees** | **21,324** | **20,886** |
| Vocational trainees | 568 | 540 |
| **Total** | **21,892** | **21,426** |

The Group's total workforce at the reporting date numbered 21,965 (21,371).

The influx in the Retail International segment is primarily due to the acquisition of the Magallanes group (Chile).

### PERSONNEL EXPENSES

The personnel expenses set out in the following mainly comprise expenses for insurance operations, claims management (loss adjustment) and investment management.

N131 **BREAKDOWN OF PERSONNEL EXPENSES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| **Wages and salaries** | **1,181** | 1,125 |
| **Social security contributions and other employee benefit costs** | | |
| Social security contributions | 137 | 135 |
| Post-employment benefit costs | 70 | 78 |
| Other employee benefit costs | 24 | 22 |
| | **231** | 235 |
| **Total** | **1,412** | 1,360 |

## 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 entities in the Talanx Group include HDI Haftpflichtverband der Deutschen Industrie Versicherungsverein auf Gegenseitigkeit (HDI V. a. G.), Hannover, which directly holds the majority of the shares of Talanx AG, all subsidiaries that are not consolidated on the grounds of insignificance, as well as associates and joint ventures. In addition, there are the provident funds that pay benefits in favour of employees of Talanx AG or one of its related 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), Hannover, 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).

In connection with operating activities, there is a contractual relationship between Ampega Investment GmbH, Cologne, and C-QUADRAT Investment AG, Vienna, that governs the outsourcing of the portfolio management of special investment funds. At the reporting date, these transactions incurred expenses for portfolio management services provided in the amount of EUR 21 million.

There is also a reinsurance treaty in the amount of EUR 3 million between Hannover Rück SE Malaysian Branch, Kuala Lumpur, Malaysia and Petro Vietnam Insurance Holdings, Hanoi, Vietnam.

neue leben Lebensversicherung AG, Hamburg, acquired a portion of the subordinated loan issued by neue leben Pensionskasse AG, Hamburg, in the amount of EUR 13 million.

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

In addition, there are contracts for services with a company in which a Member of the Supervisory Board is invested. Revenues generated with Group companies under these contracts during the reporting period stood at EUR 0.2 million.

For details of the remuneration received by Members of the Board of Management and Supervisory Board of Talanx AG, please see the disclosures in the remuneration report on page 74ff. and the “Remuneration of the governing bodies of the parent” section.

## SHARE-BASED PAYMENTS

The following share-based payment schemes were operating within the Group in financial year 2015:

- Stock appreciation rights (SAR) scheme 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 payments 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 2007 and 2009 to 2011 gave rise to the commitments in financial year 2015 shown in the table below. No allocations were made for 2005 and 2008.

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 109.95 as at 17 December 2015, an expected volatility of 23.48% (historical volatility on a five-year basis), an expected dividend yield of 2.86% and a risk-free interest rate of 0.36% for the 2007 allocation year, 0.19% for the 2009 allocation year, 0.06% for the 2010 allocation year and 0.07% for the 2011 allocation year.

In financial year 2015, the vesting period expired for 100% of the stock appreciation rights granted for the years 2006, 2007 and 2009, as well as for 60% of those granted for 2010.

A total of 4,831 stock appreciation rights from the 2006 allocation year, 14,362 stock appreciation rights from the 2007 allocation year, 282,722 stock appreciation rights from the 2009 allocation year and 896,118 stock appreciation rights from the 2010 allocation year were exercised. The total amount paid out was EUR 11 million.

On this basis, the aggregate provisions, which are recognised in other non-technical provisions, amounted to EUR 14 (21) million for financial year 2015. The total expenditure amounted to EUR 4 (8) 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

N132 **HANNOVER RÜCK SE STOCK APPRECIATION RIGHTS**

| | Allocation year | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2007 | 2006 |
| Award date | 15.3.2012 | 8.3.2011 | 15.3.2010 | 28.3.2008 | 13.3.2007 |
| Term | 10 Jahre | 10 Jahre | 10 Jahre | 10 Jahre | 10 Jahre |
| Lock-up period | 4 Jahre | 4 Jahre | 2 Jahre | 2 Jahre | 2 Jahre |
| Strike price (in EUR) | 40.87 | 33.05 | 22.70 | 34.97 | 30.89 |
| Participants in year of issue | 143 | 129 | 137 | 110 | 106 |
| Number of rights granted | 263,515 | 1,681,205 | 1,569,855 | 926,565 | 817,788 |
| Fair value as at 31.12.2015 (in EUR) | 32.13 | 8.92 | 8.76 | 10.79 | 10.32 |
| Maximum value (in EUR) | 32.21 | 8.92 | 8.76 | 10.79 | 10.32 |
| Weighted exercise price (in EUR) | — | 8.92 | 8.76 | 10.79 | 10.32 |
| Number of rights as at 31.12.2015 | 247,342 | 704,365 | 62,968 | 10,799 | — |
| Provision as at 31.12.2015 (in EUR million) | 7.00 | 5.74 | 0.55 | 0.17 | — |
| Amounts paid out in FY 2015 (in EUR million) | — | 8.00 | 2.48 | 0.16 | 0.05 |
| Expense in FY 2015 (in EUR million) | 2.57 | 0.98 | — | — | — |

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 Re's terminated stock appreciation rights scheme. Please refer to our disclosures in "Stock appreciation rights scheme at Hannover Rück SE").

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).

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 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

**N133 DETAILS OF THE TALANX SHARE AWARDS**

| | 2015 | 2014 | |
|---|---|---|---|
| | Anticipated allocation in 2016 for 2015 | Final allocation in 2015 for 2014 | Anticipated allocation |
| Measurement date | 30.12.2015 | 21.03.2015 | 30.12.2014 |
| Value per share award (in EUR) | 28.55 | 30.00 | 25.27 |
| **Total number of share awards** | **596,167** | **456,967** | **464,774** |
| Number allocated in year | 207,619 | 83,620 | 93,302 |
| of which: Talanx AG Board of Management | 33,241 | 32,923 | 37,030 |
| of which: Other boards of management | 48,577 | 46,872 | 51,752 |
| of which: Executives [2] | 125,801 | 3,825 | 4,520 |
| Personnel expenses [1] (in EUR million) | 7.5 | 5.4 | 3.8 |
| of which: Dividend payments taken into consideration [3] (in EUR million) | 0.6 | 0.5 | 0.4 |
| **Total amount of provisions (in EUR million)** | **14.2** | **10.0** | **8.6** |

1) The personnel expenses in respect of the share award scheme for the Board of Management are distributed over the term of the share awards or the shorter term of the service contracts

2) 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

3) Distributed dividends for the allocation year – anticipated dividend payments are not taken into consideration; the dividend claims are discounted before recognition

## HANNOVER RE SHARE AWARDS

**N134 DETAILS OF THE HANNOVER RE SHARE AWARDS**

| | 2015 | 2014 | |
|---|---|---|---|
| | Anticipated allocation in 2016 for 2015 | Final allocation in 2015 for 2014 | Anticipated allocation |
| Measurement date | 30.12.2015 | 24.03.2015 | 30.12.2014 |
| Value per share award (in EUR) | 105.65 | 87.26 | 74.97 |
| **Total number of share awards** | **418,825** | **344,363** | **354,527** |
| Number allocated in year | 74,462 | 95,418 | 98,467 |
| of which: Board of Management | 9,355 | 12,172 | 13,308 |
| of which: Executives | 65,107 | 85,460 | 85,159 |
| of which: Other adjustments | — | –2,214 | — |
| Personnel expenses [1] (in EUR million) | 15.1 | 13.4 | 7.0 |
| of which: Dividend payments taken into consideration [2] (in EUR million) | 1.4 | 1.4 | 0.8 |
| **Total amount of provisions (in EUR million)** | **27.8** | **26.1** | **12.7** |

1) The personnel expenses are in respect of the share award scheme for the Board of Management distributed over the term of the share awards or the shorter term of the service contracts, and for executives over the relevant term of the share awards

2) Distributed dividends for the allocation year – anticipated dividend payments are not taken into consideration; the dividend claims are discounted before recognition

## OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

As at the reporting date, the Group recognised securities sold with a redemption obligation to third parties at a fixed price (genuine repurchase transactions), since the material risks and opportunities associated with the financial assets remain within the Group. As at the reporting date, the carrying amount of the financial assets in the "Financial assets available for sale" category transferred in repo transactions stood at EUR 118 (135) million and the carrying amount of the related liabilities was EUR 121 (135) million. The difference between the amount received for the transfer and the amount agreed for the retransfer is allocated over the term of the repurchase transaction in accordance with the effective interest rate method and recognised in "Net investment income".

## 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, either a provision is recognised or a contingent commitment is disclosed (in the Notes). If an outflow of resources is likely and the amount can be estimated reliably, the Group recognises a provision. Depending on 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, 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 financial 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.

The Austrian Financial Market Authority (FMA) imposed a payment moratorium on Heta Asset Resolution on 1 March 2015 on extremely dubious legal grounds. The Group is affected by this issue to a total extent of EUR 101 million, involving several companies and investment funds: HDI Lebensversicherung AG, Cologne, with EUR 55 million; neue leben Lebensversicherung AG, Hamburg, with EUR 26 million; HDI Global SE, Hannover, with EUR 10 million; two investment funds at Ampega have also invested a total of EUR 10 million. The Group has correspondingly impaired its interest-bearing portfolio. The following legal steps have been initiated for all the affected companies/investment funds: entry into a pool of creditors to strengthen the power of negotiation; objection submitted to the moratorium imposed by the Austrian Financial Market Authority; lawsuit filed with the Frankfurt Regional Court regarding all claims that are subject to German law; and conclusion of a lock-up agreement to create an alliance and ensure joint action with other creditors.

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.

N135 EARNINGS PER SHARE

| | 2015 | 2014 |
|---|---|---|
| Net income attributable to shareholders of Talanx AG for calculating earnings per share (in EUR million) | 734 | 769 |
| Weighted average number of ordinary shares outstanding | 252,797,634 | 252,797,634 |
| Basic earnings per share (in EUR) | 2.90 | 3.04 |
| Diluted earnings per share (in EUR) | 2.90 | 3.04 |

## DIVIDEND PER SHARE

A dividend for financial year 2014 amounting to EUR 1.25 per share was paid in the reporting period, resulting in a total distribution of EUR 316 million. A proposal will be made to the General Meeting to be held on 11 May 2016 to distribute a dividend for financial year 2015 in the amount of EUR 1.30 per share, resulting in a total distribution of EUR 329 million. The distribution proposal is not part of these consolidated financial statements.

## CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

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

N136 **CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS FROM CONTRACTS, MEMBERSHIPS AND TAXES**

EUR MILLION

| | 2015 | 2014 |
|---|---|---|
| Trust accounts in the United States (master trust funds, supplemental trust funds and single trust funds) as security for technical liabilities to US cedants [1] (this amount includes a converted total of EUR 1,281 (329) million, which is provided as collateral for technical liabilities arising from ILS transactions by investors) | 5,349 | 4,177 |
| Sureties in the form of letters of credit furnished by various credit institutions as security for technical liabilities | 3,107 | 2,956 |
| Guarantees for subordinated bonds issued by Group companies: the guarantees cover the relevant bond volumes as well as interest due | 1,500 | 2,112 |
| Blocked custody accounts and other trust accounts as collateral in favour of reinsurers and cedants; generally outside the USA [1] | 2,847 | 2,750 |
| Outstanding capital commitments with respect to existing investment exposures: the commitments primarily involve private equity funds and venture capital firms in the form of partnerships | 1,743 | 1,380 |
| Commitments under rental/lease agreements [2] | 428 | 454 |
| Funding commitments and contribution payments in accordance with sections 124ff. of the Insurance Supervision Act (VAG) as a member of the Statutory Guarantee Fund for Life Insurance Undertakings | 488 | 457 |
| Collateral for liabilities to various credit institutions in connection with investments in real estate companies and real estate transactions | 593 | 574 |
| Other financial commitments from planned business combinations | 70 | 245 |
| Securities purchase commitment arising from investment projects (commitment up to one year) | 241 | — |
| Commitments under service agreements – primarily in connection with IT outsourcing contracts | 229 | 143 |
| Assets in blocked custody accounts as collateral for existing derivative transactions: we have received collateral with a fair value of EUR 21 (13) million for existing derivative transactions [3] | 90 | 79 |
| Other commitments [4] | 47 | 61 |
| **Total** | **16,732** | **15,388** |

1) The securities held in the trust accounts are predominantly recognised as "Financial assets available for sale" in the portfolio of investments. The amount disclosed refers primarily to the fair value/carrying amount
2) Fresh data is collected only at year-end
3) The amount disclosed refers primarily to the fair value/carrying amount
4) Other commitments include EUR 28 (42) million attributable to tax litigation and EUR 10 (13) million attributable to other litigation

The amounts disclosed in the table are nominal amounts.

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.

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.

## RENTS AND LEASES

### LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSEE

Outstanding commitments under non-cancellable contractual relationships amounted to EUR 428 (454) million at the reporting date.

N137 **FUTURE LEASE OBLIGATIONS**

EUR MILLION

| | 2016 | 2017 | 2018 | 2019 | 2020 | Subsequent years |
|---|---|---|---|---|---|---|
| Payments | 58 | 53 | 48 | 44 | 43 | 182 |

Operating leases resulted in expenses of EUR 65 (55) million in the reporting period.

Finance lease expenses at the reporting date were minimal, amounting to EUR 1 (1) million.

### LEASES UNDER WHICH GROUP COMPANIES ARE THE LESSOR

The total amount of income due under non-cancellable leases in subsequent years is EUR 795 (718) million.

N138 **FUTURE RENTAL INCOME**

EUR MILLION

| | 2016 | 2017 | 2018 | 2019 | 2020 | Subsequent years |
|---|---|---|---|---|---|---|
| Income | 142 | 135 | 126 | 118 | 108 | 166 |

Rental income in the reporting period totalled EUR 148 (130) million. This resulted principally from property companies renting out properties in the Non-Life Reinsurance segment as well as from primary insurance companies renting out properties in Germany (mainly in the Retail Germany 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 9,788 (10,097) 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 949 (954) thousand, corresponding to 33,241 (37,030) shares, under the Talanx Share Award scheme and a fair value of EUR 217 (226) thousand, corresponding to 2,054 (2,842) shares, under the Hannover Re Share Award scheme.

Former Members of the Board of Management and their surviving dependants received total remuneration of EUR 750 (749) thousand. An amount of EUR 17,937 (21,217) 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 2,414 (2,412) thousand. There are no pension commitments to former Members of the Supervisory Board or their surviving dependants.

No advances were extended to members of the governing bodies in the reporting period. At the reporting date, there was one mortgage loan to a Member of the Supervisory Board amounting to EUR 3 (18) thousand with a remaining term of three months. An amount of EUR 15 (16) thousand was repaid in the reporting period, and the agreed interest rate is nominally 4.2% (effective rate of 4.3%).

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 74ff. 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

The auditors engaged to audit the Talanx Group's consolidated financial statements are KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG AG). The fees paid to KPMG AG and worldwide member firms of KPMG International (KPMG) that were recognised as expenses in the financial year can be broken down into four fee types.

N139 **BREAKDOWN OF KPMG FEES**

EUR MILLION

| | KPMG worldwide | | of which KPMG AG | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Financial statement audit services | 15.5 | 14.4 | 5.6 | 5.7 |
| Other assurance services | 0.9 | 0.5 | 0.6 | 0.4 |
| Tax advisory services | 1.4 | 2.1 | 0.2 | 0.5 |
| Other services | 5.0 | 2.8 | 4.7 | 2.4 |
| **Total** | **22.8** | 19.8 | **11.1** | 9.0 |

The lead auditor responsible for performing the audit within the meaning of section 24a(2) of the Professional Code of Conduct for German Public Auditors and Sworn Auditors is Mr Clemens Jungsthöfel. He was first responsible for the audit of the annual and consolidated financial statements as at 31 December 2015.

## 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/investor-relations/corporate-governance) as described in the Board of Management's corporate governance declaration in the Group management report ("Corporate Governance" section).

On 3 November 2015, 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 (http://www.hannover-re.com/about/corporate/declaration/index.html).

## EVENTS AFTER THE END OF THE REPORTING PERIOD

The Group sold its 25.1% investment in the asset management company C-QUADRAT Investment AG, Vienna, Austria, on 15 January 2016 by means of a share purchase agreement subject to a condition precedent (see our disclosures in "Non-current assets held for sale and disposal groups" section in the Notes).

On 27 November, the Group signed a purchase agreement for 100% of the shares in the life insurer CBA Vita S.p.A., Milan, Italy, including the shares held by this company in Sella Life Ltd., Dublin, Ireland (100%) and in InChiaro Assicurazioni S.p.A., Rome, Italy (49%). The acquisition is subject to conditions precedent, which are expected to be met in the second quarter of 2016. The acquisition is being conducted via HDI Assicurazioni S.p.A., Rome, Italy (Retail International segment) which is taking over 100% of CBA Vita S.p.A. and which also holds the remaining 51% of the property insurer InChiaro Assicurazioni S.p.A. The total planned investment volume amounts to approximately EUR 70 million.

On 11 December 2015, the Group signed a purchase agreement for the wind farm special purpose vehicle Infrastruktur Ludwigsau GmbH & Co. KG domiciled in Cologne. The acquisition was subject to conditions precedent, which were met on 22 January 2016 upon entry in the Commercial Register. TD Real Assets GmbH & Co. KG, Cologne (Retail Germany segment), acquired all the shares in the company. The purchase price for the company was EUR 5 thousand. The total assets of the company acquired (EUR 13 million) largely comprise technical equipment for construction of the wind farm, which is financed by equity and loans. The total planned investment volume amounts to approximately EUR 44 million.

On 16 December 2015, the Group signed a purchase agreement for the wind farm special purpose vehicle UGE Parchim Drei GmbH & Co. KG Umweltgerechte Energie domiciled in Meißen. The acquisition was subject to conditions precedent, which were met on 1 February 2016 upon entry in the Commercial Register and being renamed as Windpark Parchim GmbH & Co KG. TD Real Assets GmbH & Co. KG, Cologne, acquired all the shares in the company. The purchase price for the company was EUR 3 million. The total assets of the company acquired (EUR 66 million) largely comprise technical equipment for the wind farm, which is financed by equity and loans. The total planned investment volume amounts to approximately EUR 75 million.

On 16 December 2015, the Group signed a purchase agreement for the wind farm special purpose vehicle UGE Rehain Eins GmbH & Co. KG Umweltgerechte Energie domiciled in Meißen. The acquisition was subject to conditions precedent, which were met on 9 February 2016 upon entry in the Commercial Register and being renamed as Windpark Rehain GmbH & Co KG. TD Real Assets GmbH & Co. KG, Cologne, acquired all the shares in the company. The purchase price for the company was EUR 3 thousand. The total assets of the company acquired (EUR 29 million) largely comprise technical equipment for the wind farm, which is financed by equity and loans. No major intangible assets or goodwill exist. The total planned investment volume amounts to approximately EUR 33 million.

In the three above-mentioned wind farm projects, we do not anticipate any major intangible assets or goodwill.

On 19 February 2016, the Group signed an agreement to take over 54.35% of the shares in Credit Suisse (Lux) Wind Power Central Norway SCS, Luxembourg, Luxembourg, including its 100% subsidiary Credit Suisse (Lux) Wind Power Central Norway Holding S.à.r.l., Luxembourg, Luxembourg. The Group has also invested borrowings into this company. The aim of the investment is to acquire an indirect holding in the Norwegian wind farm project portfolio Fosen Vind DA. The total planned investment volume amounts to EUR 125 million.

# 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).

N140 **LIST OF SHAREHOLDINGS**

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1) ] in % | | Equity[2), 3)] in thousand | | Earnings before profit transfer[2), 4)] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| Alstertor Erste Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg[23)] | 100.00 | EUR | 4,175 | EUR | 577 |
| Alstertor Zweite Beteiligungs- und Investitionssteuerungs-GmbH & Co. KG, Hamburg[23)] | 100.00 | EUR | 8,647 | EUR | –4,229 |
| Ampega Investment GmbH, Cologne[22), 25)] | 100.00 | EUR | 7,936 | EUR | 18,556 |
| Ampega-nl-Euro-DIM-Fonds, Cologne[22), 27)] | 100.00 | EUR | 469,274 | EUR | 8,721 |
| Ampega-nl-Global-Fonds, Cologne[22), 27)] | 100.00 | EUR | 45,087 | EUR | 1,317 |
| Ampega-nl-Rent-Fonds, Cologne[22), 27)] | 100.00 | EUR | 624,878 | EUR | 2,172 |
| Ampega-Vienna-Bonds-Master-Fonds Deutschland, Cologne[22), 27)] | 100.00 | EUR | 269,979 | EUR | –6,813 |
| Dritte HRBV GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 152,865 | EUR | — |
| E+S Rückversicherung AG, Hannover[23)] | 64.79 | EUR | 681,413 | EUR | 110,000 |
| Erste HRBV GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 152,865 | EUR | — |
| EURO RENT 3 Master, Cologne[22), 27)] | 100.00 | EUR | 1,000,291 | EUR | 10,237 |
| FUNIS GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 59,749 | EUR | 3,477 |
| Gerling Immo Spezial 1, Cologne[22), 27)] | 100.00 | EUR | 298,381 | EUR | 14,641 |
| GERLING Pensionsenthaftungs- und Rentenmanagement GmbH, Cologne[22)] | 100.00 | EUR | 3,906 | EUR | –2,969 |
| GKL SPEZIAL RENTEN, Cologne[22), 27)] | 100.00 | EUR | 925,049 | EUR | 642 |
| Hannover America Private Equity Partners II GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 222,380 | EUR | 37,760 |
| Hannover Beteiligungsgesellschaft mbH, Hannover[22)] | 100.00 | EUR | 2,886 | EUR | –356 |
| Hannover Euro Private Equity Partners II GmbH & Co. KG, Cologne[23)] | 100.00 | EUR | 6,918 | EUR | 1,826 |
| Hannover Euro Private Equity Partners III GmbH & Co. KG, Cologne[23)] | 100.00 | EUR | 32,139 | EUR | 9,248 |
| Hannover Euro Private Equity Partners IV GmbH & Co. KG, Cologne[23)] | 100.00 | EUR | 46,160 | EUR | 16,892 |
| Hannover Insurance-Linked Securities GmbH & Co. KG, Hannover[20)] | 100.00 | EUR | 20,348 | EUR | 124 |
| Hannover Life Re AG, Hannover[23), 25)] | 100.00 | EUR | 1,873,188 | EUR | 141,077 |
| Hannover Re Euro PE Holdings GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 210,787 | EUR | 2,787 |
| Hannover Re Euro RE Holdings GmbH, Hannover[23)] | 100.00 | EUR | 854,859 | EUR | 12,400 |
| Hannover Re Global Alternatives GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 34,370 | EUR | –498 |
| Hannover Rück Beteiligung Verwaltungs-GmbH, Hannover[23), 25)] | 100.00 | EUR | 2,341,925 | EUR | 533,998 |
| Hannover Rück SE, Hannover[23)] | 50.22 | EUR | 2,289,716 | EUR | 905,801 |
| HAPEP II Holding GmbH, Hannover[23)] | 100.00 | EUR | 19,878 | EUR | 9,277 |
| HAPEP II Komplementär GmbH, Hannover[23)] | 100.00 | EUR | 36 | EUR | 5 |
| HDI AI EUR Beteiligungs-GmbH & Co. KG (formerly: HG-I Alternative Investments Beteiligungs-GmbH & Co. KG), Cologne[22)] | 100.00 | EUR | 389,390 | EUR | 13,444 |
| HDI AI USD Beteiligungs-GmbH & Co. KG (formerly: HG-I AI USD Beteiligungs-GmbH & Co. KG), Cologne[22)] | 100.00 | EUR | 90,306 | EUR | 1,795 |
| HDI Direkt Service GmbH, Hannover[5), 22), 25)] | 100.00 | EUR | 51 | EUR | 1 |
| HDI-Gerling Sach Industrials Master, Cologne[22), 27)] | 100.00 | EUR | 272,406 | EUR | 1,194 |
| HDI Global Network AG (formerly: HDI-Gerling Welt Service AG), Hannover[22), 25)] | 100.00 | EUR | 184,924 | EUR | 14,793 |
| HDI Global SE (formerly: HDI-Gerling Industrie Versicherung AG), Hannover[22), 25)] | 100.00 | EUR | 406,536 | EUR | 27,059 |
| HDI Globale Equities, Cologne[22), 27)] | 100.00 | EUR | 189,137 | EUR | 189,137 |
| HDI Kundenservice AG, Cologne[5), 23), 25)] | 100.00 | EUR | 290 | EUR | — |

N140 **LIST OF SHAREHOLDINGS**

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| HDI Lebensversicherung AG, Cologne[23)] | 100.00 | EUR | 423,147 | EUR | 9,600 |
| HDI Pensionsfonds AG, Cologne[23)] | 100.00 | EUR | 6,682 | EUR | 56 |
| HDI Pensionskasse AG, Cologne[23)] | 100.00 | EUR | 39,605 | EUR | — |
| HDI Risk Consulting GmbH (formerly: HDI-Gerling Sicherheitstechnik GmbH), Hannover[5),22),25)] | 100.00 | EUR | 1,626 | EUR | 416 |
| HDI Versicherung AG, Hannover[22),25)] | 100.00 | EUR | 321,907 | EUR | 47,645 |
| HDI Vertriebs AG, Hannover[5),22),25)] | 100.00 | EUR | 235 | EUR | –206 |
| HDI-Gerling Friedrich Wilhelm AG, Cologne[23)] | 100.00 | EUR | 560,976 | EUR | –88,511 |
| HEPEP II Holding GmbH, Cologne[23)] | 100.00 | EUR | 4,727 | EUR | 1,445 |
| HEPEP II Komplementär GmbH, Cologne[23)] | 100.00 | EUR | 43 | EUR | 2 |
| HEPEP III Holding GmbH, Cologne[23)] | 100.00 | EUR | 11,423 | EUR | 5,067 |
| HEPEP IV Komplementär GmbH, Cologne[23)] | 100.00 | EUR | 20 | EUR | — |
| HGLV-Financial, Cologne[22),27)] | 100.00 | EUR | 1,477,222 | EUR | 31,568 |
| HILSP Komplementär GmbH, Hannover[20)] | 100.00 | EUR | 30 | EUR | 3 |
| HNG Hannover National Grundstücksverwaltung GmbH & Co. KG, Hannover[6),17)] | 100.00 | EUR | 49,648 | EUR | 2,784 |
| HR GLL Central Europe GmbH & Co. KG, Munich[9),23)] | 99.99 | EUR | 335,844 | EUR | 2,569 |
| HR GLL Central Europe Holding GmbH, Munich[13),23)] | 100.00 | EUR | 61,835 | EUR | 48 |
| HR Verwaltungs-GmbH, Hannover[23)] | 100.00 | EUR | 12 | EUR | — |
| HV Aktien, Cologne[22),27)] | 100.00 | EUR | 10 | EUR | 10 |
| International Insurance Company of Hannover SE, Hannover (formerly: London, United Kingdom)[23),25)] | 100.00 | EUR | 166,571 | EUR | –4,745 |
| IVEC Institutional Venture and Equity Capital GmbH (formerly: IVEC Institutional Venture and Equity Capital AG), Cologne[22)] | 100.00 | EUR | 97,852 | EUR | 24,093 |
| Lifestyle Protection AG, Hilden[23),25)] | 100.00 | EUR | 5,749 | EUR | 289 |
| Lifestyle Protection Lebensversicherung AG, Hilden[23),25)] | 100.00 | EUR | 7,496 | EUR | –263 |
| neue leben Holding AG, Hamburg[22)] | 67.50 | EUR | 58,539 | EUR | –4,585 |
| neue leben Lebensversicherung AG, Hamburg[23),25)] | 100.00 | EUR | 54,108 | EUR | 5,124 |
| neue leben Unfallversicherung AG, Hamburg[23),25)] | 100.00 | EUR | 3,596 | EUR | 4,896 |
| NL Master, Cologne[22),27)] | 100.00 | EUR | 55,185 | EUR | 1,106 |
| Oval Office Grundstücks GmbH, Hannover[22)] | 100.00 | EUR | 2,061 | EUR | 16,008 |
| PB Lebensversicherung AG, Hilden[23),25)] | 100.00 | EUR | 89,131 | EUR | 22,261 |
| PB Pensionsfonds AG, Hilden[23),25)] | 100.00 | EUR | 5,038 | EUR | 427 |
| PB Versicherung AG, Hilden[23),25)] | 100.00 | EUR | 6,470 | EUR | 5,299 |
| PBL Aktien 2, Cologne[22),27)] | 100.00 | EUR | 10 | EUR | 10 |
| PBVL-Corporate, Cologne[22),27)] | 100.00 | EUR | 147,874 | EUR | 847 |
| Riethorst Grundstückgesellschaft AG & Co. KG, Hannover[6),17)] | 100.00 | EUR | 159,325 | EUR | 5,241 |
| TAL Aktien, Cologne[22),27)] | 100.00 | EUR | 7,418 | EUR | 7,418 |
| Talanx Asset Management GmbH, Cologne[5),22),25)] | 100.00 | EUR | 83,600 | EUR | 50,845 |
| Talanx Beteiligungs-GmbH & Co. KG, Hannover[6),22)] | 100.00 | EUR | 19,857 | EUR | 527 |
| Talanx Deutschland AG, Hannover[5),22),25)] | 100.00 | EUR | 1,903,521 | EUR | –260,295 |
| Talanx Deutschland Bancassurance Communication Center GmbH, Hilden[5),22),25)] | 100.00 | EUR | 630 | EUR | 95 |
| Talanx Deutschland Bancassurance GmbH, Hilden[5),23),25)] | 100.00 | EUR | 910,419 | EUR | –200,374 |
| Talanx Deutschland Bancassurance Kundenservice GmbH, Hilden[5),23),25)] | 100.00 | EUR | 75 | EUR | 16 |
| Talanx Deutschland Real Estate Value, Cologne[22),27)] | 100.00 | EUR | 14,017 | EUR | 13,849 |
| Talanx Direct Infrastructure 1 GmbH, Cologne[22)] | 100.00 | EUR | 19 | EUR | –2 |
| Talanx Immobilien Management GmbH, Cologne[5),22),25)] | 100.00 | EUR | 2,837 | EUR | 2,223 |

N140 **LIST OF SHAREHOLDINGS**

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| Talanx Infrastructure France 1 GmbH, Cologne[22)] | 100.00 | EUR | 38,141 | EUR | 74 |
| Talanx Infrastructure France 2 GmbH, Cologne[22)] | 100.00 | EUR | 60,686 | EUR | 159 |
| Talanx Infrastructure Portugal GmbH, Cologne[22)] | 100.00 | EUR | 52,223 | EUR | 308 |
| Talanx International AG, Hannover[5),17),25)] | 100.00 | EUR | 1,668,846 | EUR | 56,351 |
| Talanx Pensionsmanagement AG, Cologne[5),22),25)] | 100.00 | EUR | 1,817 | EUR | 677 |
| Talanx Reinsurance Broker GmbH, Hannover[5),22),25)] | 100.00 | EUR | 100 | EUR | 11,790 |
| Talanx Service AG, Hannover[5),22),25)] | 100.00 | EUR | 1,746 | EUR | — |
| Talanx Systeme AG, Hannover[5),22),25)] | 100.00 | EUR | 140 | EUR | — |
| TAL-Corp, Cologne[22),27)] | 100.00 | EUR | 44,679 | EUR | 153 |
| TAM AI Komplementär GmbH, Cologne[22)] | 100.00 | EUR | 46 | EUR | 8 |
| TARGO Lebensversicherung AG, Hilden[23),25)] | 100.00 | EUR | 33,655 | EUR | 31,400 |
| TARGO Versicherung AG, Hilden[23),25)] | 100.00 | EUR | 9,492 | EUR | 12,685 |
| TD Real Assets GmbH & Co. KG, Cologne[22)] | 100.00 | EUR | 295,351 | EUR | 200 |
| TD-BA Private Equity GmbH & Co. KG, Cologne[22)] | 100.00 | EUR | 119,233 | EUR | 260 |
| TD-BA Private Equity Sub GmbH, Cologne[22)] | 100.00 | EUR | 57,100 | EUR | –352 |
| TD-Sach Private Equity GmbH & Co. KG, Cologne[22)] | 100.00 | EUR | 47,545 | EUR | 1,025 |
| Vierte HRBV GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 152,865 | EUR | — |
| Windfarm Bellheim GmbH & Co. KG, Cologne[17)] | 100.00 | EUR | –1,738 | EUR | –166 |
| Windpark Mittleres Mecklenburg GmbH & Co. KG, Cologne[17)] | 100.00 | EUR | 473 | EUR | 457 |
| Windpark Sandstruth GmbH, Cologne[17)] | 100.00 | EUR | –449 | EUR | –208 |
| Windpark Vier Fichten GmbH, Cologne[17)] | 100.00 | EUR | –482 | EUR | –261 |
| WP Berngerode GmbH & Co. KG, Cologne[17)] | 100.00 | EUR | 53,836 | EUR | –91 |
| WP Mörsdorf Nord GmbH & Co. KG, Cologne[17)] | 100.00 | EUR | 40,670 | EUR | –78 |
| Zweite HRBV GmbH & Co. KG, Hannover[23)] | 100.00 | EUR | 152,865 | EUR | — |
| **Other countries** | | | | | |
| 11 Stanwix, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 36,462 | USD | 752 |
| 111ORD, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 76,761 | USD | 1,166 |
| 1225 West Washington, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 23,812 | USD | 1,165 |
| 140EWR, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 81,391 | USD | –347 |
| 300 California, LLC, Wilmington, USA[7),11)] | 100.00 | USD | — | USD | — |
| 300 South Orange Avenue, LLC, Orlando, USA[11),23),24)] | 100.00 | USD | 249 | USD | –43 |
| 402 Santa Monica Blvd, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 1,852 | USD | 704 |
| 7550IAD, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 76,427 | USD | 550 |
| 975 Carroll Square, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 54,389 | USD | 1,818 |
| Akvamarin Beta, s.r.o., Prague, Czech Republic[13),23)] | 100.00 | CZK | 100,919 | CZK | 41,363 |
| Aseguradora Magallanes S.A., Las Condes, Chile[17)] | 99.83 | CLP | 41,129,754 | CLP | 8,072,407 |
| ASPECTA Assurance International Luxembourg S.A., Luxembourg, Luxembourg[17)] | 100.00 | EUR | 13,177 | EUR | 3,667 |
| Atlantic Capital Corporation, Wilmington, USA[8),10),22),24)] | 100.00 | USD | –111,867 | USD | — |
| BNP-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil[22),27)] | 100.00 | BRL | 224,068 | BRL | 86,597 |
| Broadway 101, LLC, Wilmington, USA[11),23),24)] | 100.00 | USD | 11,892 | USD | 356 |
| BTG – FIC Multimercado Multistrategy, São Paulo, Brazil[22),27)] | 100.00 | BRL | 48,356 | BRL | 34,259 |
| Cargo Transit Insurance (Pty) Ltd., Helderkruin, South Africa[8),12),16)] | 80.00 | ZAR | –4,499 | ZAR | — |
| Commercial & Industrial Acceptances (Pty) Ltd., Johannesburg, South Africa[12),22)] | 100.00 | ZAR | 4,669 | ZAR | 24,061 |
| Compass Insurance Company Ltd., Johannesburg, South Africa[12),23)] | 100.00 | ZAR | 161,473 | ZAR | 29,252 |
| Construction Guarantee (Pty.) Ltd., Johannesburg, South Africa[8),12),16)] | 60.00 | ZAR | — | ZAR | — |
| Credit Suisse HDI RF Crédito, São Paulo, Brazil[22),27)] | 100.00 | BRL | 252,748 | BRL | 21,731 |
| Envirosure Underwriting Managers (Pty.) Ltd., Durban, South Africa[12),22)] | 51.00 | ZAR | 1,180 | ZAR | 979 |
| Ferme Eolienne des Mignaudieres SNC, Toulouse, France[17)] | 100.00 | EUR | — | EUR | — |
| Ferme Eolienne du Confolentais SNC, Toulouse, France[17)] | 100.00 | EUR | — | EUR | –92 |

N140 **LIST OF SHAREHOLDINGS**

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Other countries** | | | | | |
| Film & Entertainment Underwriters SA (Pty). Ltd., Johannesburg, South Africa[12),22)] | 51.00 | ZAR | –1,292 | ZAR | 668 |
| Firedart Engineering Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[12),22)] | 70.00 | ZAR | 484 | ZAR | 2,287 |
| FRACOM FCP, Paris, France[22),27)] | 100.00 | EUR | 1,150,911 | EUR | 23,070 |
| Fundo de Investimento Imobiliário Hannover, São Paulo, Brazil[22),27)] | 100.00 | BRL | 12,882 | BRL | 12,882 |
| Garagesure Consultants and Acceptances (Pty) Ltd., Johannesburg, South Africa[12),22)] | 70.00 | ZAR | 1,377 | ZAR | 2,010 |
| Gente Compañia de Soluciones Profesionales de México, S.A. de C.V., León, Mexico[17)] | 100.00 | MXN | 8,794 | MXN | –13,641 |
| GLL HRE CORE Properties, L.P., Wilmington, USA[11),23),24)] | 99.90 | USD | 422,384 | USD | 7,362 |
| Hannover Finance (Luxembourg) S.A., Luxembourg, Luxembourg[23)] | 100.00 | EUR | 34,359 | EUR | –4,994 |
| Hannover Finance (UK) Limited, London, United Kingdom[23)] | 100.00 | GBP | 2,718 | GBP | –16 |
| Hannover Finance, Inc., Wilmington, USA[9),23),24)] | 100.00 | USD | 438,123 | USD | 8,194 |
| Hannover Life Re of Australasia Ltd., Sydney, Australia[23)] | 100.00 | AUD | 476,201 | AUD | 3,552 |
| Hannover Life Reassurance Africa Ltd., Johannesburg, South Africa[12),23)] | 100.00 | ZAR | 576,793 | ZAR | 122,119 |
| Hannover Life Reassurance Bermuda Ltd., Hamilton, Bermuda[23)] | 100.00 | USD | 392,068 | USD | 57,216 |
| Hannover Life Reassurance Company of America (Bermuda) Ltd., Hamilton, Bermuda[23)] | 100.00 | USD | 6,699 | USD | 1,752 |
| Hannover Life Reassurance Company of America, Orlando, USA[23)] | 100.00 | USD | 229,495 | USD | 16,662 |
| Hannover Re (Bermuda) Ltd., Hamilton, Bermuda[23)] | 100.00 | USD | 1,236,561 | USD | 226,765 |
| Hannover Re (Ireland) Ltd., Dublin, Ireland[23)] | 100.00 | EUR | 1,549,326 | EUR | 105,470 |
| Hannover Re Real Estate Holdings, Inc., Orlando, USA[9),22),24)] | 100.00 | USD | 588,536 | USD | 26,199 |
| Hannover Reinsurance Africa Ltd., Johannesburg, South Africa[12),23)] | 100.00 | ZAR | 723,659 | ZAR | 109,105 |
| Hannover Reinsurance Group Africa (Pty) Ltd., Johannesburg, South Africa[9),23)] | 100.00 | ZAR | 209,905 | ZAR | 206,410 |
| Hannover Reinsurance Mauritius Ltd., Port Louis, Mauritius[12),22)] | 100.00 | MUR | 40,240 | MUR | –4,576 |
| Hannover ReTakaful B.S.C. (c), Manama, Bahrain[23)] | 100.00 | BHD | 60,631 | BHD | 2,859 |
| Hannover Services (UK) Ltd., London, United Kingdom[23)] | 100.00 | GBP | 860 | GBP | 148 |
| HDI Assicurazioni S.p.A., Rome, Italy[17)] | 100.00 | EUR | 204,567 | EUR | 27,982 |
| HDI Crédito FI RF Crédito Privado LP (formerly: HDI Crédito FI RF CP Longo Prazo BTG Pactual), São Paulo, Brazil[22),27)] | 100.00 | BRL | 144,738 | BRL | 3,266 |
| HDI Global Insurance Company (formerly: HDI-Gerling America Insurance Company), Chicago, USA[17)] | 100.00 | USD | 131,092 | USD | 11,865 |
| HDI Global Ltd. (formerly: HDI Gerling Insurance of South Africa Ltd.), Johannesburg, South Africa[17)] | 100.00 | ZAR | 49,587 | ZAR | 3,167 |
| HDI Global S.A. (formerly: HDI-Gerling de Mexico Seguros S.A.), Mexico City, Mexico[17)] | 100.00 | MXN | 148,013 | MXN | 10,744 |
| HDI Global S.A. (formerly: HDI-Gerling Seguros Industriais S.A.), São Paulo, Brazil[17)] | 100.00 | BRL | 32,517 | BRL | –4,731 |
| HDI Immobiliare S.r.L., Rome, Italy[17)] | 100.00 | EUR | 67,873 | EUR | 1,044 |
| HDI Seguros S.A., Santiago, Chile[17)] | 100.00 | CLP | 10,804,184 | CLP | 2,108,937 |
| HDI Seguros de Garantía y Crédito S.A., Las Condes, Chile[17)] | 99.82 | CLP | 4,621,490 | CLP | 878,499 |
| HDI Seguros de Vida S.A., Las Condes, Chile[17)] | 100.00 | CLP | 2,763,493 | CLP | –584,906 |
| HDI Seguros S.A. de C.V., León, Mexico[17)] | 99.76 | MXN | 1,242,344 | MXN | 172,740 |
| HDI Seguros S.A., Buenos Aires, Argentina[19)] | 100.00 | ARS | 189,181 | ARS | 24,928 |
| HDI Seguros S.A., Montevideo, Uruguay[17)] | 100.00 | UYU | 131,490 | UYU | 13,039 |
| HDI Seguros S.A., Santiago de Surco, Peru[17)] | 100.00 | PEN | 7,008 | PEN | –4,933 |
| HDI Seguros S.A., São Paulo, Brazil[17)] | 100.00 | BRL | 944,373 | BRL | 106,983 |
| HDI Sigorta A.Ş., Istanbul, Turkey[17)] | 100.00 | TRY | 257,910 | TRY | 28,407 |
| HDI Versicherung AG, Vienna, Austria[17)] | 100.00 | EUR | 37,022 | EUR | 6,401 |
| HDI-Gerling Verzekeringen N.V., Rotterdam, Netherlands[17)] | 100.00 | EUR | 140,027 | EUR | 2,828 |
| Hospitality Industrial and Commercial Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[12),22)] | 90.00 | ZAR | 1,284 | ZAR | 4,344 |

N140 LIST OF SHAREHOLDINGS

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1] in % | | Equity[2),3] in thousand | | Earnings before profit transfer[2),4] in thousand |
|---|---|---|---|---|---|
| **Other countries** | | | | | |
| HR GLL CDG Plaza S.r.l., Bucharest, Romania[13),23] | 100.00 | RON | 184,636 | RON | 5,271 |
| HR GLL Europe Holding S.à.r.l., Luxembourg, Luxembourg[13),23] | 100.00 | EUR | 165,908 | EUR | –25 |
| HR GLL Griffin House SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland[13),23] | 100.00 | PLN | 38,359 | PLN | –1,103 |
| HR GLL Liberty Corner SPÓLKA Z ORGANICZONA ODPOWIEDZIALNÓSCIA, Warsaw, Poland[13),23] | 100.00 | PLN | 48,411 | PLN | –78 |
| HR GLL Roosevelt Kft, Budapest, Hungary[13),23] | 100.00 | HUF | 19,188,054 | HUF | 1,820,616 |
| HSBC FI Renda Fixa Hannover, São Paulo, Brazil[22),27] | 100.00 | BRL | 140,782 | BRL | 122,584 |
| InChiaro Assicurazioni S.p.A., Rome, Italy[17] | 51.00 | EUR | 8,149 | EUR | 1,773 |
| InLinea S.p.A., Rome, Italy[17] | 70.00 | EUR | 1,302 | EUR | 297 |
| Integra Insurance Solutions Limited, Bradford, United Kingdom[17] | 74.99 | GBP | 2,841 | GBP | 2,622 |
| Inter Hannover (No. 1) Ltd., London, United Kingdom[23] | 100.00 | GBP | — | GBP | — |
| Inversiones HDI Limitada, Santiago, Chile[17] | 100.00 | CLP | 14,549,293 | CLP | 666,009 |
| JPM-HDI Credit FI Renda Fixa Crédito Privado, São Paulo, Brazil[22),27] | 100.00 | BRL | 136,845 | BRL | 30,962 |
| KBC ALFA Specjalistyczny Fundusz Inwestycyjny Otwarty, Warsaw, Poland[22),27] | 100.00 | PLN | 1,603,170 | PLN | 39,671 |
| KBC OMEGA FIZ, Warsaw, Poland[22),27] | 100.00 | PLN | 75,004 | PLN | 2,260 |
| Landmark Underwriting Agency (Pty) Ltd., Bloemfontein, South Africa[12),22] | 75.50 | ZAR | 3,523 | ZAR | 1,713 |
| Le Chemin de La Milaine SAS, Lille, France[17] | 100.00 | EUR | 40 | EUR | –22 |
| Le Souffle des Pellicornes SAS, Lille, France[17] | 100.00 | EUR | 40 | EUR | –22 |
| Leine Investment General Partner S.à.r.l., Luxembourg, Luxembourg[23),24] | 100.00 | EUR | 38 | EUR | 530 |
| Leine Investment SICAV-SIF, Luxembourg, Luxembourg[23),24] | 100.00 | USD | 112,717 | USD | –5,616 |
| Les Vents de Malet SAS, Lille, France[17] | 100.00 | EUR | 40 | EUR | –23 |
| Lireas Holdings (Pty) Ltd., Johannesburg, South Africa[12),22] | 70.00 | ZAR | 192,524 | ZAR | 17,375 |
| Magyar Posta Biztosító Részvénytársaság, Budapest, Hungary[17] | 66.93 | HUF | 2,084,308 | HUF | 143,543 |
| Magyar Posta Életbiztosító Zrt., Budapest, Hungary[17] | 66.93 | HUF | 5,467,545 | HUF | 686,217 |
| Micawber 185 (Pty) Ltd., Johannesburg, South Africa[12),22] | 100.00 | ZAR | 14,174 | ZAR | 2,794 |
| MUA Insurance Acceptances (Pty) Ltd., Cape Town, South Africa[12),22] | 80.00 | ZAR | 8,016 | ZAR | 3,919 |
| Mustela s.r.o., Prague, Czech Republic[13),23] | 100.00 | CZK | 1,267,889 | CZK | 27,767 |
| Nashville West, LLC, Wilmington, USA[11),23),24] | 100.00 | USD | 29,953 | USD | 496 |
| OOO Strakhovaya Kompaniya CiV Life, Moscow, Russia[17] | 100.00 | RUB | 222,827 | RUB | –852,880 |
| OOO Strakhovaya Kompaniya "HDI Strakhovanie", Moscow, Russia[17] | 100.00 | RUB | 263,415 | RUB | 51,527 |
| Open Life Towarzystwo Ubezpieczeń Życie S.A., Warsaw, Poland[17] | 51.00 | PLN | 144,593 | PLN | 24,104 |
| Peachtree (Pty) Ltd., Johannesburg, South Africa[8),12),17] | 100.00 | ZAR | — | ZAR | — |
| Pipera Business Park S.r.l., Bucharest, Romania[13),23] | 100.00 | RON | 40,341 | RON | 7,577 |
| Protecciones Esenciales S.A., Buenos Aires, Argentina[17] | 100.00 | ARS | 178,395 | ARS | 44,911 |
| River Terrace Parking, LLC, Wilmington, USA[11),23),24] | 100.00 | USD | 20,664 | USD | –7 |
| Saint Honoré Iberia S.L., Madrid, Spain[17] | 100.00 | EUR | 1,134 | EUR | 806 |
| Sand Lake Re, Inc., Burlington, USA[14] | 100.00 | USD | — | USD | — |
| SUM Holdings (Pty) Ltd., Johannesburg, South Africa[12),22] | 72.20 | ZAR | 23,117 | ZAR | 5,310 |
| Svedea AB, Stockholm, Sweden[17] | 53.00 | SEK | 5,494 | SEK | –8,482 |
| Synergy Targeted Risk Solutions (Pty) Ltd., Johannesburg, South Africa[12),22] | 100.00 | ZAR | 2,042 | ZAR | 62 |
| TAG – FIC Multimercado Multi Strategy, São Paulo, Brazil[22),27] | 100.00 | BRL | 68,852 | BRL | 68,852 |
| Talanx Finanz (Luxemburg) S.A., Luxembourg, Luxembourg[17] | 100.00 | EUR | 129,644 | EUR | 122,479 |
| Talanx Reinsurance (Ireland) Ltd., Dublin, Ireland[23] | 100.00 | EUR | 191,235 | EUR | 12,899 |
| Thatch Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[12),22] | 90.00 | ZAR | 1,498 | ZAR | 1,265 |
| Towarzystwo Ubezpieczeń Europa S.A., Wrocław, Poland[17] | 50.00 | PLN | 754,487 | PLN | 136,813 |
| Towarzystwo Ubezpieczeń i Reasekuracji WARTA S.A., Warsaw, Poland[17] | 75.74 | PLN | 2,126,528 | PLN | 279,419 |
| Towarzystwo Ubezpieczeń na Życie "WARTA" S.A., Warsaw, Poland[17] | 100.00 | PLN | 350,142 | PLN | 27,729 |
| Towarzystwo Ubezpieczeń na Życie Europa S.A., Wrocław, Poland[17] | 100.00 | PLN | 651,078 | PLN | 25,921 |

N140 LIST OF SHAREHOLDINGS

| 1. Affiliated companies included in the consolidated financial statements | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Other countries** | | | | | |
| Transit Underwriting Managers (Pty) Ltd., Cape Town, South Africa[12),22)] | 90.00 | ZAR | 1,114 | ZAR | 1,174 |
| Woodworking Risk Acceptances (Pty) Ltd., Johannesburg, South Africa[8),12),22)] | 60.00 | ZAR | — | ZAR | –42 |

N140 LIST OF SHAREHOLDINGS

| 2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| Bureau für Versicherungswesen Robert Gerling & Co. GmbH, Cologne[22)] | 100.00 | EUR | 15 | EUR | –10 |
| CiV Immobilien GmbH, Hilden[17)] | 100.00 | EUR | 30 | EUR | — |
| HDI Schadenregulierung GmbH (formerly: HDI-Gerling Schadenregulierung GmbH), Hannover[22),25)] | 100.00 | EUR | 25 | EUR | –1 |
| HEPEP III Komplementär GmbH, Cologne[23)] | 100.00 | EUR | 18 | EUR | –1 |
| Infrastruktur Vier Fichten GbR, Bremen[17)] | 83.34 | EUR | –7 | EUR | –1 |
| International Hannover Holding AG, Hannover[8),19)] | 100.00 | EUR | 39 | EUR | –2 |
| Nassau Assekuranzkontor GmbH, Cologne[22),25)] | 100.00 | EUR | 25 | EUR | 13 |
| SSV Schadenschutzverband GmbH, Hannover[22),25)] | 100.00 | EUR | 200 | EUR | 432 |
| VES Gesellschaft f. Mathematik, Verwaltung und EDV mbH, Gevelsberg[17),25)] | 100.00 | EUR | 195 | EUR | –2,226 |
| **Other countries** | | | | | |
| Desarollo de Consultores Profesionales en Seguros S.A. de CV, León, Mexico[17)] | 100.00 | MXN | 285 | MXN | 65 |
| Gerling Insurance Agency, Inc., Chicago, USA[7)] | 100.00 | USD | — | USD | — |
| Gerling Norge A/S, Oslo, Norway[17)] | 100.00 | NOK | 376 | NOK | 108 |
| H.J. Roelofs Assuradeuren B.V., Rotterdam, Netherlands[17)] | 100.00 | EUR | 935 | EUR | –15 |
| Hannover Life Re Consultants, Inc., Orlando, USA[22)] | 100.00 | USD | 173 | USD | –27 |
| Hannover Re Consulting Services India Private Limited, Mumbai, India[18)] | 100.00 | INR | 91,270 | INR | 11,768 |
| Hannover Re Risk Management Services India Private Limited, New Delhi, India[18)] | 100.00 | INR | 52,226 | INR | 15,774 |
| Hannover Re Services Italy S.r.L., Milan, Italy[22)] | 100.00 | EUR | 465 | EUR | 105 |
| Hannover Re Services Japan, Tokyo, Japan[23)] | 100.00 | JPY | 102,461 | JPY | 4,677 |
| Hannover Re Services USA, Inc., Itasca, USA[22)] | 100.00 | USD | 3,504 | USD | 26 |
| Hannover Risk Consultants B.V., Rotterdam, Netherlands[17)] | 100.00 | EUR | 304 | EUR | 722 |
| Hannover Rück SE Escritório de Representação no Brasil Ltda., Rio de Janeiro, Brazil[17)] | 100.00 | BRL | 2,440 | BRL | 357 |
| Hannover Services (México) S.A. de C.V., Mexico City, Mexico[17)] | 100.00 | MXN | 8,934 | MXN | –612 |
| HDI Global Network AG Escritório de Representação no Brasil Ltda. (formerly: HDI-Gerling Welt Service AG Escritório de Representação no Brasil Ltda.), São Paulo, Brazil[17)] | 100.00 | BRL | 28 | BRL | –155 |
| HDI STRAKHUVANNYA (Ukraine), Kiev, Ukraine[17)] | 89.29 | UAH | 100,810 | UAH | 4,859 |
| HDI-Gerling Services S.A., Brussels, Belgium[17)] | 100.00 | EUR | 226 | EUR | 4 |
| HMIA Pty Ltd., Sydney, Australia[17)] | 55.00 | AUD | –128 | AUD | –128 |
| HR Hannover Re Correduria de Reaseguros S.A., Madrid, Spain[23)] | 100.00 | EUR | 377 | EUR | 36 |
| International Mining Industry Underwriters Ltd., London, United Kingdom[23)] | 100.00 | GBP | 208 | GBP | 49 |
| KBC BETA SFIO, Warsaw, Poland[22),27)] | 65.40 | PLN | 3,968 | PLN | –7,918 |
| L&E Holdings Limited, London, United Kingdom[23)] | 100.00 | GBP | 5 | GBP | — |
| London & European Title Insurance Services Limited, London, United Kingdom[23)] | 100.00 | GBP | 372 | GBP | 123 |
| LRA Superannuation Plan Pty Ltd., Sydney, Australia[7)] | 100.00 | AUD | — | AUD | — |
| Mediterranean Reinsurance Services Ltd., Hong Kong, China[8),23)] | 100.00 | USD | 52 | USD | — |
| Open Life Serwis Sp. z.o.o., Warsaw, Poland[17)] | 100.00 | PLN | 482 | PLN | –18 |

N140 LIST OF SHAREHOLDINGS

| 2. Affiliated companies not included in the consolidated financial statements in accordance with IFRSs due to insignificance | Equity interest[1] in % | | Equity[2),3)] in thousand | | Earnings before profit transfer[2),4)] in thousand |
|---|---|---|---|---|---|
| **Other countries** | | | | | |
| Private Joint Stock Company "EUROPA.UA Service" (formerly: Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA Życie, Lviv, Ukraine)[17] | 100.00 | UAH | 16,782 | UAH | –528 |
| Private Joint Stock Company "EUROPA.UA" (formerly: Joint-stock Company Towarzystwo Ubezpieczeń EUROPA.UA, Lviv, Ukraine)[17] | 100.00 | UAH | 11,410 | UAH | –139 |
| Scandinavian Marine Agency A/S, Oslo, Norway[17] | 52.00 | NOK | 7,247 | NOK | 3,225 |
| Svedea Skadeservice AB, Stockholm, Sweden[14] | 100.00 | SEK | — | SEK | — |
| U FOR LIFE SDN. BHD., Kuala Lumpur, Malaysia[17] | 60.00 | MYR | –1,140 | MYR | –1,190 |

N140 LIST OF SHAREHOLDINGS

| 3. Structured entities included in the consolidated financial statements in accordance with IFRS 10 | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| Kaith Re Ltd., Hamilton, Bermuda[23] | 88.00 | USD | 241 | USD | –176 |
| LI RE, Hamilton, Bermuda[22),24)] | 100.00 | USD | — | USD | — |

N140 LIST OF SHAREHOLDINGS

| 4. Associates valued using equity method in the consolidated financial statements | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| HANNOVER Finanz GmbH, Hannover[17] | 27.78 | EUR | 69,477 | EUR | 6,032 |
| neue leben Pensionsverwaltung AG, Hamburg[22),26)] | 49.00 | EUR | 2,395 | EUR | –20,929 |
| WeHaCo Unternehmensbeteiligungs-GmbH, Hannover[17] | 40.00 | EUR | 81,351 | EUR | 4,533 |
| **Other countries** | | | | | |
| Camargue Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[12),22)] | 36.84 | ZAR | 12,955 | ZAR | 6,593 |
| Clarendon Transport Underwriting Managers (Pty) Ltd., Johannesburg, South Africa[12),22),28)] | 37.30 | ZAR | 19,144 | ZAR | 21,730 |
| C-QUADRAT Investment AG, Vienna, Austria[17] | 25.10 | EUR | 43,492 | EUR | 19,650 |
| Glencar Underwriting Managers, Inc., Chicago, USA[17] | 49.00 | USD | 5,778 | USD | 1,875 |
| INDAQUA Indústria e Gestão de Águas S.A., Matosinhos, Portugal[17] | 49.94 | EUR | –12,535 | EUR | 1,139 |
| ITAS Vita S.p.A., Trento, Italy[17] | 34.88 | EUR | 94,147 | EUR | 8,353 |
| Petro Vietnam Insurance Holdings, Hanoi, Vietnam[17] | 31.82 | VND | 6,032,701,059 | VND | 244,364,549 |
| Synergy XOL (Pty) Ltd., Johannesburg, South Africa[12),22)] | 100.00 | ZAR | 332 | ZAR | 648 |

N140 **LIST OF SHAREHOLDINGS**

| 5. Associates not included in the consolidated financial statements using the equity method due to insignificance | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| b2b protect GmbH, Hildesheim[17] | 48.98 | EUR | 253 | EUR | –214 |
| Caplantic GmbH, Hannover[17] | 45.00 | EUR | 1,076 | EUR | 2,489 |
| Hannoversch-Kölnische Beteiligungsgesellschaft mbH, Hannover[17] | 50.00 | EUR | 27 | EUR | — |
| Hannoversch-Kölnische Handels-Beteiligungsgesellschaft mbH & Co. KG, Hannover[17] | 50.00 | EUR | 16,020 | EUR | 1,009 |
| VOV Verwaltungsorganisation für Vermögensschadenhaftpflicht-Versicherungen für Mitglieder von Organen juristischer Personen GmbH, Cologne[17] | 35.25 | EUR | 1,877 | EUR | 26 |
| **Other countries** | | | | | |
| Energi, Inc., Peabody, USA[17),28] | 28.50 | USD | 21,076 | USD | 1,537 |
| Iconica Business Services Limited, Bradford, United Kingdom[17] | 25.01 | GBP | –362 | GBP | 100 |
| XS Direct Holding Ltd., Dublin, Ireland[17),28] | 25.00 | EUR | 2,049 | EUR | 44 |

N140 **LIST OF SHAREHOLDINGS**

| 6. Joint ventures included in the consolidated financial statements using the equity method | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| Magma HDI General Insurance Company Limited, Kolkata, India[18] | 25.50 | INR | 1,811,396 | INR | –225,273 |

N140 **LIST OF SHAREHOLDINGS**

| 7. Joint ventures not included in the consolidated financial statements due to insignificance | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| Ampega C-QUADRAT Fondsmarketing GmbH, Frankfurt[23] | 50.00 | EUR | 197 | EUR | 57 |
| **Other countries** | | | | | |
| C-QUADRAT Ampega Asset Management Armenia LLC, Yerevan, Armenia[17] | 25.10 | AMD | 494,208 | AMD | –127,041 |

N140 **LIST OF SHAREHOLDINGS**

| 8. Participating interests | Equity interest[1] in % | | Equity[2] in thousand | | Earnings before profit transfer[2] in thousand |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| IGEPA Gewerbepark GmbH & Co. Vermietungs KG, Fürstenfeldbruck[17] | 37.50 | EUR | 19,964 | EUR | 9,741 |
| **Other countries** | | | | | |
| DFA Capital Management, Inc., Wilmington, USA[15] | 25.37 | USD | 494 | USD | –1,060 |
| Meribel Topco Ltd., St. Helier, Jersey[23] | 20.11 | EUR | 2,725 | EUR | –79 |

**N140 LIST OF SHAREHOLDINGS**

| 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 |
|---|---|---|---|---|---|
| **Germany** | | | | | |
| Extremus Versicherungs-AG, Cologne[17] | 13.00 | EUR | 66,690 | EUR | 1,100 |
| MLP AG, Wiesloch[17] | 9.48 | EUR | 384,343 | EUR | 17,114 |
| **Other countries** | | | | | |
| Acte Vie S.A. Compagnie d'Assurances sur la Vie et de Capitalisation, Strasbourg, France[17] | 9.38 | EUR | 8,996 | EUR | 254 |

1) The equity interest is determined by adding together 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) In the case of investment funds, fund assets are reported here
4) In the case of investment funds, changes in fund assets including cash inflows and outflows are reported here
5) The exemptions permitted under section 264(3) of the German Commercial Code (HGB) were applied
6) The exemption provision permitted under section 264b of the German Commercial Code (HGB) was applied
7) Company is inactive and does not prepare annual financial statements
8) Company is in liquidation
9) Company prepares its own subgroup financial statements
10) Included in the subgroup financial statements of Hannover Finance, Inc.
11) Included in the subgroup financial statements of Hannover Re Real Estate Holdings, Inc.
12) Included in the subgroup financial statements of Hannover Reinsurance Group Africa (Pty) Ltd
13) Included in the subgroup financial statements of HR GLL Central Europe GmbH & Co. KG
14) Company was formed in the reporting period – no annual report/annual financial statements available yet
15) Figures as at 2011 financial year-end
16) Figures as at 2013 financial year-end
17) Figures as at 31 December 2014
18) Figures as at 31 March 2015
19) Figures as at 30 June 2015
20) Figures as at 30 September 2015
21) Figures as at 31 October 2015
22) Figures as at 2015 financial year-end
23) Figures as at 2015 financial year-end, provisional/unaudited
24) Figures under IFRSs
25) A profit/loss transfer agreement is in force
26) The net income for nl Pensionskasse AG, Hamburg, is included in the net income of this company
27) Investment funds
28) There are no disclosures about subsidiaries of this associate

Prepared and hence authorised for publication in Hannover on 29 February 2016.

The Board of Management

Herbert K Haas,
Chairman

Dr Christian Hinsch,
Deputy Chairman

Torsten Leue

Dr Immo Querner

Ulrich Wallin

Dr Jan Wicke

## RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable 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 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, 29 February 2016

The Board of Management

| | | |
|---|---|---|
| Herbert K Haas, Chairman | Dr Christian Hinsch, Deputy Chairman | Torsten Leue |
| Dr Immo Querner | Ulrich Wallin | Dr Jan Wicke |

# AUDITORS' REPORT

We have audited the consolidated financial statements prepared by Talanx Aktiengesellschaft, Hannover, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the combined management report of the Company and the Group for the financial year 1 January to 31 December 2015. The preparation of the consolidated financial statements and the combined management report in accordance with IFRSs, as adopted by the EU, as well as the additional requirements of German commercial law in accordance with section 315a(1) of the German Commercial Code (HGB) and the additional provisions of the Articles of Association are the responsibility of the Company's Board of Management. Our responsibility is to express an opinion on the consolidated financial statements and the combined management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with section 317 of the HGB and generally accepted German standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that any misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable accounting principles and in the combined management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the combined management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of the entities included in consolidation, the definition of the basis of consolidation, the accounting and consolidation principles used and significant estimates made by the Board of Management, as well as evaluating the overall presentation of the consolidated financial statements and the combined management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, as well as the additional requirements of German commercial law in accordance with section 315a(1) of the HGB and the additional provisions of the Articles of Association, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with those requirements. The combined management report is consistent with the consolidated financial statements and on the whole provides a suitable understanding of the Group's position and suitably presents the opportunities and risks of future development.

Hannover, 11 March 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Jungsthöfel | Czupalla |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# 3

# 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 an accumulation 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 commision, 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 aspects.

### 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.

### BENEFIT RESERVE
A value for future liabilities arrived at using mathematical methods (present value of future liabilities minus less value of future premiums received), especially in life and health insurance.

### 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 who passes on (cedes) shares 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 adjusted combined ratio, interest income on funds withheld and contract deposits is offset against losses and loss adjustment expenses. This ratio is used by both property/casualty insurers and non-life 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.

### DURATION
A ratio used in investment mathematics 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 is thus a measure of the interest rate risk associated with a financial instrument.

### 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.

### EMBEDDED VALUE
This refers to the value of an insurance portfolio. It comprises the present value of future net income for shareholders from the insurance portfolio, including investment income, and the value of equity minus the cost of capital.

### 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 deduction of 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
Formerly 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).

### 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.

### MAJOR LOSS (ALSO: MAJOR CLAIM)
A loss of exceptional size compared with the average loss for the risk group in question and that exceeds a defined loss amount. Since 2012, major losses have been defined as natural catastrophes and other major losses in which the portion held by the Talanx Group is in excess of EUR 10 million gross.

### MARKET CONSISTENT EMBEDDED VALUE — MCEV
A special methodology for valuing life insurance companies or life/health insurance portfolios that reflects the long-term nature of the life insurance business and the associated risks. In particular, using a market-consistent approach is designed to enhance comparability. A market-consistent valuation is obtained by using risk-neutral assumptions with regard to expected investment income and the discounting method. The swap curve is also introduced as a risk-neutral term structure.

### 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 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.

### 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 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, foreign exchange losses, and the cost of services.

### PASSIVE REINSURANCE
Existing reinsurance programmes of > primary insurers that protect them against underwriting risks.

### 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 subsegment.
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 available unencumbered capital and reserves needed to ensure that contracts can be fulfilled 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.

### 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 but excluding consolidation differences from the consolidation of (technical) intercompany balances. > 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 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 embedded value as at the end of the financial year.

# LIST OF DIAGRAMS AND TABLES

## CONSOLIDATED FINANCIAL STATEMENTS

NOTES ON THE CONSOLIDATED BALANCE SHEET – LIABILITIES



NOTES ON THE CONSOLIDATED STATEMENT OF INCOME



OTHER INFORMATION

# INDEX OF KEY TERMS

# CONTACT INFORMATION

Talanx AG
Riethorst 2
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 2016

11 May
Annual General Meeting

13 May
Quarterly Release as at 31 March 2016

12 August
Interim Report as at 30 June 2016

15 November
Quarterly Release as at 30 September 2016

17 November
Capital Markets Day

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Talanx AG
Riethorst 2
30659 Hannover
Germany
Telephone +49 511 3747-0
Telefax +49 511 3747-2525
www.talanx.com

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