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Insurance. Investments.

Investment Management Workshop

London, 15 October 2014

Agenda

I	Organisational set-up and process	Dr. Immo Querner
II	Investment challenges and responses	Dr. Thomas Mann
III	Case study I: Infrastructure investments	Dr. Bernhard Graeber
IV	Case study II: Direct real estate investments	Thomas Fiebig
V	Risk measurement, evaluation and control	Dr. Dirk Erdmann
VI	Concluding remarks	Dr. Immo Querner

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Talanx Investments: today's speakers

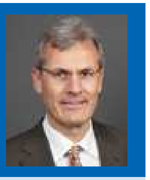
Dr. Immo Querner

Talanx Group - CFO

- 18 years with Talanx (incl. former Gerling Group)
- Became CFO of Gerling Group in 2002; since 2006, CFO of Talanx
- University degree in Engineering (Dipl.-Ing) from TU Berlin; Master of Philosophy from University of St. Andrews in Scotland; PhD in Economics from TU Berlin

Dr. Thomas Mann, CFA

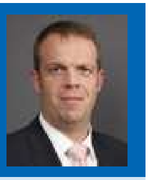
Talanx Asset Management – CIO



- >20 years experience in investment business
- Since 2009, member of the management board of Talanx Asset Management
- University degree in Business Administration from Cologne University, PhD in Economics

Dr. Dirk Erdmann

Talanx Asset Management – COO



- 18 years in various leading positions in risk management
- Since 2009 with Talanx Asset Management; responsible for investment controlling and accounting
- University degree in Theoretical Mathematics from Münster University, PhD in Mathematics

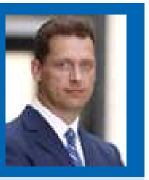
Dr. Bernhard Graeber

Talanx Asset Management - Head of Infrastructure Investments

- 15 years of experience in infrastructure investments
- Since 2014 at Talanx Asset Management, having joined from a major German utility company
- University degree in Mechanical Engineering from University of Stuttgart; PhD in Energy Economics

Thomas Fiebig

Talanx Immobilien Management - MD



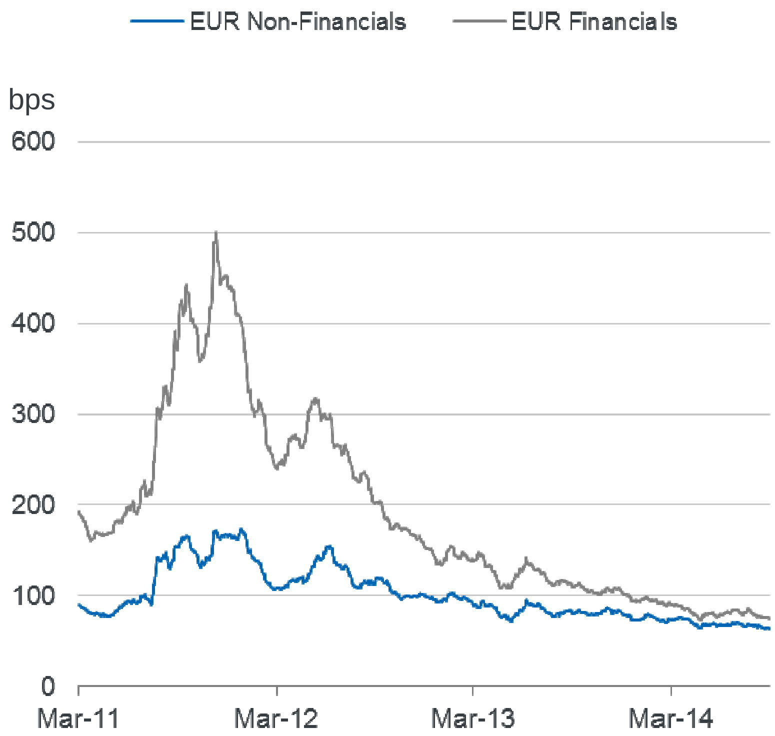
- >20 years experience in real estate investment business
- Since 2011, Managing Director at Talanx Immobilien Management
- Certified Real Estate Economy Clerk; University diploma in Real Estate, Real Estate Consulting and Asset Valuation

Experienced management team with complementary educational and professional background

The opening question for today‘s workshop: how to position as an insurer in a persistent low yield/low spread environment?

German government yields

Credit spreads

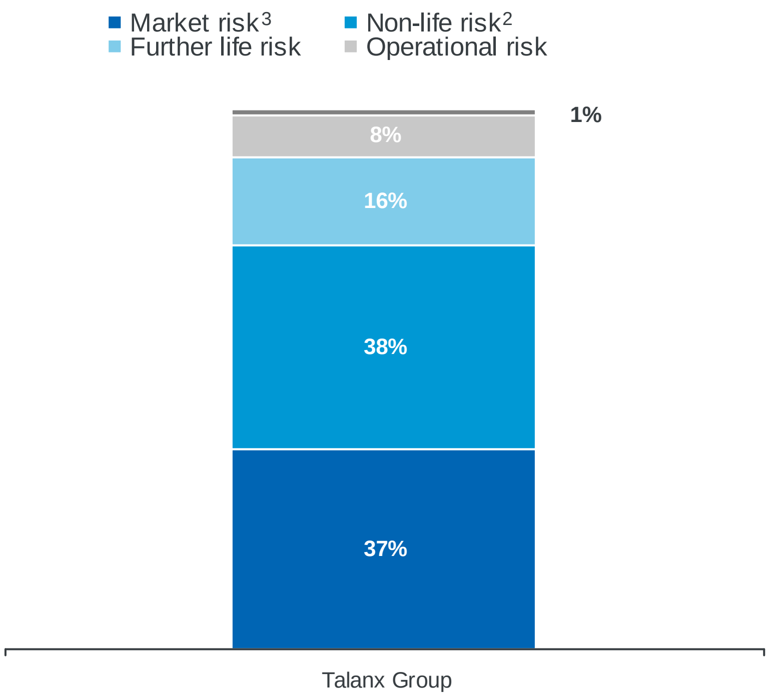


Source: Bloomberg

Long-term decline in yields and spreads has accelerated in 2014

Our aim: offering a diversified insurance portfolio to investors

Risk components of Talanx Group[1]



[1] Figures show approximate risk categories, in terms of solvency capital requirements, of the Talanx Group after minorities, after tax, post diversification effects as of 2013
[2] Includes premium and reserve risk (non-life), net NatCat and counterparty default risk
[3] Refers to the combined effects from market developments on assets and liabilities

Comments

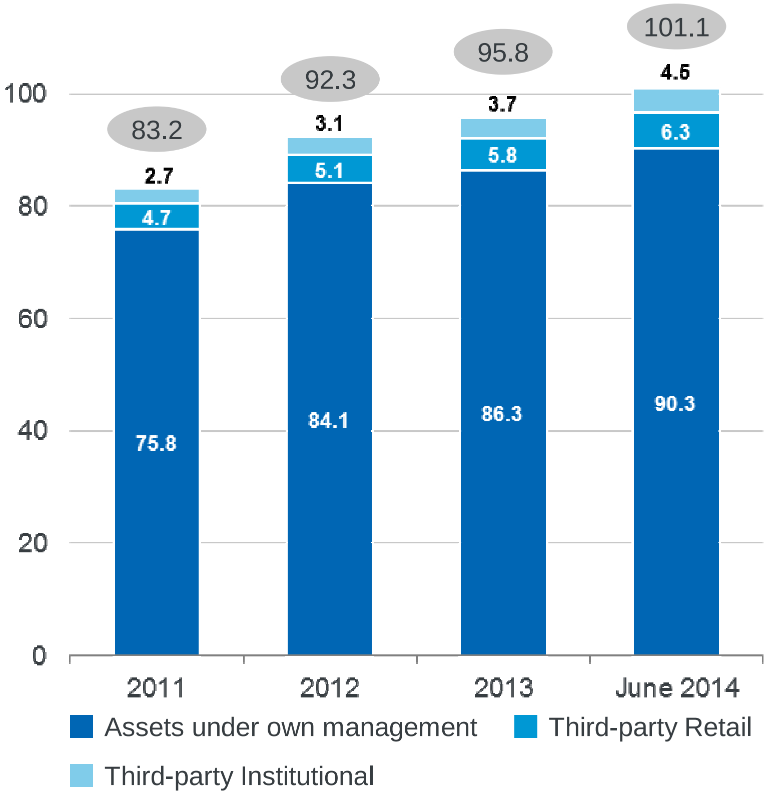
- It is Talanx's explicit target – as such even part of its Group Strategy - to limit investment risks to max. 50% of risk-based capital
- Given the persistent low-yield and low-spread environment, the target has become more challenging
- Why do we still remain committed? We intend to offer an attractive opportunity to invest into a diversified insurance portfolio – not a risk category (investments) that investors could easily replicate on their own
- The intuitive reasoning is backed by an insurer's frictional cost in practice and – mathematically – can be shown by an application of the Merton model [4]

[4] Pls also see Talanx Risk Management Workshop, 26 June 2013, pp. 14/15

Dedication to focus on insurance risk unchanged

Our asset base and staff

Asset base managed by Talanx Group (€bn)



Comments

- The majority of investments managed by Talanx Investments stems from Group internal clients
- To lever the platform in the best way, Talanx also manages third-party assets: 6% is third-party retail business, 3% comes from institutional clients
- Talanx Investments have achieved a series of excellent investment results and awards over the last couple of years

Meaningful and sizeable platform in terms of volumes, staff and functions

Selection of awards of open funds

Ampega Reserve Rentenfonds (fixed-income funds)

Ampega Unternehmensanleihenfonds (corporate bond funds)

Ampega Rendite Rentenfonds (fixed-income funds)

terrAssisi Aktien I AMI (equity funds)

Selection of white label funds – Client references

Bayerische Vermögen AG

- various mutual funds, e.g. „Max Otte Vermögensbildungsfonds AMI“

Missionszentrale der Franziskaner + oekom research AG

- „terrAssisi Renten I AMI“ and „terrAssisi Aktien I AMI“

BMW Bank GmbH

- various mutual funds

Tresides Asset Management GmbH

- various mutual and special funds

C-QUADRAT Kapitalanlage AG

- various mutual funds, e.g. „C-QUADRAT ARTS Total Return Global AMI”

Value Intelligence Advisors GmbH

- „Value Intelligence Fonds AMI“

FERI Trust GmbH

- various mutual funds, e.g. „Ampega ISP Sprint“

Zantke Asset Management GmbH

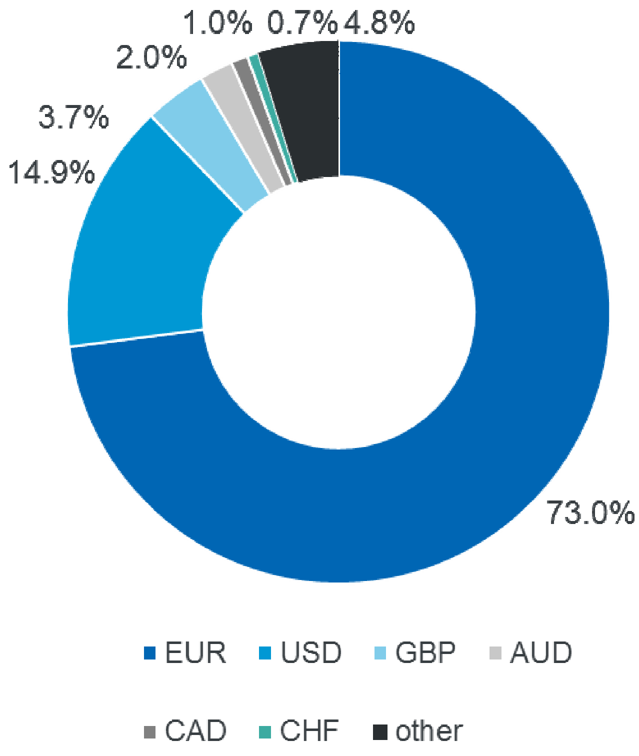
- various mutual funds

Lingohr & Partner Asset Management GmbH

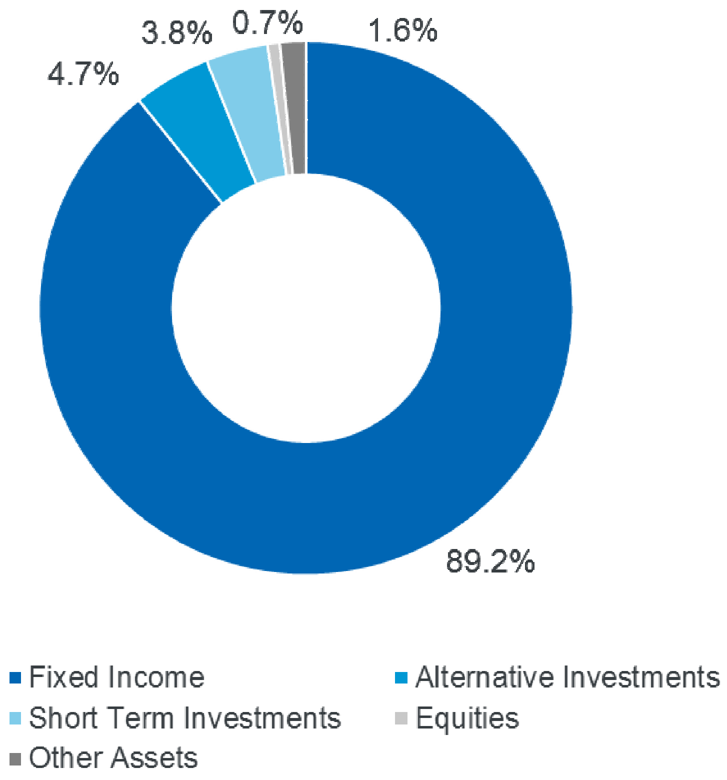
- „Ampega Europa Methodik Aktienfonds“

Asset base (under own management): composition by currency and by asset class

Regional split as of June 2014



Asset allocation as of June 2014



Dominance of euro-denominated fixed-income investments with visible competence and exposure elsewhere

Key essentials – „More from less“ in defence of a parsimonious exposure to market risks

- Dedication to focus on insurance risk rather than market risk…while fundamentally still sound has become more challenging
- Reducing the duration mismatch through longer asset duration generates a higher term premium and frees up scarce market risk budgets…
- …to be “360° risk consciously“ invested in credit: selectively earning an extra spread, further „leveraged“ on the back of a better diversified portfolio
- Exploiting illiquidity spreads in (semi-)liquid and illiquid/real assets (private equity, infrastructure and real estate)
- Promoting the growth of the insurance liability/asset base outside the euro-zone in order to benefit from higher rate environments
- Potentially exploring (very limited) non-conventional and preferrably diversifying spread/yield sources, e.g. i) limited non-euro overhang or ii) thoroughly risk-managed dividend investments
- Further sophistication of the AM risk management, higher AM efficiency and targeted additions to Talanx Asset Management‘s staff/network

Organisational set-up:
Talanx Asset Management as a central group function (I)

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- **Industrial Lines**
  - HDI Gerling
- **Retail Germany**
  - HDI
  - TARGO VERSICHERUNG – Schutz und Vorsorge
  - PB Versicherungen – Partner der Postbank
  - neue leben Versicherungen
- **Retail International**
  - HDI
  - warta.
  - Europa Versicherung
  - Posta Biztosító
  - CiV Life
- **Reinsurance (Non-Life Re and Life/Health Re)**
  - hannover re
  - e+s rück
- **Corporate Operations**
  - talanx. Asset Management
  - talanx. Reinsurance
  - talanx. Reinsurance Broker

Talanx Asset Management: the professional investment manager in the Talanx Group

Organisational set-up: Talanx Asset Management as a central group function (II)

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Corporate Operations

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Talanx Asset Management GmbH*

Ampega Investment GmbH

Talanx Immobilien Management GmbH

Talanx Investments – staff as of June 2014

Department	No. of personnel
Total	**297**
Investment Management	64
Customer Relationship Mgmt.	18
Investment Controlling	43
Investment Accounting	67
Corporate Management	56
TIM (Real Estate)	49

*Talanx Asset Management GmbH also holds 25.1% in C-Quadrat, an asset manager specializing in quantitative and discretionary absolute and total return strategies , ISIN AT0000613005, WKN A0HG3U, market cap: €122m (8 October 2014)

Talanx Asset Management: providing services in „classical“ asset management and in real estate investments - backed by legal structure of the entity

Organisational set-up:
Talanx Asset Management as a central group function (III)

Talanx Asset Management - divisions

Talanx Group CFO, Dr. Immo Querner

- **Corporate Operating & Client Relationship Management**
  Harry Ploemacher (CEO/CRO)
  - CRM Reinsurance
  - CRM Primary Insurance
  - Corporate Management
  - HR
  - Law
  - Compliance
  - Revision
  - Sales Retail & KAG Services
  - Institutional.Business & Marketing
- **Investment Management**
  Dr. Thomas Mann (CIO)
  - Risk Management / Strategic Asset Allocation
  - Tactical Asset Allocation & Equity management
  - Fixed Income
  - Alternative Investments
  - Infrastruktur Investments
    Dr. Bernhard Graeber
  - Real Estate Asset Management
  - Real Estate Development
  - Real Estate Investments
    Thomas Fiebig
- **Investment Accounting & Controlling**
  Dr. Dirk Erdmann (COO)
  - Investment Controlling
  - Investment Accounting Reinsurance
  - IT / IT-Coordination
  - Investment Accounting Primary Insurance

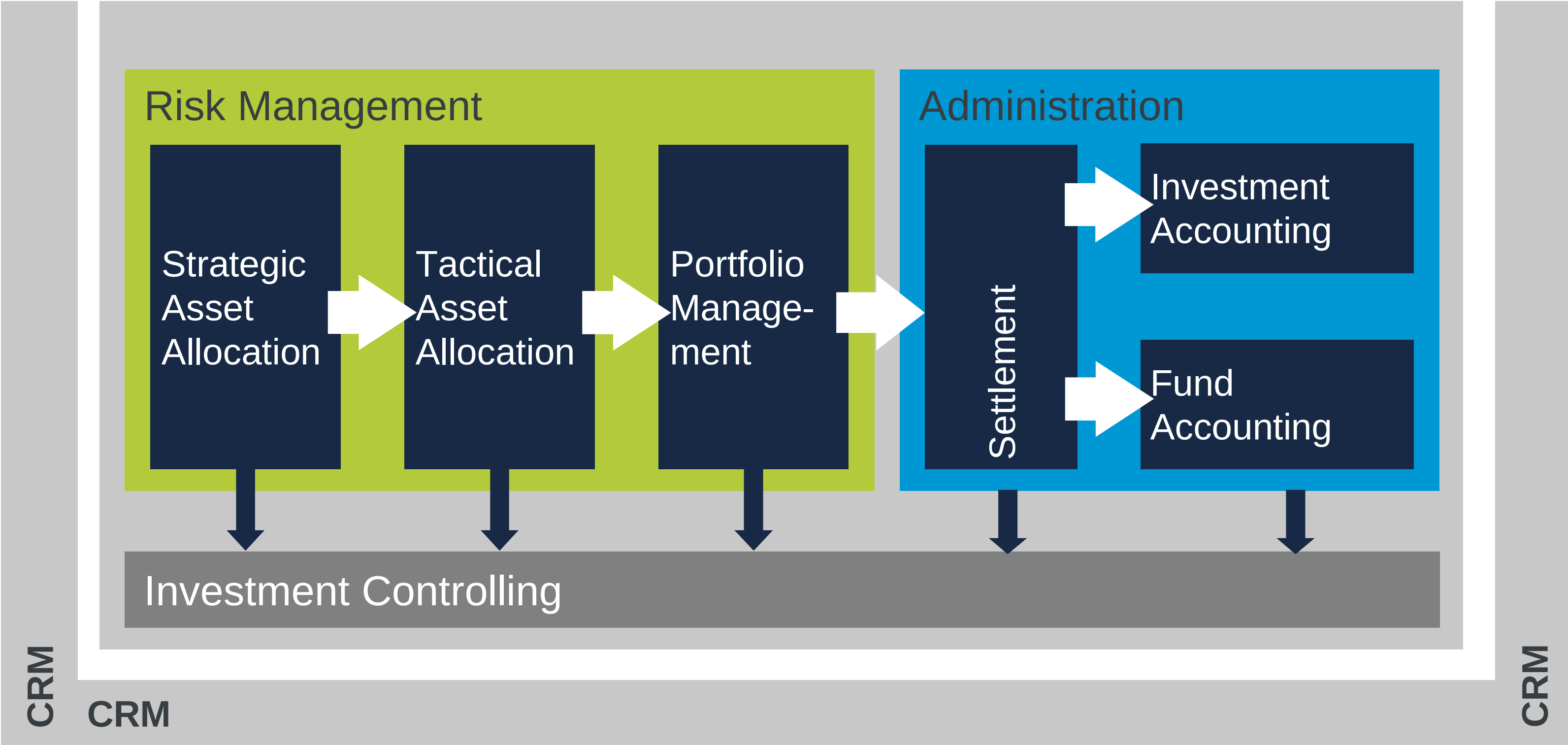
today's speakers

reporting to Talanx Group CFO, Dr Immo Querner

Talanx Asset Management: three-pillar structure – competence in various products and sectors

Investment process within Talanx (I)

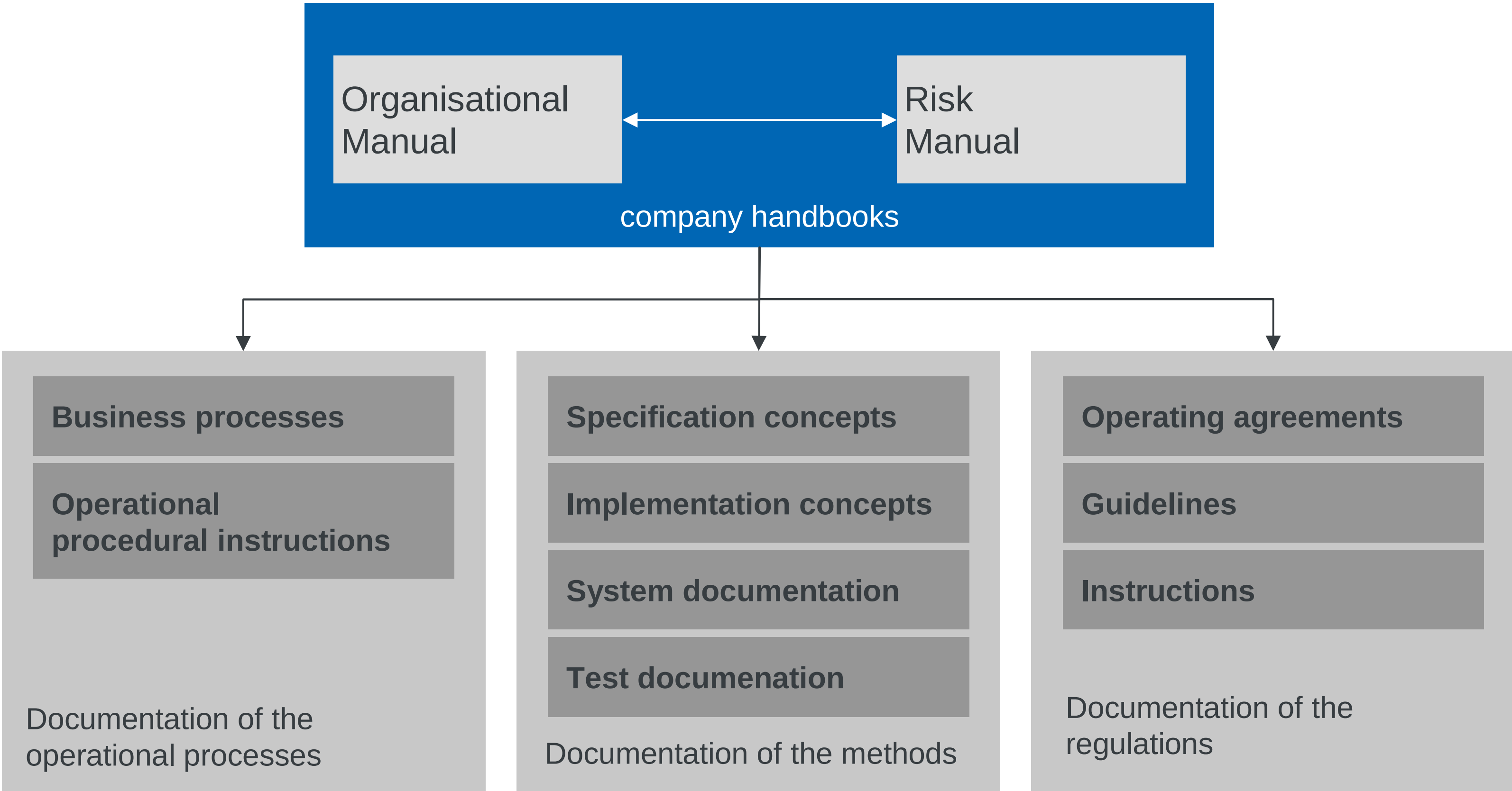
Investment Process



Tailor-made asset management services for Talanx's divisions

Investment process within Talanx (II)

Organisational set-up



A well-structured and precise organisational set-up ensures a compliant investment process

How to strategically position Talanx Asset Management?

Overview of concepts

Referring to Coase's "The Nature of the Firm": Which services to produce in-house? Which products to better buy? Which services/competences to potentially sell to the market?

Degree of integration →

„Buy"	„Make"	„Sell" (third-party)
▪ concentration on insurance business and competence ▪ potential benefits in efficiency/knowledge from teaming up or sourcing out	▪ holding control of a central driver of an insurer's profitability and risk profile ▪ benefitting from a Group center of competence on divisional levels	▪ raising efficiency levels from low marginal costs ▪ attracting high-profile portfolio managers qualifying for funds ratings with publicly traded funds ▸ recently won ~€450m in third-party mandates in illiquid assets

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Buy expertise in defined niches and special products	Define, operate and control the investment process for the very major part of AuM	Benefit from opportunities without losing focus on Talanx's own AuM base

▶ **Pragmatic approach to balance best-in-class knowledge, risk-control and efficiency in an optimal way**

Product competences and demand

Bonds	**EUR**	**USD**	**GBP**	**CAD**	**AUD**
Cash					
Governments / Semi-Governments					
ABS/MBS - Covered					
ABS/MBS/CDO structures					
Corporates (AAA-BBB)					
Non-listed companies					
High Yield*					
Emerging Markets					
Equities	**EUR**	**USD**	**GBP**	**CAD**	**AUD**
Active Index Weighting					
Direct Real Estate	**EUR**	**USD**	**GBP**	**CAD**	**AUD**
Investment Europe					
Indirect Real Estate					
Investment Europe, funds-based					
Alternative Investments	**EUR**	**USD**	**GBP**	**CAD**	**AUD**
Private Equity (manager selection)					
Real Estate (manager selection)					
Infrastructur	**EUR**	**USD**	**GBP**	**CAD**	**AUD**
Infrastructur assets					
Infrastructur base participations					
Infrastructur debt					
Infrastructur based receivables					

*initial mandates have been accepted

own product competence | buying of services | new market segments | no investments

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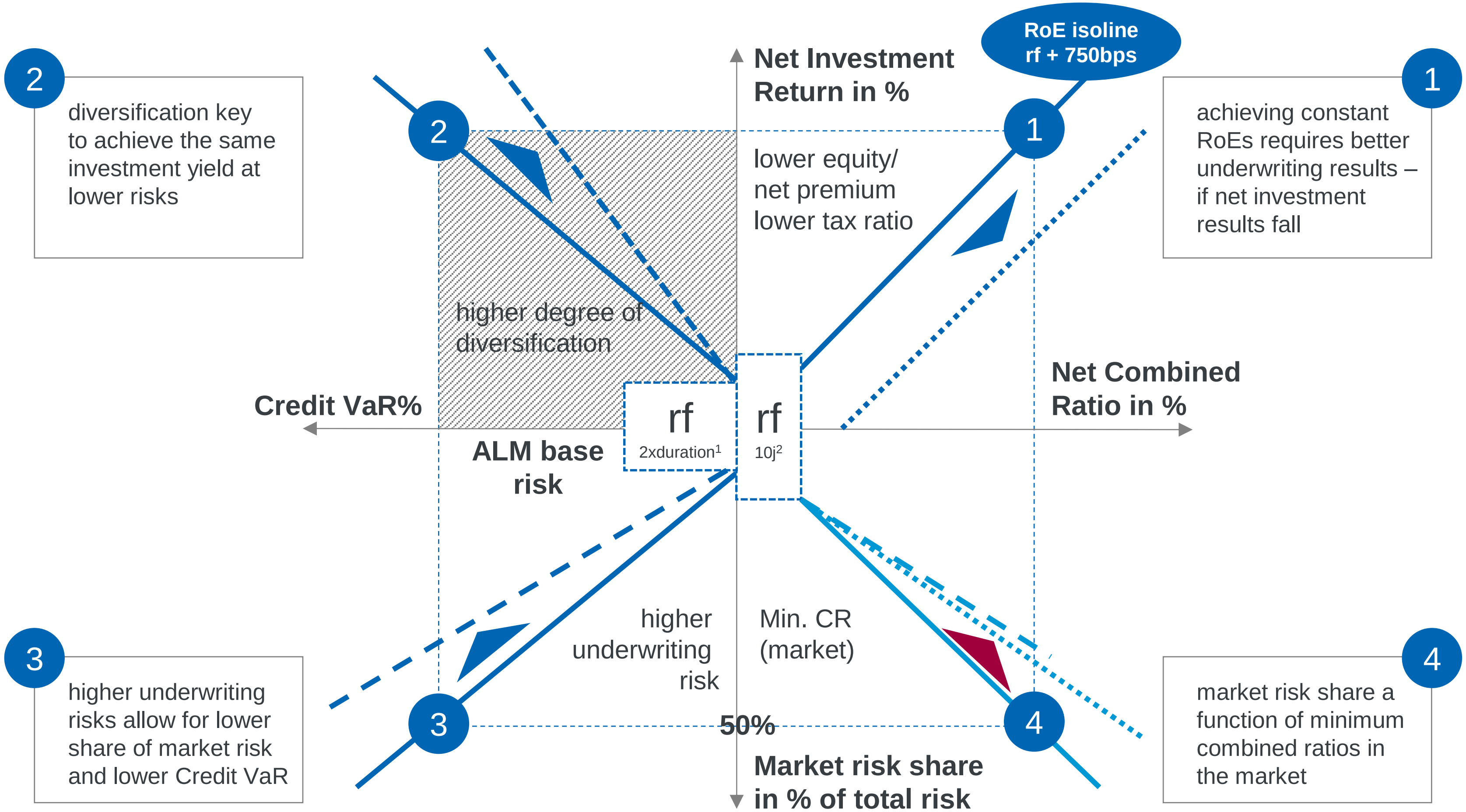
The mechanics: investments - Risk-/return structure of a non-life insurance company presented in a four quadrant-scheme

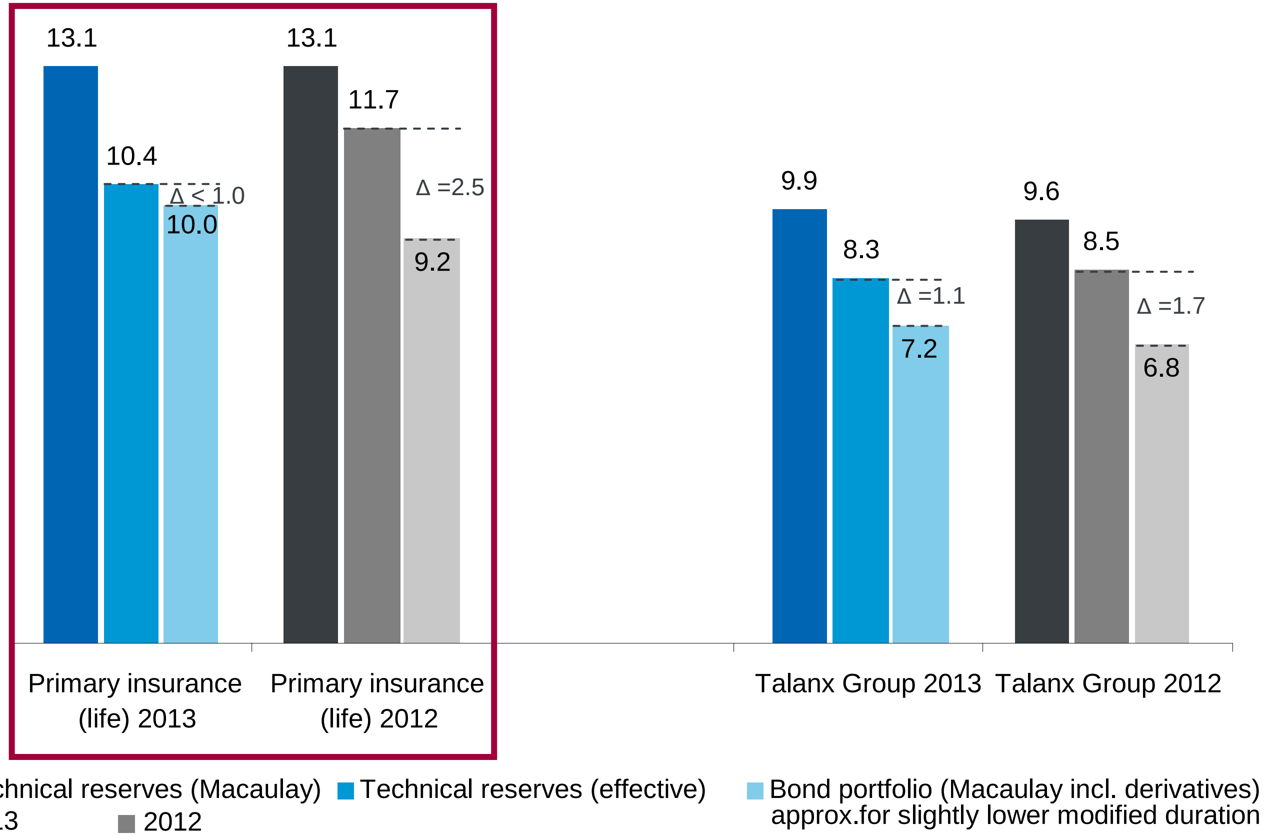


[1] current risk free rate according to 2 times duration of net loss reserves
[2] current risk-free rate according to Talanx strategy (five-year average of the 10-year German Bund yield)

Diversification helps to achieve investment results at lower risk

Our approach: Freeing up equity capital in ALM…

Durations of technical reserves and bond portfolio, 2013 and 2012



Freeing up equity capital via an improved matching of asset and liability durations

…to capture higher returns outside the sovereign bond space

Our agenda for a challenging investment environment

Generating yield pick-ups and improving the risk-return profile of our portfolio

Diversification by region, industry and by issuer	Raising the exposure to higher-yielding credits	Growing in non-euro assets	Extraction of illiquidity premiums
alleviation of credit-risk-driven equity capital requirements through better diversification	"risk conscious" reallocation of freed-up equity into higher-yielding credits – backed by further enhanced expertise in credit research and investment	above-average underlying business growth in non-euro currencies (▸ benefit from higher baseline interest rates outside the euro zone)	exploiting the benefit of structurally being a long-term investor moderately (▸ Private Equity, ▸ Real Estate, ▸ Infrastructure)

▶ **There is no one and easy, but a variety of viable and promising ways**

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Agenda

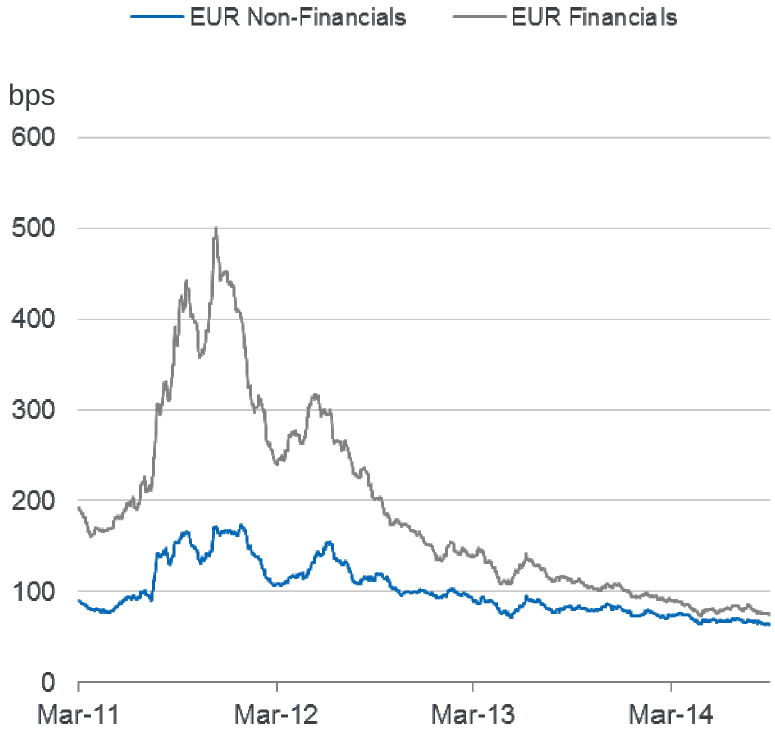
Key essentials

- Dominance of fixed-income investments, but growing relevance of alternative assets
- Fixed-income: focus on financials, industrials, well-rated emerging market corporate bonds
- Broadening of investment universe contributes to improve diversification
- Talanx is actively looking at innovative investment vehicles, accompanied by a disciplined assessment process
- Talanx Investments without any significant exposure on recent key negative credit events
- Increasing focus on real assets with stable, attractive yields like real estate and infrastructure

"Financial Repression" – Historical low-yield environment in Europe

German government yields

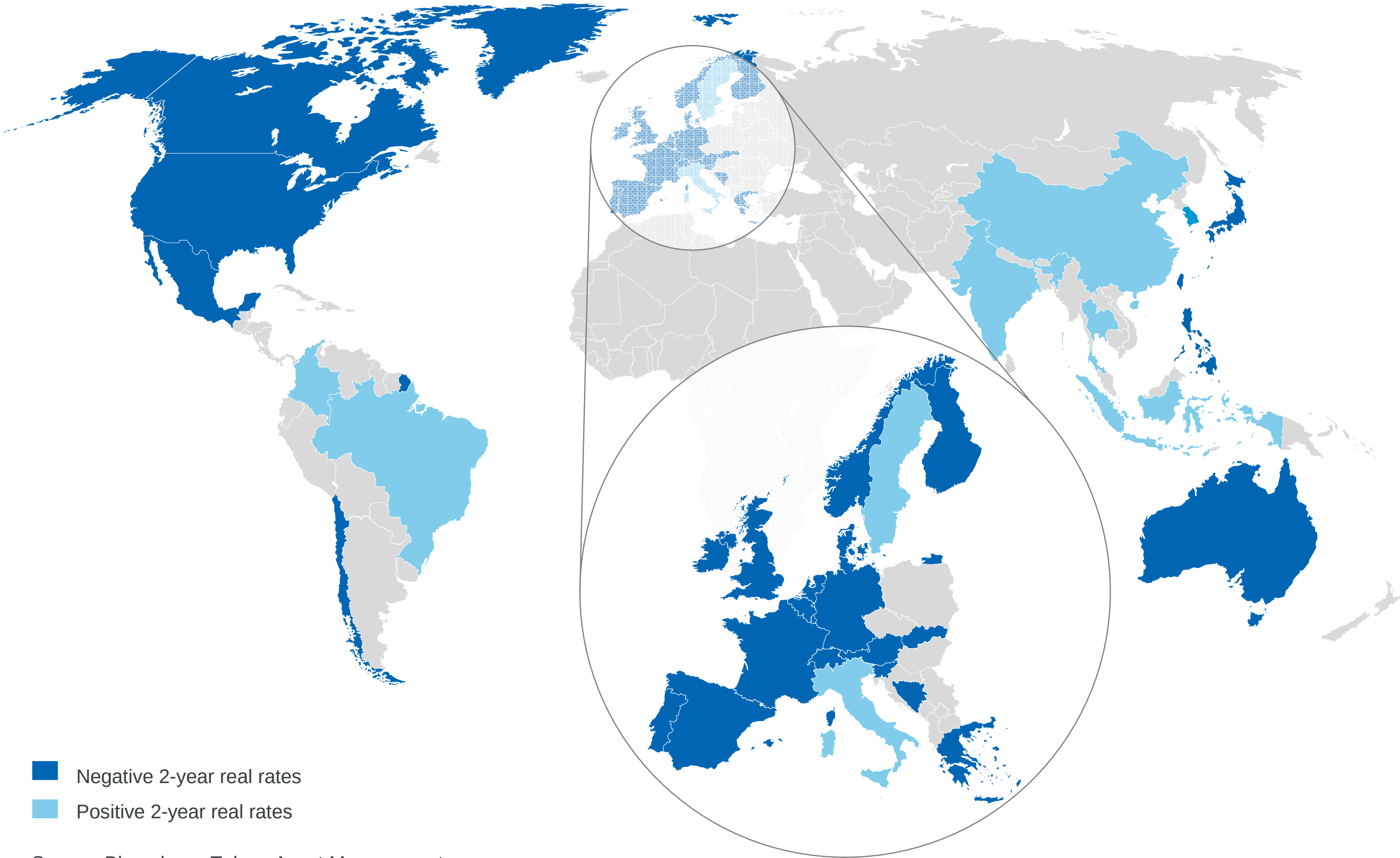
Credit spreads



Source: Bloomberg

Long-term decline in yields and spreads has accelerated in 2014

„Financial Repression“ – A global trend

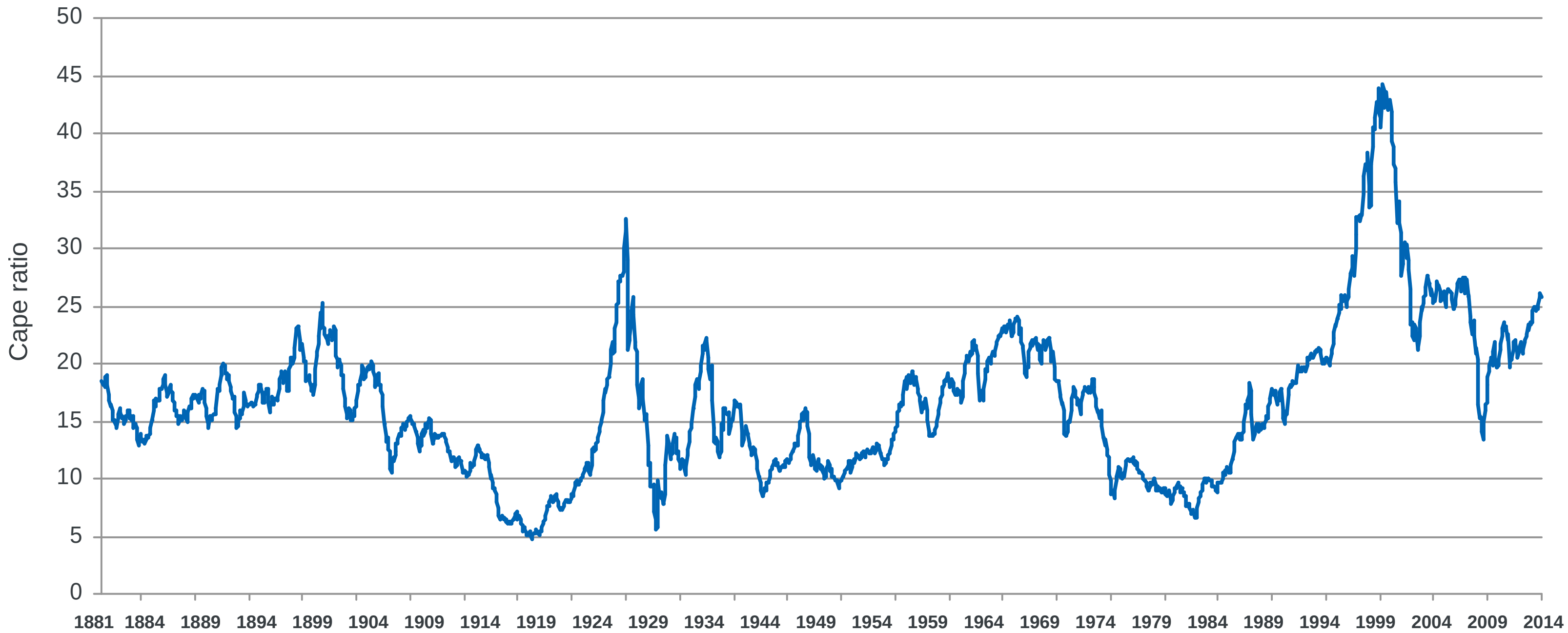


Source: Bloomberg, Talanx Asset Management

Negative real rates in most advanced economies essential to reduce government debt

Shiller P/E - A long-term view on valuations

Shiller P/E: S&P500 (cyclically adjusted P/E; 1881 – 2014)

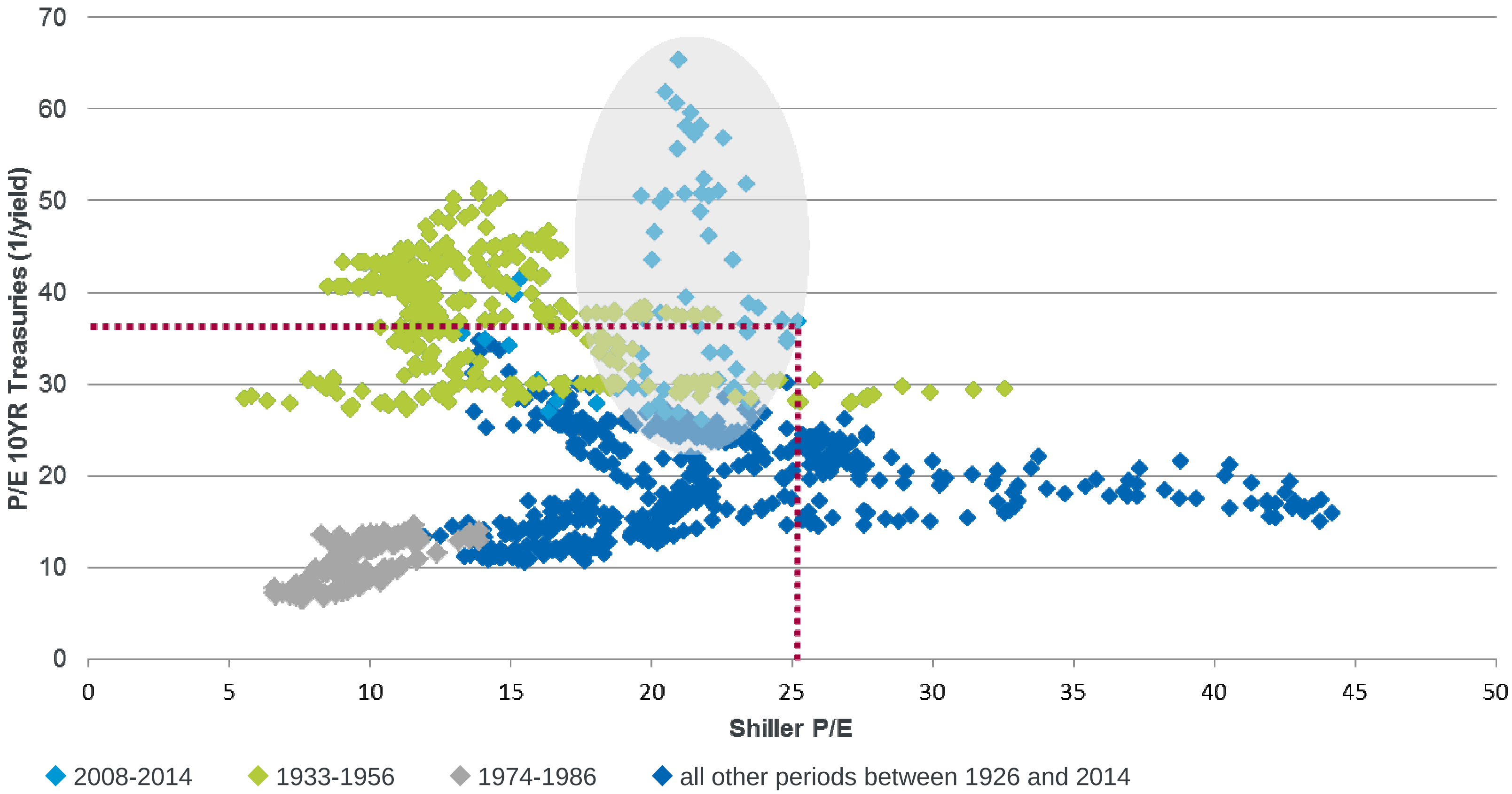


Source: Marcobond

High valuation: US equities more expensive than in 90% of observations starting 1881

Irrational Exuberance (I)? – The impact of bond market valuations

Equities vs. treasuries – P/E (1926-2014)



Low bond yields drive higher equity valuation

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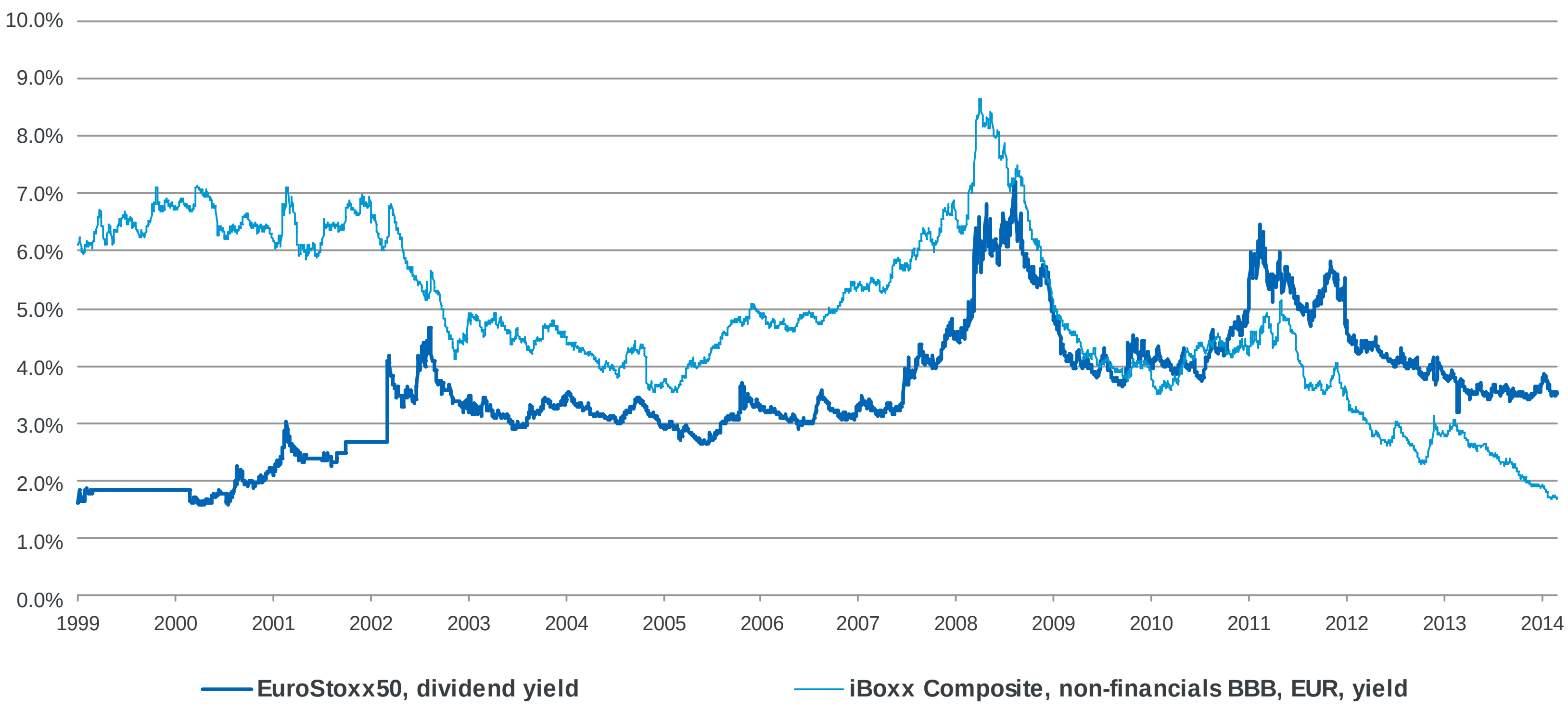
Irrational Exuberance (II)? – The impact of dividend yields

Dividend yield EuroStoxx50 vs. iBoxx BBB Composite (non-financials)



Source: Reuters EcoWin

Dividend yields in the euro-zone exceed BBB corporate yields by factor 2

Investment implication of “Financial Repression” - Risk targeting

Equity underlying	Risk budget target volatility	Volatility forecast	Risk budgeting
Regional benchmark (e.g. DAX, EuroStoxx, S&P 500)	10% p.a.	Historical volatility (e.g. 20d, max. [20d;120d])	Static
Dividend strategy	12% p.a.	Implied volatility	Dynamic (momentum)
	14% p.a.		

Talanx Asset Management: available model kit to adjust for specific needs

Why we predominantly prefer to watch for real assets outside equities

- “Financial Repression” has turned into a structural megatrend
- By consequence, we expect lastingly negative real rates facilitating governments to reduce debt levels
- Fixed income assets may stay structurally overvalued and interest rates - especially in the euro-zone - extremely low for longer
- Historical P/E ratios for equity can systematically be higher than in previous periods, as the risk-free rate is at historical lows (new equilibrium, in line with high Shiller P/E)

In times of negative real rates, dividends from high-quality companies might be the new real coupons

BUT

- Regulatory capital requirements: even volatility-driven investments in equity can (risk-adjusted) be “expensive” for an insurance company
- High short-term cost in a low-yield environment if sharp adjustments of volatility-driven equity exposure are needed
- Expensive Vol-Cap strategies in sideways-moving markets (“are we wrong?”)
- Potential reputational risks from bad timing in phases of high valuations …

Avoid nominal illusion - search for real value

Opportunities in real assets

- The call for equity in times of “Financial Repression” is not risk-free. Downwards market adjustments can lead to unexpected losses, e.g. because of weak timing. Dividend yields could also adjust to bond yield levels rapidly
- Challenges to risk management and the allocation of risk: are we prepared to spend corresponding amounts on equity capital?

Talanx by intention focuses on asset classes with stable running yields

Main conclusion for our investments:

Traditional

- Strong focus on all **bond asset classes** (mainly in EUR and USD), broadening to deeper investment-grade and/or longer duration

New (I)

- Constant/modest increase in **Private Equity** (“averaging through the cycle”) taking financial repression into account. Typically lower accounting volatility than equities

New (II)

- Constant/modest **increase of real estate exposure** by own asset management expertise (challenging long-term play)

New (III)

- Integrating **infrastructure exposure** (challenging long-term play)

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Risk management – An integral part of asset management

Talanx Asset Management uses advanced models for risk management and monitoring

Market risk[1]

- **Def. ALM VaR**

  Maximum loss of market value (from market risk) with a probability of 99.5% and a holding period of 10 days

Credit Risk

- **Def. Credit VaR**

  Maximum loss due to defaults and rating migrations with a probability of 99.5% and a holding period of 1 year

- A stringent **risk budgeting process** ensures that investment risks are supported by insurer's risk-taking capacities
- **Risk controlling** is functionally independent from portfolio management

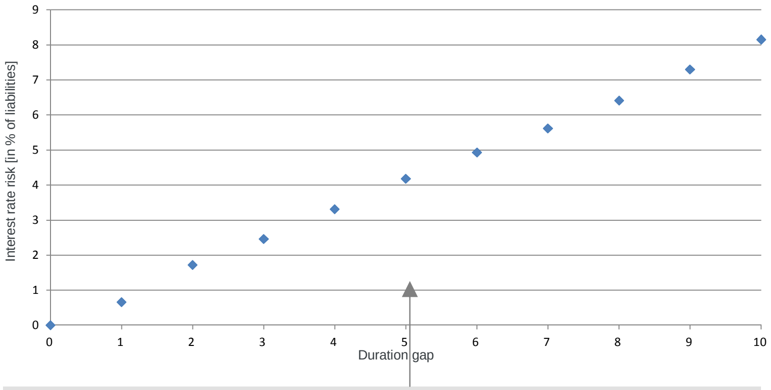
[1] Sublimit for interest only ALM VaR for German Life carriers („Duration match")

Advanced methods and tight monitoring ensure compliance with risk-taking capacity

Interest rate risk – A function of duration gap

SCR interest rate risk (Mkt_{int})

Duration of liabilities 15 years



How to read:

A duration gap of 5 years (e.g. asset duration 10y; liability duration 5y) leads to an interest rate risk of more than 4% of the market value of the liabilities. By closing the gap a reduction of interest rate risk to zero is possible.

- The asset duration impacts interest rate risk, spread risk and policyholder financial options and guarantees
- A perfect match of asset and liability cashflows can eliminate the interest rate risk in the standard formula, whereas the spread risk might rise with increasing asset duration
- ALM VaR and Credit VaR concepts act similarly to the standard model approach
- The reduction of ALM VaR (interest rate risk) frees up risk budget in favour of e.g. Credit VaR (spread risk)

Source: own calculation according to current Solvency II technical specifications:
- EIOPA specification for interest rate curve
- Market value of assets equal to market value of liabilities
- Assets and liabilities are modeled with zero bonds
- Liability duration is 15 years

Targeted shift of risk capital to credit risk

Fixed-income investment universe

Status of Talanx's investment universe in fixed income

Currency largely determined by EUR and USD

Sovereign bonds and regions in Europe, Canada and USA

Financials in different seniorities
- Covered bonds
- Banks - senior and sub-debt (LT II)
- Insurance - senior and sub-debt (LT II)
- Callable structures on sovereign / covered level
- Forward transactions on sovereign / covered level

Industrials
- Senior and hybrids
- German SMEs via "Schuldscheindarlehen"

Investment-grade emerging market corporates
- Natural USD exposure / unhedged (externally mandated)
- Natural EUR exposure / USD exposure hedged in EUR

High-yield products
- Structured credit like CLO (self managed)
- High-yield funds

Derivative instruments
- Basis trades: CDS versus cash bond
- Hedging credit risk with CDS index products

Despite low interest yields: be careful to diversify your investments into (syndicated) loan and bank products!

- - - main investment block

Main investment focus on financials, industrials and well rated emerging market corporate bonds

Assessment of new investment vehicles – Our experience

Be careful to diversify your investments into (syndicated) loan and bank products!

Example 1 (2013/2014): Real estate loans	Example 2 (2013): Syndicated SME loans	Example 3 (2013/2014): Infrastructure Equity / Debt
Value Proposition: diversifying stable asset class, promising yield	**Value Proposition:** diversifying stable asset class, promising yield	**Value Proposition:** Developing and bank-driven market with high growth potential in equity and debt
Our experience: Highly competitive and overcrowded market with high margin compression; no additional fee income (other than banks); fight to become part of structuring teams; complexity is manageable	**Our experience:** market is partly driven by low-yielding KfW/Förderbank exposure, low-yielding asset class with medium to high risks; no additional fee income; high structuring and legal complexity in different jurisdictions	**Our experience:** Buy in of structuring and industry expertise necessary; complex processes; yield compression. But: by teaming up on bigger-sized transactions, yield and cost efficiency targets can be reached
Conclusion: No real investment opportunity especially in Core Europe	**Conclusion:** No realistic invest-ment opportunity, especially in Germany, but investments via public Schuldschein market in Germany feasible	**Conclusion:** Talanx expands its activities within this asset class

Assessing opportunities – always prepared to say "No"

Activites taken in 2013 and 2014

Comments

- Single callables to lengthen duration (Q1 – Q3 2013; underlying dominated by covered bonds)
- Constant use of 5% forward transactions quota for life insurers
- Cautious investment into Italian/Spanish sovereigns and regions (Q3 2013 - Q1 2014)
- Broadening investment universe into emerging markets and sovereign issuer space outside Europe in EUR/USD (e.g. Canada, Australia)
- Stronger emphasis on senior and subordinated BBB -rated investment-grade exposure in financials and industrials
- Steadily, but carefully rising share of investments in private equity, real estate and infrastructure

Balancing liquidity, complexity, yield, research capacity and allocation risk!

Market values (in €m)

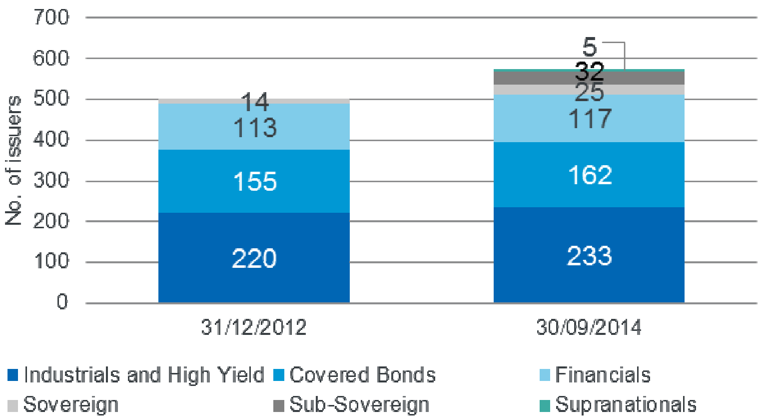
	31 Dec 2012	30 June 2013	30 June 2014
Nominal in €m			
Single callable program[1]		2,214	
Market values in €m			
Forwards	1,866	1,699	1,903
Italian Gov+Financials	1,067	1,478	1,933
Spanish Gov+Regions+ Financials	432	512	1,506
Subordinated Financials	1,966	2,144	2,503
Subordinated Industrials	64	87	136

[1] Mostly core covered and core sovereigns

Actively taking opportunities when positively assessed

Fixed-income investment universe by names

Investment universe by issuers



Comments

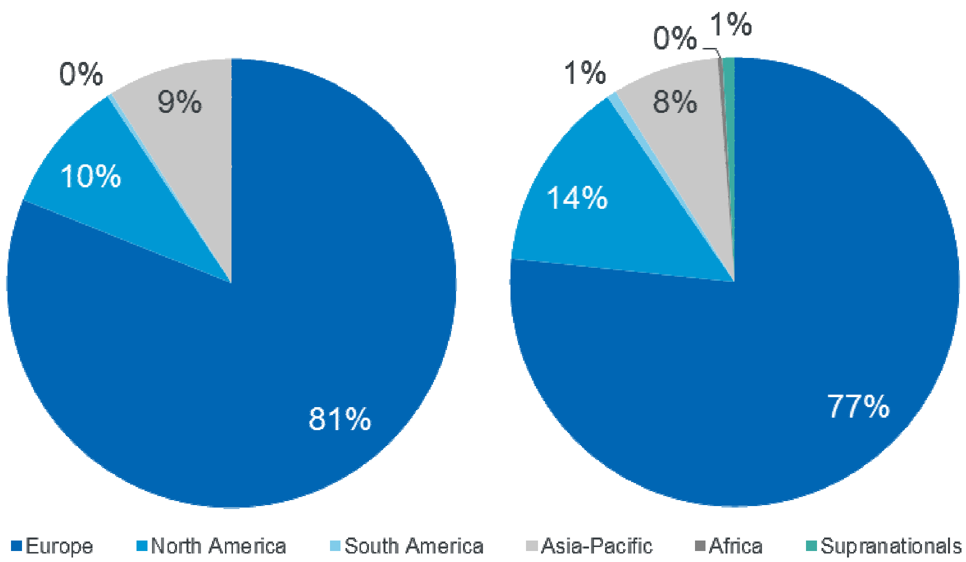
- Since end of 2012, coverage of corporate, sovereign and sub-sovereigns has increased
- Between 2012 and end of September 2014, our fixed-income investment universe has grown by 72 issuers to 574 issuers

- Corporates represent more than 40% of our fixed-income investment universe. This segment has grown particularly through the increased coverage of high-yield issuers over the last 1.5 years
- Even if the share of sovereigns, sub-sovereigns und supranational issuers appears small compared to the entire fixed-income investment universe, their coverage has increased substantially over the last 1.5 years
- Our coverage of financial institutions has stagnated over the last 1.5 years due to the elimination of weakening credits

Broadening of investment universe helps improving diversification

Fixed-income universe by region

December 2012 | **September 2014**



Comments

- The geographical distribution of our investment universe has not materially changed since 2012
- 77% of all issuers are based in Europe, 14% in North America
- The coverage of emerging market credits currently represents a small fraction of investments

Roughly three out of four investments in European names

Development of asset allocation (I)

Asset allocation by asset classes

Asset Allocation[1]	Trend	6M 2013	9M 2013	2013	Q1 2014	6M 2014
Fixed-income securities		88.2%	89.2%	89.9%	89.3%	89.5%
Sovereigns		28.6%	28.7%	28.6%	28.5%	28.3%
▪ Non-emerging markets		17.2%	17.4%	17.6%	17.7%	18.0%
▪ Guaranteed		8.8%	8.5%	8.2%	7.7%	7.5%
▪ Emerging markets		2.5%	2.5%	2.7%	2.7%	2.6%
▪ T-Bills		0.2%	0.2%	0.2%	0.3%	0.1%
Semi-sovereigns		4.0%	4.3%	4.4%	4.7%	4.7%
Covered bonds		27.3%	27.4%	26.7%	25.8%	25.6%
ABS/MBS		1.4%	1.4%	1.4%	1.3%	1.3%
Corporates		26.9%	27.6%	29.0%	29.2%	29.6%
▪ Financials		15.3%	15.6%	16.4%	16.4%	16.5%
▪ Industrials		11.3%	11.7%	12.4%	12.5%	12.8%
▪ High yield		0.3%	0.3%	0.3%	0.3%	0.3%
Interest derivatives		-0.1%	-0.3%	-0.3%	-0.2%	0.0%
Equities		0.8%	0.9%	0.9%	0.9%	0.9%
Equities net		0.8%	0.8%	0.9%	0.8%	0.9%
Alternative investments		2.0%	2.1%	2.1%	2.1%	2.2%
Short-term investments		4.9%	3.8%	3.2%	3.8%	3.7%
Derivates		0.0%	0.0%	0.0%	0.0%	0.0%

[1] Shows the Talanx Group's assets managed by Talanx Investments

Dominance of fixed-income investments – scope to raise the contribution of alternative assets

Development of asset allocation (II)

Asset allocation by currencies and by ratings

Foreign currencies[1]	Trend	2011	2012	Q1 2013	6M 2013	9M 2013	2013	Q1 2014	6M 2014
USD		15.1%	14.8%	14.3%	14.5%	14.6%	14.7%	14.8%	15.2%
GBP		3.1%	3.3%	3.2%	3.1%	3.2%	3.3%	3.4%	3.4%
AUD		2.6%	2.3%	2.3%	2.0%	2.0%	1.9%	1.9%	2.0%
others		5.5%	5.5%	6.9%	6.5%	6.6%	7.0%	7.0%	7.0%
Ratings[1]	**Trend**	**2011**	**2012**	**Q1 2013**	**6M 2013**	**9M 2013**	**2013**	**Q1 2014**	**6M 2014**
AAA		38.7%	33.9%	33.4%	33.4%	33.2%	30.4%	29.2%	33.6%
AA		28.3%	31.9%	30.4%	30.1%	30.2%	31.7%	31.2%	26.0%
A		20.4%	18.3%	20.2%	19.7%	19.7%	20.3%	20.3%	23.1%
BBB		9.5%	11.9%	11.8%	12.6%	12.7%	13.4%	15.3%	13.2%
< BBB -		2.4%	3.3%	3.3%	3.4%	3.3%	3.5%	3.2%	3.3%
n.r.		0.7%	0.7%	0.9%	0.8%	0.8%	0.8%	0.8%	0.8%
Ø interest coupon		4.20%	3.93%	3.90%	3.85%	3.80%	3.79%	3.77%	3.76%
Ø duration (modified)		6.27	6.84	6.70	6.84	7.00	7.03	7.26	7.39

[1] Shows the Talanx Group's assets managed by Talanx Investments

Increase in non-euro exposure – average fixed-income rating in A area maintained

Exposure in GIIPS markets

Asset allocation – GIIPS exposure (in €m)

Market value 6M 2014	GR	IE	IT	PT	ES	Total
Sovereigns	12	230	1,466	35	710	2,452
Semi-sovereigns					641	641
Financials		11	467	5	155	637
Industrials		50	500	4	263	816
Covered bonds		127	922		368	1,417
Other		272				272
Total	**12**	**689**	**3,354**	**43**	**2,136**	**6,235**

Market value Q1 2014	GR	IE	IT	PT	ES	Total
Sovereigns	7	228	1,347	26	682	2,291
Semi-sovereigns					574	574
Financials		10	410	5	131	557
Industrials		50	482	3	233	769
Covered bonds		130	848		367	1,344
Other		237	19			256
Total	**7**	**656**	**3,106**	**35**	**1,987**	**5,790**

Market value 2013	GR	IE	IT	PT	ES	Total
Sovereigns	6	258	1,143	20	107	1,535
Semi-sovereigns					282	282
Financials		10	335	2	123	470
Industrials		49	386	3	203	641
Covered bonds		137	854	8	402	1,401
Other		234	19			253
Total	**6**	**688**	**2,738**	**34**	**1,117**	**4,582**

Comments

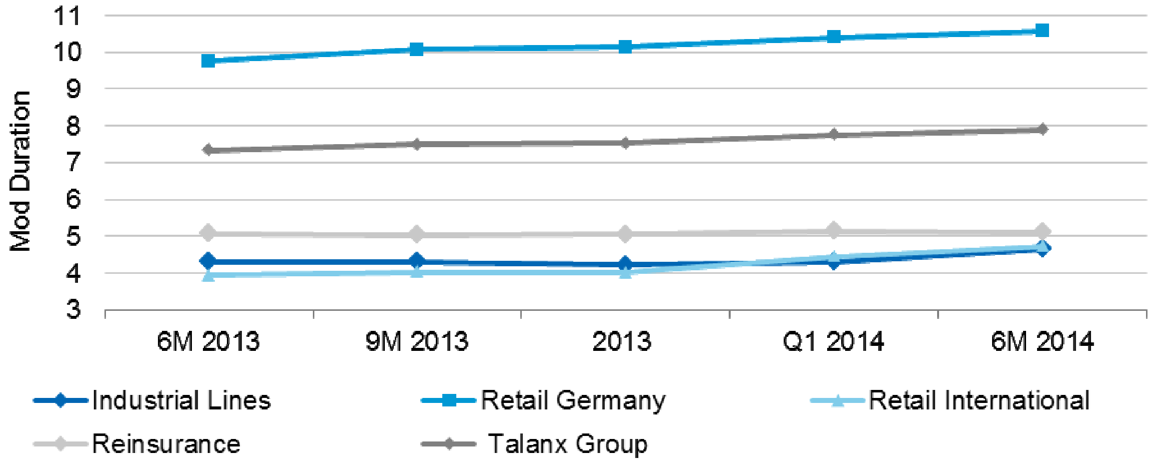
- End of June, total GIIPS exposure incl. Private sector assets at ~4.5% of total assets
- Talanx holds roughly €2.5bn in GIIPS sovereign bonds
- Talanx over time has slightly raised its exposure to Italian and Spanish issuers very selectively
- Since 31 Dec 2013, additional investments of ~€1.7bn mainly in sovereign (~€0.9bn) and semi-sovereign (~€0.4bn), but also in selected financial and corporate issuers
- Market values positively impacted by favourable spread development (Italy: -60 bps for 5-year government bonds, -45 bps for 10-year bonds; Spain: -58bps for 5-year and also -58 bps for 10-year government bonds)
- Total unrealised gains increased to €223m (Dec 2013: €74m)

Slight increase in GIIPS investments – significant increase in unrealised gains

Modified duration levels

Asset allocation – Modified duration by segment

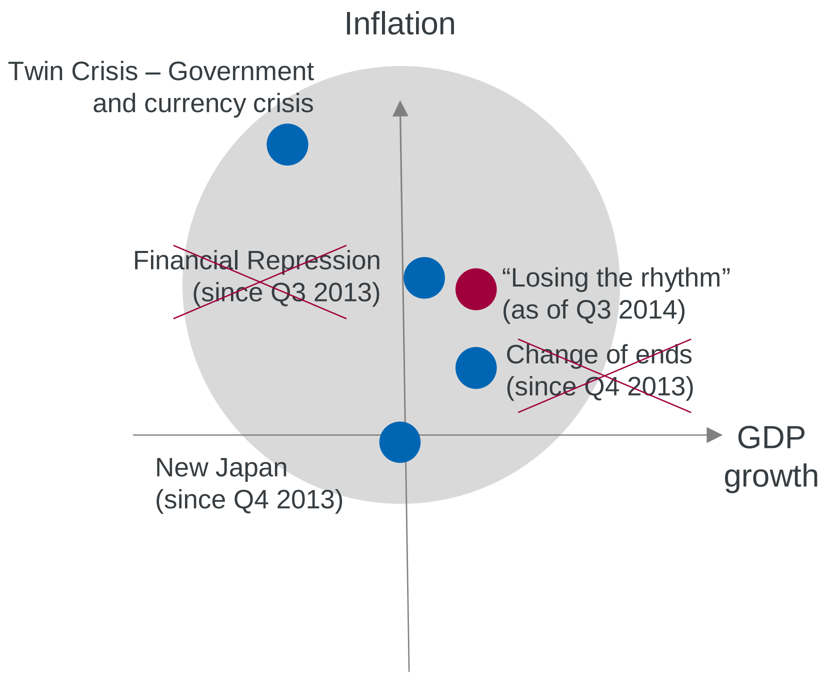
Modified Duration	6M 2013	9M 2013	2013	Q1 2014	6M 2014
Industrial Lines	3.81	3.81	3.72	3.81	4.15
Retail Germany	9.25	9.57	9.63	9.89	10.08
Retail International	3.44	3.52	3.51	3.95	4.23
Reinsurance	4.58	4.54	4.55	4.64	4.60
Talanx Group	**6.84**	**7.00**	**7.03**	**7.26**	**7.39**



Steady increase in asset duration to improve the asset-liability match and to benefit from a term premium

Tactical asset allocation as part of the investment process

Macroeconomic scenario analysis



Comments

- Constraints for tactical leeways in asset allocation and segment picking are clearly defined for each individual entity through ALM and risk capital limits
- Tactical Asset Allocation (TAA) process aims to identify risks and opportunities from a medium term time horizon and focuses on identifying turning points in the economic and capital market cycles
- A regular fundamental economic scenario analysis over the coming 12-18 months forms the starting base of tactical asset allocation process
- A range of TAA models supports the decision making and portfolio implementation

Monitoring markets for tactical risks and opportunities within ALM and risk capital constraints

Focus on a disciplined research and investment process

- Strong track record to avoid impairments based on a structured and disciplined research and investment process

  - We have not experienced defaults or restructurings of corporate bonds over the last couple of years

  - We have been able to limit the impact of defaults or restructurings of financial bonds. A disciplined risk classification approach ensures that we only invest in subordinated bonds of high-quality financial institutions

  - A number of European banks have conducted bond restructuring or were subject to a bail-in due to asset quality issues and undercapitalisation. We have not been invested at all in such instruments, or have proactively reduced our exposure, respectively

Strong track-record to avoid defaults

Talanx Investments and key credit events

Key credit events and our exposure

Key credit event	Our exposure
Bail-in of subordinated bonds of Irish banks, e.g. Allied Irish Bank (April 2011)	We held no investments in subordinated bonds
Bail-in of subordinated bonds of Spanish banks, e.g. Bankia (2013)	No investments in affected tier 1 instruments. Tier 2 instruments had matured or were disposed in 2012
Bail-in of subordinated bonds of Hypo Alpe Adria (2014)	We have only been invested in covered bonds and government-guaranteed senior unsecured notes
Bail-in of subordinated instruments of Dexia (2011)	We have only been invested in senior and covered bonds
Restructuring of Portuguese banks	We have divested all seniorities of Portuguese banks in April 2011

Talanx without any meaningful exposure on recent key credit events

Impairment history

Development of impairments 2010 – 2013

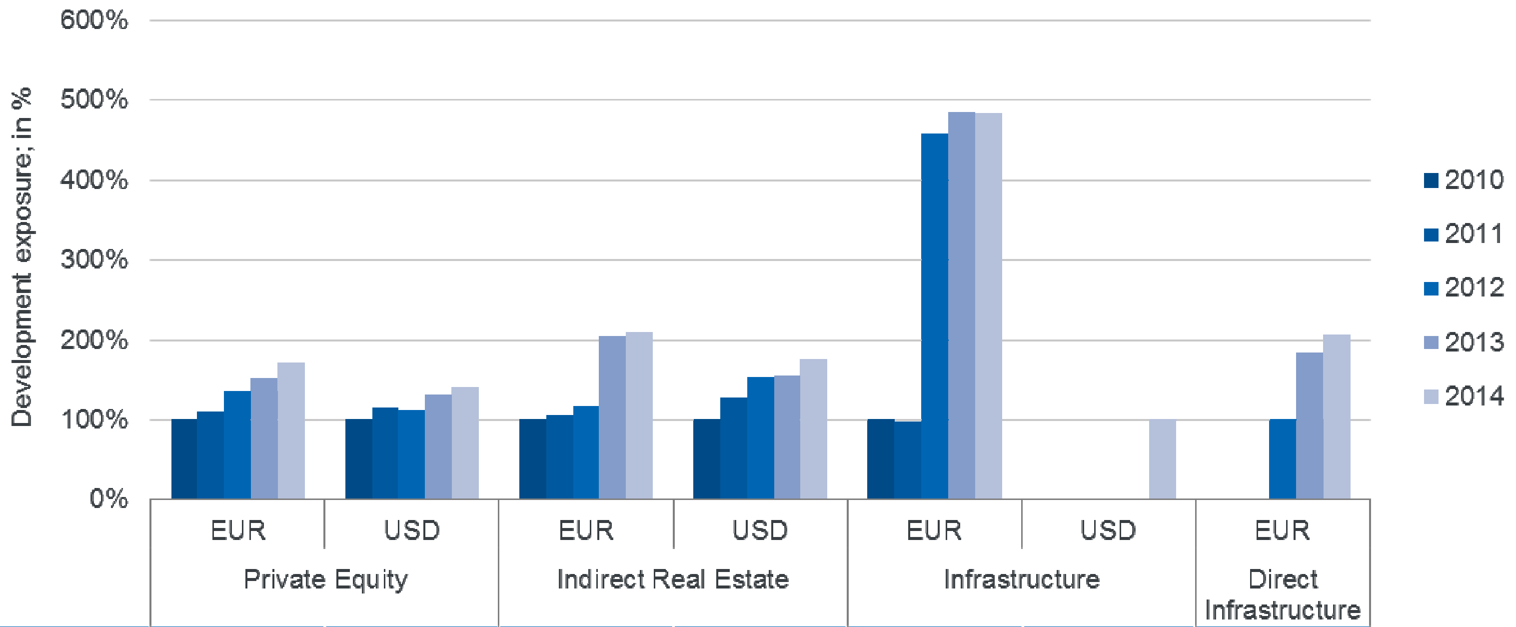
Impairments[1] (€m)	2010	2011	2012	2013
Participations	(0.5)	(0.2)	(0.2)	(0.0)
Real estate funds	(6.3)	0.0	(15.1)	(27.8)
Fixed income	(17.5)	(29.7)	(25.3)	(7.2)
Private Equity	(25.7)	(20.6)	(6.9)	(14.2)
Equities	(44.7)	(92.1)	(10.3)	(12.2)
Total	**(94.8)**	**(142.6)**	**(57.8)**	**(61.5)**

[1] Without depreciation of real estate assets

Continously low level of impairments

Development of our exposure in alternative investments

Development alternative investments exposure[1]



Exposure 30 June 2014 in million	966	907	599	513	122	35	257

[1] Exposure = NAV + open commitment; all figures per 30 June

Developing to meaningful contributors

Agenda

I	Organisational set-up and process	Dr. Immo Querner
II	Investment challenges and responses	Dr. Thomas Mann
III	Case study I: Infrastructure investments	Dr. Bernhard Graeber
IV	Case study II: Direct real estate investments	Thomas Fiebig
V	Risk measurement, evaluation and control	Dr. Dirk Erdmann
VI	Concluding remarks	Dr. Immo Querner

Key essentials

- Investment opportunities for institutional investors in the infrastructure market grow substantially
- Since Q1 2014, we have built up a team of experienced infrastructure experts
- Initial track-record of successful transactions in various sub-segments
- High quality investments due to strict selection criteria and risk management guidelines
- Excellent access to project opportunities via extended networks
- Investment volume target: €1.7bn until 2017

The European infrastructure market: overview

Economic Infrastructure			Social Infrastructure
Transport	**Energy & Utility**	**Communication**	
▪ Toll roads ▪ Ports ▪ Airports ▪ Rail	▪ Gas distribution & storage ▪ Electricity distribution & generation ▪ Water treatment & distribution ▪ Renewables	▪ Cable networks ▪ Satellite systems	▪ Healthcare ▪ Education ▪ Social housing ▪ Waste treatment ▪ Culture

- Current annual economic infrastructure spending in Western Europe: 2.6% of GDP
- Current annual social infrastructure spending in Western Europe: 1.0% of GDP

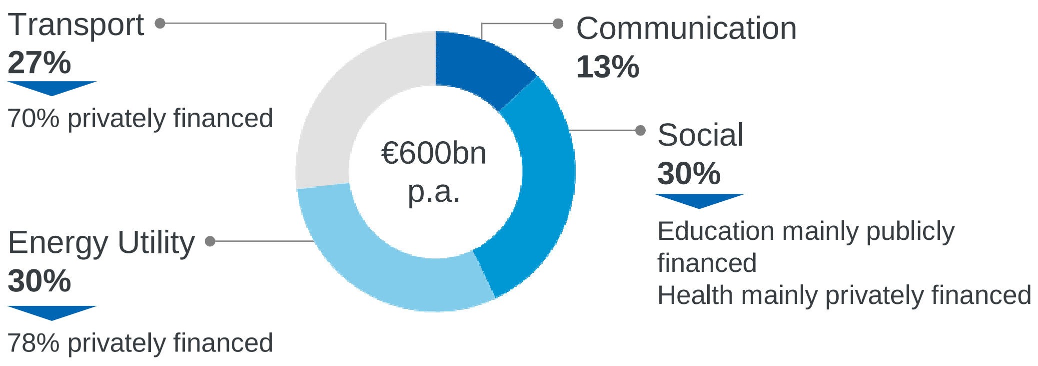
Total demand for infrastructure investments well over €600bn p.a.[1]

[1]Source: EIB, 2013 Private Infrastructure Finance and Investment in Europe

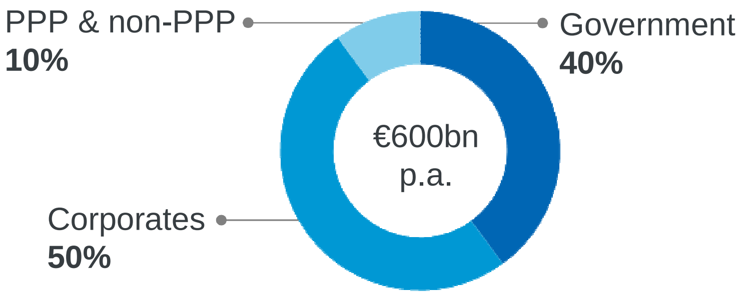
Infrastructure a major opportunity in the European investment universe

The Western European infrastructure market: financing trends

Infrastructure investments by sub-sectors (2013)



Infrastructure investments by financial provider (2013)



Source: Wagenvoort et.al (2010): Infrastructure Finance in Europe . Composition, evolution and crisis impact; EIB
Della Croce; Yermo (2013): Institutional Investors at Infrastructure Financing; OECD

Structural shift

- Public funding hindered by fiscal constraints
- Banking sector with a more restrictive lending policy driven by bad loans and by regulation
- Utilities operating in a much tougher environment

- Institutional investors in a central role to provide long-term capital

  ▸ opportunities for long-term (fairly) inflation-protected returns in a persistent low-yield environment
- Investments in real, productive assets via equity and via debt

Infrastructure financing gap to be filled by private sector as traditional financiers fall behind

Bridging the financing gap

Traditional capital provider	Actions	Bridging the gap
Sovereigns	▪ Further deregulation and liberalisation and/or extending PPP-facilities in order to attract long-term capital ▪ Requirement: risk-transfer mechanism (mainly demand-risk) via e.g. – minimum revenue guarantees – incentive regulation – BOOT structures – feet-in-tariffs – governmental guarantees	▪ Institutional Investors (e.g. pension funds, insurers, sovereign wealth funds) provide long-term capital via equity and debt in order to find attractive yield pick-ups – along with other investor classes ▪ Structural match of long-term investment needs in infrastructure finance and asset duration targets of e.g. insurers
Corporates	▪ Disposal of regulated assets or seeking for strategic investors	
Banks	▪ More restrictive lending policy (re-capitalising and de-leveraging; banks leaving project finance business)	

Source: Brodehser (2013): Infrastrukturfinanzierungen: Ein Markt mit Zukunft für Banken und institutionelle Investoren; ZDBID: 5868-3, 66, 10, pp: 519-523.

Infrastructure as distinct asset class for equity and debt allocation

Attractiveness of sub-sectors for Talanx investment

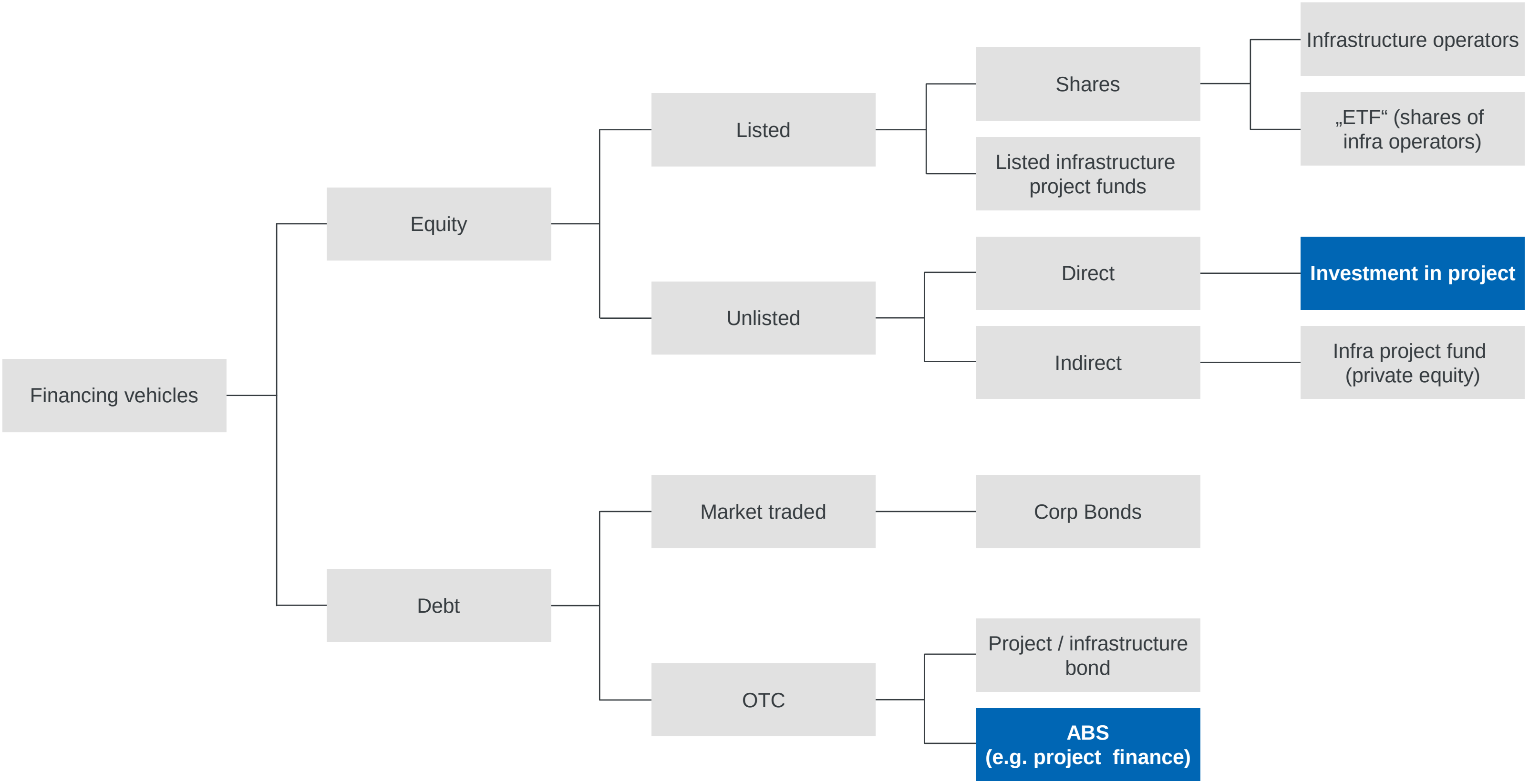
Subsector	Attractive-ness	+ Pros	- Cons	Trend
Transport		▪ Demand-risk mitigation to public sector	▪ Competition intensity; bidding processes; yield compression	▪ Growing number of project opportunities (e.g. Germany) due to fiscal constraints
Energy & Utility		▪ Regulated revenue flows ▪ Traditional providers fall behind ▪ New sectors like green energy evolve	▪ Regulatory risks ▪ Competition intensity for unlisted assets	▪ Growing number of project/transaction opportunities due to fudamental market changes
Communication		▪ Pure investment in separated passive infrastructure	▪ Mainly sell&lease back structures (counterparty risks) ▪ Still few opportunities	▪ EU: €250bn investment demand for passive communication infrastructure in line with digital agenda
Social			▪ Still few opportunities ▪ Mainly bidding processes	▪ Growing number of project opportunities due to fiscal constraints

Source: Bouwfonds Investment Management (2014): Report: Investitionen in Kommunikationsinfrastruktur

Due to structural shift new opportunities are raising

Financing ways for infrastructure assets

Main financing vehicles for infrastructure investment



*Sourced: OECD (2012): Infrastructure Investment in New Markets

Talanx focus on direct investments and future project finance

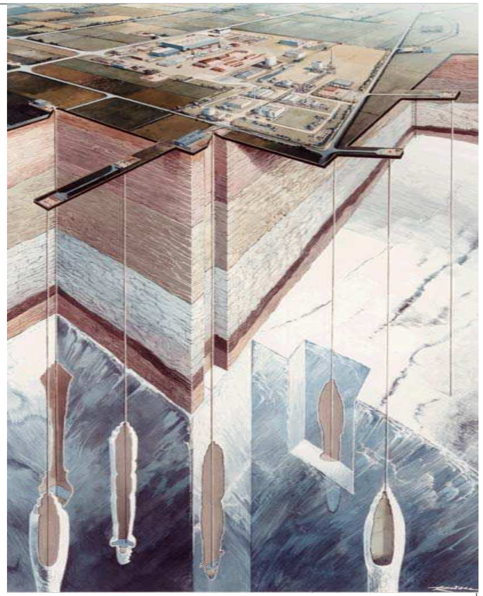
Talanx‘s infrastructure „ideal“ investment profile

What:	▪ Regulated asset class
Why:	▪ Long-term, predictable income streams ▪ Low correlations to other asset classes ▪ Professional process set up from sellers across all segments
How:	▪ Direct investments (equity) or project debt provider (ready by end of 2014) – no fund participation
Where:	▪ Western Europe
Ticket size:	▪ 20-100 Mio. EUR p.p. (equity) ; 50 – 150 Mio. EUR. (debt)
Investment horizon:	▪ > 20 years
Restrictions:	▪ No complex deal structures ▪ Matching GDV[1]-characteristics for secure infrastructure investments
Investment target:	▪ €1.7bn (debt & equity) with IRR of at least 6% (pre-tax, equity)

[1] GDV German Insurance Association

Regulated assets match long-term, annuity-type liabilities – provider of debt and equity

Talanx‘s infrastructure investment team: ready to deliver



New division:
- Fully established in 2014
- Responsible for origination, implementation and management of investments
- Staffed with experienced professionals from the relevant sectors

New process:
- Risk management unit for infrastructure investments established
- Dedicated investment guidelines
- Ready to also start debt financing by end-2014

Early success:
- Diversified portfolio (energy generation, transmission network, storage)

Prospects:
- Start with direct investments in regulated business segments such as grid networks and wind farms in Germany (2014)
- Ramp up direct investments across Europe with reliable regulation and business environment such as water supply or social infrastructure for 2015/2016
- Start with debt financing (end of 2014)

Professional team and internal processes established in January 2014

Talanx‘s infrastructure investment set up

Infrastructure investments
Origination & implementation

- Screening the market for investment opportunities and active participation in bidding processes
- Acquisition of targets through detailed analysis and strict contract management in line with investment guidelines
- Portfolio management

Credit office

- Risk management & risk controlling in accordance with investment guidelines

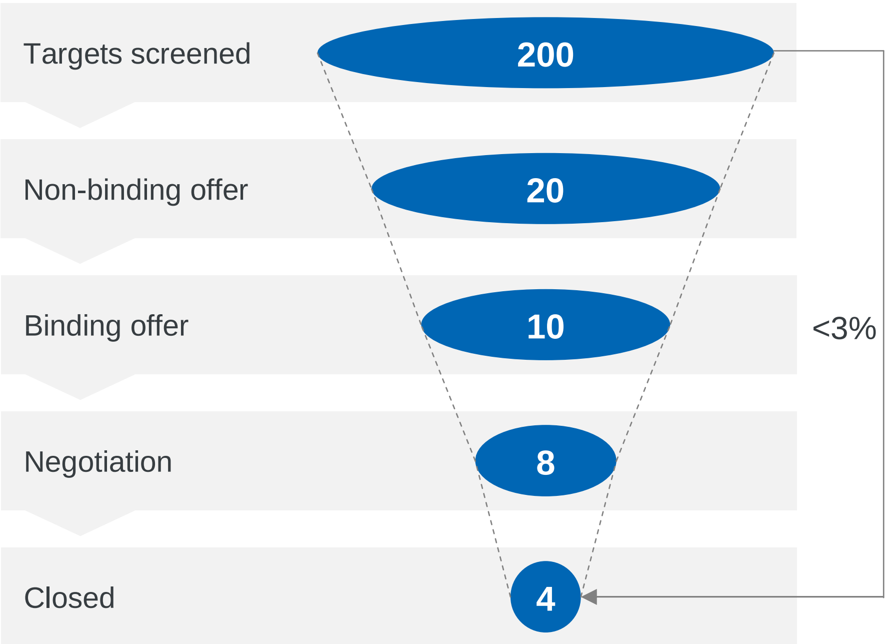
Success Factors

- Speed, flexibility, experience, reliability, extended networks and an open-minded success oriented team
- Establishing partnerships for origination and portfolio management

Infrastructure investments supported by credit office functions

Project selection

Transactions in 2014 YTD[1]



Comments

Focus on quality in transactions

- Origination and portfolio management managed by the same division

Track-record of being selective

- Less than 3 % of screened targets turned into transactions
- Failure on binding offer stage mostly due to price (e.g. bidding process)
- Failure in negotiation stage mostly due to changing parameter's on sellers side

Key selection criteria

- Investment guidelines (regions, sectors)
- Ticket size
- Transaction partner
- Intensity of competition for project (bid vs. direct negotiations)
- Profitability calculated on conservative modeling assumptions

[1] January to September 2014

Focus on quality of transactions in terms of long-term profitability and sound business case

Current portfolio (Core Europe)

IVG Passion for Real Assets

IVG Kavernenfonds II
Oil & Gas caverns (Storage)
(Equity exposure: €55m)

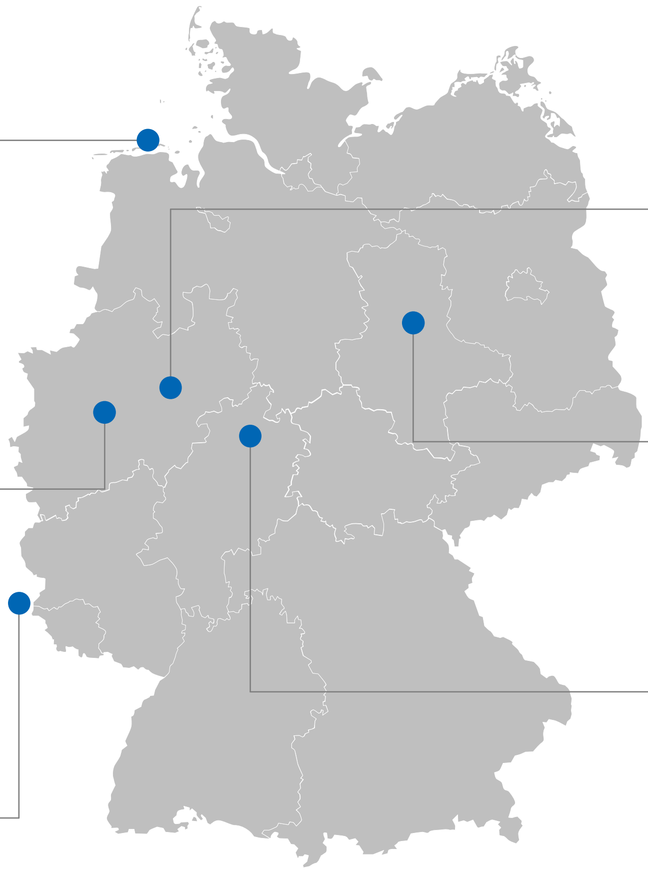
amprion

Transmission network

Stake with consortium
(Equity exposure: €100m)
(Incentive regulation)

enovos

Utility based in Luxemburg
Minority stake
(Equity exposure: €40m)



Windfarm Portfolio:

ABO WIND

20 MW Wind farm Mörsdorf-Nord

ENERCON ENERGIE FÜR DIE WELT

46 MW Wind farm Mahlwinkel

ABO WIND

30 MW Wind farm Schlitz-Berngerode

Equity exposure: €170m

Diversification of portfolio – current focus Germany – future outlook Europe

Example 1: Wind projects in Germany – The market

Market and regulation:

- Currently approx. 3.000 MW annually newly installed wind capacity in Germany
- Driven by a feed in tariffs granted for 20 years
- Matured market environment (suppliers, technical asset management, consultants)
- Reliable regulation (no indication of retroactive measures)
- Preferred and guaranteed grid access
- Appropriate returns on investments still possible given early access to projects of decent size

Investments in wind farms as prime example of direct investments in regulated asset classes

Example 1: Wind projects in Germany – Our portfolio

- In 2014, 96 MW with an investment volume of €170m acquired in total
- Equaling an annual energy production of 220 m kWh – enough to supply cities like Würzburg or Cambridge
- Annual turnover of >€19m
- IRR (expected) at 6-7%

Success factors

- Early-stage investments: in construction phase (given obtained approvals)
- Diversified by locations, developers and turbine suppliers (e.g. Nordex, General Electric, Enercon)
- Broad network to get access to the most promising projects
- Reliable project developers

Attractive profitability figures matched with well predictable risk exposure

talanx.

Example 1: Wind projects - Investment and decision process

	Due Diligence:	**Decision:** decision and closing of transaction	**Investment:** construction phase preferably EPC (time-frame depending on size)	**Operation:** long-term O&M contracts; reliable technical and commercial asset management via contractors	**Liquidation:** dismantling of wind farm (e.g. sales of components)
	2-3 months	2 weeks	6-9 months	20-30 years	6 months
Main tasks	▪ Due Diligence, contract & price negotiations	▪ Internal decision ▪ Closing of transaction	▪ Construction oversight together with external consultants	▪ Contract management ▪ Review of performance and efficiency improvement ▪ Replacement decision	▪ Coordination of liquidation process ▪ Managing exit process
Potential hickups	▪ Permits, way of rights, structural set-up	▪ -	▪ Delay of commissioning (partly shift of risk in contracts with bonus/ malus incentives	▪ Performance of contractors	▪ Sales process and negotiation ▪ Pricing environment

Standardized investment & decision process

Example 2: Water supply in Portugal (I)

Transaction profile

- 49.9% stake in Indaqua S.A.
- Transaction volume: ca. €50m
- Sewerage and water supply in Portugal
- ca. 200,000 customers
- 465 employees
- >€86m in revenues
- Closing: October 2014

Regulation profile

- Long-term concessions (up to 50 years) – (monopoly over time)

Profitability

- IRR after tax > 10% (exp.)

Success factor closing

- Bilateral transaction opportunity presented via personal relations with seller
- Proactive contract negotiations

Success factor post-closing

- Proactive management approach

Attractive water supply deal in Portugal as an example for strong network

Example 2: Water supply in Portugal (II)

Objectives

- Direct investment in existing company
- Proactive investment management (50% board seats)

Additional chances

- Participation in further privatisation in Portugal
- Beneficiary from the company‘s international expansion

Risks

- General regulatory adjustments
- Alignment with company management

Footprint established to get access to further deals from privatisation in Portugal

What's next…

Targeted diversification of equity investments across Western Europe with further diversification in subsectors:

- Wind farm investments in Germany and France
- Transmission networks (gas & electricity)
- Social infrastructure

Establishment of debt finance pipeline

- e.g. debt finance of offshore wind farm

Investment volume target: €1.7bn until 2017

Ramp up of investments across all segments of the sector

Agenda

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III	Case Study I: Infrastructure investments	Dr. Bernhard Graeber
IV	Case study II: Direct real estate investments	Thomas Fiebig
V	Controlling and measuring/evaluating risks	Dr. Dirk Erdmann
VI	Concluding remarks	Dr. Immo Querner

Key essentials

- Talanx Immobilien Management (TIM) manages direct real estate assets for the Talanx Group
- Highly sophisticated team of specialists covers the entire real estate value chain
- Investment focus on long-term stable and secured rental income
- Capability to grow the asset base in challenging market environment
- Strong market network and lending activities give off-market access to attractive deals
- Mezzanine financing activities of strategic partnerships secure deal-flow in prime locations
- A+ rating by Scope – a very high degree for structuring processes and risk control

Overview of Talanx‘s real estate management

Real estate management services for all companies of the Talanx Group are provided by:

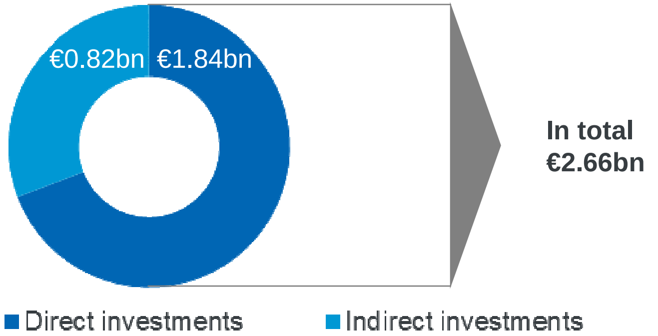
Talanx Immobilien Management (TIM)
Direct assets

Talanx Asset Management (TAM)
Indirect assets

Comments

- TIM is in charge of the whole Germany based real estate portfolio
- Non-German real estate universe is covered by indirect funds investments (mainly USA, Europe, Asia)

Real estate assets under management



Example/Illustration: Performance special property fund GIS 1 managed by TIM

total return	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GIS 1	7.1%	6.5%	4.1%	6.2%	7.2%	8.2%	2.5%	4.1%	2.3%	5.6%	8.0%
DIX[1]	2.9%	1.1%	0.0%	1.1%	6.4%	3.2%	1.8%	4.0%	5.5%	4.4%	5.1%

net cash flow yield	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GIS 1	6.2%	6.4%	6.3%	6.1%	5.9%	6.0%	5.6%	5.1%	4.8%	4.5%	6.9%
DIX	4.8%	4.5%	4.4%	4.4%	4.5%	4.9%	5.0%	4.9%	5.3%	5.2%	5.3%

[1]DIX = German property index

Talanx real estate management provides state-of-the-art real estate investment services

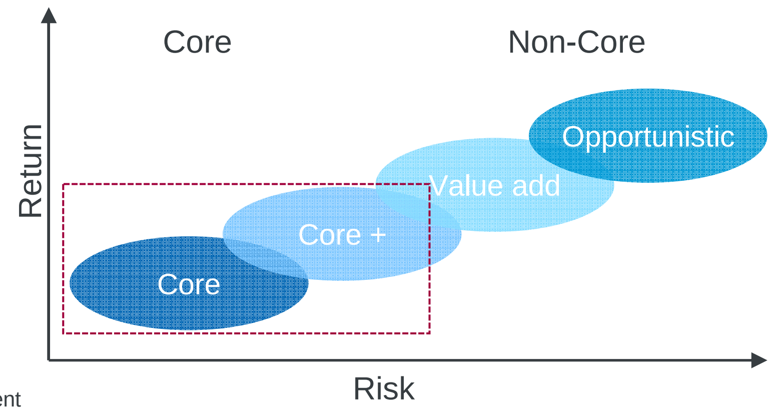
Direct investments in real estate properties

Investment focus

- General focus: real estate core and core+ (i.e. real estate incl. core developments) assets
- Sectoral focus: office, residential, retail (high street and retail parks) and logistics (new since 2013)
- Regional focus: high-end properties in top locations in German metropolitan areas (logistics in the vicinity of transport “hotspots”)
- Preferance for multi-tenant buildings with object sizes preferably between €10m and €100m
- Income: focus on long-term stable and secured rental income
- Value add assets (e.g. development in existing portfolio) only limited proportion of strategic portfolio

Definitions

- **Core assets:**
  generally high quality real estate assets, a stable tenant base, limited leasing risk, conservative yield-focused return targets, and a modest expectation for capital appreciation
- **Core+ assets:**
  typically smaller assets in cities outside the top-7, provided they are well located, well leased, no near-term rollover exposure, traditional property type



Source: J. Linsin in „Praxishandbuch Immobilienmarktrisiken“, Talanx Asset Management

Defensive investment style

Specialised teams covering the property value chain

Real estate investments/finance
Staff: 9

- Sales and acquisitions
- Investment due diligence
- Real estate finance
- Real estate M&A processes and structuring JVs
- Product development
- Research

Real estate letting
Staff: 5

- Tenant acquisition
- Coordination of agent activities
- Tenant management
- Nationwide letting expertise supported by own offices in Hamburg, Cologne, Munich
- Negotiation of rental contracts
- Research

Real estate project management
Staff: 8

- Technical due diligence
- Development of utilisation concepts
- Cost-benefit analyses & feasibilty studies
- Project management (all work phases)
- Management of contruction and building activities

Real estate asset management
Staff: 5

- Risk-return oriented portfolio management
- Strategic asset management
- Asset and portfolio enhancement strategies
- Due diligence
- Investor reporting

Real estate controlling & risk management
Staff: 5

- Real estate controlling & reporting
- Budget planning & controlling
- Performance measurement/benchmarking
- Risk controlling
- „Center of competence“ for real estate Tax, IT &valuation

Real estate property management
Staff: 20

- Tenant and lease management
- Rent and service charge collection
- Opex an capex budget and expenditure management
- Procurement an contractor management
- Insurance management and property acccounting

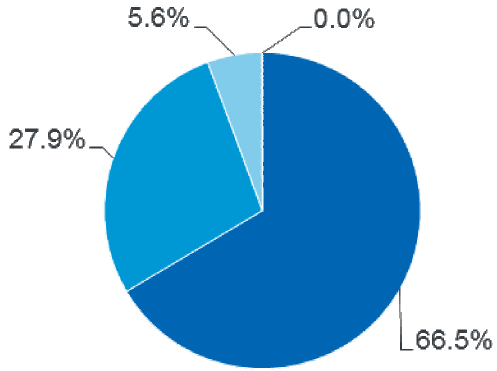
Talanx Immobilien Management (TIM) covers the entire value chain

Direct real estate investments at Talanx Immobilien Management

Investment structure in direct real estate (total real estate under management: €1.84bn)

Allocation by type of area

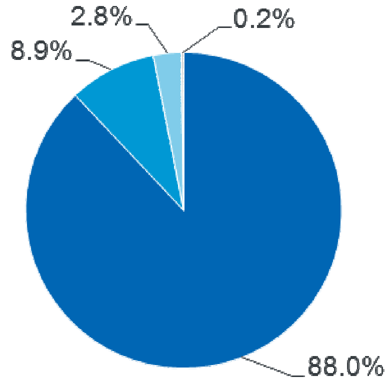
- Main focus on German Top-7-Cities
- Sites from other big cities to improve diversification with some yield pick-up



- Top-7 cities €1.2bn
- Other cities €0.1bn
- Other big cities €0.5bn
- Foreign countries[1] <€0.1bn

Sector allocation

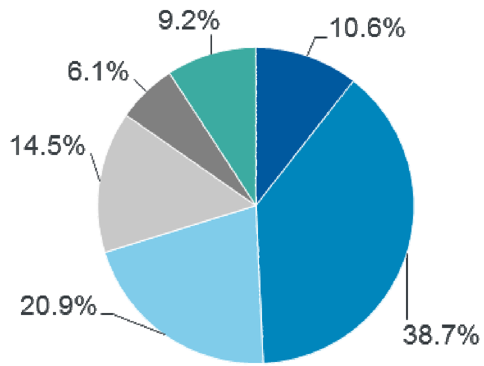
- Emphasis on offices
- Increasing proportion on logistic properties



- Office €1.6bn
- Logistics €0.1bn
- Retail €0.2bn
- Other[2] <€0.1bn

Size class allocation

- About 75% of assets between €10m and €100m
- More than 100 properties in total



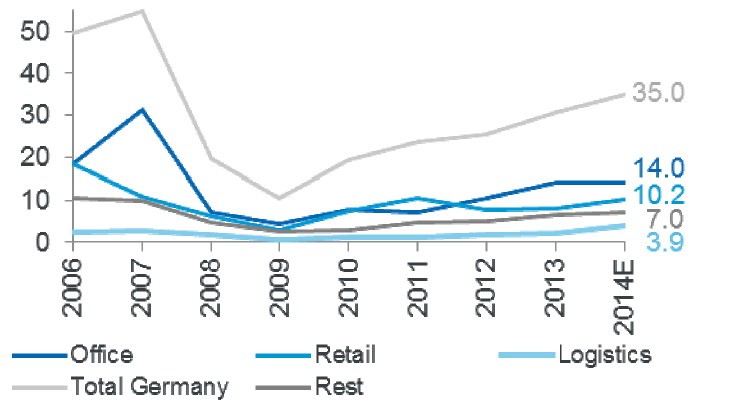
- €0m - €10m
- €50m - €100m
- €10m - €25m
- €100m - €150m
- €25m - €50m
- €150m - €200m

[1] Investment in Brussels; [2] e.g. Parking

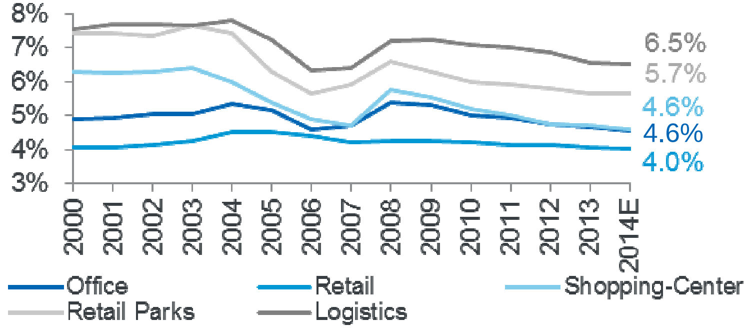
Focus on offices in major business centers in Germany, diversified by size and numbers

German real estate investment market

Development transaction volume (in €bn)



Development yields[1] in sectoral and prime locations



[1] Net initial yield (German Big-7-Cities)
Source: JonesLangLasalle, Investment Market Overview, 2014

Comments

- According to a market survey by JonesLangLasalle, transaction volume for Germany is expected to increase to ca. €35bn in 2014, the highest level since 2007
- Share of transaction volume for logistic properties increased slightly from 8% (2007) to 11% (2013)
- Prime yields are under pressure due to strong demand
- Yields to approximately reach the moderate levels of 2007, while the market conditions appear to be different
- Since 2010 the average office vacancy rate decreased continously in German Top-7-cities

2010	2011	2012	2013	2014E
10.1%	9.1%	8.6%	8.2%	7.9%

Investment market for real estate is challenging, mainly due to increased demand

Challenging environment in Germany for direct real estate investments

Real estate market environment

Scarcity of prime investment opportunities for risk-averse investors

High demand for properties

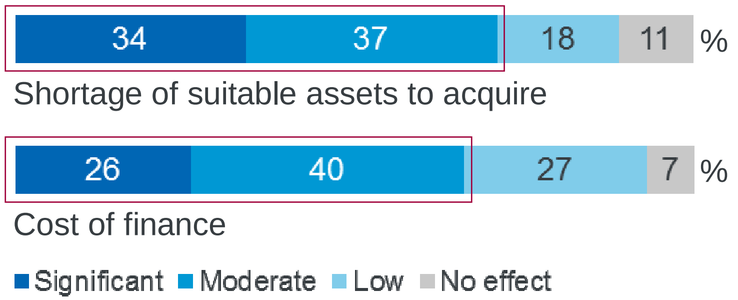
Property developer

Gap of equity

Financing environment

Increasing capital requirements from restrictive lending policy of banks

Issues impacting business in 2014



Solution for challenging market environment

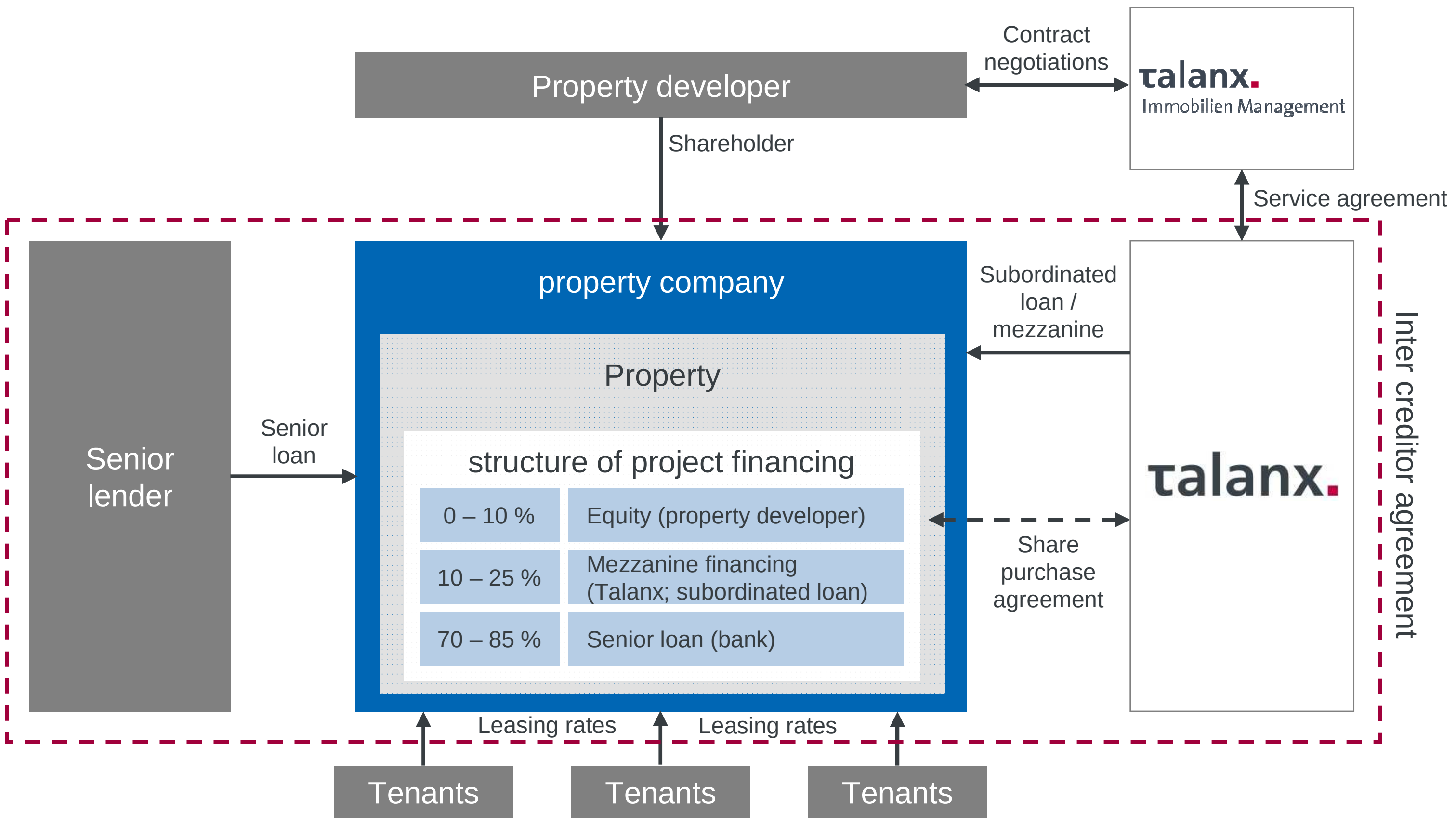
- Anticipation of the new business field: mezzanine financing
- Preparation, coordination and implementation since 2011

Source: PWC – Emerging Trends Europe survey 2014

Mezzanine financing: opportunity for Talanx to become a leading real estate investor in Germany

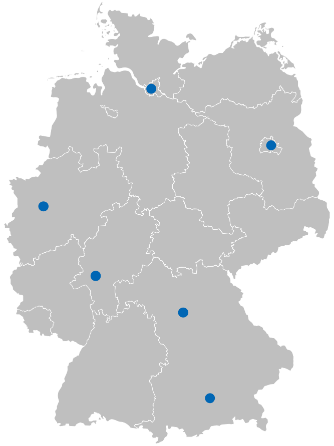
Structure of project financing

Typical example for a real estate investment (incl. share purchase agreement)



Lending activities enables Talanx to get off-market access to attractive real estate deals

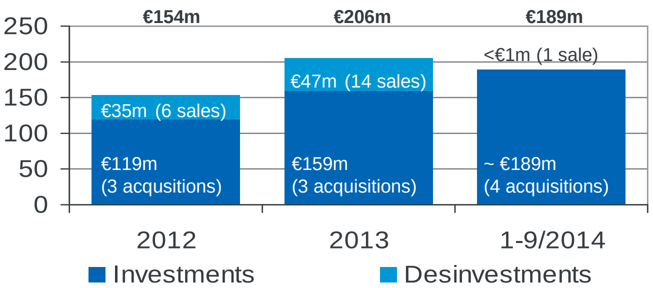
Talanx's direct investments from 2012 until today



Year	Location	Type of asset	Net investment	Sum	IRR[1]
2012	**Berlin,** Andreasstraße	Office	approx. €31m	€119m	~ 6.0%
	Hamburg, Lübeckertordamm	Office	approx. €45m		~ 6.4%
	Munich, Olof-Palme-Straße	Office	approx. €43m		~ 6.0%
2013	**Dusseldorf,** Derendorfer Allee	Office	approx. €55m	€159m	~ 6.3%
	Berlin/Wustermark, Duisburger Straße	Logistics (development)	approx. €20m		~ 6.5%
	Munich, Landsberger Straße	Office	approx. €85m		~ 6.4%
2014	**Munich,** Arnulfstraße	Office	approx. €38m	€189m	~ 5.6%
	Munich/Olching, Gewerbering	Logistics	approx. €31m		~ 5.7%
	Nuremberg, Am Tullnau Park	Office	approx. €31m		~ 5.3%
	Frankfurt, Europa-Allee	Office (development)	approx. €89m		~ 5.9%
			in total 2012 – 2014	**€467m**	

[1]expected unlevered IRR based on date of acquisition (10-years period)

Transaction volume at Talanx Investment Management (2012-2014)



Various attractive investments despite more adverse market conditions

Strengths, opportunities, challenges, solutions (SOCS-Strategy)

Strengths	Opportunities	Challenges	Solutions
▪ Strong integration into the German real estate network ▪ Successful track record facilitates additional deal flow ▪ Ability to cover all parts of real estate value chain ▪ Active portfolio management helps to anticipate market cycles	▪ Fellow subsidiary “Ampega Investment”: fully licensed “AIF Alternativ Investment Manager” according to EU AIFM-Directive ▪ Strong project development competence: Team of highly qualified and experienced civil engineers	▪ Lack of prime assets at increasing demand leads to battle for suitable assets ▪ Investors increasingly forced to focus on “opportunistic assets”	▪ Mezzanine financing of project developments paves way for direct access to attractive investment opportunities ▪ Further diversification in real estate assets ▪ Using opportunities of arbitrage in European markets

Improved access to attractive deals by strong market network and lending activities

Talanx‘s expertise over the entire real estate value chain

Exit

- Real estate asset management
- Real estate investments/finance
- Real estate project management

Acquisition and pre due diligence

- Real estate Investments/Finance
- Real estate project management

Project monitoring and loan management

- Real estate controlling
- Real estate project management
- Real Estate investments/finance

Due diligence and contract negotiation

- Real estate asset management
- Real estate project management
- Real estate investments/finance
- Real estate letting

Team characteristics

- Highly skilled and diversified team of 52 members covers all aspects of the real estate management process:
  - architects
  - civil engineers
  - economists/trader
  - investment professionals
  - finance professionals
  - geographer
- Culture of successful interaction between specialists
- Know-how build-up and transfer
- Simple structures and clear processes allow for fast decision-making

Expertise of specialists over the entire value chain provides significant competitive edge

Mezzanine financing in real estate developments (launched 2012)

- **Strategy of Talanx Immobilien Management**
  - early access in real estate value chain
  - strategic partnerships (e.g. joint venture) with professional property developers
  - provision of subordinated financing (mezzanine development loans)

- **Advantages for Talanx Immobilien Management**
  - exclusive opportunity to purchase the financed project
  - risk-adjusted interest revenues
  - purchase price (often) below market value
  - establishment of a young, sustainable and profitable real estate portfolio

Monitoring the construction process

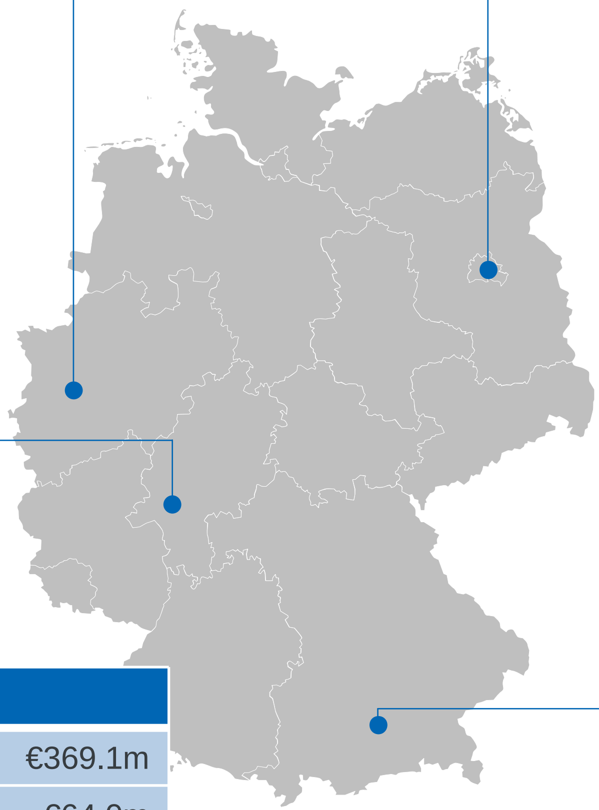
Successful strategy: off-market access to highly attractive investment opportunities

Completed and current mezzanine activities

Dusseldorf	
Project volume	€15.6m
Loan volume	€3.5m

Berlin	
Project volume	€65.5m
Loan volume	€13.0m

Frankfurt	
Project volume	€243.0m
Loan volume	€37.5m



Munich	
Project volume	€45.0m
Loan volume	€10.0m

Total	
Total project volume	€369.1m
Total loan volume	€64.0m

Mezzanine financing proves to be an effective tool to get hands on attractive top locations

Development financing and acquisition of a logistics property

Example 1: Logistics property „Rossmann-Berlin“

- Non-speculative, low-risk development:
  - multi-functional distribution center
  - located in a freight village Western Berlin
  - 100% pre-let, 12.5-year lease term
  - single-tenant with prime rating
  - developer with proven track-record

- Signing loan agreement (April 2013) with a binding term sheet for (optional) acquisition
- Completion and signing share purchase agreement (“SPA”) in Dec 2013
- Start of a strategic partnership: further acquisition in Munich (signing expected Dec 2013)

Mezzanine loan		Investment	
Loan amount	Up to €4m	Market value	> €20m
Duration	12 months	Purchase price	~€700,000 below market value
IRR (est.)	> 10% (after costs)	IRR (est.)	> 6.5% (after costs)

Off-market acquisition of newly-built core asset in a prime logistic location without agent fee

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Development financing and acquisition of an office property

Example 2: Office property Frankfurt

- Non-speculative, low-risk development:
  - State-of-the-art office property
  - located in an ascending district in Frankfurt
  - at least 80% pre-let, 15-year lease term
  - tenant with triple A-rating
  - Developer with proven track-record

- Signing loan agreement and SPA in July 2014
- Completion: end of 2016
- Established strategic partnership: ▸ started with two mezzanine financing projects in 2013/2014

Mezzanine loan		Investment	
Loan amount	up to €10m	Market value	€90m
Duration (est.)	24-36 months	Purchase price	~ €1m below market value
IRR (est.)	8.0% (after costs)	IRR (est.)	> 5.9% (after costs)

Off-market acquisition coming from an established partnership

Agenda

I	Organisational set-up and process	Dr. Immo Querner
II	Investment challenges and responses	Dr. Thomas Mann
III	Case study I: Infrastructure investments	Dr. Bernhard Graeber
IV	Case study II: Direct real estate investments	Thomas Fiebig
V	**Risk measurement, evaluation and control**	**Dr. Dirk Erdmann**
VI	Concluding remarks	Dr. Immo Querner

Key essentials

- The task: measure and evaluate risks appropriate on a day-to-day basis
- Necessity of a frequent, fast and robust assessment
- Continuity and consistency as pre-conditions to safeguard shareholders‘ equity throughout the year
- Coverage of all relevant market and credit risk parameters
- Still conservative investment style with selective risk taking

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New Product Process

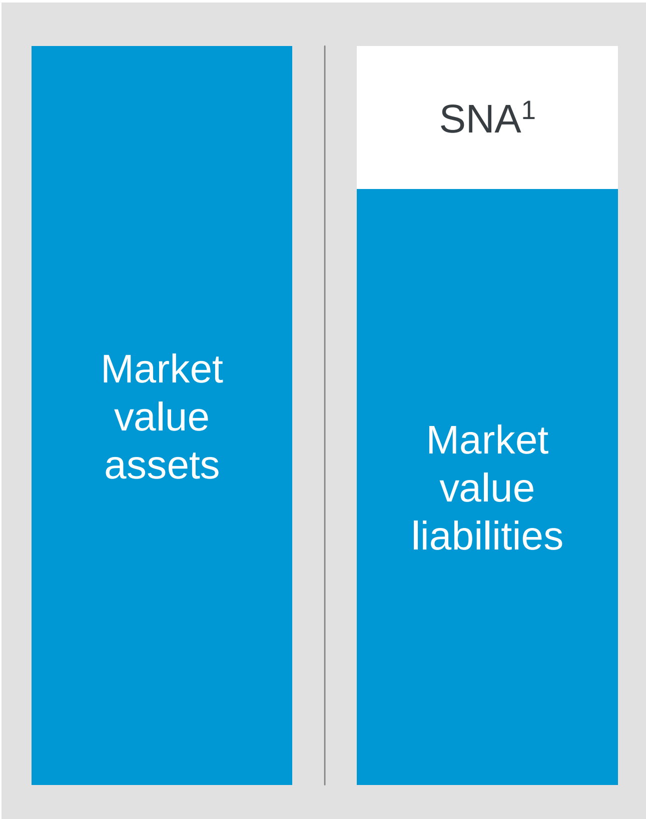
- **What?**
  - framework for adoption of new financial instruments in the New Product Process (NPP)
  - regulatory requirement (InvMaRisk)
- **Who?**
  - NPP Task Force: Several specialists, e.g. accounting, IT, pricing & methods and market price risks
- **Why?**
  - ensuring appropriate accounting, pricing and risk measurement

NPP Process

NPP Assessment	Pre-Check	Implementation	Approval	Test Phase
▪ Analysis of financial instrument information ▪ Final decision regarding NPP relevancy	▪ Risk content analysis ▪ Estimating implementation effort	▪ Development of proper risk measures ▪ Installation of required IT processes	▪ Review of implementation results ▪ Signing of approval document	▪ Validation of processes and implementation

NPP ensures appropriate processing and risk measurement for new products

Market risk



Def. Asset/Liability Management VaR (ALM VaR):

Maximum loss of market value (from market risk) with a probability of 99.5% and a holding period of 10 days

Market risk drivers

- Interest rates
- Credit spreads
- Stock prices
- Exchange rates
- Commodity prices
- Volatility

[1] Shareholders' net asset

ALM VaR incorporates assets and liabilities in market risk management

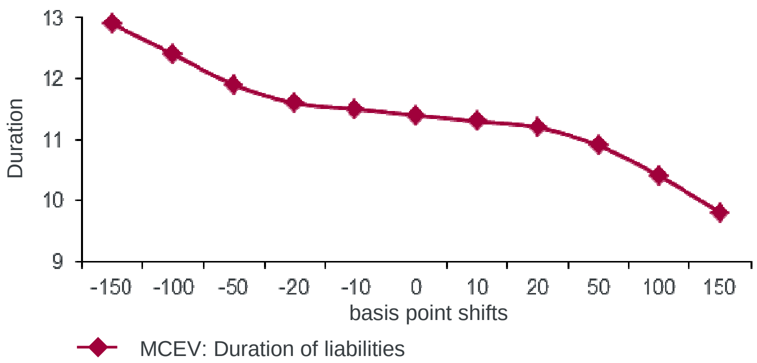
Asset/Liability Management VaR (ALM VaR)

- **ALM VaR** is calculated as **value-at-risk** of a **long-short portfolio** consisting of
  - **long positions for an insurer's assets**
  - **short positions for liabilities**, where each cash flow corresponds to a replicating bond position

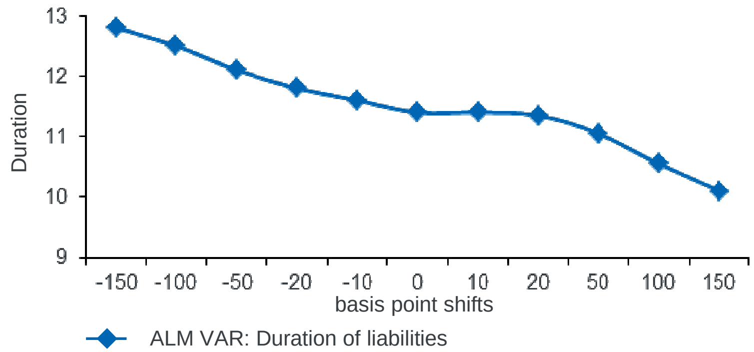
Non-Life: cash flows are modeled as zero-bonds

Life: cash flows are modeled as a combination of structured products (MCEV consistent)

MCEV: Duration of liabilities for life portfolio



ALM VAR: Duration of liabilities for life portfolio



- For German Life business stand-alone interest rate risk of an existing duration gap is separated by an additional interest-only ALM VaR, where spreads and other risk factors are faded out

ALM VaR measures the economic risk on the insurer's market value of assets and liabilities

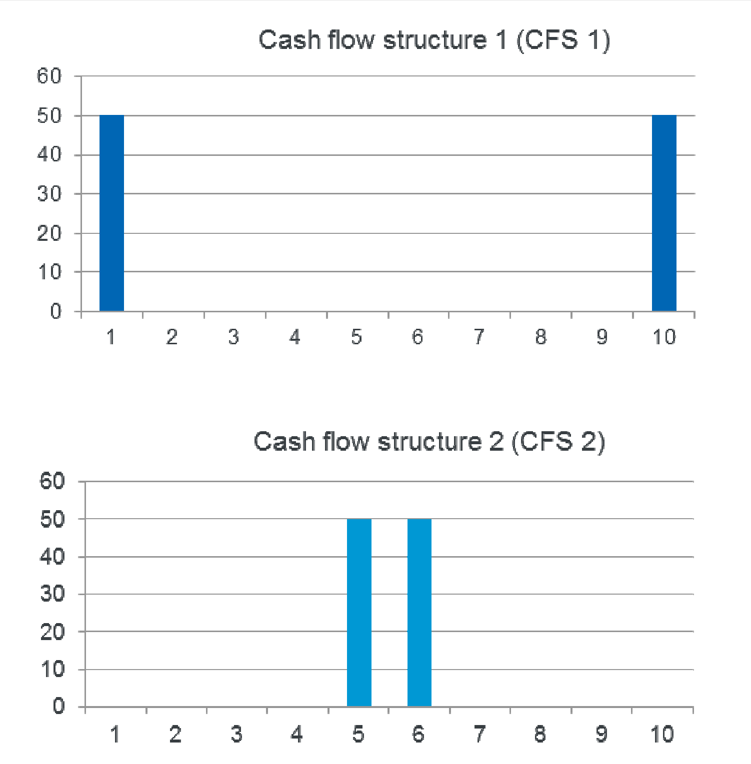
ALM VaR - Benefits

- ✓ Quick and efficient to calculate in operating asset management
- ✓ Coherent modeling of assets and liabilities
- ✓ Pure economic view on market risk, does not reflect active balance sheet management
- ✓ Market risk can be shown stand-alone for assets and liabilities as well as for the integrated ALM-portfolio (assets long, liabilities short)
- ✓ ALM VaR shows the combined risk profile of a duration gap between assets and liabilities and spread risk
- ✓ Additional interest-only ALM VaR shows the stand-alone risk profile resulting from a duration gap between assets and liabilities (for German Life business)

▶ **Market risk management of assets and liabilities for all relevant market parameters**

Why not only duration gap?

Cashflow structures (barbell vs. centered)



Comments

- Simulation based on the ALM-VaR incorporates not only parallel shifts of the yield curve but also twists, butterflies, etc.
- ALM-VaR incorporates cash flow structures of assets and liabilities, so different cash flow structures having same duration lead to different risk profiles:

Duration of CFS 1 = Duration of CFS 2

but

VaR of CFS 1 ≠ VaR of CFS 2

Duration gap is not sufficient for market risk management

Possibility to define various ALM VaR scenarios/stress testing

Idea	Measuring „long term“ market risk	Measuring „short term“ market risk
Parameter	Using a **long term volatility (“LTV”) model** with equally weighted yield history of 10 years	Using a **short term volatility (“STV”) model** with exponentially weighted yield history of 3.5 years
Usage	Portfolio limitation and economic capital cushion	Early warning measure

Objective

- Market risk measurement on LTV basis is relatively stable
- Market risk measurement on STV basis shows short term capital market fluctuations

Robust limits (“LTV”) complemented by early warning (“STV”) signals

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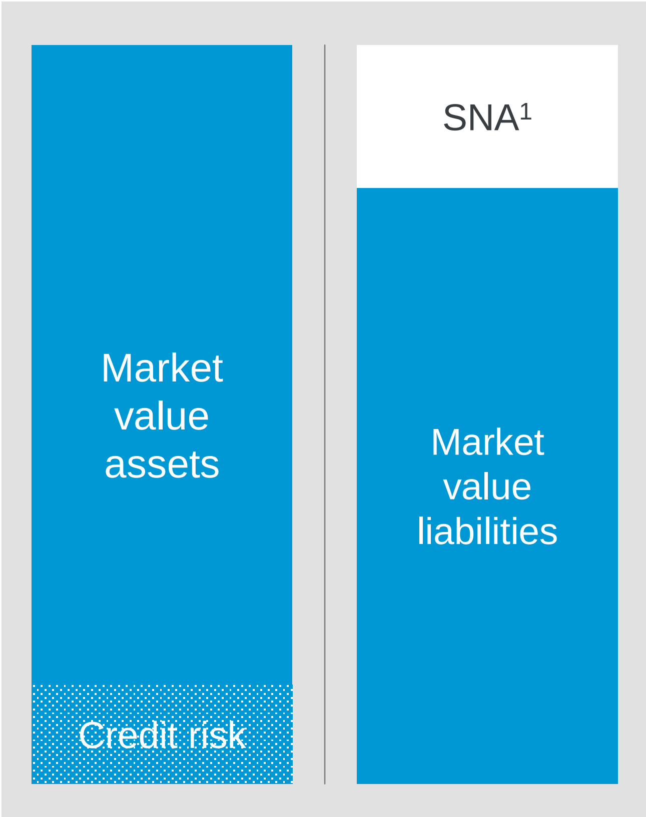
Drivers of credit risk



Def. Credit VaR (C VaR):

Maximum loss due to defaults and rating migrations with a probability of 99.5% and a holding period of 1 year

Credit risk drivers

- Probability of default[2,3] ("PD")
- Rating transition matrix
- Loss given default[4] (seniority, collateralisation)
- Time to maturity
- Diversification (issuer, industry, country)

[1] Shareholders Net Asset
[2] Probability of default („PD") is defined as the likelihood of a default event over a specific time horizon
[3] „Market consistent", i.e. spread implied („PIT") and/or rating consistent („TTC")
[4] Loss given default („LGD") is defined as the share of loss in the case of a default event

Analysis of credit risk plays key role in risk management

Increased credit risk monitoring to prevent crises

	Instruments	Usefulness for asset manager
Issuer risk	External research and external ratings	Detailed analysis and monitoring of issuers
Early warning monitoring	Share options‘ price model Credit spreads	Early identification of negative developments at issuers
Portfolio risk	Credit VaR	Management of portfolio concentration

Single issuer early warning is complemented by portfolio credit VaR

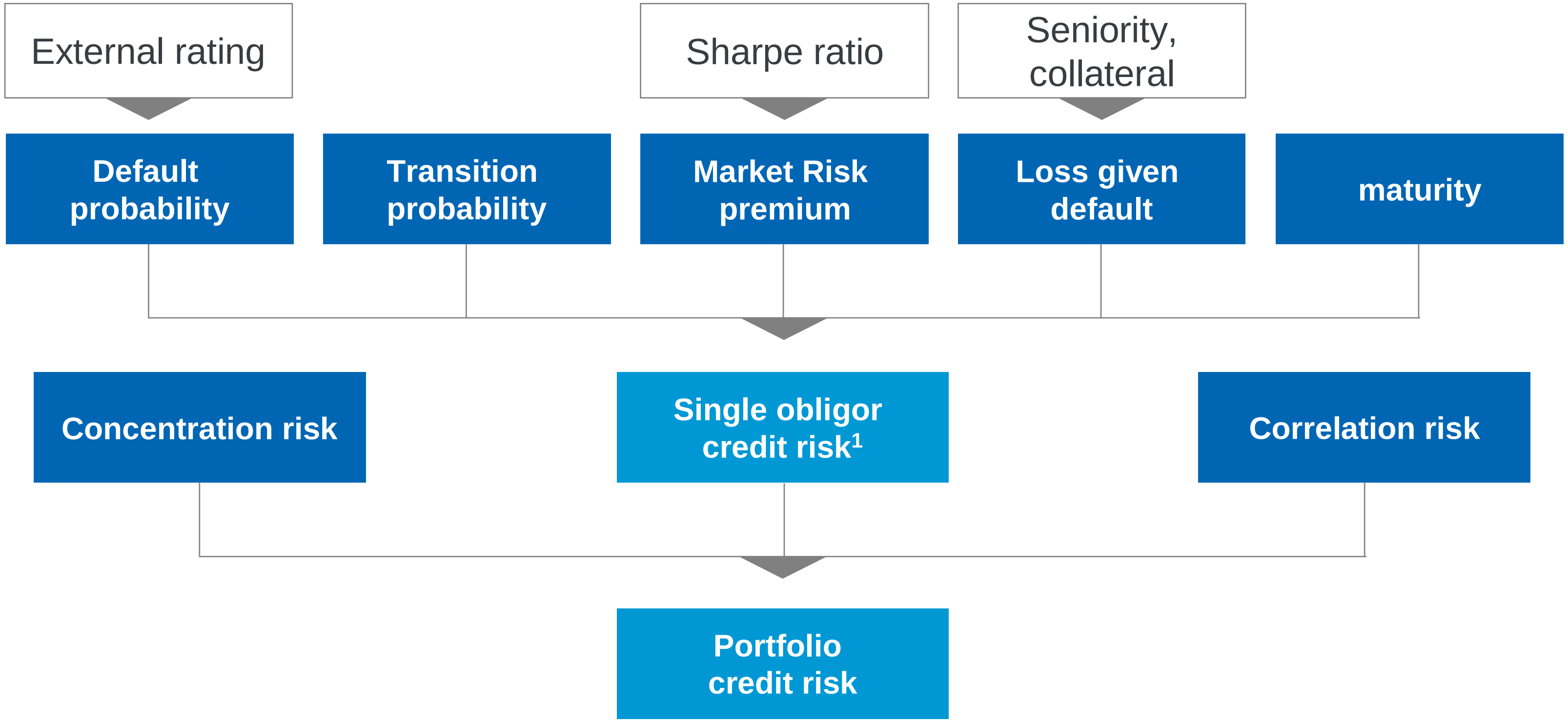
Credit VaR - Benefits

- ✓ Consideration of all essential parameters relevant for credit risk (e.g. ratings, LGD, time-to-maturity and correlations)
- ✓ Analysis of key risks (e.g. issuer, industry and country concentrations)
- ✓ Unwanted risks are identified and can be avoided
- ✓ Stresstests simulate portfolio losses in extreme situations
- ✓ Threshold and escalation process
- ✓ Consistent risk measurement on all steering levels for all corporate risks[1]

[1] including e.g. equities

Meaningful top-down steering of risk, while allowing for decentral decisions based on a common denominator

Credit risk - Risk parameters

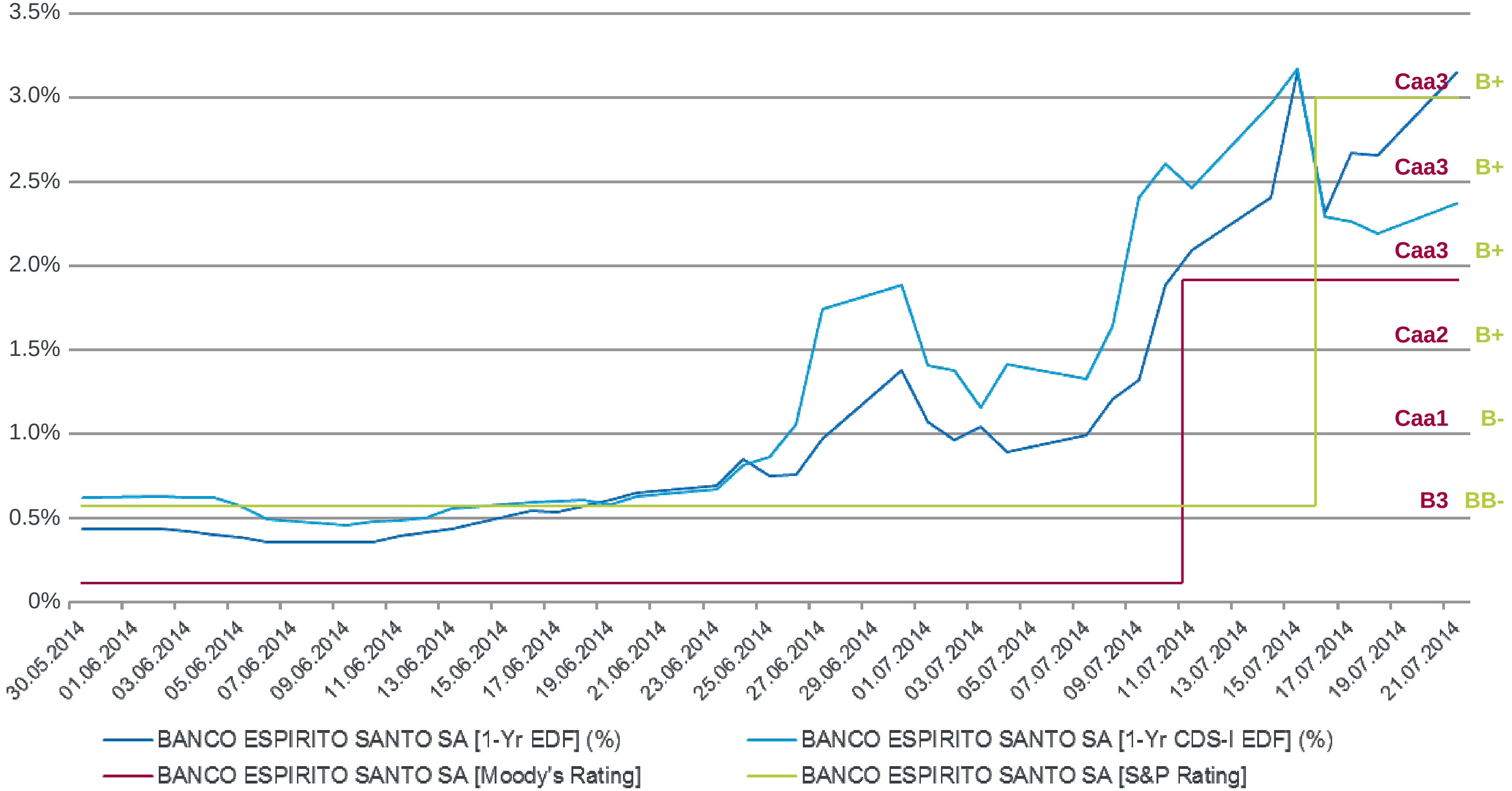


[1] Sovereign exposure and sovereign guaranteed issuers with a rating of AAA/AA are treated as „risk free". Sovereign exposure and sovereign guaranteed issuers with rating of A+ and lower are treated equal to corporate exposure

Coverage of all relevant credit risk parameters

Single obligor credit risk - Early warning system

Example: Banco Espirito Santo



Markets tend to react more quickly to financial distress than rating agencies

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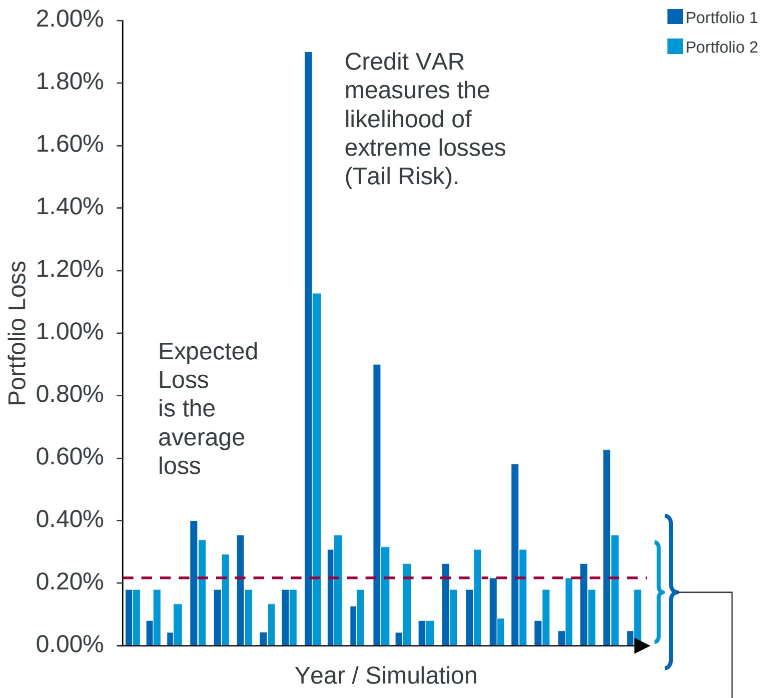
Typical loss pattern of credit risk portfolios

Portfolio loss simulation of two portfolios



Unexpected Loss measures the variability around the Expected Loss (one standard deviation)

Comments

Def. Expected Loss ("EL"):

is the average loss (credit risk provision), defined as the credit risk provision, defined as

EAD[1] * PD * LGD

[1] Exposure at default

Def. Unexpected Loss ("UL"):

measures the variability around the Expected Loss (one standard deviation)

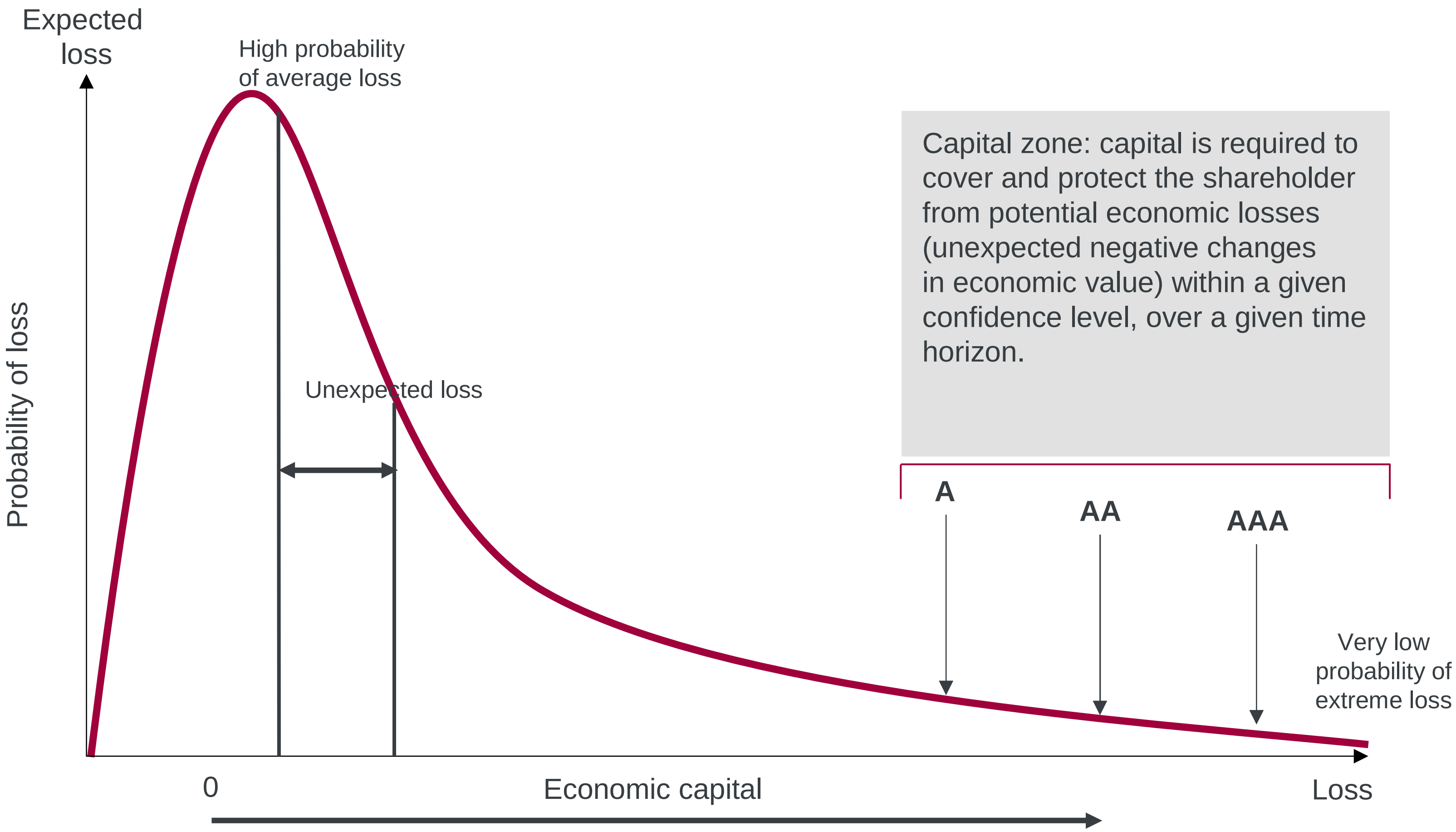
EL of Portfolio 1 = EL of Portfolio 2

but

C VaR of Portfolio 1 ≠ C VaR of Portfolio 2

Portfolio with identical "expected loss" but different portfolio risk

Bringing all together in a portfolio loss distribution



Loss pattern stresses benefit of active credit risk management

Possibility to define various Credit VaR scenarios/stress testing

Idea	Measuring „fundamental“ credit risk	Measuring „market-implied“ credit risk
Parameter	Empirical average default probabilities and transition rates (based on ratings)	Market-implied default probabilities and dynamic transition rates (based on credit spreads and volatility)
Usage	Portfolio / issuer limitation and economic capital cushion	Early warning measure

Objective

- Credit risk measurement on external ratings is relative stable
- Supplementary scenarios (e.g. market-implied probability of defaults (PD)) allow for early reactions to potential deterioration of credit quality

Robust limits (“Through-the-cycle”) complemented by early warning (“Point-in-time”) signals

Consistent limitation

Examination of limitation for ALM VaR and Credit VaR related to Talanx's Group risk bearing ability

1 Determination of operative limits, quantified in TAM-metrics

- Bottom-Up limitation for ALM VaR and Credit VaR
- Aggregation of ALM VaR- and Credit VaR-limits

2 Relationship between TAM- and TERM-metrics

- Comparison of aggregated ALM VaR-/ Credit VaR-ratio with TERM's risk ratio on a specific date
- Calibration of an adjustment factor to transform the TAM- into TERM-metric

3 SCR_{KM} in the case of 100% limit utilization

- Determination of a consistent TERM-limit, based on TAM's aggregated risk limit (1) and the adjustment factor (2)
- Calculation of SCR_{CM} in the case of 100% limit utilization in TERM

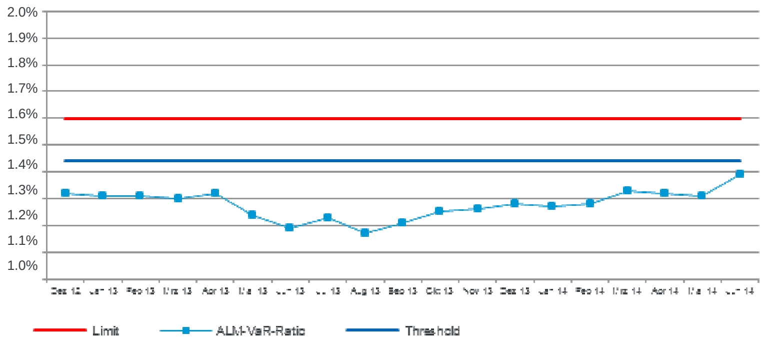
4 Examination of risk bearing ability in the case of 100% limit utilization

- Comparison of SCR_{CM} in the case of 100% TERM-limit utilization (3) with the possible maximum of SCR_{CM} according to TX Group's SNAs.

Consistent limitation for ALM VaR and Credit VaR with Talanx's Group risk bearing capacity

Development ALM VaR and Credit VaR for Talanx Group

ALM VaR figures in % of AuM (Confidence level: 99.5%/holding period: 10 days)



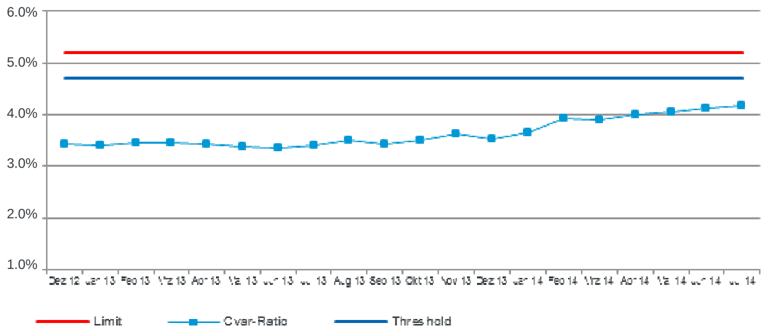
Decrease of ALM VaR-ratio in 2013 due to:

- Rise of the duration in the asset portfolio
- Interest increase

Since end of 2013 increase of ALM VaR-ratio affected by

- Interest decrease

Credit VaR figures in % of AuM (Confidence level: 99.5%/holding period: 1 year)



Increase of Credit VaR-ratio due to:

- Rise of the duration in the asset portfolio
- Prudent increase of assets with slightly higher credit spreads

*ALM-VaR-Ratio also affected by liability updates

Still conservative investment style with selective risk taking

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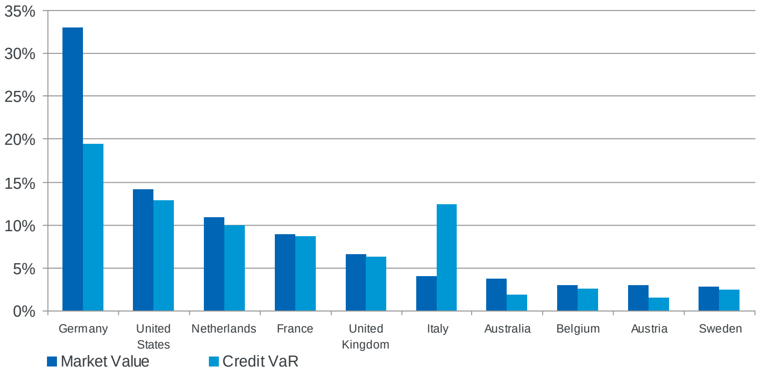
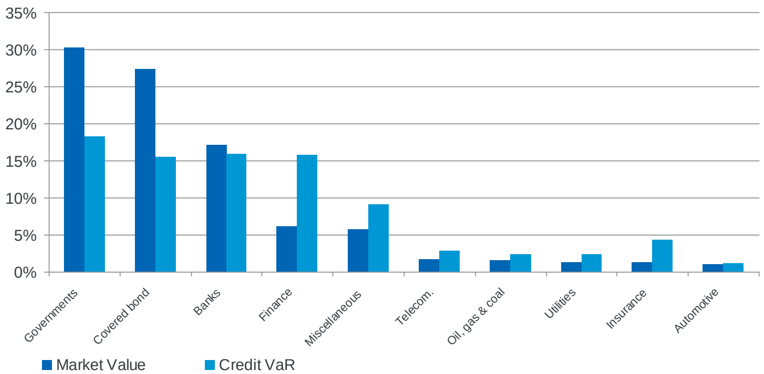
Talanx Group's Credit VaR

Credit VaR by country



Credit VaR by industry



Comments

- Regional investment focus: Central Europe, but also diversification benefits through investing in other areas

- Portfolio dominated by relatively low-risk positions like sovereigns and covered bonds

Credit VaR measure rewards active portfolio diversification

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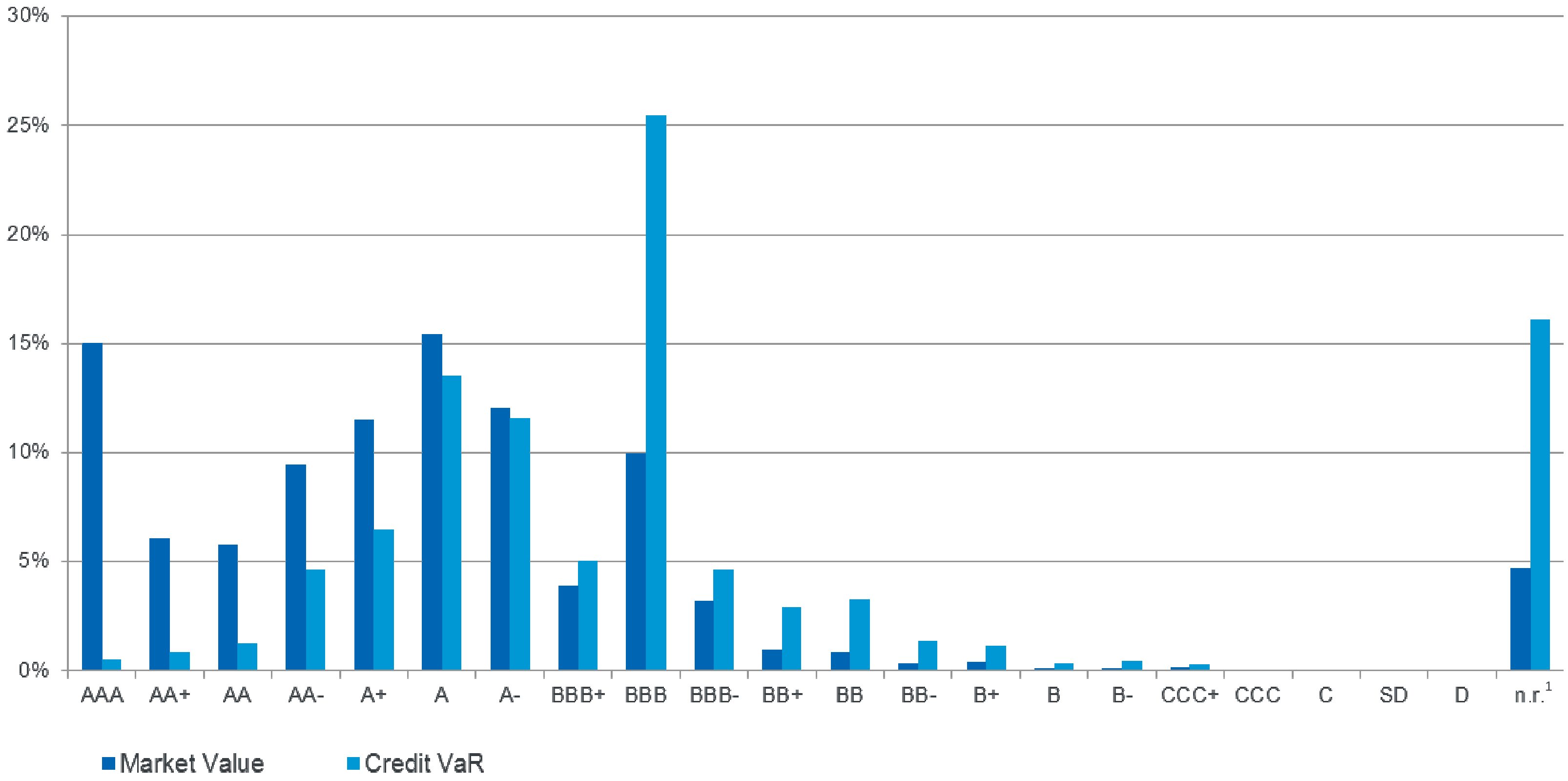
Talanx's Group Credit VaR

Credit VaR by rating categories



[1] Positions without external ratings (esp. funds and equity investments) are implemented for the reason of completeness with a conservative risk contribution

Balanced investment grade portfolio with selective risk taking in opportunities

Talanx's Group stress tests (asset only)

Fixed income stress tests

31.12.2013	Parallel shifts				Twist		Butterfly	Credit Spr.
Stress factors	-100 bps	-50 bps	+50 bps	+100 bps				+50%
Talanx Group (of AuM)	6.3%	3.1%	-3.1%	-6.0%	-3.7%	4.3%	-4.8%	-2.6%

31.12.2013	90-Day-Worst-Case-Scenario[1]		Historical Worst-Case-Scenario[1]	
Stress factors	down-ward[1]	upward[1]	down-ward[1]	upward[1]
Talanx Group (of AuM)	0.5%	-0.5%	2.6%	-2.7%

Currency	90-Day-worst-case-scenario (+/-BPS)	Historical worst-case-Scenario (+/-bps)
EUR	7	39
USD	18	48
GBP	12	44
JPY	5	44
CHF	9	38
AUD	18	70
CAD	9	43
BRL	47	216
MXN	29	118
HKD	16	185
PLN	30	67
HUF	31	107
TRY	67	260
ZAR	25	146
other	67	260

[1] depending on interest rate movements (daily basis) for the different currencies in the portfolios

Diverse scenarios to analyse the interest risk on several levels (group/business/portfolio level)

Governance

Limits and thresholds for ALM VaR and Credit VaR have to be approved by Talanx Board

"Group limits"
Limits within the Talanx LTS[1] which are valid at Group level

"Divisional limits"
Limits within the Talanx LTS which are valid at divisional level

- Active limit breaches for Credit risks are controlled by **pre-deal checks**
- **Escalation process:** The exceeding of limits triggers predefined subsequent measures
- Establishing of an **„Executive risk steering committee"**

Participants	Core topics	Competencies	Decision-making process
Board members responsible for risk management, Chief Risk Officer, Head of Controlling, TAM, Head of Compliance	Talanx LTS, „concretising policies" according to the Model Governance Policy	Decisions on limit violations within respect to the risk tolerance of Talanx Board, approval of policies according to the model governance policy	Decisions will come in force if and only if there is no vote against

[1] Limit and Threshold System

Further Integration of ALM-VaR and Credit VaR into operational risk limitation systems

Controlling the risks of the markets ...
... integrated investment and risk management process

Portfolio management	Limit controls	Risk controls	Reporting
▪ Risk management ▪ Ex-ante checks on all limits including investment thresholds ▪ Meeting the market requirements	▪ Monitoring the market requirements ▪ Ex-post checks of investment thresholds	▪ Monitoring of all significant risks ▪ Limit system for every significant risk ▪ Carrying out stress tests for all significant risks (= exceptional, but plausible events) ▪ Taking into account risk concentration	▪ Immediate escalation to the Board when critical information on a risk situation ▪ Regular reporting to the Board on the risk situation, adherence to limits and on questions of methodology ▪ Quarterly risk report to the Supervisory Board

Risk profile derived from investment strategy

Fully implemented in day-to-day routine processes

Agenda

I	Organisational set-up and process	Dr. Immo Querner
II	Investment challenges and responses	Dr. Thomas Mann
III	Case study I: Infrastructure investments	Dr. Bernhard Graeber
IV	Case study II: Direct real estate investments	Thomas Fiebig
V	Risk measurement, evaluation and control	Dr. Dirk Erdmann.
VI	Concluding remarks	Dr. Immo Querner

Concluding remarks – Key take-aways

- Commitment to offer investors a diversified portfolio of insurance risks
- Best-in-class platform and competence to successfully manage Talanx‘s assets
- Freeing up equity capital in ALM in order to capture higher returns outside the sovereign bond space
- Exploiting illiquidity spreads in (semi-)liquid and illiquid/real assets (private equity, infrastructure and real estate)
- Continuous and effective risk measurement, evaluation and control
- Potential to raise the share of alternative investments to up to 5% of AuM within a multi-year horizon
- Current platform allows annual investments of ~€300m in direct real estate and ~€400m in infrastructure investments

Talanx Investor Relations

Financial Calendar

13 November 2014
Interim Report 9M 2014

23 March 2015
Annual Report 2014

7 May 2015
AGM 2015

11 May 2015
Interim Report Q1 2015

12 August 2015
Interim Report 6M 2015

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